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**DOWNSIZING GOVERNMENT AND SETTING
PRIORITIES OF FEDERAL PROGRAMS**

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HEARINGS

BEFORE

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SUBCOMMITTEES OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
FIRST SESSION

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SENATE COMMITTEE ON APPROPRIATIONS
HEARINGS
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DOWNSIZING GOVERNMENT AND SETTING PRIORITIES OF FEDERAL PROGRAMS

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NOTE: Under Committee Rules, Mr. Livingston, as Chairman of the Full Committee, and Mr. Obey, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

TIMOTHY K. SANDERS and CAROL MURPHY, *Staff Assistants*

TUESDAY, JANUARY 31, 1995.

DOWNSIZING GOVERNMENT

WITNESS

**JOE WINKLEMANN, DIRECTOR OF GOVERNMENT AFFAIRS, CITIZENS
AGAINST GOVERNMENT WASTE**

Mr. SKEEN. The committee will come to order.

I want to welcome all of you here and tell you how much we appreciate your being here. This is the launching of the operation of the Agriculture Appropriations Subcommittee, our first hearing.

Before we get started, I want to say—I guess a mark of real success is if you can have a change in commands in one of these situations where the Chairman and the Ranking Member switch positions and your Chairman stays as the Ranking Member.

I appreciate very much, Dick Durbin, you are a good friend, you were a great Chairman and now you are going to make the greatest Ranking Member, I know you will.

Ray Thornton, good to have you here again with us.

New Members, we have the big Chairman with us, Bob Livingston from Louisiana; Jay Dickey of Arkansas, Arkansas is well represented this afternoon. There are other new Members I will identify as they come in.

I would like to start off by talking about what is the purpose of this meeting. The thing we are looking at with the sharp eye and a sharp pencil, is the way to cut down the cost of operating agencies, sectors of the government, that follow the purview of this particular committee. But at the same time, we have to preserve the function of these various agencies and programs.

I know the panel we have here today has had some sharp comments, some insightful ones, and we welcome them here today. I think this will be a good way to start this set of hearings off. We are going to have this item on the budgetplate. We are going to reduce the size and cost of government, but we also want it to function better.

We have your statements and they will be made a part of the record. I would appreciate it if you would abstract them as much as you can because we are going to hold this to five minutes a shot.

We are glad to have you here today but let's make it short and to the point and get on with our business.

To the Members, we have had an unstated five-minute rule, but it is one of understanding, and I would appreciate it if we can keep questions short and to the point.

Welcome to the first panelist, Joe Winklemann, Director of Government Affairs, Citizens Against Government Waste.

Mr. WINKELMANN. I appreciate the chance to be here, particularly with you in the Chair, because I remember the battles that you helped us with when I was a member of the United Association of Realtors. It is a pleasure to be here with you again.

We want to kick off by making the point that where we are politically today gives you two opportunities. First, is the opportunity to examine all assumptions; and second, to change the way you do business as usual.

There has been a great deal of criticism over the way the Appropriations Committees have operated in the past. I think we can dispense with the criticism, and say that today with a new Majority in the House and Senate and what we think is a mandate to cut wasteful spending, that you have this opportunity to examine the old assumptions about, not only the agriculture programs under your jurisdiction, but the food and nutrition programs under your jurisdiction, as well as FDA.

The Appropriations Committee is not an island. Writing your bill needs to take place in the context of a plan that includes the Agriculture Committee and the Budget Committee.

The problems facing you in the first six months of this Congress are greater than the abilities of this committee alone to deal with those problems. Rescissions ideally should be made as a down payment on a long-range plan.

I was asked to restrict our recommendations in my written and oral to the focus of this committee today and that is rescissions. We will do so.

I would like to urge that as you proceed to write your rescissions bill, that you not look at it as an isolated exercise but to look at rescissions in the early part of the Congress as an opportunity to make a down payment on your longer-term game plan.

The American farmer we think should not be treated as a public utility any longer. For too many years, farmers in this country have been subject to environmental goals that they did not necessarily share. They have been subjected to social goals that they did not necessarily share. And even since when I worked for John Tower 20 years ago, farmers have been used as a tool of this country's foreign policy, oftentimes at odds with where their beliefs and the free market would have otherwise dictated.

I think the opportunity this committee has is to reexamine what kind of burden you are going to put on the American farmer in the future. Whether you are going to subject him to constraints or whether you are going to free the agricultural sector and let it compete in a way the world has never seen.

My experience and my background has taught me that there is probably no more potentially explosive growth that we can experience in this country than a private sector farm economy turned loose. For too many years, in my opinion, it has been subjected to constraints from the Department of Agriculture and from this Congress that have held farmers well below their level of productivity.

We urge you to examine every item in your jurisdiction from a zero baseline. I think it makes a lot of sense to cut off the old assumption that, well, we have a program, what are we going to do with it. If you start from a zero baseline and examine every function of the Department of Agriculture, FDA, food and nutrition programs, we think you will come closer to meeting your goals of reducing the deficit and making the government work better.

We think there are three points of view that you can take when looking at these programs: The first is to look at them and see if they make economic good sense. Second is to look at them to see if they make social good sense. And third is to look at them to make sure that they make political good sense.

I won't be naive enough to sit here and tell you what this committee should be about, as if you are not professional politicians. I believe in a system that put you in the Chair and your colleagues behind the dais, but I want to urge you not to confuse economic considerations with political considerations.

Let me take the Farmers Home Administration as a good example. Many of the loans made by Farmers Home Administration make no economic good sense. If you were sitting on a bank loan board, you would not make many of the loans that are made to individuals who have previously defaulted on loans.

From a purely agricultural economic standpoint, many of the loans do not have a chance of accomplishing what they might otherwise be able to accomplish in a different situation. Farmers who are overloaded with debt, who have mortgaged themselves to the hilt, don't have a shot at paying back those loans.

So from an economic standpoint, you can look at the Farmers Home Administration one particular way. From a social standpoint, Farmers Home Loan programs do to rural areas both good and bad. I would submit to you that one of the biggest mistakes the Congress ever made on my watch as a legislative staffer, was when they transferred the ability to make small business loans to Farmers Home, because that didn't always used to be the case.

The Small Business Administration was formerly the only small business lender. My experience with the real estate community has taught me that when you subject real estate loans to other than real tight market basis and conditions, you start putting people in jeopardy.

I think a case can be made that much of what the Farmers Home Administration has done has not been to the benefit of farmers and has not been to the benefit to rural areas socially.

Over the weekend, I was reading a book talking about the fellow that brought the lawsuit that prohibited Farmers Home Administration from foreclosing on loans 10 or 15 years ago. Years later, he recanted and said he wished that he had never gotten involved with Farmers Home Administration because he just never had a shot. So there is a social aspect of Farmers Home Administration that you can look at.

And thirdly, like any other program, you can look at Farmers Home Administration from a political standpoint, and I think you need to, because you will be placed in the position of making some tough trade-offs.

My written statement, the first point is that you guys have made the down payments, you have made hard choices under your chairmanship, sir, and in terms of programs taking a hit, there is no question you have suffered more in terms of having to not spend money and in terms of not being able to just buy everything, to a greater degree than other committees.

As you go through your review, we think that some, maybe many, if not most programs will fail one or more of these tests, economic tests, social policy tests or political tests. For example, the Agriculture Extension Service, there was recently an article in The Washington Post that talked about Governor George Allen's proposed cuts in the Virginia Agriculture Service, and it is more whining than I have heard in my recent lifetime. I will read a couple of excerpts:

Although the Extension Service would decide where to make the cuts, the Governor is urging it to curtail nonagricultural functions, a retrenchment that would hit Northern Virginia harder than other parts of the State. Because Arlington and Fairfax counties have few farms, their extension offices focus on programs such as bilingual education, nutrition advice and child care training.

In fairness, the Extension Office emphasizes nutritional and financial planning for families and Loudoun's extension agents, in addition to visiting farmers, train day-care providers and help restaurant owners with food sanitation practices. Extension agents and their clients say many agricultural questions can't be answered over the phone or by fax. There is nothing like being there to fully understand the problem and to show someone hands-on how to fix it.

Peter Kalitka has called Hornbaker, one of the extension agents, more than a dozen times and has had five face-to-face meetings with him since moving to Loudoun County six months ago. You can't talk to someone over the phone and say, I found this dung pile in my pasture. Is it from a cow, a deer or a dog, Kalitka said. They have to come out here and see it to help me out.

Mr. Chairman, I will tell you about a dung pile. I know Peter Kalitka. He was my boss more than 20 years ago, before I went to work for John Tower, I was a military intelligence officer, and I worked for Pete Kalitka. Mr. Kalitka was a former Secret Service agent, a former FBI agent and has spent a career in U.S. Army intelligence. He was and is, to my mind, one of the best intelligence officers this country ever produced. But why the hell the Extension Service is wasting time teaching Pete Kalitka and his wife how to shear six sheep that they have in Loudoun County is beyond me.

When the Extension Service has been reduced to being a social service provider, wholly contrary to their original mission, when it has been reduced to being a counselor for hobby farmers, I would submit to you that now is the time for your committee to look at a defunding of that agency across the board.

With regard to the School Lunch program and other food and nutrition programs, there is not a lot you can do, as I understand it, Mr. Chairman.

Mr. SKEEN. Are you close to concluding?

Mr. WINKELMANN. Yes, sir. I will make myself close to concluding.

We think that you should look very hard at those discretionary food and nutrition programs, reduce the amount that is not means-tested, for instance, with regard to elderly nutrition programs.

And in conclusion, I would like to say that while I may be emphatic in many of the statements I have made, we don't believe we have all the answers and we certainly don't think we have a corner on all the good ideas.

We do urge you to challenge assumptions under which this committee operated. We count on you to continue the good work that your committee has already started in making a down payment on reducing government.

[The statement and biography of Mr. Winkelmann follows:]



**Testimony of
Joe Winkelmann,
Director of Government Affairs,
Citizens Against Government Waste
before the**

**House Agriculture, Rural Development, Food And Drug Administration, and
Related Agencies Subcommittee on Appropriations
January 31, 1995**

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Appropriations Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies. My name is Joe Winkelmann and I represent the 600,000 members of the Citizens Against Government Waste (CAGW). Your interest in CAGW's comments are a true indication of the tidal wave of change that swept the country on November 8th.

CAGW was created 11 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

According to OMB, since 1986 the implementation of Grace Commission recommendations has helped save taxpayers more than \$250 billion. Other CAGW cost-cutting proposals enacted in 1993 and 1994 will save more than \$100 billion over the next five years. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

A revolution is occurring in the 104th Congress, but you and the other members of the appropriations committee have the opportunity to be the real revolutionaries. Taxpayers will appreciate your work to continue reversing the federal government's out-of-control spending machine. This subcommittee has the opportunity to show taxpayers that you got the message last November. Use your "zero power" to simply eliminate funding for programs. You can cut government waste and create a smaller government. We believe that's what the 104th Congress was elected to do.

Mr. Chairman, you and the members of this subcommittee face one of the most important tasks confronting our country -- eliminating pork-barrel spending and funding the restructuring of departments and agencies under your jurisdiction. Not only do you have an opportunity to save tax dollars, but you also have the chance to alter the power structure and the log-rolling that too often occurs with appropriations.

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The first step is to reverse some old assumptions. Congress has often viewed programs as perpetual, without taking enough time to evaluate their effectiveness. The premise has been: How much was spent last year, and how much are we supposed to spend this year, rather than whether the money should be spent at all. This is, after all, not the government's money -- it's the taxpayer's. Every expenditure should be viewed from the ground up -- instead of making the assumption that everything is sacrosanct.

By asking CAGW to recommend specific rescission proposals under your jurisdiction, you are making the first step in regaining the trust of the American taxpayer. Discretionary spending is one-third of the federal budget; it's real money. It's time to stop taking our tax dollars and start making tough choices.

That's why we welcome this hearing and the fresh look you have pledged at every program under your jurisdiction.

Mr. Chairman, we applaud your subcommittee because the FY 1995 Agriculture Appropriation *did* cut spending. You, along with then-Chairman Durbin took action and negotiated a conference report that cut \$1.3 billion from FY 1994 levels. Last Congress, you grabbed the bull by the horns and with some help from Senator Dale Bumpers reconciled some tough spending decisions. Now it's time to hang on for the full eight seconds. It is time to stop trimming and start eliminating the fat from the budget. There is still much more to be cut in EVERY appropriations bill -- not just agriculture.

One example of pork that has yet to be fully trimmed out of the agriculture appropriations bill is the Market Promotion Program. Do American taxpayers really want their money passed on to U.S. commodity trade organizations and food processors to advertise their products in foreign markets? That's why we have Madison Avenue, and believe me the companies that receive this taxpayer-subsidized advertising can afford Madison Avenue prices. CAGW has called for the elimination of this program for years. Last year the House nearly did eliminate it, but after the conferees met only a mere \$15 million was cut, leaving the taxpayers with a \$85 million bill.

In the last Congress, members noticed that the spending cut tide was rising, but trimming here and there will not work anymore. The 104th Congress must begin to change its perception of pork-barrel spending -- by agreeing to rescind obsolete or wasteful programs. The American taxpayer will never trust Congress with their money if you can't follow your own system of "checks and balances."

One former member of Congress comes to mind. Defending his favorite programs against pork barrel charges became a reflex action. When the FY 1995 Agriculture Appropriations bill went to the House floor, this member was upset that Mr. Durbin allowed for unlimited amendments that "might put programs at risk." His constituents were not impressed with his style of big government and stopped rewarding this "veteran appropriator" for the "pork" he was able to shepherd through Congress back to his district.

We don't want to see more veteran appropriators lose their seats in the House and Senate; we want them to understand that Americans are tired of business-as-usual government. Americans truly want more accountability in the people and the process that represent them.

Many in Washington dismiss pork as a minor problem in the grand scheme of fiscal policy. Their standard argument runs about as follows: Pork adds "only" a few billion dollars to the federal budget. So eliminating pork would hardly put a dent in the deficit. This argument makes the very size of the deficit an excuse to waste even more of the taxpayers' money. The main problem with the "pork is small potatoes" argument, however, is that it's just plain wrong. Not only does pork eat a bigger slice of the federal budget than most observers realize, it is a root cause of some of our nation's most debilitating fiscal and political pathologies.

The biggest cost of pork cannot be measured in dollars and cents. As critical as the cost of mis-spent tax dollars is the corresponding debasement of the political process. In order to bring home the bacon, lawmakers have repeatedly twisted or broken the rules Congress has established to ensure that public monies are allocated fairly and effectively. Hundreds of projects are funded annually without benefit of a hearing, proper legal authorization, without being subjected to a competitive test, and in violation of rules against earmarking. Whether our form of government can long endure when lawmakers show so little respect for due process is an open question.

Pork has had a detrimental effect on House-Senate conference committee deliberations. The conference is supposed to iron out differences between the two chambers. The conference committee was not set up to be a magician's hat where projects magically appear. What's pulled out of the hat is not a rabbit, but a pig. The conference committee has become a proverbial fairy godmother to politicians. The practice of creating programs and projects that have no basis in either body of Congress has become far too commonplace.

Pork-barreling encourages citizens to take a cynical, self-serving view of their role in the political process. It legitimizes a politics of plunder, enticing citizens to demand special favors at the expense of other districts and states.

Mr. Chairman, CAGW has annually chronicled the pork-barrel follies of the appropriations for the Department of Agriculture and other agencies with our *Pig Book*. In compiling the *Pig Book*, we look at all appropriations and through seven criteria determine whether or not a project is pork.

The criteria have been established by CAGW and the Porkbusters Coalition, comprised of senators, representatives and other public interest groups. A project is pork if it: is requested by only one chamber of Congress; not specifically authorized; not competitively awarded; not requested by the president; greatly exceeds the president's budget request or the previous year's funding; not the subject of a congressional hearing; or, serves only a local interest.

CAGW calls it pork if it meets only one of these criteria; the porkbusters require three of the seven criteria to be met and have introduced legislation to eliminate pork-barrel items in each of the last two sessions of Congress.

Here is a sneak preview of what CAGW will announce on February 15 at our annual *Pig Book* press conference:

- \$3.8 million for wood utilization research (ME, MI, MN, MS, NC, OR). Since 1985, \$31,257,000 has been appropriated for such research, which is now planned to continue through 1998. When this project reached conference, more money was appropriated than was requested by either the House or Senate.
- \$3.1 million for shrimp aquaculture (AZ, HI, MA, MS, & SC).
- \$535,000 for herd management research. Since 1991, \$1,091,000 has been appropriated for such research.
- \$275,000 for seafood research. Since 1993, \$633,000 has been appropriated for such research.
- \$220,000 for lowbush blueberry research at the University of Maine. Since 1990, \$950,000 has been appropriated for such research, which may be completed in 1995.
- \$229,000 added by the House for the Ohio and Lake Erie Soil and Water Research and Education Center.
- \$119,000 for swine research at the University of Minnesota. Since 1992, \$412,000 has been appropriated for such research.
- \$8,783,000 added by the Senate. The projects include: \$4,752,000 for the Rice Germplasm Center in Stuttgart; \$1,184,000 for Alternative Pest Control Center at the University of Arkansas; \$946,000 for Alternative Pest Control; \$624,000 for increased staffing at Fayetteville (\$250,000), Stuttgart (\$187,000), Booneville (\$125,000), Pine Bluff (\$62,000); \$523,000 for forestry research; \$462,000 for the National Center for Agricultural Law Research at the Leflar School of Law; \$200,000 for beef producers improvement; and \$92,000 for Global Marketing Support Service.

CAGW is still finding pork in the Agriculture, Rural Development, Food and Drug Administration, and related agencies appropriations. For 1996, CAGW would like to issue a pork-free report.

All of this excessive, self-serving pork can be eliminated. Politically, there is only one way to do so: by having each member of this subcommittee take a "no earmarks" pledge.

Mr. Chairman, you can make government smaller not just by cutting the pork. By using your new "zero power" -- simply eliminating funding for programs -- you can also attack waste and mismanagement elsewhere in the agriculture appropriations under your jurisdiction.

There are broad items to consider for elimination this Congress. Every member of Congress knows he or she could cut government waste through rescissions, reductions, or overall policy changes. In that context, we recommend you rescind the following:

A. Categories of rescissions:

1. All unadopted 1994 rescissions of the president.
2. All increases in programs over the actual FY 1994 numbers.
3. All items which qualify as "pork" under one or more of the criteria established by your colleagues who are members of the Congressional Porkbusters Coalition.
4. 50% cuts in USDA and FDA congressional relations offices

B. Specific areas which should be considered for being zeroed out immediately, or deeply cut and designated for phase-out over two to five years:

1. Office of the Assistant Secretary for Science and Education
2. Office of Communications
3. Export Enhancement Program
4. National Agricultural Statistics Service
5. World Agricultural Outlook Board
6. Alternative Agricultural Research and Commercialization
7. Marke: Promotion Program

8. Agricultural Research Service
9. Cooperative State Research Service
10. Extension Service
11. Rural Utilities Service
12. National Agricultural Library
13. Agricultural Marketing Service
14. Farmers Home Administration (FmHA)/Rural Development programs
15. (FmHA) loan programs, especially for borrowers who previously defaulted
16. FmHA housing/rental assistance programs
17. Foreign Assistance and Related Programs
18. Economic Research Service
19. All programs and offices categorized as "Conservation Programs"
20. Farm Credit Administration

The line must be drawn, Mr. Chairman. Every program, no matter how worthy, must re-justify its existence -- or at least its need for our tax dollars. The recommendations above are based on our belief that the United States of America will be better off without federal government interference in our farm economy. Now farmers are competing in a global market and should use American ingenuity and their own resources -- not taxpayer dollars -- to open up markets all over the world.

We all know that these recommendations will create hardship. The Balanced Budget Amendment to the Constitution passed last week in the House and now Americans will hear how hard it will be and who will sacrifice. Many members of Congress want a "road map" of what will be cut. CAGW has been providing that map for over 10 years. We've made recommendations that are worthy of debate. Do we really need to keep funding the Export Enhancement Program or FmHA loans to deadbeats?

How did America become so dependent on the government? Why can't Congress cut a program after it has been created? Before Congress and the special interests begin to cloud the debate about spending cuts, we urge the subcommittee to keep in mind that the costs of these programs exact a hardship on tens and tens of millions of American

taxpayers who pick up the tab, and the hundreds of millions of our children and grandchildren in succeeding generations who will pay off the bill for our spending binge of the past 25 years.

Is America's *real* national interest in the *special* interests -- the countless USDA bureaucrats, university researchers, welfare recipients, central economic planners, and statisticians, etc... ? I think most Americans have said, loud and clear, a resounding "NO!"

Before approving the further expenditure of one tax dollar on programs under your jurisdiction, members of this subcommittee should ask themselves two questions: (1) is this project worth the further weakening of our representative government?, and (2) is this a project that I want my children and grandchildren to be responsible for paying? When considering rescissions for this fiscal year, those same questions should be asked.

Some comedians have made a living off the pork-barrel follies of Congress. While pork draws attention, it's not funny to the taxpayers who have borne the burden of excesses for decades. Whether it be an unnecessary program, or a deserving one that circumvents the proper procedures, closer scrutiny must be paid to eliminate this embarrassing waste of tax dollars. Each pork-barrel project represents a serious breakdown in the system that causes billions of dollars to be wasted annually.

Eliminating pork is not a trivial pursuit or quixotic exercise, but a fiscal and political imperative. Pork promotes fiscal profligacy, weakens the capacity of citizens to hold elected officials accountable, subverts procedural safeguards established to check and deter abuses of power, and debases the civic culture. Eliminating pork would do much more than shave a few billion dollars from the deficit. It would detoxify the appropriations process and make electoral contests more competitive. A pork-free Congress would be more attuned to the wishes and interests of taxpayers, and less pliant to special interest pressure.

There are steps that can be taken to stop this insane waste of our tax dollars. But unless something is done immediately, the American public will continue to lose confidence in the system and their trust will be even harder to regain.

To end the pork infestation on Capitol Hill, Congress should: (1) establish a procedure to rescind all spending items determined to be pork on the basis of objective tests; (2) grant the president line-item veto authority; (3) prohibit any member from placing a project specifically benefiting his district or state into a bill under consideration in his committee; and (4) prevent any physical structure or other project from being named after a member of Congress until 10 years after he or she has left office.

All projects that meet any one of the Congressional Porkbusters Coalition criteria should be terminated. As mentioned above, a project is pork if it: is requested by only one chamber of Congress; not specifically authorized; not competitively awarded; not

requested by the president; greatly exceeds the president's budget request or the previous year's funding; not the subject of a congressional hearing; or, serves only a local interest.

Congress' practice of bundling hundreds of separate spending items into gigantic appropriations bills renders the presidential veto all but useless in the fight against pork. The power to veto and reduce line item in spending bills would enable the president to remove pork and fat from the budget without disturbing the normal flow of business. According to the General Accounting Office, line-item veto authority could have reduced federal spending by more than \$70 billion during FYs 1984-89.

Martin Gross, author of best-selling books on government waste, offers an ingenious proposal to suppress pork. Most pork-barrel waste originates in the appropriations committees. Congress should adopt a rule that no committee may approve an appropriation that singles out any of its members' districts or states for special benefit. Committee members might try to get around this restriction through political horse trading: "You put my project in your bill and I'll put yours in my bill." However, Congress could define such deals as unethical behavior and enforce the new anti-pork rules.

Members have often approved projects that become reminders of their ability to "deliver the goods" back home -- their names appear on parks, buildings, and other physical structures. This subcommittee can take the lead in eliminating these incumbency protection monuments by prohibiting the naming of any project after a sitting member of Congress and establishing a reasonable time limit -- perhaps 10 years -- beyond retirement before a member's name can be used.

Only someone who imagines that federal funds are somehow "free" and do not first have to be taken from working Americans would confuse pork with petty cash. The proper comparison is not between pork and the total federal budget, but between pork and the average family budget. In 1994, a median-income, two-earner family paid \$5,581 in federal income taxes. This means that \$10 billion in pork wastes the combined taxes of approximately 1.8 million median income families. Current funding rules do not allow cuts in discretionary spending to be used to pay for tax cuts. In principle, however, eliminating \$1 billion in pork could provide \$1,000 in tax relief to 1 million American families.

Congress usually has good intentions when appropriating money, but the power to do good is also the power to do mischief with our tax dollars. Care must be taken when looking at individual projects; the more open and honest you are, the more likely a project is to withstand the light of day.

By adopting the changes recommended by CAGW, this subcommittee can signal a new beginning that other subcommittees can follow.

People want their power back. By cleaning up the appropriations process, you can make a difference. Discretionary spending is one-third of the federal budget; it's real money. It's time to stop taking our tax dollars and start making tough choices.

Taxpayers are no longer amused by inadequate and irresponsible management of our government because their future is in jeopardy. The budget crisis cannot be ignored, and that's why their amusement has been replaced with outrage. Members of this subcommittee must be equally outraged. You hold the "zero power" to cut the waste.

The question today, Mr. Chairman, is the pace at which we will dismantle some of the government programs in your appropriations bill. The growing number of members in Citizens Against Government Waste urge you to get the process on a faster track in your rescission bill, and begin the methodical 5-year drawdown in your FY 1996 appropriation.

Restoring fiscal sanity to our nation is the most important job for the 104th Congress. The country is awash in a sea of red ink, and every day slips perilously closer to bankruptcy. The national debt is expected to rise to nearly \$6 trillion by the end of the century. This is not the legacy we should leave to our children and grandchildren. Spending has not been cut to the bone. Money is being wasted daily and the clock is ticking. We're sitting on a fiscal time bomb that needs to be defused.

You have an opportunity to continue the mission that Peter Grace and Ronald Reagan started 13 years ago when President Reagan signed Executive Order 12369 in 1982 formally establishing the President's Private Sector Survey on Cost Control, and to deliver on the call for change made on November 8th.

If you don't take the right steps now, there may never again be such an opportunity to make the fundamental changes that need to be made.

This concludes my testimony. I'll be glad to answer any questions you may have.



Joe Winkelmann

Government Affairs Director
Citizens Against Government Waste

Joe Winkelmann is Government Affairs Director of Citizens Against Government Waste (CAGW).

CAGW is a 501(c)(3) nonprofit educational organization with some 600,000 members across the nation. Mr. Winkelmann represents CAGW on Capitol Hill and as a media spokesman.

A veteran of Capitol Hill for the past 20 years and a native Texan, Mr. Winkelmann served on the staff of United States Senator John Tower as Agriculture Assistant. For ten years, he was associated with the National Association of Realtors, where he headed the Realtors Legislative Liaison office, the Realtors PAC and Realtors Political Affairs division.

Immediately before joining CAGW, Mr. Winkelmann was in private practice for seven years as a lobbyist for a variety of national clients, during which time he earned a nine-handicap.

Mr. Winkelmann holds a B.A. in Political Science and Journalism and M.A. in Political Science from American University, where he taught in the University's Washington Semester Program.

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Mr. SKEEN. Thank you.

I wasn't trying to be rude, and I appreciate what you have had to say. You have been very emphatic and I have read your brief. I am concerned—you talk about how agriculture should be part of the private sector and operated as most private businesses without a lot of government help; is that one of the themes—

Mr. WINKELMANN. It is, sir.

Mr. SKEEN. In your mind, is there any big difference in the way agriculture operates and another business?

Mr. WINKELMANN. I think there is not much difference at all on some of the basic economic premises of running a business. One of the economic principles that I really believe in is that you get more of what you reward and subsidize and you get less of what you have a disincentive created for. In that respect, I think the Agriculture Committee has wrestled with commodity overproduction, the overhang of surpluses, and I think that there are probably lots of complicated answers to that.

A simple answer is that when you create a subsidy and an infrastructure that encourages corn production over some other commodity that is not subsidized, you are trying to overturn laws that maybe, if not from the good Lord, are well-established in terms of human behavior. We believe that the more you can get to a private agriculture economy, the better off we will be as a country.

Mr. SKEEN. I am not being defensive about it, but would like to reiterate to you, do you know why we have these subsidy programs to begin with?

Mr. WINKELMANN. My understanding, and I apologize because I am neither an agriculture historian nor was I there, but my perspective is that for the most part, everything was put in place by Henry Wallace under FDR in the middle of the Depression, with the understanding they would be a temporary response to conditions that overwhelmed our country.

After 60 years, we are still living with those programs. In the 1985 Farm Bill and in the 1990 Budget Act, you started moving towards a more market-oriented agriculture economy, but the transition has not yet been made.

If you look at the difference between the productivity of the folks who produce 80 percent of the commodities in this country and the number of them that produce only 20 percent of all the agriculture produced in this country, you will see how farm programs have hit differently in different sectors. We are subsidizing a lot of folks who shouldn't be farming and their production is an overhang on the market, and the resources could be better spent either to help productive farmers or to help other sections of the economy. We think with deficits we need to look at eliminating the subsidies for the least productive of farmers and acknowledge that it is a business and not a public utility.

Mr. SKEEN. With the idea in mind of having some historic perspective, and you have covered part of that, but one of the things I think agriculture, it has always appeared to me, it is not like any other business because you have no control over most of the conditions under which you operate. Succinctly stated, everything that you buy, you buy retail, and everything you sell, you sell wholesale in agriculture. It is just part of the business.

They initiated those programs in the 1930s, you are right, because we had overproduction. It was so bad they were shooting livestock on ranches in the Southwest because of the perilous situation. The economy was all out of whack.

One of the challenges I like to offer people who are in the private sector—and I have been in the private business sector as well as agriculture. I had to do something to support agriculture. If most private businesspeople in other businesses would like to have a real experience in operating a business, and Americans are by and large good small businesspeople—but on talk shows you always get the callers saying: Why do we treat agriculture differently?

One of the challenges I like to issue people in private sector business is try it from your perspective and invest some of the money that you are making in the business you are in, buy a farm, try it one year and then tell me what the difference is.

I agree with a lot of what you are saying. I think means-testing ought to be part of the criteria on the subsidy program because we are getting fewer and fewer people operating bigger and bigger agricultural enterprises and that makes for a very serious situation. From the time that I came to Congress in 1980 to today, we have halved the farm population from 4-something percent to 2 percent of the population is involved in it. There has to be some reason for that kind of a loss. It means we are gravitating to bigger and larger-scale operations.

Mr. WINKELMANN. That is an excellent recommendation, and we endorse the means-testing of agricultural entitlements.

Can I share a conversation I had with a staff member of the House Agriculture Committee? We were talking about subsidies. I raised the idea of means-testing entitlements, at whatever level, \$100,000, \$250,000 a year. If people are pretty well off, do they really need to get these monies?

He said, what is going to happen is now our farm programs are such that many farmers from year to year really have a tough time deciding whether they even want to be in the program because there are too many restrictions placed on them. He said, I think if you means-tested cotton subsidies, the super-productive, big-business guys would be out there saying take your farm programs and go back to Washington, and they will produce and produce and drive the costs down through overproduction and it would cost us more to subsidize the guys still in the program.

I thought that was not only an interesting, pragmatic comment, but it points up the futility of trying to drive a market with politics and social policies instead of simply letting folks go and compete out there. I don't fear that I am going to have a shortage of cotton shirts if we don't have a cotton subsidy program, because I think somewhere in this country, with the land and technology and the drive of American farmers, somebody is going to be producing cotton and producing a whole lot of it at good prices.

Mr. SKEEN. Mr. Livingston.

Mr. LIVINGSTON. Thank you, Mr. Chairman.

I want to congratulate you officially for taking the helm as the Chairman of the subcommittee, and congratulate Mr. Durbin for doing an outstanding job as Chairman.

Mr. SKEEN. Talk about open meetings, ours have always been open.

Mr. LIVINGSTON. You have worked well together and downsized the USDA spending.

I also want to welcome and congratulate Mr. Winkleman for his testimony. Somewhere between the positions expressed by the Chair and Mr. Winkleman, I think is room for compromise. I am not the expert on agriculture, by any means, nor am I an agriculture historian, but I think I understand a little bit about economics and about world conditions.

Today, the President changed his mind on Mexico and decided not to advance his program through Congress. I don't think he thought he had the votes. He decided to go ahead with a program that will provide some relief for Mexico, to encourage a stability in their peso. We can only hope that it works, because if it doesn't, the consequences can be devastating.

The people of Mexico are suffering from an erosion of confidence in their own country because of whatever economic policies their government has undertaken over recent years. That may be true of many other countries. In fact, there may be many countries that suffer economic devastation in the months ahead as a result of what is happening in Mexico.

It is my job as Chairman of the committee to make sure it doesn't happen here. If we don't start balancing our budget as quickly as possible and eliminating our deficits and curtailing the debt that we have compounded and placed on the backs of our children, anybody that seriously thinks that we are not faced with the same prospects, is whistling in the dark. So we can hope that that doesn't happen here, but in the meantime, we ought to take measures, and if it means tightening our belts even in the agriculture programs, it is necessary.

I thank Mr. Winkleman for giving us food for thought, and the other witnesses. I have to go to other hearings and listen to other witnesses, but I will be eagerly anticipating the report of testimony that comes before us today, and in future days, Mr. Chairman. I look forward to working with you to see to it that we do end up with programs that effectively assist those that truly need help in the farm community but, at the same time, reap the best benefits for the American consumer and their children and grandchildren.

Mr. SKEEN. I want to welcome Mr. Kingston and Mr. Nethercutt and, of course, we have Mr. Walsh, who is a returning Member. Also, Mrs. Lowey and Ms. Kaptur, one new on the committee and one returning on the committee. Thank you very much.

Mr. Durbin.

Mr. DURBIN. Thank you, Mr. Chairman.

Mr. Winkleman, I sure appreciate your kind words about some of our efforts over the last couple of years. This has been a tough committee assignment. When we went to the Floor last year and called for a 10 percent real cut in discretionary spending from the previous year, a lot of the balanced budget warriors were fainting at the sight of blood when they saw our cuts. We did it anyway.

I want to salute Mr. Skeen for making it a bipartisan effort, to do the right thing to help reduce the Nation's deficit.

I think you are correct in saying that we have accepted our burden here. It hasn't been easy. In some areas, it has required very difficult and painful choices.

I note that you used to work for a Senator, and I am sure in that capacity, you were doing your best to help the State of Texas.

Mr. WINKELMANN. I have a lot of sins to make up for.

Mr. DURBIN. You have been saved by your testimony here. Although you have worked for the State of Texas and the Realtors PAC now you are telling us not to listen to those people anymore.

Mr. WINKELMANN. Almost explicitly.

Mr. DURBIN. I do believe in redemption. I am looking forward to some for myself at the tail end of my misspent life, as I tell Mr. Dickey repeatedly.

Let me talk to you about two or three areas where I have a difference of opinion. I made a trip with the Intelligence Committee a little over a year ago to Asia, China, Korea and Japan. While they were meeting with people in the embassy to discuss very serious issues involving our Nation's security, I spent most of my time meeting with the people from the Foreign Agriculture Service and people who were involved in promoting America's agricultural exports.

In Beijing, I was the first Congressman to ever ask to meet with the FAS. They said it is amazing. Nobody knows we are here. Yet, I found repeatedly in Asia, and we have learned around the world, that the United States is in fierce competition in terms of our exports and export opportunities. We are in competition not just with foreign private corporations, but many times in competition with foreign governments. Efforts being made by France and Japan specifically to monopolize markets in foreign countries are a very real part of life.

What we expend through the Market Promotion program, the Export Enhancement program and the Foreign Agriculture Service, is minuscule in comparison to the benefits from exports, not only in farm exports, but to create jobs in the United States. If we followed your advice and walked away from that effort and said we are no longer going to do that—as you say, let competition work this out—we would surrender these markets, we would surrender exports and we would lose American jobs.

Is that what you have in mind?

Mr. WINKELMANN. No, that is not what we have in mind. I am not sure that that would necessarily happen. I acknowledge the problem that you speak of and I think that the tools that we have as a Nation to combat dumping in country, to combat monopolization of markets, need to be more vigorously used. I think agriculture has been used as a whipping boy in the past by administrations that are not ready to acknowledge Most Favored Nation status to one nation or another in the face of clear abuses.

Mr. DURBIN. Are you asking for embargoes?

Mr. WINKELMANN. No. If the problem is the free markets and nonsubsidization of exports might lead to a competitive disadvantage for the United States, my point is I don't think it would necessarily be as deep as perhaps you might feel it is, because I think that the private sector left to its own devices, won't just stop promoting its products.

The cotton industry would be a good example, or the grain sector would be a good example in this country. If the Federal Government doesn't do it, many people would argue that it won't get done. I think that is one of the old assumptions that we would like to ask you to look at again.

Does that mean we eliminate every export subsidy that the country has? Not necessarily.

The ideas that I have put in my testimony today are meant to be thought-provoking. And as the Chairman says, somewhere between the two extreme positions, I think there is a place that makes a lot of sense. The example I give out of the old Grace Commission report, there was a recommendation that instead of just subsidizing the purchases of agricultural products, that if you use the same amount of money to help guarantee loans as opposed to just subsidies, that you could make the dollars go further, and the Grace Commission concluded, you wouldn't save one nickel.

I think there are some creative ideas out there and it may be about time to put on the backs of the producers and others who export, some of the responsibility, if not all the responsibility, and stop assuming that if we don't do it at the Federal level, it won't be done.

Mr. DURBIN. In the interest of time, I have two other questions. I would say from my experience you would remove a valuable tool that is being used by American exporters. You would put them at a disadvantage to foreign governments who obviously don't see things the way Peter Grace sees them. When it comes to the business of Ag exports, our government has tried to promote those exports to help farmers and to create jobs.

Another thing you recommend in your report is to eliminate all agricultural research. You have called for the elimination of the Agriculture Research Service, Cooperative States Research Service and Extension Service. The total cost of agriculture research at the Federal level each year is about \$1 billion. That is a large sum of money. I don't question that. But the fact of the matter is, that it sustains a sector of our economy which accounts for 17 percent of our Gross National Product. That is a very modest investment.

We have found that agriculture research reaps benefits far beyond what most people realize. The boll weevil eradication program is a good example. That program just doesn't help cotton growers. That program deals with a pest, which if we don't deal with it on a research basis and a coordinated Federal basis, has to be eliminated by a dramatic increase in the application of agricultural chemicals. The producer can do that at his cost.

The net result of it is not just more input costs for the producer, but a greater cost to America. These agricultural chemicals eventually will find their way into the streams and rivers and water supplies. Then Mrs. Lowey's State of New York, for example, has to debate whether they are going to build a multi-billion dollar water filtration and treatment plant for the City of New York. The modest investments we make in research are important. I am afraid some groups like to get together and giggle over the names of things.

Mr. WINKELMANN. I am afraid we are one of the guilty parties.

Mr. DURBIN. I think that is not in the best interest of the national debate. When the Russian wheat aphid—I have never seen one—hit in Texas in 1986, there were crop losses of over \$800 million. We went after it. The Federal taxpayer went after it. We helped the people who were growers there and the States affected by it. I think we are a better country as a result of it. To walk away from that or to suggest somebody else will step into the breach, I think is naive.

The final point I will make is that your procedural approach troubles me. You say two things that leave me cold as a Member of Congress. I really take this Constitution seriously—three coequal branches of government. Your group says if the President approves a project, it is okay. No questions asked, go forward.

However, if only the House approves it and it is not authorized, in your terminology, then it is inherently bad, evil. It is a negative that will be used against us on a score card. There is a great deal of wisdom in the White House and the Executive Branch, but not all wisdom of government is there. There are some pretty decent people working on the Hill, on both sides of the aisle, who have good ideas about projects that I think are equally valuable. Yet in your formulation, you don't give us any credit.

The last point is a constitutional point. I was stunned by your suggestion, but you repeated it twice, that you want to prohibit any Member from placing a project specifically benefiting his district or State into a bill under consideration in his committee.

The wisdom of the people who wrote this Constitution was to have us as Members of Congress more closely connected to people than those in the Senate. We have a smaller constituency in most States. We try to assess the problems and respond to them on a more localized basis. I don't question that. To forswear that expertise and to say that it is inherently evil and bad raises serious questions as to whether you are accepting the premise of our constitutional representation. I would like you to respond.

Mr. WINKELMANN. I would like to respond, because if one can be accused of being a creature of one branch of the government or another, I would want to be a creature of the Congress. I worked here, although in the other body. I have lobbied this Congress for almost 20 years, and when it comes to a showdown, I side with you, Mr. Durbin.

The point of that particular criterion is that it is one of seven that we try to use to point up the problem as we see it, of what we call pork-barrel spending. I think it is a good question that you raise about whether, simply defending one of these criteria, in this case that the President has or has not put it in his budget, is a good question to ask. It has been raised by other subcommittees.

It is a matter of an ongoing debate in our organization. We are not looking to try to place any undue value in the recommendations of the President. What we have found, and I think this is where that criterion came from, when the Porkbusters Coalition used it as one of their seven criteria, is that oftentimes, not always, it is not so much the wisdom of the White House versus the wisdom of Congress, but the balance of the two factors that you just described.

The President by virtue of his office represents the entire country and Members of Congress represent individual districts. Neither is more valid than the other. But when it comes to funding, I think there are many cases where you can point to Presidents, and President Clinton has been no less willing to send up rescission ideas here than President Reagan was, for instance. The points of view are different. What motivates the spending of money, we think, is critically important to the continuation of the integrity of the Congress.

It pains me to see, and it pains me to be a part of criticism of the Congress, but many of the processes you all have used open you up to criticism. The classic example is Congressman Jack Brooks, a dearly beloved fellow Texan, who lost in his last election, at least partly, because of that \$10 million grant that he put in the crime bill last year in the middle of the night.

I am told that is one of the most valuable things that we could do in this country, spend that \$10 billion for training of law enforcement officers in south Texas. It is not the question of validity; it is how it was done. That is what we would like to focus on.

When you review the projects that come before you, obviously, it is your job to earmark things to make sure they go places where they will be well spent. I don't want to hang up the substance of our testimony on trying to defend that one thing. I agree that when we use one criteria and it is that one, I think we over step the line.

The Porkbusters' criteria, the same seven criteria that we use, but they require that three criteria be met to call it pork-barrel spending. I think it is a more prudent approach and we don't disagree with it. We would like you to relook at everything you have earmarked and put forth in your bills this year, and any that meet the Porkbusters' criteria, the three out of the seven, that you rescind.

Mr. SKEEN. Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman.

I would like to congratulate our new Chairman. I am delighted, too, that he is our Chairman and know he will work very well with Dick Durbin, our former Chairman and now Ranking Member. I know he will be just as fair as Dick was, and Dick was fair right along.

Thank you for your testimony. I just would like to say that I think this committee, and you recognize that, this committee really did its job last year and we set a pretty high standard for the rest of the Congress. Unfortunately, they didn't follow our lead, so I don't think this subcommittee has anything to be ashamed of in what it has accomplished thus far.

As a former Member of the Agriculture Committee, I know that agriculture has contributed more to deficit reduction than any other committee in the Congress. The dairy farmers of America are the only group of people I am aware of who are contributing directly to deficit reduction. They pay an assessment that comes out of their milk check every month to pay for deficit reduction. You ought to talk about that once in a while.

I don't disagree with much of what you say. In fact, I agree with a good deal of it. But to say, for example, in your testimony, that all programs and operations categorized as conservation programs

should be eliminated, I think is pretty irresponsible. Do you think the Federal Government has a responsibility to husband the resources of this nation? Do you think that is part of our job?

Mr. WINKELMANN. I think that is part of your job. The American farmer has been used as a public utility for a long, long time. Before I came here, I tried to visit several of the Members of the Agriculture Committee, their staffs, and run some of these ideas by them. What I heard many times with regard to conservation programs is that farmers hate them. Not all the time and in all respects—

Mr. WALSH. Let's try to keep to economy of words.

Soil conservation—does the Federal Government have a role there?

Mr. WINKELMANN. I think the first role is that of the farmer.

Mr. WALSH. No. I didn't ask about the farmer. I asked about the Federal Government; do they have a role?

Mr. WINKELMANN. No. In a perfect free market economy, a farm economy, no, I don't.

Mr. WALSH. You answered my question. I disagree. I think the Federal Government does have a role in soil conservation, that we could save a lot of money in the long term, if we spend a little up front. You also said that no Member of this committee or any other should earmark funds for their own district.

Mr. WINKELMANN. I think as a rule of prudence, that would be a good rule to try to follow. I think there is a better political test. Every time you appropriate a dollar, ask if you would appropriate it if it did not benefit anybody in your district, or if it benefitted your worst enemy or if anyone in your district was interested in that funding. If you can see justification for funding that, you are—

Mr. WALSH. Would you expect someone that knows absolutely nothing about my district to try to get something for that district?

Mr. WINKELMANN. I don't question that.

Mr. WALSH. I assume that no one should appropriate funds for anyone else's district?

Mr. WINKELMANN. No. What we intended to say in the testimony is that when you can convince the Agriculture Committee to fund a project in your district, when it passes a peer review, if you will, to me that comes closer to being a valid expenditure of the taxpayers' money.

Mr. WALSH. I think for the most part, we do that. We work very closely with the authorizing committee, and what we appropriate here was all authorized by the Agriculture Committee. There may be earmarked items that they didn't specifically review, but the idea here is to do that within the context of the general authorization.

I really think we have a responsibility. The people of my district in Central New York send millions of dollars to the Federal Government. I think they should see some of that back, and I think that I should use the leadership that I have been asked to exercise here to convince these ladies and gentlemen and that is money well-spent.

Mr. WINKELMANN. I appreciate that point of view. That is the way business-as-usual is done here. When the first attitude is that

we are spending a lot of tax money, we want to get some of it back, the first question is, should this expenditure be made specifically in this congressional district, is it worth the taxpayers' money? I would like to get some of my tax dollars back.

Mr. WALSH. We are going to work on that before Easter. Your intent is good, but I think it is unrealistic, and given the nature of this overspending, I realize we have work to do and things have gotten out of hand, no question. But please don't ask us not to be advocates for our districts, because I think that is very important. We have to keep the whole Nation uppermost in our mind, but our districts have to be represented.

Mr. WINKELMANN. Mr. Durbin used the word "naive" and I am not naive. How you look at your expenditures, if you start from a zero baseline and if you apply economic context questions to them, if you apply social policy context questions to those expenditures and then, of course, you have to look at things politically. If nothing else, it would be tough to get a vote through the House with just the votes in this subcommittee.

Mr. WALSH. Sometimes all the empirical knowledge in the world doesn't answer the question. You can get all the facts and put them together and you might end up with the wrong answer. And sometimes just the native intelligence of the Representative can do a little bit better than that, and I hope that there will be room for that in this process.

Mr. KING. That is why you are there and I am here. I do respect that.

Mr. SKEEN. I thank the gentleman. Ms. Kaptur.

Ms. KAPTUR. Welcome. I was reading your résumé here, when you worked for Senator Tower, you worked as his agriculture assistant, so you know a lot about Texas agriculture, I take it?

Mr. WINKELMANN. I know some about Texas agriculture. That was a sharp learning curve for me for two years.

Ms. KAPTUR. You served with him two years. Had you ever been a farmer?

Mr. WINKELMANN. One summer I spent with my grandmother and I picked cotton, and I think I swore then that I was going to get an inside job. My family has been sharecropper farmers in Texas since before the Civil War. No, I have never, except for that summer—

Ms. KAPTUR. You never tried to make a farm work for yourself?

Mr. WINKELMANN. I don't think I am capable of the hard work required to make a farm work, nor do I think I have any particular gifts in that area. That is why I did something else for a living.

Ms. KAPTUR. One thing that was missing in your testimony, the phrase that I like to think about, applies to the farmer. Your focus wasn't so much on the farmer in your testimony, it was more on Congress. As I read your testimony, it is interesting to me what you focus on. Your focus wasn't on how to increase income to the farmer or how to make the farmer productive. I would have liked to have seen a little bit about farming.

Mr. WINKELMANN. I think that is the point of my testimony. I would hope you all, and plus your colleagues on the Agriculture Committee, would look at the whole panoply of farm programs from the beginning, and look at whether or not that is and should be the

motivating force behind American farm policy and behind congressional policy toward farms.

I am not sure guaranteeing income to farmers is the most valid place to put tax dollars. Now, no one guarantees prices to taxi drivers, and I am not trying to say that they serve equal purposes in the economy. What I am saying is that we would like to see you look at something besides using farmers as a public utility to serve other goals and, at the same time, the trade-off being that we are going to provide some guaranteed level of income to farmers.

One of the reasons I am not farming is I don't think I could make a living at it and we don't want to see our government spending tax dollars to keep people like me in farming. Peter Kalitka has received directly some of the taxpayers dollars as a hobby farmer in Loudoun County. That is how far we have gone.

Neither do I think the government should place impediments in the way of income to farmers. I lived through the grain embargo in this country. We almost had riots because our government had made a policy decision to basically screw every farmer in the country.

Ms. KAPTUR. I know you are saying that if we eliminate these 20 items, on page 6 of your testimony, that the farmer will be much better off and American agriculture will improve. I haven't reached that conclusion. But I was concerned about what was omitted in your testimony and where the focus of your concern is, particularly based on where you had worked before. Is Citizens Against Government Waste an incorporated organization?

Mr. WINKELMANN. Yes. You asked this question last week—we are the same organization.

Ms. KAPTUR. Under what provision of the Tax Code are you incorporated?

Mr. WINKELMANN. Under Section 501(c)(3) of the Tax Code, as an educational institution.

Ms. KAPTUR. Does the 501(c)(3) organization pay taxes?

Mr. WINKELMANN. As an organization, we do not.

Ms. KAPTUR. You mentioned farmers are public utilities, I have never heard that expression before. Are farmers incorporated as 501(c)(3) organizations?

Mr. WINKELMANN. Not that I am aware of.

Ms. KAPTUR. Not that I am aware of either. You mentioned pork. And I was glad to read that, because I represent a lot of hog producers. I agree with you; we should let the market work. We should let the market work. But when I was first elected, farmers in my district were getting 40 cents per hundredweight for hog production. Last year it went down to 28 cents, and I have farmers in my district going bankrupt because they can't meet even their costs of production.

Now, these aren't people that raise sheep as a hobby—like the reference you made there to these folks in Loudoun County, and I have never been there, so I can't speak to that example—but some of my farmers raise 1,500 head. That isn't big based on some of the North Carolina operations, but for Ohio, those are pretty respectable operations.

What I found interesting about the market, and I want you to explain it to me, because you obviously have thought about it a lot.

If my farmers had such a substantial decrease in the amount they were receiving for their hogs at market, when I went to the market with my mother to buy pork, why didn't the price go down? What is wrong with the market?

Mr. WINKELMANN. That is a great question. I think the most important point of that goes back to your earlier question about why we did not address income to the farmer as an important point on our testimony today. I recall when wheat was diving, that farmers would bring up a loaf of bread and make the point that one or two slices in that loaf of bread would represent the return to the farmer. The rest was processing costs, marketing costs et cetera.

The point I think is that you will never design a program in this room and the Department of Agriculture will never execute a program down Independence Avenue that can affect market prices to the extent that you can guarantee your farmers, hog or grain farmers, a certain income, and it is the futility of trying to affect that, that we find inherent in most farm programs.

Ms. KAPTUR. My question to you was you want the market to operate, and so do I, but if the market were operating, the price to the consumer would have gone down because the farmers weren't receiving the price. What has happened to the market, the hog market and pork that people eat, if the market price should be sensitive to declines in what the farmer gets when he takes that hog to market? You have the future markets operating but we still had to pay close to three bucks for the market price.

So what has happened to the nature of production in pork that that price wouldn't be sensitive? Doesn't free market mean that price is sensitive to changes in cost of production?

Mr. WINKELMANN. No.

Ms. KAPTUR. There should be some kinds of elasticity, shouldn't there?

Mr. WINKELMANN. There are a lot of things that one can say are wrong with the free markets, but one thing you cannot say is wrong is that it is not politically contrived.

Ms. KAPTUR. Something is contrived when our farmers can't make their costs of production.

Mr. WINKELMANN. That is right.

Ms. KAPTUR. I have made my point. But you recommend elimination of the Co-op Extension Service. It is the only place I have to send my farmers when they are in trouble and I can't help them a whit, and their banker is not going to help them. The only place I can send my farmers who have everything tied up in their farmstead is to the Cooperative Extension Service to get help to get somebody to help intervene with the banks, with the market.

I have made my point there. I don't support the elimination of the Co-op Extension Service, but it is all I have; Do you have a better idea of where these folks could go? In your résumé, it said you had been in practice for seven years as a lobbyist for a variety of national clients during which time you earned a nine handicap. I don't know what a nine handicap is.

Mr. WINKELMANN. A nine handicap is a golf term.

Ms. KAPTUR. While you were a lobbyist, you earned a nine handicap from playing golf?

Mr. WINKELMANN. That is correct.

Ms. KAPTUR. That is a strange thing to mention in a résumé.

Mr. WINKELMANN. Not if you have a sense of humor.

Ms. KAPTUR. I guess my point is that my farmers didn't have that kind of representation. About all I can do is send them to someone from the Co-op Extension Service.

I have other questions, Mr. Chairman, but I will yield in respect to the other Members—

Mr. SKEEN. Farmers don't necessarily gauge their handicap, but they sometimes go in the hole.

Mr. Kingston.

Mr. KINGSTON. Thank you for provoking a thoughtful discussion here. The Market Promotion program, one of the problems that I have as a new Member to Congress is if you read Martin Gross' book, "Cutting Spending from A to Z," and get all fired up and then you discover that money doesn't go to the Madison Avenue advertisers in the manner in which it is portrayed in the book. You have alluded to the fact that the truth probably lies somewhere in between. Say that we arrive at that somewhere in between during this Congress; will the Citizens Against Government Waste as a group congratulate us or will you still nitpick us?

Mr. WINKELMANN. I am sorry you look at it as nitpicking.

Mr. KINGSTON. It is a reality here and once a reform is met in order to keep your constituency—which incidentally, your contributions are tax deductible, right?

Mr. WINKELMANN. That is correct. Not for the lobbying purposes.

Mr. KINGSTON. But if a member sends \$25 a year, they get to take that off?

Mr. WINKELMANN. If they send it to the 501(c)(3)—yes.

Mr. KINGSTON. You have something in common with farmers, you are both subsidized.

Mr. WINKELMANN. No question about it. I think the whole range of tax expenditures in this Congress needs to be very scrupulously looked at, absolutely, and we are not afraid to put our own on the line.

Mr. KINGSTON. That is good. Say we reform MPP.

Mr. WINKELMANN. Are we going to give you credit for it, absolutely. Early on, maybe the second sentence I said was I wanted to congratulate the former Chairman of this committee and all Members of this committee, because you have bit the bullet. You took the bull by the horns.

We ask you now, let's try to hang on for a full eight seconds. Whatever progress you make, we are going to congratulate you, because it is back to what you subsidize, and what you get, and what you don't subsidize, you get less of. I don't want to nitpick or make you feel you are not doing a worthwhile job. You are. You are representatives of my country. I have in my own humble way served this Congress as best I could, and I respect you.

Mr. KINGSTON. I respect you for rattling our cage to make sure we keep on our toes. The next question, on cotton—Mr. Durbin mentioned the boll weevil eradication program, which I know has been a tremendous investment by the Federal Government, but in Georgia, during very recent times, cotton production has gone from something like \$58 million to \$300 or \$400 million as an industry, and I believe we have six new cotton gins, and have sold more new

cotton gin equipment in the last year than we did in the previous 20. The question is, as an investment, boll weevil eradication plus the cotton farm, bringing that return in one State, is that something that is measurable and worth keeping the cotton program, in your opinion, or it doesn't matter; maybe that would have happened anyhow?

Mr. WINKELMANN. We would like to ask you to stop assuming that if the Federal Government doesn't do it, it won't get done. That is absolutely critical. Then you start addressing the point of how much research should be done on boll weevils, who should do it and who can do it best? Who should pay for it and in what share?

We look at a continuing role in agriculture research. I think some of the basic research that needs to be done, nobody would do it, except the Federal Government. You are the experts on these things and if it is rattling your cage, and I apologize—

Mr. KINGSTON. That is why we are here, and I am glad that you are here and feel frank enough that we can disagree, because I like the direction in which you are moving.

Mr. Chairman, these are approximate numbers, but the USDA budget is \$60 to \$70 billion and \$13 to \$14 billion is in discretionary agriculture spending, and what Martin Gross in his book and you in your testimony focused on, was the \$13 to \$14 billion and of that, I believe about \$6 billion is paid back through interest and fees, for example the tobacco program, and so forth, like that. I am not sure what percentage of it.

Let's say we did everything down the line and got rid of these programs, you are still going to have the bulk of the USDA budget that is unaffected. Does the Citizens Against Government Waste address such programs as the nutrition programs, or WIC, or food stamps, or whatever is in the bulk of that, because even though that is not under the jurisdiction of this committee, it is something that we need to pay attention to.

Mr. WINKELMANN. I am happy you asked that question. We are advocating a number of things that affect farmers and the agricultural sector.

For instance, we strongly advocate simple things like farmers and ranchers who are self-employed ought to be able to deduct all health insurance premiums.

We think that revising the capital gains laws and inheritance taxes can do more to protect the operating family farm than anything you can do on the subsidy side. Regarding nutrition programs, we met with staff, and I was asked and told, focus on rescissions, don't get into subsidy programs.

We advocate the elimination of subsidy programs for agricultural commodities on a phase-out basis that won't cause as much dislocation as an immediate cutoff. We recognize that with regard to Farmers Home Loan programs, they need to be curtailed starting with some of the so-called deadbeat loans. But beyond that, on nutrition programs, we hope that in the confluence of the other committees that will be looking at welfare reform, that these nutrition programs need to be brought under control, they be done so that we have a safety net for Americans but not a hammock. I am not sure how much cutting has to go on there.

We want you to focus on discretionary things. There is no reason that my three kids grew up and got subsidized lunches. My wife and I worked hard to be able to pay for their lunches.

When I was a kid and when my three kids were in school, they got subsidized lunches. If nothing else, we are taking a dollar that could go to the mother of a child that needs that assistance, and if they are already being cared for, then we are taking a dollar of taxpayer money that doesn't have to be done. I will provide you our overall context for changes that need to be made, many of which you all can't effect because they are authorizing committee stuff.

Mr. KINGSTON. Thank you.

Mr. SKEEN. Mr. Thornton.

Mr. THORNTON. Mr. Winklemann, I appreciate your testimony and the good humor with which you have responded to questions. I could not help but notice that in the list of projects that meet the test of pork, are \$4,752,000 for the rice Germplasm Center in Stuttgart, Arkansas, a \$1,184,000 for alternative pest control at the University of Arkansas. \$946,000 for increased staffing at Fayetteville, Stuttgart, Boonville, Pine Bluff, and, frankly, I am chagrined because none of those projects are in my district. And I do, however, know something about those projects.

The Germplasm Rice Center is located in the heart of the principal rice exporting facility in America, the world's largest rice mill.

Did you analyze the expenditure, or did it just look like a good shot?

Mr. WINKELMANN. No, sir. What we do when we identified so-called pork-barrel spending, we rely on criteria that were set up by Congress, members of the Porkbusters Coalition. There are seven. We as an organization relied on simply one of those tests being met to label it pork barrel. In this case, all of these met two. None were specifically authorized.

Mr. THORNTON. You did not make any judgment as to the merit of the project or its usefulness?

Mr. WINKELMANN. No. We intend not to do that. I am sorry Ms. Kaptur is not here, because there is a project dealing with water quality research that is carried on in Mrs. Kaptur's district, which is an excellent program, and we did look into that, and yet, it violates the pork-barrel criteria.

What we try to do, and perhaps this is the nitpicking Mr. Kingston described, we tried to raise your level of consciousness about how you make decisions on allocating the money.

Mr. THORNTON. You have raised mine. I want to get some of this money into my district.

Mr. WINKELMANN. You need to talk to your senior Senator, because he is very good at this.

Mr. THORNTON. How many other agricultural law educational centers are there, in addition to the Leflar School of Agricultural Law at Fayetteville, Arkansas?

Mr. WINKELMANN. I don't know, sir.

Mr. THORNTON. I do. There are none. It is the only one in the United States, \$200,000 to provide some additional capacity for the only law center in the United States that deals with special problems of agricultural law. I just have trouble thinking of that as pork.

But more deeply concerning to me is the proposal that among those things that should be settled, and here Mr. Frydenlund will agree with you, is that you should eliminate the Agricultural Research Service, the Cooperative State Research Service and the Extension Services. They should be zeroed out as being nonproductive.

Mr. Frydenlund will join that by saying that and I quote: "the Extension Service's original mission was to instruct farmers in emerging agricultural technologies." The program long ago fulfilled its purpose on the national level and Federal funding should expire. "The States and counties could carry on those activities that they chose."

Are you familiar with the history of research being linked to agriculture?

Mr. WINKELMANN. Indeed. It is one of the most valuable contributions that the Department of Agriculture has made.

Mr. THORNTON. Do you recall—I am going to paraphrase these words: In the modern world of rapid achievement in science and technology, we must make frequent changes in the way we conduct our enterprises in order to meet the new challenges provided by each new day. If the world is moving at eight knots and we at only six, we shall be left in the lurch.

Mr. WINKELMANN. I am not familiar with the words, but they sound wise.

Mr. THORNTON. Congressman Merrill, 1857, in initiating the Land Grant College system which brought education and agriculture and technology throughout the United States, and I am a little surprised. You mean, it was more rapid, then, right, the changes were more rapid and more needed to keep up than now?

Mr. WINKELMANN. I don't think so. The point is, if I can characterize our recommendations, is that today we have an agricultural sector that is extremely productive and it has to compete in international global markets, and to do so, they can't get from here to there on government subsidies. The question is whether and to what degree we should move toward—for instance, in the question of research. Is there basic research that only the Department of Agriculture can sponsor and the Congress can pay for? Perhaps. That is a good question. You all aren't close to asking that question. But the kind of questions you ask, where can I put this agriculture grant and that research grant, and so forth?

Mr. THORNTON. Mr. Webster will say in a few minutes, and I quote: "we have heard arguments that private industry can and will conduct agricultural research and, therefore, Federal support is not needed. We disagree with this reasoning, though we are strong supporters of research in the private sector and recognize that the lion's share of new technology is developed in private laboratories, but there is also an essential role of the public sector in conducting some of the longer-range, higher-risk research and development."

I am deeply concerned. I am a retread up here. I was here in the 1970s, I was Chairman of the House Subcommittee on Science Research and Technology and a Member of Agriculture Committee at that time. I began to believe that one of the things that made America competitive and able to develop markets overseas was our

application of research and technology to the marketplace. I began to believe that there was a significant role for government in advancing those research efforts.

And I do think that this committee, under the Chairmanship of Mr. Durbin, made Draconian cuts in agricultural programs, more than any other committee. He needs to be commended for that.

And we still have some work to do, Mr. Chairman. I am pleased to have you serving as Chairman, but I do not think we ought to lose sight of the priorities that we must place before us as we make those severe cuts. And I have an idea that you really agree with that and that I could talk you into the importance of some research.

Mr. WINKELMANN. I don't disagree. What we want you to do is remember that when you were here last, you didn't have \$200 billion deficits. Ronald Reagan was elected screaming about President Carter's \$46 billion deficit.

Mr. THORNTON. As a matter of fact, I was shocked. I left in the 1970s with the consent of a majority of the voters of my State as I sought to win the Senate seat that David Pryor has held since that time, and he has done well, he is a good guy and a good friend. But we didn't even have a trillion dollars worth of debt, we only had a few hundred billion dollars worth of debt. We have boomed through \$1 trillion, \$3 trillion, \$4 trillion, and we are up now to where our debt is 80 percent of our Gross National Product, or GDP, as it is now called.

I am devastated by that until I recall that at the end of World War II we had a debt of \$260 billion against a Gross National Product of \$212 billion, 120 percent of our national debt. My granddad told me that if you are head over heels in debt, you can't spend your way out of debt, but you can't starve your way out. You have got to work your way out by increasing productivity, increasing income and developing the ability to throw off that debt, which we did in the years following World War II, when we were really in debt. Then we got down to the Johnson-Nixon time, when our debt as a ratio to—our Gross National Product was around 30 percent—you can live with that. Most families I know can absorb a debt for a house or something that is 30 percent of their gross annual income. It is too bad we have gone the other direction. We have to change it around.

Mr. WINKELMANN. No one has made the argument quite as well as you have about the context in which your committee sits. Your committee, if you cut every dollar, cannot eliminate the deficit, cannot pay off the debt, so that allows me, I think, to make the point, not only are you right, but we think that part of the solution ultimately to work our way out of this is going to be a contribution from this committee that has already made a down payment in advance of your colleagues. I don't think you will shy away from it, but we tried to bring ideas about priorities.

With regard to research, it seems to me, that not only do you have to look at whether they are going to increase productivity and who should pay for them, but the question is more so now than perhaps when you were last in Congress, can we do it in the context of the budget deficit? There are a lot of things that we would

love to recommend that you cut, that if we were running a budget surplus right now, we would never recommend it.

Mr. THORNTON. Thank you for your testimony. I think it is very important for this committee to get a wide range of recommendations and put everything on the table for consideration, but you will forgive me if I defend research.

Mr. WINKELMANN. Absolutely.

Mr. SKEEN. Mr. Nethercutt.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

It is a pleasure to be a Member of this subcommittee. I represent the Fifth District of Washington, Eastern Washington, primarily dependent on agriculture. We have a lot of natural resources in our district. It is a big district, and it is a wonderful district.

I talked a lot to farmers, during the campaign in November we talked a lot about agriculture having become socialized agriculture. It is a system which is no longer it isn't a free market system like other systems in our society. We are dependent on the Federal Government because the Federal Government, in many cases, uses agriculture as a tool for foreign policy and other objectives. So I am a little troubled by your suggestions recommending that we do away with EEP funding, export enhancement market promotion, agriculture research and programs designed as conservation programs.

Let me describe a dilemma to you, if I may. For me and my district, we have a lot of arid land that borders around Spokane, Washington, which is our major population center. The EPA being a prominent agency in our nation that cities have to deal with, has advised the Spokane area that if we do not cut down on the particulate matter in the air, many times caused by blowing dust from croplands that are 60 miles west, we could be in trouble if sanctions fall upon our city.

Spokane is part of the agriculture community in my district, but the conservation programs that are available to farmers through Federal funding go a long way to help eliminate or address the EPA restrictions that we face in a population center outside of the farmland. I assume you don't mean that all conservation programs are bad.

Mr. WINKELMANN. Let me respond this way. You point out the problem of the context of testifying before this committee as one sliver of a broad range of recommendations. I think you have to start if you are looking at mandates, unfunded mandates, whether they are on business or whether they are on States and localities, look at the propriety of those EPA regulations, in the first place, and I hope in speaking with your colleague, you will do that.

One of the great vices Congress has put farmers in has been the trade off between a subsidy and unconscionable regulation. Soil conservation programs are a good example. As naive as this may sound, let me start with the premise that I think farmers are capitalists and I don't know of any capitalists that abuses its chief form of capital, in this case the land. In a free market, I think farmers are going to take care of their land, rotate crops, they are going to till, whatever the best methods are.

I think we need to trust them to do that, but this government doesn't. It attacks them with environmental programs, it attacks

them with conservation set-asides. USDA and Congress have created an enormous apparatus, you described, socialized agriculture. If the Soviet Union had succeeded, we would have one other successful story on the face of this earth of centralized agricultural planning, and that overhang, I think, has tightened its grip on the American farmer, and what you can do is very narrow here, but I urge you to do it.

Rescind where you can, but I don't want you to stop from talking to your colleagues and saying, look, the American farmer is being asked to do a lot of things. He is a public utility and we have to stop it, and so we are going to the Ways and Means Committee to talk about tax policy as it affects farmers, we are going to those committees that deal with environmental policy, and on down the line.

When you ask me, do I think that all conservation programs are a waste of time? No, I don't. I think that conservation programs are incredibly important, but I think that farmers will undertake them in a free market at their own cost, drawing upon expertise of other people in their area or commodity group or cooperative, and they will take care of their land. I don't think they need mama government to tell them to take care of their capital asset. Now, we are a long way from here to there, but I am here to advocate, say, of course not, there are conservation programs that are needed.

Charlie Stenholm made a comment to me that I found astounding. He said, you know in my area, we need to have help from the government, from the Soil Conservation Service because of the run-off problems that were caused by road construction in the area. We have a Federal program here that creates the problem and here we have one that is trying to solve the problem. The easy answer is, of course, not.

Mr. NETHERCUTT. I take issue with your comment about not earmarking programs for Federal expenditures in Members' districts. I have Washington State University, one of the great land grant colleges which does extensive research to help farmers. Farmers tell me I just want to get a price for my product and be out from under the regulation.

The research that is done by the universities is a great help to us, so please be judicious about how you look at those programs. And I am guaranteeing them that I will, because I think they do good things for the farm community. A farmer is not likely to spend half a million dollars for research that will really help the Russian wheat aphid. They rely on land grant universities and that is the only one in our State that does substantial research in agriculture.

So I think we have to be careful about broad-brush elimination of these kinds of programs. Hard look, yes. Justification, yes. But it is not that simple. The land grant research that is done at Washington State University helps in the conservation programs that are funded by the Federal Government, that helps the air quality problems that we face outside of the farm community. So it is a very complicated process that we are going through, in my judgment, that agriculture has to face. All the while, the farmer isn't able to farm and compete as he or she can best do outside the pressure of the Federal Government.

Again, we use, in my judgment, farm programs for international foreign policy and then cuts in the program prevent us from having a free market system in the farm community.

Mr. WINKELMANN. May I respond, to make two points with regard to earmarking. Of course, your farmers rely on that research being done for them.

I rely on almost anything that somebody offers me for free. You need to understand that just because the system works the way it does, doesn't mean it is going to fall apart if suddenly producer groups had to fund some portion of that.

I understand the Federal Government doesn't pick up every dollar of research. With regard to research, it seems to me that there has to be some role for a private sector cost share greater than it is, and a State share greater than it is when the States are running balanced budgets after we are running \$200 billion deficits. It doesn't mean you would do it exactly the way we would do it if we were running a budget surplus.

The second point is, I would feel more comfortable with Washington State getting research grants if they were peer reviewed and didn't have an earmark in the appropriations bill. The suggestions that have been made to us from people outside our organization have been the research programs are probably the greatest thing that USDA has done for this country in terms of the farm communities, but be careful of two things. There is basic research that needs to be funded, and committees need to look at how to get to that. With regard to research done on a practical basis, much of that could be picked up at the State level and it is not necessarily wisest to use political considerations only, in making those choices.

Mr. NETHERCUTT. One final question.

I heard your testimony in which you talked about eliminating subsidies for the least-productive farmers. What I fear in this country, and certainly in my area, is that we have young people who are not going into farming because the target price of wheat has stayed the same for a long time, chemical costs have increased and we have equipment and lands cost increases. What is the incentive? We don't have a free market.

I am troubled how you define least-productive farmers. What are farmers—just under 2 percent of the population now. It is very small and shrinking. I wonder what your solution might be. How do we encourage young people and third-generation farmers to go into this business when they are faced with this pressure that has been created in large measure by Federal policy?

Mr. WINKELMANN. The first part of the answer I would like to offer is I don't think we should be encouraging anybody to get into agriculture unless they can do it productively and make a profit. How we remove disincentives, starts with dismantling the U.S. Department of Agriculture. It is subsidies that raise cost of production. The cost of land is tied to the level of commodity prices and supports. It is tied directly to the amount that the Farmers Home Administration will loan, and bankers will tell you that we have been lending far too much money. That has driven up the price of agricultural land, which I think is probably the most costly input in farming.

When I have talked to Members of the Agriculture Committee recently about this, they said let's face it; if we adopted everything that you recommend today, farm prices would drop by 40 percent. The point is that is a true statement. The economic question then, is should agricultural land prices be 40 percent less and what is that 40 percent margin doing to the entry of farmers. The costs of reducing your acreage and holding back acreage out of production is tied directly to the demand for chemicals, fertilizer and other pesticides.

When you increase the demand for agricultural chemicals, you are going to raise their price and you have your finger right on the problem. Our recommendations as crude, as sort of aggregate as they may be, are trying to get you to say, throw off the old assumptions, and look, the problem may be the USDA itself.

Mr. SKEEN. Mrs. Lowey.

Mrs. LOWEY. I am delighted to be on this committee and look forward to working with you, Mr. Chairman, and our Ranking Member, Mr. Durbin. I represent the metropolitan New York area, and although we don't have too many farms left, I want to assure you that I have a vital interest in these areas, because what happens in farm policy directly affects us in the cities. We are all interconnected and I think that is the greatness of our democratic process.

I share your concern for reducing our deficit. The fact that we have an over \$4 trillion debt affects us all and we take it very seriously. Last year, in my other subcommittee, we zeroed out 21 programs, and this committee voted for over 500 cuts. I think we are all very concerned about the size of the debt. What concerns me, however, is that our witness is listing programs and recommending zeroing them out without careful analysis of what the impact of those programs are.

For example, he is talking about putting programs on a chopping block that may have significant impact, and to that extent, I would like you to explain to me No. 19. You are referring to all programs and offices categorized as conservation program.

Can you explain to me the kinds of programs you are talking about, why you think they have not had any effect, and why you think we could zero them out?

Mr. WINKELMANN. The soil Conservation Service would be one of those.

Ms. LOWEY. Let's focus on that.

Mr. WINKELMANN. Our recommendation to zero out over a five-year period the Soil Conservation Service is not because the Service hasn't done some good work. I think it has. Criteria for how you decide what to fund in the future, does the work need to be done? Conservation programs, yes. The question is, who has the chief responsibility for that?

My point to Mr. Nethercutt is that I believe that farmers have chief responsibility for conservation programs, not the Federal Government, and after that the States.

The last question is, and who should pay for it? Is there a role for the Federal Government in conservation programs that should continue?

That is a question that if you ask it from that direction, I think we will be will be satisfied with the answer. The assumption that we want you to not use is we have a Soil Conservation Service, how can we describe its mission in the future so that it is justified in terms of its appropriation? In many cases, I think we keep wandering year in and year out from one program to another. I am not trying to say that all soil conservation programs are worthless.

Mrs. LOWEY. Mr. Durbin referred to the very difficult problems that we are having in the New York region, balancing the needs of farmers, with balancing the needs of our citizens to drink clean, safe water.

As a Member of Congress, I take my responsibility very seriously in trying to balance the needs of both. For example, it has been proposed that there be buffer zones around a tributary that feeds into the Long Island Sound, that feeds into our drinking water sources. Some farmers may think these kinds of regulations are inappropriate. Some of those in the cities may think they are very appropriate. The kinds of research and work that is being done by these agencies that are trying to provide answers for some moderate grounds for some balanced solutions, I think are critical.

If you are saying the farmers are the ones that would have to come up with those solutions, in many cases, the farmers in Connecticut impact on policies in New York because New Yorkers drink the water that comes down from Upstate New York and other regions in proximity to where they live. So I am confused about how we would proceed if we just eliminate those programs and we can't provide the research and the insight to come out with some balanced approaches to those very tough problems.

One other point—if you could explain yourself, when you said you don't want to have political considerations in making your choices—it seems to me, life is politics, and bringing the farmers in, bringing the citizens groups in, some may call it politics, some call it open discussion, but I think that if we could all reason together and think through the maze of these programs, perhaps we could come up with better solutions. I am concerned about elimination of those agencies.

Mr. WINKELMANN. I agree with regard to sitting down and reasoning together, and it is in that context that I urge the committee when you look at rescissions and furthering your funding in the appropriation bill, that you not use just political criteria.

Mrs. LOWEY. What are those?

Mr. WINKELMANN. Political criteria is whether or not a research grant for boll weevil research is going to be at the University of Mississippi or Texas A&M University. With everything else agreed, there may be a role for that kind of question. I have been trying to say that before you get to the political questions, ask first whether we need a boll weevil research program.

Secondly, decide who should fund it, who should do the work and then, by all means, you are politicians—you couldn't do your job if you weren't, because you have to bring people together around some kind of legislation.

I do want to make the point, I am not saying don't use political criteria, but don't use political criteria primarily. When it appears that all you do is divvy up the pork, then it does not do justice to

this committee or this Congress. You deserve better than what the people think of the process.

Mrs. LOWEY. I don't want to repeat the arguments of my colleague, but there are certain basic assumptions in your comments that the Members who were elected for that district don't have the interest of that district at heart. We were elected because we are trying to fight for what is best for the district and the Nation. The word politics has become pejorative.

Mr. WINKELMANN. It shouldn't be. That is as valid as other criteria in the context of this committee. I am asking that you not do that first or solely.

With regard to conservation programs, if it shakes up the committee enough where you will take a look at all those conservation programs—

Mrs. LOWEY. You have that program on your list. Could you give me three reasons why you want to do it?

Mr. WINKELMANN. In many respects, I think the Federal Government over subsidizes farmers in what should be their own responsibilities of paying for conservation. Like the research that is so valued at Washington State University, of course it is valued; it is free. You need to look at what the cost-sharing arrangement is.

What should be the farmers' proper share, the States' proper share, the Federal Government's proper share. That is a question I want you all to look at.

Second, I have heard from too many farmers that they consider many of these conservation programs to be infringements on their liberty, on the right of property, and they say this while they are taking subsidies, but when there is that much discussion of the regulatory impact of conservation programs then you have to discuss the context. It was a simpler time 20 years ago when I worked on the staff, and there was not the wealth, if that is the right word, of environmental programs on the books. The Soil Conservation Service did a different job then. As you look at these programs, I would like you to put them all on the chopping block, particularly with the kind of project you talked about, does this need to be done? Sounds like in your brief description that it does need to be done. The question is who needs to do it and who has the responsibility for paying for it?

Mrs. LOWEY. I hope that we can both be open-minded and look at all these programs rather than list them for zeroing out before an adequate hearing.

In this morning's Washington Post, there was a report about the Green Scissors Initiative aimed at cutting programs that have a negative environmental impact. Have you looked at their suggestions? Who will be the body that would do a thorough investigation and a recommendation as to how we can get highly erodible land out of production so it is not adding to the water pollution problems that we have?

Mr. WINKELMANN. Citizens Against Government Waste is a co-sponsor. I have worked on it for over a year. The first person I met in my a new job was Ralph DeJaneiro, Friends of the Earth. Between those three groups, you have about the three lobby groups that come here and try to implement the Green scissors report.

I have taken more flack over the fact that we are some left-wing environmental coo-coo organization because we happen to believe that there are things that you can do that will cut the budget and also remedy some of the environmental problems that we have. I am grateful to have the chance to say that.

Mrs. LOWEY. I hope as we look at these programs, we can be open and honest and not try to damn them just because they happen to be in another Member's district, but that we try to come up with common goals, and while reducing the deficit, try to be honest.

Mr. WINKELMANN. I try to be honest in what I know a lot about. This is the first time that our organization has been asked by the Appropriations Committee to even make an input, so for the first time you are hearing things said that on their own might be misleading. But I understand that we are the first before this subcommittee to make a point, and I appreciate not only the chance to be here but the testimony that will come behind me.

Mrs. LOWEY. I think we also have to be very sensitive to the fact that statements on their own can be misleading and they get out to the public and can be very detrimental. So we have to be very careful of statements made and try to avoid statements that can be interpreted wrongly, and I am sure you would share our concern about that.

Mr. WINKELMANN. Absolutely.

Mr. SKEEN. Mr. Riggs, another new Member.

Mr. RIGGS. Thank you, Mr. Chairman.

Good afternoon, Mr. Winklemann. About your affiliation with those left-wing environmental groups—I am just kidding, of course. But I want to commend you for your testimony, because I think reading between the lines, it points up the need for some very real political and campaign reforms, not the least of which is the need for term limits.

I wanted to, before I ask you about specific cuts and possible agency consolidations, to ask you as a general principal, do you subscribe to the belief that we should be in the business of subsidizing food and fiber production, because we rely on food and fiber production for our very survival?

Mr. WINKELMANN. I don't, because that is produced in this country, which is blessed with some of the best farm lands and hard-working people to populate the face of the earth. It ain't going to go away if the Federal Government gets out of the way.

Mr. RIGGS. Have you had a chance to look at the administration's proposed reorganization of USDA?

Mr. WINKELMANN. Not to the extent that I would be expert in saying anything about it. I think it is a step in the right direction to the extent that it is downsizing the Department of Agriculture. The only other generality is it has not gone far enough, because it is an across-the-board. Let's shave it down a bit.

It may be possible that the entire structure of agricultural research should be kept in place, funded as it is today, while you get rid of the entire Agricultural Service. The way the administration has gone about it and the way that the bill was written here, it was not that ground-up zero baseline approach that yielded those kind of—

Mr. RIGGS. Running through your remarks is a consistent theme that I would characterize as cut personnel before programs. I am wondering; are you taking a programmatic approach here?

Mr. WINKELMANN. Absolutely. We don't advocate sort of cutting people. We advocate—not even cutting programs. The fundamental premise is we want to sit down and say there is no current program. If we are going to build a farm program, a food and nutrition program, a Food and Drug Administration, how would we do it, what needs to be done, who should take the responsibility and who should pay for it, and not assume that just because we have a Soil Conservation Service that we ought to. FDA is in need of reform. They spend too much on enforcement and less on product review than they should and it has cost lives in this country.

Mr. RIGGS. The Farmers Home Administration, has it outlived its usefulness or could it be folded into another Federal agency, for example, Fannie Mae?

Mr. WINKELMANN. It has outlived its usefulness as an entity. The housing programs need to go back to the States to the extent that you decide you want to put continued Federal money into housing, whether rural or urban.

Mr. RIGGS. What would you do with the loan portfolio?

Mr. WINKELMANN. I would privatize it and turn it over to debt collectors and make sure not a nickel went out the door.

Mr. RIGGS. Thank you.

Mr. SKEEN. Thank you, Mr. Riggs. Thank you, Mr. Winklemann.

I want to tell you this; it has been a very, I think, engaging conversation between all of us today. We have covered a lot of territory that probably has not been covered before now. This is the kind of give and take we want, because we want everybody with an interest talking about how we could bring government down to efficient operating size. You have brought up a lot of interesting points.

I have one piece of advice for you. Go find out what farming is all about. I understand the context. I am not trying to be flip. Because you use terms such as the support programs guarantee income to farmers. They don't guarantee anything. They will not guarantee the farmer will be there the next day or whatever.

The support programs were initiated in the 1930s, but there is no guarantee that you are going to survive in this business at all. There is no guarantee in agriculture, as there is no guarantee in any other business.

Today, we have half the farmers that we had when I came to Congress in 1980. It means the farms are getting bigger but there is still no guarantee they are going to survive.

On conservation, I think you have a misconception about scale. Most conservation are aerial. One farmer's conservation work could be to the detriment of his neighbor or the entire area. That is why they have the Soil Conservation Service. These are things that we should look at. And you have, I think, accentuated that point.

We are going to run over and vote and come right back, and then we will take Mr. Frydenlund after that.

I think you stood your ground very well. I want to say to the Members of this panel, I am amazed at the intelligence and the questions that they have asked, this has been some of the best dialogue I have seen in a long time.

Mr. WINKELMANN. I appreciate the fact that you held this hearing. I think it is going to be good for the country.

Mr. SKEEN. Glad to do it and we are going to keep that kind of spirit going.

[Recess.]

TUESDAY, JANUARY 31, 1995.

THE HERITAGE FOUNDATION

WITNESS

JOHN FRYDENLUND, SENIOR FELLOW AND DIRECTOR OF THE AGRICULTURAL POLICY PROJECT

Mr. SKEEN. Okay, Mr. John Frydenlund, delighted to have you here. Go ahead with your presentation. If you can abstract it a little bit for us, we would appreciate it.

Mr. FRYDENLUND. I will try to do that, Mr. Chairman.

Mr. SKEEN. Thank you. You are so cooperative.

Mr. FRYDENLUND. Distinguished members of the committee, my name is John Frydenlund, Senior Fellow and Director of the Agricultural Policy Project at the Heritage Foundation, which a non-partisan policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty and a strong national defense. The Agricultural Policy Project is aimed at significantly achieving significant reforms of the agricultural policy in the 1995 farm bill.

I want to thank you for inviting me here this afternoon to discuss ways to cut spending and downsize government specifically in the U.S. Department of Agriculture. I understand that these efforts are to lead to inclusion in a number of items in the omnibus package of recessions for fiscal year 1995 appropriations, and I am definitely aware of the special constraints that you in this committee face finding adequate savings in the USDA budget.

I mean although the total appropriations is \$67 million, I know over 80 percent of those funds are dedicated to mandatory entitlement programs. So obviously if entitlement programs are off limits, that definitely limits the pool from which you can achieve savings in this particular recession exercise.

It is really only because of those limitations that I feel like the recommendations that I have included here are as modest as they are. In the future, Congress will have an opportunity to look at much broader reform of the programs of the Department because most of the activities and programs, of course, come up for renewal in the 1995 farm bill.

I think the 1995 farm bill is where very key actions will be taken that could again lock in many spending commitments as long-term entitlements. But what is really required in the long term is a revolutionary way of looking at what is the proper role of government.

When the 1995 farm bill is considered, you will have an opportunity to redefine the role of the Federal Government in agriculture. Now more than ever Congress needs to be serious about reform of agricultural policy in order to make it possible for the agricultural industry to take advantage of the expanding global market. In that deliberation, Congress needs to distinguish between

public or government functions and those which should be the exclusive responsibility of the private sector.

Before finalizing the next farm bill, Congress must determine which Federal programs or agencies are outmoded, do not work, have completed their missions and are no longer needed or duplicate the efforts of other programs. So I think in this way, you should be guided by some basic principles that help you to determine what really are the appropriate responsibilities of the government.

I would say that first the Federal Government should not engage in any activity that is more appropriately carried out by the State and local governments. Second, the Federal Government should cease activities that are properly the responsibility of the private sector.

Moreover, with respect to the 1995 farm bill, the government should cease those activities particularly in the area of commodity programs to supply control and acreage reduction programs that keep farmers from earning more income and taking advantage of the world market opportunities. Finally, the Federal Government should terminate programs that do not work, that have become outmoded or obsolete that duplicate other programs or do not involve legitimate government function.

Having said all that, I would like to reiterate that I am aware that boldly reforming the entire Department of Agriculture and its programs is not possible in this recession package. I have—have included in here in my prepared statement a listing of some areas where I would suggest you could find savings in the immediate near future for this recession exercise, and so I have included some extension service special grants where I would say that they are earmarked and the lack of a peer review or competitive bidding does make them a potential target for reduction.

And I have listed the particular amounts that are included there, though I have not necessarily targeted specific projects and said these projects are good, bad or ugly. Also, the Cooperative State Research Service special grants, which is an amount of \$52 million that is the same situation and Cooperative State Research Service buildings and facilities. And I have—I have detailed some of the lending programs where there is some very good evidence that the cost to the government is much greater for the direct lending programs than for guaranteed programs and so just shifting from the direct programs to the guaranteed programs can provide significant savings in the immediate future.

I have also listed additional savings that can be found by looking at an area like the unspent WIC funds where there is at least \$100 million that could be utilized without any jeopardy to the program and the possibility of \$6.5 million from the Farmers Market Coupon Program. But because I want to avoid taking too much time here and in anticipation of some of the questions, I do want to reiterate that these items that I have listed here are ones that you can single out because you have to start out from a very small base of which to look at if you are talking about recessions and the entitlement programs are off base. I think—or off limits.

The items I have identified for recession, I think, would eliminate some clearly unnecessary spending in fiscal year 1995 and

would provide savings of about half-a-billion dollars. It is a very modest amount of savings compared to what could be achieved through a top-to-bottom real reform of the entire Department of Agriculture and a thorough review of its programs and functions.

But it may be a good beginning to make these cuts in spending now since downsizing the government must begin somewhere, however modestly. While it is not possible in this recession package to achieve the bold reforms necessary for agriculture policy, that must be a priority as the 1995 farm bill is debated.

America's farmers and the rest of rural America cannot afford to see the opportunities that the future provides squandered in the status quo farm bill. That is why I would argue that what is needed in the long term for agriculture policy is not to take the present farm programs and say how can we maneuver things around here to save some money or how can we—how can we preserve most of this program and affect it the smallest amount possible?

I would encourage the Congress to, especially in agriculture, which is an area that I know better than others so I am not going to speak about other parts of the government, but I would encourage you to look at what is good for agriculture, what is good for farm income, what is good for rural America, what is good for productivity and what is good for prosperity and go from there and design new programs, not necessarily looking at the programs that exist now and say what can we change a little bit here on the margins. It may mean that what you want to do is to start all over.

Thank you.

[The statement of Mr. Frydenlund follows:]

TESTIMONY
BEFORE THE AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG
ADMINISTRATION, AND RELATED AGENCIES SUBCOMMITTEE
COMMITTEE ON APPROPRIATIONS

January 31, 1995

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POTENTIAL FY95 SAVINGS IN USDA

Mr. Chairman, distinguished Members of the Committee, my name is John Frydenlund, a Senior Fellow and Director of the Agricultural Policy Project at The Heritage Foundation. The Heritage Foundation is a non-partisan policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty and a strong national defense. The Agricultural Policy Project is aimed at achieving significant free-market reforms of agricultural policy in the 1995 farm bill.

Thank you for inviting me here this afternoon to discuss ways to cut spending and downsize government, specifically in the U.S. Department of Agriculture. My understanding is that your commendable efforts here today will lead to inclusion of a number of items in an omnibus package of rescissions of FY95 appropriations. Your task is both important and challenging. I am aware of the special challenge you face in finding adequate savings in the USDA budget. Although the total appropriation for the Department is almost \$67 billion, over 80 percent of those funds are dedicated to

mandatory entitlement programs. Obviously, that limits the pool from which you can achieve savings in this particular rescission exercise.

Before I get into the specific recommendations to achieve savings now, I would like to reiterate that it is only because of these limitations that those recommendations will be as modest as they are. But, in the future, Congress will have an opportunity to look at much broader reform of the programs of the Department. Most of the activities and programs of the Department come up for renewal this year in the 1995 farm bill. Members of this Committee will have an opportunity to influence that outcome first as the authorizing legislation comes to the House floor and then again as the appropriators for those programs. Actions taken as a part of the 1995 farm bill could again lock in many spending commitments as long-term entitlements.

What is really required in all of government, and no less in USDA, is a revolutionary way of looking at what is the proper role of the government. When the 1995 farm bill is considered, that is the opportunity for Congress to redefine the role of the federal government in agriculture. Now, more than ever, Congress needs to be serious about reform of agricultural policy, in order to make it possible for the agricultural industry to take advantage of the expanding global market. In that deliberation, Congress needs to distinguish between public, or government, functions and those which should be the exclusive responsibility of the private sector. Before finalizing the next farm bill, Congress must determine which federal programs are outmoded, do not work, have completed their missions and are no longer needed, or duplicate the efforts of other programs.

Three basic principles should guide the Congress both as you cut spending and consider, in the months ahead, the 1995 farm bill :

*First, the federal government should not engage in any activity that is more appropriately carried out by state and local government.

*Second, the federal government should cease activities that are properly the responsibility of the private sector. Moreover, with respect to the farm bill, the government should cease those activities that keep farmers from earning more income and taking advantage of world market opportunities.

*Finally, the federal government should terminate programs that do not work, that have become outmoded or obsolete, that duplicate other programs or that do not involve legitimate government functions.

Senator Lugar, Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, is on the right track, as he has indicated his interest in pursuing a bottom-up review of the functions of the Department of Agriculture. It is about time that Congress took these 60 year old programs and set them aside completely and developed either entirely new programs or no programs at all to take their place. In the end, agriculture and the public will be better served in this way, rather than if there is nothing more than tinkering around the edges of the Department of Agriculture. Although I applaud the efforts that were made last year to streamline and reorganize the Department, as difficult as they were to accomplish, compared to what is left to be done, it is a rather small step.

Having said all that, let me reiterate that I am aware that boldly reforming the entire Department of Agriculture and its programs is not possible for this Committee to accomplish in this rescission package. If that were the case, however, there would be significant savings to be found in export subsidy programs that spend over one billion dollars annually and accomplish nothing to regain U.S. market share. You could also look at scaling back the Conservation Reserve Program that costs taxpayers nearly two billion dollars annually and only serves to signal to the rest of the world that the United States continues its retreat from the international market. You could also look at the billions of dollars spent annually on commodity loan programs, which have not brought

prosperity to rural America. In the coming weeks, we will be forwarding to the Congress specific recommendations for reforming these and other major farm programs.

As Congress looks to reinvent the Department of Agriculture and other departments, if a function or program has merit, Congress needs to determine where it can be done best. Entire functions of the Department of Agriculture should probably be handled elsewhere. For instance, the Food Stamp and School Lunch Programs should be included in overall welfare reform, the activities of the Forest Service should be turned over to the states, and food inspection activities should be combined in one single agency. A bottom-up review of the federal government should also determine whether some agencies should be funded by user fees.

Those are issues, although important, which cannot be tackled today. However, even in the relatively limited part of the USDA budget that is not off-limits for purposes of this rescission, there are significant opportunities for savings. The Committee should follow some guidelines in determining what to include in a package of rescissions.

*First, halt funding for any project which was not authorized or which was earmarked in either the House, Senate or conference committees.

*Second, halt funding for any new project which is of a purely local nature and has no national significance.

*Finally, repeal any committee instructions that force agencies to spend money they would not have otherwise spent.

Using these guidelines, the Committee could find significant savings in the 1995 appropriations bill. I would like to point out some obvious candidates for inclusion in a package of rescissions:

Research Programs

The Department of Agriculture conducts various research programs through different agencies, including the Agricultural Research Service, the Cooperative State Research Service, the Extension Service and in other agencies scattered throughout the Department. For FY 95, the ARS appropriation was more than \$696 million, while another \$433 million was provided for CSRS and \$439 million for the Extension Service. This entire area should be involved in a bottom-up review to determine whether the federal government should be involved in conducting research at all, and if so, to what extent.

The government is conducting a great deal of commercially applicable research that should be funded by the private sector. In the future, the Congress needs to determine the appropriate role, if any, of all these agencies. The Extension Service's original mission was to instruct farmers in emerging agricultural technologies. The program long ago fulfilled its purpose on the national level and federal funding should expire. The states and counties could carry on those activities that they choose.

In the research area, the following are specific areas that should be included in a rescissions package:

Extension Service Special Grants

These are earmarked grants for which there is no peer review, nor are they subject to competitive bidding. Of the total appropriation of \$7,370,000, the House earmarked \$1,065,000, the Senate earmarked \$6,559,000, and another \$811 thousand was earmarked in both the House and Senate appropriations bills. However, all of these earmarked amounts survived in conference, including \$5 million alone to the Delta Teachers Academy. Also, should the Department of Agriculture's Extension Service be funding the Rural Center for the study and promotion of HIV/STD prevention?

Cooperative State Research Service Special Grants

This amounts to \$52,295,000 of earmarked grants that are neither peer reviewed nor put out for competitive bids. Included is \$644 thousand for a rural policies institute. Does this constitute public funding for a think tank? Also, there is \$416 thousand earmarked to study water conservation and water management. To what extent are these projects coordinated with or do they overlap other governmental efforts? The same question could be asked regarding the \$68 thousand earmarked to study rural housing needs.

Cooperative State Research Service Buildings and Facilities

This \$62,744,000 probably includes some of the least justified expenditures in the appropriations bill. These projects are all earmarked and this money is not funding real research, but instead will assist various university building construction programs. Again, there is no peer review.

Agricultural Research Service Research Projects and Laboratories

The list of earmarks and instructions for ARS research projects is extensive. In some cases, the conference report instructed the agency to spend certain sums of money on specified projects. In one case, the agency is instructed to continue to provide an adequate level of support for publication of a magazine. If, as the Committee report claims, "the publication receives broad-based support from international and national agricultural research, professional, and trade organizations," then it should be able to operate by selling subscriptions and advertising, rather than being funded by the taxpayers. Also, the agency had proposed the closure of 19 laboratories or projects, but the conference report instructed them to keep 10 of them open. This action interferes with any effort to downsize government.

Lending Programs

This is another part of the Department of Agriculture in need of revolutionary change. When the Rural Electrification Administration was created, only 10 percent of

U.S. farms and ranches had electricity. In 1949, the REA began providing rural areas with telephone service as well. Today, nearly 100 percent of all farms have electricity and 98 percent have telephone service. REA's mandate has been fulfilled; there is no justification for continuing the program. Now, most recipients of these low-interest loans are financially sound utility companies. Many are subsidiaries of a few major companies and most recipients do not serve low density rural areas.

A complete review should be conducted on all the programs within the Farmers Home Administration as well. The agency should be examined with an eye to determining whether the government should continue to play the role of a competitor with private lending institutions. I understand that the reforms that are needed can not be achieved in this rescissions package. However, in the FY95 Appropriations Bill, there are some obvious candidates to provide savings:

Section 502 Housing Program

This program is supposed to provide low-income borrowers who live in areas with shortages of private mortgage credit, with housing loans. Last year, of the one billion dollars in guaranteed loans, the government lost \$17 million. On the other hand, of the one billion dollars in direct loans, the government lost more than thirteen times that amount, \$227 million. The Committee can achieve significant savings, approximately \$210 million, simply by moving these funds from direct loans to guaranteed loans.

Farm Ownership Loans

The experience with the startling difference between the performance of direct loans and guaranteed loans is similar here. Guaranteed loans of \$540 million cost the federal government \$20 million, a 3.7% loss. However, direct loans of \$78 million ended up costing the government \$11 million, a 14% loss. By moving all direct loans to guaranteed loans, you could achieve savings of \$8 million in farm ownership loans.

Farm Operating Loans

Here again, \$1.7 billion in guaranteed loans cost the government only \$9 million, while \$500 million in direct loans cost the government \$56 million. That amounts to a loss of only one-half of one percent as compared to 11%. All of these direct loan funds should be moved to guaranteed loans, which would save another \$53 million. From the experience with these programs, it is obvious that the federal government should get out of the direct loan business entirely.

Food Programs

Finally, in this modest listing of immediate savings for a rescissions package, there is one more area in which savings can be found.

Unspent WIC Funds

Since FY1991, funding for the Special Supplemental Food Program for Women, Infants and Children (WIC) has increased from each previous year by at least \$224 million. In FY94, funding increased over FY93 by \$350 million. The unspent funds have now grown to \$150 million. As much as \$100 million of these excess funds could be included in a rescissions package, without jeopardizing the program in any way.

Farmers Market Coupon Program

This \$6.75 million program provides to individuals, who are already participants in the WIC program, additional vouchers that can be used in fresh food markets only. This money goes as a bonus to those already receiving benefits rather than to expand participation in the program. Also, the vouchers can be used only in qualifying farmers markets, although the products can be found in any supermarket. This is an unnecessary, duplicative program.

Conclusion

The items I have identified for rescission would eliminate clearly unnecessary spending in FY95 and would provide savings of at least \$500,159,000. It is a very modest amount of savings compared to what could be achieved through a real reform of the entire Department of Agriculture, from top to bottom, and a thorough review of its programs and functions. However, I believe it would be a good beginning to make these cuts in spending now, since downsizing the government must begin somewhere. While it is not possible in this rescission package to achieve the bold reforms necessary for agricultural policy, that must be a priority as the 1995 farm bill is debated. America's farmers and the rest of rural America cannot afford to see the opportunities that the future provides squandered in a status quo farm bill. Thank you.

Mr. SKEEN. Thank you, Mr. Frydenlund.

Let's talk about the lending programs that you spotlighted, the direct lending of USDA as compared to the guaranteed lending programs. You are aware, are you not, that those have two distinctly different purposes?

Mr. FRYDENLUND. Yes.

Mr. SKEEN. And are you suggesting that the directives are for the low income farm user?

Mr. FRYDENLUND. I understand the purpose for the direct income loans is for those who are less able to get credit elsewhere.

Mr. SKEEN. The direct loans.

Mr. FRYDENLUND. Yes. It just may be that this is something else that you need to really examine as a long-term policy to see whether that really is a justifiable role. If—if they are unable to get credit elsewhere, if it really is impossible and they are a bad credit risk, it may turn out that that is a bad credit risk for the Federal Government, too, and maybe you are not doing anyone a favor by loaning money to someone who cannot obtain credit elsewhere.

Mr. SKEEN. I think this, too, was designed during the time that the interest rates went to 20 percent or something of that nature. So what it was was the lender of last resort for some of these folks. What we were trying to do desperately was keep some of these folks alive so they could weather the storm. If I am reading your—interpreting what you are saying right, then you would recommend doing away with the direct lending program at the present time or see whether or not it serves its purpose?

Mr. FRYDENLUND. I think you should at least examine—

Mr. SKEEN. Examine.

Mr. FRYDENLUND. And see whether—I am not sure—if you look at—if you give the Department of Agriculture a bottom-up review, I think you may even want to review all of the lending programs and see whether it is really, really the government's role to be in the business of lending money and competing with private lenders. I think to the greatest extent that you can really look at these with a totally fresh look and see whether they are really meeting any real public purpose, whether they are accomplishing what you really want them to do.

Mr. SKEEN. I just wonder if we don't already do that, if they are not doing that insofar as the Department is concerned.

Mr. FRYDENLUND. I guess I question whether that sort of a thorough review has been done for most programs. Because to a great extent it appears to me, at least, that programs have just been kind of added on to as history has evolved.

Mr. SKEEN. Once again, it points out what happens in agriculture as in no other business. You are totally unable to control anything having to do with your market other than preparing for your planting, harvesting, preparing whatever equipment. The price at the market is up or down and there is no control over the exigencies, such as the cost of borrowing money in the private sector and things of that kind. These are problems which have hit them before, this is what that program was designed to take care of. If it has outlived its usefulness or if there is no longer any need for it, then I would agree.

Mr. FRYDENLUND. I think you point up another thing that would be very helpful for agriculture in the long run. I think there needs to be more emphasis put on private risk management and I think that can help to avoid some of the pitfalls.

Mr. SKEEN. I think they started out in private risk management. When things go bad, private risk management withdraws. What I am saying is rather than losing the farmer or farm operation that may involve the whole family's income or assets—and I think that the definition during that 1970s period of time was that it cost anywhere from a \$1.5 million to \$2 million investment for a family of four to live on a farming or agricultural operation. But I can agree with you. We ought to take a look periodically at all of these programs, see whether or not there is any justification for keeping them.

Mr. FRYDENLUND. I think that is the right wavelength to be on. I think if Congress decides that—excuse me, if Congress decides that it is the government's role to provide a safety net—

Mr. SKEEN. Some safety net.

Mr. FRYDENLUND. Then it seems like, you know, it is worth exploring whether, for instance, are the present programs really providing a safety net or are they providing more like some sort of a—sort of a net—

Mr. SKEEN. A support that you don't really need.

Mr. FRYDENLUND. Or is it in many ways I believe the safety net that exists now turns out to be more of a fishing net that keeps them from being able to get out and really produce in the market and take advantage of the global marketplace that is growing and we are not—we are not gaining market share despite all of our programs. And I know that for instance the export enhancement program, I believe, was intended for a noble cause, to regain market share, but it has not succeeded. So I would say that in a bottom-up review you have to take that—take the system and look at it and say what actually—what will actually provide us an opportunity to regain market share? The export enhancement program isn't doing it.

Mr. SKEEN. I get a little nervous when I hear this bottom-up review. As an old Navy program, you turn the thing over, the bottom comes up, why, you are in deep trouble.

Mr. FRYDENLUND. It may be a rather unfortunate choice of words.

Mr. SKEEN. Let's go from the ground up. Let's keep this agriculturally borne. But I think that is probably a good point.

We have tried to encourage the private sector to play as big a part as possible and keep agricultural lending in the private sector as much as possible. But on the other hand, when the Comptroller of the Currency and the rest of the examiners come by and you have a bank that is 70 percent invested in agriculture, I can tell you one thing, they are sitting there writing up those restrictions right and left. So the private sector has said we are not really interested in lending to agriculture purposes in many cases because we have gone through so many bad cycles. But you make a good point as far as the review is concerned and I appreciate the input.

Thank you.

Mr. FRYDENLUND. Thank you.

Mr. SKEEN. Mr. Durbin.

Mr. DURBIN. Thank you. I certainly want to make sure I pronounce your name. Is it Frydenlund?

Mr. FRYDENLUND. Frydenlund.

Mr. DURBIN. I represent Clinton County, Illinois. To show you how many folks of similar ancestry to you live there, we once had a friend of mine, an attorney, named Bernard Heiligenstein who won on a write-in vote.

Mr. SKEEN. You have got a very literate constituency.

Mr. FRYDENLUND. Mine is Norwegian.

Mr. DURBIN. Yeah, sure. Let me—

Mr. FRYDENLUND. I am from Minnesota.

Mr. DURBIN. May I ask you a couple questions? I have three questions. First is about the Heritage Foundation. The second is about your strategy to reinvent the Federal Government and the third is about WIC. So let me try to be as succinct as I can be. I know about your foundation. Democrats usually don't have much to do with you because you have little to do with us. You don't write, you don't call. You don't send Christmas cards.

Mr. FRYDENLUND. We have some very good democratic funds.

Mr. DURBIN. I am sure you do. Are you, like the previous group, benefiting from tax subsidies to exist?

Mr. FRYDENLUND. We are also a 501(c)(3); correct.

Mr. DURBIN. So although you are for limited government, individual liberty and free competitive enterprise, what percent of your budget do you think comes from a Federal tax subsidy?

Mr. FRYDENLUND. I am—I am not the person to ask, but I will provide that for the record.

Mr. DURBIN. Might be interesting. In terms of corporate contributors, does the Heritage Foundation have a lot of corporate contributors?

Mr. FRYDENLUND. I am not an expert on that but I am aware that we have some corporate contributors but we have—we have hundreds of thousands of individual contributors.

Mr. DURBIN. Do you disclose the names of your corporate contributors?

Mr. FRYDENLUND. I—we might. Yes, in fact I think we do because we are 501(c)(3). I think there is a—I have to apologize, I am not the expert on this.

Mr. DURBIN. I don't want to put you on the spot.

Mr. FRYDENLUND. I am an agricultural policy analyst.

Mr. DURBIN. If you would make a note on one of your business cards when you go back to send me that, I would be fascinated.

Mr. FRYDENLUND. I think we are required to disclose that because we are.

Mr. DURBIN. Are you familiar with a publication earlier this month from the Foundation—I will bet you are—the Budget Strategy to Reinvent the Federal Government?

Mr. FRYDENLUND. Yes.

Mr. DURBIN. I read the list here of all the programs that you want to get rid of, eliminate. Then I read the list of all the programs you suggest eliminating today. I think the best roundup or bottom-up is this. What would you keep in the Department of Agri-

culture? Give me one agency there that you think is doing a good job.

Mr. FRYDENLUND. Well—

Mr. DURBIN. Need additional time, we will give it to you.

Mr. FRYDENLUND. Well, I think that maybe something that is aimed at serving the food safety area.

Mr. DURBIN. Food safety, yes, okay. Because, frankly, when I go through your list, there is nothing left. You really want to turn out the lights. In some areas, it concerns me, too, because I think you are right. You and I may agree more than you think.

I gave a speech a couple years ago which sounded a lot like what you are saying. And I think Senator Lugar is on the right track, saying let's take a fresh look. Some of these programs have been around for 60 years. Maybe they don't work anymore.

Maybe we are hide bound on tradition instead of a real good program. You call for terminating the Federal Crop Insurance Corporation. I have probably been the harshest critic of crop insurance around here for a long time and for some good reasons. There were some awful things going on there. But I think we made real good progress.

Through the subcommittee and through the Ag Committee, we have created a reform that I think is in the best interest not only to the farmers, but the taxpayers. What bothers me when you say "terminate"—I think you have a background in agriculture—is how do you deal with the vagaries of weather that can take a hard-working farm family with a lifetime investment, and in a given year literally wipe them out? What is your answer?

Mr. FRYDENLUND. I would not have used that terminology. I would have suggested that one should look at privatizing it or developing an actuarially-sound program that is private.

Mr. DURBIN. I like that. You and I are close again on something here. What we found was it doesn't quite make it by market standards. We need to step in a little bit and help out here.

Because if you went to strict market standards, folks up in Minnesota and my State of Illinois find that the premiums get a little bit beyond them. So what we did is say that as a nation we are going to give you a helping hand. I guess it goes back to the dust bowl and a few other things.

We say some aspects of farming are such a big gamble that we will step in and do it. I think that is a legitimate role of government.

Let me ask you about another program before I terminate that one. You want to terminate all P.L. 480 grants, everything?

Mr. FRYDENLUND. I have to admit that I did not prepare that recommendation.

Mr. DURBIN. Okay.

Mr. FRYDENLUND. But—

Mr. DURBIN. Let me just say this. We have restricted them. We have cut them back pretty dramatically here because we had to. Yet when I went to Calcutta, India, got in a four-wheel drive vehicle, went out into the remotest, most isolated area you can imagine, went to a dusty little village, we ran across some kids who were sitting on a dirt floor of this hut with a pan in front of them eating something that looks like—do you know what dough bait is?

Mr. FRYDENLUND. No.

Mr. DURBIN. To catch fish with? It is like you took wheaties and mushed it around with some water. These kids were eating it like it was candy or a Baskin Robbins ice cream cone. It was their only meal of the day to speak of. I went back and checked and the bag it came out of was a P.L. 480 bag. It was actually packaged 50 miles from where I live. That is excess that we didn't need here that is being used through P.L. 480 to literally keep someone alive. That just strikes me as a legitimate role for us to play when we have more than we need, to share it with people who are starving. Would you agree with that?

Mr. FRYDENLUND. I would say that P.L. 480 is not a—is not a bad program in concept as long as it is not having the impact of destroying—destroying their development and—

Mr. DURBIN. Oh, I agree with you. The old idea of giving a fish as opposed to teaching someone to fish. I agree with that.

Mr. FRYDENLUND. And that it is not competing with our own ability to sell.

Mr. DURBIN. My last question is about a program that is near and dear to my heart and that is the WIC program. Do you think this program works?

Mr. FRYDENLUND. Oh, I think that it does actually do some good, yes.

Mr. DURBIN. We have really had a pretty strong bipartisan consensus, President Bush, President Clinton.

Mr. FRYDENLUND. I am not attacking the WIC program.

Mr. DURBIN. What you are doing is suggesting a cutback in it which might be a little excessive. In fact, I think it is in terms of the carryover funds. We have been keeping a close eye on the carryover funds.

Our—my goal shared by other people on the subcommittee, I want WIC to grow. I think when 40 percent of the infants in America are in this program for prenatal nutrition and nutrition for infants, that we really have a pretty strong investment in kids. I worry about doing something to that program that doesn't continue to expand it so that those kids have a good start in life.

Mr. FRYDENLUND. I am not going to argue with your desire to have the WIC program grow. In fact, I don't even want to argue about the merits or lack of them for the WIC program because I would—I have seen some studies and especially the studies of the youngest, the prenatal and the infant, there seems to be great benefit from the WIC program.

I think that the WIC program also benefits from a—from an overall positive rating that actually deserves to be looked at closer because the studies that have been done have been only on those very youngest of the infants and we don't know whether the benefit is that great for the older categories. So I think that is something we are doing.

Mr. DURBIN. Let me close by just saying this. There is something that is almost intangible in WIC.

Some of the most isolated people in America, some of the loneliest people in America, many of them mothers, through the WIC program get in contact with another adult who gives a damn, who tells them I am going to help you. You know, a lot of good

things have happened as a result of that. You will never be able to measure that. I sense that when we talk about welfare reform and our concern about the future of kids, that it really gets beyond some of the budgetary figures. I think this is a winner and I am glad to hear you kind of like it, too.

Mr. FRYDENLUND. Well, what I would just like to point out, though, is that the money is there and it is a rather large unspent fund, and I understand you guys really have to scrape around looking for this.

Mr. DURBIN. You know how this works. Because some of the recipients get vouchers that aren't used in the same fiscal year it will show a carryover.

Mr. FRYDENLUND. Right.

Mr. DURBIN. Okay.

Mr. FRYDENLUND. But in spite of that and in spite of the effort that they have—that the WIC program has to go out for a couple of times a year to try and get the money out and used, there is that surplus and I am not—I am not suggesting taking more money out than what is in there as a—

Mrs. LOWEY. Mr. Chairman, if the gentleman will yield because unfortunately I won't be able to come back. But I just would like to strongly associate myself with the remarks of my colleague and would even like to point out that there are three million women, infant and children who are eligible for the program but currently are not in the program. Isn't it correct that in determining the appropriations for that program for this year the carryover funds were taken into consideration? So I just want to applaud you and would like to associate myself with your comments.

Mr. SKEEN. Thank the gentlelady.

We will recess and go vote and come right back.

[Recess].

Mr. SKEEN. Mr. Nethercutt, you ready?

Mr. NETHERCUTT. Yes Mr. Chairman.

Mr. SKEEN. It is all yours.

Thank you for your forbearance.

Mr. NETHERCUTT. Mr. Frydenlund, I am sorry I wasn't here for your testimony. I have a basic question that I would ask you to respond to.

Maybe you heard my discussion with one of the earlier witnesses about the dilemma that I think farmers find themselves in that they are not able to have a free market and are strangled by regulation and prices going up. What do you say to the young farmer, what do you suggest to the young farmer who wants to get into this business, who is facing the economic pressures and the realities of today's agricultural world and say to him or her, how can we encourage people to go into farming yet free up markets, yet compete in international competition for agriculture products? Is there a simple solution or is it just have to do a lot of things and do them better in the ag department? Maybe you can summarize your philosophy a little bit.

Mr. FRYDENLUND. I think seldom are there real simple solutions.

Mr. NETHERCUTT. Yes.

Mr. FRYDENLUND. But I would say, especially when you are thinking about the issue of whether—whether the young can enter

farming, I think we have developed a system now that really make it difficult for young people to enter farming because we have the subsidy programs themselves have—have really capitalized the land values into the programs and have increased land values to the point that it is very discouraging and a disincentive for anyone new to come into the programs—or I mean into the industry. So you really have to hopefully move away from that.

You have other programs. The Conservation Reserve Program, for instance, is a very popular program, but it also, in many ways, serves to prevent young people from entering farming. The Conservation Reserve Program, if you are older and considering retiring from farming and either selling your farm or renting it out to someone else, then this, a program like the Conservation Reserve Program affords you an opportunity to just decide that you are going to retire; if you get into the Conservation Reserve Program, you retire on the Conservation Reserve Program payments and that land becomes unproductive land that does not then come up for sale so some younger farmer can come into the business or that he can rent.

The programs that we have tend to really bias things against young people entering farming. So I think that is one of the things that really needs to be looked at as we try to become more competitive internationally. We also have to—we have to remove some of the barriers to entry in the industry. I would not—and I would not say that it is the government's role to decide that young people should be in farming or young people shouldn't be or old people should or—I don't think it should be the government's role to decide who should be in farming. I am not arguing for a government activist approach to say you should get out of farming and you should come in. That is not the role of government.

Mr. NETHERCUTT. In the current state of agriculture, would you feel that things like the Export Enhancement Program and Market Promotion Program are sensible given certain parameters? Do you think that is going to help the farmer who is continuing to be in production agriculture?

Mr. FRYDENLUND. Actually, I don't think so. The Export Enhancement Program and the Marketing Promotion Program all have, again, I think their noble intent, but in many ways what the Export Enhancement Program has done is lowered world market prices compared to the U.S. price, and it makes us actually an attractive export market for the rest of the world to send to.

I mean, we even have last summer the experience with Canadian wheat coming into the United States. Now admittedly there were other factors involved, but our acreage reduction programs had a lot to do with it. We stopped producing Durham wheat and then we ended up getting hit by bad weather so that there was even less Durham wheat. And then we used an Export Enhancement Program that sends our wheat abroad which—which is good—I mean, exports are the wave of the future for agriculture. We need to regain the market share.

But when you regain them through the Export Enhancement Program, for the most part, you are not really regaining market share. You are not really gaining new markets. And that is where the direction needs to lie. I don't know the answer offhand as to

what it should be replaced with, but I think we need to look at it because it has not done its job.

Mr. NETHERCUTT. Hasn't done its job? The Canadian reference you made, the wheat coming in didn't cover barley and so barley farmers took a hit. Farmers benefited some, it seems to me. Anyway, it is not easy, is it? It is a complicated process.

Mr. FRYDENLUND. No.

Mr. NETHERCUTT. I guess my hope is we can simplify it as a matter of policy here and not hurt the farmer in the process and have him or her take the hit for the deficit and the debt that we are all trying to reduce.

Mr. FRYDENLUND. I think a great part of the problem is the very fact that government spends too much time trying to manage agriculture. We have been for 60 years, the government has been trying to manage supply and demand and we have really, the government has not done a very good job of it at all.

Mr. NETHERCUTT. I think you will find universal agreement on that. Thank you for your testimony.

Thank you, Mr. Chairman.

Mr. SKEEN. Thank the gentleman.

Mr. Thornton.

Mr. THORNTON. Thank you, Mr. Chairman. I will be very brief. But I referred to Mr. Frydenlund's testimony in my questioning of another witness and I quoted a portion of that testimony that seemed to make a rather blanket statement about the need to eliminate research dollars and indeed that language is included in the testimony. In more detail, I believe you point out that your—there should be a bottom-up review to determine whether the Federal Government should be involved in conducting research and if so, to what extent. I would like to afford you an opportunity of distinguishing between the research that you think should be done by the private sector and that area of research which might be a proper Federal responsibility.

Mr. FRYDENLUND. In general, I would say that the proper role of the government in research or—and probably in general, not just in agriculture, but would be in those areas where the research is clearly not going to be done by the private sector, cannot—cannot be done without the government involvement, and is not being done purely for the—for the benefit of—or the commercial benefit of a private industry but instead is something that is necessary for the general welfare or in most cases, for agriculture probably the food safety or the general well-being of society or the public.

Mr. THORNTON. Those are appropriate areas for research in your view then.

Mr. FRYDENLUND. I would say that that somewhere—

Mr. THORNTON. So you might come closer to agreeing with Mr. Webster's statement that he disagrees that all agriculture research will be conducted solely on the merits of near-term profit and his further statement that that theory would be akin to relegating all national defense research to the private sector. The argument could apply equally to fundamental health research. We think there are some missions of government that should not be left solely to the private sector and agricultural research and development is one of those.

Mr. FRYDENLUND. I guess I could think of, you know, boll weevil may be one good example. I mean certainly in an area like salmonella or other food safety dangers, I guess I would have to say that the Federal Government may have a responsibility.

Mr. THORNTON. E. coli.

Mr. FRYDENLUND. Yes.

Mr. THORNTON. By the way, that is not as fearsome a bacteria as some people think it is. There is a lot of it right here in the room right now.

Mr. FRYDENLUND. Well, I am also aware that it—that the—that those who try to exaggerate the food safety threat tend to send a blanket statement over much of the agricultural industry and try to scare consumers and I think that is very unhealthy and has been—

Mr. THORNTON. And may indeed result in wasteful expenditures, do you think?

Mr. FRYDENLUND. Could be. Because look at, it has convinced both of us that it is needed. Maybe it is not.

Mr. THORNTON. Well—no, it hasn't convinced me that research is not needed. But I think research driven by fear of the unknown is—needs to be peer reviewed and pretty carefully looked at. And I was concerned that your indictment of the agricultural research may not have paid enough attention to the revision in agriculture research in Title XIII in the farm bill in 1977 which modified agricultural research to provide for peer review which admitted nonland grant universities like Harvard and others to participate in that review and basically gave it additional substance as a pure scientific effort.

Are you—

Mr. FRYDENLUND. I am familiar with that. I think there are some people that would argue how much of an honest peer review that is. But it is—it is certainly—

Mr. THORNTON. The question of honesty is always subject to some argument. But usually scientists do pretty well.

Mr. FRYDENLUND. It is certainly more of a peer review than exists for some of the other ones I singled out here under CSRS that have absolutely no peer review.

Mr. THORNTON. I wanted to give you an opportunity to clarify that quote—

Mr. FRYDENLUND. Thank you.

Mr. THORNTON [continuing]. That I made of your earlier testimony. I have no further questions, Mr. Chairman.

Mr. SKEEN. Thank you.

Mr. Riggs.

Mr. RIGGS. Thank you, Mr. Chairman.

Thank you, Mr. Frydenlund, for your interesting testimony and I personally would like you to know that I appreciate the specificity of some of your recommendations with regards to possible fiscal year 1995 rescissions, as well as your thoughts regarding reinventing USDA. I want to ask you, though, a broader—I guess more of a philosophical question, and that is the effect that you think the implementation of bilateral or multilateral trade agreements, such as NAFTA and GATT might have on our agricultural industry and specifically our farmers do those agreements, recently

put into effect, provide an additional rationale for the possible reduction or elimination altogether of programs such as the Export Enhancement Program.

Mr. FRYDENLUND. Well, I think that both the NAFTA agreement and the GATT agreement are definitely steps in the right direction. I think that to the—whatever extent they can be expanded on and, for instance, GATT-improved, there were some problems with GATT in that it really probably hasn't gone far enough as far as really, really eliminating the barriers to trade. But I would say we are on the right track.

But U.S. agriculture needs to take advantage of that, of the opportunities that are out there from that. And from the opening of trade and from the opening of trade in this hemisphere and the removal of trade barriers worldwide, we need to position ourselves so that we are the ones that will be the low-cost producer that will be able to—to achieve the market share of—the lion's share of the sales in the international market rate.

Mr. RIGGS. Are there subsidies entailed in doing that?

Mr. FRYDENLUND. Well, subsidies are not the way to do it. In fact they will be in direct contradiction to what—what is the eventual goal of a free-trade situation.

Mr. RIGGS. Which is—what?—for our farmers to increase market share of the global economy?

Mr. FRYDENLUND. But the GATT's accomplishment will be to eventually remove these barriers to trade.

Mr. RIGGS. Right.

Mr. FRYDENLUND. And the interference with trade that comes from our export subsidies, though we are not the only—we are not only one doing that.

Mr. RIGGS. What I am trying to do obviously—and I don't know if it is correct or not, to see if I can make a linkage or establish a nexus between the reduction of trade tariffs, on the one hand, and the possible elimination of agricultural subsidies on the other.

Mr. FRYDENLUND. I think there is definitely a connection in that these subsidy programs that we have are for the most part not providing us—they are not providing the encouragement or the incentive to produce for the marketplace. They are producing for the government in response to what the government is saying is the support price this year and the government is then turning around and telling you what—how much you can produce through the acreage reduction programs. As long as—as long as it is the government managing supply and basically managing demand, then—then you will not have the government—the farmers being able to produce for the market, for the world market, and that is—and that is where the future prosperity lies for agriculture.

Mr. RIGGS. Let me ask you one other quick question because I want to make sure I really understand your testimony in this regard. You say on page three in your testimony you can also look at scaling back the Conservation Reserve—excuse me, the Conservation Reserve Program, which in fact is one of the recommendations that you make, one of the specific recommendations for programmatic spending cuts that costs taxpayers nearly \$2 billion annually and only serves—and here is the part I don't fully

understand—to signal to the rest of the world that the United States continues its retreat from the international market.

Mr. FRYDENLUND. The reason I say that is the Conservation Reserve Program has—it is called the Conservation Reserve Program, but it really has been used more as a supply control program. In 1985 when it was put into place, it—its real purpose was to take a lot of acreage out of production so that there was not a surplus. We now have 36 million acres in there and a lot of that land is some very productive land.

I would say that a new conservation—if a Conservation Reserve Program is continued, it should really target the truly highly erodible lands, nonproductive land that can be used. And the reason I am saying the Conservation Reserve Program serves to take us out of the international market is because you cannot serve the international market if you are not producing. And if you keep taking your land—your productive land out of production, then you are just signaling to the rest of the world that they ought to produce for that market.

Mr. RIGGS. Thank you, Mr. Chairman.

Mr. SKEEN. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman. Mr. Frydenlund, are you the Ag expert with the Heritage Foundation?

Mr. FRYDENLUND. Yes.

Mr. KINGSTON. So tomorrow you won't be in front of DOD talking about their budget or HUD the next day?

Mr. FRYDENLUND. Absolutely not.

Mr. KINGSTON. That is good. That is what I wanted to know. So if I asked you to explain the peanut program, the cotton program, the wheat program, you could do it in detail?

Mr. FRYDENLUND. I think I could do a pretty good job.

Mr. KINGSTON. Has the Heritage Foundation come up with written—instead of just pulling the plug on them, alternatives? Do you have alternatives that you recommend?

Mr. FRYDENLUND. We are going to be coming out with proposals as to what—what changes in the farm policy would make sense.

Mr. KINGSTON. On all the commodities.

Mr. FRYDENLUND. It will be covering all of them, wheat, feed grains, cotton, rice, sugar, peanuts, dairy.

Mr. KINGSTON. Now, when Mr. Durbin was asking you about WIC, I didn't quite get a clear signal from you. Are you high on WIC? Or you think that there are a lot of improvements that need to be made or where—

Mr. FRYDENLUND. Well, I want to also admit that I am not as expert on WIC.

Mr. KINGSTON. Does Heritage have an expert on WIC?

Mr. FRYDENLUND. We have some people that are probably more familiar with welfare reform, not specifically WIC. But I am familiar with WIC to the extent that I understand that it has accomplished certain things and has quite a bit of support for what it has done, especially with the younger—the youngest prenatal and infant care. But it is—but my reason for pointing it out there was that there is a huge unspent fund there.

And I guess my conversation with Congressman Durbin earlier, I feel like it is still money that is available for rescission if that

is the mind of the committee, because you can take money out of there and it is not going to hurt the program at all because the WIC program has attempted to spend that money and I do find—

Mr. KINGSTON. That is okay. I am just kind of—in the interest of time, I hate to cut you off, but one of the recommendations you had in your testimony had to do with unspent money and trying to get committee instructions to force agencies not to spend money. That is a problem.

I was in the State legislature. It seems to be a universal problem with any government agency. What is the Heritage's Foundation's recommendation to stop that practice, which is, I believe, a universal practice? University systems do it, county commissions seem to do it or county agencies, State government. How do we stop that?

Mr. FRYDENLUND. Obviously, it is not an easy one. It is one that requires, I guess, discipline on the part of the legislative body.

Mr. KINGSTON. Well, let me give you this. If you gave a department a budget and it turned out that they did not have to buy 200 new typewriters that year, instead they could get by with 150, they returned the money, would you recommend compensation, bonus for the employees who save the government that money, as a way to build in an incentive?

Mr. FRYDENLUND. It doesn't sound like a bad idea because I was in the government and I know there is frequently this desire if you did have extra money, you really were supposed to try to spend it.

Mr. KINGSTON. Actually, it is a matter of law to spend it because you are legislated that you will spend that amount.

One final question which we are seeing a lot of as we go into this process, we are seeing governmental agencies spend a lot of their manpower lobbying, lobbying to keep their programs, lobbying to tell their constituent groups to write their Members of Congress and so forth.

Now in your opinion, is that appropriate and if it is not appropriate, what is the appropriate level and how would you deal with that? Because we are seeing it universally from government employees or associations which employ taxpayer funds to use things.

Mr. FRYDENLUND. Well, I think by law, it is inappropriate because I don't believe having served as Director of Congressional Relations at the Department of Agriculture for a few years, we were not allowed to lobby. We were allowed to inform.

Mr. KINGSTON. That is lobbying.

Mr. FRYDENLUND. But you guess because of my past experience there, it is maybe a little bit difficult to say that they should not have those functions at all. And the—but I am not sure how you do it. I guess it is probably not helpful to have the executive branch lobbying the legislative branch to continue their programs. But on the other hand, if you did not have a function, the legislative branch would be demanding that the executive branch provide certain assistance.

Mr. KINGSTON. I think that is one thing the foundation may want to look into it, because one of the big problems with reducing any government agency is the fact that the employees become lobbyists for this WIC program and you have a devil of a time pulling back from it without a whispering campaign going on about you. That is one of the reasons these programs grow so tremendously.

Mr. FRYDENLUND. It probably should be limited to, for instance, the people that are appointees of the President, the Secretary or Assistant Secretaries or people of that level. It might have been sensible for them to spend some time coming up and arguing for their—I am not that partisan. I would say that the political selections of President Clinton should probably have some leeway to come up and make their case to the Legislative Branch.

Mr. KINGSTON. One final comment. Getting back to the first question about working on the program which the Heritage Foundation is doing, I wish you would sit down with the Farm Bureau and test some of the lab results of academia with the real world farmer and just find out, because I believe there is common interest there and maybe you could work together.

Thank you, Mr. Chairman.

Mr. SKEEN. Thank you, Mr. Frydenlund. We appreciate your testimony.

TUESDAY, JANUARY 31, 1995.

WITNESS

BOYDEN GRAY, CHAIRMAN, CITIZENS FOR A SOUND ECONOMY

Mr. SKEEN. Boyden Gray, Chairman of the Citizens for Sound Economy.

Welcome, Mr. Gray.

Mr. GRAY. Thank you, Mr. Chairman, Members of the committee, thank you very much for the opportunity to appear. You have my statement, so I will give only the briefest summary.

There are, I think, three areas where there is something wrong and I think that we can help along with others to raise questions about how the agency ought to be looked at. It is an interplay between the appropriations process, how the money is spent and the organic statutes and how they are written.

I don't have any answers. I am not sure many people involved have precise answers at this time, but we do agree about some questions. In connection with the approval of drugs and medical devices, despite efforts over the years that I have been associated in part for 12 years with the Reagan-Bush administration, the length of time to get a drug out has doubled over the last 20 or 30 years. The cost has gone from \$70 million to get a new drug out to half a billion dollars now. There is a six-year lag for 70 percent of the drugs between the time they were approved here and early approval in other countries. There are fewer cancer agents available here than in most other advanced countries. Twenty years ago, we had most of the drugs available first.

For biotech products, most are developed and tested here first but they are approved for use first in other countries. The delays have certain consequences—higher drug prices, less innovation, slowing the biotech revolution, which promises not just diagnosis and treatment but much more prevention and cure, which has huge potential impact to reduce health care costs, generally in reduced hospital stays, et cetera.

To the extent this industry is held back, we lose jobs overseas. People have said, well, it is safer here in the United States, but a

comparison of just the discontinuance rate post-approval, discontinuance rate for drugs here and in Great Britain, it is the same, so our procedure does not provide for any appreciable or greater safety.

Secondly, there is a problem about dissemination of information. Most peer review and scientific journals cannot be circulated by the companies who produce the drugs to doctors or patients. This is a puzzling restriction. Half the cancer therapies in this country are for unapproved uses for drugs initially approved for another purpose, and yet, as to those therapies, it is illegal for a pharmaceutical company to disseminate the information to doctors and patients.

In today's paper it says: Drug prevents sickle cell anemia attacks. It was originally approved as a cancer drug but has this effect on sickle cell patients. And the information about this, whatever was going to be published in peer review, will not be permitted to be published by the producer of the drug. I am not sure they could circulate the Washington Post article legally.

This is one area where perhaps they ought not to spend any money at all, the FDA. It has been—you can't even, for example, disseminate information that a little aspirin a day will keep a heart attack away, even though it is quite well known and routine therapy; but aspirin producers cannot disseminate that. It has been said that no major drugs are of therapeutic value. Senator Pryor was saved by an injection of TPA. I don't think he would complain about what has happened, although I am told he did say when he woke up, that was a pretty expensive shot. I don't think he was serious.

A lot of money is spent restricting, statutorily based in ways that aren't commanded by statute to restrict exports. For example, and this may be a statutory problem, not an administrative interpretation, but FDA will not allow drugs to be exported with the label that will be used in the country where it will be sold. It has to be exported with United States labels and when it gets to France, for example, labels have to be stripped off and a new label put on.

I guess just in closing, our drug industry biologics, biotech and medical device industries are really the high-tech jewels of our industrial base and it would be a shame to continue to hold these industries back, send them abroad, not just for the jobs lost here, but for the future in health care that this revolution promises.

Thank you.

[The statement of Mr. Gray follows:]



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TESTIMONY OF C. BOYDEN GRAY
CHAIRMAN
CITIZENS FOR A SOUND ECONOMY
before the
SUBCOMMITTEE ON AGRICULTURE
of the
HOUSE APPROPRIATIONS COMMITTEE

January 31, 1995

Good Morning. Mr. Chairman and Members of the Committee: My name is C. Boyden Gray. I am a partner at the law firm of Wilmer, Cutler and Pickering and Chairman of Citizens for a Sound Economy (CSE), a non-partisan, non-profit, research and education organization formed in 1984 to develop and advocate market-based solution to public policy problems. CSE has 250,000 members in 50 states. On behalf of those members, I am grateful for the opportunity to testify before you today.

This committee has jurisdiction over the U.S. Food and Drug Administration which has come under a certain amount of fire in recent years in respect to its performance. The agency has grown substantially in size and scope. The FDA now has 9,000 employees and almost \$1 billion in annual appropriations. The agency has asked for and received user fees from pharmaceutical companies, supposedly to expedite the review of new drug applications. In addition, the agency has been appropriated a tremendous amount of money to consolidate their existing facilities. I believe that it is time that we examine the performance of the FDA in the context of bringing the agency into line with its mission: Ensuring the health and well-being of the American public. There is mounting evidence that the agency has been focusing its resources on misguided priorities that have not improved the nation's health. Instead, the FDA may be causing significant harm through delays of new drugs and medical devices.

Drug Approval Delays Cost Lives

Of the 22 truly new pharmaceutical products that were approved by the agency in 1994, 13 of them were approved in other countries first. While in the 1960s the United States had more drugs available to it than any other country, today the United States has fewer anti-cancer drugs than any other country. With respect to biotech products, studies show that most are first developed and clinically tested in the United States, but approved first in Europe. According to a Tufts University study of 46 new drugs approved by the FDA, 72 percent were available in the United States 5.5 years later (on average), than in foreign markets. This kind of delayed approval kills American citizens:

The FDA's delay in approving one drug, Interleukin-2 for the treatment of

kidney cancer, cost 3,500 American lives.¹ The drug had been approved for use in nine European countries before being approved in the United States.

Another drug, called nitrazepam, was approved 5 years later in the United States than it was in Britain. In that five year period, according to pharmacologist William Wardell, more than 3,700 American could have been saved.

A 1993 Congressional report identified a new type of heart valve currently unavailable in the United States, but approved in over 25 countries since 1986. The reason for the FDA delay is that they need more data to prove its safety. There have been no health related problems reported in the countries using the valve.

The FDA needs to realize that every day that is spent approving a new drug or medical device is a day that the American public is going without that potentially life-saving product. The agency claims that they have "significantly improved" their performance in approving new products. I would say that we continue to fall behind.

Although the mean approval time for new drugs has improved versus 1993 approval rates, we should look at how many new pharmaceuticals were approved in 1994--only 22. That is the lowest number of approved products since 1988. And as for biotech medicines--only 1. That is compared to four in 1993. There are products that sit before the FDA, recommended for approval by advisory committees, approved and prescribed in Europe, that are unavailable to the American consumer. The FDA can say that they "significantly improved" in 1994, but this is only when they compare their results to 1993. Our standards need to be much higher. Supporters of the agency state that unsafe and ineffective drugs would be more likely to reach the marketplace if the FDA process was more like the British system. The truth is that the discontinued rate, as measured through post-market surveillance, is no greater in the Britain than it is in the United States--approximately 3%.

The FDA believes that user fees are the answer to the backlog problem at the agency. I believe that the expansion of the user fee program to medical devices is a mistake. User fees are an additional tax on businesses. They undermine American competitiveness and they stifle innovation. The gridlock that exists in FDA is not the result of a lack of funds, it is the misallocation of agency resources.

FDA Censorship Harms Consumers

Citizens for a Sound Economy Foundation recently completed a survey to find out

¹Sam Kazman, "Deadly Overcaution: FDA's Drug Approval Process," Journal of Regulation and Social Costs, Volume 1, Number 1, August 1990.

just what the public thinks of the FDA. Eighty percent said that if a drug has been approved, and safety is not in question, the government should not have the right to restrict information about alternative benefits discovered by doctors for which the drug was not originally approved. Americans do not want the government in the business of restricting information. It is certainly debatable whether or not the FDA even has the statutory right to do what they are currently doing.

For example, FDA does not allow truthful statements about the benefits of dietary supplements to be made on the label of a product. Right now, the Centers for Disease Control (CDC) recommends that, "all women of childbearing age in the U.S. consume 0.4 milligrams of folic acid daily to reduce their risk of having a pregnancy affected with spina bifida or other neural tube defects." Vitamin makers cannot put this information on products that they make with folic acid because the FDA prohibits them from doing so on the basis that there is no "significant scientific agreement" on the effects of folic acid on a baby or its mother. Unfortunately, FDA as the judge of what a company can say, overrules the CDC findings.

The CDC recommends one course of action for public health, and another agency, the FDA, prohibits the public from knowing about it. Nonetheless FDA seems to acknowledge the importance of information, stating that, "health claims may be the primary motivating force behind consumer behavior changes,"... "if claims that are likely to be true are removed, this will decrease the total benefits as consumers will lose valuable information." (56 Fed. Reg. at 60969) The public will be more aware of scientific findings and therefore healthier, if producers are allowed to correctly label their own products. The FDA estimates that the Nutritional Labeling and Education Act will result in 12,600 lives saved through better health habits of well-informed consumers. These benefits can only be enjoyed if the FDA allows companies to market their products in a way that is not "too cumbersome" (58 Fed. Reg. at 2940.) The public has a right to be protected from misleading labelling, but the FDA has essentially asserted that they are the only source of truth when it comes to health claims.

Misguided Priorities: FDA Enforcement

The FDA is a growing bureaucracy by anybody's standards. One criticism of the agency is that they are spending too much of their resources on enforcement actions. Each year FDA sends out warning letters to suspected violators of regulations. In FY92 the agency sent out 548 letters to suspected violators, which resulted in 52 seizures of merchandise and documents in that same year. In 1993 the agency sent out 543 letters, which resulted in 33 seizures. Over the course of this two-year period, the agency's enforcement actions resulted in only 4 criminal prosecutions.

A questionable priority of the Food and Drug Administration has been their effort to effectively shut down the vitamin and nutritional supplement industry. Countless health food stores have been raided under the guise that prescription drugs were being sold illegally as vitamins. The FDA believes that the threat to the American public is so great that it has

increased the number of employees in the 'vitamin' department by 400 percent since 1991.

The highly publicized case of the FDA seizing 12,000 gallons of orange juice from Procter and Gamble is a good example of over-zealous regulators at work. The FDA objected with the word "Fresh" on "Fresh Choice" orange juice. So armed U.S. marshals raided P&G and confiscated 12,000 gallons of juice. Is this the way the American public wants our tax dollars spent while new drugs wait for approval that can reduce human suffering or save lives?

The regulatory activities of the FDA have had a definite impact on American competitiveness in the medical field. The government's inefficiencies cost jobs. According to a June 30, 1993 article in the New York Times, a small medical equipment company called American Biomed Inc. filed an application with the FDA to market a device that would remove cholesterol from clogged arteries. Eighteen months later, the company was still awaiting word on when and it could sell its product in the United States. Like many other small companies, American Biomed decided to move out of the United States. Surveys of device manufacturers conducted by the Minneapolis Star Tribune and the American Electronics Association bolster this type of anecdotal evidence. They show that many manufacturers have already moved jobs overseas and that others plan to follow suit.

A prime example of overregulation, and expenditures of government resources is the elaborate and unwieldy system that the FDA has established for companies to obtain permits to export medical devices to countries where these products are perfectly legal. The onerous system of export controls is not what Congress required. Rather, it is an FDA-created regulatory regime far exceeding statutory requirements. It simply is not reasonable to delay exports of an American product that has been approved for use by other countries. There is no danger to the American public, and the only risk that we run is that companies will relocate to other countries. A similar situation exists with respect to the export of drugs that are approved abroad but not here. Although the restrictions on exports seem to be more statutory than administrative in origin, the statutes need to be updated.

The process of getting a new drug approved by the FDA is not only long, but very expensive. One recent study found that the average cost of developing a new drug and winning FDA approval for it costs about \$359 million. It's not hard to imagine who pays for the red tape that the pharmaceutical companies have to cut through. The direct costs of the lengthy approval process are often passed along directly to the consumer by the drug makers.

Does FDA Spending Further Its Mission?

While the FDA has been lagging in new approvals (not even coming close to statutory requirements for review period) the agency has been looking to expand and consolidate many of its existing facilities. The FDA announced that it had selected Clarksburg, Maryland for a new \$890 million facility on December 9, 1994. The FDA would like to build 2.6 million square feet of usable space in Clarksburg. To put that in perspective, the Department of

Defense has about 4 million usable square feet in the Pentagon. To complete this complex, the FDA estimates a construction time of 9 years. Clarksburg is the most expensive site among three alternative sites considered in Maryland.

The FDA commission responsible for looking at long range plans for the agency has decided on a number of controversial strategies for consolidation. One strategy, explains the agency, is to close all FDA laboratories in the Midwest region by the year 2003. The proposed site for the relocation of the displaced personnel? Jefferson, Arkansas.

One concern in the proposed consolidation would be the "brain drain" that would occur if the FDA went forward with a move to Jefferson. FDA scientists would be forced to move to Arkansas, or fend for themselves. The FDA addressed this concern by assuring their employees that if they did not want to relocate, then the agency would not force them to relocate. Instead, according to Linda Suydam of the FDA, the agency would "retrain them to be investigators." Additionally, according to Suydam, there would be no net loss of employees.

The point of consolidation would presumably be to save money and conserve human resources. Instead, the agency proposes to hire as many new employees as it takes to replace those who would rather not move, and then the agency puts the hub of relocation in the rural South where there is no population base, and few regulated industries. This consolidation proposal would leave the Midwest without a field office by the year 2000.

Tort Reform and the FDA

Total reform of the agency cannot be made by reallocating resources alone. Litigation poses a serious threat that effects every aspect of the regulated industries that the FDA oversees. Medical manufacturers spend tremendous amounts of time and money trying to prove that their products are safe and effective to the FDA, then they are required to label their products to such excesses that no one can properly understand the applications. In turn, their hands are virtually tied when they want to educate doctors on the ways that their products work. Finally, when their drug actually does make it through the FDA's maze of rules and regulations and is approved as "safe and effective," a lawyer files a preposterous lawsuit against a company. But what can they do? A defense of the drug or device will cost million more. As it is so often today, even when you win a lawsuit--you lose.

Conclusion

Proposals made by the FDA have never been seriously questioned. With current budgetary constraints, and the questionable performance of the agency in mind, before expanding an agency that regulates over 90,000 American businesses, the new Congress should reevaluate existing programs and activities of the FDA. There needs to be a careful reexamination of the FDA and its mission, including such options as a greater reliance on post-market audits, private alternatives to the FDA approval process, and a close look at

unnecessary restrictions on the flow of information between medical manufacturers and doctors, as well as on restrictions on exports.

A more effective drug approval process would help consumers not only through better medical products, but also through enhanced employment opportunities in this vital American industry. An expanding and competitive medical manufacturing industry also relies on improvements in other federal policies such as export controls, tort reform, and patent law. This committee's interest in FDA reform is a first step towards improving our nation's health and our competitiveness in a global economy. If permitted to do so, the next generation of biotech products promise not just improved diagnosis and treatment, but prevention and cure. The potential savings to the nation's health care bill goes beyond the reduction of the cost of drugs, reducing average length of stays in hospitals and improving overall health care. Thank you, Mr. Chairman, I would be happy to answer any questions that you may have.

Mr. SKEEN. Thank you, Mr. Gray.

We will go vote. But first, ever since I have been on this committee, we have made an obvious effort to try to speed up FDA's response on drugs, et cetera. I think that we have made some progress. Do you think that privatization is the real answer to this as far as protecting the public and getting the drugs okayed quicker, and would it be any cheaper?

Mr. GRAY. I believe that, generally speaking, I think that is where the answer is going to be found. How much you can privatize, I don't think anybody knows at this time, but it is partly the answer. Even at EPA a lot of the toxicology work is farmed out, done cheaper than inside the agency.

If you semi-privatize the air traffic control system, surely you can look at that process in this context. Drug approval times have increased and increased and increased and increased.

As much as people have tried to clear it up, it just keeps getting longer.

Mr. DURBIN. Mr. Chairman, I have a series of questions. I have tried to keep my questions short on other witnesses, but I do have a series for Mr. Gray. If he can wait 15 minutes, we can return and I would like to ask the other witnesses to come as a group. Many of them are probably facing schedules and wondering will this subcommittee hearing ever end. If we could bring them up as a group, maybe we could work with them quicker.

Mr. SKEEN. Does that suit everybody out there?

Mr. DURBIN. I will try to come back from the Floor quickly so we can proceed with the hearing.

[Recess.]

Mr. SKEEN. Thank you once again for your forbearance.

Mr. Gray, it is your bat and your ball and your base.

Mr. Durbin.

Mr. DURBIN. Thank you, Mr. Gray. I appreciate your coming this afternoon.

Tell me about Citizens for a Sound Economy. What is it?

Mr. GRAY. It is a conservative free market think tank, promotes free market policies, free trade, deregulation.

Mr. DURBIN. What kind of federal tax subsidy does your organization receive?

Mr. GRAY. There is a C(3) and C(4).

Mr. DURBIN. Do you know what percent of your budget is underwritten by taxpayer subsidy?

Mr. GRAY. I don't know. I could provide that.

Mr. DURBIN. Are there any major corporate contributors to Citizens for a Sound Economy?

Mr. GRAY. CSE does accept corporate money.

Mr. DURBIN. Are any regulated by FDA?

Mr. GRAY. I don't know. I wouldn't be surprised. I suspect CSE has in the past.

Mr. DURBIN. Are you currently, or your law firm, representing any clients that are regulated by the Food and Drug Administration?

Mr. GRAY. Yes, although, I am not paid for this. This is pro bono appearance. In fact, I actually pay CSE.

Mr. DURBIN. I am not going to ask you to disclose the names of those clients, because you probably couldn't and wouldn't, but could you give me a general idea of the nature of those clients? Would they include pharmaceutical companies?

Mr. GRAY. Yes.

Mr. DURBIN. How about tobacco companies?

Mr. GRAY. No.

Mr. DURBIN. Makers of medical devices?

Mr. GRAY. Yes. We do a little work for medical device manufacturers; not a great deal.

Mr. DURBIN. Mr. Gray, you have a deservedly high reputation as an attorney. Certainly, if the President of the United States asked you to be his legal counsel, he certainly thinks highly of you, and you comported yourself very well in that position. But some of the statements you made today are troubling.

I am concerned about, on the first page, when you conclude, and this is a quote, talking about drug approvals: "This kind of FDA delayed approval kills American citizens." Did you write that?

Mr. GRAY. I approved it and have signed it. The fact of the matter is that delay in making therapies available, does lead to excess mortality.

Mr. DURBIN. Let's look at your three specific examples. Interleukin II; how familiar are you with this drug? You say FDA's delay in approving it cost 3,500 American lives. How familiar are you with that drug?

Mr. GRAY. I haven't done the studies. We are citing other studies for that purpose, and perhaps that study could be quibbled with, I don't know. But I have not seen a criticism of that study that has undercut it.

Mr. DURBIN. Let me tell you a bit about Interleukin II and why I think your claim is preposterous. That is a drug for cancer therapy, one involved in drug trials since 1988. The interesting thing that was found was that this drug, which was studied very carefully by the FDA, offered the possibility in clinical trials of 4 percent complete remission of cancerous tumors, which, of course, for the people involved, means everything.

But they also found that it had serious side effects. Nearly all the patients in the clinical trials experienced severe or life-threatening side effects and the drug-related mortality was 4 percent, the same as the cure rate. Does it raise any question in your mind as to why the FDA took time to study a drug like Interleukin II when the success rate and the death rate are the same?

Mr. GRAY. If I had the time, I could go back in and look and examine the record on Interleukin II. I suppose you could make the same criticism of any approval. Yes, it has to be studied, but couldn't the same conclusions have been reached quicker?

Mr. DURBIN. Let me quote the drug's manufacturer when he read some of these same claims. He said the mortality rate was "not a trivial matter to be glossed over." So it strikes me that we have to be careful about our language here about a regulatory agency dealing with life and death.

Now, what about the drug Nitrazepam, which you use in your release. You say it was approved in the United States five years after

it was approved in Britain. You say that as a result 3,700 Americans lost their lives. What does that drug do?

Mr. GRAY. I don't know what it does. I am not an expert on that drug.

Mr. DURBIN. Let me tell you what it does. It is used for treatment of insomnia. I assume that in the worst-case scenario someone can die from insomnia, but that has to be an unusual case. That drug was approved in Britain in 1972. It was not submitted to the FDA in the United States for approval for 14 years, until 1986. When you make a claim, as you said at the outset here, that these kinds of delay in drug approvals kill American citizens, and then we have these two examples here, I think, frankly, you are not giving us the whole story.

You made a statement about cancer therapies and said: There are so many more cancer drugs available in other countries. Have you traveled to Mexico?

Mr. GRAY. Only once.

Mr. DURBIN. I haven't been there that often, but when I went into a pharmacy in Mexico, I found drug claims written in English on the shelf, claimed cures for AIDS and cancer and many more diseases. There was a pretty broad suggestion in Mexico that they had the cure for everything. What is at issue is not just a question of whether there is a claimed cancer drug in some other country, but whether that drug is actually safe and effective.

Anybody can claim anything. Most of us have to rely on someone's judgment as to whether those claims are appropriate. What we have here is your broad statement that there are so many cancer drugs available in other countries. You bet there are. How many work? How many are safe to take?

Mr. GRAY. I can provide for the record, comparisons not with Mexico, but with Great Britain, with Germany and France. The point is not that one should abolish FDA, but one should find a way to get these decisions made faster, and I believe that can happen without any sacrifice to either the safety or the efficacy of the drugs involved.

People have suggested, and I don't know where I come out on this, that the efficacy requirement be eliminated. I don't know that that is an appropriate thing, but I believe there is no reason why these decisions can't be made a good deal faster.

Mr. DURBIN. Since one of the other points in your testimony was that it takes entirely too long, do you recall the exact figures you used in terms of approval rating, how much it has deteriorated at the FDA? Do you recall your earlier testimony on that?

Mr. GRAY. I believe that the time has, roughly, doubled. There is a question of in the last 20 to 30 years—

Mr. DURBIN. For what type of approval?

Mr. GRAY. It is both between the time the NDA is allowed to go forward after filing of an I&D, as well as the time between discovery of a product and the time it is actually approved. There is—I understand FDA has said that their approval times for 1994 are 21 percent faster than 1993. In 1993, there were the fewest drugs approved since 1988, so perhaps they were—you could say that was an improvement—I don't know—it depends on the base year.

But over time, over the last 20 or 30 years, the time has steadily lengthened, including the time between the filing of an I&D, which is permission to conduct clinical trials, up to the submission of an approvable application. When the FDA says you can go and we will start the clock, that time has more than doubled over the last 20 years. The FDA now calculates, as I understand it, the approval times from the—they begin the clock when the NDA is complete, but they can haggle over when the NDA is complete. And I think that time must be cranked in.

The point I am trying to make is not that we should eliminate the FDA but that there is a vast opportunity here to speed up the process and put us on a par with the other Western industrialized countries.

Mr. DURBIN. Let me suggest to you, Mr. Gray, your information is wrong. Let me read from FDA, January 17, 1995: The median time for the 23 approved vaccines and other biological products was 12.2 months, almost one-half the 23.4 months that have been required for similar approvals in 1993. The median time for the 62 new drug approvals was 19 months, a period 21 percent shorter than was needed for drugs approved in 1993.

In fact, the FDA has made dramatic strides in drug approvals' in the length of time they require to safely test them to protect American families, to make sure that things don't end up in our medicine chests being taken by Americans that, in fact, are not safe.

I would just say this, and I could go on, but I won't, because it is not fair to the subcommittee. There is a concerted attack—you described your organization as conservative. Let me just say there is a concerted attack by conservative groups, yours included, and a group called the Washington Legal Foundation to discredit and dismantle the Food and Drug Administration. When you peel back the funding sources for these conservative groups, you find companies with products that are subject to regulation by this agency. And in the case of the Washington Legal Foundation, surprise, surprise, we find our friends the tobacco companies who cannot fight the FDA in public. So they do it through names like the Washington Legal Foundation.

At the same time this effort is being undertaken by these groups, the Speaker of the House is suggesting that we should abolish or significantly reform the FDA. At the same time, we are having calls to limit the power of consumers to sue pharmaceutical companies or other companies, if, in fact, they should put something on the market that is dangerous.

I think this is a major issue. It is not one that should be glossed over. I believe the FDA can do a better job and we will fight and work to make sure that happens. But your statement and the excessive rhetoric which you have used, frankly, cannot be backed up by the facts of your own testimony. I think that is unfortunate because you are a man who enjoys a good reputation. This should have been studied more closely before it was presented.

I will tell you that, from where I am sitting, this agency that receives less than a billion dollars a year, still a lot of money by most peoples standards, but not by Federal standards, does a hell of a good job. We entrust them with new drugs, medical devices, foods,

our Nation's blood supply. We give them the most important things that we value as Americans, and our families. They do a good job. To suggest that they should be abolished or privatized, frightens me and should every American citizen.

Mr. GRAY. I am not suggesting that I know the answers, nor am I suggesting, nor is CSE suggesting that it should be abolished or privatized. In time, people may see that there are ways to privatize parts of it.

I am not pretending to provide answers, because I don't know, and I said that at the outset. I do know that legitimate questions can be raised about the length of time it takes as well as questions about restrictions on information, about drug and cancer and other therapies to doctors and to patients and questions about restrictions on exports. I do believe these are legitimate questions to be asked and I am a little bit puzzled as to why I am being attacked for raising questions. I am not proposing solutions here because, in fact, I don't know what the solution is.

Mr. DURBIN. Mr. Gray, you didn't raise a question, you made a declarative statement: This kind of delayed approval kills American citizens. You said that the FDA's failure to approve Interleukin II, cost 3,500 American lives. That is your testimony before this subcommittee. When I ask you to be specific, you can't. So you are not raising a question, you are stating for a fact something which we are asked to rely on to make a judgment about the future of this agency. I think it fair for us to ask you how you came to these conclusions.

Mr. GRAY. I will provide more information for the record on those examples.

Mr. DURBIN. No further questions.
[The information follows:]



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February 3, 1995

The Honorable Joe Skeen
Chairman, Subcommittee on Agriculture,
House Appropriations Committee
Rm 2362-A Rayburn House Office Building
Washington, D.C. 20001

Dear Chairman Skeen,

Thank you for the opportunity to testify before your Subcommittee on January 31, 1995, on the subject of appropriations for the Food and Drug Administration. This letter is to provide the committee with the information that they requested regarding my testimony.

Mr. Durbin requested information on Citizens for a Sound Economy (CSE) and Citizens for a Sound Economy Foundation's (CSE Foundation's) funding sources as well as on our board of directors and staff. Enclosed is the latest edition of our Annual Report which includes this information.

Mr. Durbin, during his questions, disputed the statement in my testimony that "Drug approval delays cost lives." There are two types of errors that the FDA can make when an application for a new drug or device comes before it. Both mistakes are just as dangerous to the American public. The first error is called a "Type I" error. In this scenario, the FDA allows an unsafe product to pass through their approval process and onto the market.

The second type of error is a "Type II" error. In this scenario the FDA does not approve a safe and effective product. The FDA therefore deprives the consumer of the potential benefits of the product, often resulting in unnecessarily prolonged patient suffering and, as in the cases of the delayed approval of Interleukin-2 and Nitrazepam, death. Mr. Chairman, I submit that both errors are equally dangerous to the American public. In other words, delaying the approval of a safe and effective product is just as serious a problem as approving a dangerous product.

Mr. Durbin commented that my prepared testimony was incorrect as it related to the drug Interleukin-2 for the treatment of kidney cancer. Representative Durbin stated that the remission rate of cancer pertaining to Interleukin-2 was four percent, and that the mortality rate as a result of the complications of Interleukin-2 was also four percent. However, the overall response rate at the time that the drug was under review by the FDA was at least 15 percent and possibly as high as 30 percent (Michael J. Hawkins, M.D., "IL-2/LAK: Current Status and Possible Future Directions," *Principles & Practices of Oncology*, August 1989, No. 8, page 11). The response rate is defined as complete remissions as well as substantial reductions in the size of the tumor and spread of the disease. Today, thanks to research recently completed in Germany, the response rate of IL-2 is up to 60 percent according to

Dr. Eugene Schonfeld of the National Kidney Cancer Association.

The figure of 3,500 lives lost by the delay of the approval of IL-2 is derived as follows. The new drug application was filed with the FDA in November 1988 and was approved for use in May of 1992. According to the Department of Health and Human Services, approximately 10,000 Americans die each year as a result of kidney cancer. Over the three and one-half year period of time that it took for the FDA to evaluate the safety and efficacy of the drug, as many as 35,000 Americans died. Subtracting four percent for the complication rate from a conservative estimate of a 15 percent overall response rate of IL-2 yields an 11 percent net response rate. Giving the FDA the benefit of the doubt, and using a 10 percent significant response rate over the course of the three and one-half year period of time that the drug was not available, 3,500 patients could have been either totally saved or enjoyed the benefits of a remission of their disease.

CSE has contacted the President of the National Kidney Cancer Association, Gene Schonfeld Ph.D., to provide the members of the Subcommittee with additional information on his experiences with the FDA and IL-2. CSE will also submit, for the record, a copy of the press release from the Department of Health and Human Services regarding IL-2 which discusses the initial release of the drug and its' effectiveness, as well as a press release from the Competitive Enterprise Institute and their General Counsel, Mr. Sam Kazman, regarding the drug and its delay in the FDA approval process.

Mr. Durbin also expressed doubts on how the drug nitrazepam could "cost American lives" when it is a drug used to treat "insomniacs." Nitrazepam is, in fact, a drug that is classified as a sedative and a hypnotic. Before the drug was introduced in the United States, Americans were forced to use less safe sedatives and hypnotics such as barbiturates. Fatal overdoses occurred as a result of these profoundly depressant central nervous system drugs. As a result of doctors being forced to prescribe less safe--but FDA approved--drugs, Americans died of overdoses that would not have occurred if the patients had access to nitrazepam. The implication that no lives could be lost as a result of a patient taking or not having access to the drug nitrazepam, is simply not true.

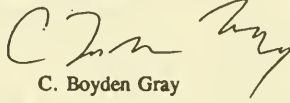
A thorough explanation of how drug lag "costs American lives," may be found in "Drug Lag," in David R. Henderson, ed., The Fortune Encyclopedia of Economics (New York: Warner Books, 1993), p.669. Pharmacologist Dr. William Wardell is considered one of the top experts in his field and has been published in a number of peer reviewed medical journals. He first identified the connection between lives lost and the FDA drug approval process as it pertained to nitrazepam in 1973. He is the author cited in the Henderson article.

The figures regarding the FDA approval times and numbers in my testimony are factual according to FDA's own data. The number of new molecular entities approved in 1994 was 22. This is the lowest such number since 1988. There was one new biotechnology product approved in 1994, four were approved in 1993. Of the 22 new drugs approved in the United States in 1994, 13 were approved in other countries first. The approval times for these drugs continues to be significantly longer than the six month

statutory limit for the evaluation of an application.

Thank you again, Mr. Chairman, for the opportunity to testify before your Subcommittee. I will be more than happy to provide you, or the Members of the Subcommittee, with any additional information that you may need.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. Boyden Gray".

C. Boyden Gray

Enclosures

CC: Subcommittee on Agriculture,
House Committee on Appropriations.
Eugene Schonfeld, Ph.D.
William Wardell, M.D.
Sam Kazman, Competitive Enterprise Institute.

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

P92-12
FOR IMMEDIATE RELEASE
May 5, 1992

Food and Drug Administration
Monica Revelle - (301) 443-4177
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The Food and Drug Administration today announced the licensing of a genetically engineered product, aldesleukin, for the treatment of metastatic renal cell carcinoma (kidney cancer) in adults.

Aldesleukin is the first FDA-approved drug treatment specifically for kidney cancer, a disease which accounts for about 10,000 deaths each year. Derived from genetically engineered bacteria that contain an analog of the human interleukin-2, aldesleukin is a lymphokine involved in regulating immune responses.

While aldesleukin is not a cure and most patients in clinical trials experienced serious side effects, the drug will provide some patients a treatment alternative.

"This treatment represents one of the first successful attempts to fight cancer by augmenting the function of the body's immune system," said FDA Commissioner David A. Kessler, M.D. "Immunotherapy using aldesleukin is an example of the potential for modern biotechnology to improve health care."

In seven clinical trials involving 21 institutions, 255 patients with metastatic renal cell cancer were treated with aldesleukin. The drug reduced the size of tumors in 15 percent of the patients; 4 percent of the patients had all evidence of their tumors disappear for about 23 months; and 11 percent reported a substantial reduction in the size of the tumor for nearly 19 months.

However, most of the patients in the clinical trials experienced severe side effects, and many experienced life-threatening side effects. Patients usually recovered from side effects after therapy, but in 11 of the 255 patients (4 percent), drug-related side effects resulted in death.

The toxicities included capillary leak syndrome--the passing of plasma proteins and fluid outside the blood vessels. Capillary leak syndrome can result in hypotension and reduced circulation of blood in the organs, which may be severe and can result in death.

Other serious adverse reactions included cardiac arrhythmias, angina, myocardial infarction, respiratory failure, gastrointestinal bleeding, kidney failure (requiring dialysis), neurologic problems and infections. Most of the adverse reactions were usually reversible within two or three days after discontinuing treatment.

Because of these severe adverse reactions, the agency has labeled

-MORE-

ATTENTION TV BROADCASTERS: Please use open caption for the hearing impaired

Page 2, P92-12, Aldesleukin

aldesleukin to be administered intravenously only in a hospital setting under the supervision of a qualified physician experienced in the use of anticancer drugs. An intensive care facility and specialists skilled in cardiopulmonary or intensive care medicine must be available. The labeling requirements of this drug also should restrict the treatment to patients with normal cardiac and pulmonary functions.

In 1988, aldesleukin was designated an orphan drug -- a designation which provides incentives for manufacturers to develop and produce medical products to treat rare diseases and conditions. On Jan. 17, 1992, the Biologic Response Modifiers Advisory Committee recommended that the drug be approved for metastatic renal cell carcinoma with labeling that alerts physicians to the toxic effects associated with its administration.

Aldesleukin is manufactured by Chiron Corporation of Emeryville, Calif., and will be distributed by Cetus Oncology Corporation under the trade name Proleukin. The product will be commercially available in mid-May.

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[CLERK'S NOTE.—The following additional information was provided for the record by Congressman Durbin.]

NITRAZEPAM

- This is an old drug.
- It was approved in 1972 by the United Kingdom for the symptomatic, short-term treatment of insomnia, "when it is severe, disabling, or subjecting the individual to acceptable distress."
- An application for marketing the drug in the U.S. was not submitted until 1986 (14 years after it was approved in the U.K.). Before then there was no application for FDA to approve.
- FDA refused to file the application because only one study that purported to show efficacy was filed with the application and the application contained insufficient carcinogenicity data for the drug that the sponsor intended to have labeled for chronic use.
- The sponsor never refiled the application. For this reason, the product could not be approved in the U.S.
- The drug has been available under compassionate INDs since 1986--this provides a physician with the availability of the drug to administer to patients if the physician believes the drug could be useful.
- FDA still issues compassionate INDs for the drug occasionally.
- This drug has clearly never cured anyone of an illness.

INTERLEUKIN 2

- The clinical trial showed a complete remission of the tumor in 4% of the 255 patients. Not all of these 9 patients can be considered cured - 1 had recurrent tumor and follow-up was quite limited for the others. Although 11% of the patients experience partial remission, they still had evidence of residual tumor after therapy with the drug.
- The drug-related mortality rate in the clinical trials was 4% which is a significant risk even for patients with a life-threatening illness.
- Nearly all the patients in the clinical trial experienced severe or life-threatening side-effects requiring intensive care. These effects included myocardial infarction, shock, coma, seizures, kidney failure, arrhythmias, gangrene leading to amputation, kidney failure requiring dialysis, pulmonary failure requiring mechanical ventilation, and sepsis.
- During the review of this drug, FDA found inadequacies in the clinical data:
 - which made it impossible to determine which patients were more likely to benefit than be harmed by the drug, and which made it impossible to determine which of the proposed dosing regimens had favorable outcomes; and
 - problems in the manufacturing and proposed administration of the drug which made it difficult or impossible to ensure that future lots and doses of the drug would have the same safety and efficacy profile as those in the application for approval.
- Data reviewed by the agency and its advisory committee in 1990 did not demonstrate a survival advantage with this drug therapy and follow-up on the responders was too short to determine whether there was significant benefit to balance the toxicity.
- As a result of the FDA review, the manufacturing, dosing and patient selection were substantially modified to maximize efficacy and decrease toxicity.
- Because of the toxicity of this drug, the U.S. Pharmacopeia recommends "because of its potential life-threatening

toxicities,...that this medication be used only after careful consideration of risk-benefit."

- A representative of the drug's manufacturer recently said the mortality rate was "not a trivial matter to be glossed over" and the 1990 advisory committee that requested more data about the drug before considering approval was not asking "unreasonable questions."

Thank you.

Mr. SKEEN. Mr. Kingston.

Mr. KINGSTON. I think Mr. Nethercutt was back first and Mr. Thornton after him.

Mr. SKEEN. Mr. Thornton.

Mr. THORNTON. Thank you, Mr. Chairman.

Mr. Gray, I share some concern about your testimony. You conclude, as I have been concerned, that the FDA may be spending too much time regulating vitamins, but I am deeply concerned at the content of your prepared testimony on page 5. First, I continue to be embarrassed that Jefferson, Arkansas, is not in my congressional district. It is in the congressional district of the newest, one of the new Members of our committee, Mr. Dickey. And yet, I am somewhat familiar with the National Center for Toxicological Research.

On page 5, of your prepared testimony, you make the statement:

One strategy is to close all FDA laboratories in the Midwest region and to relocate them. The proposed site for the relocation, Jefferson, Arkansas. One concern in the proposed consolidation would be the "brain drain" that would occur if the FDA went forward with a move to Jefferson. FDA scientists would be forced to move to Arkansas or fend for themselves.

The agency proposes to hire new employees to replace those who would rather not move, and then the agency puts the hub of relocation in the rural south, where there is no population base.

My question is, Have you been to Jefferson?

Mr. GRAY. No. I am a Southerner, so I don't mean this to be—

Mr. THORNTON. I am concerned about the "brain drain." Do you consider the Research Triangle Park a suitable area for research?

Mr. GRAY. I certainly do.

Mr. THORNTON. Would it surprise you to know that the new Director of NCTR came to that facility from the EPA, as a Chief Regulator, a Chief Scientist at the Research Triangle Park?

Mr. GRAY. I am not—

Mr. THORNTON. I am wondering what data you base your statement on? Are you aware that of the \$41 million in operating funds of this facility, a national center, a national laboratory, that \$7 million is provided by interagency contracts to do work for other Federal agencies? They are under no requirement to have that done. They chose NCTR because of its excellence, or presumably for some reason.

Did you study that?

Mr. GRAY. I did not, no.

Mr. THORNTON. Are you aware that there are six CRADAs, in operation at NCTR, more than the rest of the Food and Drug Administration combined, with Proctor and Gamble, Best Foods, American Institutes of Cancer Research? These cooperative research agreements are the most significant in the entire Food and Drug Administration? I am concerned about the suggestion that it is a brain drain to send people to Arkansas.

Mr. GRAY. Well, to relocate people, is the point that I am trying to make, and—

Mr. THORNTON. You are interested in saving money.

Mr. GRAY. If it is proven that all these moves save money, then I suppose it should be a good idea.

Mr. THORNTON. Are you aware that the center was originally built with laboratories as a place where biological and nerve warfare could be experimented on and was changed in purpose for civilian use, that it has over 600 thousand square feet in use and another 400 thousand square feet ready for occupancy and that it is owned by the FDA, no lease payment or cost to the facility; are you aware of that?

Mr. GRAY. Nothing is at no cost.

Mr. THORNTON. It costs for equipment and scientists but you have no rental expense. How many scientists would you say are already there?

Mr. GRAY. This, I do not know.

Mr. THORNTON. One hundred fifty-seven B.A. and M.A. Holders, 44 post doctoral fellows, 80 full-time Ph.D., M.D.'s, and doctors of veterinary medicine on staff, over 200 peer reviewed papers last year. What was your basis for these statements?

Mr. GRAY. Requiring relocation from one place to another.

Mr. THORNTON. Where the space is already available.

Mr. GRAY. No space is free. The space could be used for something else, the question is compared to what?

Mr. THORNTON. Studies show it would make significant savings to combine a number of facilities and to relocate them into a facility which has ample space which has a proven scientific base for the work, and although, it is outside my district, is something we are somewhat proud of in Arkansas. It is the center of a biological consortium of major universities, about 44, similar to the Oak Ridge consortium relating to nuclear energy.

I just want to come back to the "brain drain" once more. While I was President of the University of Arkansas, we engaged the services, recruited a guy named Allen Herman who with a Chinese co-worker named Chang invented and patented the world's highest temperature superconducting material, a thallium compound which still holds the record. The New York Times wouldn't run the story because of their doubt that anything that dramatic could come from the State of Arkansas. Do you share their view that maybe the State is incapable of handling this kind of facility?

Mr. GRAY. No. I don't have any view about that. I come from what has been frequently referred to as the veil of humility between two mountains of conceit, so I am sympathetic to those who think that their State is unduly disparaged.

Mr. THORNTON. I appreciate that. It is not the disparagement that concerns me, although it causes me to question the whole document, because if you make these statements about Arkansas and about this facility without any background as to what it is or what it does, I think that, as my colleague Mr. Durbin said, that maybe the people who prepared this for you did a bad job in briefing you on the facts that surrounds it.

I hear the bells, Mr. Chairman. I am having a good time—do you have anything further that you would like to add?

Then I yield back my time.

Mr. SKEEN. Do you gentlemen have questions?

Mr. KINGSTON. I have some questions. I would rather wait.

Mr. SKEEN. We will vote and come back, and we will finish with you two and get the other three people up here.

Is there anybody other than Alice Lenihan, Mr. Walesby and Bobby Webster, have any of you got time constraints? None? We will put all three of you together.

[Recess.]

Mr. WALSH [presiding]. This committee is now back in session.

Mr. Gray, if you would, the next questioner will be Congressman Nethercutt.

Mr. NETHERCUTT. Good afternoon and thank you for your testimony.

I gather from the questions that have been asked of you and your testimony, that you think there should be some change in FDA. It has 9,000 employees, roughly and a billion-dollar expenditure. What do you think the optimum size or function or employee structure would be for FDA? Do you have any thoughts on that for the record?

Mr. GRAY. I am not an expert on the staffing at FDA, but as a general proposition, I believe that FDA can and should begin to think about out-sourcing, contracting out for some of the work that is done in-house. It is sort of a paradox and I can't explain it here—it is sort of a paradox that you can save money by going to outside organizations that can actually exceed the government pay cap and hire competitively, that by paying more, that you can get better work done. That is a paradox, sort of a fact of life, and it is why other agencies, like EPA, do contract out and save money by doing it and get the work done faster. That is one area where you ought to, I think, take a look at.

The other area is the regulatory regime, controlling the flow of information from peer review articles, for example, that cannot be distributed by manufacturers. I believe that is a regulatory regime that simply doesn't justify the personnel assigned to it. Apparently, the budget, I am told, I haven't gone through, but I am told that the enforcement, number of enforcement personnel looking at claims about vitamins has increased 400 percent in the last three or four years. I wonder whether that is an appropriate allocation of resources.

Mr. NETHERCUTT. Do you think that the FDA has an essential function in today's America and does things that are essential to our society? Would you agree with that?

Mr. GRAY. Yes.

Mr. NETHERCUTT. Do you think there is any opportunity to have it merge or become part of another agency. Perhaps, that might accomplish the purposes that you seem to set forth in your testimony?

Mr. GRAY. I am not sure about merging or taking apart and moving pieces to different places. For example, on the regulation of biologics, there are two bureaus that regulate biologics now, the Center for Drug Evaluation and the Center for Biologics Evaluation. Those two could possibly be merged and you ought to take a careful look at that. But certain of the functions that the FDA performs vis-a-vis agriculture, might be moved into the Department of Agriculture so that the food part is consolidated and FDA is left with responsibility only for drug and device approval. There are lots of possibilities for trying to simplify the agency. I think the questions ought to get raised and discussed, not that I have answers.

Mr. NETHERCUTT. Thank you.

Mr. WALSH. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. Gray, wasn't it FDA that had that proposed regulation of over-the-counter drugs last year? Are you familiar with that?

Mr. GRAY. I am not familiar with that.

Mr. KINGSTON. Isn't that the case? The FDA wanted to start regulating a lot of the over-the-counter drugs, health food stores?

Mr. WALSH. The issue I believe, involved vitamin supplements and drug manufacturers testified that they were concerned about FDA's role in reviewing the supplements.

Mr. DURBIN. I don't believe that was the issue. The question was whether or not over-the-counter drugs would require a prescription and what kinds of claims could be made on dietary supplements. That was the source of a debate which led to legislation passed in the last session of Congress, which I think was to the satisfaction of manufacturers. The agency dealt with the issue. They were not proposing that they be required to get prescriptions for drugs.

Mr. WALSH. Part of the debate was about what would be on the label, and the FDA wanted to require the manufacturers of these dietary supplements, to inform them about how to label and what to say on the label, especially regarding claims that they could make on the dietary supplement.

Mr. KINGSTON. Do you know, Mr. Gray, if the FDA has gone too far with these labeling requirements on drug companies? Are they in bounds or overstepping their bounds?

Mr. GRAY. I am not an expert on the vitamin supplement issue. The point I was trying to make was that because of the labeling authority of FDA, they have restricted the amount of information that can be circulated by manufacturers albeit, of course, they have a profit motive to do that, but that is part of life. They restrict the circulation of information. If it is off-label, you cannot circulate it. That was the point that I tried to make about the sickle cell anemia discovery. I will provide information about this, to go into detail, because I am not a pharmacist, but the drug life-savings in connection with the drug you were referring to is in my testimony, came from off-label use. But the originator of that information is Tufts University, not me. I will put that in the record. That is my major concern.

I would say that with a vitamin, as a general matter, maybe you ought to have a split label, that this is what the vitamin maker thinks the public should know, and below that, this is what FDA thinks they should know. There is in the testimony, reference to something that CDC thinks should be more available to consumers, but this has been blocked by the Food and Drug Administration.

I believe that it is inappropriate, would not be legal to label an aspirin bottle with information about its therapeutic preventive capacity for heart disease. I am very concerned about that. I take a half an aspirin every day. It is too bad that people not as fortunate as I, who cannot afford a doctor, people who don't have the same kind of expertise that maybe I have had the privilege of having, can't get that on an over-the-counter base.

Mr. KINGSTON. It seems to me that there is an adversarial relationship between vitamin companies and FDA, chemical companies,

or whatever, and it would appear that FDA would be better as a technical assistance agency rather than regulatory, and with power grabs in mind. Somebody on this panel earlier commended them on their tobacco research. I am not aware that tobacco has been classified as a drug? Has it?

Mr. GRAY. Not to my knowledge, no.

Mr. KINGSTON. Then, what is FDA doing with tobacco? Are they expanding their base?

Mr. GRAY. It appears as though they would like to, they are trying to or have tried to. I am not an expert on that.

There has been a lot of concern about the secondhand tobacco smoke study and how scientifically based it was, did they make assertions about probabilities that are not accepted in the principles, that are not accepted in the scientific community? That is a set of issues that I didn't raise here—

Mr. KINGSTON. I know. I am trying to put in context, if we have an agency that is trying to expand its base by more control, more restriction. Typically, a bureaucracy complains they don't have enough money appropriated to them at the same time they are moving into new horizons. I understand they want to get a new complex in Maryland, and I understand that it is an \$890 million number? I must be way too high. Am I?

Mr. GRAY. I don't believe so. I am not, again, an expert—I haven't been over the architectural plans for the Clarksburg campus, but it has an awful lot of square feet.

Mr. KINGSTON. With a \$4.8 trillion debt, you are saying that an agency is trying to expand its infrastructure, its buildings to the tune of nearly \$900 million on top of the debt? When we are trying to have one of the biggest cut sessions in the history of America and balancing the budget, this agency is coming to Congress with a request for something like that; is that correct?

Mr. GRAY. That is correct, and it is a puzzle, too, not just the expenditure of funds that might be better spent on new drug and new device approvals, but they are going further away. They are becoming less accessible to the public.

Mr. GRAY. It is harder to get into that corridor. I don't know who from Maryland is on this. I am gun shy about criticizing any geographic region of the country, especially my own.

Mr. KINGSTON. We looked at Arkansas.

Mr. GRAY. But Clarksburg, Maryland, is not accessible, I think, to Dulles Airport, or BWI or to National Airport or any other airport that I am familiar with. It is just further and further away from where somebody in the public might want to go to get help from them.

Mr. KINGSTON. Have they looked at any—I don't know if there are any left that the RTC owns or any other Federal Government properties for their expanding bureaucratic ambitions?

Mr. GRAY. I don't know what—

Mr. KINGSTON. It was a rhetorical question.

Mr. GRAY. I don't know the inventory that is left. I didn't know they owned all this in Jefferson, but that really isn't the point I think I was trying to make, is why are they moving all of these people out of the Midwest where much of the industry that needs to see them is located. That was my only point.

Mr. KINGSTON. Let me ask you this: Getting back to the privatization, you have made it abundantly clear that you don't recommend the total privatization of FDA but at the same hand, if I hear you correctly, there are opportunities within this \$1 billion huge bureaucracy to peel off part of it because they are, as I understand, looking for new revenue sources through user fees. So since they are having this financial crunch, perhaps some of that could be privatized. Is that correct?

Mr. GRAY. That is correct. I think significant functions, important functions could be privatized. After all, and I am now repeating myself, if you can privatize or semiprivatize the air traffic control system, if you can privatize the enforcement of major environmental programs like the acid rain program under the 1990 Clean Air Act, all being done under enforcement in the private sector, if you can privatize that enforcement, if you can privatize central bank functions like the currency board, like Argentina has or Hong Kong is, something that ought to be explored in connection with the Mexican bailout, if you can do those things, there are certainly functions at FDA that can be privatized.

Mr. KINGSTON. You mentioned earlier—in fact, I believe somebody on this panel mentioned earlier a large number of people who work with the private sector in certain labs. FDA is already contracting with the private sector, is that correct?

Mr. GRAY. Already.

Mr. KINGSTON. So there is a precedence?

Mr. GRAY. There is a precedence, yes.

Mr. KINGSTON. What we really need to do is determine how much of the FDA budget or resources are being spent on the private sector, for what reason, and then to see if, A, is that sufficient, maybe it should be brought in-house or, B, if that is a great thing to do then maybe that should be expanded.

Mr. GRAY. That is a very fruitful line of inquiry. Why spend all this money on a new campus in Clarksburg when there exists facilities all over the country that can do it on a contract basis quicker and more cheaply.

Mr. KINGSTON. One last question. I know, Mr. Chairman, time is tight. I understand that once a drug has expired that FDA—and I may be wrong about this, but FDA does not want it to be used for other purposes. For example, humanitarian aid to other countries that have had a disaster, if a drug has expired but still has a usefulness that FDA does not allow it to be used. Is that correct? Do you know?

Mr. GRAY. I don't know the answer. I don't know the answer.

Mr. KINGSTON. On something like that, though. Is it your experience that FDA is easy to work with or that FDA is arrogant about allowing something like that to be used for humanitarian purposes?

Mr. GRAY. I really cannot answer. I really cannot answer the question.

Mr. KINGSTON. Would you say sometimes that bureaucracy loses sight of the mission statement of helping people?

Mr. GRAY. I think that is a statement that can be made of many agencies. And how you make agencies more open and more responsive is—is a time-honored question. We have been grappling with it in this country for 200 years and hopefully 200 more years. But

more can be done to make EPA, FDA, OSHA, these agencies a little more user-friendly. This is a great deal, I think, of the resentment that spilled out over in the last election was the distance and seeming indifference of the bureaucrat who, after all, should be helping, not confronting. This is true banality.

Mr. KINGSTON. Well, I appreciate it, Mr. Chairman. Thank you, Mr. Gray.

Mr. WALSH [presiding]. Thank you, Mr. Gray. That concludes your testimony and the questions. We appreciate you very much coming here.

TUESDAY, JANUARY 31, 1995.

WITNESSES

SIDNEY M. WOLFE, M.D., DIRECTOR, PUBLIC CITIZEN'S HEALTH RESEARCH GROUP

ALICE LENIHAN, PRESIDENT, NATIONAL ASSOCIATION OF STATE WIC DIRECTORS

JAMES WALESBY, CHAIRMAN, WASHINGTON WHEAT COMMISSION

ROBERT L. "BOBBY" WEBSTER, NATIONAL COTTON COUNCIL

Mr. WALSH. For the next panel we will call all of the individuals to come up together and perhaps in this order, make your statement and then we will have questions: Dr. Sidney M. Wolfe of Public Citizen; Alice Lenihan, President, National Association of State WIC Directors; James Walesby, Chairman, Washington Wheat Commission; and Robert L. Webster, Waynesboro, Georgia, National Cotton Council.

Mr. SKEEN [presiding]. OK. Let's start with Dr. Sidney Wolfe.

Dr. WOLFE. Mr. Chairman, I will try and summarize the testimony which is already short.

We have mainly been critics of the FDA. You heard other people, including Mr. Gray, criticizing the FDA. We have, over the 23 years since I started this group, filed over 50 petitions against the FDA to try and get them to take dangerous drugs off the market or medical devices or to put warning labels on products, such as the warning label for aspirin in Reye's syndrome, so we do not come at them in love with everything they are doing.

On the other hand, we believe that the agency needs to be made stronger, stronger so that it has an even better record of protecting the public. You have heard one of a large number of groups that are engaged in a massive assault on the FDA based, as Mr. Durbin brought out very well, on a lot of false and misleading information. The same fact which was put into Mr. Gray's testimony on this drug IL-2 also appeared in a full-page ad in The Wall Street Journal and The New York Times put out by the Washington Legal Foundation. The company that makes the drug has disowned major portions of what was in that ad, so that it isn't just ourselves saying that these groups, whether they are the Washington Legal Foundation or the Citizens for a Sound Economy or the Competitive Enterprise Institute, it is also some of the companies saying that the information is wrong.

Another one of these ads had a statement that the American Heart Association has said 1,000 Americans have died because a

medical device, a defibrillator, wasn't available. This is what the full-page ad said. The American Heart Association published a letter in *The New York Times* last week denouncing that saying they never said that. So if you look fact-by-fact at the statements made by Mr. Gray or the statements made in these ads, the facts are wrong. And if the premise that we should do something about the FDA is based on the notion that they are killing people and that the evidence for the killing of people are these facts, something is wrong and the remarks are ultimately inflammatory and really destructive of what the FDA is trying to do.

The FDA, I believe, has gotten better in the process of handling drug applications. For example, most of the drugs that are approved, whether it is 1994 or 1993 or 1992, are not important advances over existing drugs. A very few are important advances, and it is interesting that last year, in 1994 in an article just published a week or two ago in the main international journal on the drug industry—it is a British journal, they found that in 1994 up through December 8 when they went to press, there were 47 new drugs approved anywhere in the world, all the countries, Japan, United States, the United Kingdom and so forth. And of these, only two drugs were an important advance over existing therapy. The others were another arthritis drug that wasn't any better than the last one or another tranquilizer or another sleeping pill like diazepam. Only two of the drugs were important advances.

It is interesting that both of the drugs, one for treating cystic fibrosis and another for treating a horrendous inherited disease, Gaucher's disease, were both made by American companies and they were approved in the United States before they were approved anywhere in the world. So when you really trim it down to not all the drugs but the important ones, this country is really doing very, very well. Because the FDA has learned over the years to distinguish in terms of their own priorities between the few drugs that are important and the bulk of drugs that aren't important. And it doesn't make any difference if the drug that is the fifteenth arthritis drug no better than the rest takes 18 months instead of 12 months or 2 years instead of 1 year to get in the market because when it gets in the market, it doesn't add anything. It just confuses more physicians and patients.

In addition to what happened last year, we have the fact that the first breakthrough drug for AIDS, AZT, made by a British company was approved in the United States before it was approved in Britain. And the people in Britain were saying, what is wrong with our drug regulatory agency? Why is the FDA getting it approved more quickly? So it goes both ways.

But on the important drugs, again the FDA has done a very good drug. There are other AIDS drugs that were approved here before they were approved anywhere else. Having thrown out this whole bevy of false and misleading facts inflaming people about the idea that the FDA is killing lives and so forth, then you do a survey and the organization that Mr. Gray is associated with, the Citizens for a Sound Economy, found that 68 percent of people who were interviewed thought that the FDA review time cost lives by forcing people to go without potentially beneficial drugs. If you believe the

garbage that they put out and enough people see these ads, you believe that they cost lives.

When this survey was made public, they left out some of the answers to the questions that didn't fit in with their agenda. We were able somehow or other to get all of the results of the survey and these were some things that were found in the survey that they weren't bragging about. For example, 61 percent thought that the pharmaceutical and medical products in the U.S. are safer than those in other countries, such as Canada, Japan, France, or Germany. Seventy-two percent thought that FDA food products were safer than those in other countries.

Mr. SKEEN. Let me stop you there.

Dr. WOLFE. Yeah.

[The statement of Dr. Wolfe follows:]

Testimony of Sidney M. Wolfe, M.D.
Director, Public Citizen's Health Research Group
before the
Committee on Appropriations, Subcommittee on Agriculture, Rural Development and
Related Agencies
Hearing on FDA Appropriations
January 31, 1995

Chairman Skeen and Members of the Subcommittee, thank you for the opportunity to present testimony concerning this important public health agency. For more than 23 years, the Public Citizen's Health Research Group has been a major critic of the Food and Drug Administration (FDA). During this time, we have filed more than 50 petitions for warning labels or bans of prescription or over-the-counter drugs or medical devices in addition to a significant amount of additional research and petitions to the FDA concerning food safety issues. Our criticism of the agency is thus usually that it is not doing enough to protect the public.

However, as far as we can determine, the FDA does a better job of protecting the public from unsafe food, drugs, medical devices or other products which it regulates than any other such agency in the world.

Despite this, or, possibly because of this, there has been an epidemic of recent criticism about the agency, particularly that it is being too cautious in its review of drugs and that, as a consequence, Americans are being deprived of drugs or devices which are available earlier in other countries. In a full-page ad which has run twice in the *Wall Street Journal* and three weeks ago (January 12) in the *New York Times*, the Washington Legal Foundation (WLF) listed a number of unfounded examples in which Americans had been harmed as a result of FDA caution. Attached is a letter rebutting this criticism from the FDA which mentions, by way of example, that the WLF's claim in the ad that the American Heart Association (AHA) had said "that at least 1,000 lives were lost during the time an approved heart defibrillator was delayed" was false. AHA has, in fact, stated that the ad was "irresponsible and incorrect" and denied making such a claim.

Additional criticism of the FDA from the Competitive Enterprise Institute was based on some of the same false and/or misleading examples used in the WLF ad. Both organizations, along with a third organization, Citizens for A Sound Economy (CFASE), call for major weakening of FDA's regulatory authority.

Recent Improvements in FDA Performance

Significant improvements in FDA's handling of New Drug Applications have already occurred during the past 15 years, most strikingly in the past four years. The critical combination of more funding and better management, neither of which would be sufficient alone, has resulted in a retention of the important legal standards for safety and efficacy while rationally expediting the approval of new drugs, especially the relatively small number which

are actually an important therapeutic advance over existing therapy. Thus approval times and backlogs have been substantially reduced, in large part by the better management which Dr. Kessler has imposed on the agency and which the user fee system--enabling the hiring of more reviewers and imposing deadlines for review--has accomplished.

The fruits of this improved process have already become apparent. In 1994, for example, according to the major international publication on the pharmaceutical industry, the London-based *SCRIP*, there were 47 new chemical entity drugs (as opposed to new dosage forms or salts) approved in the world through December 8, 1994, when the January issue of *SCRIP* magazine, which contains this analysis, went to press. Of these, only two were thought to be important therapeutic advances over existing therapy. One is dornase alfa (Pulmozyme, Genentech) for cystic fibrosis and the other, imiglucerase (Cerezyme, Genzyme) for Gaucher's Disease. Not only were both made by American companies but both were approved here before approval in any other country in the world.

Upset and inflamed by irresponsible ads, press conferences or editorials by the FDA-bashing groups mentioned above or the editorial page of the *Wall Street Journal*, it is not surprising that a recent survey by CFASE found that 58 percent of those interviewed thought that FDA review time costs lives by forcing people to go without "potentially beneficial drugs." Presented with the evidence on 1994 drug approvals cited above or, for example, the fact that the first AIDS drug, AZT, was also approved here before being approved in any other country, the survey respondents might answer differently. Ironically, in parts of the survey which were not included in the organization's press release, a much more favorable view of the FDA was in evidence. Sixty-one percent, for example, thought that pharmaceutical and medical products in the U.S. are safer than in other nations such as Canada, Japan, France, or Germany. Seventy-two percent thought that U.S. food products were safer than those in other countries.

Since most new drugs which come on the market here or in any other country are not important therapeutic advances and since the few that are more important are as, or more, likely to be approved here first, the FDA seems to be doing a good job on that score. For medical devices, the approval process is much too lax since more than 90 percent of the devices which are on the market have avoided the pre-market testing requirements by two huge loopholes in device regulation. Although there have been important gains in the backlog for devices, it is clear that this part of the FDA would benefit as much from a user fee system as the drug division already has and I hope that this subcommittee will seriously consider such legislation as soon as possible.

In summary, the American public is not likely to tolerate any weakening of FDA's regulatory authority or reduction in funding which, in either case, will reduce the safety of the food supply or worsen the safety of drugs or devices. The managerial and funding changes which have already improved the process for drugs without any apparent sacrifice in safety or efficacy standards need to be extended to devices.

Thank you.

Mr. SKEEN. You want to go over and vote?

Mr. DURBIN. I guess we have to.

Mr. SKEEN. Give us a little more forbearance. We appreciate it so very much, your patience and we will get over to the floor and vote. Hopefully, I think that there is—this is the second to the last one. I hope they run them together or have a collision somewhere. But we will be right back and then let you all get out of here.

Dr. WOLFE. Okay.

Mr. SKEEN. Thank you. Sorry to interrupt you.

[Brief recess.]

Mr. SKEEN. Sorry for the interruption once again. I think there is one more vote coming. Hopefully, we can get through here before that happens. We have about 30 minutes.

Dr. WOLFE. I just have a couple other things to say. One, the passage of legislation that gave FDA the right to collect user fees from drug companies has really rationalized the process, because now without sacrificing efficacy or safety, they are able to more quickly review drugs.

A comparable measure was considered but hasn't been really passed yet concerning medical devices. I think that the medical device division would benefit just as much as drugs has if there were user fees on medical devices, and that is certainly something that your subcommittee has jurisdiction over, so I hope that that issue is taken up. Because for those that really worry about backlogs and so forth, you get more people on board and you can clear up the backlogs.

The device area, though, unlike the drug area, is a major disaster in another way because the device laws in 1976 had two huge loopholes wherein almost all the devices that were getting on the market had never been tested for safety and one disaster after another has happened. We would like those loopholes closed up. That is not the appropriation committee's topic.

In summary, I don't believe that Americans are likely to tolerate any weakening of FDA's regulatory authority or reduction in funding which in either case will reduce the safety of the food supply or worsen the safety of drugs or devices. The managerial and funding changes which have already improved the process for drugs without any apparent sacrifice in safety or efficacy need to be extended to devices.

I would still like to comment briefly on this issue of privatizing. All of these groups who are coming forward in congressional testimony or in ads are saying let's privatize. Mr. Boyden Grey just said let's privatize part of the FDA's review process. It is one thing to have people doing work on a contract to clean up toxic waste dumps. It is another thing to have people replacing government officials who do not have a conflict of interest and the people on the outside would have a conflict of interest reviewing drugs.

One example, and it is a very specific example and unlike the ones Mr. Gray cited, this one is very well documented, has to do with what happens when you privatize looking at drugs. The drug was aspirin, which he mentioned a number of times. He apparently takes it. That is fine. But it was aspirin which in 1982 was found to be the cause along with chicken pox or flu of Reye's syndrome. The public agency, the FDA, decided to put a warning label on. It

was after a lawsuit that we had filed against them but they said we should put a warning label on aspirin for Reye's syndrome. That is the public function.

Just as the warning label was about to appear, some private groups, the Aspirin Foundation, a newly conceived organization to fight off warning labels, came to the White House, came to OMB and they cancelled the regulation. So for four years there was no warning label on aspirin for Reye's.

We and others have estimated there are thousands of children dead or brain damaged because of the four-year delay. That is what happens when you privatize a process that really needs to be a public function.

The same would happen and has happened in some other countries when you let outside people who are much more likely to be linked with the drug industry review drug applications. You start putting things on the market which then have to be taken off the market. So the idea of privatizing the review of products whose reviewers need to be as free from conflict of interest as possible is a bad idea because you will start winding up by definition with people who have much tighter links with industry in the approval process, just as you have people appearing for various foundations that get money from the drug industry before this committee asking for favors or deregulation of the drugs and medical devices on behalf of their clients. That is in a way the same kind of conflict of interest that you would get if you turned over the review of drugs to people other than the employees.

The FDA does not test drugs as a lot of people think. A number of physicians, colleagues of mine think that the FDA is this big bureaucracy that tests drugs. They don't do any testing of drugs. They rely on industry test data which is often not very good in which—and which is the real reason in many instances why some drugs take longer rather than shorter to get on the market. The FDA gets the blame but the companies do the lousy research all too often.

Anyway, I say we should strengthen the FDA, give it the authority to have user fees for devices as has worked out for drugs, and I think that the American public will be much better protected than they would be if we weaken what it is doing.

Mr. SKEEN. Thank you, Doctor. I understand you have a time constraint. At this time, I will let Mr. Durbin get his questions in.

Mr. DURBIN. Doctor, let me ask one question. This panel has been so patient, waited for so long. Can you tell me since you have been involved in this for a while—we have the twin forces now of deregulation of the Food and Drug Administration and a limitation on using the court system by consumers. Can you tell me what you think about putting these twin forces together, where is that going to leave the consumer in this country if the forces that are pushing for these changes have their way?

Dr. WOLFE. Well, the people who make those kinds of arguments are what—I guess you could call market hypocrites. On one hand, they are saying we don't need regulation because the marketplace takes care of things and then when the marketplace via product liability lawsuits against companies who negligently or criminally

kill people are filed, they say let's deprive people of the right through the marketplace to recover damages for injuries or deaths.

One example that we have been very much involved with for 11 years, in 1984 we found out that this heart valve was killing a lot of people in this country, the Bjork-Sheely heart valve made by Pfizer. We had enough case reports of deaths to ask the FDA to take it off the market in 1984. It finally came off the market in 1986 and we were contacted by a number of families who had lost at 30 or 40 years of age a husband or a wife, killed by this heart valve. It turned out that the valve had been tested prior to being put in humans in animals and in tanks and it broke and the company withheld all this information from the FDA. So it got approved really via criminal activity on the part of the company and then the company wants to get the laws changed so the people who got killed by this device couldn't sue. It is not fair. It was approved by the FDA. Once it is approved by the FDA, you shouldn't be able to sue for punitive damages.

So I think the idea of simultaneously weakening the standards for approval and then saying once it is approved, it is approved, you shouldn't be able to sue the companies, I think it is the worst kind of hypocrisy and strips off both of the kinds of protections that people need.

FDA regulation can never be perfect. It will do a better and better job as we figure out how to fine tune it, nor can we rely entirely on the marketplace and have people risk getting killed before they can recover money.

The idea of the FDA is to prevent death and injuries. Ultimately, there shouldn't be product liability lawsuits if products were regulated in an appropriate kind of way. So we think that both the right of people to expect the FDA to do an adequate job testing, looking at the results of tests that industry does on devices and drugs, that has to be strengthened and we cannot weaken the ability of people to sue when they have been injured or killed.

We have probably been contacted by thousands of people in the 24 years since I started this group who had a family member killed or injured just from those products that were negligently designed or criminally put on the market. And when someone—when the parents of an 11-year-old child whose IQ dropped from 130 to 80 because she got Reye's syndrome and she is brain damaged for life call me up, they both have graduate degrees, this is in 1983 after the aspirin industry stopped the FDA from putting a warning label on and they say, Dr. Wolfe, our daughter isn't what she used to be. She is not going to ever be able to go to college. How did this happen? I start crying because I am sympathetic with them and there isn't any answer to how it happened other than the greed and ghoulishness of the privatizing of what should be government decisions.

And then these people who, in fact, didn't file a lawsuit—most parents of children who died or were brain damaged with Reye's syndrome didn't file lawsuits because they couldn't bear to go up there and relive this horrible story where they gave their child something which killed them. The warning label when those parents gave their child aspirin for Reye's syndrome said—and caused Reye's syndrome said for general relief of flu. In fact, it should

have said don't ever give to a child who has flu or chicken pox. And this was a year or so after the FDA had been stopped in its tracks from putting a warning label on it.

So I think that with all of the frailties of our system, we need both regulation and the right to go to court when it is appropriate and sue for damages. The companies understand when hundreds of millions or billions of dollars have to be paid out as a result of their negligent or criminal activity and they should pay for it.

Mr. DURBIN. Thank you, Mr. Chairman.

Mr. SKEEN. Mr. Walsh.

Mr. WALSH. Thank you, Mr. Chairman.

I realize you have a time constraint so if you would shorten your answers, it would make it easier for everyone to get their jobs done today.

To listen to your comments, you believe that companies do lousy research, and engage in "criminal activity," "greed" and "ghoulishness." Someone might get the impression that you are antibusiness. Is that true?

Dr. WOLFE. No, it is not. The criminal activity, in fact, Congressman, is companies who have pleaded guilty to criminal charges. I mean to name Eli Lilly, SmithKline, Hoechst there are a number of companies that admitted to criminal charges. So I am simply reciting the evidence. I am in favor of those businesses who are honest and who do a good job and who do not withhold information from the government and so forth. And I wish there were more of them.

Mr. WALSH. Do you think most of these businesses are honest?

Dr. WOLFE. Pardon?

Mr. WALSH. Do you think most of these businesses are honest?

Dr. WOLFE. The drug companies?

Mr. WALSH. Yes.

Dr. WOLFE. I really don't know because we usually can't find out about—

Mr. WALSH. You must have a feeling. You have been 24 years in this business.

Dr. WOLFE. An increasing number of them are pleading guilty to criminal charges so let that speak for itself. The Justice Department doesn't think they are honest. I have seen the data upon which the criminal charges were based and I am horrified by it and I don't understand it. I may come to this with a perspective more like yours. I don't understand how people in a drug company, often physicians, will withhold information which results in the deaths of people.

Mr. WALSH. Well, I may be naive but I don't believe that these businesses go out purposefully to kill people, to deceive people. There may be some of that sort of activity—

Dr. WOLFE. There is a lot of that sort of activity.

Mr. WALSH. Well, I disagree.

Dr. WOLFE. Have you seen the record for criminal prosecutions in the drug and device industry?

Mr. WALSH. Have I seen what?

Dr. WOLFE. The record of the number of companies who have been found criminally negligent.

Mr. WALSH. No. But I think we are working from a different perspective on this.

Dr. WOLFE. I guess. I am aware of it and you are not. That is a different perspective.

Mr. WALSH. Your role would not be necessary if you didn't work on that assumption. You have convinced or tried to convince the American public that we cannot conduct this industry without your assistance.

Dr. WOLFE. Well—

Mr. WALSH. And if we don't need you—and if these businesses are honest, we don't need you.

Dr. WOLFE. I am a physician and my job is to try and protect people from being injured in the workplace.

Mr. WALSH. Why aren't you practicing medicine?

Dr. WOLFE. Because I have in the past. I feel that what I am doing now will protect a larger number of people. We have, as I mentioned at the beginning of the testimony, succeeded in getting warning labels on aspirin on Reye's syndrome and a number of dangerous drugs taken off the market. So the evidence is clear.

Mr. WALSH. You said a number of times, we think that America will do this or will do that, that they will not tolerate the reductions in funding to FDA. Who do you speak for?

Dr. WOLFE. Well, we have 110,000 members of Public Citizen and these are people who contribute \$20, \$30 a year. We have several publications. We get a huge amount of mail. We published a book which you may not have seen called Worst Pills, Best Pills trying to get people to go to the drugs that are safer for them rather than more dangerous. It sold two million copies and we are constantly getting mail from the people who thank us for steering them to the safer drugs which are available as opposed to the more dangerous drugs. And I am also speaking for the research that we base all of our activities on.

Mr. WALSH. So you are speaking for 110,000 people, basically.

Dr. WOLFE. No. I think I am speaking for a larger number of people.

Mr. WALSH. How can you assume to do that?

Dr. WOLFE. By the mail we get, by the two million people who bought our book and so forth.

Mr. WALSH. Do you think everyone who buys your book agrees with you?

Dr. WOLFE. They buy the book to get information. We think in addition to government regulation, there is an important role of informing people so they can help make their own decisions, too, and that is the purpose of the book.

Mr. WALSH. I would suspect few of us on this panel would assume to speak for the American public and I would suggest that you consider that point of view.

Dr. WOLFE. Well, the results of the survey that I cited was supposedly, and I think it was a well-done survey, it was a random sample of the American public and the majority of them thought that drugs and food were safer in this country than in other countries. So I think, again, assuming that the polling was done as it looks like it was, that is a sample of everyone in the country.

Mr. WALSH. Well, excuse me, 84 percent of the American public thought the President's speech was great the day after he made it, too. They may have changed their mind. Public opinion polls should not necessarily guide policy.

Let me ask you this—you talked about a lax approval process for medical devices.

Dr. WOLFE. Right.

Mr. WALSH. You also talked about the fact that the FDA is not killing people as opposed to the suggestions that they were. I don't want to get into that fight because I am not sure either way. But I do know they are killing jobs.

Dr. WOLFE. What is the evidence for that? I am not familiar with that.

Mr. WALSH. Well, there is a company in my district named Welch-Allyn which produces a noninvasive laparoscope, an improvement upon existing technology. And it took them several years to even get a hearing to get the FDA down the road toward approval of this product whereby it was easily approvable in other countries. Sort of the opposite of the drug scenario that you painted for us. So they produce that product elsewhere.

And when we raised this issue publicly, we had a number of companies who contacted us and said they did the exact same thing to us. This is a noninvasive piece of technology and for the FDA to take several years to approve it is absurd and it is killing jobs.

Dr. WOLFE. The device industry in terms of the export, the size of the exports out of this country is unparalleled. I mean, in terms of the balance of payments on devices, for example, is doing an incredibly good job.

I mentioned earlier that—

Mr. WALSH. In spite of that.

Dr. WOLFE. I mentioned earlier the problem of backlog of devices was taken care of by adding more staff as a result of user fees. This issue has not succeeded in getting the attention of the Congress yet. I think that if the example you are citing—

Mr. WALSH. It has had our attention.

Dr. WOLFE. Pardon?

Mr. WALSH. It has had our attention. We have not agreed to do it.

Dr. WOLFE. On the one hand, there is the complaint that the FDA is not moving quickly enough. I am familiar with the personnel situation in devices as opposed to drugs. It isn't anywhere near as favorable. On the other hand, there is an unwillingness to help out and get more people there and, obviously, you can't have it both ways.

Mr. WALSH. There is an assumption that I think is false and that the American public agreed that is false and that is if you throw more money at it and it gets worst—

Dr. WOLFE. In the drug area, it has been tried and it worked. It is part of the same agency.

Mr. WALSH. I also think it is threatening to a company to have to provide money to a regulatory agency that oversees their efforts and their productivity and their licensing and I think there is an inherent conflict of interest.

Dr. WOLFE. You think it wasn't a good idea to do it for drugs either? Because that was approved and seems to have worked.

Mr. WALSH. I don't think it was necessarily a good idea.

Dr. WOLFE. That is a philosophical difference. But I think there is a real connection between doing it for drugs and devices in the same agency. And I think eventually to the extent that there are backlogs that really could be fixed—I mean, I was talking about a large number of devices that need to go through premarket testing that have been loopholed out of the premarket testing requirement because of a grandfather clause in the 1976 law. You are talking about things that need some kind of testing, maybe the review could be faster if they had more people. I don't know. I haven't looked into that specific device.

Mr. WALSH. Mr. Chairman, this does not require a response. Thanks. I am going to yield back, but I do think that there are many people in this country who would support reductions in funding and perhaps staffing at the FDA. I yield back the balance of my time.

Mr. SKEEN. Mr. Nethercutt.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Dr. Wolfe, I have listened to your very passionate defense of the FDA.

Dr. WOLFE. Up to a point.

Mr. NETHERCUTT. I haven't seen the point yet but let me ask the question.

Dr. WOLFE. Well, I mentioned we are litigants against the FDA frequently.

Mr. NETHERCUTT. Are you against that?

Dr. WOLFE. No. I said we have frequently had to sue the FDA or petition them to do things that we think they should be doing. So we are not supportive of everything the FDA does. I just want to point that out.

Mr. NETHERCUTT. I heard you testify that you feel as though the FDA ought to be strengthened with more people and more money. Is that your testimony?

Dr. WOLFE. Well, that is one of the ways. And that is the way that has to do with your subcommittee, the passing of user fees for devices. But there are other ways.

For example, the FDA is the only health and safety agency that doesn't have subpoena power, except in a limited way except for devices. So for example, if there is reason to believe that a drug company has done something illegal or something that has misled the FDA, they do not have the right to subpoena documents. This is a tremendous handicap. That would be a strengthening of the FDA if that were done, for example.

Mr. NETHERCUTT. I don't agree with you, but on the other hand, let me ask this: Do you think there is any waste in the Food and Drug Administration?

Dr. WOLFE. Waste as far as what is concerned?

Mr. NETHERCUTT. You name it. Any definition you want to name.

Dr. WOLFE. There is one that immediately comes to mind. Five or six physicians got together about 20 years ago and bought this huge building out in Montgomery County called the Parkland

Building and they have been leasing it to the FDA for \$6 or \$7 million a year. That to me is a waste.

And when one talks about moving from there and God knows how many other buildings that are being leased at outrageous prices into one facility, the flip side is they would stop getting price gouged by the physicians who own that building. So that to me is a waste.

Mr. NETHERCUTT. Anything else?

Dr. WOLFE. There may be other kinds of waste. I mean, I haven't done a detailed person-to-person analysis of what is going on.

Mr. NETHERCUTT. For 24 years you have been representing your particular group in FDA matters.

Dr. WOLFE. Right.

Mr. NETHERCUTT. But you can't point out one item of waste to this committee?

Dr. WOLFE. What do you mean—I not sure what you mean by an item of waste.

Mr. NETHERCUTT. Are there too many bureaucrats at FDA, do you think?

Dr. WOLFE. The people we mainly interact with are physicians and epidemiologists and scientists who are reviewing these new drug applications. And in the main, it is amazing that they are there because they are working for much less than they would make elsewhere. There may be in other parts of FDA too many people, but there certainly aren't too many in the area of reviewing new drugs or in the area of reviewing new devices.

Mr. NETHERCUTT. Don't you think that is important for this committee to have some testimony from you about that? We are trying to economize this government, downsize it, make it more efficient, but yet you are not prepared, at this point, to testify about any downsizing recommendations you may have.

Dr. WOLFE. I am not aware of any part of the FDA that is too big given what the chore that it has is regulating the food supply, the drugs, medical devices, radiologic devices, diagnostic devices. It is an enormous task.

Here is an example. Drug advertising to physicians, medical journals, the FDA, for every drug ad, which is thousands of ones a month, has only seven people. They can't even begin to catch up with that. We frequently will bring to their attention an ad that appears to violate the regulations. You are not allowed to make claims in an ad that is not approved in labeling and they will appreciate it and at least sometimes take our advice and get the ad stopped. So that is an example where they could use way more people. Because a lot of damage is done as a result of false, misleading advertising which they don't even be able to begin to monitor.

Mr. NETHERCUTT. However, you don't know of any particular downsizing that could be done in this agency. Is that your testimony?

Dr. WOLFE. Beyond some things that have been done already.

Mr. NETHERCUTT. Please answer my question.

Dr. WOLFE. I am not aware of any. Because the areas we work in, there could be more people rather than fewer.

Mr. NETHERCUTT. So you would recommend that there is not one item of waste, given what you have testified about, in the FDA that can't be cut.

Dr. WOLFE. The area—

Mr. NETHERCUTT. Let me finish, please. You cannot cut people from FDA? You cannot cut any money from FDA and you want to increase funding? You want to hire more people?

Dr. WOLFE. The areas of FDA that I am familiar with is, and we do not do very much work in the food area, for instance, so I am really not an expert, we have done some work on some cancer causing food dyes, getting them off the market, but mainly we do not do work there. So I have no knowledge. I do not have any knowledge in the veterinary medicine area. The main areas we work in are drugs and medical devices. In those two areas, I am not aware of any kind of fat that could be trimmed.

Mr. NETHERCUTT. How many personnel are involved in those two areas?

Dr. WOLFE. Well, it is hard to say because there are a number of people out in the field who work out—in the FDA field offices, there are hundreds of people who do food and drugs and devices and so forth.

Mr. NETHERCUTT. So you don't know how many people there are?

Dr. WOLFE. Yeah. I would say probably maybe 2,000, 3,000 in those areas, just in those areas.

Mr. NETHERCUTT. So the other 7,000, roughly, of employees employed by FDA, you don't know anything about?

Dr. WOLFE. Well, a lot of them are out in the field and they are working in multiple functions, some of which are drugs and devices but they also go into other areas, too, and I don't know how their time is divided at all.

Mr. NETHERCUTT. You don't know anything about them in terms of recommendations for downsizing?

Dr. WOLFE. No.

Mr. NETHERCUTT. That is all I have, Mr. Chairman.

Mr. SKEEN. Mr. Kingston.

Mr. KINGSTON. Thank you, Mr. Chairman.

Mr. SKEEN. And speed it up.

Mr. KINGSTON. Dr. Wolfe, tell me about Public Citizen. I am not familiar with it. Besides lobbying for FDA, what do you do? Do you give money to candidates?

Dr. WOLFE. It is actually the first time—we do not give money to candidates. This is the first time in 24 years that I have been to an FDA appropriation hearing, so we could hardly be described as lobbying for FDA.

Mr. KINGSTON. So this is the first time in 24 years, anyone or you personally? I am asking not really Dr. Wolfe but Public Citizen.

Dr. WOLFE. Well, I am the head of the health research group. We are the only part of Public Citizen that works on the FDA and no one in our group has ever previously testified in an FDA appropriations hearing.

Mr. KINGSTON. Conversely, Public Citizen does lobby but this is the first time this division has.

Dr. WOLFE. Well, there is another part of Public Citizen that does lobbying but they have never testified to my knowledge at an FDA appropriations hearing, either. So the answer is we have never done that and we are funded essentially by membership. We have 110,000 members who contribute \$20, \$30 a year. We get some money from sale of publications and that is pretty much it.

Mr. KINGSTON. And who is the membership? As a rule, the 100,000 members, are they farmers? Are they doctors like you? Are they politicians?

Dr. WOLFE. As best as we can tell, they are people 40, 50, 60 years old, some younger, some older. They are all over the country. I have met a few of them in Washington. There are people who work for the government. There are other people. But there isn't any particular characteristic of them at all, other than mainly they aren't too wealthy because they contribute a small amount to us every year.

Mr. KINGSTON. So it would not be fair to characterize Public Citizen as a trial lawyer's front group or something like that. That would not be the case?

Dr. WOLFE. No. We have never taken any money from the Association of Trial Lawyers of America. We have had some clearing-houses for plaintiffs' attorneys where we essentially provide technical information, but we are not a front group for the trial lawyers at all. We have had sharp disputes with them on a number of issues as a matter of fact.

Mr. KINGSTON. I understand you are against tort reform and you are the first doctor I have met who is and I am really—I really think you need to get recognition as such. And so that is why I was asking.

Dr. WOLFE. I would be glad to introduce to you a large number of other ones, if you are interested.

Mr. KINGSTON. I was interested in what your relationship was with them.

Listen, I think in fairness to you and the Members of the committee, I will wind up with I missed your testimony and you know we have got a very difficult job and it really is the truth that, you know, the answers that come, you have Citizens Against Government Waste and some of these groups, and the Heritage Foundation, and they are kind of think tank groups. They have very good ideas. Some of them are impractical for political, economic, whatever reasons, and then maybe there are other groups, perhaps Public Citizen is one, who want to expand. We have got to come up with something in the middle between the two ends and maybe if you do have some ideas down the road to what Mr. Nethercutt was talking about in terms of ideas in areas of FDA that could be cut, because obviously there are some areas of FDA you probably like more than others and maybe that area could be expanded at the expense of reducing the other areas.

Dr. WOLFE. Well, the expansion I was talking about would not require more budget because the user fee doesn't come out of the treasury. It comes in direct proportion to filing applications for medical devices. I mean, neither did the user fee system in drugs add to the budget. It actually took funds from the companies on the merits of their products or on the—based on the number of prod-

ucts that they were seeking approval for and had them pay for—for some of the work that they are benefiting from when and if the device or drug is approved.

So I mean, I don't seek any expansion in terms of the FDA appropriation other than what might need to be done as a result of the cost of living and inflation. I don't think—whereas I don't think that there is waste, I don't think that they need more employees, except in the limited area of reviewers, which would be paid for out of the industry funds, not out of the government funds.

Mr. KINGSTON. Okay. Thanks, Dr. Wolfe.

Mr. SKEEN. Thank you and I think at this time we will go vote. Hopefully, this is the last one. If you will just bear with us. We will be right back.

[Brief Recess.]

Mr. SKEEN. Alice Lenihan.

Ms. LENIHAN. Yes, sir.

Mr. SKEEN. Yes, ma'am. The podium is all yours.

Ms. LENIHAN. Thank you, Mr. Chairman.

Mr. SKEEN. Thank you for your patience, all of you. Appreciate it.

Ms. LENIHAN. Mr. Chairman and Members of the committee, I am Alice Lenihan, President of the National Association of WIC Directors. I am also the State WIC director for North Carolina.

I am pleased to have the opportunity today to discuss appropriations for the special supplemental nutrition program for women, infants, and children, known as WIC. I would like to thank you, Chairman Skeen, and Mr. Durbin and other committee Members, for your leadership and support of the WIC program, both nationally and in your home States of New Mexico and Illinois.

On a personal note, I have to say it is wonderful to see the picture behind you, Mr. Chairman, of healthy children at school lunch. That is part of what WIC is all about. You have a great photo opportunity for the committee Members, I have to say, and it is pleasant to look at.

WIC is about getting healthy children ready to learn and that is what I would like to talk about. Currently, the WIC program serves nearly 6.85 million participants per month.

Eligibility for WIC is twofold: Nutrition risk and income below 185 percent of poverty. Nutrition risk includes factors such as previous poor pregnancy outcome, iron deficiency anemia, inadequate growth or dietary deficiencies.

WIC services are typically provided in a variety of public health clinics, hospitals, community, rural and migrant health centers, and nonprofit agencies. WIC services include nutrition assessment, which would include a blood test for iron deficiency anemia, a diet, a medical history review, all conducted by health professionals. The provision of nutrition education, special counseling on substance abuse, including alcohol, drugs and tobacco, the need for folic acid during the preconceptional and postpartum period and pregnancy and referrals to health care and then a food prescription which is generally received through vouchers for the purchase of specific foods containing key nutrients needed during critical times of growth and development.

To further serve the WIC population, States have made every effort to maximize the use of WIC funds to increase participation. These efforts range from competitive bidding for vendor status, use of food centers for direct distribution, authorization of least expensive products among the eligible foods, and infant formula rebates, which is one of the most significant cost saving measures we have.

In fiscal year 1994, approximately \$1.1 billion in nontax revenues were generated through infant formula rebates. These funds support approximately 20 percent of our current participation. Despite these efforts and the program's increased funding provided through bipartisan support in the last two Congresses and at the urging of Presidents Bush and Clinton, WIC still falls far short of its ability to reach all those who are eligible. Estimates developed by the Congressional Budget Office suggest that WIC currently serves only 72 percent of the nearly 9.5 million eligible women, infants, and children. This means there are almost 3 million eligible women, infants, and children who are yet unserved by WIC.

The previously mentioned estimate of the \$150 million carryover figure is an out-of-date estimate. Our information leads us to believe this figure now appears to be \$10 to \$30 million lower than that. The presence of carryover in the WIC program does not mean the program has excess funding. Throughout WIC's history there has always been a modest amount of carry-forward, which is reallocated in the following year. The current figure that we are talking about represents about 4 percent of last year's appropriation. This is largely because the program's funding structure necessitates that a small fraction of funding be carried forward and spent in the previous year.

WIC is a nonentitlement program which provides the monthly food prescription. States issue vouchers and obligate funds to cover those expenses. States must make accurate projections as to what the voucher will cost when actually cashed, presented for payment. This can result in a small amount of funds carried on the books as an expenditure during the final months of the fiscal year, but actually unspent and then paid in the following year. A good financial manager cannot expose States to a fiscal risk by underobligating the cost of the vouchers and thus overexpending the grant. Again, we are not an entitlement program.

As Mr. Frydenlund previously testified, he felt that \$100 million could be taken out of the WIC program this year. This will mean that many States will have to halt WIC expansion dead in its tracks and possibly take individuals off the program. This is not a modest reduction in the WIC program nor is it unnecessary spending. I estimate that approximately 350,000 less women, infants, and children a month will be served under this recommended rescission amount. States have been told to expect this funding and have begun to plan for it and are enrolling participants based on January reallocation figures and an anticipated April reallocation. This simply represents good management.

You have heard the discussion of numerous studies on WIC's finding and its bipartisan support. WIC has been proven to be a highly successful program and it has achieved significant positive health consequences in a cost-effective manner. These findings are

reported in my full testimony but I want to share a few cost saving studies with you.

In 1991, a Mathematica study reported that every dollar spent on pregnant women in WIC produced from \$1.92 to \$4.21 in medicaid savings for newborns and their mothers. North Carolina replicated the study in the following year and found similar savings, and with your permission, Mr. Chairman, I would like to introduce into the record a copy of the North Carolina study published in the Journal of the American Dietetic Association and I am a coauthor on the study.

Mr. SKEEN. Without objection.

[The information follows:]

RESEARCH

Prenatal WIC participation can reduce low birth weight and newborn medical costs: A cost-benefit analysis of WIC participation in North Carolina

PALLI A. BUESCHER, PhD,
 LINNEA C. LARSON, MPH, RD,
 M. D. NELSON, Jr, MBA,
 ALICE J. LENIHAN, MPH, RD

ABSTRACT: A number of previous studies have found that prenatal participation in the Special Supplemental Food Program for Women, Infants, and Children (WIC) improves birth outcomes, but only a few studies have provided cost-benefit analyses. The present study linked Medicaid and WIC data files to birth certificates for live births in North Carolina in 1988. Women who received Medicaid benefits and prenatal WIC services had substantially lower rates of low and very low birth weight than did women who received Medicaid but not prenatal WIC. Among white women, the rate of low birth weight was 22% lower for WIC participants and the rate of very low birth weight was 44% lower; among black women, these rates were 31% and 57% lower, respectively, for the WIC participants. Multivariate logistic regression analysis confirmed that prenatal participation in a WIC program reduced the rate of low birth weight. It was estimated that for each \$1.00 spent on WIC services, Medicaid savings in costs for newborn medical care were \$2.91. A higher level of WIC participation was associated with better birth outcomes and lower costs. These results indicate that prenatal WIC participation can effectively reduce low birth weight and newborn medical care costs among infants born to women in poverty *J Am Diet Assoc.* 1993, 93:163-166.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is one of the largest public health programs in North Carolina for pregnant women and infants. WIC, a nationwide program funded by the US Department of Agriculture, provides nutrition education for low-income women and children and vouchers for the purchase of specific supplemental foods and infant formula. Pregnant, breast-feeding, and postpartum women; infants; and children up to age 5 who are at medical or nutritional risk are eligible. WIC also refers participants to prenatal care, well-child care, and other services.

A number of previous studies have found that maternal participation in prenatal WIC programs improves birth outcomes (1-10). Cost-benefit studies of WIC, however, have rarely been published (8,9,11). The present study assesses the impact of prenatal WIC participation on low birth weight and Medicaid costs for newborn medical care in North Carolina in 1988. According to the Institute of Medicine (12), the rate of low birth weight is the best single outcome measure of prenatal nutrition intervention. Because only Medicaid births are examined in the present study, the WIC and non-WIC groups are similar in terms of income level. Few other WIC studies have adequately controlled for income in the comparisons. It has been suggested that well-designed studies of the costs and benefits of nutrition care could support The American Dietetic Association's goal of expanding and securing a stronger financial base for nutrition care services (13).

METHODS

Medicaid and WIC data files were linked to 1988 birth certificates of infants born in North Carolina. Hospital claims for newborn care paid by Medicaid were matched to the birth records using the infant's name, date of birth, and other information to identify Medicaid births. Once Medicaid births were identified, an infant's Medicaid identification number could be used to track all claims paid for any service beginning within 60 days of age (eg, inpatient, outpatient, physician, medications); these claims were extracted from the Medicaid paid claims data file and costs were summarized. If a hospitalization began within 60 days of age but extended beyond that time, all costs for the hospitalization were counted. WIC records were matched to the birth records using mother's name, county, and date of birth to identify women who received WIC services during the prenatal period. Women with one or more prenatal WIC visits were counted as WIC participants. Each woman's WIC identification number was matched to WIC redemption files to determine the number and dollar value of food vouchers redeemed during the pregnancy as well as the date when WIC services began. The WIC program cost was calculated as the total value of all food vouchers redeemed plus an administrative cost, which North Carolina WIC administrators estimated to be approximately \$8 per participant per month.

P. A. Buescher (corresponding author) and M. D. Nelson, Jr, are statisticians for the State Center for Health and Environmental Statistics in Raleigh, NC 27626-0538. L. C. Larson is supervisor of nutrition education and training for the Wake County Public Schools in Raleigh, and A. J. Lenihan is chief of the Nutrition Services Section in the Division of Maternal and Child Health of the Department of Environment, Health, and Natural Resources in Raleigh.

RESEARCH

THE JOURNAL TALKS WITH...

Concern about decreasing WIC funds and North Carolina's 50th-place ranking in state infant mortality rates in 1988 led **Paul A. Buescher**, PhD, **Linnea C. Larson**, MPH, RD, and **Alice J. Lenihan**, MPH, RD, to their study subject. A new capability to link birth certificate records with health program data files gave them the tools for a cost-benefit analysis of WIC.

Journal: How can RDs convince policy makers to increase funding for prenatal WIC programs?

Lenihan: We must first market and promote such programs to taxpayers. ADA and other medical associations, maternal and child health advocate groups, hunger coalitions, and social and religious organizations should join forces to influence policy makers. It's also important to share findings with local and state politicians, eg, city council members, county commissioners, and state legislators. Send them a personal letter and attach this or any other study that demonstrates cost-benefits of programs like WIC. Tell them what changes you want.

We should lobby for full funding for WIC by 1996 and inclusion of nutrition services as part of the emerging national health care plan. This is a good time to initiate change because health care, infant mortality, and children's issues are high on President Clinton's agenda.

Journal: How can RDs reduce barriers to entry into WIC?

Within the group of Medicaid births, women participating in WIC and those not in WIC were compared. In North Carolina, all women who received Medicaid and gave birth in 1988 had family incomes below 100% of the federal poverty level. Births with no prenatal care were excluded because almost all of these would fall in the non-WIC group and thus bias the results. Simple comparisons of low birth weight (<2,500 g) and very low birth weight (<1,500 g) percentages were supplemented by a logistic regression analysis. This analysis assessed the association between prenatal WIC participation and low birth weight and statistically controlled for differences between the groups in race, marital status, education, age of mother, previous adverse birth outcomes, adequacy of prenatal care, maternal smoking, medical risk factors of the mother, and receipt of Medicaid case management services. The quantitative adequacy of prenatal care was determined using the Kessner index (14), which considers month prenatal care began, number of visits, and length of gestation in characterizing prenatal care as "adequate," "intermediate" or "inadequate." For purposes of this analysis, the "intermediate" and "inadequate" levels of care were grouped into the category "less than adequate prenatal care."

Average costs for newborn medical care (beginning within 60 days of age) for the Medicaid recipients enrolled in WIC were compared with those for the non-WIC mothers to assess the association of WIC participation and morbidity in early infancy. The difference in average costs between the WIC and non-WIC groups was divided by an estimated average program cost per WIC participant to derive a benefit to cost ratio. Ordinary least squares regression, with newborn costs as the dependent variable, was carried out to assess the impact of WIC participation on costs while controlling for the other measurable risk factors.

Data for all Medicaid births to mothers participating in a prenatal WIC program were tabulated to determine whether

Larson: WIC should be viewed as a health program, ie, part of the physician's health prescription to pregnant women. Physicians should prescribe WIC much as they would advise pregnant women to quit smoking or to stop drinking alcohol. Also, health care workers often erroneously believe that in times of cutbacks WIC will not take new clients when, in fact, pregnant women are the highest priority and will most likely be accepted in the program no matter what the budget. It's a matter of marketing the benefits of WIC.

Journal: What are some tips for doing cost-benefit analyses?

Buescher: It's much easier to measure the cost, ie, what the program spent to deliver the service, than to put a dollar value on benefits. We focused on infants because outcomes are harder to measure in older children who may not be continuously eligible for Medicaid. To conduct cost-benefit analyses, the benefits must be clearly defined and measured. Controlling for confounding variables is also important.

Lenihan: RDs should also be more proactively involved in management information services. We can't conduct cost-benefit studies unless we develop evaluation components—even if they're on a small scale—for our programs. RDs are often too anecdotal in their approach to collecting data for research. We need to have measurable data.

low birth weight differed by level or degree of WIC participation. Analyses that consider length of participation in WIC (in weeks or months) may be biased by the fact that women who deliver prematurely have a shorter period of WIC participation. To control for this potential gestational age bias, low birth weight was examined by length of WIC participation in weeks expressed as a percentage of length of gestation in weeks and divided into three levels of participation: 1% to 33%, 34% to 66%, and 67% to 100%.

RESULTS

WIC enrollment was associated with significantly ($P < .001$) reduced rates of low and very low birth weight (Table 1). The finding for very low birth weight is important because births under 1,500 g account for a large proportion of neonatal mortality and morbidity. Few other WIC studies have examined this outcome variable. These associations were more pronounced in the black Medicaid population,¹ which is at a higher risk for poor outcomes. Other studies have also found a stronger relationship between WIC participation and birth outcomes for blacks than for whites (6,7).

In general, within each racial group, the WIC and non-WIC groups were similar with regard to maternal risk factors for low birth weight (Table 1). One exception was receipt of Medicaid case management services: women participating in WIC were more likely to receive this prenatal service. The WIC group was at slightly higher risk on marital status, education, and age. This pattern of higher maternal risks will operate against finding a lower rate of low birth weight in the WIC

¹Data for black subjects presented in this article include births to women of all races other than white. Because 94% of births to nonwhite women were to black women, we refer to this population as "black."

group. Data for all maternal risk variables were obtained from the birth certificate, except for information about receipt of Medicaid case management services, which was derived by matching birth certificates to paid Medicaid claims.

When the sociodemographic, medical, and prenatal care variables were controlled in a logistic regression analysis, women receiving Medicaid but not WIC benefits were 1.45 times as likely as their WIC counterparts to have a low-birth-weight infant and 2.15 times as likely to have a very-low-birth-weight infant (Table 2). The 95% confidence interval for each of these estimated odds ratios did not include 1.0, which implies a statistically significant effect of WIC participation. The presence of medical risk factors, as indicated on the birth certificate, was the strongest independent predictor of both low and very low birth weight. For low birth weight, WIC participation was the fourth most important predictor and for very low birth weight it was the second most important.

A cost-benefit analysis (Table 3) revealed that costs to Medicaid for newborn services beginning in the first 60 days of life were lower for infants born to women who participated in WIC during their pregnancies. When WIC costs per participant were calculated (both food costs and administrative costs), the savings in Medicaid costs far outweighed the costs of WIC services. The benefit to cost ratio was 1.92 for white women and 3.75 for black women, meaning that for each dollar spent on WIC, the savings to Medicaid were \$1.92 for whites and \$3.75 for blacks. Overall, Medicaid savings for each dollar spent on WIC were \$2.91. The ordinary least squares regression analysis, with cost as the dependent variable and factors other than WIC controlled, had little effect on the crude estimates of savings associated with WIC: \$348 for whites (compared with \$343 calculated from Table 3) and \$593 for blacks (compared with \$615 from Table 3).

There was a consistent decline in low birth weight, very low birth weight, and costs for newborn medical care as the length of WIC participation (expressed as a percentage of length of gestation) increased (Table 4). These results are further evidence that WIC participation effectively reduces the incidence of low birth weight.

DISCUSSION

These findings suggest that maternal participation in prenatal WIC programs in North Carolina improved rates of low and very low birth weight and reduced costs for newborn medical care. A higher level of participation in WIC was also associated with better birth outcomes and lower costs for newborn medical care. The costs savings shown here are considerably higher than those found in the Missouri studies (8,9) but are comparable to those found for North Carolina in the Mathematica study (11).

One criticism of our study design might be that women who began WIC very late in pregnancy were included in the WIC group. In cases where WIC is not started until after 36 weeks gestation, the birth will likely produce an infant of normal weight simply because of the length of gestation. All term births were counted in the WIC category in Table 1. To assess the effect of this potential bias, the analysis in Table 1 was repeated with births to women who started WIC after 36 weeks gestation counted in the non-WIC group. This resulted in about 600 births being shifted into the non-WIC category. Nevertheless, the findings of Table 1 were not substantially changed. As expected, the WIC vs non-WIC difference was reduced, but the women in WIC had rates of low birth weight 15% lower for whites and 25% lower for blacks and rates of very low birth weight 36% lower for whites and 50% lower for blacks. All differences were statistically ($P < .03$) significant.

The women in the WIC group had a slightly better quantitative level of prenatal care than did those in the non-WIC group and were considerably more likely to receive Medicaid case management services (Table 1). The logistic regression, which statistically controlled prenatal care variables, showed

Table 1
Percentages of low and very low birth weight and selected maternal prenatal risk factors among live births to North Carolina women receiving Medicaid benefits in 1988* by race and maternal participation in the Special Supplemental Food Program for Women, Infants, and Children (WIC)

Risk factor	White		Black	
	WIC (n = 6,064)	non-WIC (n = 2,608)	WIC (n = 10,093)	non-WIC (n = 3,558)
Low birth weight				
<2,500 g	8.37*	10.75*	11.64*	16.91*
<1,500 g	1.38*	2.46*	1.78*	4.14*
Maternal				
Unmarried	39.8	34.7	80.3	76.8
Education < 12 years	53.6	45.3	42.6	39.2
Age < 18 years	12.7	11.8	15.6	12.2
Previous fetal death or live born who died	24.0	24.3	23.3	22.3
Less than adequate prenatal care ^b	43.5	45.3	51.3	58.5
Smoke cigarettes	45.0	42.4	22.0	25.4
One or more medical risk factors on birth certificate	25.8	25.3	25.4	24.5
No Medicaid case management	70.5	92.7	69.3	91.1

*Births to mothers who received no prenatal care are excluded.

^bAdequacy of prenatal care determined using the Kessner index (14).

*Significant ($P < .001$) difference between WIC and non-WIC groups in same racial groups.

Table 2
Adjusted odds ratios (ORs) from logistic regression and 95% confidence intervals (CIs) for selected maternal risk factors for low birth weight among 21,900 live births to North Carolina women receiving Medicaid benefits in 1988*

Risk factors (ranked)	Low birth weight (<2,500 g)		Very low birth weight (<1,500 g)	
	OR	CI	OR	CI
One or more medical risk factors on birth certificate	2.24	2.05, 2.44	3.16	2.62, 3.80
Black race	1.64	1.48, 1.82	1.49	1.19, 1.86
Smoked cigarettes	1.58	1.44, 1.73	1.02	0.83, 1.26
Not enrolled in WIC ^b	1.45	1.32, 1.59	2.15	1.77, 2.61
Previous fetal death or live born who died	1.38	1.25, 1.52	1.79	1.47, 2.19
Age < 18 years	1.30	1.14, 1.48	1.52	1.12, 2.06
No Medicaid case management	1.16	1.04, 1.29	1.33	1.03, 1.72
Less than adequate prenatal care ^c	1.12	1.03, 1.22	0.94	0.77, 1.13
Education < 12 years	1.12	1.02, 1.23	0.85	0.69, 1.05
Unmarried	1.06	0.96, 1.17	0.94	0.76, 1.17

*Births to mothers who received no prenatal care are excluded. Records with missing values for any variable were excluded.

^bWIC = the Special Supplemental Food Program for Women, Infants, and Children.

^cAdequacy of prenatal care determined using the Kessner index (14).

Table 3

Average costs to Medicaid for newborn services beginning within 60 days of birth and average costs of WIC services for 22,343 infants born to North Carolina women receiving Medicaid benefits in 1988* by race and maternal participation in the Special Supplemental Food Program for Women, Infants, and Children (WIC)

	Medicaid costs		WIC costs ^a	Benefit to cost ratio ^b
	WIC	non-WIC		
White	1,778	2,121	179	1.92
Black	1,902	2,517	164	3.75
Total	1,856	2,350	170	2.91

*Births to mothers who received no prenatal care are excluded.

^bWIC costs include administrative and food costs.

^cMedicaid costs for WIC group (column 1) subtracted from Medicaid costs for non-WIC group (column 2) and divided by WIC costs (column 3).

Table 4

Percentages of low and very low birth weight and average Medicaid costs for newborn services beginning within 60 days of birth among live births to North Carolina women receiving Medicaid benefits in 1988* by length of maternal participation in the Special Supplemental Food Program for Women, Infants, and Children (WIC)

	Length of WIC participation ^b			P value ^c
	1% to 33% (n = 5,390)	34% to 66% (n = 7,651)	67% to 100% (n = 3,136)	
Low birth weight				
<2,500 g (%)	11.23	9.82	6.32	< 0.001
<1,500 g (%)	1.89	1.27	0.99	< 0.001
Medicaid newborn costs	\$1,902	\$1,750	\$1,648	.003

*Births to mothers who received no prenatal care are excluded.

^bLength of maternal participation in WIC was determined in weeks and expressed as a percentage of the length of gestation in weeks. Three levels of participation were defined: 1% to 33%, 34% to 66%, and 67% to 100%.

^cSignificance of difference between low participation (column 1) and high participation (column 3).

a significant residual positive effect of WIC (adjusted odds ratios of 1.45 for low birth weight and 2.15 for very low birth weight, from Table 2). Further analysis of the interaction of WIC and prenatal care showed for each race substantially lower rates of low and very low birth weight in the WIC group than in the non-WIC group, the WIC benefits existed whether the women were receiving adequate or less than adequate prenatal care according to the Kessner index (14). It may not be important, however, to determine the exact relative contribution of WIC participation and other prenatal services to better birth outcomes because "improved prenatal care is both an important goal and an achievement of the WIC program" (5).

Because women were counted in the WIC group even if they completed only one prenatal WIC visit, the results in Tables 1 through 3 may underestimate the benefits of full WIC participation. Incomplete matching of WIC records to the birth certificates may have resulted in some WIC participants being counted in the non-WIC group, which would also underestimate the benefits of WIC.

This retrospective study could not control for the possible selection of more motivated women into the WIC program, except as reflected in the demographic factors incorporated into the regression analysis. Without randomization of women into WIC and non-WIC groups, there is no assurance that the two groups are comparable on other unmeasured risk factors for low birth weight. Thus, the results are subject to some

degree of bias, and a causal interpretation of a WIC effect on low birth weight and costs for newborn medical care must be made with caution. Limiting the comparison to Medicaid recipients does, however, ensure similar socioeconomic status.

Overall, our results indicate that prenatal WIC participation is a cost-effective approach to reducing adverse birth outcomes for infants born to women in poverty.

APPLICATIONS

The findings of improved pregnancy outcomes and cost savings are important for nutrition professionals and provide dietitians additional evidence to convince policy makers to continue and increase funding of prenatal WIC services. Low birth weight and its contribution to infant mortality is a major public health problem. If the Year 2000 Objectives to reduce infant mortality and low birth weight (15) are to be met, all health care personnel must make increased efforts to refer pregnant women to WIC, prenatal care, and other resources targeted toward improved pregnancy outcomes.

The findings of improved birth weight and lower costs as WIC participation increases show the importance of ensuring that pregnant women on Medicaid receive nutrition services as early in pregnancy as possible. Increased outreach efforts are needed to reduce barriers to early entry into WIC.

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Ms. LENIHAN. A 1992 GAO study reported that the investments in WIC avoided over \$472 million in expected first year Federal and State medicaid expenditures. In an 18-year period, an estimated 1.036 billion in Federal, State, local, and private payer expenditures could be averted.

There was a question about the WIC evidence in studies on children and I would like to bring to your attention a few studies that are noted in my testimony. The WIC program is solely responsible for the eradication of iron deficiency anemia among young children in this country. In 1970, we had a 10-State nutrition study and the major nutrition problem that was found in the United States among all groups was iron deficiency anemia. Since the inception of the WIC program, you can look at data that has been collected by CDD or other States where you talk to public health and medical individuals in your own community. The one thing they will tell you about WIC and children is that they don't see children with iron deficiency anemia anymore. Iron deficiency is a major problem in children. Children who are anemic with iron deficiency anemia tend to have less of an attention span, they are not good learners, they are tired. We have basically eradicated iron deficiency anemia.

Mr. DURBIN. I think that is what this subcommittee has.

Ms. LENIHAN. A finding from the national WIC evaluation was that four- and five-year-old children who had participated in WIC in early childhood had better vocabularies and digit memory scores than children not participating in WIC. I think the evidence is very clear that there is a substantial WIC impact on children. It is easier to measure the impact of WIC on pregnancy outcome because States have fine records of vital statistics, and we can tell you how much it costs to deliver a baby to the medicaid program. We haven't been able to do that for children because some of the data is not available.

In looking at today's cost, the average cost of providing the WIC services to a woman throughout her pregnancy is \$283. That equates to about \$1.34 per day or \$40 per pound for an average birth weight of seven pounds. When this is related to the current cost of \$22,000 per pound to increase the weight of a very low birth weight infant, there is no comparison. Funding WIC makes good economic sense. I feel that WIC reduces the cost of government based on the medicaid savings that we can document.

As you consider this Congress' commitment to the Nation's women, infants, and children, and the future productivity of our economy, the National Association of WIC Directors urges you to continue support of full funding for WIC.

In conclusion, Mr. Chairman, the National Association of WIC Directors looks forward to working with you and the Members of the subcommittee and the full committee as you consider resource commitments for the WIC program.

Thank you for the opportunity to come before you today. I will be glad to respond to any questions you have.

[The statement of Ms. Lenihan follows:]



NATIONAL ASSOCIATION OF WIC DIRECTORS

Alice J. Lenihan
North Carolina
President

NATIONAL ASSOCIATION OF WIC DIRECTORS

NAWD

Robin Williamson
McBrearty
New Hampshire
Vice President

**Statement of Alice Lenihan, RD, MPH
President**

James M. Richard
Alabama
President Elect

National Association of WIC Directors

Mary Kelligraw
Kessler
Massachusetts
Past President

**before the
Committee on Appropriations, Subcommittee on Rural
Development,
Agriculture and Related Agencies**

Beth M. Wetherbee
Delaware
Treasurer

Hon. Joe Skeen, R-NM, Chairman

Melinda R. Newport
Oklahoma
Secretary

Tuesday, January 31, 1995

Douglas Greenway
Executive Director

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NATIONAL ASSOCIATION OF WIC DIRECTORS

NAWD

Statement of Alice Lenihan, RD, MPH

President

National Association of WIC Directors

before the

**Committee on Appropriations, Subcommittee on Rural Development,
Agriculture and Related Agencies**

Hon. Joe Skeen, R-NM, Chairman

Tuesday, January 31, 1995

Mr. Chairman and Members of the Committee:

I am Alice Lenihan, President of the National Association of WIC Directors (NAWD). I am also the State WIC Director for North Carolina. I am pleased to have the opportunity today to discuss appropriations for the Special Supplemental Nutrition Program for Women, Infants and Children, known as WIC, under the administrative jurisdiction of the Food and Consumer Service (FCS) of the United States Department of Agriculture (USDA).

I would like to congratulate you, Chairman Skeen on your elevation to the leadership of this Committee and thank you for your support of the WIC Program both nationally as well as in your home state of New Mexico.

I would also like to thank the Ranking Minority Member, Mr. Durbin, as well as the members of the Committee for your continuing support for the WIC Program and your intense interest in the health and welfare of our nation's women, infants and children.

NAWD Experience and Organizational Goals

Founded in 1983, and headquartered in Washington, DC, the National Association of WIC Directors (NAWD) is a non-profit voluntary organization of state and local WIC Program directors and nutrition directors. NAWD has a unique perspective on the operation of the WIC Program. Our members are dedicated to maximizing WIC Program resources through effective management practices. NAWD is committed to making the WIC Program more responsive to the nutrition and

health needs of women, infants (defined by WIC as 12 months of age and under) and children (defined by WIC as ages 1 to 5 years).

Among NAWD's goals are: effective national resource networking to facilitate the communication of ideas, materials and procedures to individuals working in the WIC community; the promotion of good management practices; peer assistance to WIC Program directors at the state and local level; the promotion of improved health, well-being and nutrition status for women, infants and children; and to act as a resource to government on issues relevant to the WIC Program and to the health and nutrition of women, infants and children.

WIC Program Background

Currently, the WIC Program serves nearly 6.85 million participants per month in the 50 Geographic States, the District of Columbia, Virgin Islands, Puerto Rico, Guam and in 32 Native American States. It reaches out to about 40% of the nation's infants. Of the 6.85 million participants served, 1.57 million are women, 1.83 million are infants and 3.45 million are children.

Eligibility for WIC benefits requires that WIC health professionals document potential participants' health or nutrition risk. Potential participants must demonstrate that their family income does not exceed 185% of the Federal poverty income guideline. Previous poor pregnancy outcome, iron deficiency anemia, growth problems, and inadequate diet among other nutrition and medical factors which place potential participants at nutrition risk.

Preference for service is generally given to pregnant women and infants with at risk nutrition or health conditions. A lower priority is assigned to children and postpartum mothers at risk of nutrition or health consequences.

Services are delivered through a variety of public health clinics, hospitals, and community, rural and migrant health clinics which have access to health care providers. WIC's tightly integrated services are devoted to preventive health. Services include nutrition assessment; nutrition education; information and counseling on the value of folic acid in the diet; special counseling on alcohol, drugs and tobacco abuse; referral to health pre-natal and pediatric health care services; and a food prescription accessed with vouchers for the purchase of specific foods selected for key nutrients needed during critical times of growth and development.

Funding Issues

Funding for the WIC Program in Fiscal Year 1995, less \$3.495 million for studies and evaluations and \$6.75 million for Farmer's Markets, will total approximately \$3.459 billion. It is anticipated

that this will allow program administrators to reach nearly 7 million participants per month by the close of the fiscal year.

In spite of the program's increased funding - provided through bipartisan support in the last two Congresses and at the urging of Presidents George Bush and Bill Clinton - WIC still falls short of its ability to reach all of those mothers, infants and children who are at nutritional or health risk and eligible for the program. Estimates developed by the Congressional Budget Office (CBO) suggest that WIC currently serves only 72% of the nearly 9.48 million eligible women, infants, and children. To entertain funding cuts at this time would seriously jeopardize the health and nutritional well-being of 2.65 million of this nation's eligible women, infants and children.

State and local WIC Programs have done a tremendous job of utilizing their allocated grants, to increase case load and to reach the pool of unserved eligibles. While infrastructure needs - management information systems, staffing freezes imposed by state and local governments, and overcrowded clinic facilities - have challenged states' and locals' abilities to fully utilize their grants, two administrative corrections, at the Federal level would result in a more responsive funding process and less unspent or recovered monies at the end of the Fiscal Year.

First, earlier receipt of a state's full letter-of-credit would enable states to add caseload earlier in the Fiscal Year. Currently, states do not receive their full letter-of-credit until late January in a new calendar year. Many states are not in a position to add caseload until they have cash in-hand. As a consequence, there is a lag between participation increases and the Congress' funding commitment at the beginning of the Fiscal Year.

Second, more frequent reallocations, perhaps on a quarterly basis, would take into account inadequacies inherent in the funding formula used to allocate state program grants. States unable to fully utilize their grant could voluntarily return monies earlier in the fiscal year making them available to growth states.

Throughout WIC's history, 2% - 5% of appropriated funds have always been carried forward into the next fiscal year. This is necessitated by the Program's funding structure. When states issue voucher certificates for WIC foods, they carry on their books, the amount that would be expended if all vouchers were redeemed. Not all vouchers are redeemed. Vouchers issued in the final quarter of a fiscal year seldom complete the financial system's tracking until a fiscal year ends. Adjustments are made to match the amount carried on a state's books with the amount of vouchers actually used. The end result - monies carried as expenditures during the final months of a fiscal year are reflected as unspent funds and carried forward into the next fiscal year.

Currently, USDA is estimating fiscal year 1994 carryover monies to be \$104 million. This does not mean that the WIC Program is overfunded. Twenty-eight percent of those women, infants and children who are otherwise eligible for WIC remain unserved and at nutritional risk. This is a direct consequence of inadequate resources.

Two Congresses have recognized the need to put WIC on track for full funding. Reducing this nation's commitment to WIC will force many states to stop WIC expansion dead in its tracks. Other states may be forced to cut program services and reduce the numbers of women, infants and children served. This Congress can not afford to place the health and nutritional well-being of America's women, infants and children at increased risk.

WIC: The Gateway to Good Health

Numerous private and public sponsored studies of the WIC Program have demonstrated that WIC is a highly successful program that has achieved significant positive health consequences in a cost-effective manner.

More than 70 evaluation studies have demonstrated the effectiveness of WIC and shown that the medical, health and nutrition successes achieved by the Program for Women, Infants and Children are delivered in a cost-effective manner.

Prenatal Outcomes

- . WIC participation has resulted in significant increases in the numbers of women receiving adequate prenatal care.

The National WIC Evaluation, USDA, 1986

- . WIC is responsible for improving the dietary intake of pregnant and postpartum women.

The National WIC Evaluation, USDA, 1986

- . WIC improves weight gain in pregnant women - vital to a healthy birth outcome.

USDA, National WIC Evaluation, 1986
Federal Investments Like WIC Can Produce Savings, General Accounting Office, 1992

- . Women receiving Medicaid and prenatal WIC services had substantially lower rates of low and very low birth weight babies than women who received Medicaid, but no prenatal WIC.

Federal Investments Like WIC Can Produce Savings, General Accounting Office, 1992

Infant Health

- Infant mortality during the first 28 days was reduced with WIC participation in all states except Minnesota.

Infant Mortality Among Medicaid Newborns in Five States:
The Effect of Prenatal WIC Participation, Mathematica
Policy Research, Inc, 1993

- WIC is directly responsible for lowering the infant mortality rate by 25%-66% among Medicaid beneficiaries participating in WIC.

Infant Mortality Among Medicaid Newborns in Five States:
The Effect of Prenatal WIC Participation, Mathematica
Policy Research, Inc, 1993

- Recent surveys have demonstrated that breastfeeding rates among WIC mothers around the nation have increased from between 10% and 25%.

WIC's Efforts to Promote Breastfeeding Have Increased,
General Accounting Office, 1993

Child Health

- 4 and 5 year olds participating in WIC in early childhood have better vocabularies and digit memory scores than children not participating in WIC.

The National WIC Evaluation, USDA, 1986

- WIC has a major impact on reducing anemia among children compared to those children not enrolled in WIC.

Yip, Jnl. of the American Medical Association 258 (12),
1987

- WIC participation leads to higher rates of immunization against childhood diseases.

The National WIC Evaluation, USDA, 1986
Bennett, Tri-County Health Department, CO, 1994

- WIC significantly improves children's diets and their intake of vitamins and nutrients including, iron, vitamin C, thiamin, protein, niacin and vitamin B6.

The National WIC Evaluation, USDA, 1986

Former President Bush and President Clinton have both made commitments to ensuring that all children entering school are physically, emotionally and developmentally ready to learn. The WIC Program is essential to meeting this goal. But WIC is not currently available to the majority of the nation's eligible one to five year old children.

Corporate America Commits to WIC

In testimony before the House Budget Committee, the Chief Executive Officers of Prudential Insurance Company of America, AT & T, Honeywell, Inc., BellSouth Corporation and Sky Chefs, Inc., were unanimous in their support of WIC full funding by 1996. As Sky Chefs, Inc., CEO William S. Woodside put it:

"WIC is a prevention program that works extremely well. How can we justify failing to proceed expeditiously to extend WIC to all women and children who qualify for it? Children born today and in coming years will make up an increasingly large part of the workforce that will sustain our economy ... for much of the first half of the 21st century. Our neglect of these children not only damages them - it is counterproductive for our society."

Funding Commitment & WIC's Cost Effectiveness

The average cost of providing WIC services to a woman throughout her pregnancy is \$283.00. That equates to \$1.34 per day or \$40.00 per pound for an average birthweight of an infant of 7 pounds. When this is related to the current cost of \$22,000.00 per pound to increase the weight of a very low birth weight infant - there can be no comparison. Funding WIC just makes plain, good economic sense!

A 1991 Mathematica study showed that every dollar spent on pregnant women in WIC produces \$1.92 to \$4.21 in Medicaid savings for newborns and their mothers. A 1992 Mathematica study showed that Medicaid costs were reduced on average from \$12,000 to \$15,000 per infant for every very low birthweight prevented.

In 1990, the General Accounting Office, GAO, reported that the federal government spent \$296 million on prenatal WIC benefits averting \$853 million in health expenditures during the first year of life. On this initial investment, total savings in health and education related expenditures over WIC children's 18 years of life amounted to over \$1 billion.

States have made every effort to maximize the use of WIC funds to increase participation levels. Clearly, the need for full funding of the WIC program can be demonstrated. Reductions in program

funding will have a tremendous impact on WIC's ability to reach the bi-partisan goal of full funding for the program.

Through states' efforts to contain costs in 1994, USDA reported that \$1.1 billion in non-tax revenues have been generated through competitive bidding of infant formula to serve nearly 1.5 million participants.

In the long run your commitment to WIC saves your constituents federal tax dollars.

As you consider this Congress' commitment to the nation's women, infants and children and the future productivity of this nation's economy, **NAWD** hopes that you will continue to support full funding for WIC. Leaving the still unserved 2.65 million nutritionally at-risk women, infants and children outside "WIC's Gateway to Good Health" is not in the best interest of the American people.

Conclusion

In conclusion, Mr. Chairman, the **NATIONAL ASSOCIATION OF WIC DIRECTORS, NAWD**, looks forward to working with you and the members of the Subcommittee and Full Committee as you consider resource commitments for the WIC Program. **NAWD's** Executive Director, Douglas Greenaway, the members of the Board of Directors and I stand ready to assist you in any way possible during this process. Again, thank you for the opportunity to come before you today. I will gladly respond to any questions you may wish to address to me or provide you with supplemental information as you require.

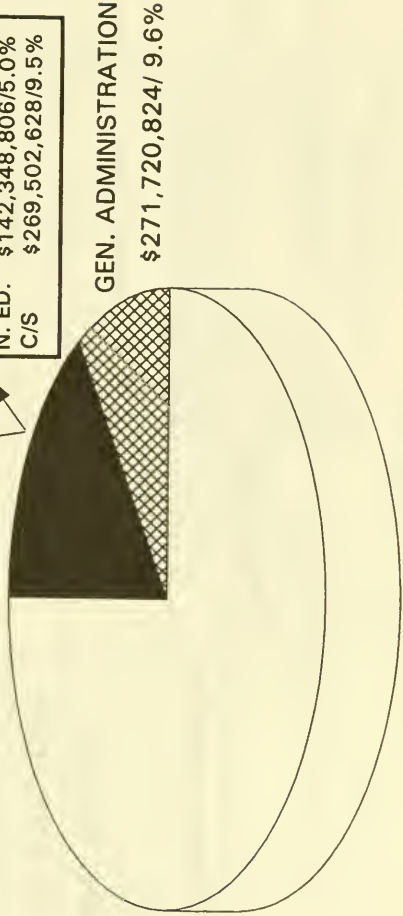
WIC

STATE/LOCAL EXPENDITURES (FEDERAL OUTLAYS)

FY 93

PARTICIPANTS BENEFITS - \$435,426,525/ 15.4%

B/F	\$23,575,091/ .9%
N. ED.	\$142,348,806/ 5.0%
C/S	\$269,502,628/ 9.5%



\$2,114,708,519/ 75.0%

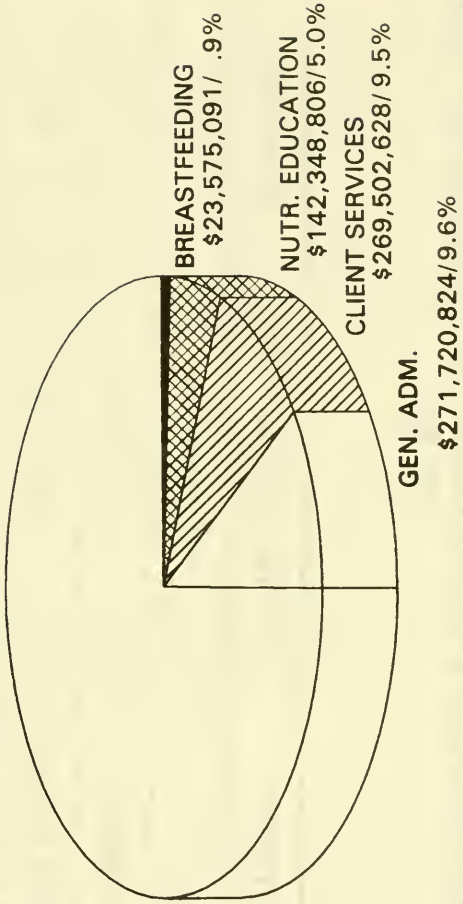
WIC
STATE/LOCAL EXPENDITURES (FEDERAL OUTLAYS)
FY 93

	TOTAL EXPENDITURES	% OF TOTAL
PARTICIPANT BENEFITS		
FOOD	\$211,470,819	75.0
CLIENT SERVICES	269,505,628	9.5
NUTR. EDUCATION	142,348,806	5.0
BREASTFEEDING	23,575,091	.9
SUBTOTAL	\$2,550,133,519	90.4
GEN. ADMINISTRATION	271,720,824	9.6
TOTAL	\$2,821,855,868	100.0%

SL93TOT.DRW

WIC
STATE/LOCAL EXPENDITURES (FEDERAL OUTLAYS)
FY 93

FOOD
\$2,114,708,519/ 75.0%



WIC
STATE/LOCAL EXPENDITURES VS. FEDERAL OUTLAYS
FY 93

CATEGORY	TOTAL EXPENDITURES	% OF TOTAL
FOOD	\$ 2,114,708,519	75.0%
GEN. ADM.	271,720,824	9.6
CLIENT SERVICES	269,502,628	9.5
NUTR. EDUCATION	142,348,806	5.1
BREASTFEEDING	235,575,091	0.9
TOTAL FOOD & NSA	\$ 2,821,855,868	100.0%

WIC

STATE/LOCAL EXPENDITURES (FEDERAL OUTLAYS)

FY 93

	GEN. ADM.	% OF TOTAL	CLIENT SERVICES	% OF TOTAL	NUTR. ED.	% OF TOTAL	BREAST-FEEDING	% OF TOTAL	TOTAL
NE	\$20,577,275	26.3%	\$37,422,137	47.9%	\$17,652,028	22.6%	\$2,404,927	3.0%	\$78,056,367
MIDATL	41,836,981	45.0	29,337,868	31.5	18,086,647	19.4	3,645,338	3.9	92,906,832
SE	44,203,456	31.6	64,076,223	45.8	26,162,742	18.7	5,328,710	3.8	139,771,131
MW	59,255,053	50.6	28,340,310	24.2	27,138,991	23.1	2,253,238	1.9	116,987,592
SW	35,015,730	35.5	44,507,972	45.1	16,959,104	17.2	2,054,801	2.0	98,537,607
MT. PLAINS	19,507,148	34.8	23,825,514	42.4	11,128,394	19.8	1,663,508	2.9	56,184,564
WEST	51,265,181	41.1	41,892,608	33.6	25,220,900	20.2	6,224,569	4.9	124,703,256
NAT'L	\$271,720,824	38.4%	\$269,502,628	38.1%	\$142,346,806	20.1%	\$23,575,081	3.3%	\$707,147,349

SLTAB93N.DRW

Mr. SKEEN. Before asking questions we will go to the next presenter, James Walesby, Chairman of the Washington Wheat Commission.

Mr. WALESBY. Thank you, Mr. Chairman. It is a pleasure to be here this afternoon. I am Jim Walesby, a wheat producer from Almira, Washington. I am a former president of the State Wheat Association of Wheat Growers and currently Chairman of the Washington Wheat Commission and a board member of U.S. Wheat Associates.

I would like to introduce Winston Wilson, sitting behind me, President. He will be happy to answer any questions you might have that I am not capable of answering this afternoon.

At least 50 percent of the U.S. Wheat produced every year is sold in overseas markets. In my home State of Washington, our dependence on access to foreign markets is even greater. On the average, 85 percent of our wheat is exported annually. I am here as a strong advocate for USDA's export programs.

While much attention has been focused in recent years on value-added products, bulk commodities remain the third largest net export earner for the U.S. economy and represents the mainstay of U.S. agriculture. The infrastructure and support, including shipping and handling, provide hundreds of thousands of jobs.

The combined efforts of producers and the U.S. Department of Agriculture under auspices of the foreign market development program have resulted in a huge expansion of markets for U.S. wheat producers as well as for other commodities during the 40 years of its operation.

While there are several programs designated agricultural products, the foreign market development remains the primary market development tool for those products which require continued trade servicing and presence in the market.

Bulk commodities rarely lend themselves to traditional consumer promotion programs, but rely instead on working directly with end-users and processors on a regular basis. This approach requires continual presence in the market in order to provide technical assistance in processing and understanding of the U.S. market system. These efforts include the development of new products as well as improving the efficiency and quality of current production.

The impact of new product development can be quite dramatic. In 1983, U.S. wheat introduced instant noodle technology in southern China. Twelve years later, more than 1,000 noodle plants are in operation and wheat consumption in southern China has almost doubled.

U.S. Grain markets provide more variety and flexibility than our competitors. At the same time, it is a sometimes complex system which is puzzling to the uninitiated. Consequently, ongoing training programs on the use of the U.S. marketing system are an essential feature of gaining and maintaining markets. This activity has become more important in recent years due to the rapid and almost complete privatization of the world grain trade. In many markets that were formally serviced by one visit to a government buying agency, we now have 10 or 20 more buyers to work with at a time when competition is keener and resources are increasingly limited.

There is no other segment of the industry or government that is exclusively involved in the promotion of wheat of U.S. origin. While multinational grain companies make the actual sales, they have no particular allegiance to U.S. grain producers.

The cooperator program has been a successful vehicle for developing and maintaining markets for U.S. farmers and will become more necessary in the future as producers are forced to seek more of their income from the market. As producer income protection programs shrink, programs to develop new markets should be increased, not reduced.

In wheat trade, the cooperator program provides the bedrock for the successful operation of USDA's other export programs. U.S. Wheat's direct and regular contact with potential buyers assists officials of USDA in tailoring and extending export assistance programs in a manner intended to optimize U.S. competitiveness. At U.S. Wheat's insistence, USDA established a regional export enhancement program initiative for sub-Saharan Africa which allowed multicompartment shipments. This resulted in shipments in larger vessels which allowed U.S. wheat to overcome the disadvantage of high freight rates which had previously made the U.S. not competitive. In statistical terms, our exports increased by more than 300 percent to 2.4 million metric tons in three years.

The other market development program, the market promotion program has, despite a great deal of undeserved bad publicity, resulted in a phenomenal increase in exports of further processed and consumer-ready agricultural products. This program is a valuable tool to increase total U.S. agricultural exports.

U.S. Wheat's primary use of MPP has been for capital projects including equipment for milling and baking schools and a limited number of consumer promotions. Without the infrastructure provided by the cooperator program, the MPP program would not have been possible.

The GSM-102 and GSM-103 credit guarantee programs continue to be very useful and cost-effective tools for market development. In our opinion, some further refinements in making these programs more user-friendly to the private sector are needed. There is also a need for shorter-term loans, for instance 90 to 120 days, in addition to the 3- and 10-year loans currently available. There appears to be a reluctance to issue guarantees for 7 to 10-year loans under GSM-103. We have found that longer-term loans to markets with government purchasing agencies can often provide a significant incentive to buy wheat from the United States.

The export enhancement program has proven to be valuable in counteracting the export subsidies and the other unfair trading practices of our competitors. It undoubtedly contributed to the U.S. and the European Union reaching agreement in the Uruguay Round. However, despite the success of the GATT, European subsidies will only be reduced by 21 percent at the end of the phasedown period required by the agreement. At the same time, subsidies and predatory practices of government monopoly boards were not addressed in the GATT and will continue.

As a result, EEP will continue to be an essential tool to offset the serious deficiencies of the GATT. Dismantling the EEP pro-

gram would constitute unilateral disarmament in a trade environment which is not yet the level playing field we were promised.

In conclusion, cooperative market expansion efforts between the U.S. Government and U.S. agricultural industry have been extremely successful and continue to make a major contribution to the U.S. economy both in terms of the export trade balance and the maintenance of a healthy agricultural industry. The efficiency and productivity of the U.S. agriculture sector is illustrated by the fact that 2 million farmers generate enough economic activity to sustain 19 million additional jobs. Other exporters are making additional funding available now for export marketing as well as establishing new market promotion programs. At the same time, the U.S. is reducing its own efforts. We believe this is a serious error.

I appreciate your time. I will be happy to answer any questions.

Mr. SKEEN. Thank you.

[The statement of Mr. Walesby follows:]



U.S. WHEAT
ASSOCIATES

EXPORT MARKET DEVELOPMENT OFFICES LOCATED THROUGHOUT THE WORLD

Testimony of James Walesby
Chairman, Washington Wheat Commission
to the House Agricultural Appropriations Subcommittee
On Behalf of U.S. Wheat Associates, Inc.
January 31, 1995

Thank you for the opportunity to appear before the subcommittee today. I am James Walesby, a wheat producer from Almira, Washington. I am a former president of the state wheat growers association and am currently a member of the board of directors of the U.S. Wheat Associates, which is the export market development organization for U.S. wheat producers. Our eighteen member states represent more than 85 percent of U.S. wheat production. At least fifty percent of U.S. wheat produced every year is sold to overseas markets. In my home state of Washington, our dependence on access to foreign markets is even greater. On average, 85 percent of our wheat is exported annually. I am here as a strong advocate for USDA's export programs. In my testimony I will address how each of these programs has enhanced my ability to export wheat.

The Foreign Market Development Program

While much attention has been focussed in recent years on value-added products, bulk commodities remain the third largest net export earner for the U.S. economy and represent the mainstay of U.S. agriculture. The infrastructure and support including, shipping, handling provide hundreds of thousands of jobs.

The combined efforts of producers and the U.S. Department of Agriculture under auspices of the foreign market development program have resulted in a huge expansion of markets for U.S. wheat producers as well as for other commodities during the forty years of its operation.

While there are several programs designed for the promotion of U.S. agricultural products, the foreign market development or cooperator program remains the primary market development tool for those products which require continued trade servicing and presence in the market.

Bulk commodities rarely lend themselves to traditional consumer promotion programs, but rely instead on working directly with end-users and processors on a regular basis. This approach requires continual presence in the market. In order to provide technical assistance in processing and understanding of the U.S. marketing system. These efforts include the development of new

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Telex 440565

products as well as improving the efficiency and quality of current production.

The impact of new product development can be quite dramatic. In 1983, U.S. wheat introduced instant noodle technology in southern China. Twelve years later, more than one thousand noodle plants are in operation and wheat consumption in southern China has almost doubled.

U.S. grain markets provide more variety and flexibility than our competitors. At the same time it is a sometimes complex system which is puzzling to the uninitiated. Consequently, ongoing training programs on the use of the U.S. marketing system are an essential feature of gaining and maintaining markets. This activity has become more important in recent years due to the rapid and almost complete privatization of the world grain trade. In many markets, that were formerly serviced by one visit to a government buying agency, we now have ten or twenty more buyers to work with at a time when competition is keener and resources are increasingly limited.

There is no other segment of the industry or government that is exclusively involved in the promotion of wheat of U.S. origin. While multinational grain companies make the actual sales, they have no particular allegiance to U.S. grain producers.

The cooperator program has been a successful vehicle for developing and maintaining markets for U.S. farmers and will become more necessary in the future as producers are forced to seek more of their income from the market. As producer income protection programs shrink, programs to develop new markets should be increased not reduced as has been attempted in the last two years.

In wheat trade, the cooperator program provides the bedrock for the successful operation of USDA's other export programs. U.S. Wheat's direct and regular contact with potential buyers assists officials of USDA in tailoring and extending export assistance programs in a manner intended to optimize U.S. competitiveness. At U.S. Wheat's insistence, USDA established a regional export enhancement program (EEP) initiative for sub-Saharan Africa which allowed multi-company shipments. This resulted in shipments in larger vessels which allowed U.S. wheat to overcome the disadvantage of high freight rates which had previously made the U.S. non-competitive in this region -- even with an EEP subsidy. In statistical terms, our exports increased by more than 300 percent to 2.4 million metric tons in three years.

Market Promotion Program

The other market development program, the market promotion program or MPP, has despite a great deal of undeserved bad publicity, resulted in a phenomenal increase in exports of further processed and consumer-ready agricultural products. This program is a valuable tool to increase total U.S. agricultural exports.

U.S. Wheat's primary use of MPP has been for capital projects including equipment for milling and baking schools and a limited number of consumer promotions. Without the infrastructure provided by the cooperator program, the MPP program would not have been possible.

Export Credit Guarantee Programs

The GSM-102 and 103 credit guarantee programs continue to be very useful and cost-effective tools for market development. In our opinion some further refinements in making these programs more user-friendly to the private-sector are needed. There is also a need for shorter-term loans, for instance 90-120 days in addition to the three and ten year loans currently available. There appears to be a reluctance to issue guarantees for seven to ten year loans under GSM-103. We have found that longer term loans to markets with government purchasing agencies can often provide a significant incentive to buy from the United States.

Export Enhancement Program

The Export Enhancement Program or EEP has proven to be valuable in counteracting the export subsidies and the other unfair trading practices of our competitors. It undoubtedly contributed to the U.S. and the European Union reaching agreement in the Uruguay Round. However, despite the success of the GATT, European subsidies will only be reduced by 21 percent at the end of the phasedown period required by the agreement. At the same time, subsidies and predatory practices of government monopoly boards were not addressed in the GATT and will continue.

As a result, EEP will continue to be an essential tool to offset the serious deficiencies of the GATT. Dismantling the EEP program would constitute unilateral disarmament in a trade environment which is not yet the level playing field promised.

Conclusion

In conclusion, cooperative market expansion efforts between the U.S. government and the U.S. agriculture industry have been extremely successful and continue to make a major contribution to the U.S. economy both in terms of the export trade balance and the maintenance of a healthy agricultural industry. The efficiency and productivity of the U.S. agriculture sector is illustrated by the fact that two million farmers generate enough economic activity to sustain nineteen million additional jobs. Other exporters are making additional funding available for export marketing, as well as establishing new market promotion programs. At the same time, the U.S. is reducing its own efforts. We believe this is a serious error.

Mr. SKEEN. Mr. Bobby Webster.

Mr. WEBSTER. Mr. Chairman and distinguished Members of the subcommittee, thank you for the opportunity to provide some very positive results of programs funded by this subcommittee.

My name is Robert L. Bobby Webster. I am a cotton farmer and a ginner from Waynesboro, Georgia. I am testifying on behalf of the National Cotton Council, the central organization of the U.S. cotton industry.

The farm value of U.S. cotton is \$6 billion and its retail value is \$60 billion. U.S. cotton production will reach 19.7 million bales in the 1994-1995 season, the largest crop in history, and thanks to modern technology we produced that crop on about 13 million acres. In 1983, the last time our crop was even close to this level, it took 33.6 million acres to produce a slightly smaller crop. Without modern technology, much of it developed in Federal research, the facilities, it would have taken 20 million more acres to produce the 1994-1995 crop.

Equally important, demand for U.S. cotton is running at a record level. New processing technologies, some originally developed at the Southern Region Center at New Orleans, with funds provided by this subcommittee, contributed to the record demand.

We disagree with the suggestion that all the central agriculture research will be conducted solely on the merits of a near-term profit motive of private investors. This is akin to regulating all national defense research to the private sector. The argument could apply equally to fundamental health research.

There are literally hundreds of testimonies and examples demonstrating benefits of public research. This afternoon I will use only two.

The pink bollworm is a pest of cotton in the western part of the United States. In the area of the Cotton Belt where pink bollworm is prevalent, insecticide costs may range close to a hundred dollars per acre and may require 8 to 12 insecticide applications per year. A strong research mission conducted by States and Federal scientists have led to significant environmental, economic, and social benefits.

Through the eyes of a casual observer, those research investigators—sex habits of moths; radiation treatment for worms; exotic diets and recipes for insects; and life-styles and social habits of a pink bollworm—all may seem excessive, humorous, costly, or even offensive to some but to the informed public these are the components of a coherent research mission supported by research in action agencies of the government. As a result of incorporating these findings into integrated pest management systems, we estimate that from 50 million to 100 million pounds of insecticides to control the pink bollworm has not been applied in the San Joaquin Valley of California in the past 25 years.

Not only has this program greatly generated positive economy and economic benefits in the western cotton growing region, the sterile moth technology may ultimately be applied in other pest control programs, multiplying the benefits of investment of Federal and grower funds many times over.

A similar scenario is offered for the boll weevil in which chemical pesticides are only a part of the complex scheme. The continuing

success eradication in cotton production throughout Virginia, the Carolinas, Georgia, Arizona, Southern California, Florida, and Alabama is most illustrative.

APHIS' involvement in integrating new reduced chemical technologies into practical control and management systems has been vital. No other entity, grower organizations, private companies or individuals can pool the critical mass of resources to accomplish what the corporate programs of government, States, and growers have done.

By sharing some of the cost risk due to the uncertainty of the new unproven technology, trial programs were conducted and eventually incorporated into management schemes across the southeastern United States. Scientists' predictions were finally proven. While APHIS shares some of the risk, by far the largest cost was borne by cotton farmers. Today, growers have contributed more than 70 percent of the eradication and containment costs for the weevil.

Boll weevil eradication is about 99 percent completed in the southeastern Atlantic seaboard States and is near completion in Alabama. Arizona has eliminated the weevil and barriers to reinfestation from Mexico have been established.

In my home State of Georgia, the benefits of boll weevil eradication have been dramatic. In 1982, Georgia farmers planted 163,000 acres of cotton. Last year, we planted 885,000 acres and fully expect in 1995 cotton planting to be in the neighborhood of a million and a quarter acres. Because boll weevil eradication has improved yields, production has increased even more dramatically.

Benefits to the rural economy, including the rural infrastructure, are even more impressive. In the past 12 years, the economic value of cotton production to the respective southeastern communities and State has increased from \$1.8 billion to nearly \$7.7 billion. We estimate every dollar invested in the boll weevil program has generated \$12 in economic benefit. This has been accomplished while reducing pesticide loads on the environment by 50 to 70 percent.

This example of corporative research and action by States, Federal agencies, and producer groups has paid public benefits many times over its cost. And benefits continue annually—benefits for the environment, for State and Federal tax rolls, for the economy and for farmers.

Mr. Chairman, I sincerely believe the investment of Federal funds in agriculture research has yielded benefits far in excess of the small outlay. I leave you with this thought.

Last year, as we presented a plan to complete the boll weevil eradication plan in eight years, unfortunate budget pressures would not allow you to provide sufficient funds for APHIS to expand the program as rapidly as we would like. The delay is estimated to cost the producers in Arizona, Louisiana, Tennessee, and Texas about \$800 million and add about \$60 million to the ultimate Federal cost.

Again, thank you for the opportunity to appear today. Thank you.

[The statement of Mr. Webster follows:]



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PRODUCERS • GINNERS • WAREHOUSEMEN • MERCHANTS • CRUSHERS • COOPERATIVES • MANUFACTURERS

Testimony of

National Cotton Council of America

presented by

Robert L. Webster

before the

Agriculture, Rural Development, Food & Drug

Administration and Related Agencies Subcommittee

of the

House Committee on Appropriations

January 31, 1995

My name is Robert L. Webster, a cotton farmer from Waynesboro, Georgia. I am a member of the National Cotton Council, on whose behalf I am testifying today. The National Cotton Council is the central organization of the U.S. cotton industry representing growers, ginners, warehousemen, cottonseed crushers, merchants, cooperatives and manufacturers from California to Virginia.

While the farm value of U.S. cotton is \$6 billion, its retail value is \$60 billion. An aggressive, market-oriented cotton program -- which includes, as one of its important components, a highly effective research partnership with government -- has allowed U.S. cotton to restore both production and offtake to record levels in 1994.

At the last annual meeting of the Council, 309 delegates selected by 89 industry organizations continued to strongly endorse federal support for agricultural research, education and action programs.

The National Cotton Council recognizes that our country is confronted with a budget deficit that **must** be dealt with. But, it should be addressed in a way that will not create more problems than it solves. We understand that Congress must make difficult choices about the allocation of resources. While we endorse efforts to bring the deficit under control, we would observe that agriculture already has taken larger funding cuts than other segments of our economy; now, the investments in agricultural research and action programs are being asked again to take larger cuts.

We have heard arguments that private industry can and will conduct agricultural research, and therefore federal support is not needed. We disagree with this reasoning, though we are strong supporters of research in the private sector and recognize that the lion's share of new technology is developed in private laboratories. But there also is an essential role of the public sector in conducting some of the longer range, higher risk research and development.

We disagree with the suggestion that all needed agricultural research will be conducted solely on the merits of near-term profit motives of private investors. This is akin to relegating all national defense research to the private sector; the argument could apply equally to fundamental health research. We think there are some missions of government that should not be left solely to the private sector, and agricultural research and development is one of those.

Philosophical arguments aside, economic reasoning supports the public sector role in agricultural research. Studies conducted at institutions including Yale, Mississippi State, Texas A&M and Minnesota have found that the expected annual rate of return on crop and livestock research investments ranges up to 110 percent. Studies at Virginia Polytechnic Institute calculated that one year's reduction of \$100 million in federal budget for agricultural research would cost consumers more than a hundred times that much in 20 years.

There are literally hundreds of testimonials and examples demonstrating benefits of public research. This afternoon we will use only two.

The pink bollworm is a pest of cotton in the Western parts of the United States. In areas of the Cotton Belt where pink bollworm is prevalent, insecticide costs may range in excess of \$100 per acre and require 8 to 12 insecticide applications per year. A strong research mission conducted by states and federal scientists have led to significant environmental, economic and social benefits.

Fundamental research in USDA laboratories helped to unlocked the chemical mystery of pink bollworm sex pheromone. Other scientists studying the insect's life cycle and mating habits discovered that sterile male insects can reduce and eliminate many infestations. Experts on insect rearing technology developed artificial diets and propagation systems for cost effectively rearing billions of insects. This technology combined with sterilizing dosages of radiation that render male insects reproductively sterile but sexually virile have lead to a system of insect control without use of insecticides.

Through the eyes of the casual observer, those individual research investigations--sex habits of moths; radiation treatment for worms; exotic diets and recipes for insects; and life styles and social habits of a pink bollworm--all may seem excessive, humorous, costly, or even offensive to some.

But to the informed public, these are components of a coherent research mission supported by research and action agencies of government. As a result of incorporating these findings into integrated pest management systems, we estimate that from 50,000,000 to 100,000,000 pounds of insecticides to control the pink bollworm have NOT been applied in the San Joaquin Valley of California in the past 25 years.

A similar scenario is offered for the boll weevil in which chemical pesticides are only a part of a multifaceted scheme. The continuing success story of boll weevil eradication in cotton production throughout Virginia, the Carolinas, Georgia, Arizona, Southern California, Florida and Alabama is most illustrative.

In a story which parallels that of many technologies, boll weevil eradication started with the commitment of a federal research laboratory in Mississippi. Later, discovery and synthesis of the boll weevil pheromone was the chink in the armor of the century-long residence of the boll weevil in this country. Combined with other research, eradication technology was then feasible.

Scientists argued that through cultural control, diapause restriction (limited hibernation), habitat management, selective chemicals and pheromone detection technology, use of chemicals for boll weevil could be eliminated. Once eradication was accomplished, they

argued, natural predators of other cotton pests that used to be destroyed by these sprayings would once again be successful in keeping this species in natural balance.

Discovery, though essential, is not in itself sufficient to solving problems. APHIS' involvement in integrating new reduced chemical technologies into practical control and management systems has been vital. No other entity--grower organizations, private companies nor individuals--can pool a critical mass of resources to accomplish what the cooperative programs of government, states and growers have done.

Once field experiments demonstrated potential feasibility, entire regions committed to attempt eradication--but at high cost and high risk. By sharing some of the cost risk due to the uncertainty of a new unproven technology, trial programs were conducted and eventually incorporated into management schemes across the southeastern U.S. Scientists' predictions were finally proven. While APHIS shared some of the risk, by far the largest cost was borne by cotton farmers. To date growers have contributed more than 70 percent of eradication and containment costs for the weevil.

Boll weevil eradication is about 99 percent complete in the southeastern Atlantic seaboard states and is nearing completion in Alabama. Arizona has eliminated the weevil and barriers to reinfestation from Mexico have been established.

In my home state of Georgia, the benefits of boll weevil eradication have been dramatic. In 1982, Georgia farmers planted 163,000 acres of cotton. Last year we planted 885,000 acres and I fully expect 1995 cotton plantings to be in the neighborhood of a million and a quarter acres! Because boll weevil eradication has improved yields, production has increased even more dramatically. In a little more than a decade, Georgia cotton production has increased a whopping 560%. During the same period, farm value jumped 816% and the economic value of the crop to the state of Georgia expanded from \$416 million to \$3.25 billion.

Economic, environmental and sociological benefits are high in every eradication region. For example, in 1982-83 the farm value of cotton production in the southeastern states of Alabama, Georgia, North Carolina, South Carolina, Virginia and Florida was slightly less than \$300 million. In contrast, this year (1994-95) the farm value is nearly \$1.3 billion, a 330 percent increase.

Benefits to the rural economy including the rural infrastructure are even more impressive. In the past 12 years, the economic value of cotton production to the respective southeastern communities and states has increased from about \$1.8 billion to nearly \$7.7 billion. This has been accomplished while reducing pesticide load on the environment by 50 to 70%.

North Carolina has had the longest history of farming without the boll weevil and were the first beneficiaries of the environmental benefits. Prior to 1978 the number of applications of insecticides in North Carolina for all cotton pests were in excess of 10 per year. Since that time the average has been less than 3 per year. While Georgia's experience is more recent, we are already receiving the same level of benefits. Prior to 1985, we would typically apply 12 to 15 spray applications of insecticides each year. Now we can get better control with only 4 or 5 applications as illustrated on the following graph.

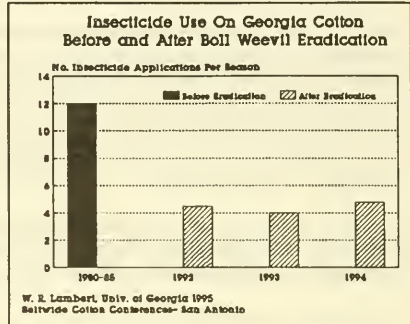
This example of cooperative research and action by states, federal agencies and producer groups has paid public benefits many times over its cost. And benefits continue annually--benefits for the environment, for state and federal tax rolls, for the economy and for farmers.

In closing, we have discussed only two technologies. Many others have been developed and benefits passed to society.

In our testimony we discussed benefits to the public at large, to farmers, communities and to the environment. But, additionally, this research and technology is beneficial to companies through development of new products. Typically, when a potential new product is discovered, USDA will enter licensing agreements with industry. We can cite several examples of small businesses being developed and enhanced by some of the boll weevil and pink bollworm technologies--attractant tubes for killing weevils, pheromone ropes for pink bollworm mating disruption, trapping stations and biological (fungal) insecticides--to name a few.

Mr. Chairman, we are champions of private enterprise doing the job it can do best. When there is reasonable expectation that research will lead to a product or technology that can generate private interest, we clearly recommend government stay out of the way. But we recognize also that other benefits are elusive, and only after basic and fundamental research have assumed the high risk of failure, can benefits to society be enjoyed.

We appreciate the opportunity to provide our views on this important topic. We urge Congress to continue to consider carefully the benefits to agriculture and the public should Agricultural Research and Action Programs be targeted for reduction.



Mr. SKEEN. We thank all of you. I have one quick question because of the lateness of the hour, Mrs. Lenihan, I think you have got one of the finest programs anywhere in the Federal Government. There is one problem. The carryover is really going to cause a problem. What do we do about it?

Ms. LENIHAN. The carryover has traditionally been used to help in expansion of the program. Program managers continue to try to narrow the gap between what they obligate will be spent by the end of the year when all the checks are cashed and what the actual value is. It is probably about a 2 percent margin. The carryover is needed so that we can continue the growth of the program and we can continue to serve the eligible populations.

Mr. SKEEN. Could I make this suggestion? I think that we need some fiscal management here because when you have a carryover like that and you are dealing with a public entity you are throwing bait out before a hungry wolf.

Ms. LENIHAN. I will say, Mr. Chairman, this is the first year, 1995, that funds have been allocated to States based on a new funding formula. The prior funding formula has been used for at least the last 10 years and had outgrown its usefulness and utility. It became a major problem and I believe this committee did address it.

The GAO report that showed the tremendous savings also addressed the fact that the funding formula for WIC was not working. So through consensus between the department and WIC directors there is a new formula to use to allocate money in 1995, and that formula is really driven by allocating more growth money to the States that are underserved. We believe that that is a significant happening that will help reduce this.

Mr. SKEEN. It is a significant problem for us. I know you need it for your expansion, and I want to see it expanded because I think you do a good job. When you have slack money pools, you have a real problem. I think you know that.

You folks that are on the production side, you do an outstanding job on your marketing and research, and we want to keep those programs going. I don't know that we can make them less costly. We have some of the finest research going. That is one of the reasons why 2 percent of our population in this country produce the goods and the food that not only feed us but can almost feed the rest of the world.

I told an economist once that American farmers could feed the entire world if they had to. He said, don't ever say that, because it is impossible. It is not impossible because if we don't export the food stuffs, we still export the technology.

From a production standpoint, it has always been great to see that kind of result because when 2 percent of the population of this country can provide the goods from the harvest that we have in this country, I think that is a fantastic commentary on the efficiency of what you do. Mr. Durbin.

Mr. DURBIN. I will be very brief because you have waited so long to present your testimony and a couple of my colleagues on the panel have interest in the State of Georgia and the State of Washington.

Miss Lenihan, I am glad you were here today because you have presented us with the dilemma that we face. We know that we can find ways to cut spending but we don't know if we can find ways to cut cost. In your situation, cutting spending on WIC programs does not cut the cost to the Federal Government. Sick children are expensive and you have demonstrated in a dramatic fashion the real cost of some of these spending cuts.

Like the Chairman, I share a concern about the carryover. We will look at it and treat it as fairly as possible in the debate over the rescission bill. We will be working with you and your friends in that process. Thank you for joining us.

Mr. Walesby, thanks for being here because you said better than I did today, in response to some of the earlier witnesses, what we stand to lose if we get out of the export business and say the government has nothing to do with it. Some of the gentleman here earlier who thought the forces of the market could take care of everything may not understand what we face in terms of world competition and how important these agriculture exports are. I think your testimony is worth the wait in terms of the impact it could have on our decision-making process. I thank you very much for joining us today.

Mr. Webster, I messed up earlier and talked about boll weevils when I should have been talking about pink bollworms. It tells you how little I know about cotton. I have learned a lot and was as disappointed as anybody on the subcommittee that we couldn't put more money in the boll weevil eradication program. What a big success it has been, 70 percent of the money coming from producers, 30 percent from the Federal Government, and look what it is doing in these States. In terms of the economy in the State of Georgia and so many others, this program works and works well and it is good environmentally. We could have our friends from the environmental community in here applauding. That is unusual when it comes to agriculture issues. So thank you for telling your story as well as you have and putting us on the spot, which you had to do, to say if we keep cutting it, we will have some problems out there in terms of lost opportunities for economic growth and jobs. We hope to make that happen. You haven't made our life easier but you have done an important job of laying out the facts for us. Thank you very much for coming.

Mr. SKEEN. Mr. Walsh.

Mr. WALSH. Thank you very much for your patience today and for your testimony. I would like to identify myself with the remarks of Mr. Durbin. I think he summed things up very, very well. It is a dilemma. And all of these programs work. They work in different ways but they all work. It is going to be very difficult for us and you have not made our job any easier. My two colleagues have constituents here and I will defer to them for the important hard questions. Thank you.

Mr. SKEEN. Mr. Kingston.

Mr. KINGSTON. I will go quickly. Let me say to the two people here you did a good job. I scanned your testimony. I am sorry I didn't hear it. I talked to Mr. Webster from the bird dog capital of the world where my wife's great uncle owns the largest land grant property in the State. You mentioned that California's San Joaquin

Valley was not doing the boll weevil eradication or the pink bollworm.

Mr. WEBSTER. Because of the pink bollworm, there was 50 million to 100 million pounds of insecticide not applied to the San Joaquin Valley of California, because of the program working.

Mr. KINGSTON. In other countries where there is cotton competition, are they also falling behind in terms of boll weevil or insect eradication, and is this giving us on the worldwide market a bigger market share because of that?

Mr. WEBSTER. The answer to the first question is that we understand that they do have a boll weevil outbreak and insect problems in China. I think in some of the other parts they don't have the insect problems that we have had here but it has created a market because they are not producing as much cotton so the American farmer has that market to export cotton.

Mr. KINGSTON. The cotton program, if that cotton program was backed off of some but we kept up boll weevil and insect eradication, which one is most important to the cotton farmer and how would you comment on changing the cotton program?

Mr. WEBSTER. Mr. Kingston, I would love to keep the same cotton program that we have because I think it proves itself as working because of no cost hardly to the government in 1995 as it comes up.

The answer to the boll weevil problem, we request that we do away with this pest as quick as we can and the amounts of money that would come back in increased acreage would take care of what we spend for the program. There are two different issues, the farm program and the boll weevil eradication program funding.

Mr. KINGSTON. So you would weigh them as equally important?

Mr. WEBSTER. Especially for the Southeast, and it goes to the West.

Mr. KINGSTON. We will be in touch with you as the debate goes on and thank you for being here today.

Mr. SKEEN. Mr. Nethercutt, you are the finale.

Mr. NETHERCUTT. Thank you and welcome to all panel members. You are all very distinguished. I certainly am proud to have Jim Walesby here. This committee should know that Jim is an outstanding citizen of my district, a terrific wheat farmer and producer, and is well respected in the wheat community and production agriculture in our area. So I am delighted that you are here.

Quickly, if you could just for the record, Jim, please state what you see in the way of market possibilities in Asia? What do you see, not only the Fifth Congressional District in wheat production, but for other agriculture in the Asian markets?

Mr. WALESBY. Market possibilities in Asia are unlimited. You have seen what happened in Korea, Japan, and Taiwan who at one time were, in essence, Third World countries and are now our largest cash customers. China is, you might say, a black hole for wheat exports. By the year 2010, it is estimated there will be another 700 million middle class income people in China and that equates to those folks can take all the wheat we can send them and be in a position to pay for it. So it is an area that we will have to put a lot of effort into.

Unfortunately, we are not putting any white wheat out of the Northwest into China at this time due to a fungus called TCK smut, but we are working on that very hard and with the research support of ARS we hope to solve that problem in the near future.

Mr. NETHERCUTT. Would you like to see ARS spending continued, not only for this purpose? Does this serve a good function as far as you are concerned?

Mr. WALESBY. Absolutely. We are one of the few wheat commissions that funds ARS projects. We work closely with folks at Washington University and work at the beck and call of the wheat industry in terms of identifying our needs and working on projects to satisfy those needs. We would like to see that funding increased.

Mr. NETHERCUTT. I would, too.

Mr. Chairman, that is all I have. Thank you for your patience.

Mr. SKEEN. One last thought; shipping all that wheat to China and they are producing an awful lot of cotton, does that cause a conflict between—

Mr. WALESBY. I wear cotton shirts.

Mr. SKEEN. Thank you for your patience and your presentations are outstanding. It all came to a finale at the right time because I think that is the last vote.

[CLERK'S NOTE.—Statements and additional information submitted for the record follow:]



Working for the Nature of Tomorrow.

NATIONAL WILDLIFE FEDERATION, 1400 Sixteenth Street, N.W., Washington, D.C. 20036-2266 (202) 797-6800

Office of the President

January 31, 1995

The Honorable Joe Skeen
United States House of Representatives
Washington, D.C. 20515

Dear Representative Skeen:

It is my understanding that the Congressional Budget Office (CBO) has included a 21.4 million acre Conservation Reserve Program in the baseline projections included in the January 1995 report, *The Economic and Budget Outlook: Fiscal Years 1996-2000*. CBO projects that the Conservation Reserve Program will ultimately consist of only 16 million acres. If these projections are implemented, a very successful program for farmers and the environment would be reduced by approximately 56%. I urge you to reject such a drastic reduction in the Conservation Reserve Program.

The Conservation Reserve Program (CRP) is an important investment in our Nation's future. It provides unprecedented environmental benefits including protection of fragile topsoil, improvement of underground and surface water quality and increases in wildlife populations. In addition, by providing the opportunity for retirement of marginal crop land, CRP has encouraged active participation by the farming community. The backing of this program is unparalleled; it is supported by both the environmental and farming communities.

Equally important, CRP reduces the levels of federal commodity subsidy payments. By retiring millions of acres of marginal farmland from crop production, USDA estimates that CRP has saved the federal government billions of dollars in commodity subsidy payments. According to a 1990 study, USDA estimated that if CRP consisted of 45 million acres, the program would save between \$16.2 and \$19.5 billion in price support payments, deficiency payments and other related costs, but with little environmental benefit. The current program costs \$19 billion, without figuring in the tremendous long-term savings directly resulting from the environmental benefits of the program.

More recently, a 1994 USDA report stated that if crop production were to occur on the 36.4 million acres currently in CRP, feed grain and wheat prices would decrease by 5% and 9% respectively. Such reductions in commodity prices would require \$1.3 billion in

(Over)

January 31, 1995
Page 2

additional deficiency payments.

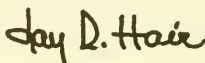
The economic need for CRP to retire land and thereby reduce federal commodity subsidy payments continues to exist. The 1994 harvest of corn reached a record level of 10 billion bushels. As a result of the record harvest, corn prices fell to less than 2 dollars per bushel. Due to the depressed price of corn and other grains, it is estimated that direct federal subsidy payments to farmers will increase by \$2 billion.

The soybean harvest also reached a record level. In 1994, the soybean harvest totaled 2.56 billion bushels, exceeding the 1979 record harvest of 2.26 billion bushels. Soybean prices may also be depressed thereby requiring additional federal commodity subsidy payments.

The record 1994 harvests in corn and soybean suggest that reducing CRP from a 36.4 million acre to a 16 million acre program, thereby allowing crop production on 20.4 million acres of former CRP land, will result in still higher federal expenditures. The environmental benefits such as topsoil protection, water quality improvement and wildlife population growth associated with CRP will be lost. As a result, I strongly urge you to oppose a 56% reduction in the program.

We look forward to working with you on this important issue.

Sincerely,



JAY D. HAIR

JDH:hmw

TESTIMONY OF MR. CHARLES S. JOHNSON
EXECUTIVE VICE-PRESIDENT
AND
OWEN J. NEWLIN
MEMBER, BOARD OF DIRECTORS
PIONEER HI-BRED INTERNATIONAL, INC.
DES MOINES, IA

HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT,
FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES

ON BEHALF OF
THE AGRI-BUSINESS COALITION FOR FOREIGN MARKET
DEVELOPMENT

31 JANUARY 1995

Thank you for this opportunity to submit testimony to the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies on behalf of the Agri-Business Coalition for Foreign Market Development. The Coalition, formed earlier this year, demonstrates agri-businesses' strong support for Foreign Market Development (FMD), or the Cooperator Program. For the past forty years, this approach has been an effective tool to develop and service overseas markets for agricultural exports.

EXPORTS ARE CRITICAL TO THE ECONOMIC VIABILITY OF AGRICULTURE

Exports are the engines that drive agriculture as we go through a transition to greater market-orientation and less reliance on government support. Agricultural exports account for one out of every four dollars producers receive. Each \$1 billion of agricultural exports results in 30,000 additional jobs. Each dollar of additional agricultural exports generates two dollars of additional economic activity.

U.S. agricultural trade surpluses have consistently highlighted the total U.S. trade picture.

In FY 1994, U.S. farm exports totaled \$43.4 billion and the resulting agricultural trade balance was a positive \$17.1 billion. U.S. farm exports support 768,000 full-time jobs, 40% on the farm and 60% off the farm. These include jobs in processing, packaging, transportation and other services.

For example, in Iowa, our agricultural exports total over \$3.5 billion. These exports generated over \$9 billion in economic activity and supported over 96,000 export-related jobs. It has been estimated that a 10% increase in agricultural exports would help create nearly 10,000 new jobs in Iowa alone.

THE NEED FOR A LONG-TERM MARKET PRESENCE

As part of the management team of Pioneer Hi-Bred International, Inc., we can attest that the only way to develop and maintain market-share is to make a long-term investment of time, expertise and money in a country. The other members of the Agri-Business Coalition for Foreign Market Development would surely echo these sentiments. Gone are the days when we could grow it and they would come. The U.S. must have an aggressive and viable presence in overseas markets. If we are not in the new markets of China and Malaysia or the more mature markets of Japan and Korea, we will lose these markets to our competitors. Our foreign competitors are already there pushing forward with investments. According to Foreign Agricultural Service (FAS), recent expenditures by 11 major exporting nations on market promotion activities for agricultural products exceed \$500 million annually. For example, estimates of our competitor's annual expenditure for export promotion programs include:

- * \$3.5 million in China
- * \$16 million in the Former Soviet Union, and
- * \$4 million in Korea.

The total budget for FMD in FY 1995 is \$30 million. This money is distributed among 70 cooperators with programs in 140 countries. This commitment barely equals the efforts of our rivals in three major markets

BUDGET CONSTRAINTS REQUIRE MORE PUBLIC/PRIVATE PARTNERSHIPS

As our country grapples with the budget deficit, we must see more public/ private partnerships, not fewer. The Foreign Market Development Program began in 1955, making it one of the first such ventures between the federal government and nonprofit organizations. FMD, commonly referred to as the Cooperator Program, reflects this attitude of cooperation between the Foreign Agricultural Service and the 70 private groups working in every part of the world. What is unique about the program is that financing comes from U.S. producers and agri-business, the private sectors and governments of many foreign countries in which the program operates, and congressionally-appropriated funds administered by FAS. Each component contributes about one-third of the program's total expenses. This program should be targeted, not for reduction or elimination, but for replication in other federal agencies from the Department of Commerce to the Department of Housing and Urban Development!

It is more critical than ever that the private sector work in partnership with the Foreign Agricultural Service. Since 1985, FAS has seen an elimination of 17 overseas positions, a 16% reduction. These cuts have taken place during the emergence of some of our most promising markets in Asia and Latin America and in the midst of major political and economic changes in the Former Soviet Union, Eastern Europe, South Africa and China.

If funding for the Cooperator Program continues to decline, we cannot realistically expect the overworked staff of FAS to fill into the void. Because of personnel shortages, agricultural attaches do not have the luxury of focusing on a particular market like feed grains, wheat or

cotton. Again, it is the specialization of overseas cooperator offices that allows U.S. commodity exports to establish toeholds in emerging markets and maintain existing customers in developed markets.

THE COOPERATOR PROGRAM PROVIDES MORE BANG FOR THE BUCK

In 1994, total spending by USDA on foreign market development through export promotion programs totaled \$134 million while overseas sales of U.S. agricultural products totaled \$43.5 billion. That means that USDA investment in export expansion activities was less than one-third of one percent of the total value of agricultural exports. There are not many businesses that can provide this return on investment. The 72 percent of farms in this country with gross sales of between \$40,000 and \$250,000 per year could never achieve these sort of results on their own.

Mr. Chairman, the Cooperator Program has stood the test of time and has successfully shown the viability of public/private partnerships through use of the FMD Program. If anything, funding for the Cooperator Program should be expanded to its historic level.

It all gets back to cooperation. Unique public/private partnerships between commodity check-off boards, Fortune 500 companies, small businesses, nonprofit cooperators and the federal government provide broad-based, sustainable economic growth for the agricultural industry. We should cut programs where the commitment of the private sector is not evident, reduce appropriations where results are not favorable and downsize where a demonstrable need is not apparent, but we should not diminish a program that is a model for future program endeavors within the federal government and a proven tool to compete for international markets.



STATEMENT OF
THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS
PRESENTED TO THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON AGRICULTURE, RURAL DEVELOPMENT, FDA
AND RELATED AGENCIES

January 31, 1995

The National Association of Conservation Districts (NACD) represents the nation's nearly 3,000 local conservation districts and the more than 15,000 men and women who serve on their governing boards. Conservation districts, local special purpose units of government, carry out comprehensive natural resource management programs at the local level. These programs include erosion and sediment control, nonpoint source pollution control, forest, range and pasture land management, wetlands protection, enhancing fish and wildlife habitat and other issues of importance to local communities.

For nearly sixty years, the U.S. Department of Agriculture, through the Natural Resources Conservation Service (NRCS) and the Consolidated Farm Services Agency (CFSA), has worked closely with conservation districts in providing technical and financial assistance to help farmers, ranchers and others voluntarily protect our land and water resources.

Members of the newly seated 104th Congress have made it clear that the federal government must be streamlined, waste must be stopped and spending must be brought under control. The 1996 budget process, of course, will be a critical part of the efforts to achieve those goals. While the nation's conservation districts applaud efforts to curtail waste and phase out duplicative or unnecessary programs, we believe the fiscal year 1996 budget also must signal Congress' commitment to a clean, healthy environment.

Since the enactment of the 1985 and 1990 Farm Bills, the 1987 Water Quality Act and other laws, we have made tremendous progress in addressing soil erosion, agricultural water quality, wetlands conservation and wildlife habitat protection. Unlike other items on the agenda, however, protecting our natural resources is not a job we ever finish.

While some programs, such as EPA's Section 319, gained in funding in fiscal year 1995, many of USDA's natural resource related programs did not fare as well. Last year's budget contained reductions in several USDA-based voluntary, incentives-driven programs such as ACP, Great Plains and the Small Watershed Program, as well as the conservation technical assistance delivered through conservation districts. These programs have for years been successfully helping land owners voluntarily manage the resource base with full consideration of their private property rights.

In addition to these federally funded programs, state and local governments also fund myriad cost-share, low-interest loan and other programs that complement the federal conservation effort. Further, more than 16,000 private citizens volunteer their time as conservation district officials to direct and support these efforts. The funds appropriated by Congress help to leverage this state, local and private support that, on a national basis, exceeds the federal contribution. With USDA's natural resource management programs amounting to less than one percent of the U.S. government budget, there is hardly a better investment than the partnership of our federal, state and local conservation delivery system.

Long before it was a trendy catch-phrase, these same programs embodied the concept of ecosystem-based assistance, embraced now as the most effective approach to resource management. It makes little sense to abandon these cost-effective and "resource-effective" efforts when the need for them is greater today than ever. Reductions in these critical, incentives-based programs would signal a move in the wrong direction from our traditional and successful voluntary conservation efforts. At a time when the American public is demanding increased environmental accountability — especially from agriculture — we should reaffirm, rather than retreat from, our responsibilities as stewards of the land.

We appreciate the opportunity to present the views of the nation's conservation districts.

SUBCOMMITTEE ON THE DEPARTMENTS OF COMMERCE, JUSTICE, AND
STATE, THE JUDICIARY, AND RELATED AGENCIES

HAROLD ROGERS, Kentucky, Chairman

JIM KOLBE, Arizona

ALAN B. MOLLOHAN, West Virginia

CHARLES H. TAYLOR, North Carolina

DAVID E. SKAGGS, Colorado

RALPH REGULA, Ohio

JULIAN C. DIXON, California

MICHAEL P. FORBES, New York

NOTE: Under Committee Rules, Mr. Livingston, as Chairman of the Full Committee, and Mr. Obey, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

JIM KULIKOWSKI, SALLY A. CHADBOURNE, THERESE MCAULIFFE, and KIM WOLTERSTORFF,
Subcommittee Staff

WEDNESDAY, JANUARY 25, 1995.

**REVIEW OF UNITED NATIONS OPERATIONS AND
PEACEKEEPING**

WITNESSES

**DICK THORNBURGH, KIRKPATRICK & LOCKHART, FORMER UNDER
SECRETARY GENERAL FOR ADMINISTRATION AND MANAGEMENT
OF THE UNITED NATIONS**

**JOHN R. BOLTON, PRESIDENT, NATIONAL POLICY FORUM, FORMER
ASSISTANT SECRETARY OF STATE, INTERNATIONAL ORGANIZATION
AFFAIRS**

**AMBASSADOR FRANK RUDDY, FORMER DEPUTY CHAIRMAN, REF-
ERENDUM FOR WESTERN SAHARA, MINURSO PEACEKEEPING OPER-
ATION**

CHAIRMAN ROGERS' WELCOMING REMARKS

Mr. ROGERS. The subcommittee will come to order. As the committee hearing starts, we are being informed there is a vote on the Floor, even as we speak, so we are going to open the hearing and entertain some opening remarks, and then we will have to go to the Floor to vote, after which we will come back to the hearing.

Let me thank each of you for being here. Welcome to the first hearing of the Commerce, Justice, State, Judiciary Subcommittee in the 104th Congress. It is an honor to serve as Chairman of this subcommittee: I will do my best to work and learn along with all of the others, old and new, and hopefully we can help bring some changes that will be beneficial for the country and the people that we represent.

Let me thank the distinguished witnesses for being with us today. The purpose of this hearing is to examine how to bring back under control the amount of funding we provide to the United Nations, both for its regular operations and its peacekeeping oper-

ations. I have some opening remarks that I am going to defer until after the vote on the Floor.

We are very pleased to have one of the new Members of this subcommittee, a new member of the 104th Congress, in fact, Mike Forbes, with us today.

Welcome to the subcommittee, Mr. Forbes, and to the Congress—

Mr. FORBES. Thank you.

Mr. ROGERS [continuing]. And to the chores that we have ahead.

We have with us, of course, at the outset here the Chairman of the full committee on appropriations in the U.S. House, Mr. Livingston, and I am going to yield briefly to the Chairman of the full committee for any remarks he may have before we adjourn for the vote on the Floor.

Mr. Chairman.

CHAIRMAN LIVINGSTON'S OPENING STATEMENT

Mr. LIVINGSTON. Thank you, Mr. Chairman. And congratulations on your assumption of the Chair of this great subcommittee. You have done such a valued job in your service as Ranking Minority Member over the years that I have no doubt that you are going to be a stellar Chairman, and I look forward to working with you as a Member of the subcommittee.

I also want to join with you in welcoming the other Members of the subcommittee, who will be here presumably after the vote, as well as our very new Member, Mike Forbes; and thank the witnesses. We have John Bolton here; we have former Attorney General Dick Thornburgh; and we have Ambassador Frank Ruddy. And I understand that we missed having former Ambassador Jeane Kirkpatrick, but only because she has the flu and can't be here today.

But all of you, thank you for coming, to those of you that are here we are looking forward to your testimony.

I have to apologize in advance; as Chairman of the full committee I have to try to be in 13 places at once, so I will duck out. But I want to commend Chairman Rogers for calling this hearing.

This is an issue that has been burning in my heart for a very, very long time. And I know it has in his, because he has been the most eloquent Member of Congress on this issue over the last few years.

The fact is that the United States is a very generous country. We are paying an extraordinary, inordinate share of the costs not only for the United Nations, but for all international organizations to preserve peace, promote human rights and try to maintain stability in the world.

But as we saw with Mexico only three or four short weeks ago when the average Mexican citizen woke up and had his or her life savings eroded by 40 percent overnight due to the fall of the peso—and that was directly attributable to the financial inadequacy of the Government of Mexico over many years—we have to ask ourselves whether or not we in the United States can expect to spend in the neighborhood of \$200 billion to \$300 billion a year in excess of what we raise in revenues year after year after year without some catastrophic consequence. If we don't think that we can, if we

don't think we can escape catastrophe down the line, then we have to ask ourselves when are we going to get our budget under control? My opinion is I think the answer is now.

We have a chance this year to begin to get our budget under control. And there are lots of great, well-intended ideas that have cropped up over 40 years of Democratic rule in the House of Representatives that frankly have escaped our ability to be paid for. We simply can't afford every great idea, every single program, every program which has caused the United States to be incredibly generous as long as the U.S. taxpayer forks up and pays the bill. So that is what is confronting not only this subcommittee, but all of our other Subcommittees on Appropriations.

We have had lots of witnesses who have come forward in the last few days to talk about the pros and cons of lots of programs that were all well intended at their inception. But the fact is, we do have to ask whether or not we can afford each and every one of those programs and all of the programs which are put forward by the United States Federal Government, or the Congress of the United States; and if we can't afford them, what are we going to do about it?

It is nice to think that the United States should pay 31 percent of the United Nations' bill, but is that affordable and is it wise? Despite severe reductions and shortfalls in the defense funding and force structure, according to the Contract With America that the Republicans put forth in the November elections for 1994, it is pointed out that since 1993, the United States military forces have been deployed more often and committed to more peacetime missions per year than ever before. Most of these missions involve United Nations peacekeeping and humanitarian efforts. At the end of the fiscal year 1994, over 70,000 United States personnel were serving in such regions as Iraq, Bosnia, Macedonia, the Adriatic Sea, Rwanda and the Caribbean Sea for missions involving Haiti and Cuba.

The United Nations' assessments to the United States for peacekeeping missions totaled almost \$1.5 billion in 1994, and the United States is assessed 31.7 percent of the annual United Nations costs for peacekeeping and other United Nations missions. The next highest contributor, Japan, pays only 12.5 percent of such costs.

The Department of Defense also incurs hundreds of millions of dollars in costs every year for United States military participation in the United Nations peacekeeping for humanitarian missions, most of which are not reimbursed by the United Nations; and for the fiscal year 1994 it is estimated that those Department of Defense costs totaled in that single year, \$1.7 billion, and we are now undertaking in the Subcommittee on National Security an appropriation to try to get to reimburse the Defense Department for their out-of-pocket costs, and if we do not provide that supplemental, do not pass that supplemental through Congress within the next few weeks, the Defense Department will have to curtail its operations.

Now, as well-intentioned as we may be, we have got to get our outflow in line with our income. And this is a good place to start, Mr. Chairman. I congratulate you for calling these hearings, and

I hope that these hearings will start us thinking along a different channel, that we simply can't keep writing checks every time we have a good idea.

I yield back to the Chairman.

Mr. ROGERS. I thank the Chairman for his remarks and his time, and I know he is busy and has other subcommittees he has to attend to. I appreciate your being here and thank you for your very kind remarks, and we will try to live up to your command as best we know how.

We are going to recess the subcommittee for a few minutes while the Members go vote on the Floor. I think there are three votes coming up; there is a 15, plus two five-minute votes, so we should not be gone very long and we thank you for your indulgence and we will get to the witnesses shortly. Thank you.

The committee stands in recess.

[Recess.]

CHAIRMAN ROGERS' OPENING STATEMENT

Mr. ROGERS. The subcommittee will come to order. We thank the witnesses and the Members and others for their indulgence as we tend to our Floor duties.

As I said before, the purpose of the hearing today is to examine how to bring back under control the amount of money that we provide to the United Nations, both for its regular operations and its peacekeeping operations. For the regular operations of the U.N. budget, our annual payments have grown slowly but steadily over the years to \$287 million for the U.N. itself, and \$639 million for both the U.N. and all of its affiliated agencies in the current fiscal year. But we know that some portion of those funds are not well spent.

We know that, in part, because of the work done by our witness, Dick Thornburgh, whose 1993 study laid out the severe management and personnel system shortcomings that pervade U.N. operations. The assumption is that this committee simply gets sent the bill for 25 percent of the total cost of regular U.N. operations, the U.S. share, and we pay it, no questions asked. But questions need to be asked. And in the atmosphere that the full committee Chairman has described to us, we have no choice.

Peacekeeping and the U.N. general budget operations now amount to a very significant share of this subcommittee's total monies to be spent, and what we spend on these very rapidly increasing items in our budget takes away from the other very important portions of our budget on the subcommittee that we spend, both in Justice, in the State Department itself, in the Commerce Department, the Federal Judiciary, and all of the others.

Some of the questions that need to be asked are these:

Are there severe management problems and personnel problems at the U.N.? If so, what reforms are needed, and how can we help bring about those reforms?

Now, for peacekeeping, the cost to the U.S. has grown much more dramatically and astronomically from an appropriation of \$29 million on our part in 1988 to \$1.1 billion in 1994, involving at the moment some 17 peacekeeping operations across the globe. That leaves aside the billions we are spending in the Defense Depart-

ment budget in support of those missions, on top of what we are faced with on this subcommittee.

The U.N. now is estimating that we will owe an additional \$672 million in this fiscal year for peacekeeping, and we expect that the administration will ask us to appropriate some or all of those funds in a supplemental. U.N. peacekeeping is no longer an insignificant budgetary item for this subcommittee.

In addition, the U.S. share of peacekeeping costs needs further consideration as to its fairness and equity. And most importantly, the safety of U.S. military personnel and of other U.N. peacekeepers, is in question by the alleged ineptitude of the United Nations peacekeeping command and control structure. In other words, is the U.N. biting off more than it can chew in peacekeeping, both in capability and in financing, not to mention the question of the fairness of the U.S. share of those total costs?

In peacekeeping, we encounter the same issues of management with horror stories like the theft of \$4 million in cash in Somalia, a fairly minor transgression among the ones we have heard of, or the looting of vehicles in Cambodia, or the like. But we also encounter serious questions of policy. We addressed some of them last year, requiring the U.S. to reduce its assessment rate from 30 percent to 25 percent, and creating an Inspector General in the U.N.; and some of them are being addressed now by the International Relations Committee, as part of the Contract With America, in H.R. 7.

One way or another, the costs, as the Full Committee Chairman has said, simply must come down.

To help us begin to address these questions, we have invited this panel of distinguished witnesses, experienced, but hopefully unfettered by anything else and free to speak in an objective way about our involvement in the U.N. and how we can bring down the costs. The former ambassador to the United Nations, Jeane Kirkpatrick was scheduled to be a witness, but we are informed that she is suffering from a case of the flu and is at home and unable to be with us, to her regret; and we regret that as well.

We do have with us today, though, three very distinguished witnesses, the former Under Secretary General of the United Nations, who happens also to be a former Attorney General of the United States; another, a former Secretary of State for International Organizations, who oversaw this funding for several years; and the former Administrator of the long-standing peacekeeping operation, who will bring us an on-the-ground assessment.

This is the first of this subcommittee, but not the last hearing on this topic, with administration witnesses and outside witnesses to follow over the course of the year. I hope you will give us your best advice, witnesses, on how to rein in the costs of the U.N. while improving its operations, and in particular, how do we go from here in the Congress on this subcommittee to play a role in making the reforms that you suggest happen, and bringing change to an area in serious need of reform.

My Ranking Minority Member, Mr. Mollohan, was unable to be here at the outset of the hearing because of a commitment that he has with the Minority Leader; and do any of the gentlemen on the Minority wish to make an opening statement before we proceed? If

not, we will proceed. So let me introduce our witnesses. We are going to ask each witness to give his testimony before any of us ask questions, and then we will do the appropriate questioning.

Our first witness is Attorney General Dick Thornburgh, who served the Nation admirably in many distinguished positions, including Attorney General of the United States, and Under Secretary General for Administration and Management at the U.N. Mr. Thornburgh first appeared before our subcommittee in 1993, at our request, after his authoritative study on U.N. management came out at the conclusion of his work at the United Nations. It became the basis for many of the reform requests that have been made by the Congress, several of them having been successful; and we are indeed privileged to have the General with us today to talk with us about the issue of reforming management at the United Nations.

General Thornburgh.

GENERAL THORNBURGH'S OPENING STATEMENT

Mr. THORNBURGH. Thank you, Mr. Chairman and Members of the subcommittee. I want to, first, on a personal note extend my congratulations to the Chairman. I have fond recollections of my appearance before this subcommittee, when you were the Ranking Minority Member, as Attorney General to seek a fair share of the Nation's resources for the Department of Justice; and I always received a fair hearing and treatment from this subcommittee, and I am delighted that you have assumed the chairmanship, and I certainly wish you well.

Mr. ROGERS. Thank you.

Mr. THORNBURGH. I have been asked to speak today about the status of management reform at the United Nations. As the Chairman indicated, I served a one-year assignment in 1992 and 1993 as Under Secretary General for Administration and Management at the United Nations, at the request of then President Bush. My task was twofold, first, to assist the new Secretary General in implementing his reform agenda; and secondly, to provide an outside assessment of the management of the organization. As the Chairman noted, I submitted a report to the Secretary General at the end of my tenure, and I have a copy here that I might ask be inserted in the record of these proceedings—

Mr. ROGERS. Without objection.

Mr. THORNBURGH [continuing]. For completeness' sake.

It is no exaggeration to say that I found the management of the United Nations to be in considerable turmoil. As recently described by Ambassador Madeleine Albright, and I quote, "Forty years of neglect have left the U.N. flabby and out of shape."

The paralysis that had affected many of its activities during the Cold War gave way, almost overnight, as we moved into the 1990s to vast new operational responsibilities as the U.N. became, in effect, a worldwide 911 emergency number for a variety of peacekeeping, humanitarian and development needs. Quite clearly, they were not staffed up to handle these adequately, in spite of the efforts of a lot of very good and dedicated persons on the staff.

At the management level, they have always had a lot of capable, extremely capable diplomats and politicians, but when it comes to

management talent, the ranks are much thinner. Policies regarding recruitment, training, promotion, disciplinary actions and termination of staff have proven to be woefully inadequate over the years.

My report focused on six specific areas, and I would like to offer some brief commentary on each of these, and then Members may have questions in some of them thereafter.

First, I looked at the restructuring and redeployment initiatives undertaken by the Secretary General as part of his reform agenda. I must say, the first round of restructuring efforts was extremely positive. The Secretary General addressed the top-heavy nature of the organization chart in the U.N., effected a reduction of about 25 percent in the number of senior management positions, imposed a hiring freeze which enabled us to redeploy about a half of the frozen positions from the bureaucracy to the field. Unfortunately, as time went on, this became a one-step-forward, two-steps-back kind of operation.

The Department of Economic and Social Development, which had been created to bring together a wide variety of disparate organizations was, after a short period of time, redivided into three separate organizations, each with a new Under Secretary General as head. And more recently, the Secretary General has said, and again I quote, "The problem is not to streamline, the problem is to add new personnel because of new demands."

Secondly, the report addresses problems in the personnel area, and here I think the primary need is to deal with the problem of deadwood. Time and again, my counterparts in the management of the organization would come to me with complaints about their inability to deal with deadwood, nonperforming members of staff. This was compounded by the existence of an old-boy network, and I mean old-boy network that dominated the senior management of the organization and took care to see that their friends and countrymen and pals and cronies were taken care of suitably.

The evaluation system was virtually useless. It gave high ratings to almost everyone in the organization, which had the effect of limiting the ability of senior managers to either reward good performance or to sanction bad performance; where everyone is rated good or excellent, it is hard to tell who is actually performing at that level.

The Secretary General also made an unfortunate commitment during the course of restructuring that no one would lose his or her job as a result of the restructuring exercise, and this put a fence around what could be done in terms of staff reduction. There are, by common consent, too many permanent contracts given to staff members. And we found occasions of featherbedding within the organization where the failure to introduce modern technology perpetuated unnecessary employment.

The most vivid example is one I testified about before this subcommittee in my previous appearance, where the reluctance to introduce word processing into the translation and interpretation side of the organization resulted in the continued employment, unnecessary employment of some 500 typists at a cost of about \$20 million a year, where an almost immediate saving could be made

in phasing out those positions by doing the editing on screen as is done in most advanced governmental organizations.

On the personnel side, I am heartened by the testimony given by Under Secretary General Joe Conner before the Fifth Committee of the General Assembly. Although he has only been on the job for six months or so, he seemed to pinpoint many of these problems and to indicate a commitment to undertake to solve them. And I certainly wish him well in that regard, because these personnel problems are persistent and really must be dealt with with strong support from the Secretary General.

The third area that my report deals with is the area of budget, finance and administration. And on the more philosophical side, the report rendered by the committee which we enlisted to help, with the aid of the Ford Foundation chaired by Paul Volcker and Shijuro Ogata made recommendations that I think are useful and many of which have been implemented. But the difficulty with regard to the budgeting process which I described as being somewhat surreal still persists.

The problem is that care and attention is lavished on the last detail of the budget—of the Secretariat, while vast expenditures, particularly in the economic and social field, are taking place off budget, without the kind of oversight that is important to ensure, as John Bolton has pointed out many times, a unitary approach to the operation of the organization.

About 70 percent of the economic and social expenditures of the U.N. system occur off budget and are beyond the scrutiny of the Fifth Committee and the General Assembly. There is entirely too much attempt at micromanagement—a phenomenon not unknown to your body, I might add, from my experience, but I won't push that point. These problems, however, I think have to be put in some perspective.

I have always been taken by the fact that the entire budget of the U.N. Secretariat for its general operations and for peacekeeping is less than the City of New York spends on police and fire protection, and yet the U.N. is charged with, in effect, police and fire protection throughout the entire world. So the amounts are not cosmic in terms of what you folks have to deal with every day.

From the U.N.'s point of view, the difficulty is one of cash flow. I described the budgeting procedure for peacekeeping operations, for example, as somewhat akin to a bungee jump where the authorization geared up for a peacekeeping operation and then you kind of hope and pray that the money is going to be there to meet the cost and expenses. And as we have learned recently, that is not always the case, as the U.N.'s bills for peacekeeping and payment for troop services have mounted.

The fourth area was a look at the peacekeeping operation, its evolution from its traditional enforcement of political settlements through the nation-building exercises, such as occurred in Cambodia, and to the present dilemma of the existence of peacekeeping operations, where there is no peace to keep, which has obliged the U.N. to become a fighting force, and created the controversies which I feel probably have raised the level of attention among you and your colleagues toward this activity.

On management side, we had the services on a volunteer basis of McKinsey & Co., one of the international management consulting firms; and their preliminary estimate at the time, in looking at the peacekeeping operations, was as much as \$100 million a year could be saved by introducing modern management techniques into procurement operations, in the management details of the peacekeeping operations. My suggestion was that that preliminary estimate be tested by engagement of McKinsey or some other group of expert consultants, or a multinational group of consultants, to take a look at this operation and verify that, because that, in the budgetary universe of the U.N., is a considerable amount of money that should be examined.

On the economic and social side, I think real difficulties exist that probably have significance well into the next century. The Secretary General himself described the U.N. activities in that area as follows, and I quote, again.

"Duplication is widespread. Coordination is often nominal, bureaucratic battles aimed at monopolizing a particular subject are rife, and organizational objectives are sometimes in conflict."

None of those characterizations I am sure is any stranger to those of us who have worked in Washington for many years. But it is distressing to have that kind of characterization made by the Secretary General himself. My suggestion contained as an appendix to my report and others, most recently the report by Brian Urquhart and Erskine Childers, entitled *Renewing the U.N. System*, sets forth a specific reform agenda in the economic and social development area, much akin to the unitary U.N. concept which John Bolton and the Geneva Group have proposed many years ago.

There is an area here, however, that I think is extremely important to address, and that is that the development efforts of the United Nations address and reflect the changes in the world scene that have occurred in very recent years. These are changes that have discredited totalitarian governments and state-run economies around the world and reached a near consensus on the need to implement democratic principles and market economies.

I am not sure that that change in philosophy is reflected in the personnel and policy of the agencies and gauged in economic and social development efforts in the U.N. The Bretton Woods agencies in their most recent report took note of this dramatic change in the area of financing infrastructure growth and other programs in these countries noting that building an environment within which private sector investment is going to take place ought to command the highest priority and I fear that many within the U.N. are so used to dealing with state-run economies and peristaltic corporations that that change is going to be difficult to effect.

Finally, my report dealt with the area of fraud, waste, and abuse and the primary recommendation was the creation of an independent Inspector General's office along the lines of that which I dealt with as Attorney General and which I had utilized previously in the Office of Governor in Pennsylvania.

There is now an Office for International Oversight Services established by the General Assembly. Also, I am troubled by the lack of enthusiasm displayed by the bureaucracy by the Secretary General and by the General Assembly.

Let's not kid ourselves—that office, in my view, would not exist today if the Congress had not taken what I think is unfortunate but perhaps necessary action in withholding a portion of our contributions unless and until it could be certified by the President that the office existed. That is not a promising beginning for an office that needs to have the kinds of commitment and zeal to rooting out fraud, waste, and abuse that the Inspector General's office should have. But the jury is still out and I think we owe this office careful scrutiny and support in dealing with this problem, which to my view should be the highest priority for the United Nations in establishing its credibility to the member states particularly those whose dues are in arrears and raising the comfort level.

Messrs. Volcker and Ogata pointed out that the willingness of member states to contribute to the organization and meet their financial obligations can only be enhanced by reassurance that derives from efficiency of their operations. And that I think is going to be the prime charge of this new office.

I am troubled by the statement of Karl Paschki, the Under Secretary General for the Office of Internal Oversight Services that appears to denigrate the whistle-blower function, which we know is important in dealing with governmental corruption and fraud. He noted in his first statement to the General Assembly that the first, and I am quoting again, the first and by far the most important way for staff members to voice complaints and make suggestions must be to and through their immediate supervisors.

Any of us who have worked in large organizations and bureaucracies know that that may be the first and by far the most important way to stifle effective whistle-blowing about wrongdoing within an organization. But again, the jury is still out on this.

And I am also troubled by the fact that the suggestion with respect to the kind of financial disclosure designed to inhibit conflict of interest among senior officials in the organization has never really gotten off the ground. Those of us who have served in government in this country know that is sometimes an onerous burden, but we also—I know as a former prosecutor that it is often a way to ferret out the most egregious violations of the public trust.

Similarly, the personnel who will be making up this new office and the commitment that exists on the part of the organization to make it work is uncertain at the present time.

Two other items that could be characterized as favorite whipping boys during my tenure—one relates to publications. I am informed that last year the United Nations produced 2,000 tons of publications, many of which meet the characterization oft given to those publications that they are printed in six languages and read in none. Much tighter control has to exist over these publications. Frankly, some of the more worthwhile publications are so subsumed in second rate academic efforts that they miss the opportunity for attention that they ought to have.

Finally, in the area of meetings and conferences, I still feel that it would be appropriate to have a moratorium on these worldwide summits and meetings for a period of time during which their efficacy could be studied, and particularly it might be appropriate during the year of the fiftieth anniversary.

Let me make clear in closing that I am a strong supporter of the United Nations and support the principles upon which it was founded and for which it stands. I believe if the United Nations didn't exist we would have to invent it. Perhaps we could invent it in a more effective and efficient manner. My belief in the United Nations and its principles makes it to me all the more important that it be properly managed.

At this time, as you have noted, the increased cost of its operations have raised the ante for those who are interested in reform. Major contributing states, particularly this country, are increasingly concerned about its operations and now is an effective time to act not only because of the domestic pressures to scrutinize our expenditures but to see for a more effective United Nations. This requires an eminently practical approach.

It was Ed Perkins who was Ambassador to the United Nations during the time that I was there that once noted that the task is to be both effective and efficient; that is, he said, not only to do the right thing but to do the thing right, and that is the quest that I think all of us ought to subscribe to.

I am always taken by the notation allegedly made by Dag Hammarskjold, one of the early and great Secretaries General who noted that the task of the United Nations was not to bring mankind to heaven but to save it from hell. That is even with that caveat, a large order and one that can't be carried out unless there is attention paid to the quality of the management and the commitment that is made to sound operation within the organization.

Thank you, Mr. Chairman and Members, for permitting me to appear before you today and share these thoughts.

Mr. ROGERS. Thank you very much, General. I am sure we will have Members who will want to interrogate you further on those points.

[The information follows:]

REPORT

**TO THE SECRETARY-GENERAL
OF THE UNITED NATIONS**

BY

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INTRODUCTION

Today's United Nations faces totally unprecedented challenges and opportunities. With the end of the cold war, the Organization has shifted its focus from passively refereeing ideological differences to actively addressing pressing challenges in peacekeeping, humanitarian endeavours, economic and social development and human rights. In these 1990s, the United Nations has, in fact, been empowered to revert to the very mission intended by those who adopted its Charter in 1945.

While this is an exciting era at the United Nations, it must be acknowledged that the Organization today truly stands at a crossroads as to whether or not it can effectively adapt to these changing times. It must be further acknowledged that many doubt that it can do so.

At the same time, it is clear that the new responsibilities being assumed by the United Nations have raised the stakes and heightened the consequences in terms of human suffering should the United Nations fail to accomplish these goals.

During the last year it has been my privilege to serve, by your appointment, as Under-Secretary-General of the United Nations Department of Administration and Management (DAM). As you know, I accepted this one year appointment, at the request of

President Bush, to assess and evaluate the operations of the Organization from an "outside" viewpoint, with particular emphasis on their integrity, efficiency and cost-effectiveness.

This report is intended to account for my stewardship of DAM during the last year and to offer some suggestions and observations regarding the Organization and its activities. It is rendered, as I depart, in the expectation that it will be of value and use to you, to my successor and to interested Member States.

I. RESTRUCTURING AND REDEPLOYMENT

One of the first and most widely-acclaimed acts of your tenure in office was the elimination of some 25 per cent of the high level positions in the United Nations Headquarters bureaucracy and the undertaking of various restructuring initiatives, which resulted in the creation of whole new Departments and the merger, rationalization and streamlining of existing operations. This was generally characterized as the first phase of restructuring.

You also imposed a hiring "freeze", i.e. a suspension of outside recruitment, with respect to vacant Professional posts. At your direction, we undertook a post-by-post review of all such vacancies at Headquarters to determine which posts were indeed

essential to continued operations, with the particular goal of eliminating overlap, duplication and redundancy. About one half of the 154 "frozen" posts, a total of 74, were redeployed to priority areas, thus staffing posts in those areas without the need to seek scarce additional resources from the General Assembly. By and large, in making these determinations, a premium was put upon moving positions from the bureaucracy to the field, especially in the peacekeeping, human rights and humanitarian areas.

In similar fashion, DAM itself has substantially revamped its management structure and redeployed our resources within the past year. Significant changes were undertaken, in particular, within the Office of Conference Services (OCS), primarily to ensure that its activities concentrated on serving the needs of Member States and intergovernmental bodies for interpretation and translation - the spoken and written word. This was accomplished by removing from OCS jurisdiction those of its operations which might distract from its primary purpose. Thus, the operation of the Dag Hammarskjold Library and certain publication and cartographic activities unrelated to the primary role of OCS were transferred to the Department of Public Information. Certain "business" functions involving publication and printing were transferred to the Office of General Services (OGS), the entity with overall responsibility for procurement and contracting. Further, in my view, the operations of the print shop, about

which considerable recent concern has been raised, should be subject to an outside management review to evaluate its operations against minimum standards of efficiency in the industry and determine its future. A real question exists as to whether such a continued large in-house printing capacity is justified, given the high labour costs resulting from the need to satisfy "peak demands" during General Assembly sessions.

When these and other steps to centralize publishing activity have been fully implemented, an early and thorough review of the unnecessarily wide array of United Nations publications should be undertaken, to both economize and rationalize in this highly visible area.

Unfortunately, I cannot assure you that the publishing and printing functions carried out by the former Department of Conference Services and currently being transferred elsewhere are functioning effectively. Following years of insufficient scrutiny, we have only recently taken administrative and disciplinary actions to address this neglect. This overview should continue.

Significant additional improvement and savings in the operations of OCS would also result from seeking from the General Assembly the moratorium which I suggested on scheduling any new costly world-wide conferences, at least until the observance of

the Organization's fiftieth anniversary in 1995. During this interval the scheduling of future gatherings could be carefully assessed, a step which could build on the already tightened controls on travel imposed last year following the Rio Conference.

Two operations in DAM, the Management Advisory Service (MAS), our internal management consultants, and the Field Operations Division (FOD), have been detached from, respectively, the Office of Programme Planning, Budget and Finance (OPPBF) and OGS and attached directly to the Office of the Under-Secretary-General for purposes of raising their profile and highlighting the importance of their missions. In particular, FOD, which services all peacekeeping, political and humanitarian operations in the field, was provided with its first (and long overdue) mission statement, issued as your ST/SGB/Organization of 8 December 1992. Further, as a result of extensive discussions, FOD was brought into a mutually satisfactory relationship with its principal "customer", the Department of Peacekeeping Operations (DPKO), through adoption of written guidelines.

I would recommend that the mission and staffing of MAS be reviewed with an eye toward evolving a more professional and specialized capability to assist on management issues, perhaps within the proposed Office of Inspector General (*infra*, pages 29-32).

The introduction of new managers within DAM has had a positive effect and, in particular, was necessary to reinvigorate the Office of Human Resources Management (OHRM), upon which many of the challenges of the near future will devolve.

Unfortunately, the downgrading of the posts of DAM's principal managers from Assistant-Secretary-General to the D-2 level, while well-intentioned from the viewpoint of your overall goal of separating "political" from "civil service" positions, has had a negative effect, particularly in view of the simultaneous upgrading of other positions within the Secretariat with much less apparent responsibility. There is also considerable concern and some confusion as to the status of D-2s being supervised by other D-2s and the compression of career opportunities for otherwise qualified managers. I believe this can be rectified by the prompt creation of your proposed D-3 post and its judicious use to recognize the contributions made by the heads of offices within this Department. I recommend this matter receive immediate priority attention.

Of further concern regarding the level of staffing is the seeming continuing practice of awarding costly "consulting" contracts to high level officials following their retirement or termination of services, especially at a time when the Organization is already burdened with an inordinate number of

supernumeraries - those serving on high-paying permanent contracts without any specific job assignment.

DAM responded particularly well to your efforts to redeploy posts to priority areas within the Organization. A total of 46 Professional posts were made available for redeployment and appropriate adjustment was made within the Department.

A particularly effective restructuring technique, introduced with the aid of McKinsey & Co. Inc. management consultants during their six-months of pro bono service to DAM, involved staff members of the pouch unit of the mail room in a "bottom up" evaluation of operations, leading to their redesign and reconfiguration. This technique, it is planned, can be replicated elsewhere to draw on the insights of experienced staff members who have "never been asked" their views as to how operations might be improved.

Our efforts to address restructuring and reform at offices away from Headquarters (Geneva, Vienna, Nairobi, all of which I visited, and in the five Regional Commissions) has proceeded less rapidly. This process has been complicated and delayed, understandably, by the overall restructuring process in the field of economic and social development (see pages 26-29, *infra*) with which these offices are mainly concerned. As soon as "the dust settles" on the overall restructuring effort, it will be crucial

to resume and complete the examination of staffing at these locations, particularly those where recurring concerns have been raised concerning the efficiency of operations.

II. PERSONNEL

Current problems in what you have correctly identified as "the present outmoded system of personnel management" constitute a major stumbling block to true reform within the Organization. Many of these problems were identified in the Plan of Action we submitted to you in May 1992. As anticipated, only a few have been thus far fully resolved. The recent installation of new leadership in OHRM holds promise for the future, however, and the support for many of our recommendations which you outlined to the Fifth Committee of the General Assembly on 6 November 1992 should provide additional impetus to action within this area.

Defects exist in nearly every aspect of present personnel practice. Recruitment has been undertaken on a more or less haphazard basis and consumes an inordinate amount of time. Training programmes are insufficient. Promotion exercises have become unduly complicated to the point of being nearly unworkable, and, in practice, are working to frustrate your goals for the promotion of women. Discipline and dismissal procedures are encumbered by seemingly interminable appeals processes.

The result is too much "deadwood" doing too little work and too few good staff members doing too much, over-extending themselves sometimes to the point where they have become counter-productive.

While well intentioned and positive from the point of view of staff morale, your commitment that no staff member will lose his or her post during the restructuring process has hamstrung efforts to increase productivity within the Organization. Nearly everyone of my senior management colleagues in the Secretariat and many staff members as well have complained about the "deadwood" problem. While present practices dictate that nearly all terminated employees should receive a substantial cash payment, the aggregate cost of keeping unqualified, incompetent or non-productive staff members in place far exceeds, in my view, whatever termination expenditures might be necessary to "clean up" the Organization. Managers simply must be permitted to terminate those not measuring up to "the highest standards of competence, integrity" contemplated by the Charter.

Therefore, I suggest that you make it clear that your commitment not to terminate staff whose posts are affected by the restructuring will not protect those staff members who, for reasons unrelated to the restructuring, are simply not performing adequately. If rules and procedures continue to make it necessary to fund those terminations required for the better

functioning of the Organization, appropriate financial arrangements should be developed, with the input of Member States, to do so.

These steps, together with others herein recommended, would have a positive effect on the morale of that vast majority of dedicated staff members remaining on the job as well as on the productivity of the Organization as a whole.

On a related matter, I believe that the whole question of permanent contracts should be addressed to verify their efficacy and, if perpetuated, to establish an appropriate working ratio between permanent and fixed-term contracts throughout the Secretariat. Permanent contracts, in my view, should be the exception rather than the rule and should, even when granted, be subject to the periodic review originally contemplated. Staff should be disabused of any notion that there is any such thing as a "right" to a permanent contract.

One of the major disappointments of my tenure was our failure to devise a new performance evaluation system. The present scheme is virtually useless as "ratings inflation" has produced positive assessments for nearly all (90 per cent) of our staff members. The present practice thus deprives the Organization of both the ability to reward superior performance and to sanction sub-standard performance. A system where all are

rated superior is one where none are superior. Again, a complicated and lengthy rebuttal process clearly is an inhibitor to candid assessments by managers. This project should be a high priority for my successor, working with OHRM managers and drawing, with outside assistance, on the experience of those, such as the United Nations Development Programme (UNDP), which have already addressed this problem.

In your November speech to the Fifth Committee you called for the rapid implementation of a comprehensive career development system. Such a system has been devised with the aid of a panel of outside consultants and a working group of the Staff Management Co-ordinating Committee. While implementation has not proceeded as rapidly as might be desired, all the pieces are in place to accomplish the goals set forth in the plan. As you have stated, "it is now time for action".

In one area, a significant change is already under way. Thanks to the efforts of OHRM's Training Service and the financial support of the Japanese Government, a long-awaited management training initiative is currently in the process of implementation. This will address one of the major shortcomings of the United Nations identified by nearly everyone who has examined its operations - the shortage of qualified managers, especially at the middle management level. This effort should be

periodically supplemented by the use of expert advice such as that provided to us by McKinsey & Co., Inc. during 1992.

Efforts must also be pursued to eliminate "featherbedding" practices such as those we identified in OCS where failure to introduce word processors in the translation process has prolonged the unnecessary employment of some 500 typists who transcribe for editing the dictation of translators. In other settings, translators are already making use of modern technology to simplify their activities at a considerable savings. A phasing-in of translators, trained in utilizing word processors for direct translation, could eventually produce annual savings on the order of at least \$20 million. Unfortunately, our attempt to introduce a "pilot" programme to phase out, and ultimately eliminate, unnecessary typing positions, has thus far been undermined by those within OCS management seeking to preserve the status quo at all costs.

While the hiring "freeze" imposed a year ago served its purpose, it should be lifted if the new vacancy review process can be perfected so as to provide for an appropriate infusion of "new blood" into the Organization. The proper "mix" between internal promotions and outside hiring will be obtained only through careful monitoring of vacancies and an end to the "old boy network" aspects of the present process.

You have expressed, on a number of occasions, the need for higher pay for United Nations staff members. It is not apparent to me that pay levels within the Organization, taken as a whole, are non-competitive. While certain specialized positions may be difficult to fill, I would caution that this concern not ripen into support for proposals for a generalized pay increase without a careful independent assessment of all pay levels. In any event, any pay increase could well be accompanied by a reduction for newly-hired staff members in the overly generous six weeks annual vacation, as a strong signal of a desire for increased productivity.

A major effort will be necessary to meet your goal of a fifty-fifty balance in policy-level positions between men and women by the Fiftieth Anniversary of the United Nations in 1995. Programme managers must be held more accountable in this area, and pockets of cultural prejudice remain to be dealt with. On the other hand, our issuance of guidelines on sexual harassment last year did, in my view, send a positive signal with respect to advancing the standing of women within the Organization.

III. BUDGET, FINANCE AND ADMINISTRATION

The United Nations is perpetually short of cash due to the late and uneven payments by Member States of their assessments.

The term "financial crisis" has become so overworked as to be a permanent description of the Organization's financial status. In the final analysis, only prompt and full payment of assessments will provide permanent relief. While this will require a political will previously lacking on the part of Member States, it is significant to note that last year Member States did pay nearly 94 per cent (\$976 million out of the \$1.04 billion) of the amounts owed for the regular budget. Moreover, the principal contributor in arrears, the United States, is currently paying its dues almost in full and is gradually paying its arrears in annual instalments as part of a plan adopted by Presidents Reagan and Bush. President Clinton has also indicated his commitment to put the United States funding on a current basis. During my visit to Moscow at the end of 1992, we impressed upon Russian officials the need for a similar commitment on their part as the Member State with the second largest arrears.

Awaiting the day when these funding problems are ended, there are, nonetheless, improvements in the budget, finance and administration area that can be undertaken now to improve the Organization's performance in this regard.

The current regular budgeting process utilized in the United Nations can, I believe, be characterized as almost surreal. It is overly complicated, reflective of a strong tendency on the part of the General Assembly to micro-manage and, in many ways,

out of touch with reality. A great deal of effort, for example, is extended in the framing of the six-year medium term plan, the budget estimates, the biennial budget itself and revised estimates to reflect changes made during the biennium. Each of these must then be submitted for consideration and approval to the Advisory Committee on Administrative and Budgetary Questions (ACABQ), the Committee on Programme Co-ordination, the Fifth Committee of the General Assembly and the General Assembly itself. Most of this detailed and laborious effort is stated to be designed to ensure that the Secretariat carries out priorities established by the General Assembly in all its activities.

What is ignored is the fact that these "priorities" are constantly skewed and distorted by activities and expenditures by United Nations entities outside the Secretariat. Parallel or diverging priorities are de facto established by the governing bodies of a whole array of entities which are financed by extrabudgetary funds beyond any control of the Secretariat and, indeed in most cases, the General Assembly itself. The net effect is that some 70 per cent of the Organization's expenditures, for example, in the area of social and economic development, are made without any reference to the intricate budgetary processes engaged in by the Secretariat and the General Assembly.

What is called for, in my view, is a two-fold effort to deal with this phenomenon. First, as referred to below in the discussion of economic and social development, is a central policy-making mechanism to establish priorities for the United Nations as a whole in this area and to insure that the expenditure of funds effects those priorities within all components. Second, much less emphasis should be placed upon the futile attempt of the General Assembly to micro-manage each department, office, division, unit, etc. through control of staffing tables and expenditures. More flexibility should be granted to managers to manage, while they are, of course, held strictly accountable for their adherence to clear policy goals and priorities properly established by Member States through the General Assembly.

Only a beginning in these reforms was made during the in-house seminar held at Mohonk, New York, last year where a more simplified budget process was discussed. What is needed more is an overhaul in budget philosophy if that process is to serve as the instrument of policy that it rightly should. A re-convened seminar with outside (not just in-house) experts could begin this process during the upcoming 1994-95 budget cycle.

The Medium Term Plan, in my view, is simply useless. Six year projections in times of change, such as we are involved in now, are especially unrealistic. Moreover, the tremendous effort

and resources expended to produce a document which no one does (or, in all candor, should) read or refer to is simply a gross misallocation of scarce talent within the Organization. Unless the Medium-Term Plan is altered substantially in both format and substance, you should recommend its discontinuance to the General Assembly.

Ideally, internal budget hearings for each biennium should be held before a Programme Planning and Budgeting Board chaired by the Under-Secretary-General for Administration and Management, serving with the Controller and the Director of OHRM. Programme managers should be instructed by you as to the Organization's priorities and then submit their recommendations in response and appear before the Board to justify their requests. Thereafter, the Board would be charged to harmonize and reconcile the requests in a final comprehensive Secretariat budget to be submitted by you to the General Assembly. This process has, to my observation, not been carried out with the necessary degree of order and discipline in recent years and should be reinvigorated.

Ironically, the processes and problems described above in the regular budgeting process are nearly reversed in the peacekeeping area which now well exceeds the regular budget in aggregate appropriations. Here the problem is an understandable one. Peacekeeping budgets must be fashioned rapidly, in very general terms, often lacking any basis for the types of detail

and specificity usually insisted upon in the regular budget. To accommodate these conditions, to be sure, various appropriations mechanisms provide for the commitment of expenditures by you or on the approval of the ACABQ for "start up" costs in peacekeeping operations, lest they bog down due to lack of resources or delay occasioned by the regular budgeting process. A further positive step in this regard is the General Assembly's recent establishment of a \$150 million fund for such "start up" activities. Nonetheless, peacekeeping funding is still much like a financial "bungee jump", often undertaken strictly in blind faith that timely appropriations will be forthcoming. The irony is that far more vast and costly operations are undertaken and appropriated for in the peacekeeping area on a more or less ad hoc basis, than those pursued in such meticulous detail in the regular budget process.

The answer, it seems to me, is a process which provides for far less scrutiny of the minutiae of the regular budget and for more attention to the particulars of the process utilized in financing peacekeeping budgets. The latter would be aided by compiling and adopting procedures which would recognize that, while peacekeeping operations are not generic, standard-costing modules can be structured with respect to those increments which have cost elements in common so that a relative uniformity can be utilized for estimating purposes. It would also be useful if budget scrutiny were confined to the regular process, i.e. the

ACABQ and Fifth Committee, and not be extended to the Security Council or the Permanent Members thereof, as has occurred on recent occasions.

In the area of financial management, McKinsey & Co. Inc., recommended a number of improvements to the United Nations treasury operations which are now in the process of being implemented. These include better handling of foreign exchange transactions, centralization of cash management and investments, automation of payments and generally tighter controls. These changes are calculated to provide as much as \$12-15 million per year in cost savings and increased income.

The review of executive officers which you requested has been completed and the staffing of these positions, both here and away from Headquarters, is underway. I suggest you consider as a further goal the creation of an Executive Service within DAM, covering duty stations at Headquarters and elsewhere, from which these positions would be out-posted. This could increase career opportunities and provide for more responsiveness on the part of administrative personnel, as well as facilitating more frequent rotation of these officers to reduce the possibility of their "going native" within their assigned operations.

As noted previously, most of the United Nations' problems in the area of budget and finance derive from the precarious day-to-day financial situation of the Organization. It was for that reason that we asked the Ford Foundation to undertake a study of UN finances through a committee of experts under the leadership of Paul Volcker, former Chairman of the Board of Governors of the United States Federal Reserve Bank, and Shijuro Ogata, former Deputy Governor of the Japan Development Bank. You now have their report and I recommend that appropriate steps be taken to implement its recommendations. One further matter deserves comment. Contrary to the findings of this report, I continue to believe that the United Nations, while commendably operating under its own "balanced budget amendment" which prohibits year-end deficits, does need short-term borrowing authority to even out the peaks and valleys in commitments and contributions during the year.

Finally, one of the ongoing reforms in the area of administration is the Integrated Management Information System (IMIS) project, now in its last phase of development. The project was reviewed by independent experts in 1992 who reported directly to the ACABQ during the forty-seventh session. Their findings were very positive with regard to the technical framework selected and the management of the project. However, the experts expressed serious concerns regarding the readiness of future users in the Organization to implement such a system. We

are now taking steps to address these concerns. The first release of the software (mostly personnel and some accounts) is completed, is being tested, and is scheduled to be implemented in April 1993. The second release (the rest of personnel and accounts) is scheduled for implementation in October 1993.

I am pleased to report that several United Nations organizations have indicated their interest in using this integrated software: UNDP, the United Nations Children's Fund, the World Intellectual Property Organization, the World Meteorological Organization, the World Health Organization, the International Civil Aviation Organization, the United Nations Relief and Works Agency for Palestine Refugees in the Near East and, possibly, the United Nations Industrial Development Organization. The Office of the United Nations High Commissioner for Refugees, the International Labour Organisation (for the personnel modules), and the International Trade Commission, have been committed to IMIS since the beginning of the project. The General Assembly was informed that the software would be made available free of usage charge (only reimbursement of expenses) to other organizations.

This could be an unprecedented development in the United Nations system. If indeed all these agencies adopt IMIS, it will be a major step toward standardization in the common system and will represent considerable savings for Member States. It should

be urged upon these agencies at the next session of the Administrative Committee on Co-ordination.

IV. PEACEKEEPING AND OTHER FIELD OPERATIONS

Of course, the most visible activities in which the United Nations is engaged today are the various peacekeeping, humanitarian and institution-building activities being carried out in the field. All of us who participated in advising you on the document issued as "An Agenda for Peace" are gratified that it has provided a useful framework for debate on how best to master the new substantive challenges deriving from vastly expanded operations in these areas today.

From a management standpoint, these challenges are particularly daunting. Not only has the number of these operations vastly increased, but their character has changed as well. From 13 peacekeeping operations in the period 1948-1987, we have seen 13 more in the five years since 1987 with other potential "hot-spots" cropping up with regularity. No longer are these only "traditional" peacekeeping operations, designed to militarily monitor a political settlement of hostilities. New institution-building exercises, in areas such as Angola and Cambodia, now require a variety of diverse civilian skills.

More recently, peacekeeping operations where "there is no peace to keep" have been mounted to provide humanitarian aid in the former Yugoslavia and Somalia.

Unfortunately, these new assignments are sorely straining the financial and organizational machinery of the United Nations. Practices and procedures utilized during nearly a half-century of stalemate are proving inadequate to an era of around-the-clock, around-the-world action as the Organization matures into a kind of global 911 emergency number.

Personnel and logistics demands upon the Secretariat have been vastly altered, both quantitatively and qualitatively, especially within the last year. Most of those engaged in these activities have performed heroically, but they need to have their ranks dramatically increased and to benefit from a significant overhaul of infrastructure and procedures. Organizationally, the United Nations is, in many ways, still doing "business as usual" utilizing the policies and procedures of the last 45 years without the introduction of new measures, particularly in the planning area, to deal with the changed characteristics of our field operations. Moreover, as noted above, micro-management efforts by certain interested Member States have sometimes compounded the effort to deliver these vital services in a timely and cost-effective manner.

FOD is charged with implementing, expediting and overseeing these various operations with regard to financial, personnel, procurement and logistical matters. They are also empowered to administer the necessary "checks and balances" to ensure compliance by operations in the field with appropriate rules and regulations. As noted, when I assumed my post, I found FOD "buried" within the Office of General Services, two layers below my office. It had neither written charter nor mission statement, in spite of recommendations to that effect made previously, and was at odds with its "customers" in several important areas. Through the co-operation of Under-Secretaries-General in the Peacekeeping, Humanitarian and Political areas a definition of FOD's mission was hammered out at and, in particular, a modus vivendi agreed upon between an upgraded FOD and DPKO to lessen tensions and increase co-operation between these two important entities.

Since November, FOD has maintained a desk-officer system to provide expedited attention to particular problems in the field. A further priority in this area that deserves immediate attention, especially when United Nations forces are deployed in so many dangerous and volatile areas across the globe, is the creation of a central communications center at Headquarters operating 24 hours a day and able to contact all field missions as well as high-ranking officials posted at Headquarters on a moment's notice.

We have convened an inter-departmental working group, including all interested parties, to deal with the overall problems involved in staffing non-military field operations from the Secretariat and outside sources. Demands have increased within the past year to the point that over 2,500 staff members are now serving on missions. This working group has already undertaken a valuable co-ordinating role and will continue to report to my successor and to you on all aspects of planning, recruitment, training, deployment and conditions of service with regard to those on mission service. Of increasing concern is the personal security of staff on missions, a concern escalated by the ominous number of recent assassinations.

These steps represent a good beginning, but much more remains to be done. McKinsey & Co., Inc., in the course of its review of our operations, conducted a preliminary overview of FOD and estimated that as much as \$100 million per year could be realized in cost savings and, at the same time, visible improvements could be made in the quality of our field operations. I would suggest that a full study be undertaken, either by McKinsey & Co., Inc. or by other qualified international consulting firms, to be funded either out of a percentage increment of all future peacekeeping budgets or through voluntary contributions by interested Member States, some

of which have already exhibited interest in funding such an arrangement.

Periodic "outside" management reviews would, I suggest, not only provide recommendations for better management of field operations, but would also bolster the confidence of contributing Member States at a time when they are being asked to increase dramatically their financial contributions to these operations.

V. ECONOMIC AND SOCIAL DEVELOPMENT

You have noted that, in the United Nations' economic and social development programmes:

"Duplication is widespread; co-ordination is often nominal; bureaucratic battles aimed at monopolizing a particular subject are rife, and organizational objectives are sometimes in conflict."

At your request, we undertook a review of these programmes and I submitted a concept paper to you (see Appendix) for your consideration and for use by the group of experts you convened to study this question. I am pleased that some of those concepts have already been incorporated into the initial steps of restructuring in this area.

I must express some misgiving, however, over the creation in November of three separate new Departments with accompanying

Under-Secretary-General appointments to handle the economic and social development agenda. Your consolidation of the previous hodge-podge of programmes into a new Department of Economic and Social Development (DESD) a year ago was an important first step in strengthening and rationalizing operations in this area. If it had been followed by a restructuring within DESD, creating separate offices to embody the "clusters" you have properly identified for the "separation of powers" in this area, a major advance could now be underway. By ignoring the recommendations to that effect made by the experts you convened, the advances intended will be frustrated and the potential for turf battles, duplication and mal-coordination which you have previously identified will only be magnified. Early indications indeed are that the creation of these new Departments will, in fact, add additional posts and costs instead of effecting the savings and economies hoped for in the restructuring exercise.

Moreover, it must be recognized that the restructuring undertaken thus far is only a half-way measure. It is to be hoped that the larger questions of the economic and social development agenda addressed in our concept paper will receive early consideration, i.e. the need for a Development Council to ensure that Member States "speak with one voice" on these matters; the realignment and consolidation of the patch-work of system-wide organizations with responsibilities in this field; the broadening of the role of the regional commissions; the

redefinition of the role of all entities in this area to aid in promoting environmental responsibility, democratic institutions and market economies; and a Bretton Woods II Conference to reposition the World Bank, the International Monetary Fund and the General Agreement on Tariffs and Trade to address their development roles in the changed world situation.

It cannot pass without notice that your laudable goal of reducing the number of high level appointments within the United Nations appears to have been compromised by the splitting up of the former DESD and the creation of two new Under-Secretary-General positions, particularly since it coincided with the downgrading, for example, of the Assistant-Secretary-General positions of those responsible for the Organization's budgetary and personnel operations, certainly of at least equal importance to the responsibilities assigned to these new posts. Unfortunately, what appears to have been undertaken in the effort to reduce the top-heavy nature of the United Nations bureaucracy now begins to look more like "two steps forward, one step back" rather than sustained and consistent progress.

Finally, as you are aware, I have expressed a personal interest during the last year in one particular area not part of my portfolio. I refer to programmes for persons with disabilities, currently carried out under the auspices of the Center for Social Development and Humanitarian Affairs in Vienna.

With the end of the Decade of Disabled Persons, as observed in the two-day plenary session of the General Assembly in October, concerns have been expressed over the future of the effort, in your words, "to turn awareness into action". This suggests a particularly appropriate role for the regional commissions, as has already been undertaken by the Economic and Social Commission for Asia and the Pacific, and a close liaison with the newly formed International Conference of Ministers Responsible for the Status of Persons with Disabilities. The proposed movement of the office concerned with disability (and other social) matters to New York from Vienna would bring this important effort more into the mainstream of United Nations activities and will, I trust, be swiftly implemented.

VI. FRAUD, WASTE AND ABUSE

The United Nations presently is almost totally lacking in effective means to deal with fraud, waste and abuse by staff members of the type which has so recently been highlighted in the reports of audit agencies and in the news media.

My report and recommendation to you respecting the creation of a new office of Inspector General requires urgent and immediate attention. The chronically fragmented and inadequate structure for audit, inspection, investigation and programme evaluation is currently so ineffective that, time and again, we

have been called upon to create ad hoc teams to carry out investigations into allegations of serious wrongdoing. The delay inherent in the process of recruiting and staffing these teams often allows the trail to "grow cold". It also deprives the investigation of its vitality and the professionalism and impartiality which would come from more regularized procedures.

Moreover, the present structure is not cost-effective. While the internal and external audit functions, sometimes but not always co-ordinated, are understaffed, the Joint Inspection Unit (JIU) drains off nearly \$4 million a year into such questionable efforts as the recently completed study on "Managing Works of Art in the United Nations". I realize that the JIU is a creature of the General Assembly and has become, in large part, a convenient patronage "dumping ground", but surely some sense of proportion must be maintained when it comes to dealing with serious integrity problems within the Organization. In the short run, this dilemma could be addressed by your simply foregoing the opportunity to nominate further JIU members, thereby de facto phasing out their operations over a period of time, as I recommended to you last year. This, of course, requires a political judgement beyond the scope of this report.

Although we have sought to strengthen the response capability of the Secretariat to audit exceptions, I believe that few of the reports produced by the present fragmented effort will

be taken seriously by the auditees until the "muscle" of your office is placed firmly behind a consolidated effort carried out by a strong Inspector General's Office.

This need is especially crucial given the mounting concern of major contributing Member States over the rising level of expenditures of the Organization in nearly every area. As noted in the Volcker-Ogata report, "support for improved financing will be dependent upon a perception that funds are economically managed and effectively spent." Major donors, and indeed all Member States, deserve the reassurance that their assessed and voluntary contributions are being wisely and prudently utilized by the Organization so that they, in turn, can convey such reassurances to their taxpayers, the ultimate supporters of all United Nations activity.

This reassurance can only come, I repeat, from the prompt and effective activation of a strong Inspector General's Office along the lines I have previously suggested.

My recommendation in this regard is largely a result of my own previous governmental experience with an office of inspector general. Both as Governor of Pennsylvania and Attorney General of the United States, it was my responsibility to supervise some 80,000 employees and manage budgets in excess of \$10 billion per year. In each case I found an office of inspector general (which

I established in Pennsylvania and was called upon to implement at the Department of Justice) to be of immeasurable assistance in keeping management fully and currently informed about problems and deficiencies relating to programme administration and operations.

Establishment of the Inspector General's Office should be accompanied, as I have also previously suggested, by the adoption of a common set of accounting principles and standards; additional amendments to the code of conduct for staff members (following up on the recent adoption of standards regarding sexual harrasment and prohibiting outside payments by governments) that would compel full financial disclosure by senior management and persons in sensitive positions to ensure against and deter conflicts of interest and other ethical lapses; an overhaul of the performance evaluation process to include a greater emphasis upon managers' assessment of the integrity of staff members under their supervision; and a more simplified system for the administration of justice which would provide for expedited treatment of allegations of wrongdoing against staff members, both from the point of view of promoting quicker disciplinary action or, as the case might be, more rapid exoneration of those found not to be guilty of the allegations made against them.

CONCLUSION

Of course, the effort to improve the administration and management of the United Nations is not an end in itself. But it is critical to ensuring that the United Nations maximize the use of the resources entrusted to it by the Member States to promote the goals enumerated in the Charter. At a time when the United Nations is called upon to play an ever more active role throughout the world, many of the administrative and management practices of the past 45 years are wholly inadequate to meet the demands of the current era. If initiatives to change and modernize these practices are not forthcoming, this Organization simply will not have the ability to meet its new responsibilities.

The course of restructuring and reform upon which you have called the United Nations to embark is a difficult one. It is, by definition, a dynamic and never-ending process and must be amenable to re-thinking and amendment as conditions change. It is inherently untidy and incapable of being "packaged" as a complete and final product at any one stage of its development. It is also bound to be opposed by powerful interests which have a special stake in the status quo. The success of such a comprehensive undertaking will depend equally upon the exercise of the necessary political will by Member States and the

ingenuity and persistence of you and your team in the Secretariat.

If all those truly interested in a better organized and better operating United Nations are supportive of the types of efforts outlined herein, I believe significant positive change will be possible. The opportunity to achieve such change has never been greater and I wish you, my successor and my former colleagues every success in the continued pursuit of excellence within the Organization.

A P P E N D I X

21 October 1992

A CONCEPT PAPER

Re: Restructuring of United Nations Economic and Social Programmes

"The United Nations policy agenda in the economic and social field will need to be reshaped and updated"
Secretary-General Boutros Boutros-Ghali, 26 June 1992

Purposes

1. To enhance the effectiveness of United Nations programmes in the economic and social areas, first within the Secretariat and eventually throughout the entire system.
2. To make economic and social development programmes more responsive to the priorities of the Member States as expressed through the General Assembly, the Economic and Social Council (ECOSOC), and the Secretary-General.
3. To reduce the potential for overlapping and duplicative programmes and for departments and agencies competing for resources or authority in development areas.
4. To ensure that each Member State, as well as the Secretariat and other agencies within the system, speak with one voice on development policy rather than continuing to countenance the expression of differing positions through different governing bodies.
5. To increase the level of coordination among disciplines and across substantive sectors in the areas of economic and social development.
6. To ensure that the resources allocated by Member States produce a maximum value added and that the highest percentage possible of such resources is expended for programmes rather than overhead.

Scope

7. While initially addressed to entities within the United Nations under the direct control of the Secretary-General, it is intended that the institutional arrangements proposed herein ultimately encompass the United Nations system as a whole (see Annex I), as originally envisaged in the Charter provisions relating to the overall role of the General Assembly and the coordinating role of ECOSOC.

Initiatives

8. Create a Development Council that would establish development policy for all United Nations programmes. The Development Council would report to the General Assembly through ECOSOC. Its size and configuration would depend upon reconciling all interested points of view as expressed by Member States. The current governing bodies of the United Nations entities would be suppressed or converted to advisory bodies, but would no longer establish policy or the allocation of resources in their substantive areas. The current functional and sectoral commissions and committees of ECOSOC should also be reviewed and streamlined.

9. Broaden the role of the present Regional Commissions so that they would become the sole regional coordinating presence of the United Nations in economic and social development, as well as in humanitarian, political, and peace-keeping matters, where appropriate. All other existing regional offices, bureaus, etc. would be combined, and co-located where feasible, with the commissions.

10. Re-designate the present United Nations Development Programme (UNDP) Resident Representatives in each country as country representatives for the entire United Nations, in whose offices would eventually be co-located all other agency representatives. To enhance regional coordination, they would report to Headquarters through the Regional Commissions.

11. Create a central secretariat unit for development which would be non-operational in nature, and would undertake and coordinate all major research, analysis and publications on global development issues and play a coordinating role in serving as a secretariat for and implementing the policies set forth by the Development Council. It would also oversee the activities of the secretariats responsible for specific disciplines or sectors. The roles of the Department of Economic and Social Development (DESD), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Environment Programme (UNEP), the United Nations Centre for Human Settlements (HABITAT) and the Centre for Social Development and Humanitarian Assistance (CSDHA) would be reviewed and redefined in the process of creating such a unit.

12. Review the defined tasks of all development programmes in each discipline or sector taking into account the changing needs of the developing countries with a particular focus on addressing their recurrent development needs and accelerating, where appropriate, their move toward environmental responsibility, democratic societies and free market economies. Out of this review should come recommendations for the merging or suppression of redundant or duplicative programmes.

13. Call for a Bretton Woods Conference II which would reposition the Bretton Woods agencies (including the General Agreement on Tariffs and Trade (GATT)) to address their development roles within the changed world situation.

Discussion

A. Creation of a Development Council

14. The new Development Council would give Member States the opportunity to reach consensus on a comprehensive set of priorities for development activities and to allocate resources accordingly. Currently, the separate governing body of each entity deals with its own substantive area and has the ability to set its own priorities, which may be inconsistent with the priorities established by the General Assembly or by the governing bodies of other organizations. Furthermore, even when the policies of the separate governing bodies are fully consistent with the priorities of the General Assembly, priorities may be distorted by the uncoordinated allocation of resources made by each governing body in isolation from the others. This skewing of priorities is heightened by the extra-budgetary funding provided to the separate agencies which is allocated without reference to any central coordination or to the expenditures of other programmes. Some mechanism should be made available to the Development Council to even out or compensate for these distortions without discouraging the flow of voluntary contributions.

15. It is essential that the establishment of priorities and the allocation of resources should be made on a consistent basis by the Member States through the General Assembly. Under the proposal advanced herein, the existing governing bodies would continue to play an important role by bringing to bear the expertise of their respective governments in specific disciplines or sectors. However, their role should be limited to advising how the available resources could be spent within their substantive area on the basis of priorities established by the General Assembly. While the authority of the existing governing bodies will be reduced, the control of the Member States (whom they ultimately represent) over economic and social development policy will be greatly enhanced and harmonized.

B. Broaden the Role of the Regional Commissions

16. The challenges for economic and social development differ from region to region because of different levels of economic development, different cultural backgrounds, and factors relating to the different political, environmental and geographic features of particular regions.

17. It is logical to address these challenges on a regional, rather than global, basis so that solutions more responsive to these differences can be devised. In addition, there are marked advantages in working at the regional level in order to take full advantage of being close to the problem. Moreover, cooperation and coordination can be more effectively enhanced between governments within a region if development programmes are conceived and delivered regionally.

18. If the Regional Commissions are given primary authority to coordinate all economic and social development programmes by the General Assembly, those programmes can clearly be delivered in a more comprehensive manner. As a by-product, the Regional Commissions can offer a forum for Member States to come together to deal with issues in the humanitarian, political, and peace-keeping areas so that the process of seeking solutions to problems in these areas on a regional basis can also be promoted. As the Secretary-General noted in his foreword to his report to ECOSOC, "It is futile, if not counter-productive, to separate out the political and the economic and social missions of the Organization."

19. Strong and effective Regional Commissions could also act as the focal point for relations with non-UN regional bodies and Non-Governmental Organizations within their regions.

C. Resident Representatives as Country Representatives

20. By giving United Nations Resident Representatives greater authority over the delivery of all United Nations development programmes in a particular country, the programmes can be better coordinated and the United Nations presence can be more clearly established. Country representatives would fill the role of a United Nations "ambassador" for substantive and representational purposes. Their co-located "staff" would include United Nations experts from all relevant agencies and disciplines, drawn from those who serve now in-country on assignment from the various agencies.

D. Need for a Central Secretariat Unit for Development

21. In a United Nations structure in which a single Development Council established priorities and allocated resources, there would also be need for a more clearly defined central secretariat unit for development. Oversight and coordination of the operational aspects of programmes would continue to be handled by secretariat staffs organized by substantive disciplines but the best operational personnel would be deployed to the field and rotated among existing United Nations duty stations around the world. The central unit would provide the secretariat support staff for the Development Council and the Advisory Committee on Coordination (ACC), if maintained, so as to ensure that the priorities established by the Member States through the Development Council and ACC were fully effected by all operational units. It would also monitor the preparation and publication of unified reports to cut down on

instances of duplication and repetition. This redefined role would obviously have implications for the future of a number of current entities engaged in development activities, such as DESD, UNCTAD, and UNEP, all of which should be scrutinized in the review process contemplated herein.

E. Role of present DESD and UNDP

22. In particular, the roles of the present DESD and UNDP would require attention. At the outset, a determination should be made as to whether the merger of DESD and UNDP would be feasible or desirable. If not, a careful "sorting out" process of functions and resources between the two organizations and others would have to be undertaken in the course of creating a central secretariat unit for development.

F. Structure of Development Programmes

23. Eventually, of course, the reconfiguration of all entities dealing with related subjects should be considered so as to consolidate those with similar responsibilities and eliminate duplication and overlap. The ultimate goal should be to empower only one such entity per sectoral activity, with one advisory body reporting to the Development Council. One possible configuration, for example, could provide as follows:

- (a) Trade and Industry Programme: Combining UNCTAD, UNIDO, the former Centre on Transnational Corporations, ITC, the former Department of Technical Co-operation for Development, and the former Center for Science and Technology for Development;
- (b) Environment Programme: Combining UNEP and the post-UNCED elements;
- (c) Population Programme: Combining UNFPA and the Population Division of DESD;
- (d) Food and Agriculture Programme: Combining FAO, WFP, WFC and IFAD;
- (e) Humanitarian Programme: Combining UNHCR with DHA;
- (f) Children's Programme: Combining UNICEF and the children's programme within CSDHA.

Separate programmes would be maintained in Drugs (UNDCP), Social Affairs (Programmes within CSDHA dealing with Women, Family, Disability and Crime issues), Human Settlements (HABITAT), Health (WHO), Labour (ILO) and UNESCO. Whether consolidated entities should be located in the Secretariat or become specialized agencies would have to be reviewed on a case-by-case basis. What should be avoided in the future, however, is the creation of entities with partial

delegation of authority and the resulting confusion of operational and reporting roles.

G. Thrust of All Development Programmes

24. At the same time as the overall structure for economic and social development programmes is being revised, it would be appropriate for the Member States to re-evaluate the thrust of those programmes in light of the changed circumstances in the world. Many United Nations programmes were conceived at a time when Cold War tensions and ideological conflict frustrated consensus on how best to structure political and economic institutions, i.e., at a time when authoritarian non-democratic governments were a reality in many areas and when central governments were often perceived as the primary actors in fostering economic and social development. Today, when there are much stronger tendencies toward democratic forms of government and market-driven economies, not to mention an increased emphasis on environmental concerns, a re-thinking of attitudes and programmes from a prior era must be brought to all development activities sponsored by the United Nations.

H. Bretton Woods Conference II

25. The development activities of the Bretton Woods agencies (the World Bank, International Monetary Fund and GATT) were originally undertaken in a radically different environment than exists today. While these agencies have adapted to meet the changing circumstances over the last 45 years, their overall development activities may require updating and certainly deserve scrutiny. The political changes in the former Soviet Union leading to the end of the Cold War have created opportunities for, and development demands on, these agencies which did not exist even five years ago. Under these circumstances, it is important that these agencies consider repositioning themselves for the new challenges they face. A Bretton Woods Conference II would provide a forum for such consideration.

I. Budget and Programme Planning Implications

26. All of the changes suggested above would have implications for current programme planning and budget procedures. The intricate and detailed procedures currently followed in establishing, for example, the medium-term plan and biennial programme budgets would have less and less relevance in a system committed to greater regional responsiveness and flexibility and to more inter-disciplinary and cross-sectoral initiatives. Simplification of these programme planning and budgetary procedures would not only facilitate the central role of the General Assembly in financial and budgetary matters, but would also render the process less complicated and enhance its credibility across the board. The full implications of these changes would have to be carefully assessed in order to reap maximum benefit from a revised budget and programme planning methodology.

27. Some of the administrative implications include harmonizations of budget presentations, accounting practices and information systems to allow for a consolidation of budgets proposed by the advisory bodies and to facilitate an analysis of the allocation of resources across sectoral programmes. The implementation of the planned Integrated Management Information System in the UN and in other organizations could help address some of these concerns.

28. The role of the Fifth Committee and of the Second and Third Committees as well as of the various Commissions reporting to ECOSOC would also need to be examined, as to, for example, who would review the budgets of the entire system for ECOSOC. The need to avoid too many layers in the approval process and the creation of a huge central administrative bureaucracy must remain important considerations when reviewing these proposals.

ANNEX I

RELEVANT UNITED NATIONS ENTITIES

Secretariat

Department of Economic and Social Development (DESD)
United Nations Environment Programme (UNEP)
(including any UNCED follow-up)
United Nations Centre for Human Settlements (HABITAT)
Centre for Social Development and Humanitarian Affairs (CSDHA)
United Nations Conference on Trade and Development (UNCTAD)
Regional Commissions and the Regional Sub-Offices
(or MULPOCS for ECA)
World Food Council (WFC)
United Nations Drug Control Programme (UNDCP)

Subsidiary Organizations of the United Nations

United Nations Development Programme (UNDP)
United Nations Fund for Population Activities (UNFPA)
United Nations High Commissioner for Refugees (UNHCR)
World Food Programme (WFP)
International Fund for Agricultural Development (IFAD)
International Trade Centre (ITC)
United Nations Children's Fund (UNICEF)

RELEVANT SPECIALIZED AGENCIES

United Nations Industrial Development Organization (UNIDO)
United Nations Educational, Scientific and Cultural
Organization (UNESCO)
World Health Organization (WHO)
Food and Agriculture Organization (FAO)
International Labour Organization (ILO)

Mr. ROGERS. Our second witness is John Bolton, now president of the National Policy Forum. He was formerly Assistant Secretary of State for International Organization Affairs and oversaw the funding of these organizations, including the U.N. He has done a lot of thinking and writing about both the U.N. and peacekeeping and hopefully now that he is not supporting an administration position he can speak to us frankly, not to say that he hasn't in the past.

We are very fortunate to have him with us, and welcome back before the subcommittee, Mr. Bolton.

MR. BOLTON'S OPENING STATEMENT

Mr. BOLTON. I have a prepared statement which I will summarize and ask that it be submitted for the record.

Normally in coming before this and other committees, I start by saying what a pleasure it is to be here and that is certainly true. It is a pleasure after ten years of working with this committee in one incarnation or another to address you as Mr. Chairman.

I think it is important for the committee to know at the beginning that the intense scrutiny that you afford the U.N. budgets and the concern that you have about efficient and effective management is not necessarily shared by the other member governments of the U.N. Indeed, even concern about waste, fraud, and outright corruption is sometimes simply dismissed even by members of the Geneva Group that Dick Thornburgh mentioned, the largest contributors to the United Nations system.

Some believe that good management and good budget practices are almost a covert way to try to subvert the United Nations. These criticisms are obviously far off the mark but it tells us why we need to do more to take the seemingly dry task of management and budget issues and explain them better.

I will divide my testimony into two parts, first dealing with the regular budget of the United Nations and second with peacekeeping.

As Dick Thornburgh mentioned, although various reform issues have been in the air for some time, the Bush administration attempted to provide a new conceptual framework looking at the United Nations in large part to get budgetary and programmatic decisions under more effective control, and we developed the concept that we called the "Unitary United Nations." This was a way of looking at the United Nations system as a whole, not as a series of patchwork activities that had little relation to other activities of the organization as a whole. It was a way of looking at the United Nations as a coherent system in an effort to take the limited resource of the member governments and be sure they were used in the most efficient and effective manner to achieve programmatic goals we had agreed on.

We had seen a proliferation of governing councils and bodies, we have seen the activities of the various components of the United Nations expand well beyond their original missions, frequently with overlapping and duplication. We found there was no common system of financial reporting to enable understanding the areas of overlap and duplication and generally the United Nations had grown like a coral reef over the years unhindered by effective man-

agement review, untroubled by the budgetary stringencies of the member governments and seemingly immune from radical reform.

We thought that the Unitary U.N. concept gave us a principled rule of decision-making to maneuver through the thicket of United Nations agencies. Had we been more successful in advancing that concept I think we would have had better success in holding the line on policies like zero real growth, which has been a consistent effort to hold down United Nations budgets.

There were two principal obstacles to widespread adoption of the Unitary U.N. concept before we went out the door on January 20, 1993. First, virtually all United Nations agencies have their own governing bodies and one result of that was that mission creep tended to be immune from scrutiny at the central level, although we were also concerned about gathering all the authority of governing the United Nations system in the General Assembly because then and now it is still highly politicized.

The alternative which we sought, which was greater coordination among the key contributors through the Geneva Group and other means, was also somewhat frustrated because delegations to United Nations governing bodies tend to be led by their respective countries at the ministerial level so that you have the Minister of Education going to food and agricultural organization, the Minister of Health going to the World Health Organization, et cetera, and it is difficult for foreign ministries to keep their cabinet colleagues, in effect, from expanding the missions of their own particular agencies.

Secondly, and I think this is a critically important point, virtually alone among member governments, only the United States appropriates funds for its contributions to the United Nations the way the United States does, with this committee and your counterpart on the other side making appropriations that are funneled through the budget of the Department of State. Typically, the Ministry of Agriculture would fund the FAO and so on, and that leads to a kind of proliferation of authority even within member governments that makes it very hard to coordinate, let alone having it coordinated from budget and management points of view in the different agencies.

The Bush administration also tried to strengthen the hand of a number of institutions within the United Nations system, the Advisory Committee on Administrative and Budgetary Questions, the Secretary General's Advisory Committee on Coordination and the Intergovernmental Committee for Program Coordination. These are little-known acronyms, but we had hoped these would be effective devices to bring United Nations expenditures under control.

I have to say I think we met with only limited success in part because even within the Geneva Group there were governments reluctant to be as stringent as we were. As a footnote, we were pleased to welcome the government of the Russian Federation after the collapse of the Soviet Union as a member of the Geneva Group and they were just as tight on budgets at the end of the Bush administration as we were. It was certainly a pleasure to work with Moscow on those issues in the wake of the end of the Cold War.

More recent developments—in 1991 when it became very clear that Secretary General Xavier Perez de Cuellar was planning to

step down at the end of his second term, the Bush administration began a very aggressive search for a successor having in mind the importance of management and budgetary questions and we believe that Boutros Boutros-Ghali was strongly committed to sweeping reform both within the Secretariat in New York and within the United Nations system as a whole.

In part, we were encouraged that he said he only wanted one five-year term as Secretary General and that that willingness to forego the possibility of a second term would give him a stronger hand in management reform within the United Nations system. We, therefore, welcomed his initial compression of high level post in the Secretariat on February 7, 1992, less than 40 days after he became Secretary General. We thought this was a good first step and we were encouraged that other steps might follow.

But in late 1992 we were surprised when the number of high level posts were again expanded. Dick Thornburgh has already testified to some of his experiences. We were hoping that when the Secretary General indicated to President Bush at the Security Council Summit in 1992 that he would welcome an American as Under Secretary General for Administration and Management that that was a signal that he was continuing his interest in reform efforts, and as Dick testified, that was a long and arduous year for him in New York and one that saw him really working as hard as I have seen anybody work within the United Nations system to make reforms.

Whether that process is going to continue, I would agree the jury is still out. I do note, however, that there are increasing reports in New York that the Secretary General has now indicated he would be willing to serve a second term as Secretary General.

I will say one other thing. I think that the other specialized agencies of the United Nations system can bear the same scrutiny in their budgets as the United Nations itself. I think it is important, although they are typically smaller, that they do receive that scrutiny, and I would like to emphasize to the committee the importance of the United Nations's joint inspection unit which has jurisdiction over the entire system to recommend to the General Assembly more efficient and effective ways of proceeding. That is an organization that should be strengthened and I hope it will be.

Since I spent considerable time on the subject of UNESCO, the U.N. Education, Scientific and Cultural Organization, I would like to say a word about that. I think it is time to put an end to the sterile debates of whether the United States should rejoin UNESCO or not. I think the real question is whether UNESCO should remain in existence at all. I think the scientific aspects of UNESCO could well be transferred to other parts of the U.N. system where they would be welcomed and made useful. I think the rest of the organization at that point would largely collapse of its own weight. I note, as I understand the administration's budget proposal there is no request for an appropriation for UNESCO, perhaps an indication that the administration is also not intending to return.

Mr. Chairman, let me turn now to the United Nations peacekeeping budget.

In 1989, when we looked at the United Nation's very successful peacekeeping operation in Namibia, it was one of the inspirations for the development of the Unitary U.N. concept. Although peacekeeping, it also involved a number of parts of the United Nations system, the United Nations High Commissioner for Refugees with the return of Namibians from exile, the U.N. Development Program, World Health Organization, and UNICEF, all to assist the transformation of Namibia from its status as the last colony in Africa to full independence.

But there is no question that even with the success in Namibia, the extraordinary growth in United Nations peacekeeping activities in the past few years has really taxed the system and added immeasurably to the United States's budgetary constraints.

If you look at the chart the Secretary General provided in his recent supplement to Agenda for Peace, he says between the end of 1988 and the end of 1994, the total number of military personnel deployed in United Nations peacekeeping activities has grown by 700 percent and the annual U.N. peacekeeping budget has grown by 1,500 percent in just that limited amount of time. This is really an extraordinary growth.

I don't want to get into the ins and outs of the administration's policy on peacekeeping although we could address that in questions. Looking at the growth, I think, trying to understand what the administration's policy is on a given day, is hard enough.

One of the most important budgetary factors in connection with peacekeeping is the special United Nations peacekeeping scale of assessments. While the U.S.'s regular assessment is 25 percent of the budgets of most United Nations agencies, it has now risen to 31.7 percent in peacekeeping. This was a result of the special formula adopted by the General Assembly in 1973 when the United States was pressing hard for the creation of a second United Nations expeditionary force to monitor the cease-fire between Israel and Egypt in the Sinai.

Between the United Nations creation in 1973, peacekeeping had been assessed at the same level as the regular budget assessment, but because the United States and others were eager to have UNEF II created and because of the international weakness of the United States at the time, in effect the larger scale of assessments was forced on us and has simply been readopted in every peacekeeping operation since the creation of UNEF II.

In my prepared testimony, I describe the way the mathematics of Resolution 3101, which was the resolution of the General Assembly that first created the special scale for peacekeeping works and why the U.S. ends up paying more than the 25 percent share—that formula has changed somewhat because of new admissions of members, but basically what it means is the five permanent members of the Security Council pay a disproportionate share of the cost of peacekeeping.

Up until 1988 when peacekeeping costs were relatively low, that differential didn't seem to make a lot of difference in terms of its impact on the United States. Obviously, with the growth of peacekeeping that nearly 7 percent difference between the regular budget and the assessed budget does have a major impact. The Bush administration wanted to try and move that back 25 percent. That

effort was largely frustrated within the State Department, at least our efforts to go forward, because there were approximately 140 governments approximately whose share would go up if the United States' share went down, and within the State Department we were outvoted 140 to 1 or thereabouts. The Clinton campaign also endorsed the 25 percent regular budget comparison, and as you noted, Mr. Chairman, the Congress took a step in that direction last year.

You have noted that H.R. 7 also attempts to address the question of the appropriate U.S. share for peacekeeping, and I would concur with Dick Thornburgh. I think that what a reduction of the United States' share in peacekeeping to 25 percent would do, would be highly analogous to what was done in the 1980s when the U.S., largely in the Congress, declined to pay its full share of its assessment for regular U.N. budget activities largely because of the specifically anti-American bias of so much of the organization. It may not be the most elegant way to get the attention of the other governments in the Secretariat but I can tell in the 1980s that action had a very sobering effect on the United Nations, and I think withholding any portion of the United States' peacekeeping assessment would have the same impact today.

H.R. 7 also addresses a number of issues relating to in-kind expenditures that are made by DOD, and whether they should be allocated against the cash assessment the United States normally pays that this subcommittee appropriates. I think there is a lot to be said for that as a matter of policy. I can't comment on the specific calculations of DOD costs. I would just note there are a lot of ways to figure DOD costs and that is something that I think this committee in particular would want to take into account in its appropriations actions.

Finally, just to mention briefly the question of intelligence sharing, which has received some press coverage. Obviously, the cost of intelligence gathering is not insubstantial and the proper measurement of that and the benefit to the United Nations of intelligence gathering is something that I would think in addition to DOD costs the committee may want to consider.

Press reports indicate the administration is very concerned that that kind of crediting of in-kind expenditures against the United States assessment might well result in no cash contribution by the United Nations. I can't really address that in arithmetical terms, but I can say why—I can ask why the United States almost alone among the 184 members of the United Nations in effect is paying early and often and one might say twice for U.N. peacekeeping activities both through the assessed budget of the United Nations and through these very important in-kind DOD contributions. This sort of double billing is something that is a very important policy question that Congress and especially this committee needs to address.

There are also questions that I know many Members in Congress are concerned about in peacekeeping with command and control relationships in peacekeeping operations. That involves a cost of not just in dollars but American lives. I think that there are a number of suggestions about how to address command and control. I would offer a somewhat different suggestion.

During the Cold War, there was a thing called the "Perm Five Convention," which encompassed a number of different aspects of the role of the five permanent members of the Security Council. One important aspect of the Perm Five Convention was that none of the five permanent members, with a few rare exceptions, contributed troops to U.N. peacekeeping operations and the reason was to give the five permanent members a certain detachment in the exercise of their political functions.

I think that it is time to consider whether returning to the Perm Five Convention doesn't make sense. I think if you look at the case of Bosnia, the presence of British and French troops in Bosnia and elsewhere in former Yugoslavia, it has had a major impact on the way the French and the British have approached peacekeeping there.

I note that The New York Times has endorsed returning to the Perm Five Convention and has said in an editorial recently that especially in the area of peace enforcement where enforcement missions require the kind of firepower that only major powers can supply, that these powers do not easily subordinate their armies to United Nations command. I agree with The New York Times on that and I think their suggestions make a lot of sense.

I am struck by the number of suggestions Congress is facing closely related to the policy initiatives that were taken, many unfortunately unsuccessfully during the Bush administration. In retrospect, had the U.N., its supporters and other member governments taken our admonition more seriously, perhaps we would not be at the critical point of considering legislation which would impose these and other even stricter policies as a matter of law.

I conclude regretfully that the vicissitudes of the current administration, the intransigence of the Secretariat and the indifference of the other member governments have led us inevitably to the present situation. Indeed, many United Nations advocates may come to look back on the Bush administration as the good old days for the United Nations.

Much remains to be done, Mr. Chairman. I know your committee has a lot of work ahead of it, and I wish you all the best in your efforts and would be happy to answer any questions you may have.

Mr. ROGERS. Thank you. We look forward to the questioning when we can deal with some of the peacekeeping questions that you have raised, especially which ones we should be involved in and which not.

[The information follows:]

Testimony of

John R. Bolton

**President,
National Policy Forum**

before the

Commerce, Justice, State and Judiciary Subcommittee

of the

**Committee on Appropriations
United States House of Representatives**

2:00 P.M.

January 25, 1995

Rayburn House Office Building
Washington, D.C.

Mr. Chairman, and Members of the Committee, it is a pleasure to appear before you today to discuss issues relating to policy, management and budget issues within the United Nations system, and their impact on assessed contributions by the United States to that system. I will address both general UN-system management issues, as well as the questions particularly applicable to UN peacekeeping and other military operations. I would ask that my prepared statement, which I will summarize briefly, be included in the record of this hearing, and I would be happy to answer any questions that Members of the Committee might have.

At the outset, I think it is vital for the Committee to understand that the importance of tight and effective management and stringent budgetary scrutiny still does not pervade the UN culture. Many member governments, especially those with very small assessed contributions, either do not place a high national priority on management and budget issues, or lack the capacity to engage in effective analysis of proposed budgets within the UN system. Even members of the Geneva Group (the membership of which includes the industrial democracies whose rates of assessed contributions generally exceed one percent (1%) of the annual budgets of most UN bodies, and whose aggregate share of UN budgets exceeds 70 percent (70%) of each agency's total) are not uniformly diligent in insisting on enforcement of such policies as "zero real growth" in agency budgets. In fact, one representative of a G-7 nation said at a Geneva

Group meeting I attended that our annual reaffirmation of the principle of Zero Real Growth was so painful that it was like his annual trip to the dentist. Finally, the secretariats of the UN components, needless to say, often reflect only the generic bureaucratic imperative to expand their respective turfs, personnel and budget levels.

The United States' repeated efforts to enhance the efficiency of UN agencies often provoke angry reactions from some member governments, as if cost reductions and savings were somehow targeted directly against their interests. Indeed, some supporters of the UN, even in this country, believe that stressing financial controls and practices is simply a covert way of subverting the work of the UN. Needless to say, these criticisms are far off the mark. Nonetheless, much work remains to be done in explaining why the seemingly dry and obscure issues of management and budget are in fact central to an effective United Nations.

In this statement, I first address the regular UN budget, and then the budget for peacekeeping. Although many issues arise in both contexts, there are sufficient differences to treat them separately here.

I. THE REGULAR UN BUDGET

The Concept of the "Unitary UN"

Although the general subject of UN reform had been in the air for some time, the Bush Administration made a special effort to raise the reform issue to new importance. The Administration recognized that it was incumbent on the United States, as the largest contributor to the UN (generally paying twenty-five percent (25%) of most agency budgets), to fulfill its responsibilities to our taxpayers by providing the leadership required for adapting the UN system to its growing responsibilities. Accordingly, we developed the concept of the "Unitary UN" as a

way of guiding our diplomacy and policy in an analytically comprehensive way throughout the entire system. Instead of a series of unrelated policies toward each UN component, we decided to address the UN system in much the same way the Department of State's regional bureaus interacted with the governments in their respective regions. Just as an action taken toward one specific country affects overall regional relationships, by analogy, so, too, do the actions of individual UN agencies affect the operation of the entire system.

The Unitary UN concept provided us with a basis to deal coherently to deal with the UN system on both policy and budgetary grounds. It was intended to provide rationality to a system which, over the years, had grown into a Byzantine patchwork of activities bearing scant relation to what was called for under their respective organizational charters. By definition, we intended that the "Unitary UN" would be a coherent system, a grouping of organizations each having assigned roles in carrying out programs consistent with their own charters. Finally, we intended that our principle financial objective in our continuing review of the UN system was the determination that limited member government resources be used in the most effective and efficient manner possible to achieve specific programmatic goals.

We had noted the proliferation of committees, councils, conferences, and meetings, all of which covered essentially the same issues. Numerous governing bodies all spent precious time and resources discussing precisely the same issues, often in several different cities. Almost all components of the UN system had expanded their programs beyond their originally intended missions, and were duplicating each other's work. Thus, we were unable to say, in the aggregate, what was actually spent on related or overlapping activities by several different agencies. There was no system of common financial reporting and accounting practices. Moreover, experience had shown that UN organizations often had considerable difficulties in providing basic information concerning their own activities to member governments. Even the distinction between agencies financed by assessed contributions and those financed by voluntary

contributions had been blurred by the proliferation of "trust funds" and related devices whereby "assessed" agencies began to acquire supplementary voluntary contributions. Thus, the UN had grown like a coral reef over the years, unhindered by effective management review, untroubled by budgetary stringencies of the member governments, and seemingly immune from radical reform.

Following the Unitary UN concept provided us with a principled rule of decision-making to maneuver through the thicket of UN governing bodies. It permitted us to redefine the proper limits of each UN component's responsibilities, and helped avoid both empire building and turf fighting. By adhering to the original intent underlying the creation of each UN component, we attempted to achieve not only budgetary savings, but also create a greater sense of political responsibility among member governments and secretariats. Finally, it could have enabled us to define more precisely what each UN agency should do in a broad subject area -- such as the control of illegal drugs -- thus eliminating or at least curtailing needless duplication and expenditure of scarce resources.

Had the Unitary UN concept been implemented system-wide, it could have been the next step beyond the policy of "Zero Real Growth," which was (and still is) applied only component by component. One could contemplate instances in which some agencies would grow to respond to new and emerging developments. Any such growth (in budgetary terms), however, would have been offset by reductions in the budgets of other organizations, so as to maintain Zero Real Growth throughout the UN system. Difficult choices had to be made by the member governments, not by the secretariats, because ultimately the burden of identifying and enforcing policy priorities rested with them.

Two major obstacles stood in the way of implementing the "Unitary UN" concept, and ultimately defeated our efforts before they ended on January 20, 1993. First, essentially all of the

components of the UN system have their own governing bodies (however denominated agency by agency). The result, visible, over time, was "mission creep" in virtually every agency's mandate, resulting in significant overlap and duplication, as noted above. Moreover, the lack of coordination among governing bodies and secretariats made coordination difficult if not impossible. Moreover, the most obvious solution -- placing all policy and budgetary authority over all of the components of the UN in one central governing body (such as the UN General Assembly -- also had significant problems. The General Assembly was for many years (and is still substantially, even today) a highly politicized organ, and one where extraneous issues could well have precluded sound management and budgetary decision-making. Thus, centralizing authority in New York seemed unpalatable, to say the least.

The alternative -- greater coordination among the key contributors -- was also frustrated by two factors. First, delegations to the governing bodies of most of the specialized agencies and other key UN organs were generally headed by Ministers at the Cabinet level. Thus, for example, in the case of the United States, the delegation to the governing body of the World Health Organization is headed by the Secretary of Health and Human Services; the delegation to the governing body of the Food and Agricultural Organization is headed by the Secretary of Agriculture; the government delegation to the governing body of the International Labor Organization is headed by the Secretary of Labor; and so on. These ministerial-level representatives are, to put it diplomatically, often unswayed by management and budgetary arguments against expanding the mandates of "their" international agencies, even in the case of the United States.

Second, the United States stands virtually alone in the way its contributions to international organizations are legislated and handled executively. This Committee recommends appropriations for essentially all such organizations, passed through the budget of the Department of State. This system substantially increases the strength of the Secretary of State, as

the hand of the President in foreign affairs, in his dealings with his Cabinet colleagues. Almost all other governments, by contrast, have their respective assessments paid through the Cabinet department most directly involved. Thus, foreign ministries have little or no institutional leverage over other Cabinet-level ministries, and the prospects for confusion and contradictory policies are expanded. The resulting duplication, overlap and waste in international organizations is thus, in large measure, due as much or more to the weaknesses in member governments as to inefficient managements in the secretariats.

In the short term, therefore, we endeavored to strengthen a number of existing UN institutions, such as the Advisory Committee on Administrative and Budgetary Questions ("ACABQ"), a group of "independent" experts established in 1946 to advise the General Assembly on both regular and peacekeeping budgets. We also sought to strengthen the Secretary General's Advisory Committee on Coordination ("ACC"), established in 1946, and consisting of the executive heads of the main UN components. We hoped that the Secretary General could make use of this mechanism to secure a greater commitment to uniformity and system-wide financial and management consistency. Likewise, we sought to strengthen the Committee for Program and Coordination ("CPC"), created in 1962, a committee of member states with a mandate to coordinate the program activities of agencies within the purview of the Economic and Social Council ("ECOSOC"). Although the ACABQ had an important role in budgetary questions involving the UN itself, both the ACC and the CPC had fallen into disrepair, if, indeed, they had ever worked very well to start with.

By the end of the Bush Administration, our efforts had met with limited success, in large part because only a small number of the other major contributors shared our desire to truly impose a Unitary UN concept upon the system. Similarly, our efforts to expand the mandate of the Geneva Group to cover the activities of the entire UN system in all of the UN cities where agencies were headquartered were only partially successful. Nonetheless, we did create the

"Turtle Bay Group" to scrutinize the activities of the UN organization itself, a critical first step in gaining adequate coordination among the major contributors in New York. We also expanded the Group's jurisdiction to cover not only agencies financed by assessed contributions, but those funded voluntarily as well.

Several Geneva Group members, however, particularly one, consistently opposed broadening the Group's mandate, to cover, for example, peacekeeping costs. The influence of this member of the Group also extended to some other members of what was then still known as the "European Community" ("EC") on the ground that greater coordination among Geneva Group members might impede the growth of "European Political Cooperation." Whether, and to what extent, the United States is still "pushing the envelope" for the Geneva Group's role is an important question the Committee may wish to consider.

Recent Developments

In 1991, if not before, it became apparent that incumbent Secretary General Javier Perez de Cuellar, planned to step down at the end of 1991 following the conclusion of his second term in office. Accordingly, the Bush Administration began looking for a successor, coordinating with the other Permanent Members of the Security Council, members of the Geneva Group, and other interested member governments. We assigned a high priority, in evaluating the various candidates (declared or undeclared), to the importance they placed on management reform within the UN system, and the extent to which their views squared with our concept of the "Unitary UN."

The Bush Administration believed that Boutros Boutros-Ghali, then an official of the Government of Egypt, was strongly committed to sweeping reform, not only within the Secretariat in New York, but as far within the UN system as the role of Secretary General might

take him. The Administration understood that Boutros-Ghali was campaigning, in part, by pledging to serve only one five-year term as Secretary General, thus freeing himself from any political constraints that might impede sweeping management and budgetary reforms. After his election, Secretary General-designate Boutros-Ghali reiterated these points to Bush Administration officials.

The Administration therefore welcomed the Secretary General's February 7, 1992, announcement (less than forty days after he took office) of the first phase of his plan for restructuring and streamlining the UN Secretariat. He eliminated thirteen high-level posts (Under and Assistant Secretaries General), a reduction of more than twenty-five (25%). This was a significant accomplishment, and belied the repeated claims of previous UN administrations that additional cuts beyond those instituted in the late 1970's were impossible. Obviously, the major gain from these reductions could not be measured simply in monetary terms, but as symbolic of an effort to institute a more rational and streamlined Secretariat structure. By regrouping major functions (replacing five separate departments with three new ones), the Secretary General had reduced the number of officials reporting directly to him, thus permitting him to spend more time on larger policy and management issues.

Although a good first step, these changes were not followed by more sweeping changes at lower levels in the Secretariat. Moreover, later in 1992, the number of high-level Secretariat officials was actually expanded again. Although Dick Thornburgh was designated as UN Under Secretary General for Administration and Management, his and the Bush Administration's early hope for continued reform were frustrated within the Secretariat, as he will no doubt testify in greater detail. Today, there are even numerous reports that the Secretary General has indicated he would not be adverse to a second term in office.

The difficulties which attended the creation of the position of UN Inspector General

("IG"), originally suggested by Governor Thornburgh, unfortunately also attested to changing attitudes at the highest level of the Secretariat. I note that H.R. 7 (104th Cong., 1st Sess.) contains several provisions which would withhold a portion of the U. S. assessment for the regular UN budget each fiscal year until the President makes a number of certifications regarding the independence and authority of the UN Inspector General. While I would expect the Executive Branch, as a matter of normal separation of powers principle, to oppose such provisions, I do not think there can be any dispute as a matter of policy that such an Inspector General is critical to the long-term efficiency and effectiveness of the United Nations. Only a strong IG can truly give this Committee and other members of Congress real confidence that American tax dollars are in fact being spent consistently with the practices and standards that we should expect from the UN in all of its aspects.

Although I have concentrated this prepared testimony on the UN organization itself, many of the management and budget problems discussed herein also applied to the specialized agencies and other components of the UN system. Accordingly, I would recommend that the Committee consider soliciting information about these agencies, although not necessarily through a hearing, to facilitate your consideration of appropriations requests for them. Moreover, steps should be taken to strengthen the UN's Joint Inspection Unit ("JIU"), created in 1966 and headquartered in Geneva, which is charged to oversee the entire UN system to ensure that activities of the various agencies are carried out in the most economical manner. The JIU reports to the General Assembly of the UN and to the other UN agencies, although its recommendations have not been as strong as they might have been, and even those have frequently gone unheeded.

Since I spent considerable time during my service in the Bush Administration on the issue of whether or not the United States should rejoin UNESCO, permit me to say a word about that agency. I believe that the time has come to put aside the increasingly sterile debate about whether the United States (and the United Kingdom and Singapore) should rejoin

UNESCO or not. I believe that the real question we need to address is whether UNESCO should remain in existence at all. Many of the worthwhile aspects of UNESCO's activities--specifically in the sciences-- could be transferred to other UN specialized agencies where their contributions would be welcome. The rest of the organization, in my opinion, would hold little or no attraction for most other member governments, and it might well then collapse of its own weight.

Just as the complete elimination of a government agency in the United States sends an unmistakable signal to other potentially vulnerable agencies that they might also suffer the same fate, so, too, would be the elimination of UNESCO send such a signal within the UN system. Such a signal is sorely needed.

II. THE UN PEACEKEEPING BUDGET

When the Bush Administration first developed the concept of the Unitary UN, it was much influenced by developments in Namibia where many components of the system -- UN military forces, civilian police monitors, election observers, UNHCR, UNDP, WHO and UNICEF -- all participated in what turned out to be one of the UN's most successful peacekeeping operations. The very different tasks that had to be performed, the range of expertise required, and the differing needs of the various components of the UN Transition Assistance Group in Namibia ("UNTAG"), all required skillful coordination. It was not difficult to apply this insight to other, even more complicated peacekeeping operations in the future. Even so, in 1989 and early 1990, peacekeeping still remained a relatively small part of the UN's overall budget. In just a few years, however, that changed dramatically, and has continued to do so in the last two years.

In his recent supplement to *An Agenda for Peace*, published earlier this month, the Secretary General himself noted that the additional demands on the organization had resulted in the following worrisome statistics:

	<u>As of 1/31/88</u>	<u>As of 1/31/92</u>	<u>As of 12/16/94</u>
Disputes involving the UN	11	13	28
Total deployed peacekeeping operations	5	11	17
Military personnel deployed	9,570	11,495	73,293
Civilian police deployed	35	155	2,260
Annual UN peacekeeping budget (millions of US\$)	230.4	1,689.6	3,610.0(projected)

These figures testify dramatically to the greatly expanded role of peacekeeping in recent years, especially during the current Administration, at least when it purports to follow its announced policy of "assertive multilateralism." I do not propose, for present purposes, to dwell on the wisdom or necessity for this expansion, because to do so would necessarily involve a detailed analysis of each peacekeeping operation (using that term in the broadest sense), and would be well beyond the scope of this hearing. In truth, I am never very certain what the Administration's position is on any given day, which provides another reason not to burden the Committee further. Nonetheless, the proliferation of peacekeeping operations, and the sometimes tragic lessons we have learned from them, warrant careful attention in the contemplation of any future or ongoing UN peacekeeping activities.

The most important budgetary implication of greatly expanded peacekeeping activities is caused by the difference in the level of assessments that the United States faces. For some time, the U. S. share of the UN regular budget has been limited to twenty-five percent (25%). Indeed, from the inception of peacekeeping in 1940, until 1973, the U. S. assessment had been equal to its regular budget assessment, which gradually declined from the UN's founding to the present twenty-five percent level. In 1973, however, when the United States felt it important to move quickly to create the Second UN Expeditionary Force in the Sinai ("UNEF II") to implement the provisions of Security Council Resolution 338. As a consequence, and because of the general weakness of the United States internationally, we were forced to accept a scale of assessments for peacekeeping in which we and the other Permanent Members of the Security Council paid more than their regular budget assessments. See, General Assembly Resolution 3101 (XXVIII), adopted on December 11, 1973.

Under Resolution 3101, the membership of the United Nations was divided into four groups: (A) the five Permanent members of the Security Council; (B) specifically-named, economically developed member states (other than the Perm Five); (C) economically less developed member states; and (D) specifically-named less developed states (typically those whose percentage shares of the regular assessed budget were .01 of the total). Resolution 3101 specified that members of Group D were to pay ten percent (10%) of their assessment rates for the regular budget; members of Group C were to pay twenty percent (20%); members of Group B were to pay one hundred percent (100%); and members of Group A were to pay one hundred percent (100%) plus the amounts not otherwise apportioned. Finally, Resolution 3101 required that, within each group, the total amount apportioned was to be distributed among the group's members on the basis of the relative weight of each group members regular budget assessment, in relation to the total weight of the group.

Although UNEF II's scale was supposed to be a one-time exception to the practice of funding peacekeeping operations consistently with the regular budget scale, every subsequent peacekeeping mission has adhered to the formula adopted for UNEF II. (While the formula itself has not changed, the composition of the four groups specified in Resolution 3101 has changed because of the admission of new member governments to the UN, and several minor modifications to the groups contained in subsequent General Assembly resolutions.)

Since, under the provisions of Resolution 3101 and its successors, the overwhelming majority of the members of the General Assembly pay much less for peacekeeping than they would if the regular budget scale of assessments were followed, reverting to the pre-UNEF II practice did not seem possible for many years. Because total peacekeeping budgets were relatively low until approximately 1988, however, the differential in the scale of assessments did not have a major budgetary impact for the United States.

By contrast, as peacekeeping began to expand rapidly, the financial impact of the higher peacekeeping scale of assessments began to be felt increasingly more strongly in U.S. budgets. Accordingly, the Bush Administration decided to seek to return to the regular budget scale of assessments as soon as possible. Many in the State Department, however, opposed--and effectively blocked any efforts to implement-- the Administration's policy. They complained that the policy would be too hard to implement politically, too costly diplomatically, and generally not worth the effort. The consequence, of course, was that American taxpayers were left to pay the difference between the regular and peacekeeping scale of assessments.

During the 1992 election campaign, Governor Clinton also endorsed the position that the United States should pay no more than twenty-five percent of the cost of UN peacekeeping operations. This position became even more important as the U.S. share for peacekeeping continued to rise, reaching 31.7 percent in early 1993. I am not aware, however, of any

significant diplomatic efforts to date during this Administration to reduce the U.S. (and other Perm Five assessment levels.)

As explained above, the workings of the peacekeeping formula first adopted in Resolution 3101 are such that the U.S. percentage increases as the shares of other Permanent Members decline. Thus as the United Kingdom and France-- and more recently, the Russian Federation, as the successor state of the Soviet Union -- have seen their regular budget assessments fall, that of the United States has risen. By 1994, according to Section 101(5) of H.R. 7 (104th Cong., 1st Sess), the American share of the costs of UN peacekeeping had increased to almost \$1,500,000,000.

H.R. 7 attempts to address this financial crisis by providing, in Section 509, an amendment to Section 10 of the United Nations Participation Act of 1945 that would preclude the United States from paying more than twenty-five percent of all assessed contributions in all fiscal years after fiscal 1995. In a very real sense, this approach is similar to what Congress did in the 1980's by refusing to appropriate the full amount of the U.S. assessed contribution throughout the UN system because of outrage over the anti-Western and specifically anti-American bias of so much of the organization. That approach had a very sobering effect on the UN, and withholding a portion of the U.S. peacekeeping assessment may have a similar impact today. In any event, it should be a bipartisan foreign policy of high priority to convince the other member governments in the UN to agree to return the scale of assessments to equivalence with the UN's regular budget at the earliest possible opportunity.

H.R. 7 proposes a number of other changes in the U.S. approach to funding UN peacekeeping, also by amending the United Nations Peacekeeping Act of 1945. Several provisions of H.R. 7 seek to provide credits against the U.S. peacekeeping assessment for "in kind" expenditures on such support functions as transportation, communications, intelligence and

logistical support, which are consistent with Bush Administration policy in that regard. Section 506 provides that the Secretary of Defense may waive the reimbursement requirements if emergency circumstances so justify, which should provide the Executive Branch with sufficient flexibility to implement the offset requirements, which I would support.

In passing, however, I would note that the calculation of Department of Defense costs is subject to many variations, which can result in widely varying offsets for essentially the same services. The Committee may wish to consider defining these costs, so that it would have a better idea what the total amount of the credits would be in any given fiscal year. I would also suggest that any waiver authority be entrusted to the Secretary of State, since the emergency circumstances involved in a waiver may well encompass matters beyond the jurisdiction of the Department of Defense.

Section 508 of H.R. 7 prohibits the use of Department of Defense funds for paying assessed or voluntary contributions for UN peacekeeping operations. This is a sound provision, which maintains centralized Legislative and Executive Branch control over U.S. contributions to all parts of the UN system. Section 508 similarly restricts the use of Department of Defense funds for the incremental costs of U.S. participation in UN peacekeeping without express Congressional approval, and this, too, is a sensible policy, along with Section 510's requirement that potential U.S. suppliers for peacekeeping activities be allowed to compete equally with potential foreign suppliers. (Indeed, this requirement might well be made applicable to UN procurement, not just for peacekeeping activities.)

The question of intelligence sharing with the UN also has important budget and management -- as well as critical national security -- implications. Section 512 of H.R. 7 attempts to restrict the President's authority to share such intelligence except pursuant to a written agreement between the President and the Secretary General, and a notice-and-wait

provision prior to any such agreement entering into force. While I understand the profound interest in protecting sensitive intelligence information, along with sources and methods, I wonder whether an agreement between the U.S. and the UN is the best way to accomplish that objective. I can easily imagine, for example, that the Secretariat's opening gambit in negotiating such an agreement will be an effort to prohibit or limit the gathering of intelligence in connection with UN activities. While it is hard to believe that any Administration would agree to such a prohibition or limitation, even having to negotiate the issue could raise difficult issues.

I am aware of press reports of recent testimony by Clinton Administration officials in closed session before the House International Relations Committee. Since I have obviously not seen any testimony actually given, I can only comment on the basis of these press reports. As a former official of both the Departments of Justice and State, I am certainly sensitive to arguments made by the Executive Branch based both on Constitutional authorities and sound management principles against micromanagement. Indeed, during my service in the government, I testified in support of many such arguments, and I certainly do not underestimate their importance. Whether the amounts that would be credited against U.S. assessed peacekeeping operations because of "in-kind" Department of Defense support for peacekeeping would effectively eliminate any cash payments by the United States, I am not presently in a position to say. The Committee may want to assure itself of just what the effects of adopting statutory provisions similar to those in H.R. 7 would actually be.

That said, one is impelled to ask why the United States, almost alone among the 184 member governments of the U.N., must bear not only the largest assessed share for peacekeeping, but also must expend apparently quite extensive Defense resources at a time when all resources are constrained by tight budgets. If the Clinton Administration's own figures and calculations are correct, I can only conclude that the United States seems to be paying early and often for UN peacekeeping activities, once in assessed contributions appropriated by this

Committee, and once in in-kind amounts appropriated in one or more other Committees. Surely, this imposes an unfair burden on our government and taxpayers, who may not even be aware of this "double billing" for UN peacekeeping. If other UN members, such as the United Kingdom, Japan and France are also paying "twice," it is up to their respective taxpayers to take appropriate action on their behalf.

These costing provisions of H.R. 7, however, really implicate a larger policy question as well, and that is the direct involvement of U.S. forces in UN peacekeeping. Other provisions of H.R. 7 (notably Title IV) greatly restrict the President's ability to place American forces under UN command or operational control in peacekeeping activities. Similarly, Section 5 of S. 5 (104th Cong., 1st Sess.) provides for essentially the same restrictions. I do not underestimate the strength of feelings underlying these proposals, based as they are on the tragic lessons of Somalia and the fear of similar disasters in other UN peacekeeping operations.

The underlying issue, however, is whether US forces should ever be placed under UN command, not just what the command structures might be. During the Cold War, a major element of the uneasy agreement among the Five Permanent Members of the Security Council known as the "Perm Five Convention" guaranteed that no armed forces of the Perm Five were ever to be deployed in peacekeeping operations. Although there were a few minor exceptions to the Perm Five Convention over the years, it was generally adhered to quite closely.

There were numerous reasons for this aspect of the Convention, stemming largely from mutual distrust as to what forces from one or another of the Perm Five might actually be doing in addition to their assigned "peacekeeping" responsibilities. There was, in addition, however, the continuing reason that not deploying their own troops gave the Perm Five a certain objectivity and detachment in leading Security Council governance of peacekeeping activities. This distance provided a perspective that inserting troops into a dangerous crisis situation would not

afford. The wisdom of the Perm Five Convention is daily displayed in Bosnia, where British and French policy seems more determined by their (legitimate) concern for the safety of their troop contingents stationed with UNPROFOR than by larger geopolitical issues.

Therefore, the real policy question is whether we should not seek a revival of the Perm Five Convention that would preclude any major deployment of U.S. and other Permanent Member troops in UN peacekeeping, especially those involving "peace enforcement." In endorsing this approach, the New York Times recently editorialized that "[e]nforcement missions require the kind of firepower that only major powers can supply, but these powers do not easily subordinate their armies to U.N. command." Indeed, the Times argues for a general scaling back to traditional UN peacekeeping operations like monitoring cease fires, using troops from smaller and neutral states. The command-and-control problem is thus solved for real enforcement missions by assigning them "to the armies of major military powers, under Security Council mandate but national combat command." I believe that this is a sound approach.

In reading H. R. 7, I am struck by the number of provisions which are closely related to policy initiatives which were undertaken, many of them successfully, during the Bush Administration. In retrospect, had the UN, its supporters, and other member governments taken our admonitions more seriously, perhaps we would not be at the critical point of considering legislation which would impose these and other, even stricter policies, as a matter of law. I conclude regretfully, however, that the vicissitudes of Clinton Administration policy, the intransigence of the Secretariat, and the indifference of the other member governments have led us almost inevitably to the present situation. Indeed, many UN advocates may come to look back on the Bush Administration as "the good old days" for the organization.

CONCLUSION

Much remains to be done before the United Nations -- either in its regular work or in peacekeeping activities -- meets the management and financial standards which the United States expects. That the hurdles to be overcome are numerous, however, should not deter us from seeking to accomplish what needs to be done. Too much is at stake to let the matter drift in irresolution.

NATIONAL POLICY FORUM

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John R. Bolton was announced on January 9, 1995 as President of the National Policy Forum by Republican National Committee Chairman Haley Barbour. Prior to his selection, Bolton served as President of Bolton Associates, Inc., an international legal and consulting firm representing foreign governments and businesses in Washington, and American corporations with overseas trade, aid and investment matters.

In the Bush Administration, Bolton was Assistant Secretary of State for International Organization Affairs (1989-1993), managing the formulation, articulation, and implementation of United States policy and diplomacy within the United Nations system, and directed U.S. policy during the 1990-1991 Gulf Crisis. Reporting directly to the Secretary of State, he supervised approximately 450 employees in Washington and in U.S. missions to U.N. organizations in New York, Geneva, Vienna, Rome, Paris, Montreal and Nairobi.

Bolton served in the Reagan Administration as Assistant Attorney General of the Civil Division (1988-1989), and Assistant Attorney General, Office of Legislative Affairs (1985-1988). He also served as General Counsel of the Agency for International Development (1981-1982), and Assistant Administrator for Program and Policy Coordination (1982-1983).

From January, 1993 to January 1994, Bolton was a Senior Fellow with the Manhattan Institute, managing the ongoing scholarship and publication of a wide range of foreign policy and domestic issues, including writing a book with the working title Litigator Among Diplomats. He also served as Director of the Center for Corporate Governance. John Bolton was an Associate with the law firm of Covington & Burling (1974-1981) and a Partner (1983-1985).

John Bolton graduated Phi Beta Kappa from Yale College (1970), and received his J.D. from Yale Law School (1974) and was Editor, Yale Law Journal.

John and his wife, Gretchen, have a daughter, Jennifer Sarah, and live in Bethesda, Maryland.

Mr. ROGERS. Ambassador Frank Ruddy, this is the first time, as I understand it, that he has spoken publicly about his recent experience as Deputy Chairman for the Referendum for Western Sahara. We appreciate his willingness to share with us the benefit of his experience, and I think it will be useful for us to hear that at this time. Mr. Ambassador.

AMBASSADOR RUDDY'S OPENING STATEMENT

Mr. RUDDY. Thank you, Mr. Chairman.

I am honored to be here today among such distinguished company. My colleagues on this panel have spoken in universal terms about the United Nations. I am going to talk very briefly about a particular mission in which I participated and where I spent most of last year called the United Nations Mission for the Referendum in Western Sahara, and the acronym is MINURSO.

MINURSO was created in September 1991 to monitor a cease-fire for a war that had been raging for a very long time between Morocco and an organization called the POLISARIO. It also was to conduct a referendum to decide the future of that area, whether the Western Sahara which used to be Spanish Sahara would become an independent state or whether it would become part of Morocco.

The referendum was originally scheduled for 1992. As late as last November, King Hassan II of Morocco had said he was 100 percent certain it would be held February 15 of this year, or February 14. The referendum was pushed back then until November 1995 and I think the latest date is October of 1995 so there is a good deal of changes there.

If you start a referendum, one of the first things you have to do is to bring the people in to have them make an application to express some interest in participating. For reasons I didn't understand, the MINURSO management had decided to delegate this function to the parties, to the POLISARIO, and to the Moroccans. This was an early and disastrous decision.

It was a disastrous decision because as we later learned—people who live in the area are called Sahrawis. These people came in to us and told us various scenarios. In one case friends, members of their family who had registered to vote in the Moroccan offices never appeared on the lists to be examined. Other people who were on the list were not allowed by the Moroccans to come to the center to be examined, to be identified.

The way it worked was this: In order to be identified, in order to qualify to vote, you had to come to one of our centers and the only way you could do that was if the Moroccans would take you in one of their vans to that center. So they had complete control over the process.

The United Nations didn't have the applications because it didn't conduct this initial process itself and had no idea who was or wasn't registered. It was completely in the hands of one of the parties. We had thought that we could possibly solve this problem by opening up our identification centers to allow Sahrawis to register there so that whatever had happened to their original registration, they could register with us. The problem is that no one is allowed within 200 meters of our centers. The Moroccan police and army keep people away, so that was not a possibility.

We had some other things that were very, very disturbing. When many of the Sahrawis came in they would ask us to keep an eye out for them to see what happened to them after they left, were they still where they were supposed to be. They were afraid that something might happen; could we do something if they disappeared? Many said that they were scared for their lives if they were seen by the Moroccans talking to our people. Other people asked us not even to recognize them if they saw us outside these centers. Terrorized may be too strong a word, but the comments of these people reminded nothing so much as South Africa in the early 1970s when blacks would come and talk to us freely at the U.S. Embassy and pretend that they didn't know you when you saw them outside the Embassy.

When I talk about the Moroccans, I have to explain a little bit about the structure. The Moroccans who were running the operation in western Sahara came from the Ministry of the Interior. It is hard to believe that a person with King Hassan II's reputation as a statesman and as a wise man knew of let alone authorized the Mafia-like behavior that was being carried on in that area. I don't know—it just seems to me unlikely. It may have been overzealousness by some of his Ministry of the Interior people. I don't know.

The way that the identification works, once you have the applications of people, you then have to bring them in and sit them down and see if they meet the criteria to vote and, secondly, if they are actually the people they claim to be.

There are currently 233,000 people who have applied to vote, and if you add another 10 percent to that number which takes into account other people who have not yet applied, people in remote areas, of Algeria, in the Canaries, in Spain or in France, the number rises to over 250,000. Currently, as of December, the MINURSO centers were identifying about 400 people a day. If you take 400 people against 250,000, that is not a very big bite. It is extremely unlikely that this process can be completed before October or November 1995 when the referendum is scheduled.

This, by the way, the slow pace of this process is no reflection on the United Nations' staffers who are running it. They are dedicated; they work very long hours; it is a very complicated process, very technical and takes a long time. It is just that the process is moving very slowly.

Now, the people who are so-called Moroccan experts tell me that Moroccans don't want the referendum. The status quo is not so bad. On the other hand, Morocco cannot afford to appear to be the villain of the piece because of their role in the Maghreb and in the United Nations.

I am not an expert on the Maghreb and I will leave Morocco's motives and strategies to the experts. I merely note, in December of last year, to give a couple of examples, Morocco halted the identification process which cost \$100,000 a day over the question of an adverb used in the schedule sent out by MINURSO. If this had been—the result was a series of notes and quibbling over the word "respectivement" in French.

If Morocco had been interested in resolving this problem, it could have been done so in a two-minute phone call or a two-minute meeting with the French speaker, former Togolese ambassador who

had drafted the letter. In the same month, the Moroccan liaison officer bragged to a group of MINURSO people in a bar that he was—it was he who decided whether this hundred thousand dollars a day process would go on. And in front of everyone in a kind of macho display he cancelled the next week's identification sessions to make a point.

These kinds of things were never reported to the United Nations in New York. The identification process was supposed to begin in the middle of June 1994, and Morocco said that it was not going to accept the OAU observers who were supposed to be part of the process. The Moroccans had walked out of the OAU about 10 years ago after they had recognized the POLISARIO. The POLISARIO, on the other hand, insisted that the OAU be present because they were part of the referendum process. After 2.5 months of negotiation, a formula was worked out whereby the OAU representatives were called international observers and allowed to come into the country. The irony is that this had all been done before in 1993. There had been complete agreement on this in 1993 and there was no need as far as anyone could see for this delay, for this great waste of money, except for the sake of delay.

There are also some very ugly elements to the process. When someone comes to be identified, they are interviewed and they get a receipt and they take that receipt and in a month's time or several months' time a list is published and it says that Mr. X and Miss Y are entitled to vote and they can then appear to get a voters' certificate that will allow them to participate in the referendum.

What was happening in Laayoune, according to our Sahrawi sources, is that when they were returning on the same vans, the Moroccans were taking these receipts from them, forcing them to hand over the receipts before they could leave the van. This creates a very serious problem about what is going to happen when the people go to get the voter cards. Who will be getting the voter cards? This was reported through the MINURSO system however it stopped there, it was never reported to New York.

MINURSO was never allowed to buy space in the Morocco newspapers or on radio to alert people to the identification process, which was unfortunate. However, as of August 28, when we began the process in earnest, the complete—the MINURSO operation ceased to be an United Nations operation and became an instrument for Morocco's domination of the process. The chief Moroccan officer in Laayoune publicly upbraided the head of the MINURSO mission and directed him to remove all United Nations flags from the identification center the next day or he would stop the process. Moroccan journalists photographed and taped every minute of every day and took the picture of every Sahrawi who came to be identified.

Mr. ROGERS. Mr. Ambassador, can we conclude from what you observed there that this operation is being manipulated and is five years in operation, and is wasting money? Is that a fair assumption?

Mr. RUDDY. Yes, sir. Two points, one was that in terms of being an actual referendum or part of the process it is a sham. It is not working that way. At one point there were some possibilities for

this referendum to go forward. I think it is still salvageable, but at the moment it is basically a Moroccan-controlled operation, which is sad.

Mr. ROGERS. At what cost to the United Nations?

Mr. RUDDY. It is costing us \$100,000 a day for this and roughly \$40 million a year for the entire mission.

And the only other point that I wanted to make is that it is unfortunately run like a plantation. There is no accountability. I don't think, although we are talking about the United Nations in general here, the United Nations in New York simply didn't get any of this information. Maybe they were negligent in that they should have been more insistent but most of the things that went on, most of these abuses were not reported to New York.

[The information follows:]

STATEMENT OF FRANK RUDDY

I am honored to be invited here today among such distinguished company. I will speak briefly about the United Nations Mission for the Referendum in Western Sahara (MINURSO) where I spent most of last year.

People who know a lot more than I do have written books on the history and politics of Western Sahara. Let me just note that Western Sahara is the former Spanish Sahara. MINURSO was created in September, 1991 1) to monitor a cease-fire in the war which had been raging between Morocco and The Popular Front for the Liberation of Saguia el Hamra and Rio Oro, better known as the POLISARIO, since the Spanish withdrew from the area and 2) to conduct a referendum on the future of the area. The referendum, originally supposed to take place in 1992, is meant to decide whether Western Sahara would become an independent state or a part of Morocco. The next-to-the-latest referendum date was February 14, 1995, and even His Majesty, King Hassan II of Morocco, said just last November that he was 100% certain it would take place on that date. The referendum has since been pushed back to some time in October or November, 1995. As of this writing, the referendum business in Western Sahara is stalled yet again, at a cost of \$100,000 a day by MINURSO's own estimates.

How to start the referendum: A first step in a referendum is taking applications from the would-be voters: that should have meant bringing people in to U.N. offices and having them answer set questions, in writing, in order to establish their eligibility to vote.

How not to start: At some point in 1993, MINURSO had decided not to take applications itself but to delegate this crucial task to the parties: The Moroccans registered their people in their own centers in Western Sahara, and the POLISARIO did the same in Southern Algeria. MINURSO merely received whatever registration information the parties chose to provide. That proved to be a very unwise decision.

What went wrong: Our own (Identification Commission) Arabic speakers came to me to report that Sahrawis coming in for what is called identification were complaining to them (in Hasania, the local Arabic dialect) that members of their families and friends had filled out applications at the Moroccan-run centers but did not appear on the lists of people to be identified and hence were disenfranchised. Others complained that relatives and friends were on the list to be identified, but the Moroccans refused to put them on the van. (A word of explanation. Only those local people who are cleared by the Moroccans are permitted to enter the MINURSO identification center or the U.N. offices at all, for that matter. The police keep everyone else away. People coming to be identified on a given day can't just walk in. They are rounded up by the Moroccans at some central point and sent by van to the MINURSO identification center.) In this way, the Moroccans control who gets identified. That's just not the way it's supposed to be, and that's not the kind of process the U.N. is supposed to be funding. All of this was reported within channels at MINURSO. It was never taken up with the Moroccans as far as I know, and for certain U.N. Headquarters in New York was never informed.

This is the same reason, by the way, we were unsuccessful in inviting Sahrawis to fill out voter application at our centers. Nobody was allowed anywhere near us without Moroccan Government approval.

One other observation: Some Sahrawis who reported what the Moroccans were doing to them asked that our U.N. people keep an eye out for them after they left, in case they disappeared. Many said they were scared for their lives if the Moroc-

cans saw them talking to U.N. people. Others asked not to be recognized outside the U.N. center. Terrorized may be too strong a word, but they were afraid. Their comments reminded me of nothing so much as South Africa in the early 70's when blacks would talk to you freely in the safety of the U.S. embassy then pretend they didn't know you as soon as they left.

I should note here that when I say Moroccans I am referring to the Ministry of Interior people who ran the show in Western Sahara. It is hard to believe, and I personally don't believe, that a statesman like King Hassan II knew, let alone authorized, the Mafia-like behavior exhibited by his representatives.

How identification should work: After registration, the next step is to see if the people who applied are qualified to vote. To do this, a part of MINURSO called the Identification Commission, conducts hearings and makes findings, like a court. This is the process that is continuously, and currently, stalled in MINURSO.

There are 233,000 people already applying to vote, and they all have to go before the Identification Commission at some point to be identified. If you add another 10%, a reasonable estimate by all accounts, to cover other eligible voters living in remote parts of Algeria, Mauritania or in The Canaries, Spain or France, the number rises to over 250,000. It takes 7 minutes in the most routine cases to identify someone, and, as of December, 1994, MINURSO Identification centers were averaging somewhere around 400 or so persons total a day. That's not much of a bite out of 250,000. The process, through no fault of the Identification Commission staff who work very hard, is moving at a snail's pace. Even in the most optimistic of scenarios, where the problems are simply technical and logistical, and the Identification teams are increased ten-fold, the sheer weight of numbers makes it virtually impossible for the process to be completed in time for an October or November, 1995 referendum. When, however, there is added to the mix a conscious effort to obstruct the process, as is the case right now, the October/November, 1995 date becomes quixotic.

DELAYING TACTICS

So-called Morocco experts tell me that Morocco doesn't want the referendum because the risks outweigh any possible gains. The status quo is not so bad. On the other hand, Morocco cannot afford to appear to be the villain of the piece and will find the means to slow the process down until everyone is sick of it. I will leave Morocco's motives and strategies to the experts of which I am definitely not one. I merely note that in December of last year, Morocco halted the identification process for over a week, at a cost, once again of \$100,000 a day on the question of an adverb used in a schedule proposed by MINURSO. This resulted in an exchange of formal letters and a good deal of sophomoric quibbling. If Morocco had been interested in clarifying the matter, as opposed to simply delaying the process, it seemed to me it could have been done so in two minutes in a phone call or meeting with the native-French speaker, a former Togolese ambassador, who drafted the letter.

In the same month, the Moroccan liaison officer with MINURSO bragged publicly to a group of MINURSO people in a bar, that he alone was the one to decide whether identification would go forward the next day (it was then scheduled to resume), and to prove his point he picked up the phone (it was then about midnight), and, in front of everyone, cancelled the next week's identification sessions.

These are not the actions of people serious about getting the referendum on track or saving the U.N. money. These demagogic actions should have been, but were never, reported to U.N. New York.

The identification process was supposed to begin on June 15, 1994, but the start was delayed two and a half months, at a cost of millions of dollars, while the U.N., the POLISARIO and Morocco negotiated over what to call the O.A.U. representatives who were to come to observe the identification. The Moroccans had walked out of the O.A.U. years ago when it recognized the Sahrawi Arabic Democratic Republic created by the POLISARIO and now said they didn't want O.A.U. people in Western Sahara. The POLISARIO insisted the O.A.U. representatives were part of the referendum process and had to be there. In the end a compromise about what they were to be called was reached, and they were permitted to enter. The irony is that this had all been worked out in 1993, and there was no need, as far as any of us could see, except delay for the sake of delay, to reinvent the wheel in 1994.

THUGGERY

Each person who appears before the Identification Commission gets a receipt, and when the findings are made public, the persons who are found eligible to vote turn those receipts in for a voter's card. What was happening in Laayoune is that Sahrawis returning from the identification centers on those same vans I was talking

about were being forced to turn in their receipts to the Moroccans before they could leave the vans. This opens up the very real possibility that the wrong people may be presenting receipts and getting voter cards. This is a very serious problem, indeed, and was reported within channels at MINURSO. U.N. New York was never informed.

The identification process began in earnest on August 28, 1994, simultaneously in Western Sahara and Southern Algeria. One can say that surely, as of this date, MINURSO ceased to be a U.N.-run operation and became the instrument for Morocco's domination of the identification process.

You need government permission to buy space on Moroccan media, and Morocco had always denied MINURSO permission to buy space in the Moroccan newspapers or radio to alert people to register to vote and participate in the identification process. That was small potatoes compared to what was to come after August 28. Harold Macmillan once referred to how the Borgia brothers would take over a Northern Italian town. Watching the Moroccans at work, I thought of that description.

Some for-instance: On August 27, the evening before the process began in Laayoune, the Moroccan Liaison with MINURSO upbraided the chief-of-Mission in a public dining room before Moroccans and MINURSO staff and directed him to remove all U.N. flags from the U.N. building where the identification was to take place, or he would close down the identification. Unfortunately, the Chief-of-Mission gave in and even the U.N. flag in the room where the opening ceremony was to take place was removed. This shameful event was probably too embarrassing to report to U.N. Headquarters in New York. In any event, it never was.

During the days of the opening sessions in Laayoune, Moroccan "journalists" photographed and videotaped every minute of every day and took the picture of each Sahrawi who came to be identified. These "journalists" were, as our press people and the head of our police observers (CIVPOL) noted, Moroccan state security people. The proof was that not one second of these hours of television coverage ever appeared on Moroccan television. This flagrant abuse of press coverage was never reported to U.N. New York.

A few weeks later, telephone taps were found on local and all international lines at MINURSO headquarters. The taps went to a local Moroccan line. This was hushed up. There was no investigation, but the person most likely to have installed the taps was transferred immediately. Mail had regularly been tampered with, and rooms of MINURSO personnel were regularly searched, but this was a new wrinkle. Big brother was now listening to, as well as, watching us, and U.N. New York was never informed.

In the following weeks, Morocco dictated even our work and flight schedules. When the Moroccan observers chose to be in Western Sahara, we worked. The Moroccans also insisted that U.N. planes fly empty, and at great expense, from Laayoune where the planes are based, across the desert to the POLISARIO camps at Tindouf in order to demonstrate their control of the process. This inexcusable waste of flying hours and fuel was never reported to New York. Interestingly enough, and this is a good example of how the U.N. works, once criticism of this practice became public, MINURSO continued the flights, but stuck a few military observers on for effect, so no one could say they're dead-heading.

On another occasion, Morocco announced that a MINURSO staff member was barred from returning to Western Sahara for inflammatory and provocative remarks he had made while conducting an identification session in Southern Algeria. Fortunately, there was a video and audio tape of his remarks, and they were shown to be perfectly harmless. The Moroccan note protesting his remarks, which were not prepared or available before he made them, was handed to the senior MINURSO representative before the remarks were even made. This was a clear case of harassment, but, under Moroccan pressure, the Chief-of-Mission relieved the individual of his duties. The incident was not reported to U.N. New York until a month later when I decided I had to. Once Morocco's action became public, he was allowed to return to Western Sahara.

In Laayoune, the Moroccans continue to treat the U.N. identification facilities as their own, running groups of visiting firemen in whenever they like and keeping the facilities open, if that's what it takes, to accommodate late arrivals. It's not a question of if; it's a question of when. On one occasion, when the Moroccan liaison with MINURSO arrived at the identification center, he was furious to find he had to wait a few moments for the gate to be unlocked so he could enter what he called "chez moi," my place. And that is how the Moroccans have been permitted, through MINURSO timidity, to think of the U.N. facilities in Laayoune.

Ambassador Albright was gracious enough to invite me to New York to give her my assessment of MINURSO, and I have done so. I have also been asked to give my observations on any procurement irregularities at MINURSO to a member of her

staff, and I shall. I was not at all surprised to hear Ambassador Albright say that the problems of MINURSO are not political but management issues which cut across party lines. In these hard times, it is not enough that the U.N. try to do the right thing. There's just not enough money to go around for that. The U.N. must, as the ambassador said in a Baltimore Sun article last summer, "emphasize results."

I read the transcript of The Secretary General's private meetings when he was in Western Sahara and Algeria last November, and I had the honor to escort him around MINURSO. He pulled no punches. He was well aware of the fiscal responsibility this Congress will demonstrate (what he called "une nouvelle attitude negative chez les americains," a new negative American attitude), and he spoke of tough love. There is just too much for the U.N. to do to waste its time with parties which lack the will to work to resolve their differences. Ironically, as he spoke, the process in Western Sahara was once again broken down over a frivolous technicality and would become even worse after he left.

Many people I respect in MINURSO, people from the Middle East and the Maghreb and old Arab-hands, tell me the Moroccan influence in MINURSO is too far ingrained to be excised. MINURSO, they say, as a credible institution, is not salvageable. I don't believe that has to be the case. True, both the Moroccans in Western Sahara and MINURSO are out-of-control right now. I think if Rabat and the palace is shown first hand what has been carried out by thugs in its name, it will make the necessary changes. As it is now, it is, to quote Voltaire, worse than a crime; it is a mistake, and His Majesty, King Hassan II, doesn't make many mistakes. The United Nations does not have within its ineffective bureaucracy and "old boy network" the initiative to cure the management problems at MINURSO, but that same "nouvelle attitude negative chez les americains" that Boutros-Ghali talked about can work wonders in making the U.N. to take a hard look at MINURSO and its management which is accountable to no one and operates on a plantation mentality. A good management team could clean that place out and reestablish MINURSO's credibility within the Security Council and throughout the international community.

Thank you very much.

Frank Ruddy: 5600 Western Avenue, Chevy Chase, MD 20815.

MOST RECENTLY

Deputy Chairman, Referendum for Western Sahara: Laayoune, Western Sahara

The U.S. State Department proposed Mr. Ruddy for the role of Chief Operating Officer. His job was to run an unprecedented program to identify eligible voters among a nomadic population in the Sahara Desert, register them to vote and then conduct a referendum to determine whether Western Sahara becomes part of Morocco or an independent state.

Private Practice of Law: 1992–1993

Mr. Ruddy was a lawyer in private practice in Washington, D.C.

Vice President and General Counsel, Sierra Blanca International (SBI): 1989–1992

Mr. Ruddy advised SBI on foreign and domestic law including SEC matters, FCPA, corporate law, contract and legal liability questions generally.

General Counsel, Department of Energy: 1988–1989

Mr. Ruddy was appointed by President Reagan as Chief Legal Officer of a \$15 billion cabinet department.

United States Ambassador, Equatorial Guinea: 1984–1988

President Reagan appointed Mr. Ruddy to this West African country to protect U.S. interests in the face of a considerable Russian, Chinese, North Korean and Cuban presence there.

Assistant Administrator, United States Agency for International Development: 1981–1984

Editor

"The International Lawyer," American Bar Association Quarterly, from 1978 to 1983.

Author

Various pieces: Wall Street Journal, Washington Times, Washington Post, Baltimore Sun, etc.

MISCELLANEOUS

Degrees in English literature from Holy Cross College (A.B.) and New York University (M.A.).

Degrees in law from Loyola University (J.D.), New York University (LL.M.) and Cambridge University (Ph.D.).

Honorable Discharge, U.S. Marine Corps.

University teaching: Cambridge University (international law); Catholic University of America (environmental law).

Member: New York, Texas and District of Columbia bars.

Visiting Scholar: Johns Hopkins School of Advanced International Studies (SAIS)

Council of American Ambassadors, Washington, D.C.

Head of U.S. delegation at 5 international conferences.

PEACEKEEPING

Mr. ROGERS. I am going to, in this first round of questioning, limit ourselves to five minutes each so that everyone has a chance, at least on the first round, to have questions.

Let me direct the witnesses' attention now to the question of peacekeeping, how we get involved, and whether we get involved, how do we pay for it and all the questions surrounding peacekeeping. One of the major distinctions in United Nations peacekeeping actions is between noncombatant peaceful observations, which is the traditional peacekeeping activity under Chapter 6 of the charter versus taking up arms and intervening militarily in situations and in some cases trying to impose a solution militarily or engage in nation-building as we have done in Cambodia, perhaps Somalia and others, which is Chapter 7 activity.

Most of the problematic peacekeeping missions of late, where we have had controversy, have been the Chapter 7 operations like Somalia and the former Yugoslavia. The Secretary General in his recent statement, updating his 1992 Agenda for Peace, called for scaled-down expectations and more limited missions. The New York Times in an editorial recently called for a shift back toward limited objectives like policing cease-fires and leaving the combatant operations to major nations under some United Nations consortium.

General, what are the lessons of peacekeeping over the past few years? Should the United Nations return to peacekeeping with more limited objectives like policing cease-fires and leave major enforcement missions to armies of major military powers, as we did in Kuwait; or should we proceed as the Secretary General now wants to proceed to provide the United Nations with its own ready-response force to allow him to intervene quickly in crisis areas militarily?

General, do you have a thought about that?

Mr. THORNBURGH. I think that clearly this is probably the area where there is more rethinking going on both within the United Nations and, quite properly, within our own government; and what, in my view, is the highest priority is to have the Security Council enumerate and spell out precisely what standards and criteria are going to govern the commitment of military personnel to these various kinds of missions.

I have the impression that most of the responses that have been forthcoming in their various iterations have been ad hoc in nature, many well intended and driven by humanitarian concerns, but lacking in overall fabric that could rationalize for member states the kind of support that is necessary in order to make these missions succeed. So that as you have noted, this escalation and flux that exists about the types of operations that are going to be mounted by the United Nations is an unsettling influence on not only funding but the availability of the resources and personnel to carry forward the task.

READY-RESPONSE UNIT

The suggestion by—this is an area where John Bolton has views that are probably better thought out than I—and I think we differ on this. I think the suggestion that the Security Council have available to it a small ready-response capability to deal with an emergency situation on short notice has some appeal. I don't believe that the United Nations should have its own army, its own standing troops, available. But there have been occasions where it strikes me that by a quick response, by a ready-response group could have forestalled the development of a greater conflagration and, if this is at the behest of the Security Council, we retain our veto authority and in effect have a direct say over what kinds of operations are going to be undertaken. This would be a small, discrete unit that would be available.

At the other end of the spectrum, it is clear that in Operation Desert Storm and Operation Restore Hope, there is no question that this was in effect a subcontracting of these operations to the United States, quite properly from our point of view in Desert Storm, because our vital interests were at stake.

Originally, the commitment to Somalia, I think qualified on that score, although it matured into something of a changed character that I think is an occasion for a lot of questions. But the original purpose was to safeguard the providing of humanitarian assistance to persons who were being terrorized by these warring clans.

Between those two extremes—a small ready-response group that could take immediate and short-lived action to forestall the greater eruption and the massive operation that is required—is not within the capability of the United Nations as such and requires a subcontracting vehicle—which is a whole spectrum of different kinds of activities. I have suggested, that some ground rules be adopted by the Security Council and some degree of predictability imparted into their operations so that you and your counterparts are able to assess the kinds of commitments that are being made by member states worldwide. Otherwise, as I say, it is kind of on-the-fly and becomes *fait accompli*; and nations are not going to have military commitments made and be left high and dry. The resources have to be forthcoming to provide and protect those troops who are in harm's way.

CONSULTATION TO CONGRESS

Mr. ROGERS. At what point should the Congress be consulted on the administration's proposal to support a peacekeeping mission?

Mr. THORNBURGH. The best way to dodge that is, as a political matter, it is very wise for the administration to consult with the Congress at the earliest possible date.

Mr. ROGERS. Particularly since we will be given the bill after the fact.

Mr. THORNBURGH. Yes. Unless there are extenuating security reasons for not wanting to share those, I think that a wise administration would want to consult with the Congress, particularly with leaders of committees such as this, on their plans at the earliest possible date.

Mr. ROGERS. My time is up. I am pleased to recognize our friend, the Ranking Minority Member of this subcommittee, who formerly served as a great Chairman and in whom we have a lot of trust and confidence.

If you would like to make some remarks and then do your questioning, that will be fine.

MANAGEMENT OF THE UNITED NATIONS

Mr. MOLLOHAN. Thank you, Mr. Chairman. Having been late, I will pick up and ask a few questions.

Thank you, Mr. Chairman. I appreciate this hearing, and the opportunity to explore this subject. All the information we can get ought to be very important to us as we move through this year.

Governor, I would like to welcome you and the other gentlemen at the table. Looking over your testimony, Governor, you indicated that when you came to the United Nations there was a management vacuum. Would that be fair to suggest?

Mr. THORNBURGH. That is probably a little bit more florid than I would put it, but you get the gist of it. The reason was, in fairness to the organization, that the Cold War tensions had really jeopardized any operational capability that the United Nations might have had during its first 45 years, and then all of a sudden it became kind of a—

Mr. MOLLOHAN. The lid was lifted?

Mr. THORNBURGH. All of a sudden, folks who had been in fairly calm waters were cast into a raging sea with the end of the Cold War and the advent of these enormous, unprecedented operational responsibilities.

Mr. MOLLOHAN. I understand that one of your major responsibilities was to look at that and to assess it and come up with recommendations, which you did.

You have testified before this committee before. On that basis, I would be interested in your thumbnail assessment, which you may have given and I apologize if I missed it, touching lightly on your successes. Where do we continue to have, in the general operation, management challenges? Also, please suggest a way that this committee could make a contribution to addressing the remaining ones, the biggest ones.

PERSONNEL

Mr. THORNBURGH. Probably I must rely somewhat on my successor Joe Connor's assessment that there still remains a considerable challenge in the area of personnel, in the hiring process through the termination process, because he has identified that as an area

in which he wants to take action. Like any other organization, it is only as good or as bad as the kinds of people and the kinds of instincts that they exhibit that are there.

BUDGETING AND FINANCE OPERATIONS

I think, as John Bolton and I both touched upon, the budgeting and finance operations are really in need of severe overhaul as part of a restructuring process which creates a more unitary United Nations. I think that would be certainly a second priority. We are, I think, heartened by the creation of what is in effect an Inspector General's office, but that requires careful monitoring and, I think, some evaluation after a reasonable interval as to how effective that is going to be in dealing with fraud, waste and abuse.

From a management standpoint, I think again, both on the development side and the peacekeeping side, which are the two principal arms of the United Nations, there is just a lot that needs to be done and a lot of expertise that has to be brought to bear; and I think that the organization would be well advised to use international management consulting firms to aid and assist in that kind of operation.

As to what this committee and the Congress can do, these aren't partisan issues, and it would seem to me that the Congress and the administration have a remarkable opportunity to make joint cause on these. If an agenda, for example, could be agreed upon with five or six specific items between this body and the other body and the administration, the force and power of transmitting that to New York would be substantial because we are the sole remaining superpower. We do support the United Nations concept, and to articulate that as an agreed-upon agenda between legislative and executive and between Republicans and Democrats would be a giant step forward.

I would hope that would eventuate from this kind of examination.

Mr. MOLLOHAN. Take personnel, for example. You allude to the buddy system and deadwood—I am not sure those are your words.

Mr. THORNBURGH. I will adopt them.

Mr. MOLLOHAN. Is that being addressed? Is it better now than it was? As I said, is the process we are undergoing going to address the problem.

Mr. THORNBURGH. The new Under Secretary General for Administration Management has been there I think only about six months, but he clearly identified these areas as action areas in his address to the Fifth Committee of the General Assembly and I think he deserves an opportunity to make some haste in that.

Mr. MOLLOHAN. In what terms?

Mr. THORNBURGH. Let me just say one thing.

Mr. MOLLOHAN. May I just say one thing first? I really would like you to make suggestions with regard to personnel, budgeting issues, and the IG. If you really want to get to these issues and the economic impact they have, and therefore, the budgetary impact and the appropriations consequences, then you need to look at these. You need to support this in the personnel, budgeting, and finance areas. The IG really needs to be able to have these kinds of controls. What would you say?

Mr. THORNBURGH. Well, I have laid out my best thinking in the report that I rendered in 1993, the General Accounting Office has done some excellent work in these areas, the present Under Secretary General I think would have some insights that could be offered perhaps through the State Department and through Doug Bennett's operation.

The one thing I did want to add is that I am saddened always when our Congress is driven to the extremes of renegeing on treaty obligations, withholding our payments, our contributions to the U.N. I would hope that the kinds of things that need to be done to put the U.N. in good working order could be done without using that mechanism. It may, and certainly in 1986 I think really, because of the strong anti-American sentiment that was being expressed at that time became a felt necessity, and it may have been necessary in order to get people's attention with regard to the IG. But that technique can be overused, and it debases the coin of the realm.

It saps our integrity I think as a member of the world community when we are constantly saying if we don't get our way we will pick up our marbles and go home. That is why I think the alternative of having a common front to address issues that are basically nonpartisan and are not separation of powers issues would be far preferable.

Mr. MOLLOHAN. Thank you.

Mr. ROGERS. Mr. Skaggs.

Mr. SKAGGS. Thank you, Mr. Chairman.

Mr. Chairman, I trust you have made note of who your troops are in this proceeding this afternoon.

Mr. MOLLOHAN. I was looking at that a little differently. I was looking at that as, boy, they certainly have a lot of confidence in him.

NATIONAL SECURITY ISSUES

Mr. SKAGGS. That is the way he looks at it.

We have a vote on, so let me just ask for some brief comments, Secretary General, and Mr. Bolton. Considering on some of the items that we are going to be forced to deal with, in the next few weeks that are a part of the Contract With America, such as national security provisions; both of you gentlemen served in the executive branch of government. What would your advice have been to your President in those years had the Congress proscribed a President's authority to commit U.S. forces to serve under U.N. command?

Mr. BOLTON. Do you want to go first?

Mr. THORNBURGH. You were the head of the Civil Division. You told me what to do.

Mr. BOLTON. I think there are important separation of powers questions here. I don't want to ignore that fact. And one is always reluctant to do anything that would impede the President's authority as commander-in-chief. I think there may be a way for Congress to express its policy preferences without tying the President's hands, and I do think it is important for Congress to say what its policy preferences are.

I don't have any difficulty with that constitutionally. I do think that the tendency to micromanage is one that should be avoided, and I think this committee over the years under different leadership perhaps, has really walked a pretty fine line and I worked the street from both the Justice Department side and the State Department side, and I—so I am very sensitive to the separation of powers considerations.

I think, though, the signal you send to the executive branch of the concern up here for the deployment of American forces under less than ideal circumstances under U.N. command is a very powerful signal and should not be underestimated in your deliberations from a policy point of view. But from a constitutional point of view, it obviously raises a host of other very difficult questions.

Mr. SKAGGS. Well, from an operational point of view of the commander-in-chief, I would assume as well.

Mr. BOLTON. Yes.

Mr. SKAGGS. Mr. Thornburgh.

Mr. THORNBURGH. I have already expressed my preference for dealing with this delicate constitutional issue by not putting it in constitutional terms, but by putting it in political terms and, as I said, I think a wise President and a wise Congress will go out of their way to avoid some confrontations, and I think we successfully did in most instances and work to reach some understanding on this very important issue. Because we are really talking about the lives of young men and women who would be pressed into service in these kinds of exercises.

I expect that those who hold the chairs that Mr. Bolton and I did in the Justice Department would give that kind of advice to the President to avoid any kind of constitutional confrontation and try to reach some common ground, which I would not be surprised to see coming from this President in view of his expressed willingness to work with the Congress on so many important issues.

Mr. SKAGGS. Quickly, also on the accounting for peacekeeping operations, it would seem to me that the idea of factoring in third party expenditures such as our logistical support into an overall U.N. total against which then percentages would apply makes some sense. But to just do that unilaterally, as is proposed in the Contract, is problematic. I just wondered if you could give us thoughts on that.

Mr. BOLTON. Well, from an historical point of view, I think it might be helpful to give you some background on Namibia where there was early indication that the cease-fire and return of refugees and the disarmed forces of the Southwest Africa People's Organization might actually break down and the whole referendum process break down, because the peacekeeping force itself was not deployed.

We were asked by the Secretary on an emergency basis to bring in the Finnish battalion which was right along the Namibia border, and DOD responded with alacrity, air lifted the Finnish battalion in place and helped stifle the problem. The Secretary agreed at that point that we would deduct from our assessment of Namibia the cost of the airlift and that all seemed to be going very well until we got the bill from the Department of Defense and it sort

of knocked the socks off the U.N. Secretariat when they realized how much it actually had cost.

We learned a lot about DOD accounting in the course of that exercise, and the point I made in my—

Mr. SKAGGS. R&D for the planes were included, and—

Mr. BOLTON. Listen, it is a wonder to behold, I must tell you. That is why I think in trying to provide some measure for the in-kind services, you have to take a look at that very carefully. But I do think that when we—and there may be times and I think H.R. 7 recognizes there are times when the President may want to waive that cost when it suits our interests to do so. I think that is an appropriate provision.

I just think that it is not, it is not truth in budgeting when you say we pay first for the assessed cost, our 31.7 percent, and then, by the way, you are going to pay for all of these other costs, too, that raise the total U.S. contribution in a given peacekeeping operation well beyond even the peacekeeping assessment. And I think that is what people are concerned about, as I understand it.

Mr. ROGERS. We have only about seven minutes to vote.

We will do a recess now while the Members go vote and immediately come back. If Mr. Regula comes back before we do, he may resume the hearing and we will proceed. So we will stand in recess.

[Recess.]

PEACEKEEPING BUDGET

Mr. REGULA. We will reconvene the committee.

Well, I was interested in your comments; I have been on this subcommittee and off for a couple of years and now back on and it seems like the U.N. is a continuing problem. One of the problems has always been the accumulated arrearages. Do you have any recommendations as to how we should address that problem, and especially now, faced with the budget problems?

Mr. THORNBURGH. Yes. Well, one of the—the question of arrearages is distorted by the imbalance in fiscal years. John, you were here when that happened.

But that really gives the U.S. a bad rap, because we are automatically in arrears for the first nine months of every year. I think this is hardly the time to address that by doubling up contributions. But I think that ought to be pointed out on every occasion that this technical arrearage is not a flouting of our obligations so much as it is just an accounting oddity.

Mr. REGULA. Because of our fiscal year being what it is.

Mr. THORNBURGH. Gentlemen. John, you know the history of that quite better than I.

Mr. BOLTON. I think Congressman Regula knows as well that this started when David Stockman in the first year of the Reagan Administration flipped our assessments and got a one-year budget saving.

Mr. THORNBURGH. That was an asterisk.

Mr. BOLTON. Yes. Another one of those asterisks. And the Bush administration was trying to pay them back. I think the numbers increased because of the growth, the explosive growth in peacekeeping and the way the U.N. does its billing on the first of the

year, they bill each member government, the bill is due in 30 days net, no discounts.

Mr. REGULA. And in reality you get paid within the next nine months.

Mr. BOLTON. Right. By and large, I don't think you can point to any peacekeeping operation in particular that has really been materially impaired because of late payment of the assessments. It is maybe not good form, but it has not had a material impact in the field that I know of.

FUTURE PEACEKEEPING MISSIONS

Mr. REGULA. Do you see the U.N. peacekeeping missions expanding, and is this a role that is being taken on a growing basis, that we should begin to challenge as a matter of policy?

Mr. THORNBURGH. My sense is that there was a lot of pressure on the U.N. to become involved in these operations in the early years of the Secretary General Boutros-Ghali's regime. And as I say, the U.N., to put it in every day terms, became a 911 emergency number. Every time across the world there was something that happened, dial up the U.N. and say get them in there. My sense, however, today, Mr. Chairman, is that there is—the tide is receding, that not only in the United States where our paramount interest is the burgeoning costs, but in other areas among troop contributors, among other political and diplomatic circles.

Mr. REGULA. So you are saying the interest in participating is receding.

Mr. THORNBURGH. Well, I think the recognition is that the reach of the organization may have exceeded its grasp. And in addition, there are certain of these activities that are undertaken that were, in my view, clearly inappropriate. And that that is why I suggested earlier on that there ought to be a rethinking of this whole role and the establishment of some guidelines and rules of engagement that gave the Security Council some parameters within which they can operate.

Just as the United States can't be the world's policeman, I don't think the U.N. can be the world's policeman. I think there are certain struggles and conflicts that are going on in this world that are beyond the capacity of the U.N., even with all of the reforms that we have bandied about here today and all of the rethinking that should be and is going on, is capable of dealing with. There is a finite limit, not only on resources, but on pure capability. And it would take a larger man than I to lay down what those ground rules should be, but I think the task has to be undertaken and begun.

UNITED NATIONS FUNDING CONTROL WITHIN THE PEACEKEEPING ACCOUNT

Mr. REGULA. I came in late of course and you may have addressed this, but is there some measure of fiscal control on the way that these funds are expended once they get into the peacekeeping account?

Mr. BOLTON. I think there are two aspects to that, Mr. Chairman. The first is that there is a disconnect within the U.N. system itself from the point of view of financial accountability, and that is

that while the Security Council creates peacekeeping forces, it is the General Assembly that comes along later and approves the budgets of the peacekeeping force.

So that in a case where there is a particular perceived urgency to move quickly, that in the classic case, we must do something internationally about crisis in country X or Y, the Security Council feels great pressure to act and to do something, they create a peacekeeping force. But nobody knows exactly when that happens what the size will be, what the real needs are; it is all done in a very hurried fashion often based on secretariat reports, which are their best estimates, but frequently close to guesswork.

And then by the time the General Assembly has a chance to engage in budgetary review it becomes a lot more difficult for the General Assembly, especially where we don't have a veto, to exercise tight financial control over it. So that is problem number one which is in the decision-making structure of the United Nations itself.

Second is, as Mr. Ruddy explained in his testimony, using the example of the Western Sahara, what actually happens in practice is even more difficult to control from New York or from member governments. Just as one example, in Namibia, I was amazed to read after the UNTAG operation concluded that all of the vehicles that the U.N. had purchased in Namibia and that numbered in the thousands, I believe the number is 5,000 if I recall correctly, all purchased new, and different kinds, trucks, Jeeps, Land Rovers and what not, at the end of the peacekeeping operation were turned over to the government of Namibia, the new government. It was complete news to me. I thought we would figure out a way to get those vehicles and reuse them. That sort of thing I am afraid happens all of the time.

I would hate to think how many former U.N. vehicles are now driving along the roads, such as they are, of Cambodia. The same sort of thing has occurred there. That sort of expenditure of money almost without scrutiny, either in the General Assembly or in the Security Council, is all too frequent, unfortunately.

Mr. THORNBURGH. And that makes all the more important a vigorous Inspector General operation to deal—I mean we focus on fraud and waste, but there is also abuse, and there is also management questions that the Inspector General can be helpful in answering.

INSPECTOR GENERAL'S OFFICE

Mr. REGULA. You say a vigorous Inspector General operation. Is there such in place or how—

Mr. THORNBURGH. We will see. The office has only recently been created, and I think it deserves its chance to prove itself. I would certainly—as you know, I have grown rather tiresome on this issue, Mr. Chairman, of pointing out that not only is it in the interests of those who pay the bill to have some assurance that their dollars are being spent effectively, but it is in the interests of the organization itself to raise the comfort level that member states feel with these rapidly increasing costs. And that is why I think it is in the U.N.'s best interest to have a strong and vigorous Inspector General operation.

Mr. REGULA. I am interested just in the mechanics. Let's say 1,000 U.S. service people are detailed to the U.N. Do they then go on the payroll of the U.N.?

Mr. BOLTON. They become, under the way the procedure works, and there would be status of forces agreements negotiated with the countries involved in a peacekeeping operation, they are blue helmeted and become international military under the control of the U.N. The United States or any troop-contributing country is reimbursed per soldier on a formula basis.

PEACEKEEPING OPERATIONS MANAGEMENT

Mr. REGULA. Okay. So they are contract soldiers in a sense.

Mr. BOLTON. In effect, that is right. And that is one of the dangers for the United States in supplying peacekeepers. I think it was exemplified by the tragedy of Colonel Higgins who was a U.S. officer in the U.N. supervisory organization in Jerusalem and was kidnapped by terrorists in Lebanon and eventually executed. A lot of the concern we had was that we were somewhat inhibited, more than a little inhibited in trying to do something about his kidnapping because he was in effect part of a U.N. force and had moved out of the U.S. military structure.

Mr. REGULA. How about the equipment? Does the U.N. purchasing agent buy it, or do—

Mr. BOLTON. The U.N. purchases it, and typically peacekeeping force units are expected to show up with such equipment and supplies as are necessary to keep them operational in the field. That is a continuing problem. For example, just recently in the case of the U.N. protection force in Yugoslavia, a Bangladeshi battalion I believe in the Bihac area of Bosnia, didn't have transport, didn't have weapons, didn't have ammunition, didn't have equipment, and so the U.N. barely clothed for the environment, but the U.N. then had to go out and purchase or get some way or another the logistical support so that that battalion could at least fulfill its duties and that becomes a cost to the contributors at that point.

Mr. THORNBURGH. From a procedural point of view, the problem has always been that each one of these peacekeeping operations begins from scratch and there are no modules that can be inserted into the planning process.

Mr. REGULA. Are the troops, do they have any choice in the matter? Or does the United States military say to this battalion or whatever, you are going to be part of the U.N. peacekeeping operation and every soldier therein is—has no choice?

Mr. BOLTON. The practice to date has been that in those peacekeeping operations where they are observers, and UNSOLD is a good example, they are military officers who volunteer for that assignment as they do for others, and for example, in Somalia and Haiti, which will happen soon when the U.S. forces leave U.S. command and become blue helmeted, they are subjected to the normal military orders.

I think another aspect, though, that is important to understand your question when the U.N. creates the peacekeeping force, what it does and why these peacekeeping operations seem to have so many different people from so many different countries, typically the U.N. will seek the permission of the parties as to what forces

are acceptable and what forces are not acceptable. In the case of Bosnia, for example—

Mr. REGULA. You mean parties that are going to contribute?

Mr. BOLTON. No, the parties to the dispute having veto in effect over what countries will be permitted to contribute troops. In the case of Bosnia, for example, there was once a thought of actually putting U.S. peacekeeping forces in and around the Sarajevo airport and the Serbs said no, we won't accept that. And so quite prudently I think from our point of view we declined to supply any, because our troops would have been in jeopardy. But the result is that you can get a proliferation of forces that have never exercised together, have never trained together, have no comparable equipment, all of which then has to be worked out in the field at considerable, ongoing expense.

ESTABLISHMENT OF A READY-RESPONSE UNIT

Mr. REGULA. Would there be merit in establishing the equivalent of the French foreign legion where the U.N. force is more or less a permanent, like a group of firefighters in a city that are there, they volunteer for it, they are paid and they become professionals in the sense that there is a coordination of training as opposed to this sort of a patchwork of different countries contributing troops? They probably have communication problems among many others.

Mr. THORNBURGH. You will get two answers on that.

Mr. BOLTON. I think there are two aspects of that. In terms of the notion of a rapid deployment force, I personally am opposed to that. I think the danger of a rapid deployment force is that somebody might actually rapidly deploy it some day and then they would deploy it into a political environment where there was no hope of a solution and they may be there ad infinitum.

I do think, though, that your point about coordination, about joint training and so on is something that should be addressed. The Nordics do have training facilities that they use for peacekeepers from around the world. You may recall President Bush's last address to the General Assembly in September of 1992; he proposed to make available American facilities that were no longer needed for the training of our forces to help assist in exactly the kind of training and coordination for U.N. peacekeeping forces in the future, so that there would be some basis of common knowledge, common communication, common logistics.

Mr. REGULA. Could that be done before there was a mission?

Mr. BOLTON. Yes. Exactly. That was the intent. Exactly.

Mr. THORNBURGH. I just want to reiterate that I think there is a place for a small response force, international in nature, and would worry less about it being precipitously deployed, so long as we have the veto in the Security Council for the reasons, some of the reasons that you have stated, Mr. Chairman.

AUTHORIZATION OF DEPLOYMENT

Mr. REGULA. I don't know all of the exact procedures, but can the Security Council make a decision to deploy or does the General Assembly have to ratify it? Procedurally, how does this happen?

Mr. BOLTON. The Security Council can authorize it, but ultimately the General Assembly has to approve the funding.

Mr. THORNBURGH. Well, you know how important that is.

Mr. REGULA. Is there a permanent military staff connected to the U.N. that is made up of nationals from different countries that more or less move—or more or less coordinate an effort when the decision is made to do a peacekeeping mission?

Mr. BOLTON. There is. The charter under Chapter VII provides for the creation of what is called a military staff committee consisting of the Chairman and the joint chiefs of the five permanent members and such other chairmen of military operations as may be necessary. That never really got off the ground, because of the onset of the Cold War. So the military coordination ability of both the Security Council and the Secretary is pretty minimal at this point.

Mr. REGULA. Well, it seems to me that if you are going to have an efficient use of money and manpower and equipment, wouldn't that be basic?

Mr. BOLTON. I think that when you have 70,000 U.N. peacekeepers in the field, one would have a greater sense of confidence if there were some kind of military, professional military oversight of that, but that is lacking now, that is correct.

Mr. REGULA. You are really saying most of these peacekeeping operations are ad hoc?

Mr. BOLTON. That is exactly right.

Mr. THORNBURGH. They have, with this enormous expansion, undertaken to provide some kind of expertise in that area. But as John Bolton points out, the notion that originally was contemplated by the charter has never been implemented, and I don't know—I think you might want to hear from some military people on that as to how practical that might be to revive that idea and have an effective military staff as contemplated by the charter.

MINURSO

Mr. REGULA. One more question. Mr. Ruddy, I was in Morocco, it must have been about seven, eight years ago and I remember we visited the Polisario. Is that conflict still continuing?

Mr. RUDDY. No. There has been a cease-fire since 1991. That is one of the things that MINURSO is doing, supervise the cease-fire and number two is to start a referendum.

Mr. REGULA. Would the referendum be between both sides as to whether it should be one government or should be two separate governments? Would that be the choice?

Mr. RUDDY. Yes. One of the problems is to determine just who it is, who has a right to vote. It is the people—it is the people who are the traditional inhabitants of Western Sahara, the desert people, and so the first question is to find out just who are these people, and then the second thing is once they have done that, then is to see that they are the ones who get to vote.

Mr. REGULA. I am just recalling, it seems to me like they have sort of a sand strip of barrier across—

Mr. RUDDY. It is one of, I think, the engineering wonders of the world, yes. They have a 2,000 mile berm, a wall put up by the Moroccans to, basically, to inhibit Polisario actions. It is extraordinary.

Mr. REGULA. So that is still there?

Mr. RUDDY. Oh, yes.

Mr. REGULA. And there are tensions on both sides of it?

Mr. RUDDY. Oh, there are tensions, yes.

Mr. ROGERS. Mr. Dixon.

Mr. REGULA. Thank you.

UNITED NATIONS, MANAGEMENT

Mr. DIXON. Thank you, Mr. Chairman. Gentlemen, I am new to this committee and so I am not as familiar with the United Nations as other members of this committee, so I hope you will bear with me.

First of all, I assume that all three of you feel that peacekeeping is an appropriate function of the United Nations?

Mr. BOLTON. That is correct.

Mr. THORNBURGH. Yes.

Mr. RUDDY. Yes.

Mr. DIXON. All right. I just wanted to hear that.

Governor, other than the withholding of funds, what other pressures can you recommend to us to make the necessary changes in the financial structure, or the management structure of the United Nations? I would be interested in your views on that?

Mr. THORNBURGH. I think, as I indicated, a concerted targeted action not just through our mission, but with the obvious and structured support of the legislative and executive branch would be a very powerful way to proceed. Too often these matters are just the province of the mission, the ambassador and his or her staff.

Mr. DIXON. Well, I heard you say that. But do you think, based on your knowledge of the United Nations, that a joint statement, bipartisan from the executive branch and Congress would be sufficient for us to work our will—and that is all that is necessary?

Mr. THORNBURGH. Not just a statement, but a real commitment, followed through, utilizing the diplomatic resources that are available to make it clear that these things are very important to the United States.

Mr. DIXON. I guess I am asking, other than withholding the money. Other than that, what is the sanction here?

Mr. THORNBURGH. I am working hard to try to get to a point where we don't have to do that, because I think it doesn't reflect well on us and the community of nations.

Mr. DIXON. I understand that. But I thought you were suggesting that there were alternatives to withholding the money.

Mr. THORNBURGH. I don't like to seem critical, but I think we could do a better job of transmitting what our interests are, and in particular, suggest a rapprochement between the Congress and the administration to make clear that this is something that we feel very strongly about, and we want to have it done. And I can't believe that that would go unheeded in the halls of the U.N., at least I think it is worth a try rather than simply a knee-jerk withholding of our contributions, which really—

Mr. DIXON. But ultimately then you do feel where appropriate that should be the case?

Mr. THORNBURGH. You are pushing me, but I guess I have to say that there are—obviously there are instances where it has been done in the past and they achieved some of their goals. So I

wouldn't—let me say this. I wouldn't rule it out. But I would certainly prefer going the extra mile and trying to get it done without withholding.

INTELLIGENCE DISTRIBUTION

Mr. DIXON. Mr. Bolton, I think you made reference to H.R. 7, section 512, the section dealing with intelligence, and I didn't quite understand what your point was.

Mr. BOLTON. The provisions of H.R. 7 dealing with Department of Defense expenditures in support of peacekeeping operations provide that they should be credited—I am oversimplifying—but provide that they should be credited against the U.S. assessment for peacekeeping operations. What I was suggesting was that because of the high cost involved and sometimes in many cases involved in gathering intelligence which is shared with the United Nations for peacekeeping purposes, that one may want to consider whether some kind of a credit for that should also be measured against the assessment.

Mr. DIXON. And so what you are saying is that we should consider charging the United Nations for intelligence information that we pass on to them based on the cost of our gathering it; is that right?

Mr. BOLTON. Yes. And that frequently is not cheap. Let me give you one classified example. In the aid of the work of the special commission on destruction, the elimination of Iraq's weapons of mass destruction, we provided U-2 overflights over Iraq, and that doesn't come cheaply.

Mr. DIXON. And that section provides for exceptions and one of those exceptions is when our own military is involved in some way and you would have that as an exception?

Mr. BOLTON. Yes. I think there are instances where the President may deem it in the national interests to waive attempting to get a credit or an offset and I think that is a very sound provision.

Mr. DIXON. Just let me ask this: since we are members of the United Nations and a member of the Security Council, I would think you could argue that it would be always in our interests as members to pass on what we perceived as vital intelligence to an agency or an organization that we are a member of. So how would you distinguish things that were unrelated to our membership in this organization, using the example of the overflight? I mean ultimately that is in the interests of the organization—which is in our interests as members of the Security Council, I would argue.

Mr. BOLTON. Yes. I think there are certainly examples where it may be useful to provide certain information to the U.N., but where sensitive sources and methods might be compromised, we would not want to do that.

Mr. DIXON. We would not want to charge them?

Mr. BOLTON. We wouldn't even want to provide it.

Mr. DIXON. No, but we are on cost here, where we provide intelligence and charge them—am I coming across to you? That one could argue that whenever we passed on information to an organization in which we are a member and in fact a member of the Security Council, that it would always be in our interests to pass on

intelligence information, because it, in the most modest way, would indirectly be of benefit to us.

Mr. BOLTON. I think it frequently is of benefit to share such information, and I am sorry, I thought you were asking about the cost side of it.

Mr. DIXON. I am.

Mr. BOLTON. What I was suggesting was that even if it is in our interests to share the information, the cost—it may also be in our interests to have the cost of gathering that information credited against our assessment for a peacekeeping operation.

Mr. DIXON. Thank you, Mr. Chairman.

Mr. THORNBURGH. If I just might add, I think clearly intelligence that is gathered as a matter of our national security and furnished incidentally to the U.N. might come under the heading of where a waiver would be in order.

Mr. DIXON. Right.

Mr. THORNBURGH. On the other hand, if what you have is in effect a subcontracting of an intelligence-gathering operation from the U.N. to the United States, simply because we are the only one who has the capability to do it, then you might want to see that as a clear example where a charge might be made.

Mr. DIXON. I understand. Thank you.

Mr. ROGERS. We are delighted to have the gentleman from California on the subcommittee with us, he is going to be a very valuable member and we are delighted to have you.

Mr. DIXON. Well, thank you, Mr. Chairman. I appreciate that.

EXECUTIVE BRANCH NOTIFICATION TO CONGRESS REGARDING PEACEKEEPING OPERATIONS

Mr. ROGERS. Let me ask you, gentlemen, and feel free to pitch in as you would like, any of you, to answer these questions. Should there be some requirement that the administration, the executive branch, notify the Congress, some have said at least 15 days prior to the time they propose to vote in the U.N. regarding a new peacekeeping operation? Should there be some notification to the Congress? Not approval, just notification. Anyone have a thought about that?

Mr. BOLTON. I would second what Dick Thornburgh said a few minutes ago. I think that as a political matter it just makes sense.

For example, in the case of Cambodia where we estimated the cost of that peacekeeping operation would be about \$2.5 billion, we didn't seek congressional approval before the vote in the Security Council authorizing the creation of a peacekeeping force, but we sure tried to get up here and explain that this was not going to be a small number.

Mr. ROGERS. So you would say it would be very, very advisable for the executive branch to at least notify the Congress.

Mr. BOLTON. Definitely.

Mr. THORNBURGH. Absolutely.

Mr. ROGERS. That they propose to vote for a peacekeeping operation.

Mr. THORNBURGH. Again, just trying to avoid the confrontation that results from legislation that might get into constitutional areas.

Mr. ROGERS. Now, also, some have suggested that the executive should be prepared to say, we think this is going to cost X number of dollars, and here is where we propose to offset that expense. Should that be a part of the notification or the early consultation with the Congress?

Mr. BOLTON. I think the organization should certainly be prepared to give its best estimate at the time what that cost is going to be. I think the real problem and this committee faces it perhaps more than any other committee of appropriations, is that peacekeeping operations don't coincidentally follow our budget cycle, and that is where the real trouble comes in for the United States in attempting to meet its obligations for peacekeeping. The budget cycle that is done in OMB and then submitted up here and then considered up here just is not related as you would expect to what happens in terms of peacekeeping. And that is why there is this constant problem of the committee trying to act responsibly to the U.S.'s obligations and then suddenly finding there is another peacekeeping operation and nobody has budgeted for it and nobody knows where the money is going to come from.

Mr. THORNBURGH. It could be very complicated, because you have outyear expenditures that you might have to identify and offset for for a budget that you don't even really have before you. I think that the estimating requirement or the wisdom of the estimating of the cost is a very good idea. The offsetting gets you into a, as a layperson, you know, it would seem to me it would get you into an awful tangle.

UNITED NATIONS ASSESSED CONTRIBUTIONS

Mr. ROGERS. Well, somebody has to make that decision at some point in time and now it has been dumped into the laps of the subcommittee, and we have had to scramble around trying to find money from other State Department accounts or from Commerce or somewhere else to try to make up the loss. In the past it was not a huge item. Now it is an elephant walking around in our corn patch.

Mr. THORNBURGH. Well, when you have got the balanced budget amendment on the books, then you will have to get three-fifths approval to get funding for peacekeeping operations.

Mr. BOLTON. I think it was a different world when the United States originally agreed to the notion of assessed contributions back in 1945. And what happened was, this 25 percent lump that keeps appearing, and 31.7 percent in the case of peacekeeping is something that at the time nobody anticipated would be such an enormous budget number. And it really goes to the question of in today's circumstances whether assessed contributions or anything we ever ought to agree to again in the creation of any international organization.

Mr. ROGERS. Should the U.S. be allowed to deduct from its assessed contribution the extra costs that the Department of Defense has of going out and transporting troops of other nations to the side or fly-over expense, no-fly zone, whatever? Should we be allowed a credit for that?

Mr. BOLTON. I think we should certainly try and get it. It is the sort of thing where we have the capability of doing a whole range

of things, whether it is airlift capability, communications capability, logistics capability, that other than some of the other members of NATO, nobody has remaining in the world. So when the U.N. has a difficult peacekeeping operation, they look to the United States to supply these critically important and usually otherwise unavailable capabilities.

And I just think it is a matter of fairness that the U.S.—if the U.S. can supply it, I think we ought to do it. I just think we ought to get credit for it so that we are not paying twice, once in the Department of Defense budget for providing these operational services and once through this subcommittee paying the U.S.-assessed share.

Mr. THORNBURGH. I agree, and I think it ought to be a uniform, across-the-board rule that the U.N. ultimately adopts for anyone who makes an in-kind contribution. An in-kind contribution is as good as—somebody has got to pay for it. It is the same as a cash contribution. I frankly am somewhat surprised that that issue hasn't come up long before this, but it seems to me a valid contribution, because I could validate what John Bolton says, that the U.N., in the operations during the time that I was there, frequently the United States was the only source that could be looked to for particular forms of logistical support. And if there are other countries that can do these kinds of things cheaper and better, then so much the better. That is a U.N. management challenge.

Mr. ROGERS. Feel free to pipe in, Mr. Ambassador.

Mr. RUDDY. Thank you. I really have nothing to add.

COMMAND OF UNITED STATES TROOPS

Mr. ROGERS. On the question of placing American troops under foreign command, do you have any thoughts about that, any of you?

Mr. BOLTON. I would distinguish between putting troops under foreign command and putting them under U.N. command. Certainly in the command structure of NATO, over the years we have, through common exercises and the like, developed a level of confidence that our NATO partners and their officer corps are perfectly capable of commanding U.S. forces. The real issue is under U.N. command, when they become divorced under present practices, anyway, they become divorced from the U.S. command structure. And that goes I think fundamentally to the question of whether U.S. forces should participate in U.N. peacekeeping operations at all.

Certainly when they are engaged in activities that are peace enforcement; that is to say where you do not have the consent of the parties to the dispute, where the U.N. may not be able to act in a neutral fashion, and where the use of force is a very real possibility, I think the United States should think long and very, very hard before it puts its forces under U.N. command and control. And I think—

Mr. ROGERS. Why do you say that?

Mr. BOLTON. Because I think that our experience to date with U.N. command and control in circumstances where the use of force is likely, where the danger is high, and where the parties do not consent has been nothing but tragic. Until the U.N. and the inter-

national community are better at that, I am very leery of putting American forces at risk in a way that they cannot be adequately protected.

I mean I have heard stories, for example, in the case of Somalia in the tragedy in Mogadishu in late 1993 where U.S. officers were trying to get U.N. forces to go to the rescue of the U.S. forces that were pinned down. People literally had to be ordered at gun point to go to the rescue of American forces. This is not a model of command and control that I have much confidence in, and I don't think anybody on this committee does.

And that is why I recognize there is such enormous concern in Congress as to what those command and control relationships would look like. I am not sure that they are fixable at this point, and that is why, as I say, that we may want to consider not just looking at command and control, but at whether U.S. forces participate at all when they are not clearly under American control.

Mr. THORNBURGH. My view on this issue is tied very closely to my view expressed earlier on what kinds of peacekeeping operations the Security Council ought to be undertaking. Until that is resolved, I think it is very—I would be very reluctant to see the United States troops committed, certainly under multinational control or U.N. control. But I think John raises a very good point about what the role of the U.S. military ought to be in peacekeeping missions generally.

Mr. ROGERS. Mr. Mollohan?

UNITED STATES SHARE ISSUE IN UNITED NATIONS OPERATIONS

Mr. MOLLOHAN. Thank you, Mr. Chairman. With regard to the U.S. share issue, how we financially participate in different U.N. operations, could you all outline the different formulas and the different funding mechanisms that we are obligated for and what functions they relate to?

Mr. BOLTON. The typical U.S. share in most U.N. bodies is 25 percent of the assessed budget. And that is derived by calculating, by a complex calculation known as ability to pay modified by a number of factors, and in the case of the U.S., by the rule of operation that caps our share at 25 percent. If you go through the calculation, the U.S. share typically would be around 26, 27, 28 percent, but there has been a decision made by the United States back at the time of the entry of the two Germanys, and by the organization as a whole that they prefer to keep us capped at 25 percent. That is almost universally the number in virtually every U.N. agency, and then the other governments pay some percentage of that.

There are a lot of questions about how the formula is constructed. It is highly technical, and has a lot of political elements in it, such as, for example, reductions of the contributions of some countries because of their international debt burdens. I think there could be a lot of work done on the basic assessed contribution formula to make it more really aligned with an actual capacity to pay that could result in our share of being reduced.

That aside, the formula that was adopted for peacekeeping in 1973 was intended and works to the detriment of the five permanent members of the Security Council and they pay a disproport-

tionate share of the cost of peacekeeping where some 140 countries pay only 10 or 20 percent of their regular budget assessments for peacekeeping. So there is an enormous number of countries out there that pay almost nothing for peacekeeping whereas the perm five pay the bulk of it.

I think if you add the shares up, it will be over 50 percent borne by the perm five, and when you talk about eliminating the PRC share which is inconsequential, it is really the four western, if I may use that term, permanent members who bear the overwhelming cost of peacekeeping.

Mr. THORNBURGH. Let me add just two observations, if I might.

In terms of revisions in the formula, the Volcker-O'Gata report contains some specific recommendations in that regard which are designed to reflect more realistically the emergence of new economic powers around the world which I think people recognize are not paying what we would call a fair share of the cost to the U.N.

Mr. MOLLOHAN. The first category for most of the budget?

Mr. THORNBURGH. Yes, the general budget. On the peacekeeping side, I think it is—the notion was that since the Security Council and in particular the five permanent members with the veto authority were really the authorizing mechanism for peacekeeping operations that they should bear a proportionately higher burden. I am not sure that that, given the way the world is shrinking daily and the pervasive influence in having effective peacekeeping capability, I am not sure that rationale holds up now. I think the notion that there ought to be one budget, one set of formulae for making the contributions has a lot of appeal.

Mr. MOLLOHAN. For everything.

Mr. THORNBURGH. Yes.

Mr. BOLTON. And that is the way it was from 1945 to 1973. There was no distinction between the peacekeeping assessment and the regular budget assessment.

Mr. MOLLOHAN. Am I hearing you suggest, Mr. Bolton, that the formula is perhaps not as relevant today or as fair today as it was when it was initially devised?

Mr. BOLTON. Yes. I don't think it was fair in 1973 when we got stuck in effect with this peacekeeping formula.

Mr. MOLLOHAN. I am talking about the general formula.

Mr. BOLTON. Right. On the regular budget formula when the U.N. was first established in 1945, I believe, and I can check this exact figure, I believe the U.S. share was 45 percent of the total budget. It may have been 48. I think 45.

As the years went by and the measurement of Gross National Product around the world and capacity to pay came in and the economies of Europe recovered, for example, after World War II, the economy of Japan recovered, other countries developed, our share was reduced, ratcheted down over the years to its present level of 25 percent. But under the formula as it is calculated now, which I think should be revised, our actual share would be 27 percent roughly, but capped at 25.

REVISION OF UNITED STATES SHARE ISSUE

Mr. MOLLOHAN. How should it be revised?

Mr. BOLTON. The way the present numbers are calculated, there are a lot of factors that tend to overstate the contribution of some of the developed countries in the world and tend to understate the contribution of some of the developing countries of the world. Although in the aggregate, many of these countries' assessments would go up only slightly, when you consider that there are 184 countries total, a recalculation of that number would result in the U.S. share coming down some number or percent, and it would make in present budget terms, it would make a big difference.

Mr. THORNBURGH. It wouldn't make a heck of a lot of difference with the cap in there, but I think—

Mr. BOLTON. The question is whether we come below the cap.

Mr. THORNBURGH. I would recommend that the discussion of this issue with the Volcker-O'Gata report I think it is rather brief, but very interesting. The crucial change that they recommended was to shorten the period over which averages were taken with respect to GDP and the like. That is, some of the rapidly developing nations are still paying a lesser amount based on the fact that their development has been rapid and that the tail end of the 10-year period that is used to calculate the thing, they get a break. It is a pretty arcane kind of thing, but there is a very good discussion of that in that report, and I think you might want to get that.

Mr. MOLLOHAN. Well, to get to a bottom line on this, did I also hear you suggest that even if you were to recalculate, make more precise the formula based on ability to pay or GNP, and maybe those are both the same things, you used them both, that the final result would come out about 25 percent.

Mr. BOLTON. It is probably in that range, plus or minus. I mean for example, one of the major things that is going to change is we are now getting real financial data from the former countries of the Soviet Union. And collectively as we get this data their share would go through the floor, because the GNP accurately stated is so low. That is where, as Dick Thornburgh was saying, the scheme of limits, because of this 10 year—when you have three years of accurate data out of Moscow and seven years of inaccurate data, the share goes down. By the same token, Japan's share would be going up more rapidly, so where we eventually come out is very hard to determine.

Mr. MOLLOHAN. So we are always a little bit behind, no matter what, even if we collapse the time period, the snapshot of that data.

Mr. BOLTON. Exactly.

PEACEKEEPING BUDGET

Mr. MOLLOHAN. Mr. Chairman, if I could just ask, so rough justice, 25 percent seems like a pretty close figure.

Mr. BOLTON. It would be hard to give a more accurate figure without a lot of calculation.

Mr. MOLLOHAN. In regard to the regular budget?

Mr. BOLTON. Right.

Mr. MOLLOHAN. Now, how does this discussion apply to the peacekeeping budget, and just to get to a bottom line and I want to hear you go through the logic to get to the bottom line, but is the 25 percent share that the Chairman has really worked so hard

on during the last several years, to get to for peacekeeping, and I hope I am stating that right, Mr. Chairman, correct me if I'm wrong, the 25 percent the Chairman is trying to get to, is that a rough justice number? Is that about our fair share under this formula?

Mr. BOLTON. Well, it would be consistent in a rough justice way with the regular budget assessment.

Mr. MOLLOHAN. Is that a proper measurement?

Mr. BOLTON. I think what we are arguing is that the peacekeeping assessment should be the same as the regular budget assessment.

Mr. THORNBURGH. Equivalency. Yes. I think that is, from my own personal point of view, what we ought to shoot for because of the fact that the considerations really don't differ in this day and age. Peacekeeping has become an increased function and it is a function that has successful operation and which will benefit all of the member states. It is no longer a battleground of the Cold War as it was looked at at the time that—

Mr. MOLLOHAN. Right. So we ought to be sharing it generally.

Mr. THORNBURGH. It seems to me.

Mr. MOLLOHAN. I stand to be corrected, but my understanding of the authorizing legislation last year, we targeted peacekeeping at that 25 percent number, and I know the Chairman pointed out last year during the debate that that is well and good, but that needs to be reauthorized. Do you think we are successfully moving to that in the U.N.? Do you think we are getting a receptivity to the U.N.—of the U.N. to America reducing its share to 25 percent for peacekeeping operations, and if not, why not, and how do we achieve that?

Mr. BOLTON. There are two problems, essentially. One is that so many countries would see their peacekeeping assessment increased if the five permanent members were assessed at the regular budget level, but getting a vote in the General Assembly is not easy to say the least.

Second, there are some countries in particular, and I think specifically of Japan and Germany, who would under both a recalculation of the regular assessment and with the prospect of the perm five lowering their peacekeeping assessments that would say, that is fine, Japan is now the second highest regular budget assessment, Germany is the third highest, the Brits, the French and the Russians are all below them. There are plenty in Japan and Germany that would say fine, we are willing to pay 12.5 or 9 percent; we also want to be permanent members of the Security Council. So that changing the budget allocations has enormous political consequences for the Security Council, as well.

WITHHOLDING OF FUNDS

Mr. MOLLOHAN. Well, while I did not agree with the Chairman's position to withhold peacekeeping funds in order to get at the 25 percent level, I did agree with the goal of getting to the 25 percent level, and I heard, Governor, you expressing a little concern about that tactic. How likely do you think we are to get U.N. acquiescence here, and if we are not going to, how do you suggest we try to do that?

Mr. THORNBURGH. Well, I would take that item number one on the suggested joint agenda that I would hope to see emanate from the Congress and from the administration. The difficulty, and John is absolutely right in pointing out that it is kind of like pulling at a loose thread. You begin talking simply about the level of contributions and you end up with amending the charter to reconstitute the security—the permanent membership of the Security Council.

So you have a tough diplomatic job. But maybe I am naive, but I tend to think that with the stature and the status that the United States has today in that organization, that a lockstep effort to get some of these things done holds out some promise of success.

Mr. BOLTON. It would require I think a major diplomatic effort by the State Department, and that is why I think it is important Congress speak very clearly and it is the one syllable that you care about it.

Mr. MOLLOHAN. It is our law, Mr. Chairman, now, as I understand it, is it not? I mean what are they going to do next year? We are limited to 25 percent participation next year.

Mr. BOLTON. I would think at that point that is all they can pay under American law.

Mr. MOLLOHAN. So we will just be in arrearages.

Mr. BOLTON. We will build up arrearages for that 6 to 7 percent for that portion that is continued to be funded under the peacekeeping formula.

Mr. ROGERS. If you will yield on that point?

Mr. MOLLOHAN. Yes, Mr. Chairman.

Mr. ROGERS. You know, in the 1970s, I think, correct me on this, the Congress arbitrarily, this subcommittee arbitrarily said, we are not going to pay more than 25 percent of general contributions and capped our contribution at that level, and then the United Nations took appropriate action legally to officially make that our contribution rate, if I am not mistaken. With that as an example, we did the same thing for next year on peacekeeping. Now, whether or not they come along later legally and ratify that as our official contribution rate, or choose to call what we don't pay above that figure an arrearage, matters little to me.

Mr. BOLTON. Well, I was going to say in the mid-1980s when Congress declined to appropriate the full 25 percent assessment for the regular budget, as I mentioned, that may not be the most elegant way of getting the U.N.'s attention, but I guarantee you, it did get the U.N.'s attention, and if we are at that point now, then I think we are at that point.

Mr. ROGERS. On that score, General Thornburgh, a moment ago—

Mr. THORNBURGH. I am less of a hawk than my colleague, Mr. Bolton. Here is what I worry about.

If for every difficulty we have with the United Nations we petulantly withhold an increment of our assessed contribution, which I understand to be a treaty obligation, I think we are gnawing away at our credibility as a member of the world community. And I think that while I will acknowledge that the goals that were sought in 1986 and last year with respect to the Inspector General have particular appeal in that regard, and it may well be that this is an-

other example of bringing in to balance the—I just am worried about that becoming a knee-jerk response.

Mr. ROGERS. Well, I think we are all worried about it. This is the only time we have ever been able to get any results out of it.

Mr. BOLTON. They do listen at that point, there is no doubt about that.

Mr. THORNBURGH. The proverbial two-by-four, I think, Mr. Chairman.

Mr. ROGERS. When you finally come down to it, the only power we have is the power of the purse and if you never use that purse, then you don't have that power. And it seems to me that when we withheld 10 percent of the general contribution last year until they appointed the IG, as you have suggested, that worked. In 1973 we capped our contribution at 25 percent, that worked. And we are arbitrarily capping our peacekeeping contribution at the beginning of 1996 at 25 percent, and that is going to work whether they like it or not.

And I just say to you that I don't like to do it either, but I don't know any other weapon we have. Yes, it is nice for us to go up there and talk nice to them and invoke the moral authority of the U.S., but that has not worked until we withheld the money.

Mr. THORNBURGH. Well, I am not sure we have done that effectively, to be quite honest. I mean I don't want to tell you more than I know, but I have seen enough of the workings of our State Department and of the U.N. to get the distinct impression that it loses a lot in translation between Washington D.C. and New York City.

Mr. BOLTON. It depends on who is saying it, too.

Mr. THORNBURGH. If you have the President of the United States and the leadership of the Congress saying we want to get this done, we are serious about this, we want to have the Inspector General, we want to have these changes made, I am betting on you guys.

Mr. ROGERS. You mean it is not enough for me to say it and Mr. Mollohan, it has to be the President?

Mr. THORNBURGH. Well, you would be the sure pass to the summit, I would say. And very effective ones too, Mr. Chairman. I don't mean to denigrate.

Mr. ROGERS. Thank you. Now, you alluded a moment ago, one of you did, to the ability—our ability to get a change written into their law to change the rate of contribution which means that other nations are being asked to increase theirs, and General, you suggested we would probably lose that by 140 to 1, vote. On a serious note, how can we get the other nations to agree to increase their contribution rate, all the while ours goes down?

Mr. THORNBURGH. One of the reasons that we sought the assistance of this outside group chaired by Messrs. Volcker and Ogata was to give it an imprimatur that this was not just an American initiative and the report was well received. I should think that ought to be item number two, if you will, on the agenda.

Mr. ROGERS. Is this mixed up in the discussion of the idea to expand the permanent Security Council?

Mr. THORNBURGH. No. I think what John Bolton points out, there is a political reality asking, for example, the Japanese and the Ger-

mans to increase their proportionate share which would probably follow from the implementation of the recommendations made in that report how they, if you were in the Diet or the Bundestag, you would be saying, how are we going to get their attention about getting into the permanent membership of the Security Council? Someone would then say, well, we just won't increase our contributions. That is a great idea.

Mr. MOLLOHAN. You mean they would use a fear about fear?

Mr. THORNBURGH. I think they would have good instructors in the chairman, in his colleagues. But look, that is what you get back to. These are all political issues in the best sense of the word; they are matters of policy. But I think that at the very least putting a realistic tab in front of those countries whose economy can support it makes us look less like dogs in the manger and more like statesmen if you will seeking to work our own way. So I think that is part and parcel of the effort.

REDUCTION OF UNITED STATES SHARE IN PEACEKEEPING OPERATIONS

Mr. ROGERS. Well, our State Department has very recently talked to the powers that be at the United Nations about reducing our rate and we were told in no fancy words, no dice.

Mr. THORNBURGH. On the peacekeeping?

Mr. ROGERS. On the contribution, yes.

Mr. BOLTON. The Secretariat doesn't have anything to say about it. This is a decision for the member governments, and even if they don't think they want to make that change in New York, the question is what the other member governments to decide.

Mr. ROGERS. China, one of the permanent five, pays nine-tenths of 1 percent and—

Mr. THORNBURGH. And has the fastest growing economy in the world.

Mr. ROGERS. And the largest population, and has an equal vote with the country that pays a third of the costs.

Mr. BOLTON. So does Fiji have an equal vote.

Mr. ROGERS. General, we are coming to a close here. In closing down, is it too early for us to know whether or not the new Inspector General, as we call him, at the United Nations that we forced upon them, really at your suggestion; is it too early to know whether or not this person, under both his personality and his powers under the United Nations authorization, whether or not he is going to be a Doberman pinscher junkyard dog or just another poodle.

Mr. THORNBURGH. I think it is too early. I think that he is owed a period of breaking in his operation. Our mission should be monitoring that closely to see what kinds of personnel, what the qualifications of those people are, what their charter is, what kinds of results they obtain.

I think the fact that the organization is in place per the approval of the General Assembly is a positive sign. I am a little disquieted by the attitude toward whistling, which is such an important component of effective dealing with these problems, but I don't want to judge the operation on just that basis. I think they deserve at least a full year before anybody makes any judgment about how that is going to work out.

WESTERN SAHARA

Mr. ROGERS. Mr. Ambassador, to try to close the circle on your testimony, how is it that the conditions you have described in your testimony existing in Morocco—a sham costing \$100,000 a day, going on for how long, five years—how can all of that take place and the United Nations in New York not know about it?

Mr. RUDDY. Well, the reporting system is such that the United Nations in New York relies on the reports that are—that come forth from the mission in MINURSO, so they have pretty much complete control on the information that comes out of there, “they” being the management at MINURSO. It is a very remote place. It is not the kind of place that people would stop by if you are in the area.

The Secretary General, Boutros-Ghali, was there at the end of November, but those kinds of visits are very rare. It is remote. Nobody pays much attention to what is happening there; it is not something—

Mr. ROGERS. Have you tried to get their attention and to report that these things are taking place?

Mr. RUDDY. I did. All the things I mentioned here, I pointed out to the head-of-mission there. I had mentioned I had an interview with Ambassador Albright and pointed it out to her and had sought an interview with the head of the peacekeeping operations in New York, but have not gotten that call returned.

Mr. ROGERS. When did you mention this to Ambassador Albright?

Mr. RUDDY. The first week in January after I got back.

Mr. ROGERS. Were you assured that she would pursue this?

Mr. RUDDY. She was extremely gracious and seemed to be quite interested.

One area that came up was the question of procurement irregularity, but I got a call today that Mr. Paschki was sending out a team to MINURSO, February 3rd I think it is, to look into and investigate that.

Mr. ROGERS. Your statements will be made a part of the record, without objection.

In closing, Mr. Mollohan, do you have anything final?

Mr. MOLLOHAN. I think you want to close this out.

Mr. ROGERS. We want to thank each of you for your time. I think we have gained some very useful information. We are in a new era, the disciplines of the Cold War are over, but the old angst and animosities are recurring and we do not have a way to contain those old animosities. At the same time as the Cold War ended, it left the U.S. in the sole role of being the superpower and the one that other peoples expect to assume responsibility for the new discipline, and our people aren't quite ready for that yet. But it is a new world order that is out there, or disorder, and we are struggling to try to figure out our role in all of that and where the United Nations and groups like the OAS and NATO are.

We would appreciate continuing to hear from you as you have thoughts on these subjects. If you would like to drop us a line or call us or appear in our future hearings, this is an ongoing debate that I am sure will keep going.

Thank you for being here. The hearing is adjourned.



SUBCOMMITTEE ON ENERGY AND WATER DEVELOPMENT

JOHN T. MYERS, Indiana, *Chairman*

HAROLD ROGERS, Kentucky
JOE KNOLLENBERG, Michigan
FRANK RIGGS, California
RODNEY P. FRELINGHUYSEN, New Jersey
JIM BUNN, Oregon

TOM BEVILL, Alabama
VIC FAZIO, California
JIM CHAPMAN, Texas

NOTE: Under Committee Rules, Mr. Livingston, as Chairman of the Full Committee, and Mr. Obey, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

JAMES D. OGSBURY, BOB SCHMIDT, and JEANNE WILSON, *Staff Assistants*

WEDNESDAY, JANUARY 18, 1995.

DOWNSIZING GOVERNMENT

WITNESSES

SCOTT HODGE, GROVER M. HERMANN FELLOW IN FEDERAL BUDGETARY AFFAIRS, HERITAGE FOUNDATION
JERRY TAYLOR, DIRECTOR, NATURAL RESOURCE STUDIES, CATO INSTITUTE
FRED SMITH, PRESIDENT, COMPETITIVE ENTERPRISE INSTITUTE
VIC REZENDES, DIRECTOR, ENERGY ISSUES, U.S. GENERAL ACCOUNTING OFFICE

OPENING REMARKS

Mr. MYERS. The first meeting of the Energy and Water Development Subcommittee of Appropriations of the 104th Congress will come to order.

We are proud to have the witnesses we have here today.

First, let me welcome Congressman Frelinghuysen, who is the only new Member of the panel we have here right now. He is a son of a former Member of Congress, Peter Frelinghuysen. His son Rod is from New Jersey and is a new Member of this committee.

We are pleased to have back, of course, Hal Rogers, who has been with the committee for several years. There are a lot of new people here today. But the purpose of this meeting is to first review what government functions under our jurisdiction, in the Department of Energy particularly, we can get along without. There have been a lot of recommendations, both from the White House and elsewhere throughout the country about how we might reduce spending throughout government.

The American people sent a very clear message on November 8th that they expect the Congress to do something about excessive spending, and reduce the burden of government, both financially as well as regulatory, that has reduced our ability to be competitive in world markets. So we have some experts here today who can

make recommendations to this committee where we might be able to rescind funds already appropriated in this year. So we do appreciate the witnesses.

First, I will recognize Mr. Rogers of Kentucky.

Do you have some remarks you would like to make, Hal?

Mr. ROGERS. Mr. Chairman, only to say congratulations to you for being the Chairman of this subcommittee. You have been on the subcommittee a couple of years or so.

Mr. MYERS. Quite a few. I am sorry that Chairman Bevill is not here yet.

Mr. ROGERS. I saw him out in the hall. He is on his way in.

But anyway, congratulations to you and best wishes to you. We want to see good things happen, and I am sure they will.

Thank you.

Mr. MYERS. Thank you, Hal.

Rod, you are a new Member. Give us some sage advice here; we certainly need it.

Mr. FRELINGHUYSEN. Mr. Chairman, it is an honor for me to serve on this committee under your direction. I am not new to the legislative process, having served in the State legislature, but certainly this will be an eye-opener for me. I look forward to learning a lot here this morning and in the future.

Thank you.

Mr. MYERS. Thank you, Rod.

We are all trying to learn something. I might add that Chairman Bevill and I came to Congress together—I am sorry he is not here—a good many years ago. It has taken me a lot longer to get this seat than it did him. So I guess he is a faster learner than I have been.

I was thinking a while ago about the Greek general, I think it was Mistocles, who was unable to whip, I believe, the Turks. The Greeks and the Turks had been fighting for years. And I think he lost on the battlefield a number of times. While he was trying to recuperate and was lying in a hammock, he watched a spider go back and forth, and finally the spider was able to successfully make the web. So he came back and finally won. He said, "with persistence, you can always win." I guess I am living proof here that persistence does work sometimes.

The first witness is Mr. Hodge, with the Heritage Foundation.

What I would recommend is that we wait and hear all the witnesses, then if there are any questions anyone might have, we will ask them at the end.

Mr. Hodge, you are recognized. I hope you can present your testimony in a half hour or so, but take whatever time you need.

OPENING STATEMENT OF MR. SCOTT HODGE

Mr. HODGE. Sure, thank you, Mr. Chairman. It is nice to actually say Mr. Chairman to you.

Mr. MYERS. It sounds good.

Mr. HODGE. Sounds pretty good to us as well, and to all the distinguished Members of the committee.

My name is again, Scott Hodge, I am a Senior Budget Analyst at the Heritage Foundation, a 20-year-old think tank here in Washington that many of you may know the work of. This is quite a his-

toric opportunity to speak before the Appropriations Committee and talk about spending cuts rather than talk about spending increases.

Indeed, the American taxpayers sent a pretty clear message last November that Washington must change the way it does business. They don't want Congress to simply tinker around the edges with the process of how government should work. That was the mistake of Al Gore's National Performance Review.

What I think taxpayers want is for us in Washington to implement an aggressive strategy to define what government should do. Taxpayers won't settle for policies that make obsolete programs waste their money simply more efficiently. They want tough solutions to the tough problems that these government programs face. And many of the programs under this committee's jurisdiction do indeed have some very, very serious problems.

According to the General Accounting Office, there is an unquantified need for improvements to the 337 dams built by the Bureau of Reclamation since 1902. GAO also says that by the turn of the century, many of the Army Corps of Engineers' projects will have reached their design life, meaning that future rehabilitation projects will become increasingly costly in the near future.

This committee has also recognized that the Bonneville Power Administration's policy of using debt financing has substantially put that administration under risk. As a result, BPA is more heavily leveraged than other utilities.

The National Performance Review reports that most of the 100 steam plants owned by the Department of Energy at various Federal sites have also reached their design life, and repairs will become exceedingly expensive. These problems cannot be solved through new-age reinventing government techniques, such as streamlining or total quality management. These problems can only be solved through an infusion of private sector cash and capital, disciplined management, and also a heavy dose of competition.

This salvation is impossible unless this committee challenges the basic assumptions behind each and every program asking, is the government the best institution to provide this service? I think there are three objectives that this committee and all committees in Congress should reach for as they go about reinventing government and cutting spending.

Objective No. 1, we should define what government functions are best carried out at the Federal level and which are best managed by State and local governments. This is known as Federalism. This is where we are going in welfare reform.

We should also define what government functions are best shed completely to the private sector, where should government not compete with the private sector or provide commercial services?

We should also identify what government programs have become obsolete, outmoded and terminate them. This is extremely important, as government has a host of dinosaurs, as I call them, the Jurassic Park of the Federal budget.

In the short term, this committee should begin immediately to rearrange its spending priorities in order to transfer all non-Federal functions to the States. It should privatize commercial enter-

prises and close inefficient and obsolete programs. This means the committee must stop unnecessary spending.

You should take steps to cut program losses, put a halt to all new projects or expansions, and prepare for the long-term reforms of these seriously flawed programs. In short, you should halt funding for any project which is not authorized or which was earmarked in the House, Senate or conference committee reports. You should halt funding for any new project which is purely of a local nature and does not have a national significance.

And lastly, you should repeal any committee instructions that force agencies to spend money that they would not have otherwise spent, especially laws to prevent agencies from saving money by using techniques such as privatization. The committee should then scour the 1995 appropriations bills, looking for areas of immediate savings.

I would cast a critical eye on the following areas, and this is not inclusive: I would start with the \$181 million in new Army Corps of Engineers' general investigations, such as the West Virginia Port Development, the Red River Navigation Study in Arkansas, and the \$62,000 for the Daytona Beach Shores Investigation Study. Then move on to the \$977 million in new Army Corps of Engineers' construction projects.

I think among some of the projects in serious question are the \$1 million for Casino Beach, Illinois, the Myrtle Beach Project, \$13 million for the Robert C. Byrd Locks and Dams in West Virginia, and so forth.

Next, I would again target \$1.6 million in Army Corps of Engineers' operation and maintenance projects. Among these are the \$800,000 for Cherry Creek Flood Control Project in Denver, \$3.9 million for the Hodges Village Dam Control Project in Massachusetts, and \$3.9 million for the Sam Rayburn Dam and Reservoir in Texas.

Next, let's move on to the \$450 million in the Bureau of Reclamation general investigations and new construction projects. Among those that I would question are the \$2 million for the General Planning Studies and \$525,000 for Global Climate Change Research.

And lastly, I would cast a critical eye on the \$62 million appropriated for the Department of Energy's Biofuels Energy Systems Program. Especially questionable include the \$4 million for the Short Rotation of Woody Crops Program, and the \$5 million Regional Biomass Program. These are clearly not Federal functions.

In the long term, you must initiate a bold reform plan to move non-Federal functions to the State or local level, divest the Federal Government of commercial enterprises, and simply begin to terminate programs that are outmoded, inefficient, and quite unnecessary.

As a starting point, I would recommend the recommendations that were in last year's Republican Budget Alternative, also known as the Kasich Budget. Some of these proposals were quite bold, such as eliminating Federal funding for nonpower activities of the Tennessee Valley Authority, downsizing the Bureau of Reclamation, reducing funding for the Army Corps of Engineer projects, reducing energy supply, research and development activities, selling

the Southeastern Power Administration, and freezing the Appalachian Regional Administration Program.

While last year some of these proposals may have seemed bold, they are no longer bold, not in this context, not in this climate, and not with the pressing needs to reach a balanced budget by the year 2002. These recommendations in the Kasich budget would have trimmed just about \$7.4 billion out of the committee's budgets over the next five years. That is just about 7.4 percent of all spending for the committee over the next five years. I think this year the committee should look to cut its overall spending in half over the next five years.

While I heartily endorse many of the Kasich budget recommendations, I think we can be bolder, more aggressive, and dig deeper into spending. Of course, some of the recommendations that I will talk about where we will go further will need the cooperation and assistance of the appropriate authorizing committees.

But I don't need to remind this committee, and certainly the Chairman, that the stick to force real reforms is in your hands, as Mr. Livingston said. You are not obligated to appropriate funds for programs that don't work and which have not been authorized, nor are you obligated to fully fund programs that don't work but which have been authorized. Use this stick to force real reforms from the authorizers.

I believe that the following suggestions that I will talk about represent real reform and real reinventing government, and some of these proposals that I will talk about are quite broad and general.

The Heritage Foundation is working on a more comprehensive book outlining substantial cuts in the Federal budget. That will be due out in February.

Let's start with the Department of Energy, which I believe should be dismantled into manageable, non-Cabinet level components. The defense-related programs should be shifted to the Department of Defense, and its primary research functions should be transferred to the National Science Foundation or another science-oriented program.

Federal funding for commercially oriented energy supply, research and development projects should be terminated, and those projects should be turned over to the private sector, those who will eventually benefit from the research and have the most to gain.

Next, we will move on to the Power Marketing Administrations, which should be sold to private owners through a variety of stock ownership schemes. Also, should be—the Tennessee Valley Authority, which should be broken up into manageable parts, then sold to customers, users, and investors through favorable stock ownership plans.

The Army Corps of Engineers should begin to turn most of its functions back over to the States or, if possible and preferable, to private managers and corporations. Let's let local port authorities be given all the responsibilities for dredging of those harbors, and allow each port authority to charge fees commensurate with the cost of dredging in their individual harbors.

The Bureau of Reclamation should call an end to its construction activities, water subsidies should be discontinued and water markets should be strengthened. The Bureau of Reclamation should

then begin to transfer resource management functions back over to the States or to local authorities or, alternatively, sell these assets to private investors.

The Uranium Enrichment Facilities should also be sold to the private sector. The Appalachian Regional Commission, I believe should be closed and those responsibilities turned back to the States or, alternatively, it should be included in the larger block grants of community development programs which should then be turned into financing for enterprise zones.

While these may be bold proposals, at least to this committee, they are the kind of bold proposals I believe taxpayers are looking for today. These techniques are also business as usual for governments around the globe, from Russia to Mexico, Japan and Great Britain.

These governments are aggressively denationalizing state-owned enterprises, such as the Power Marketing Administrations. They are cutting subsidies to inefficient industries, such as agriculture, they are removing barriers to private investment, and they are restoring property rights.

Countries as diverse as China, Russia, Argentina and Mexico are selling state-owned assets and turning government services over to private investors and raising billions of dollars in cash in order to pay down their debt and their deficits.

According to The Reason Foundation, in 1993 alone, some \$60 billion was realized worldwide through the privatization of government enterprises. I think it would be of particular interest to this committee that some \$4.4 billion was raised in other countries that year from the privatization of state-owned electric utilities.

Some of the more prominent utility privatization efforts were found in Argentina, where American- and Chilean-led investors purchased a \$1.8 billion stake in their hydroelectric centers. In 1992, consortiums paid \$1 billion for the rights to provide electricity to the City of Buenos Aires and its suburbs.

China is getting into the act. Chinese authorities estimate that by the year 2000, one-half of all new capacity in China is expected to be private power.

In Germany, the country raised \$1.1 billion from the sale of two power utilities in 1993. And in the United Kingdom, Northern Ireland sold its utility to private investors for \$540 million.

By contrast to these innovative solutions, the U.S. Congress has made it illegal for Agency managers to even study the privatization of the PMAs, the selling of assets, or charging market-based prices for Federal power. It is little wonder that this country has the deficit and the debt problem that it does.

No private sector business owner would permit—or prohibit their managers from finding ways to save money in their corporation. It is outrageous to think that that is being done by the Federal Government.

Let me conclude briefly by addressing the issue of privatizing the PMAs and the TVA. As we approach the 21st Century, I think it is absolutely critical that these enterprises be moved into the private sector. I think it is possible to do so without severely impacting current users, and I think it is also possible to do it in such

a way that you actually build a constituency for the idea of privatization.

Britain, for example, used gifts of stock to managers and workers in those nationalized industries in order to encourage their support for the privatization of firms. The Netherlands sold a minority interest in their postal service to private investors and taxpayers in order to build support for the privatization of the postal service.

Opposition of privatizing the PMAs in this country could be neutralized by offering such sweetheart deals to residential customers, consumers, environmentalists, fishing industries, agricultural interests, any others who might feel that they would be impacted by the privatization of those services. Several countries have found that it is even worthwhile to just give away the stocks or sell it at discount prices in order to get those assets out of government hands.

As many of you know, the administration has announced that it believes that some \$12 billion could be raised by the sale of Power Marketing Administrations. While that is fine, I think the primary goal of this effort should be economic efficiency, and that sales revenues should be a happy by-product of this effort. The first thing we need to do is privatize the privatization process, and that means bringing in major accounting firms and investment banking firms to get these businesses, these government-owned businesses in order.

By some estimates, the TVA has a negative net value of between 2 and 4 billion, so some serious work has to be done, and it will have to be done by professionals in the private sector.

Let me just conclude by saying this committee has a tremendous opportunity to reinvent government, but to do so you are going to have to look very critically at the substance of what these programs do, not just the process of how they do it.

Let me just finish with some last thoughts, and all of these cuts must be taken in the context of the Contract With America. The Contract With America offers, as many of you know, the \$500 per child tax credit, which will bring \$25 billion a year in family tax relief to the families of 51 million American children. That is 35 million American families.

The typical Congressional District has 117,000 children, meaning the typical district will receive \$59 million a year in family tax relief because of the contract. So while you will be cutting spending in some very sensitive programs, you will also be allowing this government to return badly needed tax relief to cash-strapped American families, and to me that is the most important mission that we have in Washington today.

Thank you very much.

I would be happy to answer any questions.

[The statement of Mr. Hodge follows:]

TESTIMONY
BEFORE THE ENERGY SUBCOMMITTEE
COMMITTEE ON APPROPRIATIONS
January 18, 1995

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CUTTING ENERGY AND WATER PROGRAMS DOWN TO SIZE

American taxpayers sent a very clear signal last November that Washington must change the way it does business. They do not want Congress to simply tinker with the process of "how government should work." That was the mistake of Al Gore's National Performance Review. Real "reinventing government" means implementing an aggressive strategy to define *what* government should do. Taxpayers will not settle for policies that make obsolete programs waste their money more efficiently. They want tough solutions to the serious problems facing this government.

Indeed, the programs under this committee's jurisdiction face serious problems. Consider the following:

- According to the General Accounting Office (GAO), there is an "unquantified" need for improvements to the 337 dams built by the Bureau of Reclamation since 1902;
- The GAO reports that, "by the turn of the century, many of the structures of the Corps of Engineers' vital, but aging, \$125 billion inventory of water resources projects will have reached their design life...The major structures have an average age of 33 years, and 12 percent of the projects are over 50 years old. As a result, major rehabilitation projects will become increasingly...costly in the near future."
- GAO also found that the long-term estimates of the cost of cleaning up Department of Energy nuclear waste sites "are now up to at least \$160 billion -- and may go higher -- with annual expenditures of over \$8 billion by fiscal year 1998.
- The Bonneville Power Administration's "policy of using debt financing for substantially all capital programs is risky and leaves little flexibility for meeting future challenges...As a result, BPA is more heavily leveraged than other utilities."

- The National Performance Review reports that most of the 100 steam plants owned by the Department of Energy at various production centers and national laboratories are 40 years old and beyond the limits of their design life.

These problems cannot be solved through new-age “reinventing government” techniques such as Total Quality Management, procurement reform, or streamlining middle-management. These problems can only be solved through an infusion of private sector cash, disciplined management, and a heavy dose of competition. This salvation is impossible unless the committee challenges the basic assumptions behind every program and asks, “is the government the best institution to provide this service?”

There are three objectives Members should keep in mind as they go about truly reinventing government:

1. Defining what government functions are best carried out at the federal level and which are best managed at the state or local level;
2. Defining what functions government are best shed completely to the private sector; and,
3. Identifying what government programs have become obsolete or outmoded and should be terminated.

Short-Term Strategies

This committee should begin immediately to rearrange its spending priorities in order to transfer all non-federal functions to the states, privatize commercial enterprises, and close inefficient and obsolete programs.

In the short-term, this means the committee must stop unnecessary spending. You should take steps to cut program losses, put a halt to all new projects or expansions, and prepare for the long-term reforms needed to solve the tough problems facing these programs.

In short, the committee should:

1. Halt funding for any project which was not authorized or which was earmarked in either the House, Senate or conference committees;
2. Halt funding for any new project which is of a purely local nature and has no national significance; and
3. Repeal any committee instructions that force agencies to spend money they would not have otherwise spent or repeal laws that prevent agencies from saving money by using techniques such as privatization.

Using these three action items, the committee should scour the 1995 appropriations bill looking for areas of immediate savings. You should cast a critical eye on the following areas:

- The \$181 million in new Army Corps of Engineers' general investigations. Specific targets should be purely local or earmarked projects such as: \$4 million for the Central Waterfront for Indianapolis, Indiana; \$800,000 for the West Virginia Port Development; \$300,000 for the Red River Navigation study in Arkansas; and, \$62,000 for the Daytona Beach Shores investigation study.
- The \$977 million in new Army Corps construction projects. Among the projects to be questioned: \$1 million for Casino Beach, Illinois; \$3 million for Myrtle Beach, South Carolina; \$13 million for the Robert C. Byrd Locks and Dam, West Virginia; \$377,000 for Bassett Creek, Minnesota; \$1.732 million for the Alenaio Stream, Hawaii; and, \$851,000 for Yatesville Lake, Kentucky.
- The \$1.6 billion in Army Corps operation and maintenance projects. Among the many projects to be questioned: \$800,000 for Cherry Creek Flood Control Project, Colorado; \$119,000 for Honolulu Harbor, Hawaii; \$3.9 million for Hodges Village Dam Flood Control project, Massachusetts; and, \$3.9 million for the Sam Rayburn Dam and Reservoir, Texas.
- The nearly \$450 million in Bureau of Reclamation general investigations and new construction. Among those that should be questioned: \$300,000 for the Tucson/Phoenix Water Conservation Study; \$2 million for General Planning Studies; and \$525,000 for Global Climate Change research.
- The \$62 million appropriated for the Department of Energy's Biofuels Energy Systems program. Especially questionable include: \$4 million for the Short Rotation of Woody Crops program; and, the \$5 million Regional Biomass program.

Long-Term Spending Cut Strategies

Immediately following these short-term steps, you must initiate a bold reform plan to move non-federal functions to the state or local level, divest the federal government of commercial enterprises, and begin to terminate programs that are outmoded, inefficient, or simply unnecessary.

As a starting point, the committee should build upon the proposals put forth in last year's Republican Budget Alternative, also known as the Kasich Budget. Many of the spending cuts recommended in that budget were quite bold. It included proposals to:

- Eliminate federal funding for non-power activities of the Tennessee Valley Authority. Savings: \$152 million over five years.
- Downsize the Bureau of Reclamation according to the recommendations of the National Performance Review. Savings: \$427 million over five years.
- Reorganize the Army Corps of Engineers. Savings: unspecified.

- Reduce funding for Army Corps of Engineer projects. Savings: \$3.274 billion over five years.
- Reduce Energy Supply, Research and Development activities. Savings: \$2.139 billion over five years.
- Sell the Southeastern Power Administration. Savings: \$613 million over five years.
- Sell the Alaska Power Administration. Savings: \$57 million over five years.
- Permit Private Power Cogeneration at DOE Facilities. Savings: \$61 million over five years.
- Assume Control of Hetch Hetchy. Savings: \$125 million over five years.
- Freeze Appalachian Regional Commission spending. Savings: \$160 million over five years.
- Enforce Harbor Maintenance Fee Collection. Increased Revenues: \$400 million over five years.

While some of these recommendations may have seemed bold when they were introduced last year, they are not bold enough to achieve the deep savings needed to balance the budget by fiscal 2002. Although those recommendations would have trimmed \$7.4 billion out of this committee's programs over five years, this represents just 7.4 percent of this committee's spending over five years. This year, the committee should look to cut its overall spending by half over the next five years.

While I heartily endorse many of Kasich's recommendations, I think the committee can take a bolder approach in many areas and find deeper savings. Of course, some of these suggestions will require the cooperation of the appropriate authorizing committees. But I don't need to remind the committee that the stick to force real reforms is in your hands. You are not obligated to appropriate funds for programs that don't work and which have not been authorized. Nor are you obligated to fully fund programs that don't work but which have been authorized. Use this stick to force real reforms.

I believe the following suggestions represent real reform and real "reinventing government." These are very broad recommendations. Heritage analysts are currently developing a budget cutting plan, due out in February, that will provide more details:

- The Department of Energy should be dismantled into manageable, non-cabinet level components. Defense-related programs should be shifted to the Department of Defense and its primary research functions should be transferred to the National Science Foundation;
- Federal funding for commercially-oriented energy supply, research and development projects should be terminated and the research responsibility should be transferred to the private sector;
- The Power Marketing Administrations should be sold to private owners through a variety of stock-ownership schemes;
- The Tennessee Valley Authority should be broken into manageable parts then sold to customers, users, and investors through favorable stock options.

- The Army Corps of Engineers should begin to turn most of its functions and responsibilities over to the states or, if possible, private managers. Local port authorities should be given all dredging responsibilities and allowed to charge fees commensurate with the cost of dredging their harbors;
- The Bureau of Reclamation should call an end to its construction activities. Water subsidies should be discontinued and water markets should be strengthened. BOR should then begin to transfer resource management functions to the states or local authorities, or, alternatively, it should sell assets to private investors;
- The Uranium Enrichment facilities should be sold to the private sector;
- The Appalachian Regional Commission and other regional development commissions should closed. These programs should then be transferred to the states or else the savings should be used to finance tax abatements in local enterprise zones.

While these may be bold proposals, they are the kinds of bold approaches that taxpayers are looking for. These techniques are also business as usual for governments throughout the world, from Russia to Mexico and from Japan to Great Britain. These governments are aggressively denationalizing state-owned enterprises, cutting subsidies to inefficient industries, removing barriers to private investment, and restoring property rights.

Countries as diverse as China, Russia, Argentina and Mexico are selling state-owned assets or turning government services over to private investors and raising billions in cash to lower their budget deficits. According to The Reason Foundation's Annual Report on Privatization, in 1993 alone, over \$60 billion was realized world-wide through the privatization of government enterprises. And, it should interest the committee, a total of \$4.4 billion was raised that year from the privatization of state-owned electric utilities.

Some of the more prominent utility privatization efforts include:

Argentina: In 1993, American- and Chilean-led utility consortiums purchased a \$1.8 billion stake, a 59 percent share, in three of the country's hydroelectric centers. In 1992, consortiums comprised of Argentine-Chilean investors and Argentine-French-Spanish investors paid a combined \$1 billion to provide electric power to the city of Buenos Aires and its suburbs.

Brazil: Opened the bidding process last year for selling assets of the state-owned utility, Eletrobras.

China: Although all new projects are joint ventures with the government, authorities estimate that by the year 2000, one half of all new capacity is expected to be private power.

Germany: In 1993, the country raised \$1.1 billion from the sale of two power utilities.

Thailand: Announced in 1994 that foreign companies will be permitted to bid on efforts to privatize the nation's electricity sector.

United Kingdom: In 1993, Northern Ireland completed the equity sale of Northern Ireland Electricity for \$540 million.

By contrast to innovative solutions employed by other countries, the U.S. Congress has made it illegal for agency managers to even studying the privatization of the PMAs, the selling of assets, or charging market-based prices for federal electricity. It is little wonder that this country runs massive annual deficits and the national debt continues to climb. No private sector business owner would prohibit their employees from finding ways to save money.

I would like to conclude by briefly addressing the issue of privatizing the PMAs and the TVA. As we approach the 21st century, I think it is imperative that this enterprises move into the private sector. Based on the experiences of other countries, I believe it is not only possible to do so without severely impacting current users, but it is possible to even build a constituency who will embrace the idea of privatization.

Britain, for example, used gifts of stock to managers and workers in nationalized industries to build strong support for the privatization of firms. The Netherlands generated broad-based public support for privatizing its postal service by selling the public a minority interest in the operation.

Opposition to privatizing the PMAs and the TVA could be neutralized by offering favorable stock options in the new private utility to employees, residential customers, environmentalists, fishing and agricultural interests, or others who may feel that they stand to lose by the elimination of bureaucratic control over these subsidized utilities.

Several countries have found that it is even worthwhile to sell stock options at below-market prices in order to encourage broad public support for denationalization. While the Administration recently projected that the sale of the PMAs could generate some \$12 billion in revenues, this should not be the primary goal of privatization. The primary goal of this effort should be economic efficiency; sales revenues should be a happy by-product of this effort.

The quickest way to do this so it doesn't drag on like the Alaska Power privatization, is to privatize the privatization process. This means contracting with major accounting firms and investment banking firms to come in and get the books in order and prepare these enterprise for sale. (This is critical because, by some accounts, the TVA has a negative net value of between \$2 billion and \$4 billion.) In some cases, these firms might be willing to do the job at a fraction of their regular rates because they want to build a domestic track record in order to market their services to foreign countries who are moving toward privatization.

CONCLUSION

This committee has a tremendous opportunity to truly "reinvent" the programs under its jurisdiction. To do so, however, you must critically look at the substance of what government does, not simply the process of how government does it. Taxpayers will consider your efforts a failure if you simply make obsolete programs waste their money more efficiently.

Mr. MYERS. Well, thank you, Mr. Hodge, for your presentation.

I might comment that you said the responsibility of this committee is to reinvent. I am not at all sure it is not even more important to prevent as well as reinvent.

Thank you for your testimony.

At this time the Chair will recognize the longstanding Chairman of this committee who served for a great many years. We have been friends for a good many years since we first came to Congress together more than 28 years ago. We have been friends, and I appreciate the hospitality, the courtesy, and considerations that Chairman Bevill has always presented, not only to me but to every Member of the committee that has served here. So, Tom, I yield to you. Things will continue the same way.

Mr. BEVILL. Thank you, Chairman Myers.

I think that has a good ring to it.

Mr. MYERS. You didn't think that last year.

Mr. BEVILL. You know, I had been very concerned about the size of this seat. I had never sat in this small chair before. Where is your high-backed chair?

Mr. MYERS. Sold it.

Mr. BEVILL. You are going to apply that to the deficit, huh? That is a good start.

Let me assure you—I know that cuts will be made and that cuts must be made. You know this panel has actually quite a record on making cuts. This is not something new to us. Last year, as Chairman and working with John Myers and other members of our panel, we cut a billion dollars from this Energy and Water Appropriations Bill for fiscal year 1995 that is now in effect.

I am really pleased to begin here today sitting beside my long-time friend and colleague, John Myers. I can think of no one that could do a better job and will do a better job than Chairman John Myers. And every year, when we finish our hearings, we clear the room and get the staff in here and the committee in here, and we offer amendments, and we vote, and we do our arguing, and discuss what we want to include in the bill. But when that bill goes out of the committee, every time, without fail, each of the 18 years that I was serving as Chairman here, we had the unanimous support of every Member of this panel. And I think that is quite a record. And I know we are going to keep that record because we have worked together all these years.

And I am looking forward to working with you, John, and sitting here beside you and supporting you and the other Members of this panel.

And as you know, our goal is of course to restore fiscal well-being to the Federal budget, and I say we didn't wait until this year to start on it. We are well under way on it. And I am going to help John and each Member of this panel create a bill that invests in America to the fullest extent possible within the funds we are allocated. The money we invest through our annual bill yields lasting dividends for our Nation.

John, I wish you success in your new position as Chairman. I can think of no finer public servant to take control of this panel. And I am proud to again be by your side, and I pledge you my complete, continuous cooperation and support and friendship. I will make a

prediction that you are going to be the best Chairman on Capitol Hill. And it is my pleasure to present you this gavel that I have held on to for 18 years, the longest anybody has ever held it, as a matter of fact.

John.

Mr. MYERS. Thank you.

Thank you, Tom. To my friends on the Republican side, I don't plan to beat his record of 18 years, not even equal it.

The Chair will now recognize Mr. Chapman of Texas, who is a third term on this panel, I believe. Isn't it, Jim, or four?

Mr. CHAPMAN. Time flies when you are having fun, Mr. Chairman. No, this is my fifth term.

Mr. MYERS. That is close enough for government work.

Mr. CHAPMAN. I am so stealthy that you haven't noticed I have been here that long. Mr. Chairman, let me add my congratulations to what my colleague from Alabama said. We would all be remiss I think, if we didn't echo a portion of those comments. And I want to not only echo those but personalize them some, because I, having participated now through, I guess, six appropriations cycles have also shared many hours in this committee room, Mr. Chairman, with you, many hours at the table during markup. We have fought battles in full committee and on the Floor together. Occasionally we have disagreed, but it is—well, actually it is quite rarely that we have disagreed, I think.

I think Mr. Bevill is right when he says that the spirit by which this subcommittee in particular has operated in the appropriations process, as a part of the full Appropriations Committee, has been one in which we have had some good tussles and some disagreements, and we have fought over what we think are appropriate policies and priorities. And in that process we usually arrive at a consensus.

And when we finish our bill, John, as you know, and largely because of your leadership along with the leadership of Chairman Bevill, we have always, I think with perhaps only one or two exceptions, for reasons that may have been my fault or the fault of projects in my State, we have always been first on the Floor and we have always had the largest, if not close to the largest margin. So that consensus exists not only on the subcommittee and through the appropriations process, but because of the leadership, the senior leadership of this committee, that consensus has moved on to the Floor of the House, and to the Senate, and I think the American people have benefited by that working together.

So I want to join Mr. Bevill in saying welcome to you. I welcome seeing the gavel in your hand. I am going to be a willing ally in helping you do what we all need to do together here, and appreciate the opportunity to serve with you.

I have no specific questions for the panel at this time. I find it intriguing and very educational to see some of the innovative thinking that is going into some proposals in a way that is perhaps nontraditional from the standpoint of the appropriations process.

I would say I do not agree with some of these proposals. But I don't expect that you came here today thinking that this subcommittee would be prepared to agree with everything you say. But I do think that an analysis of last November's results say that

the American people want to see us do some innovation, be creative, and try to figure out if there are other ways to do the things we all agree need to be done in this country, to define what is the appropriate role of the Federal government in that process, and then go to work and try to do it as best we can.

So I appreciate your testimony, and, Mr. Chairman, look forward to the 104th Congress. Thank you.

Mr. MYERS. Well, thank you, Jim, for your very nice remarks. Our task has been difficult in the past, but each year it becomes more difficult. That is one of the reasons we are here today considering rescissions that will probably come up for consideration next month sometime.

I am sure about the tenure of the next member of the panel I want to welcome. He is a new Member of the committee, but not a new Member of Congress. He is kind of a retread. Frank was here four years ago and then decided to take a sabbatical leave.

Mr. RIGGS. I call that a near-death experience politically.

Mr. CHAPMAN. Frank, at least he didn't call me a retread.

Mr. MYERS. Frank Riggs is going to be a very effective Member of this committee from California. Mr. Riggs, would you like to be recognized at this point?

Mr. RIGGS. I will pass on any opening comments, Mr. Chairman. Thank you for the recognition, though.

Mr. MYERS. Mr. Bunn is a new Member of Congress and new to this committee. We have a lot of hard work to do. Welcome to the committee. We are pleased to have you.

Mr. BUNN. Thank you, Mr. Chairman. I very much look forward to the opportunity to serve on the committee.

I know as a new Member there are a lot of things that are a challenge to face, but I think it will be easier for new Members this time because everybody faces a lot of challenges, because I think the entire operation is going to be different. I have got a lot to learn. But I think we are all going into an exciting opportunity together.

Mr. MYERS. Well, thank you. We are all still learning here, too. We learn something every day.

We have a new staff director, too, this year. He is not new to Congress. He was on the Appropriations Committee staff a few year ago. I want to welcome Jim Ogsbury.

We are glad to have you as a staff director.

At this time, the Chair recognizes Mr. Jerry Taylor who is Director of the Natural Resources Studies of CATO Institute.

Mr. Taylor, you are recognized for your presentation.

OPENING STATEMENT OF JERRY TAYLOR

Mr. TAYLOR. Well, thank you, Mr. Chairman.

I am honored to have the opportunity to discuss Federal energy policy and the U.S. Department of Energy before this subcommittee.

As other speakers have noted, last November the American people made clear their desire for a smaller, less expensive, less intrusive Federal Government. The Federal energy budget is one of the best places, I believe, to begin keeping faith with the American people on this matter.

In a broad sense, I really don't think that the task or the best task in front of this subcommittee is reinvention of government, as the Chairman noted a few moments ago. I believe that what the subcommittee might want to look at is tearing apart brick by brick those functions of government where they do not belong, and that is a full-time job.

Broadly let me summarize the written comments that I submitted before you today. I have four major suggestions. They might be broad, but they are certainly bold.

First of all, the elimination of the Department of Energy. Again, as Mr. Hodge noted, I think we could spin off some of the responsibilities there. The defense-related responsibilities, perhaps, to an independent, non-Cabinet Agency; the environmental cleanup responsibilities to the Department of EPA; the rest of the responsibilities at DOE, as I will discuss moments from now in my testimony, should be summarily eliminated.

By any way of measurement, whether you measure the Department of Energy's work by quads, kilowatts or dollars, the Department of Energy has failed the American people.

Secondly, I would recommend that this subcommittee eliminate all energy research and development appropriations within its jurisdiction.

Third, I would recommend that this subcommittee move for the privatization of all the Federal laboratories under its jurisdiction.

And finally, I would recommend that this subcommittee privatize all the Power Marketing Administrations within its jurisdiction. These sorts of cuts, I believe, would save \$6 billion annually and tens of billions of dollars in debt retirement from sales of Federal assets.

Now, briefly, let me go over each of these proposals in turn. First of all, the Department of Energy. Frankly, the very structure of a Department at the Cabinet level on energy, I think, is a dangerous thing for the Federal Government for two reasons. One, it is a one-stop shop for centralized energy planning. Every special interest group that has a gripe that wants government intervention to favor their bottom line at the expense of the American consumer or other industrial competitors have only one place to go, and the thousands of pages of regulation that have come out of DOE since its inception is proof of that, the sort of problem with having one place for everyone to go for relief from what consumers have otherwise judged in the marketplace.

Secondly, I think the Department of Energy is an insidious Agency simply because it is a ready bureaucratic structure for massive intervention of the energy economy. The last thing we ever want to see is the reintroduction of an Energy Czar to use authoritarian economic control over the economy.

This was one of the most disastrous interventions in American political history, and frankly, I don't believe that having a Department of Energy as a ready structure for that czardom is a very good idea. Without the Department it is a little bit tougher to reintroduce these kinds of interventions in the economy. And for those two reasons, I think it is important to remove the Department as a Cabinet Agency and dismantle it.

However, very little is gained by simply reshuffling organizational boxes on bureaucratic flowcharts. That might symbolically indicate that the Congress has done something to cut spending and cut bureaucracy, but it is little more than political sleight of hand unless the actual programs that the Department is responsible for are reexamined.

First, let's look at the research and development programs of the Department. Labor Secretary Robert Reich I thought made a very fair and an excellent point a few weeks ago when he pointed out the degree to which corporate subsidies litter the Federal budget. Aside from the fact, for a moment, that the Secretary is under the impression oftentimes that allowing the American people to keep their own earned income is somehow amounting to a subsidy when it is convenient for the administration, direct subsidy in the budget for corporate America is everywhere in this budget and within the budget of this subcommittee.

Research and development is a classic example of that. Over the last four decades, \$90 billion of taxpayer revenue has been poured into energy research and development, and the result is a rogues gallery of some of the most ridiculous fiscal fiascoes ever parented into existence by the Congress. The Clinch River Breeder Reactor, the Synfuels Program, the Superconducting Super Collider are just a few of many that could be discussed.

Now, in the academic literature there is virtually no debate about the merits of these research and development programs. Economists from the left and from the right, from the CATO Institute to the Brookings Institution have all found that these research and development programs simply accomplish little.

For example, economists Cohen and Noll published a book called the "Technological Porkbarrel" for the Brookings Institution a few years ago, one of the most comprehensive surveys of research and development expenditures ever undertaken, and he found that research and development at the Federal level has been, without exception, one of almost an entirely worthless endeavor that has produced very few, if any, commercializable successes for the money that has been poured in on one end of the budgetary stream.

The National Bureau of Economic Research has also published numerous studies which showed that the results of public investment in research and development are many orders of magnitude less productive than investments of private capital, and let me make clear their reasons for this. This is not simply that we don't have the right people making those decisions about appropriations or that we have incompetent bureaucratic officials, that we have a bad process of deciding what project gets money and what does not. It is not really that, it is an institutional problem.

First of all, the very nature of having government invest money in endeavors like research and development by definition means that politics, not science, will dictate appropriations. That is simply a fact of life. I don't think this is a surprise to anybody on the subcommittee and, frankly, politics is not the best way to decide which projects get funding and which do not.

The second is that private investors are naturally better judges than public officials about what projects are worth investing in. For example, if a corporation finds that investment in a research and

development project is too risky for its stockholders and a private bank also decides that loaning that money for research and development is far too risky for the people who deposit money in its banks, then shouldn't the American Congress decide that investment of taxpayer money is too risky for its constituents? Simply put, if a research and development project or undertaking is worth undertaking, it will be done so by people in the private sector who after all make profits by doing exactly that.

If you come up with a new technology or new device or new application, profits are there for you and they have every incentive to develop these technologies and almost all major technological innovations have stemmed not from public but from private investment.

If the research and development undertaking that your subcommittee is looking at is worthwhile, then it should be paid for by those interests that would profit from it, and they should not be allowed to free-ride off the American taxpayer for undertakings that every other corporation has to pay for out of its own profit margins.

Why should the American taxpayer pay for these research and development undertakings simply because they have enough political clout to use my money instead of their money to do so?

Secondly, let's look at the Power Marketing Administrations. I believe these are relics of a tired New Deal economics that time has passed by.

Once again, economists from virtually all spectrums of the field today now conclude that if there ever was a time—escape for a minute, put aside whether in the 1930s we really needed to set these programs up, aside from that discussion today there is virtually no coherent, intellectual case for any of the Power Marketing Administrations, remember now, those administrations were established based on two assumptions:

One, that public power can be generated cheaper than private power. If there is no pursuit of profit or what have you, we can provide power at cost and we can afford to supply that cheaper power to people who don't have the economic means of others to pay for it.

The second assumption of course was that private companies won't provide electricity in rural America simply because of cost. We can look back at that now and find that the first argument, that public power is able to provide cheaper electricity rates than private entities, is utter absurdity. The only reason that those people who received their electricity through the PMAs received lower rates than anyone else is because of massive taxpayer subsidy. Without those subsidies, power rates are several orders higher than they are in the private sector. That is just a demonstrable fact of life.

So the first argument for the PMAs simply doesn't hold. We know this by 50 years of analysis.

Second of all, most of rural America is electrified. If there were ever any need for the TVA to electrify the Tennessee Valley, it has certainly disappeared by now. There is certainly no one who would suggest that no private entity would step in were it not for TVA or that no one would buy TVA.

So the original assumptions that underlie these programs simply do not exist anymore. I believe the only thing that keeps them alive is what Milton Friedman called, "The Tyranny of the Status Quo," entrenched special interests who receive narrow benefits from these programs are able to maintain their grip on them and there are few people who really would find the discussion of privatization in the past politically fruitful.

Scott Hodge mentioned earlier the congressional prohibitions against the administration even looking at privatization of these PMAs. Frankly, those laws are known in the vernacular as the Niskanen laws, named after the Chairman of the CATO Institute who during his time at the Council of Economic Advisors under President Reagan, hazard to undertake just such an analysis and was shut down. So I note that for Bill's satisfaction that perhaps the time has come for him to have the last laugh.

These PMAs have been disastrous experiments in social engineering, and there are many ways of finding that conclusion. First of all, they generate wasteful patterns of energy, electricity over-consumption.

If you subsidize something, someone will use more of it than they might otherwise. This is certainly the case for electricity.

It isn't simply a matter of environmental damage because that is certainly an aspect of it. More energy consumption means more pollution is generated, more emissions are put into the air and into the water. That is axiomatic, and anybody who has looked at the environmental literature finds that all the major environmental organizations certainly agree about that.

But it also is wasteful in the sense that it encourages the substitution of one industrial input for another, with very subtle but real consequences. For example, if we are subsidizing the use of electricity in the State of Washington or Oregon, it means that Boeing and other companies have an incentive to increase their energy usage vis-a-vis the input of other resources, like labor or capital. Since energy is simply one input amongst many in the manufacturing process, I do not know how many jobs that might have cost. I do not know what kind of capital formation impact that might have had. I can guarantee you it has had some.

Trying to sort it out has been rather difficult. There haven't been very many studies done, but there is certainly no dispute in the economic literature, again from either left or right, Democratic or Republican, that that effect has occurred and it has had an impact on the areas served by TVA, and not a positive one.

Finally, few economists even would today call electric power provision a monopoly service. There aren't many anymore. If you look at what is happening in the States, you can see that. California, which is generally a harbinger of things to come around America is looking at a radical competition plan that would allow for direct competition of the provision of electricity to large sectors of the economy.

And a number of other States like Wisconsin and others are looking at this as a trend. Within the industrial and academic literature, again there is very little debate about whether California should acknowledge reality and acknowledge that the provision of

electricity is virtually no different an economic proposition than the provision of long distance telephone service.

The question is how do we best provide for that competition and oversee it, not whether it is possible, whether it is feasible, but whether somehow electricity generational facilities are somehow monopolist. That is an argument that time has passed by. But it has not apparently passed by the Power Marketing Administrations, which are largely predicated on that argument.

As a final note, I would like to remind this subcommittee that back on January 5th the Investors Business Daily reported that Hazel O'Leary suggested to President Clinton that these Power Marketing Administrations should be sold and the money used to retire some of the Federal deficit. If it was good enough for Hazel O'Leary, it should be good enough for this subcommittee. Unfortunately President Clinton rejected her advice at the time.

In sum, there is very little rationale for much of these spending programs. Again, if these investments in research and development, what have you, are worth undertaking, private sector individuals will undertake them. Private sector individuals would never have undertook the Synfuels Program or the Clinch River Breeder Program, would never have overbuilt nuclear facilities in TVA as the Federal Government has done.

Frankly, I think this is an opportunity for Congress to make a very good start beside the budget cuts of billions of dollars, depending on the numbers you are using and estimates, \$6 or \$7 billion in cuts here. You are also looking at potential savings to the Treasury in privatization that are of very serious consequence.

The Reagan administration was considering BPA sales before they were prohibited from going any further in that consideration, estimated the sale of Bonneville would garner about \$8 or \$9 billion, probably \$10 billion in today's terms. Economists have estimated the TVA, if sold in its entirety in a stock sale or what have you, would probably generate somewhere in the neighborhood of \$20 billion, given all the facilities that TVA has under its umbrella.

The national laboratories should also again be sold, I won't discuss them specifically here, the comments that I made about R&D expenditures are certainly appropriate when we look at the national labs, the sale of national labs would probably generate several billion as well. That money, however, I would urge the subcommittee to use that money not to mask the true nature of the deficit in a one shot deficit reduction but to dedicate that money towards retirement of Federal debt.

We have \$6 trillion in Federal debt and simply assuming that somehow we can relive a Grimm's Fairy Tale in which we will go to bed one night and the budget cutting elves will come down here and retire that debt isn't particularly realistic. We have a lot of assets on the Federal books, and retiring those Federal assets should lead to debt reduction, not necessarily covering up the underlying imbalance of the budget.

I thank again the subcommittee for the opportunity to testify on these matters today. I commend the committee for looking at such bold and potentially radical reforms of the way government does its business. I wish it success.

Thank you.

Mr. MYERS. Thank you, Mr. Taylor, for your testimony.
[The statement of Mr. Taylor follows:]

TESTIMONY OF
JERRY TAYLOR
DIRECTOR OF NATURAL RESOURCE STUDIES
THE CATO INSTITUTE

BEFORE THE:
SUBCOMMITTEE ON ENERGY AND WATER DEVELOPMENT
COMMITTEE ON APPROPRIATIONS

ON:
RESCISSIONS OF PREVIOUSLY AUTHORIZED BUDGET AUTHORITY
JANUARY 18, 1995

Mr. Chairman, I am honored to have the opportunity to discuss federal energy policy and the U.S. Department of Energy before this subcommittee. Last November, the American people made clear their desire for a smaller, less expensive, and less intrusive federal government. The federal energy budget is one of the best places to begin keeping faith with the American people.

Energy production and distribution, like other goods and services in the economy, should be left to consumers and entrepreneurs in the marketplace, not "planned" by government bodies. In fact, the long history of United States oil, gas, and electricity regulation makes abundantly clear that shortages, price spikes, and energy crisis are engendered by government intervention, not market failure.

Although energy consumers have profited handsomely from the deregulatory undertakings of the 1980s, much more can and should be done to remove the province of energy from the dead hand of government planners to the invisible hand of the marketplace. To wit, this subcommittee should:

Eliminate the U.S. Department of Energy and transfer all weapons-related responsibilities to an independent, non-Cabinet agency and environmental activities to the Environmental Protection Agency;

Eliminate all energy research and development expenditures;

Privatize the federal energy laboratories; and

Privatize the Power Marketing Administrations.

Such an aggressive program would prove beneficial to both the energy economy and the American taxpayer. The above budget cuts would save approximately \$6 billion annually and provide tens of billions of dollars for federal debt retirement.

Eliminate the Department of Energy

The first place to begin the dismantling of energy regulation is by the simple elimination of the Department of Energy. The problem with the DOE is not its administrative structure but the very fact of its existence.

A centralized, cabinet-level energy agency is dangerous for two reasons. First, it offers "one stop" central planning services. The thousands of pages of regulations that emanated from DOE and its predecessor agencies in the 1970s is testament to the perils of federal bureaucracy and the temptations that such an agency presents to the myriad special interest groups that stand to profit from federal intervention in energy markets. Second, it provides a ready bureaucratic structure for massive intervention in the American economy. The Department is a ready

command post from which would-be energy "Czars" could quickly revive the disastrous command-and-control energy policies of the 1970s.

The Department's responsibilities, with the exceptions noted above, should not, however, be reshuffled to other agencies; they should be summarily ended. Moving organizational boxes around bureaucratic flow-charts may provide the illusion of deregulation but in reality amounts to little more than political sleight-of-hand. By any measure, whether it be in dollars, quads, or kilowatts, DOE has failed the American taxpayer.

Research and Development

Several weeks ago, Labor Secretary Robert Reich made an excellent point by observing the degree to which corporate subsidies litter the federal budget. Although the Secretary seems to be under the impression that allowing taxpayers to keep their own money often-times amounts to a "subsidy," corporate welfare is an expensive and egregious burden on the American taxpayer. Perhaps nowhere is this more true than in the DOE budget for research and development.

Energy R&D spending has cost the American taxpayer plenty without any real return. Approximately \$90 billion has been poured into such efforts over the past four decades: \$50 billion for nuclear energy; \$19 billion for coal; \$10 billion for solar;

\$5 billion for oil; \$3 billion for natural gas; \$2 billion for geothermal; and \$1 billion for hydropower. In the last 12 years, the federal government has spent \$7 billion on nuclear fusion R&D, yet even DOE concedes that a commercial fusion plant probably won't be on line until at least 2040. Current spending trends indicate another \$30 billion will probably be necessary before we ever see the first kilowatt of fusion power. Likewise, the federal government has spent \$6 billion on renewable energy R&D over the last 12 years despite the fact that generation of renewable energy has dropped by more than 10 percent during that time.

Virtually all economists who have looked at those programs agree that federal energy R&D investments have proven to be a spectacular failure and a virtual rogue's gallery of some of the biggest government boondoggles in U.S. history, such as the infamous Synfuels program, the Clinch River Breeder Reactor, and the Superconducting Super Collider. A recent report by Economics Professor Frank Lichtenberg of Columbia University for the National Bureau of Economic Research found that the net impact on productivity of government R&D spending is far lower than the return on privately funded R&D and that the social return on private R&D investment is about seven times as great on plant construction and equipment. Moreover, perhaps the most comprehensive examination of federal R&D programs -- conducted for the Brookings Institution by economists Roger Noll of

Stanford University and Linda Cohen of the University of California at Irvine -- found that energy R&D has been nothing but a "pork barrel" for political gain.

There are a number of reasons why government R&D efforts have such a poor track record. Typically, government decides which industries, technologies, and projects to support on the basis of political -- not economic or scientific -- considerations. Older, more labor-intensive companies typically exercise the most clout. New and growing firms -- the kind that typically produce the most technological breakthroughs -- may be economically strong but are usually politically weak. And as former Senator William Proxmire has noted, "Money will go where the political power is. Anyone who thinks government funds will be allocated to firms according to merit has not lived or served in Washington very long." Economists Noll and Cohen concur: "The overriding lesson from the case studies is that the goal of economic efficiency -- to cure market failures in privately sponsored commercial innovation -- is so severely constrained by political forces that an effective, coherent national commercial R&D program has never been put in place."

Even if politics could somehow be divorced from the selection process -- impossible in the real world -- it is still doubtful whether federal R&D efforts would be wise investments. Private investors, animated by the intense search for profit with

their own money on the line, are far more likely to determine which ventures are worth pursuing and which aren't than are elected officials or their bureaucratic agents who have far less market information and fiscal discipline than their private counterparts. If private investors find an undertaking too risky for their stockholders and private banks find such loans too risky for their depositors, then shouldn't political officials treat the taxpayer's money with the same degree of caution and find the undertaking too risky for their constituents?

Finally, there is good reason to believe that the very cause of technological innovation is harmed by federal intervention and subsidy. Money is inevitably diverted from more promising competing technologies and premature commercialization of federal R&D (a common problem according to Noll & Cohen) often needlessly discredits the undertaking and sets investment back decades.

If energy research and development in a particular technology is warranted, however, private corporations that stand to profit should invest their own money in the effort and not attempt to "free-ride" off the American taxpayer.

National Laboratories

Eliminating federal energy R&D expenditures would mean the privatization of the vast network of national laboratories. Selling these facilities would generate billions in federal

revenue that should be used, not to mask the true state of the budget, but to retire some of the national debt, currently standing in excess of \$6 trillion.

A multitude of private laboratories, such as the Bell labs, exist and most commercial laboratory advances are achieved through them. That is due not only to the factors noted above, but also to the fact that -- as pointed out in a recent GAO report -- most small manufacturers cannot effectively use the advanced state-of-the-art automated technologies produced by the national laboratories. As noted by Professor Murray Weidenbaum, director of the Center for the Study of American Business, "When a company's own laboratory comes up with a product or process advance, there are far fewer barriers to using it than when government takes on the role. The many pathetic efforts of the Department of Commerce to interest private business in using the research it has financed reminds me of the forlorn street corner vendor trying to peddle his wares to preoccupied passersby."

Any compelling government research need can be met by contracting that work from private universities or laboratories. The national labs could certainly still compete for weapons-related research grants from the federal government but otherwise should be forced to sell their services to the private sector.

Power Marketing Administrations

The existence of the five major power marketing administrations are relics of tired and obsolescent "New Deal" economics that time has passed by. Sale of those entities is long overdue and promises to benefit both the taxpayer and the environment.

The original case for these federal power programs was based on the two arguments; that public utilities could provide power at a lower cost than the alleged "monopoly" power rates of private utilities and that the monopoly powers of private utilities prevented the furnishing of electricity to rural and sparsely populated areas. The first argument has been shown to be demonstrably untrue. The cost of electricity generation for the Power Marketing Administrations is far higher than they are in the private sector. Massive cost overruns, over investment in baseline generation, and scrapped nuclear facilities that cost tens of billions but never generated a kilowatt of electricity are systemic problems with federal power facilities. Electricity costs are lower for consumers of federal electricity than for consumers of private-generated electricity only because of massive taxpayer subsidies. The second argument is irrelevant today given that virtually all of America has been electrified.

Power Marketing Administrations have today become a massive experiment in social engineering, seriously distorting the economics of the regions they serve and causing incalculable harm

to the environment. The artificially low electricity prices they offer to consumers at the federal taxpayer's expense encourage over consumption of electricity and wasteful patterns of industrial activity. This in turn leads to more pollution than would otherwise be the case. Moreover, the operational record of federal power facilities is an environmental nightmare. Riparian habitats have suffered tremendous damage from dams that would never have been built in the first place by private investors. Emission controls have performed far less effectively than the industry norm.

Today, few economists would even maintain that electric utilities are natural monopolies. Technological innovations have broken the regulatory assumptions of state public utility commissions and direct competition in the provision of electricity is considered a *fait-accomplis* by utilities, regulators, and customers alike. The revolutionary deregulatory program pursued by California and being considered by other states promises to transform the manner that electricity is generated and sold in America. The days of vast regional government monopolies providing electricity are numbered, and Congress may as well recognize the reality that competition, not monopoly, best serves the consumer of electricity or any other good or service in the economy.

The Power Marketing Administrations should be marketed in a

public stock issue. Economists believe that selling TVA would bring \$20 billion to the federal treasury while BPA could sell for around \$10 billion. Clearly, the sale of all the Power Marketing Administrations would generate significant revenue. Congress would certainly start out the 103rd Congress right by using those funds and those garnered by selling the national laboratories to retire outstanding federal debt, a significant down-payment that would signal to the American people the end of business as usual in Washington.

The Investor's Business Daily reported on January 5, 1995, that Energy Secretary Hazel O'Leary proposed that the Clinton Administration do just that and sell the Power Marketing Administrations, but her suggestion was rejected by the President. If the Energy Secretary could bring herself to propose such a sale, so can the this Congress.

Conclusion

The American people demanded last November that the Congress move to reduce federal spending and the overall size and scope of government. While some cuts are admittedly harder than others, the cuts proposed above are among the easiest targets before the Congress. To paraphrase a former President, if now, when? If not here, where?

The vast majority of the programs under this subcommittee's

purview are unnecessary, wasteful, and counterproductive. The losers under the status quo are the American taxpayer and the environment. The only winners are those corporations that benefit from taxpayer-subsidized R&D or federal energy. It is time to put the public interest above the special interest and pull the plug on the Department of Energy and turn out the lights on the programs overseen by this Subcommittee.

Mr. MYERS. The committee now will hear Fred Smith who is President of the Competitive Enterprise Institute.

Welcome back to the committee, Mr. Smith.

Mr. SMITH. Thank you, Congressman, thank you Members of the committee.

My name is Fred Smith. I am the President of the Competitive Enterprise Institute, and it is a pleasure to present what now appear to be commonplace, with President Clinton and former President Reagan agreeing on the need to cut these things. The idea is, how do we go about doing this, what kind of advice can we provide your committee?

CEI has been heavily involved in the whole array of water, energy, science, economic development areas which are the bread and butter of this committee. Over a decade ago, I was involved in the efforts that lead to the elimination of the Clinch River Breeder Reactor Program.

My staff more recently played a role in the effort to defund the Superconducting Super Collider, and we have been involved in the efforts to deregulate electricity in California and elsewhere, the idea of freeing up the system to provide more.

Personally, however, I think I have a more relevant stake in the future of this committee. I was raised in rural Louisiana, in Congressman Livingston's district, as a matter of fact, St. Tammany Parish. My daddy was in the Corps of Engineers for 43 years. He was a lock master at Lock 1, and it provided a bucolic childhood for my existence. I will tell you more about that story later.

Honey Island Swamp began behind my back door in those old days when we thought swamps should be drained rather than, of course, a Federal offense as it is today. We got part-time jobs on the intracoastal and the Mississippi River as deck hands junior on tug boats, and we got readings on the gauge readings at Damopolis Lock and Dam and the Tennessee Tombigbee Waterway System.

My first job after I got married was at the government-run Naval Research Lab in Washington, but I soon moved to the private Cornell Aeronautical Lab in Buffalo, New York, which was a privatized research laboratory and provides a model, I think, for this committee to look at in the jobs today. In a way my life really seems to be a preparation for talking before this committee. On a lighter note, some of you have got a copy of the calendar CEI has put out, the Federal Disaster Calendar, and it is already past December, but the Tennessee Tombigbee Waterway Project we thought is one of the classic attempts to clone the Mississippi River, something that God didn't do, and I don't think the committee should have tried to, either.

Let me go into the argument here that I think you have heard, but I think it is very important to reiterate. The recent election represents a major opportunity and a challenge to change. The American people did not call for good government, not even good Republican government. They called for less government. Americans understand, even if too many parasite subsidy seekers in this city do not, that good government is limited government. A government that tries to do everything will do nothing very well. We have an opportunity to take a U-turn on what Frederick Hayek called

the "Road to Serfdom." Your challenge is to translate that opportunity into reality.

You will soon hear if, you have not heard already, from the widows and orphans of the leviathan state who will squeal loudly about any threat to their political privileges. Change is not easy and the status quo forces in this city are already guaranteeing or betting that you guys are going to fail.

My liberal, my business friends have told me already that all this election was about was a change in the color of the uniforms, one team and one captain being replaced for another, politicians come and go, but bureaucracy lives forever. Sure, they argued, you have come to Washington to drain the swamps, but pretty soon you will relax and find it is a hot tub. Disappoint them.

Serving the scope and scale of your committee's activities is so great, you oversee tens of billions of dollars of Federal programs, ranging from Power Marketing Administrations in the west to swamp restoration projects in Florida, to energy programs basically everywhere to fishing harbor projects in Massachusetts.

How could anyone become an expert on all of those myriad of programs? How could you possibly determine whether they are good or not?

Fortunately, that is not your challenge. Your goal should be to return to the principled limited government philosophy of the founders of our Nation. The founders realized well that there were many good things but that government should do almost none of them. While some good might result from the expansion of government, it would come at the expense of individual and economic liberty, higher taxes, and higher restrictions on our freedom. That concept has been lost as Federal Government has grown into virtually every aspect of our life.

Your challenge is to restore America to Americans, back to the people. P.J. O'Rourke, the humorist, has suggested a conceptual way of approaching Federal spending, noting that all Federal programs, after all, are funded by the coercive power of taxation by the State. Before allowing any law to remain on the books, he suggested: Would you place a gun at Granny's head and say, okay, Granny, cough up or else? Pose that question to yourselves, and I suspect you will find much to cut.

The French economist Frederic Bastiat made a similar point, quoting: "If the law takes from some persons what belongs to them and gives it to other persons to whom it does not belong, if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime, then abolish these laws without delay."

The challenge is political, not intellectual, but it is a large one. But it is not as large in America as it is elsewhere in the world. Your counterparts in other countries, the former Soviet Union, for example, face vastly greater difficulties in their efforts to gain control of their excessive government to privatize and deregulate their economy.

Much of the American economy remains in private hands. We have a robust, albeit bruised rule of law, and we have already moved over the last several decades to free ourselves of much bur-

densome regulation. Our challenge is to take advantage of where we are today and move beyond to a freer society.

In a way, the two major jurisdiction items of this committee, water and energy, are interesting, because water is a relatively old Federal program, Alexander Hamilton years ago got us into that area. Energy has been a fairly new area for Federal involvement. There is a lesson there. Americans' energy position is far better than its water position. Most energy-related matters are privately handled and energy costs have steadily declined.

Large fractions, in some cases, virtually all water matters from navigation to irrigation to flood control to wetland issues are a growing problem in the United States. Energy problems largely fall into the "prices are too low" category, and as an illustrative example, note that a quart of Perrier is now more expensive than a quart of oil.

The big programs, the Army Corps of Engineers, I know this area fairly intimately, I have spoken at the Waterway Users Conference a few years ago, I grew up on Pearl River. Some of you know the history of the Pearl River Lock and Dam system.

It was after World War II, Congressman Morrison, Jimmy Morrison, it is his turn to get the pork barrel projects that the Corps traditionally allocated, and it was going to be a canal system linking Bogalusa to the intracoastal, and then to the world's economy.

I grew up as that canal was being constructed, and I remember the digging, the dredging the gigantic structures, pouring of thousands and millions of cubic yards of concrete, and the day the canal system opened, bands played, pretty girls got kissed, babies cried occasionally, ribbons were cut, and a ceremonial load of products came from Bogalusa down that canal system and speeches were given about the great economic wealth that was going to be liberated by this opening up of critical infrastructure to the hinterlands of Louisiana. That was the last commercial load of products that ever came down that river for the next "x" number of years.

We got a few sand and gravel barges, intermediate ones, but in terms of why that canal was built was two reasons: It was built partly as just a straight pork barrel project, but there was one other thing. At that time, we still had regulation of ground transportation in America, and there were two tariff tables, one tariff table if you were landlocked and another tariff table if you had water connections. The day the canal was finished, we went to a different tariff table, and we lowered the tariffs in the area, and the companies that had used that one barge load of product to lower their tariff went back to truck and rail and the canal system is now moribund. I have heard recently there is efforts to restore it, but restore it as a museum not as an economic entity.

Segments of the waterway system are critical. It is very important to recognize that much of the waterway system in America provides vital services to our Nation and America certainly needs some ports, although certainly not in every State in the country. We need to find a way of prioritizing and ensuring that the ports of the waterway system, the port system in America that are critical, receive revenues and we stop draining them that way into areas like Pearl River. It was a nice place to grow up, but you guys shouldn't have subsidized my childhood.

Second and specific, privatization strategies would encourage far more intelligent investment in management rules for those facilities. One of the ideas, and this is just opening up opportunities as Scott and Jerry have mentioned, allowing private parties to come forward and say, look, guys, there is a budget crisis, we know there is dredging needed now, can we take over this segment and operate it ourselves, allow sort of a beauty-queen strategy where user groups, barge land operators, local community groups could come in and take over the management of those economically viable sections of the waterway system of America. Let the dogs then stand on their own and see whether they should be shot and put out of their misery.

As you rethink the traditional pork barrel programs of the Corps of Engineers, do not rush in and assign them new wasteful missions. It would be ironic if the Corps of Engineers which spent the first part of its history draining swamps and destroying wetlands was now assigned the process of swamp restoration. The Corps has no greater ability to wisely build swamps than it used to drain them.

The committee should, I believe, terminate immediately these ecological restoration projects that provide the new rationale for a continued Corps of Engineers, stop the Federal subsidizing of the rerestitution of the Everglades. This also, I think, gives you an opportunity through your committee's ability to control regulatory budgets to take on the wetlands issues.

Section 404 of the Clean Water Act, the ability to stop development on anything that is wet or could be wet or might be arid but might be wet sometime has done more to antagonize relationships between the people of the United States and the Federal Government than anything, save perhaps the Endangered Species Act. The wetlands bills and the Endangered Species Act have created a war in America between the people of America and the bureaucracy trying to oversee it. It is time to end it, your committee can end one of them by eliminating funding for Section 404 implementation.

Jerry has talked about the research laboratories. I mentioned I worked for a number of years at a privatized research lab. After World War II, the United States privatized a whole series of laboratories that had been military research facilities during the war. That model provides a beginning step to look at how to do this process.

Let me quote, though, from the National Academy of Engineering Studies done in the mid-1970s: "With a few exceptions, the vast technology developed by federally funded programs since World War II has not resulted, has not resulted in widespread spin-offs or secondary or additional applications of practical products, processes and services that have made an impact on the Nation's economic growth, industrial productivity, employment gains and foreign trade." We have spent a lot of money, we have not got much for it.

More recently, Professor Joseph Martino published a book called "Science Funding: Politics and Porkbarrel," and he studied this issue again and found essentially the same thing.

The problem is science is a very complex process, and trying to direct it in micro political ways is difficult. The labs turn out where the seniority in the Congress is, not where the best concentration of scientists happens to be, and the linkage between the research in the political institution and the needs of the American public is just very hard to achieve.

The next topic I would discuss is the cutting off of the Federal power. This repeats some of the material that Jerry and Scott had.

The Federal Government should get out of the power business. As both of these individuals have pointed out, nations throughout the world are privatizing their power generation facilities. America, in fact, is now encouraging Russia and providing funds for the Russians to privatize their electrical sector. Shouldn't we do the same in our country. And to add to the Niskanen rule that we referred to earlier, we certainly should free up our bureaucrats to do some thinking about creative ways of privatizing power.

We should never discourage thinking in government. It is rare enough without discouraging it. One of the ways of doing that is a military base closing strategy. You by now all know this lesson, sometimes it is easier to achieve major changes not by taking them on one at a time but by creating bundled plans which overcome some of the special interest logrollings that are so responsible for the waste that we now see in government.

Waste management issues, in another sense, environmental waste management facilities, are an increasing portion of the budget you deal with. If you calculate, as some of you probably have already, what the potential bill is for cleaning up all of the mis-managed energy production sites, weapon sites in the United States, it is a very, very large sum.

If Superfund thinking prevails, we are going to spend vast sums of money cleaning up relatively isolated spots in the United States. Superfund reform, of course, is a bigger topic in this committee in another hearing, but I think you know the problems. There are no rules for deciding how much we should spend on cleaning up these sites, we have no rules for how risky is risky, how clean is clean; there are no stopping rules in deciding how much money we should spend before we decide we have done our job, it is clean enough.

I think one of the ways of addressing that is to privatize these ugly ducklings of the Federal estate. How do you privatize something that is a loss leader, that is a ticking time-bomb of potential legal liabilities?

One of the ways is a Dutch auction. I mean, after all, the concept of a dowry is not a new idea. Families in the Middle Ages sometimes had children who were not the most desirable mates, and they sometimes sweetened the deal by throwing in a little money to get someone to take their children off their hands.

The Federal Government, your committee, should try to do the same thing for those waste sites that litter now the western landscapes of the United States. Put up a Dutch auction concept where you say: Would anyone take Rocky Flats off our backs for a certain amount of money? If that is not enough, keep raising it until someone is willing to take the legal and environmental risk of managing these facilities privately.

They will do it cheaper, they will make better decisions in the process. And if they portfolio and buy a bunch of these facilities at once, we might actually get some positive value out of some of these things that are now nothing but black holes of government waste.

The Regional Economic Assistant Agency is one of the smaller groups, but again one of the areas that is well past time to be dismantled. The Appalachian Regional Commission was all too typical of efforts over the years to help places rather than people.

The idea was to identify pockets of poverty, link them into the national economy, and restore their local wealth. The effect, though, unfortunately, has been to defer local change and to encourage people to stay in place rather than to move to areas where their economic welfare would be better off.

My family was in Louisiana. Louisiana went through the oil bust and an awful lot of them are now living elsewhere in the United States. It is a painful experience, but it is far better for the people involved, and it works. Staying in place and living in poverty does not.

I have included the "dirty dozen package," a package we put together for the Project For The Republican Future, which has been pretty widely distributed. But when I was looking through, surprisingly a large number of those fell into the water- and energy-related areas, or perhaps not surprising. They are listed, they are the typical programs you have heard about, the ethanol boondoggles, is it really necessary that America fund government-created moonshine?

The Global Environmental Facility, an entangling way to move America into a set of programs that are intended to destroy the energy industry of the world, not just the United States, the repeal of the Corporate Average Fuel Economy Standards, these regulations aren't only policy, they are costly, they are deadly, they are killing thousands of Americans.

One of the leading experts on highway safety in the United States, John Graham of Harvard, says there is nothing you could do that would more improve, more reduce the fatalities on America's highways than repealing the CAFE Standard. And then I recommend a repealing, too, of the Federal regulatory activities involving electricity, the Public Utility Holding Company Act and the Public Utility Regulatory Policies Act.

When you recommend in simple terms complicated changes in government, the phones ring very quickly, and some of my friends in business and the academic world said, wait, wait, you can't deregulate now, we have to make sure we have everything perfectly lined up so we can micromanage these changes. Micromanaging changes is very, very difficult. We have residual problems associated with decades of government mismanagement of the electricity systems of the United States, there are transitional problems when you deregulate any network system, but we have experience in deregulating networks in other areas.

When the railroads were deregulated, when the airlines were deregulated, transitional rules were created to handle some of the residual so-called market power or small community service problem areas. The airlines, if you will recall, we created a fund to insure

continued subsidies, subsidies to small communities to insure air service for a number of years, and the railroad area we have the so-called captive shipper rules which insure that some parts of the industry stay regulated. In telephones, we have a similar situation. But we should not delay action in these areas because problems exist. The problems will only be solved if we move forward.

The conclusion. This is only a beginning. The skills needed to enact new legislation, to build new programs, to fund new programs are well understood in this community. Everyone in Washington knows how to expand government. Very few of us in this town know how to engage in the practical problems of cutting down government, of dismantling the array of obsolete programs.

The skills are considerable, akin in a way to dentistry. There will be considerable discomfort and almost certainly some pain, but the skills are needed and must be developed.

The Republican Party wasn't elected so much as the "big government-big tax party" was defeated. There are lessons here from abroad that you should all know. The Conservatives in England are doing very badly now because their conservative rhetoric was not followed up by conservative reality. Voters aren't stupid. They will recognize quickly whether you have gone native and stopped trying to do what they ask you to do. If you do that, you should be thrown out and a new group put in.

America is really interested in closing things down. We have some strategies, base closing programs, the 1986 tax reform ideas, Congressman Gingrich has suggested cutting spending at the same time you reduce taxes in an area, to create some balance so groups are benefiting as well as losing some special privileges.

We probably need some special reviews in regulatory and other areas. You are going to have to create new means, new skills for dismantling government. It is going to be essential that it happen and it won't happen overnight. The challenge is to start the process. That is what the electorate demanded. It is time for you guys to deliver.

Thank you.

[The statement of Mr. Smith follows:]



COMPETITIVE ENTERPRISE INSTITUTE

TESTIMONY OF FRED SMITH
BEFORE THE HOUSE APPROPRIATION COMMITTEE
ENERGY AND WATER SUBCOMMITTEE

U.S. HOUSE OF REPRESENTATIVES

JANUARY 18, 1995

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Good afternoon, my name is Fred Smith. As President of the Competitive Enterprise Institute, I welcome your invitation to discuss today steps you might take to restore limited government to America. CEI is a public interest group established in 1984 with a current staff of 24 and an annual budget of about \$2 million. Located in Washington, D.C., CEI works to educate and inform policymakers, journalists, and other opinion leaders on market-based alternatives to political programs and regulations. CEI also engages in public interest litigation to protect property rights and economic liberty.

CEI is heavily involved in energy, water, science, and economic development policy -- the primary areas of responsibility of this subcommittee. Together with Kent Jeffreys, I co-authored the energy and environment chapter of the recently released book, *Market Liberalism: A Paradigm for the 21st Century* and I am the co-editor of the book, *Environmental Politics: Public Costs, Private Rewards* which addresses ways in which the public interest has suffered in the natural resource area. CEI will shortly publish a book, *The True State of the World*, a positive antidote to the doomsayer volume by Lester Brown and the Earthwatch Institute, *The State of the World*. Over a decade ago, I was involved in the efforts that led to the elimination of the DOE's Clinch River Breeder Reactor Project; my staff more recently played a key role in the effort to defund the Superconducting Super Collider.¹ CEI also championed the electricity deregulation decision by the California Public Utility Commission (the decision to foster retail wheeling) by organizing a coalition, Citizens for Choice in Electricity.

¹ See "Super Boondoggle: Time to Pull the Plug on the Superconducting Super Collider," Kent Jeffreys, May 26, 1992, *Cato Briefing Paper*, No. 16.

CEI recently participated in the Project for the Republican Future session on "What To Kill First" submitting a "Dirty Dozen" list of projects, several of which fall under this committee's jurisdiction. CEI staffer Jonathan Tolman recently completed a paper, "Gaining More Ground" arguing that the "no net loss of wetlands" concern has already been met and that we could therefore eliminate the Corps of Engineers (Civilian Branch) Section 404 program. CEI staff has also written on waterway transportation, science and energy policy, and economic development.

On a lighter note, CEI decided to publish a **Federal Disaster Calendar** to illustrate the vast wastefulness of current federal spending. That calendar was designed long ago; surprisingly, however, most of the disasters cited fall into the interest area of this subcommittee. I've distributed copies for the members so that you can review the mishaps of the Tenn-Tom, the CAFE regulations, the SSC, and Synfuels.

OVERVIEW:

The recent election represents a major opportunity for change. The American people did not call for **good** government, not even good **Republican** government -- they called for less government. Americans understand -- even if the parasitic subsidy seekers who have long dominated this town still do not -- that **good** government is **limited** government, that a government that seeks to do everything, will do nothing well.

America now has the opportunity to take a U-turn on the Road to Serfdom, to back away from what had seemed an inevitable growth of Leviathan. Your challenge is to translate that opportunity into reality. You will soon hear (if you have not already) from the "widows and orphans" of the Leviathan state who will squeal loudly about any threat to their political privileges. Change is not easy and the status-quo forces in this city are convinced that you will fail. My liberal and business friends have told me already that this election signifies only that one team has replaced another; the field and the game haven't changed. Politicians come and go but bureaucracy lives forever. Sure, they argue, you've come to Washington to drain the bureaucratic swamps, but you'll soon relax and come to see it more as a hot tub! Disappoint them!

Surveying the scale and scope of the programs under your jurisdiction is sobering. You oversee tens of billions of dollars of federal programs ranging from power marketing administrations in the west to swamp restoration projects in Florida to energy program cleanups in Colorado to fishing harbor projects in Massachusetts. How could anyone become expert on all these? How could anyone determine whether they are "good" or not.

Fortunately, this is not your challenge. Rather your goal should be to return to the principled limited government philosophy of the Founders of our nation. The Founders realized well that there were many "good" things worth doing -- but that government should do almost none of them. While some good might result from such expansion of government, that good would come at the expense of higher taxes and reduced individual freedom. That point has been

lost in recent decades as federal agencies have expanded their role into almost every aspect of American life. Government was simply a useful way of doing "good" things. Your challenge is to restore America to the Americans, power to the people.

P.J. O'Rourke, the humorist, suggested a conceptual way of approach federal spending, noting that all such programs are funded or enforced by the coercive power of the state. Before allowing any law to remain on the books, he suggested, ask: Would you place a gun at Granny's head and say, "Okay, Granny, cough up to support this program or else!" Pose that question to yourselves and I suspect you will find much to cut.

A similar point was raised by the famous French economist Frederic Bastiat: "If the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong ... if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime ... then abolish this law without delay."

Your challenge is political, not intellectual. although there are significant transitional problems in rolling back the federal establishment. Still, the major task is to overcome the massive army of special interest lobbyists who will defend every item in your budget. Note, however, that while this challenge is great, it is even greater elsewhere. Consider the plight of your counterparts in the former communist nations in seeking to privatize and deregulate their economies. America has not traveled so far down the Road to Serfdom (the phrase made famous by Nobel prize economist Frederick Hayek) and thus our turnaround is much easier. Much of our economy is already in private hands, we have a robust (albeit bruised) rule of law and have already moved in many areas to free ourselves of burdensome regulation. Our challenge is to take advantage of this great opportunity to redefine and shrink the federal establishment. It will not be easy; it is essential. My advice on steps that might make it possible to do so follow.

This subcommittee deals with Energy and Water -- energy is a relatively new area of federal activity, federal water projects have been around as long as Alexander Hamilton. I discuss first the Army Corps of Engineers waterway and harbor program and then its wetland activities. I then briefly discuss the case for privatizing the national energy labs operated by DOE and then outline plans for eliminating the federal role in power generation and marketing. Energy cleanup programs are increasingly expensive, so I examine the case for transferring ownership and responsibility of federal hazardous waste sites to private parties. Defense-related DOE activities should be transferred to the Defense Department; the agency responsible for creating the Synfuels disaster is scarcely the best source for reliable weapon development. There are numerous smaller programs reviewed by this committee and I will be glad to address specific comments on these programs if you desire. CEI has also released a report, "The Dirty Dozen," dealing with a range of federal programs -- again most falling within the purview of this subcommittee that merit elimination and I discuss them at the end of this statement. Few energy and water programs can be eliminated immediately but there is little wisdom in spending additional monies pending their elimination. At least some of the funds remaining in these programs should be redirected to preparing for program privatization or elimination.

THE ARMY CORPS OF ENGINEERS WATERWAY AND WETLANDS PROGRAMS:

First, let us review the traditional pork barrel programs of the Army Corps of Engineers -- the nation's ports and waterway systems. The Army Corps of Engineer spends several billion annually on such civil works projects. The Army Corps of Engineers exists to carry out the engineering needs of the Army; it should not carry out projects which are civilian in nature. Such projects have been a traditional area of government activism with all too predictable results. Whatever the initial merit of government created waterways and politically preferred port facilities, the projects that the Corps has pursued in recent years have been disastrous. The Tenn-Tom project, an effort to create a second Mississippi River in America, is indicative of this foolishness. Today, the Corps spends vast amounts dredging harbors and waterways that benefit few.

Segments of the inland waterway system are important and America does need some ports but these should be financed by those who use the facility, not by the diesel tax and federal taxpayer contribution of today. The Ohio and Mississippi sections and much of the Intracoastal Waterway should be self-financed and managed by user/community associations. Other portions of the system such as the upper Missouri and the Pearl River systems are unlikely ever to provide value adequate to their upkeep costs. Every state wants waterways, every coastal state wants its own port. Politics finds it hard to prioritize these demands and typically spends too little in some areas, too much elsewhere. Thus, Congress should move expeditiously to abolish the Civil Works department within the Army Corps of Engineers. Segment specific privatization strategies would also encourage far more intelligent investment and management rules for these facilities.

But, Congress should also take care to ensure that as the Corps older wasteful missions are eliminated; it is not assigned new wasteful missions. Certainly, it would be ironic if the Corps, which spent much of its early history destroying wetlands and draining swamps, would now seek a new mission in swamp restoration. Political forces have relied heavily on log-rolling to gain support for special interest programs; the costs of that have been that while some valuable waterways and ports are built and maintained, many foolish projects in both areas must also be undertaken. These problems will reappear if we grant the Corps a major role in ecological restoration. That risk should be stemmed now. The Corps has no greater ability to create swamps than to drain them. Nature groups, hunting organizations can better restore and prioritize ecological restoration projects. Thus, the Committee should immediately terminate federal support for the restoration of the Everglades. The state of Florida, the agricultural interests in the area, environmental groups and the city of Miami face some complex choices -- but their choices and the problems and costs these entail should not be shifted to the taxpayers of America.

The regulatory role of the Army Corps of Engineers in granting permits to protect wetlands should also be rethought. Currently, in order to develop wetlands a person needs to get a permit from the Army Corps of Engineers. That process has been greatly abused; the Committee should mandate compensation for any further "takings" under this clause and ensure

that the costs of such compensation are charged to the Corps. This would discipline wetland regulation and force the Corps to set reasonable priorities. A further important step in this direction would be the abolishment of section 404 of the Clean Water Act. In a recent CEI study by Jonathan Tolman, "Gaining More Ground: Analysis of Wetland Trends in the United States," it was shown that the goal of "no net loss of wetlands" has been achieved. Thus, section 404 may no longer be necessary. Eliminating all funding for this pernicious regulation would do much to restore respect for private property to America.

PRIVATIZING, SORTING OUT AND ELIMINATING THE FEDERAL R&D ENERGY RESEARCH ROLE:

My first two jobs were in research laboratories: the Naval Research Lab in Anacostia and then the Cornell Aeronautical Laboratory in Buffalo, New York. The Cornell Lab had been the Curtis Wright military laboratory during WWII. After the war, it and many other facilities were quickly privatized -- a model that this committee should consider employing to eliminate the federal role in energy R&D.

That privatization model is long overdue for federal research facilities. Linking research to human needs is a highly complex process and one not well suited for a political bureaucracy. Study after study has found that political research facilities rarely produce valued product. A National Academy of Engineering study in the mid-1970s stated:

"With a few exceptions, the vast technology developed by federally funded programs since World War II has not resulted in widespread 'spinoffs' or secondary or additional applications of practical products, processes and services that have made an impact on the nation's economic growth, industrial productivity, employment gains and foreign trade."²

More recently, Professor Joseph Martino author of Science Funding: Politics and Porkbarrel studied the efficacy of politically funded R&D and found the record equally disappointing.³

There are many problems with politicized science; the two greatest are the public choice problems that relegate science to another way of benefiting one region of the country over another, one interest group at the expense of the public, and the weak linkages that join political agencies to national needs.

² National Academy of Engineering, Committee on Technology Transfer and Utilization, 'Technology Transfer and Utilization: Recommendations for Reducing the Emphasis and Correcting the Imbalance,' Washington, 1974. p.i.

³ Joseph P. Martino, Science Funding: Politics and Porkbarrel, Transactions Publishers, 1992.

I suggest that the military aspects of these labs be transferred to the Department of Defense (along with all programs related to weapon development and production); the commercial aspects be privatized either by offering them to the industries they supposedly benefit or by allowing the current research staffs to take them over via a employee buyout approach. Linking research to human needs is a good idea -- but very difficult to achieve in a political framework.

Rescind DOE funding for energy R&D. The DOE has no business engaging in energy R&D. This activity should be left entirely to the market. The argument that business will not develop new beneficial technologies and therefore government should take up the slack has no basis in fact. As noted in the CBO's "Reducing the Deficit" report, major new technologies for enhanced oil recovery have come from private industry and not DOE. The most important fact that Congress must remember when thinking about R&D is that for a new technology to be socially beneficial it must be profitable. If it is profitable industry will develop it. If it is not, industry will not develop it nor should taxpayers pay to develop it. The CBO states in its report "DOE continues to develop technologies in which the market clearly has no interest." For example "DOE spent hundreds of millions of dollars on coal-powered magneto-hydrodynamics--without any indication of who was interested in the product." Moreover, much of this funding is a direct subsidy to corporate America. If the new Republican Congress wish to demonstrate their commitment to spending reductions they must cut all corporate subsidies. All government funded energy R&D should be abolished.

CUTTING OFF THE FEDERAL POWER:

The Energy and Water Bill provides funding for "Federal Power" -- TVA and the so-called Federal Power Marketing Administrations. The federal government should get out of the power business. The Committee should move to privatize all federal dams. This will be less disruptive than most would believe. The federal government generates only about eight percent of the electric power produced in the United States each year. It generate this power at some 172 dams run by TVA, the Army Corps of Engineers and the Department of Interior's Bureau of Reclamation. Much of this power is "Marketed" -- that is, sold -- by five power marketing administrations in the Department of Energy. Nonetheless, eighty percent of the American people buy their power from private firms.

Nations around the world are now privatizing their power generation operations. Defederalization or privatization is a global trend. Great Britain, Italy, Spain -- all are selling government power assets and getting the government out of the power business. Argentina, Chile, and Peru have either completed a privatization program or have one underway. Ironically, money is now contained in the federal budget to encourage Russia to privatize its electricity sector. Perhaps, we should follow this advice in our own nation?

The gains of privatization include lower power costs for consumers. Both TVA and Bonneville expanded into the nuclear power business with costly results. Private firms lost in the nuclear reversal, but far less than did these federal agencies. TVA and BPA lack the financial discipline needed to invest such large sums successfully. Ask the people in the Pacific Northwest or TVA who are paying for uncompleted and abandoned nuclear power plants. A second benefit would be the reduced budgetary costs. Congress appropriated \$388 million last year for western area power administration alone. There are higher federal priorities. Finally, privatization would improve local government finances. Federal facilities pay no taxes, while private firms would.

Selling these dams might also generate appreciable revenue. If the facilities were sold competitively, they could provide a source of revenue to the federal government. Installed capacity at federal dams is some 40,000 MW. A conservative estimate of the value of generating capacity is \$500 per KW. If half the 40,000 MW were sold rather than transferred to local communities, that alone could bring in some \$10 Billion. The private sector and local government has considerable experience with hydropower projects; indeed, most hydropower projects in the United States are run by non-federal entities. Non-federal entities run more than 2,000 hydropower projects. The federal government provides 44 percent of the nation's hydropower, but 56 percent comes from non-federal utilities. Moreover, there are many large non-federal hydropower projects -- the 500 megawatt (MW) Conowingo Dam in the Susquehanna River in Maryland, for example; the 585 MW Brownlee Dam on the Snake River owned by the Idaho Power Company.

To implement this plan, the Committee should move to cut off funding and create a Commission to determine a list of projects that could be privatized as a package. This is the Military Base Closing Strategy. As many of you know, for many years, efforts to close unneeded and often outdated military bases got nowhere. Each legislator fiercely defended the bases in her district and the savings were too small for anyone else to take on the anti-spending fight. The result was a general awareness of waste but no action. Then, Congress got smart and decided to create a Military Base Closing Commission to arrive at a list of facilities recommended for closure. The package had to be voted up or down. That procedure worked - each legislator continued to defend his or her facility but the benefits of eliminating the full package offset the individual loss. This strategy deserves extension throughout the programs of this Subcommittee. Dams, locks and canal segments, labs, hazardous waste sites -- all are candidate areas for this strategy.

Pending the plans to privatize the dams and the PMAs, then the Committee should insist that power be priced appropriately. Power is now sold at federal dams on a cost-basis (one or two cents per KWH) rather than market-based prices (four or five cents per KWH). This policy makes no sense. If a needs case can be made for such subsidies, then let the program become part of the welfare budget; there is no energy or water case for such subsidies. The Energy Information Administration estimates the cost of such below-cost power policies is over \$2 billion per year. CBO estimates \$1.2 billion. Whatever the amount, it is too much. A carrot and stick approach in which the rates would gradually be brought to market levels while the user

groups would be given an opportunity to purchase the agency on preferential terms should be considered.⁴

One final point: during the Reagan era, one official in the White House, William Niskanen introduced some of the ideas mentioned here. Congressional reaction to such a novel idea was fierce. A bi-partisan group within the Congress moved quickly to block all consideration of such creative ideas. The so-called Niskanen Gag Rule ordered that no money appropriated should be used to consider any change in the status of the federal role in power generation and marketing. That was then; today, when we seek to encourage the Russian government to consider privatization, when nations around the world are moving rapidly to privatize their power facilities, when the American people have demanded that the role of government be reduced -- you should move immediately to repeal this gag order.

WASTE MANAGEMENT ISSUES:

An increasing portion of the budget reviewed by this committee is incurred for cleaning up energy production and storage sites. There is no doubt that something must be done about the wastes left behind by past wasteful government programs. The challenge is to ensure that these distressful offspring don't bankrupt our nation. That threat is real because the experience of such Superfund sites suggests that costs are extremely difficult to control, that priorities are extremely difficult to establish. Superfund reform is a topic for another hearing; however, you should realize that the current program operates in a world in which there is no means to answer the question: How risky is a specific site? How clean is clean? Without such "stopping rules" the tendency has been to spend ever-increasing amounts on decreasingly small risks. This problem is part of the larger political problem of Superfund reform but given the greater difficulty that the DOE faces in management, it would be sensible to move these problems into the private sector.

How might this be done? Here you might explore the concept of providing dowries for these "ugly duckling" areas. In today's tortured legal environment, no one would purchase such sites. The legal risks are too large, ensuring a negative value for the site. However, one might consider a Dutch Auction in which DOE would offer increasing amounts over time to any private party willing to assume ownership and hence responsibility for the site. Investors might band together to extend dowry offers for a portfolio of such sites, on the grounds that, while the

⁴ Indeed, this strategy of providing subsidized users of federal facilities a choice between bringing prices to fair market value while simultaneously offering the user groups the opportunity to purchase the facility offers an attractive strategy for disentangling the federal government from a wide range of energy and water policies. Again, the private sector offers an example of this approach: in urban areas, when rents rise rapidly, renters often purchase their building, converting it into a condo or coop. The federal government should be as imaginative as landlords.

risks of each site are high and variable, those of the portfolio might well be manageable. Clean up costs will almost certainly be less in this arrangement both because of the greater ability of the private sector to assess risk, and their greater cost effectiveness (government agencies have little reason to minimize costs).

REGIONAL ECONOMIC ASSISTANCE AGENCIES:

The Appalachian Regional Commission is all too typical of efforts by politicians to help places rather than people. The initial idea was to identify "pockets of poverty" and to link these areas with the more prosperous economies of the nation. The result has been to divert resources from areas where growth was rapid to the stagnant regions of our nation. The result? Slower economic growth and encouragement for people to await solutions to come to them, rather than devising their own solutions or seeking their fortune elsewhere. Political efforts to grow the national economy have done little good; the regional variants are even less productive. Again, if such programs have any value, they should be viewed as welfare programs and means tested. Regions that were poor when the ARC was created may or may not be so today.

THE DIRTY DOZEN PACKAGE:

As noted earlier, CEI was asked by the Project for the Republican Future to suggest programs, regulations and policies that should be eliminated immediately. The result of that exercise was circulated widely but I've enclosed a copy for this committee. These programs were picked as programs that, while often difficult to eliminate, have special properties: some of these threaten to grow rapidly if they are not killed; others distort the choices that Americans face; still others are government misinformation programs designed to frighten Americans into giving up their economic and individual freedoms. Perhaps, not surprising to the members of this committee, many were in the area of interest to this committee. I repeat below that subset of the "Dirty Dozen" and have available copies of the larger document for the record.

***Defund Energy Efficiency and Renewable Energy Research** - The federal government currently spends approximately \$1.3 billion on research on energy efficiency technologies and renewable energy sources. Private industry is fully capable of investing in these technologies if they are truly "efficient" and therefore sound economic investments.

***Eliminate the Clean Car Initiative** - This program, formally known as the Partnership for a New Generation of Vehicles, is a \$300 million subsidy to American automakers to assist in the development of "environmentally-sound" vehicles. It is corporate welfare, plain and simple.

***Eliminate the Ethanol Preference for Reformulated Gasoline** - The 1990 Clean Air Act Amendments require the use of reformulated gasoline in the nation's smoggiest cities in order to reduce automobile emissions. This costly program has been made even more

so by a give-away to the ethanol industry that guarantees ethanol a 30 percent share of the oxygenate requirement for reformulated gasoline. This regulation is more about catering to special interests than cleaning the air.

***Eliminate Funding of the Global Environment Facility** - Congress has authorized giving \$90 million to the Global Environment Facility, an international environmental bureaucracy that oversees implementation of treaties drafted at the 1992 Rio Earth Summit. The GEF has already misspent much of the money it has already received, and does not deserve another cent.

***Eliminate the Radon Action Program** - The EPA is running an alarmist campaign on the purported threats of radon gas to homeowners. The EPA wastes \$5 million on this program, and spends an additional \$8 million on related grants to states. If the EPA's testing and remediation guidelines were followed, it would cost American homeowners \$45 billion, for no conceivable health benefit.

***Repeal Corporate Average Fuel Economy (CAFE) Standards** - These fuel efficiency standards imposed on automakers impose a deadly trade-off of blood for oil. By forcing Americans into more efficient -- in other words smaller, lighter, and inherently less safe cars, this law increases highway fatalities by 3,000 per year, or more.

***Repeal the Employee Commute Option** - This regulation requires employers in the nation's smoggiest cities to wean their employees from their cars. At an annual price tag of \$1.2 billion, this regulation will do far more to aggravate commuters, and infringe upon individual liberties, than it will to achieve its stated purpose, cleaning the air.

***Repeal the Public Utility Holding Company Act** - Each year the federal government wastes over \$2 million enforcing this obsolete law governing ownership of utilities. Even the agency that administers PUHCA has called for its repeal, and Congress should do the same.

***Repeal the Public Utility Regulatory Policies Act** - This is an unnecessary law designed to force utilities to invest in renewable energy sources, such as solar and wind power. It results in the inflation of power generation and purchasing costs for utilities, which are then passed on to ratepayers. It is more worthy of repeal than ever.

CONCLUSION:

This is only a beginning. The skills needed to enact new legislation, to create new bureaucracies, to establish new programs, are common in this city. The skills required to dismantle old programs are less common. The skills required are considerable, akin to political dentistry. As with dentistry, there will be considerable discomfort and almost certainly some pain. Still, the skills needed and the courage required create a major challenge.

It is a challenge you must meet. The Republican party wasn't elected so much as the big government, big tax party was defeated. There are lessons from abroad that you might well heed. Some of you may know that in recent by-elections in England, the Conservative party has fared poorly. The voters in America, as those in England, are very quick to recognize the difference between limited government rhetoric and limited government reality. Specifically, Republicans must move swiftly to eliminate all corporate subsidies, the rent seeking games associated with micro-tax and regulatory policies, agricultural subsidies -- these are largely Republican pro-government policies and should be challenged by Republicans.

America has challenged its political process to find a way out of the current morass, of finding ways of defeating the powerful alliances of liberal ideologues and economic interests that has so greatly expanded the scope and scale of government. The strategies that have proved successful to date in reducing government provide the initial tools for that effort. These include:

- * The Base Closing Program which by lumping together wasteful pork-barrel projects into one up/down vote made it possible to cut spending.
- * The 1986 tax reforms which cut through the Gordian knot of determining which special tax provisions were good, which were bad, by simply eliminating most special tax provisions and using the savings to reduce overall tax rates.
- * The suggestion by Congressman Gingrich to cut dedicated funding while simultaneously reducing tax burdens on the group supposedly benefiting from the program.
- * Periodic reviews in which Congress would vote up or down a package of proposed regulations proposed by a specific regulatory agency.

This Congress will have to explore new and even more creative procedures if the downsizing of the federal establishment is to happen. But, none of this will occur overnight. The challenge is to start the process. That is what the electorate have demanded. It is now time to deliver.

Thank you, I stand ready to answer any questions you might have.



The Competitive Enterprise Institute's

DIRTY DOZEN

*Soft Targets for Elimination
at Energy, Interior, & EPA*

December 1994

INTRODUCTION

The November 8 elections were a resounding call for smaller, less-intrusive government. The Contract with America — advertised in TV Guide and scorned by Democrats from Bill Clinton on down — nationalized the issues and clarified the alternatives to a degree not seen since the 1980 presidential election.

Republican candidates across the board ran on a platform of reduced government spending, less regulation, and more individual liberty. The result was a landslide that promises to be a realigning or "watershed" election. Dick Gephardt has suddenly discovered the virtues of tax cuts, while the Clinton Administration is reportedly considering cutbacks in agriculture subsidies, the General Services Administration, and the Office of Personnel Management, as well as the departments of Energy, Transportation, and Housing and Urban Development.

The new Republican majority is, in short, defining the direction of public policy and, hence, the ground on which political compromises will be reached. The central debate now is not about whether to expand government's role in health care, job training, or whatever, but about how best to roll back the tax-and-spend regulatory Leviathan. Already we are seeing a new political phenomenon — the "me too" Democrat. All of this is evidence of a watershed election, though it's too soon to know for certain.

This much is clear: Republicans have never had a better opportunity to limit the federal government, and they must deliver on their promises in order to remain on top. CEI's advice: Be quick to kill what can be killed quickly, and leave hard targets for later. Momentum is critical; success will breed success.

The twelve cuts recommended in the following pages are by no means the only programs and regulations in the environmental and energy policy fields that should be eliminated. Indeed, there are strong arguments for dismantling the entire Department of Energy and eliminating much of the Department of Interior. These twelve recommendations should be seen as a starting point. CEI considers them "soft targets" — programs, agencies, and regulations that can and should be vaporized within the first 100 days of the 104th Congress.

Marlo Lewis
Executive Director

OVERVIEW

DEFUND ENERGY EFFICIENCY AND RENEWABLE ENERGY RESEARCH

- Would cut federal spending by approximately \$1.3 billion per year

ELIMINATE THE "CLEAN CAR INITIATIVE"

- Would cut federal spending by approximately \$300 million per year

ELIMINATE THE ETHANOL PREFERENCE FOR REFORMULATED GASOLINE

- Would save consumers as much as \$350 million per year
- Would save the Federal Highway Trust Fund as much as \$340 million per year

ELIMINATE FUNDING OF THE GLOBAL ENVIRONMENT FACILITY

- Would cut federal spending by \$430 million over four years

ELIMINATE THE NATIONAL BIOLOGICAL SURVEY

- Would cut federal spending by as much as \$167 million
- Would reduce federal land-use regulation of private land

ELIMINATE THE RADON ACTION PROGRAM

- Would cut federal spending by \$13 million per year
- Would save homeowners as much as \$45 billion in remediation costs

HALT THE DISINFECTANT BY-PRODUCT RULEMAKING

- Would save state and local governments from \$1 billion to \$2.6 billion per year

REPEAL THE ALASKAN OIL EXPORT BAN

- Would create as many as 16,000 net new jobs
- Would increase federal revenues by over \$100 million per year
- Would increase Alaska and California state revenues by over \$700 million per year, combined

REPEAL CORPORATE AVERAGE FUEL ECONOMY STANDARDS

- Would save as many as 3,900 highway fatalities per year
- Would save consumers as much as \$5 billion per year

REPEAL THE EMPLOYEE COMMUTE OPTION

- Would save affected communities over \$1.2 billion in compliance costs per year

REPEAL THE PUBLIC UTILITY HOLDING COMPANY ACT

- Would cut federal spending by over \$2 million per year
- Would reduce paper work burden on utilities

REPEAL THE PUBLIC UTILITY REGULATORY POLICIES ACT

- Would remove barriers to a more competitive wholesale electricity market

DEFUND ENERGY EFFICIENCY AND RENEWABLE ENERGY RESEARCH

The Department of Energy (DOE) currently spends approximately \$1.3 billion on research in energy efficiency technologies and renewable energy sources in an effort to reduce total energy demand, conserve natural resources, and improve national energy independence. This is a waste of taxpayer dollars. Private industry is fully capable of investing in energy efficiency research, and many of the technologies subsidized with federal research are not cost-effective alternatives to fossil fuel consumption.

DOE subsidizes research and development of a variety of energy efficiency technologies and related promotional programs. Such technologies include heat-pumps (which are essentially air conditioners that work in reverse), super-glazed windows that contain heat more effectively, compact fluorescent lighting, variable-speed motors for industrial production processes, and so on. The DOE spends over \$960 million researching energy efficiency technologies and exhorting industry to adopt and sell them. The DOE spends an additional \$327 million on renewable energy.

Under the Assistant Secretary for Energy Efficiency and Renewable Energy are many offices that serve no valuable purpose, including: the Office of Renewable Energy Conversion, the Office of Alternative Fuel, the Office of Building Energy Research, and the Office of Solar Energy Conversion, among others.

Despite many years of expensive activism on the part of DOE, studies still indicate that such technologies are not cost-effective alternatives to increased energy consumption. Two recent studies have pinpointed costs at between 5 and 11 cents per kilowatt-hour saved. The marginal cost of producing a kilowatt-hour of electricity today ranges from two to four cents per kilowatt-hour. In most instances, it is still more expensive to save electricity than to produce it, by as much as a factor of five.

Government subsidies for energy efficiency have failed for the same reason that other such "investment" and research schemes fail: if the subsidized technologies were likely to succeed, they would offer the enticement of a profit, and the private sector would gladly make the investment. Government energy efficiency investments are almost tautologically absurd, diverting resources to ends that the private sector recognizes as uneconomic and wasteful. All DOE energy conservation programs should be eliminated.

ELIMINATE THE "CLEAN CAR INITIATIVE"

The so-called "Clean Car Initiative," formally known as the Partnership for a New Generation of Vehicles, is an approximately \$300 million subsidy to the development of "environmentally-sound" cars by American automakers. It is an example of corporate welfare.

The program is managed by seven different federal agencies. Funds are distributed to Chrysler, General Motors, and Ford Motor Co. in a cooperative effort to develop an earth-friendly Super-Car that will achieve 80 miles per gallon. A design based on electric fuel cells, flywheels, hydrogen, or re-chargeable batteries is expected in the year 2000.

The project is a bureaucratic attempt to direct private businesses to make the right kinds of products. Given the federal government's track record with subsidizing potential products of the future — the Synthetic Fuels Corporation is but one example — there is little reason to believe that this program will achieve its goals. Even if such "clean cars" are truly necessary — a debatable proposition — there is little reason for federal funding of this project.

Little consideration has been given to whether Americans will want to drive electric cars or hydrogen-powered vehicles, or pay for the additional costs that are expected with such vehicles. If such vehicles are truly desired by the American public, then their development should be financed in the same manner as any other new product: The automakers should spend their own money on research and development of the new vehicles and attempt to recoup their costs by selling the resulting products on the open market. The taxpayer should not be burdened with picking up the R&D costs of private firms.

Even if the program achieves its stated objective, it is not clear that it will provide any important environmental or economic benefits. Automobiles produced today are far cleaner than their older counterparts. A new car rolling off the assembly line produces over 90 percent fewer emissions than those made twenty-five years ago. If well-maintained, most new cars will have an insignificant impact on air quality.

The federal government has consistently failed in its attempts at industrial policy. Environmental industrial policy, such as that embodied in the Partnership for a New Generation of Vehicles, will be no different.

ELIMINATE THE ETHANOL PREFERENCE FOR REFORMULATED GASOLINE

The Clean Air Act Amendments of 1990 require the use of reformulated gasoline in the nation's smoggiest cities in order to reduce automobile emissions. This costly program has been made even more expensive by a requirement that 30 percent of the oxygenates used to make reformulated gasoline come from ethanol or other "renewable fuels." This proposal is a perfect example of wasteful, special-interest regulation that benefits an already subsidized industry at the expense of the American public.

The reformulated gasoline program, which begins on January 1, will cost American consumers as much as \$2 billion per year. The ethanol preference will increase the cost of this program by as much as \$350 million. Moreover, because ethanol is exempt from certain gasoline taxes, the ethanol set-aside also reduces state and federal gasoline tax revenues which are primarily used to finance road construction and maintenance. The Federal Highway Trust Fund could lose as much as \$340 million per year, and state gas tax revenues could decline by an additional \$126 million.

Though costly, the ethanol preference will provide no additional environmental benefits, according to analyses prepared by Resources for the Future, the Department of Energy and other sources. It has also been opposed by environmental organizations such as the Sierra Club and the Environmental Defense Fund. There is no reason to believe that increased ethanol use will improve environmental quality. Indeed, some studies suggest that the ethanol proposal could actually increase certain environmental impacts. For example, the ethanol quota could potentially increase the emissions of certain smog-forming compounds.

The Environmental Protection Agency opted to guarantee ethanol a minimum 30 percent share of the reformulated gasoline market in order to placate the agricultural lobby. Ethanol is a corn-derived fuel, but is significantly more expensive than other oxygenates. Absent the 30 percent ethanol quota, it is unlikely that ethanol would be a significant competitor in the reformulated gasoline market. Thus, the ethanol preference represents a naked use of federal government power to placate a special interest through direct intervention in the marketplace.

ELIMINATE FUNDING OF THE GLOBAL ENVIRONMENT FACILITY (GEF)

Congress has authorized \$90 million in spending for the Global Environment Facility (GEF). This is a needless expenditure on an international environmental bureaucracy that is bound to waste the funds on the research and promotion of pointless and ineffective environmental policies while providing no benefits to American taxpayers.

The GEF is a joint project of the World Bank, the United Nations Environment Programme, and the United Nations Development Programme. It is meant to fund projects of global benefit, such as mitigation of global warming, ozone depletion, loss of biodiversity, desertification, and pollution of international waters. The GEF is the financing arm for the U.N. Framework Convention on Climate Change and the Framework Convention on Biodiversity, both completed at the 1992 Rio Earth Summit.

The GEF was started as a three-year pilot project with \$1.3 billion. An independent evaluation sponsored by donor nations gave a scathing review of the GEF's performance, determining that the GEF was ineffective in achieving its goals. One problem was a lack of accountability; the GEF made decisions about funding without consulting the citizens that would be most affected by its projects. More than half of GEF projects have created conflicts over compensation for individuals forced to leave ecologically protected areas.

The evaluation also criticized the GEF's relationship to the World Bank, an institution notorious among conservationists for its environmental destructiveness. The report noted that the GEF has served to make the Bank's own faulty loan projects look "greener" and to "mitigate criticism alleging World Bank insensitivity to environmental concerns."

Despite these negative findings, member countries "replenished" the GEF with roughly \$2 billion in 1994, and made it a permanent international organization. Of the twenty six participating nations, the U.S. is the largest. The federal government currently plans to give the GEF \$430 million over four years.

Elimination of the funding of this program would serve many important ends, including slowing the implementation of global environmental policies that will do more to restrict economic opportunity than to promote environmental conservation. The elimination of GEF funding would also put U.S. international environmental policy on sounder scientific footing and stop wealth redistribution to corrupt and oppressive Third World governments under the name of environmental protection. Moreover, it would save hundreds of millions in taxpayer dollars.

ELIMINATE THE NATIONAL BIOLOGICAL SURVEY

The National Biological Survey is a new Interior Department agency charged with drawing up a "road map," as it were, of the nation's biological diversity. This new agency serves no purpose other than to facilitate federal land-use control of private property.

Proposed in April 1993 by Interior Department Secretary Bruce Babbitt, the NBS is designed "to provide a national focus for research, inventorying and monitoring America's biological resources on an ecosystem basis." The NBS is designed to allow the Interior Department to carry out "ecosystem management," the central organizing principle of the Clinton Administration's new approach to wildlife and land-use control.

The NBS is up and running even though the agency has never been authorized by Congress. Secretary Babbitt testified at his confirmation hearing that the NBS "is a legislative issue. A project of that size would certainly require the approval of this body and the Congress." This has not stopped Babbitt from creating the NBS through administrative action. The current NBS budget is \$167.2 million.

Defenders of the NBS have claimed that it would be a purely scientific organization with no regulatory agenda, similar to the U.S. Geological Survey. This defense overlooks the existence of the Endangered Species Act, which lists rare plants and animals and imposes harsh regulations on private property owners. The goal of the NBS is to identify species, endangered and otherwise, and will therefore trigger further land-use regulation under the Endangered Species Act.

The ESA has locked up millions of acres of private land already, in some cases when the endangered species in question were not even present. Given that the NBS is supposed to identify and catalogue all species living in the U.S., and that scientists believe as many as 250,000 such species have yet to be identified, an effective NBS will undoubtedly expand the scope of the ESA and create thousands of pretexts for taking private property without compensation.

The operation of the NBS will necessarily entail surveying private land. Secretary Babbitt has assured America's property owners that NBS personnel would not survey private land without prior consent. However, landowners in California's San Joaquin Valley have already received letters from the Interior Department declaring that "Lands that are not inspected by field crews will be evaluated using aerial photographs and visual border inspections. Uncultivated parcels will likely be labelled as habitat if absence of species cannot be confirmed by inspection." In other words, under current procedures private land is to be regulated as endangered species habitat if landowners refuse to allow their land to be surveyed.

The National Biological Survey is more than an example of wasteful spending without Congressional authorization. It is a program with no other purpose than to extend the regulatory power of the federal government over private property.

ELIMINATE THE RADON ACTION PROGRAM

The Environmental Protection Agency (EPA) is running an alarmist campaign on the purported threats of radon gas to homeowners. This campaign, and related programs, have no sound scientific basis and are a waste of taxpayer dollars. The Radon Division at the EPA, which administers the \$5 million Radon Action Program, and the related Radon State Grants should be eliminated.

Radon is a colorless, odorless, naturally occurring gas, which is the by-product of the radioactive decay of minuscule traces of uranium. Trace amounts of uranium are commonly found in many types of rock (e.g. granite, shale). Radon can seep up from these types of rock into the basements of buildings and homes. Although radioactive, the amounts of radiation detected from radon are so small that numerous epidemiological studies have found no correlation between radon exposure and cancer rates.

The EPA Radon Action Program is designed to persuade American homeowners to test for radon gas. If even minuscule levels of radon are detected the EPA recommends remediation. The agency has established an "action level" of 4 picocuries per liter (pCi/l). According to an agency survey, more than eight million homes would exceed the action level. Testing and remediation for all 8 million houses not meeting the EPA's radon standard would cost an estimated \$45 billion. Due to the EPA's programs, many homeowners and potential home sellers engage in needless and expensive testing and remediation programs.

Numerous scientists are dubious about the value of the EPA's radon program. Dr. Rosalyn S. Yalow, a health physicist and winner of the 1977 Nobel Prize for medicine, believes that the nation's radon policy is senseless. She has stated that there is, "no reproducible evidence of harmful effects associated with increases in background radiation up to 6 times the usual levels." Most scientists recognize this fact.

The Radon Action Program currently consumes over \$5 million per year in taxpayer funds, and the federal government administers Radon State Grants of an additional \$8 million. This funding should be zeroed out and the offices closed. For nearly eight years the EPA has been running a scare campaign on the American public at taxpayers' expense. The radon campaign has encouraged homeowners to spend hundreds and sometimes thousands of dollars to remediate for an infinitesimal, if not non-existent, risk.

HALT THE DISINFECTANT BY-PRODUCT RULEMAKING

The Environmental Protection Agency (EPA) currently is proposing to regulate disinfection by-products in drinking water. This is the EPA's latest unfunded environmental mandate. This mandate will impose billions of dollars in costs even though there is no solid evidence that it will do anything to protect public health.

The proposed rule regulates substances that are formed when chlorine is added to the water supply in order to disinfect drinking water. The EPA has estimated the cost of the first phase of this regulation at more than \$1 billion per year. The extended second phase would cost an additional \$2.6 billion per year. The costs of this rule will be borne by the municipalities and communities that operate water treatment facilities as well as the states charged with overseeing their operations.

The EPA cites several studies as justification for establishing the maximum contaminant level, yet the most reliable studies do not support the EPA's regulation. The largest study to date investigating the relationship between chlorinated water and bladder cancer was a National Cancer Institute study which included more than 8,000 people. The study concluded that overall there was *no association* of duration of exposure to chlorinated water with bladder cancer risk. The EPA itself cites several other studies which showed *no correlation* between cancer risk and disinfection by-products.

Despite these studies, the EPA is proceeding with setting a prohibitively expensive maximum contaminant level. In 1993, the EPA estimated the total cost of complying with current Safe Drinking Water Act regulations at \$1.4 billion annually. Although this is presumably a low estimate, the EPA's analysis gives a clear frame of reference for the costs of the disinfection by-products rule. Phase one of the rule, at \$1 billion per year, would result in a 70 percent increase in costs incurred by municipalities. Phase two of the regulation would more than double the cost of Safe Drinking Water Act compliance.

The costs of the disinfectant by-products rule will be felt most severely in small communities. For water systems serving less than 10,000 people — which represent 94 percent of all water systems — the cost per household of complying with federal drinking water mandates would more than double, while providing no measurable public health benefits.

REPEAL THE ALASKAN OIL EXPORT BAN

Current law prohibits the export of crude oil from the North Slope of Alaska. This prohibition stifles resource development and places a severe economic burden on the states of Alaska and California, while serving no economic, environmental or national security interest.

Lifting the ban would provide significant economic benefits, primarily resulting from an increase in investment in domestic oil production. Domestic oil production could increase by as much as 500,000 barrels per day, with a hefty portion of that being exported to foreign markets, including Japan and South Korea. Government studies estimate that the increase in production would create, on net, as many as 16,000 jobs in the industry.

The export ban depresses oil development in Alaska and California by forcing Alaskan oil to be sold in glutted West Coast markets. This drives down wholesale prices, though it has a minimal impact on consumer prices. The ban inhibits the development of as much as 10 billion barrels of domestic crude. This, in turn, shortens the economically viable lifetime of the Trans-Alaskan Pipeline.

By increasing economic activity, repeal of the ban would also increase federal revenues. It is estimated that federal tax revenues and royalties would rise by over \$100 million. The states of Alaska and California would see estimated revenue increases of over \$600 million and \$150 million respectively.

The ban was initially imposed in 1973 when construction of the Trans-Alaska Pipeline was authorized by Congress. The domestic maritime industry successfully lobbied for the ban in order to seize the potentially lucrative market for shipping crude oil from Alaska to California. Though some environmentalists oppose lifting the ban, allowing the export of Alaskan oil would likely decrease the shipping of crude oil in tankers through U.S. waters, and thereby decrease the likelihood of incidents like the Exxon *Valdez* oil spill.

At a time when world leaders are seeking to liberalize trade and expand global markets, the Alaskan oil export ban stands as an anachronistic policy with little merit. Repealing the ban would create jobs, enhance federal and state revenues, and help revive the domestic oil industry.

REPEAL CORPORATE AVERAGE FUEL ECONOMY (CAFE) STANDARDS

The federal new car fuel economy program imposes a deadly trade-off of blood for oil. Popularly known as CAFE (for Corporate Average Fuel Economy), this program requires that the new cars sold in the U.S. by any automaker meet, on average, a specified yearly fuel economy standard. The current CAFE standard for passenger cars is 27.5 miles per gallon (mpg); the standard for light trucks is 20.6 mpg. CAFE standards for all vehicles should be repealed.

CAFE standards have imposed tremendous economic burdens on American consumers and auto manufacturers. CAFE standards cost consumers approximately \$5 billion per year and, since their enactment, have resulted in the loss of an estimated 200,000 jobs. As a fuel conservation measure, CAFE is grossly inefficient, orders of magnitude more expensive per gallon of gasoline "saved" than available alternatives. Indeed, if conserving gasoline is the goal of CAFE, it would be cheaper for the federal government to simply purchase the desired amount of fuel to keep it off the market.

Because CAFE standards impose a sales mandate, auto manufacturers are forced to manipulate their prices to sell vehicles that meet the prescribed standards. As a result, large-car buyers pay heavy CAFE premiums when buying their cars even if they drive very little, while small-car buyers pay artificially-lowered car prices regardless of how much they drive. By focusing on car design rather than car use, CAFE standards impose costs without regard to actual gasoline consumption.

More important than CAFE's economic impact is CAFE's impact on auto safety. These regulations have a lethal effect on auto safety. Decades of research have made it clear that large cars are more crashworthy than similarly equipped small cars in all collision modes. CAFE, however, restricts large-car availability. According to a peer-reviewed Harvard-Brookings study, CAFE is responsible for a 500 pound downsizing of new cars, which translates into 2,200 to 3,900 additional traffic deaths per model year.

The National Highway Traffic Safety Administration has attempted to deny the negative impacts of CAFE. However, these denials were found unpersuasive by the D.C. Circuit Court of Appeals. In 1992, the court ruled that the federal government relied upon "fudged analysis," "statistical legerdemain," and "bureaucratic mumbo-jumbo" in enacting current CAFE standards and ignoring their impact on highway fatalities.

The choice of what type of car to drive should be left to the consumer. Automakers currently produce a wide range of vehicles with a broad range of fuel economy levels. Those consumers who wish to drive smaller vehicles that achieve more miles per gallon are certainly free to do so. Those who choose not to drive cars with higher fuel efficiency—consumers who prefer larger family cars or vehicles with greater performance—should not have their options restricted by federal policy.

REPEAL THE EMPLOYEE COMMUTE OPTION (ECO)

One of the more burdensome and inefficient elements of the 1990 Clean Air Act Amendments is the employee commute option (ECO) program. A so-called "trip reduction measure," ECO is designed to "reduce work-related trips and miles traveled by employees," according to the Environmental Protection Agency. It requires companies to monitor and alter the commuting habits of their employees. This program imposes significant compliance costs on companies, creates extreme nuisances and inconveniences for employees, while providing minimal, if any, air quality benefits.

ECO programs are mandatory for companies that employ more than 100 people in the nation's smoggiest metropolitan areas, including Chicago, Houston, New York and Philadelphia. Eleven states are affected by this program, and many suburban areas are included in the EPA's definition of metropolitan area and are therefore subject to the program as well.

Regulated employers in these regions must increase the average passenger occupancy for commuting vehicles by 25 percent. This can be done through subsidizing van pools or mass transit usage, economic incentives, or any other method that the employer devises. Employers are forced to play traffic cop under this program — they must survey current employees about their commuting habits, hire or appoint a "coordinator" to oversee the ECO program, and pay "administrative fees" to local agencies charged with monitoring compliance.

ECO will have a significant economic impact. The Environmental Protection Agency estimates that the annual cost of the ECO program will exceed \$1.2 billion. In addition, state agencies are required to impose fines on companies that fail to make a "good faith effort" to meet ECO's trip reduction targets. Fines for noncompliance can be as high as \$25,000 per day.

In addition to these economic costs, ECO will impose a large burden on suburban families and commuters. Nearly three-fourths of American workers choose to commute alone; a similar percentage make intermediate stops on their way to or from work, stopping at schools, day-care centers, grocery stores, gyms, and the like. These workers do not car pool or use mass transit because such options do not meet their needs. ECO seeks to coercively modify commuting habits that have been chosen voluntarily in the marketplace.

Not only is ECO highly burdensome, but it is ineffective as well. The most optimistic scenarios suggest that ECO could reduce auto emissions by 5 percent. More realistic estimates place ECO's potential reductions from less-than-1 to 3 percent. One of the reasons for ECO's limited effectiveness is that home-to-work commuting is a small and declining share of vehicle trips, so ECO only addresses a small portion of vehicle emissions.

ECO is an unfunded mandate. Affected areas have no choice but to implement this program even if less costly and more effective pollution control alternatives are available. Few, if any, of these areas would impose a program as misguided as ECO were it not mandatory under federal law.

REPEAL THE PUBLIC UTILITY HOLDING COMPANY ACT (PUHCA)

The Public Utility Holding Company Act (PUHCA) of 1935 was enacted as a New Deal measure to fight ownership abuses in the electric and gas utility industries. The necessity for the act was dubious in its own day; at present, it is obsolete, and stands as a barrier to the development of competitive power markets. PUHCA should be repealed in its entirety.

At the time of passage, many utilities were owned by holding companies, which in turn were owned by holding companies, and so on, forming a pyramid of ownership. By distributing ownership at 51 percent throughout the structure, a "great grandfather" holding company at the top could own less than 15 percent of the total assets and yet have a controlling share of those assets.

PUHCA was meant to eliminate this perceived problem by abolishing all holding companies more than twice removed in ownership from electric or gas utilities. Enforcement authority for PUHCA was assigned to the Securities and Exchange Commission (SEC). The SEC was also charged with ensuring that "the corporate structure or continued existence of any company in the holding-company system does not duly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders..." From 1940 to 1962, over two thousand electric and gas utility holding companies and subsidiaries were forced to register with the SEC and submit to reorganization and/or divestiture.

With the completion of its mission in 1962, PUHCA became a bureaucratic nuisance for the electric and gas utility industries, requiring SEC oversight of industry structure. In 1982, the SEC itself recommended that Congress repeal PUHCA. This was a rare instance of a regulatory agency voluntarily requesting a reduction in its own power. Nonetheless, its request was ignored. In 1993, the SEC spent just over \$2 million on PUHCA enforcement.

The persistence of PUHCA not only maintains an obsolete law and complicates federal utility regulation, it is now beginning to be a greater nuisance by hindering the development of an independent wholesale market in electric power. During the 1980s and 1990s, power marketing began to transform long-term generation into a competitive industry at the wholesale level. Unfortunately, under PUHCA most utilities are limited in their ability to invest in this new market. The 1992 Energy Policy Act mitigated this problem somewhat by making exceptions to PUHCA, but the law continues to hinder utility investment in wholesale power.

In sum, PUHCA is a law that had become obsolete by the early 1960s, has been repudiated by the very federal agency charged with its enforcement, and is hindering the development of electric power competition at the wholesale level. It is a prime candidate for immediate and complete repeal.

REPEAL THE PUBLIC UTILITY REGULATORY POLICIES ACT (PURPA)

The Public Utility Regulatory Policies Act of 1978 was passed during the hysteria of the government-created energy crisis of the late 1970s. PURPA was a largely unnecessary response to a misdiagnosed problem. It was ill-conceived when enacted, and is irrelevant today. It should be completely repealed.

PURPA was enacted in response to the perception that a physical shortage of resources was the cause of the problem. Instead of repealing the price controls and other regulations that had spawned gasoline shortages and rationing, PURPA mandated that public utilities invest in renewable electricity generation sources, such as wind power, photovoltaics, and cogeneration (the reuse of steam generated in industrial processes).

In essence, PURPA required state utility regulators to examine the possibility of utilities under their jurisdiction purchasing new power from small, independent generating entities using renewable resources. Then, when possible, utilities were to satisfy their additional power needs by purchasing electricity on contract from the independent generators (known as Qualifying Facilities or "QFs"), at the utilities' "avoided cost" of generation.

As a result of PURPA, many utilities were forced to purchase new power from "politically correct" sources, at rates based on estimates of utility "avoided costs." In practice, the avoided cost estimates are often much greater than the actual operating and amortization costs the utilities would face over the contract period. This is mostly due to the fact that the avoided cost estimates were made at a time when fuel prices were inflated by the OPEC crises. They fell subsequently, and electricity consumers were faced with paying high prices for uneconomic power.

Today, PURPA is more unnecessary than ever before. A new and growing industry of independent power producers using a wide variety of energy sources is now servicing utilities with over half of their new power supply requirements. Utilities often prefer to contract out for new power rather than building generators themselves, because the electricity market has proved risky for utilities over the last two decades. The repeal of PURPA would not only save billions — it would also lead to a more competitive wholesale electricity market.

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GAINING MORE GROUND

Analysis of Wetland Trends in the United States

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GAINING MORE GROUND

by Jonathan Tolman

INTRODUCTION

Federal wetland policy has had anything but a consistent history in the United States. At the turn of the century, the Supreme Court characterized wetlands as "the cause of malarial and malignant fevers" and proclaimed that "the police power is never more legitimately exercised than in removing such nuisances."¹

Since then, the federal government has made a complete about face on the issue of wetlands. Today governmental police powers are used to protect, not remove such nuisances.

Given the historic attitude of the government towards wetlands, it is not surprising to note that by 1991 the U.S. had lost half of all its wetlands since colonial times. But over the last few years a largely unnoticed transformation has been taking place all across America. Where once wetlands were being drained and filled, today they are being restored. In fact, they are being restored at such a rapid pace that wetland restoration in 1993 exceeded the conversion of wetlands to other uses.

In 1994, more than 60,000 net acres of wetlands will be restored. In short, Federal government statistics show that the lower 48 states are currently gaining wetland acreage.

Why hasn't any one noticed this fact? The most prominent agencies regulating wetlands, the Environmental Protection Agency and the U.S. Army Corps of Engineers, are not the agencies which have been making the dramatic gains in restoration. The programs which have resulted in the U.S. achieving no net loss of wetlands are not the command-and-control regulations of section 404 of the Clean Water Act administered by the EPA and the Corps. Rather they are voluntary and economic incentive programs found in the Food Security Act of 1985, the North American Wetlands Conservation Act, the North American Waterfowl Management Plan, and many private efforts. This suggests that the goal of wetland conservation may be achieved more effectively through economic incentives and private stewardship than with federal land-use regulation. In fact, the evidence suggests that increasing agricultural productivity has contributed more to decrease the annual loss of wetlands than any other factor. These findings also question the need for Congressional re-authorization of wetlands regulation under the Clean Water Act.

The fact that more wetlands are being restored than are being converted to other uses is in stark contrast to the current administration's statements. Upon releasing the Clinton Administration's wetlands reform plan in August of 1993, EPA Administrator Carol Browner stated, "The new agreement is a significant advance in protecting America's wetlands, which are being lost at a rate of nearly 300,000 acres per year."²

What Administrator Browner failed to mention was that the statistics indicating wetland loss rates as high as 300,000 acres a year are over a decade old. These loss rates represent the status of wetlands before passage of the Swampbuster provisions of the 1985 Food Security Act, before the North American Wetlands Conservation Act, and before the numerous judicial and regulatory decisions which granted broad authority to the Army Corps of Engineers and the Environmental Protection Agency to regulate wetlands. As a result, this figure greatly misrepresents the status of wetlands in the U.S. today.

GOVERNMENT WETLAND PROGRAMS

There are a multitude of government programs and regulations which deal directly with wetlands. Unlike most environmental issues where one agency is given the dominant role for implementing federal policy, wetland programs are scattered throughout the federal government, often with little or no communication and coordination among the various agencies involved.

In terms of assessing wetland trends in the United States, government wetland programs fall into two basic categories, those designed to reduce the loss of wetlands, and those designed to restore wetlands which have been previously lost. There are also federal programs which simply preserve existing wetlands. However, in assessing loss or gain trends these programs are largely irrelevant.

PROGRAMS TO REDUCE WETLAND LOSS

There are two principal programs designed to reduce the loss of wetlands. The largest and most well known, is called the 404 program, named after section 404 of the Clean Water Act.

The 404 program is administered by the Army Corps of Engineers (Corps). According to the Corps' interpretation of the Clean Water Act, an individual must obtain a permit before disturbing a wetland. Although the Corps is the permitting agency, the Environmental Protection Agency (EPA) plays an extremely important role in the 404 process. The EPA has the authority to veto a permit. In addition, the EPA is effectively in charge of writing the regulations which Corps uses in granting permits.

The second program designed to stem wetland losses is known as Swampbuster. Passed by Congress in 1985 as part of the Food Security Act (a.k.a. the Farm Bill), Swampbuster is designed to deter farmers from plowing wetlands by withholding subsidies. If a farmer converts a wetland to agricultural production, under Swampbuster the farmer loses all federal subsidies, including such programs as crop insurance and home loans.

WETLAND RESTORATION PROGRAMS

There are four principal programs designed to restore previously converted wetlands. As with other wetland programs, they are scattered throughout the federal government, often with minimal or no coordination and communication.

The Partners for Wildlife program (Partners) is part of the Department of Interior's Fish and Wildlife Service. Partners is a program which attempts to bring together private and public interests on a local level to restore ecosystems. The Fish and Wildlife Service gives seed money, usually in the form of matching grants to local groups for restoration projects. The Partners program does not exclusively restore wetlands, although wetlands are a significant portion of the types of ecosystems restored.

Major Federal Wetland Programs		
Program	Agency (Department)	Function
404 Permit Program	Army Corps of Engineers (Department of Defense) Environmental Protection Agency	Regulatory
Swampbuster	Soil Conservation Service (Department of Agriculture)	Regulatory
Partners for Wildlife	Fish and Wildlife Service (Department of Interior)	Restoration/ Preservation
North American Waterfowl Mng	Fish and Wildlife Service (Department of Interior)	Restoration/ Preservation
Wetland Reserve Program	Soil Conservation Service (Department of Agriculture)	Restoration
404 Mitigation Program	Army Corps of Engineers (Department of Defense)	Required Restoration

The North American Waterfowl Management Plan was created by the treaty between Canada, the U.S. and Mexico to preserve migratory waterfowl. With annual appropriation from Congress, the Fish and Wildlife Service restores waterfowl habitat throughout North America. Often the restoration programs are in conjunction with private groups, such as Ducks Unlimited.

The third program is the Wetlands Reserve Program, which is administered by the Soil Conservation Service, a branch of the Department of Agriculture (USDA). Under the Wetlands Reserve Program, the USDA purchases permanent easements on land which was once wetland but had been drained (usually with federal subsidies) to grow crops. After the easement is purchased, the USDA then restores the cropland to its previous wetland condition.

The last program is again the 404 program. Often as a condition for obtaining a permit, the developer or landowner must restore a wetland somewhere else to mitigate for any loss of wetland due to the development project. This type of mandated restoration is commonly called 404 mitigation.

1991 STATUS AND TRENDS REPORT

Wetlands, Status and Trends In The Conterminous United States, mid-1970's to mid-1980's, published in 1991 by the Department of Interior, is the source of the 300,000 acres per year figure quoted by Browner. The *Status and Trends* report analyzed aerial photography from 1974 to 1983. This nine year period has been used as the basis for calculating annual average acreage estimates.³

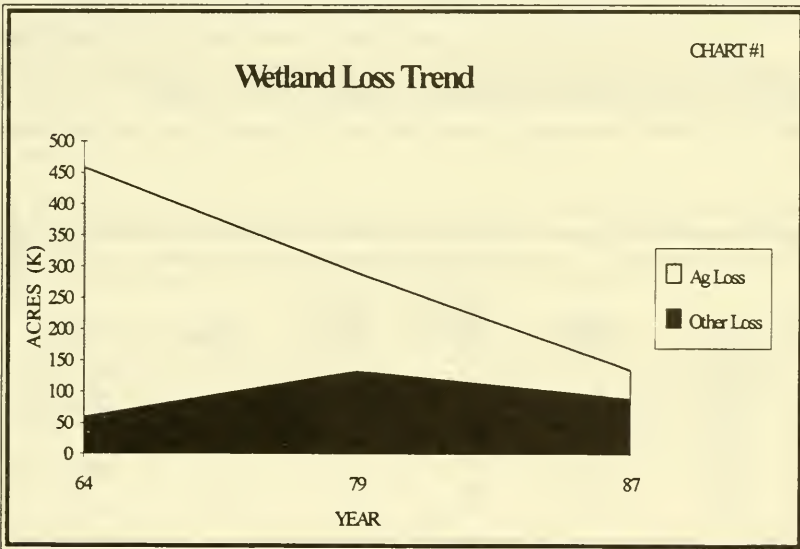
The *Status and Trends* report determined that 2.6 million acres had been converted from wetlands to other uses during the nine year period, resulting in an average annual conversion rate of 290,000 acres a year. This yearly conversion rate does not reflect current wetland conditions. In fact, the authors of the 1991 *Status and Trends* report tacitly acknowledged this: "Since the mid-1980s, indications are that wetland losses are slowing."⁴ These trends are shown in chart 1.

NATIONAL RESOURCES INVENTORY

Recently, the Department of Agriculture released a report on wetlands data obtained from the National Resources Inventory (NRI). The NRI is a survey conducted by the Soil Conservation Service every five years. The 1994 NRI wetland report used data collected from 1982 to 1992. Because the data is nearly ten years more current than the *Status and Trends* report, the NRI Wetlands report undoubtedly gives a far more accurate picture of current wetland losses than the mid-1970s to mid-1980s *Status and Trends* report.

The NRI Wetland Report determined that 1,349,900 acres had been converted during the 10-year period from 1982 to 1992. This represents an average annual conversion rate of 135,000 acres per year over the decade, a significant change from the conversion rates of the previous decade.⁵

In addition to indicating reduced conversion rates, the NRI wetland report showed that the majority of those reductions came in the agricultural sector. During the 1982 to 1992 period, only one-third of the losses came from conversion to agriculture. This is significantly lower than the 54 percent agricultural conversion rate reported in the mid-1970s to mid-1980s (See chart 1).



Although agricultural conversion of wetlands steadily declined, conversion due to development and other uses remained constant at roughly 89,000 acres a year throughout the 1980s. Wetland loss due to development was *higher* during the 1980s than it was during the period between 1954 and 1974, before any significant wetland legislation was in force, but significantly less than that of the period between 1974 and 1983.⁶

In short, the best available data suggests that the United States is losing considerably less than the 290,000 acres a year, the figure frequently quoted by some government officials and in many press accounts.

	NWI '54-74	NWI '74-83	NRI '82-92
Agriculture	398,000	157,000	46,000
Other	60,000	143,000	89,000
Total	458,000	290,000	135,000

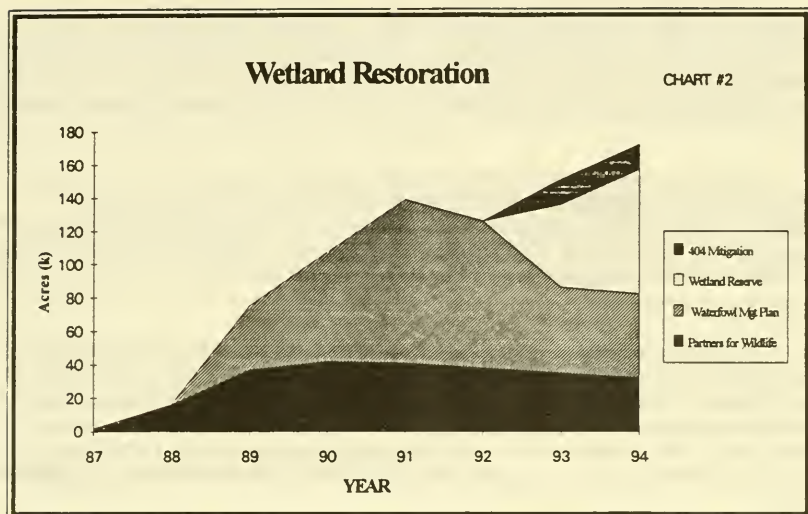
NWI: National Wetland Inventory NRI: National Resource Inventory

WETLAND RESTORATION

No discussion of wetland trends would be complete if it did not account for wetland restoration, which has been occurring on both public and private lands. During the late 1980s and early 1990s, Congress funded a series of programs designed to acquire, restore and enhance wetlands. One report, issued by the Department of Interior, indicated that between 1989 and 1992, 834,405 acres of wetlands had either been restored or enhanced. Many of these acres were restorations or enhancements on publicly owned lands, but a significant quantity also occurred on private lands.

In addition to restoration programs on public lands and wholly privately funded efforts, there are three programs which constitute the bulk of restoration on private land: the Partners for Wildlife Program, the Conservation Reserve Program and the Wetland's Reserve Program.

Year	Partners for Wildlife	N. American Waterfowl Mgt Plan	Wetland Reserve Program	404 Mitigation	Total
1987	2				2
1988	16				16
1989	37	38			75
1990	42	65			107
1991	41	98			139
1992	38	88			126
1993	35	51	50	15	151
1994	32	50	75	15	172



Since 1987, the Fish and Wildlife Service has entered into thousands of voluntary agreements with private landowners to restore converted or degraded wetlands on their property. To date, the Partners for Wildlife (PFW) program has restored more than 210,000 acres of wetlands, according to the Department of Interior.⁷

Since 1986, Congress, under the North American Waterfowl Management Plan, has appropriated funds for the restoration of waterfowl habitat. Much of the restored habitat is wetland. During this same period, the North American Waterfowl Management Plan has restored nearly 400,000 acres of wetlands in the United States alone.⁸

The 1985 Food Securities Act authorized the creation of the wetland reserve program. However, it was not until 1992 that Congress appropriated funds for the program. In 1993, the Soil Conservation Service secured permanent easements for the restoration of 50,000 acres of cropland. In 1994, the SCS has signed up an additional 75,000 acres of land for restoration.⁹

In 1993, the Army Corps of Engineers began keeping records of how many acres of wetlands were being restored as mitigation for development or other projects. In 1993, the Corps required more than 15,000 acres of wetland restoration, a small fraction of the amount of wetlands restored by other methods. An equivalent if not larger figure is expected for 1994. For 1994, the combined effect of these four programs was to restore an estimated 172,000 acres (See chart 2).

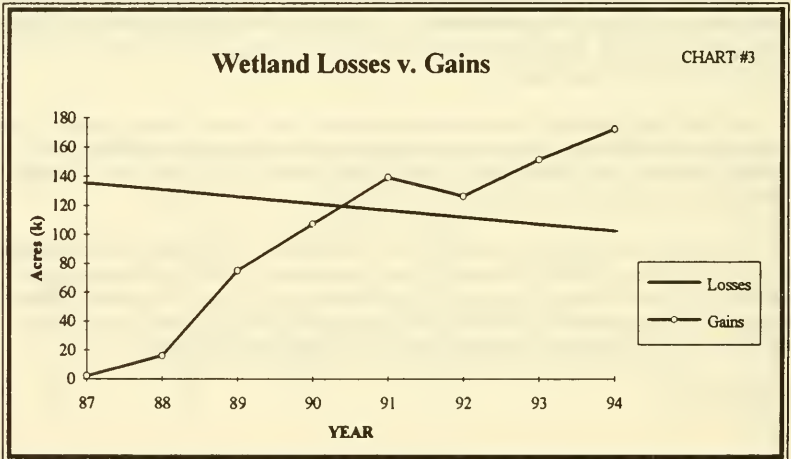
NO NET LOSS

If one examines the three studies which have documented wetland losses one finds an intriguing trend: a slow down in wetland conversion (see chart 1). As previously mentioned, several authors have noted that wetland losses are slowing. In fact, wetland losses appear to have been slowing since the mid-fifties. And if one takes a closer look at the data from those three studies, it appears that the reason wetland losses have been slowing is due, almost exclusively, to decreased agricultural conversion.

If a linear regression analysis is performed using the agricultural conversion rates in those three studies, it yields a correlation coefficient of 0.998 with a slope of -15.45 (see Appendix 1 attached). In essence, between 1954 and 1992, agriculture was converting roughly 15,450 acres of wetlands less than the year before. Conversion due to development and other causes appears to have no particular trend. In fact wetland losses due to development and other causes appear higher now than they were in the mid-sixties.

The question is why has agriculture been converting less and less each year, and when will this trend slow down? Some have tried to argue that agriculture has been converting less due to such federal programs as Swampbuster. This seems unlikely for two reasons. First, Swampbuster and other wetland programs are a recent development, while this trend has been observed for over two decades. Second, there is some reason to believe that the Swampbuster provisions of the Food Security Act of 1985 are less than stringently enforced and contribute little to the slowing of wetland loss.¹⁰

The most likely reason behind the decline in agricultural loss rates is increasing agricultural productivity. In the past, as a farmer's productivity on a particular parcel of land decreased he would typically retire that land and plow under other previously un-farmed land. Since hydric soils are often the richest, farmers would frequently target wetlands for the plow. But as new technologies increased the productivity per acre of farmland, the need to plow new land diminished.



The USDA compiles crop productivity per acre statistics based on a 1967 set point of 100. When crop productivity per acre is compared with annual wetland conversions attributed to agriculture, the correlation coefficient is 0.963 and the slope is -7.85 (see Appendix 1). In other words, there is a near linear correlation between increases in crop productivity and decreases in wetland conversion. According to this correlation, for every one percent increase in crop productivity there is an annual decrease in wetland conversions of 7,850 acres.

Assuming that agricultural productivity per acre has remained constant over the last few years, and loss of wetland to development and other causes remains constant at roughly 89,000 acres a year, in 1994 the gross loss of wetlands could roughly be predicted at 102,000 acres (see Appendix 1). If this figure is compared with existing restoration programs, it is clear that the U.S. is in fact gaining a substantial amount of wetlands each year (See chart 3).

This does not include the thousands of acres which have been restored on federal lands nor does it include solely private efforts. In 1991, for instance, the Fish and Wildlife Service restored 33,120 acres throughout the National Wildlife Refuge system, yet this is not included in the above figure.¹¹

COMPENSATION FOR HIGH VALUE WETLANDS

Some current legislation calls for compensation to the land owners for high-value wetlands; one of these is H.R. 1330. Under several pieces of legislation, when a landowner applies to the Army Corps of Engineers for a permit to develop on a wetland, the Corps would be required to classify the land into one of several categories. Those lands classified as having the highest wetland value would be deemed of critical significance. The Corps would prohibit most activities on such land, and allow the land owner to seek compensation for the fair market value of the land. Compensation is critical to private landowners as land use restrictions often impose significant economic burdens on select individuals. Wetland preservation provides broad public benefits, and compensation ensures that the costs are born by the public as a whole.

Critics of compensation have claimed that the plan would result in excessive costs and become a budget buster. However, based on the current estimates of wetland loss, this may not be the case. According to the Congressional Budget Office, H.R. 1330's definition of high value (or class A) would cover less than 9 million acres of privately-owned wetlands.

There are an estimated 80 million acres of privately owned wetland in the lower 48 states. Consequently, class A wetlands would comprise only about 11 percent of all the wetlands which could potentially be developed.

With an average annual conversion rate of 102,000 acres per year, a compensation provision such as that in H.R. 1330 and other current reform bills would require compensation for fewer than 12,000 acres per year. According to the Congressional Budget Office, the acquisition of wetlands costs between \$1,000 and \$1,700 per acre. The budgetary requirement for these acquisitions would range from \$13.5 to \$20.3 million a year. This would represent an increase in the current acquisition budget for wetlands of less than 20 percent.

EFFICACY OF PROGRAMS

The reduction in annual wetland conversion appears to be due primarily to reduction in the conversion of wetlands to agricultural lands. The principal reason for this is that over the last twenty years the agricultural industry has been experiencing continued yearly increases in farm productivity due to advances in a range of chemical, biological and other technologies. The average farm today is over 43 percent more productive than it was in 1970.¹² This means that a farmer can produce the same amount of food today that he did in 1980, for example, but while using 20 percent less land.

The conversion rate due to development, however, does not appear to have changed significantly during the last decade, despite changes in the programs guidelines. Section 404, which requires a permit for development on a wetland, does not appear to have significantly slowed the rate of wetland conversion. There are two primary reasons why the 404 program may be ineffective.

First, many activities may not fall under the jurisdiction of the 404 program. For example, until the summer of 1993 many types of wetland development were outside 404 jurisdiction because the wetlands were drained, rather than filled. In addition, many other types of activities are granted via a nationwide permit.

The second reason is the economic nature of development. While the section 404 program, with its extensive delays and regulatory hurdles, may deter development in wetlands where there is an economical alternative (e.g. nearby upland), in many cases there is no economic alternative. In areas like South Florida, where there are few if any economical alternatives to development in wetlands, a command-and-control permit process, such as section 404, simply imposes addition regulatory costs and delays that ultimately do little to halt wetland conversion.

CONCLUSIONS

Over the last twenty years, the United States has seen a dramatic decline in the rate of wetland conversion that occurs each year. Since the late 1960s, when wetlands were being converted at a rate of more than 450,000 acres a year, wetland conversion has slowed to approximately 102,000 acres a year. This represents an astounding 75 percent reduction.

Trends also show that in most areas the rate of wetland conversion continues to slow. Wetland conversion due to agriculture has declined from nearly 400,000 acres a year in the late 1960s to less than 30,000 thousand acres a year, a 93 percent reduction. The rate of conversion due to agriculture continues to slow, primarily due to continued improvements in agricultural technology.

The only area where wetland conversion has not slowed has been conversion due to development, yet this has not prevented the achievement of "no net loss." Wetland conversion due to urbanization, strip development, highway construction and similar activities account for the conversion of more than half of all wetlands. The NRI 1994 report showed that wetland losses due to development and other causes were approximately 89,000 acres a year. Although decreased from the previous decade, wetland losses due to development do not appear to be slowing significantly. A previous NRI report (NRI 1991) noted that from 1982 to 1987, development accounted for the conversion of 56,000 acres a year. From 1987 to 1991, development accounted for 58,000 acres lost a year. Government statistics suggest no decline in wetland conversion due to development, despite the onerous impact of section 404 regulations on private land owners.

Half of all applicants for 404 permits in 1992 were projected to disturb less than 1.1 acres. One fourth of the projects affected less than one-quarter of an acre.¹³ Because the majority of these activities are small residential or commercial projects, multiple agency consultation with public notice and comment amounts to regulatory overkill. The permitting process for an individual permit is extremely time consuming for all bureaucratic agencies involved. Consequently, the budgetary and personnel resources of the agencies allow only a small portion of wetlands to be afforded regulatory protection. Secondly, in most cases there are relatively few if any economically viable substitutes for development. Unlike agricultural production, which can be shifted over time to other areas and still produce the goods required by consumers, development is highly geographically dependent.

Overall, the United States has compensated for the annual conversion of wetlands by instituting wetland restoration programs on public as well as private lands. The four largest programs focusing on private land are expected to restore 172,000 acres in 1994. In addition to these four programs, there are dozens of other actions, on both public and private lands, that are restoring tens of thousands of acres of wetlands a year.

The programs which have economically encouraged land owners not to convert wetlands have been more successful in helping the U.S. achieve "no net loss." Any reform of section 404 should emphasize these economic incentive programs and phase out the less efficient command and control regulations.

ENDNOTES

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7. Interagency Task Force on Wetlands, *A National Program for Wetlands Restoration and Creation, Report of the Interagency Committee on Wetlands Restoration and Creation to the Policy Coordinating Group*, August 1992, p. 10. Additional information obtained from Ron Crete of the Fish and Wildlife Service.
8. *Ibid.*, Additional information obtained from Michael Tome of the Fish and Wildlife Service.
9. U.S. Department of Interior, *The Impact of Federal Programs on Wetlands*, Vol II, A Report to Congress by the Secretary of Interior, March, 1994, p. 66. Further information obtained from Don Butz of the Soil Conservation Service.
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11. U.S. Department of Interior, *Wetlands Stewardship*, April 1992, pp 12.
12. U.S. Department of Agriculture, Economic Research Service, *Economic Indicators of the Farm Sector: Production and Efficiency Statistics*, 1992.
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APPENDIX 1

Regression of Wetland Ag Loss v. Time
Regression Statistics

Multiple R	0.998165
R Square	0.996333
Adjusted R Square	0.992667
Standard Error	15.41063
Observations	3

Analysis of Variance

	df	Sum of Squares	Mean Square	F	Significance F
Regression	1	64531.1793	64531.1793	271.7247	0.03857302
Residual	1	237.4873691	237.4873691		
Total	2	64768.66667			

	Coefficients	Standard Error	t Statistic	P-value	Lower 95%	Upper 95%
Intercept	1381.912	72.23009291	19.13207966	0.002721	464.145475	2299.678
x1	-15.4455	0.936993598	-16.48407352	0.00366	-27.351053	-3.53989

Regression of Wetland Ag Loss v. Productivity
Regression Statistics

Multiple R	0.963034
R Square	0.927435
Adjusted R Square	0.925362
Observations	37

Analysis of Variance

	df	Sum of Squares	Mean Square	F	Significance F
Regression	1	933785.0977	933785.0977	447.325	1.6032E-21
Residual	35	73062.04735	2087.497067		
Total	36	1006847.145			

	Coefficients	Standard Error	t Statistic	P-value	Lower 95%	Upper 95%
Intercept	1128.26	41.28744905	27.32694341	1.14E-25	1044.4417	1212.078
x1	-7.8523	0.371266185	-21.15005848	6.82E-22	-8.6060129	-7.09859

APPENDIX 1 (CONT.)

	Study Years	Median Year	Agriculture Loss		
	54 -- 74	64	398		
	74 -- 83	78.5	157		
	82 -- 92	87	46		
Year	Linear Ag Loss	Production per Acre	Calculated Wetland Ag Loss	Average Loss To Development	Total Loss
54	547.7	71	571	96	667
55	532.25	74	547	96	643
56	516.8	77	523	96	619
57	501.35	77	423	96	619
58	485.9	86	453	96	549
59	470.45	86	453	96	549
60	455	88	437	96	533
61	4339.55	92	406	96	502
62	424.1	95	382	96	478
63	408.65	97	366	96	462
64	393.2	95	382	96	478
65	377.75	100	343	96	439
66	362.3	99	351	96	447
67	346.85	100	343	96	439
68	331.4	104	311	96	407
69	315.95	107	288	96	384
70	300.5	104	311	96	407
71	285.05	112	249	96	345
72	269.6	115	225	96	321
73	254.15	116	217	96	313
74	238.7	104	311	96	407
75	223.25	112	249	96	345
76	207.8	111	256	96	352
77	192.35	116	217	96	313
78	176.9	122	170	96	266
79	161.45	131	99	96	195
80	146	116	217	96	313
81	130.55	133	84	96	180
82	115.1	135	68	89	157
83	99.65	116	217	89	306
84	84.2	130	107	89	196
85	68.75	139	37	89	126
86	53.3	135	68	89	157
87	37.85	143	5	89	94
88	22.4	124	154	89	243
89	6.95	138	44	89	133
90	-8.5	146	-18	89	71
91	-23.95	142	13	89	102
92	-39.4	1429	13	89	102
93		142	est	89	102
94		142	est	89	102

Mr. MYERS. Thank you, Mr. Smith.

The Chair recognizes a long time Member of this committee from California, Mr. Fazio.

Mr. FAZIO. John, thank you.

I am looking forward to serving under your leadership.

Mr. MYERS. Why didn't you say that last year?

We have another new Member here, not a new Member of Congress, but a new Member of the committee. We welcome Mr. Knollenberg of Michigan.

Joe.

Mr. KNOLLENBERG. Thank you. Thank you very much.

No need for any kind of commentary from me at this point. I arrived late, I apologize for that, but two of these meetings at the same time are a little difficult.

I am looking forward to being a part of this group. I have enjoyed the testimony thus far and looking forward to hearing the fourth member of the panel. Sorry I missed the first two.

Thank you.

Mr. MYERS. Well, the committee now will hear from Vic Rezendes, who is Director of Energy Issues for the General Accounting Office.

Mr. Rezendes.

Mr. REZENDES. Thank you, Mr. Chairman. I appreciate the opportunity to be here.

I come from GAO, as you know, and I come at this issue with a little different perspective than my other colleagues at the table here. GAO has been reviewing the Department of Energy for many years, and what I would like to do is pass across some of our observations on how it is managed and its mission and its roles, and we think it is an ideal time to be reevaluated.

Obviously, it is no surprise to this committee that the Department of Energy's missions have changed dramatically since it was first established in 1977, where its primary focus was on energy policy, addressing an energy crisis. We have seen those missions change, we see them also when they developed with developing nuclear warheads, how they were stretched to capacity during the 1980s, and we have seen those missions change again to today where they have now embarked on science as well as competitiveness, technology transfer, and certainly have developed an enormous environmental restoration issue, which wasn't even on the screen in 1977.

And the backdrop of all that is a history, a long history that GAO has pointed out for many years of management problems at Department of Energy: Overreliance on contractors, contractors without total indemnification, cloaking them in an area of secrecy, not holding them accountable for how they are spending Federal tax dollars, as well as not having the in-house expertise and information systems to effectively manage some of these programs.

I want to give DOE some credit. I think they are making some significant reforms. We have seen some strategic planning going on there. We also have seen some serious efforts to take hold and institute performance management and TQM in the Department.

I now want to move to the basic thrust of my testimony today which is pretty much the results of what GAO calls a General

Management Review of the Department of Energy—we have been doing this work for two or three years now—which is basically a wholesale look at the Department in terms of its management, organizational structure, roles and its missions. It is really the thrust of what my testimony will cover today.

The first two pieces I want to talk about, the first one is environmental restoration. We looked at DOE's environmental program. As you know, they have an enormous problem. Virtually all the entire weapons complex is contaminated. They have—roughly, they will expect to spend at least \$300 billion over the next 30 years cleaning this up.

The real problem with the program, however, from our perspective, is that DOE signed compliance agreements with States and locals and EPA over these many years, basically in an effort to keep the complex running. But also they signed compliance agreements to do things at the time when: One, they had no knowledge of the extent of contamination at those sites; two, those where they did know the contamination did not have the technology to deal with it; and, third, did not know the total cost of dealing with the whole problem that they are about to agree to.

And as a result, DOE signed roughly about 110 compliance agreements throughout the country, and those are driving the program. What we have seen now is that the costs are really astronomical. If you look at the curve and how that money is coming to be spent, right now, DOE is spending most of its money on studies and evaluation. Within the next year or two, they will kick in the actual construction phase of this, which will put a big spike in the budget. And I guess the question we have asked DOE and we are asking in our report: Is this the way we want to manage the program? Are we looking at from a risk perspective, from a national perspective, the most important priorities we want to clean up as a Nation?

We think not. We think DOE needs to change those compliance agreements, renegotiate them with the regulators, and set a risk-based, more national priority system that will deal with the worst contamination, with the worst public health and safety problems first and recognize that the budget limitations are serious and will continue for quite a long period of time. We think it is unrealistic for DOE to think that they are going to be getting the kinds of money that these projections show that they will need over the next few years.

Another major area I want to talk about is the national laboratories. As you know, there are, roughly, I believe, 25-plus national laboratories. They account for, roughly, about \$8 billion in appropriations and employ, roughly, 63,000 people throughout the country.

As part of our General Management Review, working with the National Academy of Public Administration, we put together an expert panel headed by Lou Branscomb, Lou Siddrell, a number of other people who worked in the national laboratories, we asked them for advice as to looking at the missions and the structure of the national labs.

We also went out and interviewed every top manager in the nine major multi-labs as well as all the DOE people here in head-

quarters. And basically what we found was not surprising, was that the labs, there was a consensus that they did not know what their mission was, they didn't have a focus, since the demise of the end of the Cold War, the demise of producing nuclear weapons in the United States, there are serious questions among the laboratories and DOE themselves as to what their mission and role should be and ought to be.

This is not a new message. There has been numerous task forces before this GAO report which said pretty much the same thing. And I guess our frustration is either not identifying what the barriers are, DOE not understanding what the barriers are to actually make some changes there, actually focus the mission, and determine whether, in fact, whether there is duplication, whether these folks are doing the kind of things that we want them to do, and how best they should be organized and structured.

We understand as we have worked with Bob Galvin, who is heading yet another commission which will be reporting early in February, we have briefed him on the results of our report, and he has, I believe, told us that he is in consonant with what our major message is. Which gets me to a bigger picture.

Those were two basic case studies we did, and now what we did on top of that is we sent a rather extensive questionnaire out to probably the 40 top people in the country who know anything about the Department of Energy; looking at its missions, its roles and what should they be and how should the various pieces be fit together or whether they should fit together at all. It was a pretty impressive list.

This was—in fact, Jimmy Carter responded who, as you know, set up the Department of Energy, four former Secretaries and numerous other Deputies, Assistant Secretaries and people in private industry and various other places who know about the Department of Energy. It is interesting.

I want to pass now to you the results of what those folks told us.

Basically, I think there was a consensus the Department of Energy should focus on its core mission. These folks told us that energy policy, energy R&D, are the things that DOE should really be looking at.

There was not a consensus, in fact, it was probably split 50/50 as to whether the Power Marketing Administration should be in or out. And for the rest of the pieces, it was all over. They told us, for example, that basic research could go to National Science Foundation, Commerce, or Interior.

On page 4 of my testimony there is a long laundry list. And what you will see is point by point the national laboratories, either setting them up as a private corporation, turning them into—sharing them with other Federal agencies, the civilian waste program could either be public/private organization, a new Government agency, EPA. The list goes on.

And basically the main thrust of everything they told us is if you look at the Department of Energy, there is probably a location somewhere else in the Federal Government for that activity. But the real question is, the one we have been asking, is basically three fundamental questions, which is as we look at the Department and

you look at those functions and roles, we need to ask ourselves which missions should be eliminated because they are no longer valid government functions. Once we get past that, then we need to look at the missions that are inherently governmental, what organizational arrangements would be best suited to achieving those missions, and third, then look at could the private sector perform some of these missions better.

That is rather broad criteria. We will have our reports on these hopefully out in the next month or two. I will be delighted to answer any questions that you have.

[The statement of Mr. Rezendes follows:]

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Subcommittee on Energy and Water
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DEPARTMENT OF
ENERGY

Need To Reevaluate Its Role
and Missions

Statement of Victor S. Rezendes
Director, Energy and Science Issues,
Resources, Community, and Economic Development Division



Mr. Chairman and Members of the Subcommittee:

We are pleased to provide our views on the role and missions of the Department of Energy (DOE). The information included in this testimony is drawn from our ongoing management review of DOE and past work on a wide variety of DOE programs and functions (attached is a listing of related GAO products).

In summary, we believe that this is an ideal time to reevaluate DOE and its missions. DOE's mission and priorities have changed dramatically over time so that the Department is now very different from what it was in 1977 when it was created in response to the nation's energy crisis. While energy research, conservation and policy-making dominated early DOE priorities, weapons production and now environmental cleanup overshadow its budget. New missions in science and industrial competitiveness have emerged. In addition, DOE suffers from significant management problems, ranging from poor environmental management of the nuclear weapons complex to major internal inefficiencies rooted in poor oversight of contractors, inadequate information systems, and workforce weaknesses. Thus, this agency is ripe for change. We believe that any discussion of major restructuring within DOE should start with basic questions about the need for, and the best place for implementing, each mission.

DOE'S MISSION AND MANAGEMENT PROBLEMS

Created to deal predominantly with the "energy crisis" of the 1970s, DOE's mission and budget priorities have changed dramatically. By the early 1980s, its nuclear weapons production activities expanded dramatically, stretching DOE to its physical and managerial limits. Following revelations about environmental mismanagement in the mid to late 1980s, DOE's environmental budget began to grow and now overshadows all other activities. With the Cold War's end, DOE's missions have

expanded to include major new activities in science and technology transfer. With each new phase in its evolution has come leadership with vastly different agendas for what they believe DOE really should be and how it should be managed.

DOE also has a long history of management problems. To meet changing mission priorities, DOE has reorganized many times in an attempt to build a structure that integrates its activities effectively and to overcome its management problems. DOE has also been widely criticized for its performance in many mission areas. For example, historically DOE emphasized nuclear weapons production while giving little attention to the environmental consequences. As a result, environmental cleanup will now cost at least \$300 billion by DOE's estimates. The Department has spent billions developing solutions to the defense and commercial nuclear waste disposal problem, but final solutions are still not available. Its massive laboratory network needs to be redirected in light of post-Cold War priorities, and DOE has been unable to provide leadership in this area. At the core of many of its management problems is its weak oversight of more than 145,000 contractor employees, who perform nearly all of DOE's work. Contractors work largely without any financial risk, get paid even if they perform poorly, and DOE oversees them under their policy of "least interference," a practice unchanged since the Manhattan Project. Underscoring DOE's basic management weakness is DOE's lack of significant workforce skills in key technical areas, and the management information systems to oversee and direct contractors. This is a fundamental problem reported by us, the DOE Inspector General, and outside oversight groups.

Current DOE leadership has several efforts underway to strengthen its capacity to manage. For example, DOE is reforming its contracting practices to make them more business-like and results oriented; total quality management principles have been introduced to improve internal communications; and the Secretary

has "opened" up decision-making processes to the public in an attempt to further break down DOE's long-standing culture of secrecy, which has historically shielded the Department from outside scrutiny. DOE is also developing strategic plans aiming to define its existing missions into key "business lines" of emphasis around which it intends to reorganize. Although we are encouraged by these self-improvement efforts, past DOE initiatives often failed to make significant changes in the way DOE operates.

GAO'S ONGOING MANAGEMENT REVIEW OF DOE

We have conducted management reviews of many different federal agencies as part of our strategy to help agencies strengthen their capacity to manage. For our review of DOE, we analyzed DOE's management and contracting practices, organizational structure and performance in major mission areas such as environmental cleanup and activities of the national laboratories. As part of our management review, we surveyed 40 former DOE executives and experts on energy policy about how the Department's missions relate to current and future national priorities. Our respondents included former President Jimmy Carter (during whose administration DOE was created), four former Energy Secretaries, as well as deputy and assistant secretaries, and individuals with distinguished involvement in issues of national energy policy.

Overwhelmingly, our respondents emphasized that DOE should focus on its original core missions. These missions include energy policy, energy information, energy supply research and development, and operation of the Strategic Petroleum Reserve as an instrument of energy policy. While our respondents were divided about evenly over whether to keep the power marketing administrations (i.e., Alaska, Bonneville, etc.) within the Department or to move them elsewhere, the majority favored moving

the remaining missions from DOE or sharing them with other departments and agencies, although there was no consensus on the nature of the realignment. Many respondents suggesting moving

- basic research to the National Science Foundation, the Commerce or Interior departments, other federal agencies, or a new public-private entity;
- some multiprogram national laboratories to other federal agencies, or sharing their missions with other agencies;
- management and disposal of civilian nuclear waste to a new public/private organization, a new government agency, or the Environmental Protection Agency;
- nuclear weapons production and waste cleanup to the Defense Department, the Environmental Protection Agency (waste cleanup only), or a new government agency;
- environment, safety, and health activities to the Environmental Protection Agency or other federal entities;
- arms control and verification to the Defense Department, the State Department, the Arms Control and Disarmament Agency, or a new government nuclear agency;
- industrial competitiveness to the Commerce Department or a public/private organization; and
- science education to the National Science Foundation or another federal agency.

We have looked more closely at two areas where alternatives to the current DOE structure warrant serious attention: DOE's environmental cleanup program and the national laboratories.

In the environmental area, DOE faces the daunting task of cleaning up the contamination resulting from half a century of nuclear weapons production. The costs of restoring the nuclear weapons complex to a safe and stable condition are estimated by DOE to be at least \$300 billion. Developing new technology will help cut costs, as will improved management efficiencies. These measures alone, however, will not allow DOE to meet its current cleanup commitments under conditions of budget restraint. DOE now acknowledges that it will need to change its current process and work toward developing a national risk-based strategy that results in a more cost-effective approach to environmental cleanup. Unfortunately, DOE's past history of contamination, along with its contracting problems, make it unclear how successful DOE's new process will be.

We are also examining the roles and missions of DOE's national laboratories and the Department's management of them. We found that DOE needs to better define the roles of these important research facilities, which now face a "lack of focus and coherence," as a recent DOE advisory group observed, in the face of new post-Cold War realities. These laboratories were created to develop nuclear weapons and conduct basic energy research, but have since diversified into non-DOE mission areas and are now expected to help industry become more competitive. DOE does not manage them in a way that promotes progress toward its goals or helps them become more efficient. Rather than developing strategies to help the laboratories translate missions into responsibilities, DOE addresses missions through individual programs, making it difficult for the laboratories to work effectively on broad, cross-cutting issues, which the laboratories are particularly well suited to undertake. DOE has also made it difficult for laboratories to balance their research and administrative responsibilities, define what they are accountable for accomplishing, and deal with the Department's proliferating oversight reviews. These problems limit the

laboratories' ability to function effectively and compete with other research facilities.

Mission changes and management problems are not new, and the need for clear goals and better relationships among the laboratories and DOE headquarters has been raised for several years. Alternative ways of managing and structuring the laboratories may need to be considered for the future. For example, proposals suggested or debated during our review range from consolidating or converting some laboratories, particularly those working closely with the private sector, into independent entities to transferring the responsibility for one or more laboratories to another agency, whose responsibilities and mission are closely aligned with those of a local DOE laboratory.

CONSIDERATIONS IN CHANGING DOE MISSIONS

As a starting point, the following series of questions could be addressed:

- Which missions should be eliminated because they are no longer a valid government function?
- For those missions that are inherently governmental, what organizational arrangement would be best suited to achieving these missions?
- Could the private sector perform some of these missions better?

Deciding on the best place to manage DOE missions involves assessing the advantages and disadvantages of various structures, on the basis of their potential for achieving the missions and gaining efficiency. Potential efficiency gains from moving parts of DOE to other agencies need to be balanced against the policy

reasons that led to the original structure. Moving DOE missions to other federal entities--such as assigning the weapons complex to the Defense Department--will clearly affect the missions of the "gaining" agency. In addition, some DOE missions--in science education, technology competitiveness, and environmental waste for example--might best be combined with missions from other agencies.

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This concludes my prepared statement, Mr. Chairman. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

RELATED GAO PRODUCTS

The Department of Energy Is Making Efforts to Control Litigation Costs (GAO/RCED-95-36, Nov. 22, 1994).

Nuclear Health and Safety: Hanford Tank Farm Maintenance Program --Progress and Problems (GAO/RCED-95-29, Nov. 8, 1994).

Energy Management: Department of Energy's Efforts to Manage Overtime Costs Have Been Limited (GAO/RCED-94-282, Sept. 27, 1994).

Nuclear Waste: Comprehensive Review of the Disposal Program Is Needed (GAO/RCED-94-299, Sept. 27, 1994).

Energy Policy: Ranking Options to Improve the Readiness of and Expand the Strategic Petroleum Reserve (GAO/RCED-94-259, Aug. 18, 1994).

Department of Energy: Management Changes Needed to Expand Use of Innovative Cleanup Technologies: (GAO/RCED-94-205, Aug. 10, 1994).

Tighter Controls Needed Over the Department of Energy's Outside Litigation Costs (GAO/T-RCED-94-264, July 13, 1994).

Energy Management: Use of Uncosted Balances to Meet Budget Needs (GAO/RCED-94-232FS, June 6, 1994).

Fossil Fuels: Lessons Learned in DOE's Clean Coal Technology Program (GAO/RCED-94-174, May 26, 1994).

Naval Petroleum Reserve: Limited Opportunities Exist to Increase Revenues From Oil Sales in California (GAO/RCED-94-126, May 5, 1994).

Department of Energy: Status of DOE's Property Management System (GAO/RCED-94-154FS, Apr. 7, 1994).

Department of Energy: Challenges to Implementing Contract Reform (GAO/RCED-94-150, Mar. 24, 1994).

Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77, Mar. 1, 1994).

DOE's National Laboratories: Adopting New Missions and Managing Effectively Pose Significant Challenges (GAO/T-RCED-94-113, Feb. 3, 1994).

DOE Management: Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled (GAO/RCED-94-27, Oct. 25, 1993).

Financial Management: Energy's Material Financial Management Weaknesses Require Corrective Action (GAO/AIMD-93-29, Sept. 30, 1993).

Department of Energy: Management Changes Require a Long-Term Commitment to Change (GAO/RCED-93-72, Aug. 31, 1993).

Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29, Apr. 27, 1993).

Nuclear Waste: Hanford's Well-Drilling Costs Can Be Reduced (GAO/RCED-93-71, Mar. 4, 1993).

Energy Management: High-Risk Area Requires Fundamental Change (GAO/T-RCED-93-7, Feb. 17, 1993).

High Risk Series: Department of Energy Contract Management (GAO/HR-93-9, Dec. 1992).

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53, Sept. 29, 1992).

Nuclear Weapons Complex: Issues Surrounding Consolidating Los Alamos and Livermore National Laboratories (GAO/RCED-92-98, Sept. 24, 1992).

UEC Cash Flow Projection (GAO/RCED-92-292R, Sept. 17, 1992).

Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165, Jun. 10, 1992).

Nuclear Waste: Development of Casks for Transporting Spent Fuel Needs Modification (GAO/RCED-92-56, Mar. 13, 1992).

Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program (GAO/RCED-92-17, Oct. 30, 1991).

Comments on Proposed Legislation to Restructure DOE's Uranium Enrichment Program (GAO/T-RCED-92-14, Oct. 29, 1991).

Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194, Sept. 24, 1991).

Changes Needed in DOE User-Fee Assessments (GAO/T-RCED-91-52, May 8, 1991).

Nuclear Security: Property Control Problems at DOE's Livermore Laboratory Continue (GAO/RCED-91-141, May 1991).

Comments on H.R. 2480, The Uranium Enrichment Reorganization Act (GAO/T-RCED-91-3, Oct. 11, 1990).

Comments on Smith Barney's Uranium Enrichment Analysis (GAO/TCED-90-101, July 31, 1990).

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65, Jun. 7, 1990).

Nuclear Security: DOE Oversight of Livermore's Property Management System Is Inadequate (GAO/RCED-90-122, Apr. 1990).

Naval Petroleum Reserve No. 1: Efforts to Sell the Reserve (GAO/RCED-88-198, July 1988).

Uranium Enrichment: Congressional Action Needed to Revitalize the Program (GAO/RCED/88-18, Oct. 17, 1987).

(170021)

Mr. MYERS. Well, thank you very much, Mr. Rezendes. At this time, the Chair will recognize Chairman Bevill. Do you have questions?

Mr. BEVILL. I have no questions at this time.

Mr. MYERS. Mr. Rogers.

Mr. ROGERS. Mr. Chairman, I don't have any questions. I do want to compliment all of the panel members for excellent testimony, and for giving us a point of view that we have not heard in some time, and perhaps ever.

Mr. MYERS. We have read about it.

Mr. ROGERS. But it is refreshing to get a perspective like you have given us today on the activities of this subcommittee, which is rather broad. And, Mr. Rezendes, I was particularly impressed with your presentation, both in writing and your verbal presentation.

But, are you telling us that you are going to get back with us with answers to those three questions that you have on page 6 of your testimony in more detail?

Mr. REZENDES. Yes. What we would like to do is, in our final report, come up with more criteria as to what kinds of elements, what kinds of things one needs to keep in mind as you go through and answer these three kinds of questions.

Mr. ROGERS. What you are saying is that the Department of Energy doesn't have any reason for existence?

Mr. REZENDES. Well, that—

Mr. ROGERS. Or ought not to have any reason.

Mr. REZENDES. Well, that would be a matter of focus. In fact, the whole notion of whether you need a Cabinet level office to do anything is not so much from the efficiencies that one gets from having these various pieces together, the management efficiencies, particularly the Department of Energy since each one of these pieces are so diverse, from producing nuclear weapons, cleaning up sites, to energy policy.

The efficiency gains aren't really the main reason. The real reason you have a Cabinet level office is for thrust. It is for basically a focus, what is the mission in terms of what kind of message do we want to tell the Nation or the rest of the departments that are in line within the Department of Energy as to what the priorities are in terms of what we want to achieve from that Cabinet level office.

Mr. ROGERS. And the laboratories that you mentioned, the DOE labs, in your opinion, should any of those or all of those remain in place?

Mr. REZENDES. That is really difficult to say. We looked, in fact we looked at the major, the nine multi-labs, which are certainly the big ones, as well as a while back we looked very heavily at the duplication at the three nuclear weapons labs, Lawrence Livermore, Sandia, and Los Alamos. And there is duplication.

But that duplication was put in there by design. It was because there is no private industry for producing nuclear weapons, and you don't want to put all your eggs in one basket in terms of design, you want to be able to have it critiqued. So obviously that is why Livermore was established.

So there is that competitiveness, albeit closed within the DOE system, that exists there. We identified, and in fact I have testified a while back, that there were other options to getting that competitiveness that you were looking for in design. For example, using the French or the British in terms—or other allies, in terms of looking at designs. There are ways to do that.

But the real question here is we have a lot of very bright people at these national laboratories. The real question is what do we want to achieve as a Nation with these resources. And then once you do that, then it is easier for someone like GAO to come in and tell you you have duplication, here is an organizational structure that is more conducive to carrying out that, or various options of either privatizing or creating like Midas corporations or various other kinds of things to achieve those. But first thing we need to decide is what are the missions, what do we really want to achieve from these national laboratories.

Mr. ROGERS. Well, I thank you for your testimony. We look forward to hearing more from you.

Mr. REZENDES. Thank you.

Mr. MYERS. Thank you.

Mr. Fazio.

Mr. FAZIO. Thank you, Mr. Chairman. I apologize to the gentlemen who I did not have a chance to listen to. And I may be, in my questions, going over some territory that has been covered, but I am going to give you a chance to improve on your presentation, I guess, if it comes to that.

I wanted to ask about the cleanup of our nuclear weapons complex. I think, by the way, the GAO has been on the cutting edge of continually ratcheting up these estimates. And they are mind-boggling. When you think of what this committee appropriates each year and you think of a \$300 billion current estimate of cost to clean up, it sort of dwarfs all of the debate over water policy and other matters that are very important to this committee, but minor in the total budgetary sense.

I am looking for some discussion of how we could most effectively accomplish this. We have no good examples, I am afraid to say, in cleanup of waste facilities at the moment in any area. We are going to revisit some of the laws that affect the private sector in the Energy and Commerce Committee this year, but who knows whether we are doing much more than spending money on consultants and lawyers.

I am hoping that somebody can give us some good ideas about how we might do a more effective job. Not just cost effective, but also in terms of our real mission here, to give the public some assurance that we have done the basic job. What models could we have you throw before us? Not to say that I would be readily willing to accept them all, but I would like to hear some diverse points of view on what this committee might do to better address the cleanup of these complexes, which continue to be out there for us, this committee, to deal with, regardless of what department they are assigned to or whose responsibility they fall under.

Mr. SMITH. Well, let me start possibly. This is part of the general question of hazardous waste cleanups and the Superfund problem

broadly. These are government Superfund sites, but they are all the same problem.

We created a concept of cleanup that has, as I said, no stopping rules. We have never answered the question what it is we are trying to do, how clean is clean. And the monies were initially Federal and therefore everything was free, and in some ways we did create almost a pork barrel program that, as you point out, dwarfed the water waste programs in America.

The challenge of Superfund reform is to recognize that the risk involved in many of these cases have been vastly overstated. The EPA asking the wrong questions—a book that was done surveying EPA, or an internal survey of EPA, *Unfinished Business*, which tried to assess all of the projects that EPA was addressing in their terms of their contribution to human health and risks to the environment, rated Superfund programs very, very low.

The problem we face is that we created a public perception of massive risk to the public health and safety, and an objective evidence that doesn't seem to support that. And with free money, we have driven ourselves in a very wrong way. What I would suggest we do is move these into the private sector under a rule that allows liability to be transferred at the same time, to create a—and then to package this with Superfund reform where we can begin to realize that in many cases, as *The New York Times* pointed out, the best solution to some of these hazardous waste sites may be just to put a fence around them.

The idea of spending billions of dollars to dig holes to the center of the earth, clean the earth up, and then replant it is not likely to be a valuable way of advancing the health and safety of the United States. Superfund is a crazy program, and you shouldn't destroy your programs by spending money in this area unnecessarily.

Mr. TAYLOR. Let me agree with Mr. Smith. CATO has long published essays in our publication, *CATO Journal*, academic journal, as well as in *Regulation Magazine* and elsewhere that we publish, endorsing this idea of a reverse Dutch auction.

The idea here is that of course many of these properties have negative value. What we would simply do is put out bids and ask private companies that might be cleanup companies like Browning Ferris or Waste Management, it might be Clean Sites, it might be other innovators, or it might be other interests that would get involved here, to submit bids on how much government money it would take for them to assume responsibility for that site.

There would then be, instead of a one-size-fits-all cleanup regimen adopted by Federal bureaucrats, innovative thinking and ideas about alleviating responsibility. Perhaps one firm might require \$20 million, they would think that that would be enough to clean up the site and assume liability, responsibility. Others bid whatever.

The lowest bid gets the site and at a date certain, maybe six months or a year, they assume total liability, and any complaints about the site are handled in courts of law as a trespass against the facility. It is off the government books.

The advantage here is that, first of all, we move quickly on a lot of these sites. Right now, for example, the Superfund program, each site takes eight to ten years of legal wrangling before cleanup

even begins. The State of Wisconsin has cleaned up more sites than the entire Federal Government under the Superfund program, given their unique State approach to just move on this matter. And frankly, the \$300 billion estimate that has been cited here, is the most conservative estimate on the books.

This is like the S&L fiasco where the numbers keep going up. I have seen numbers as high as \$1.3 trillion of potential liability, and a number of \$1 trillion of liability echoed by, of all people, Jessica Matthews in *The Washington Post*, is by no means someone who is going to inflate this number for political purposes.

The idea that we need to burn the dirt to make sure children can't eat handfuls of it for seven years and never leave the site, frankly, the Federal taxpayer simply doesn't have \$1 trillion for that. And as Fred mentioned, perhaps on some sites, we can find innovative cleanup technologies. On others perhaps putting a fence around the facility and security guards is all we need to do. Perhaps we don't need to use the ground water in other sites. I mean it might be nice and there is certainly a sense on the part of many that we should clean up the messes that we make to the fullest extent so we never know man was there. Admirable thought. Send a \$1 trillion bill to the American taxpayer and see where it gets you. It is simply not realistic.

A reverse Dutch auction idea is nothing particularly new in the academic literature. It is something I think makes intuitive sense. At least we could try this idea out on a few sites to see exactly how satisfied we are with the process. But I think we would be surprised, we can move these sites quickly, get them off the books, deal faster with environmental problems, and deal efficiently with taxpayer money.

Mr. REZENDES. I have a comment, if you permit me.

Mr. MYERS. Sure, go ahead.

Mr. REZENDES. Basically what I think we are talking about is incentives. Where are the incentives, who is spending what money, who is making the tradeoffs about how that money is being spent?

I am not suggesting this, but to illustrate where we can talk about is incentives, suppose, for example, that we were able at any one site, let's say Hanford, Washington, that if we could conclude what the cleanup costs would be at Hanford and we were able to put a net present value on that, and suppose we put that in a trust fund and we turned it over to the States, locals, and the regulators and said here's the Federal contribution to clean that up, if you can do it faster, cheaper, or not do it at all and make the tradeoffs with risk, you can keep half of it, all of it, some of it or whatever. The real point here is the incentive and who is making the tradeoffs here.

And what you really need to keep in mind is not only can we do it cheaper and can we do it without following all the environmental regulations, but who is making those decisions as to who is to forego that level of cleanup. And unless it is the people who live in that community who are making that decision, then you are still not going to have a viable program.

Mr. FAZIO. That was my first concern. Obviously how clean is clean is often defined by the people to whom it matters.

Mr. REZENDES. And we do have other examples out there. For example, in the uranium trailings program, where the States contribute 10 percent of the cost of cleanup. That is hailed as a much more effective cleanup because they are coming to the table not as a victim but a partner, and they are making more rational decisions as to the level of cleanup or what should be cleaned up during—at that particular site.

Mr. FAZIO. Mr. Rezendes, under your example, though, there isn't any transfer of title; is that correct?

Mr. REZENDES. Oh, yes, there would be. I am not really holding that out as the solution here. But really to illustrate what the shifts in incentives that we need to decide—

Mr. FAZIO. Could you build in incentives? Obviously our contracting relationships have not been particularly good, but it seemed in the past most of the contracts provided no risk to the contractor and perhaps inherent problems ensued.

Mr. REZENDES. And they still do. That is exactly correct.

Mr. FAZIO. So I guess the first thought I had was what about a bankruptcy. I mean, aren't we ultimately going to resolve questions like that by taking control again here at the governmental level if the private sector couldn't make a success of it?

Mr. SMITH. Well, bankruptcy is a remedy in certain cases, but few companies rush into bankruptcy courts. And the example of even giving small control to communities, the City of Aspen, Colorado, in a nonmilitary Superfund site, with free Federal monies for the cleanup, nonetheless found the local disruption, the cost to the community, so high compared to what their assessment was of the risk, that they asked EPA to go away and leave them alone.

I think in most cases, your concern that local communities would make a more hysterical decision than the uninvolved parties around the Nation is probably not—well, it could be true. But in most cases I think it is not likely to be the case. Local communities know what is at stake if all the money that goes in the area goes in a hole in the ground rather than creating jobs and economic wealth for the people.

Most of the communities, I think, if given this opportunity or the Dutch auction or any of the things we are talking about, would make decisions much more suitable to local conditions, economic as well as ecological. We should certainly empower local people to have a role in this. EPA gives—I mean the current Superfund rules move decision powers as far away as possible from the people.

Mr. FAZIO. Thank you.

Mr. MYERS. Thank you, Vic.

Mr. Knollenberg.

Mr. KNOLLENBERG. Thank you, Mr. Chairman. I have just a quick question or two here for Mr. Smith, maybe, and Mr. Rezendes. Mr. Taylor, I think, mentioned the article that appeared in the Investors Business Daily.

One of the interesting things that is mentioned in the second page of your statement, Mr. Smith, has to do with what to kill first. I am not asking you to do our job here, but I noticed, Mr. Smith, you had a dirty dozen package.

If you were to start prioritizing the killing of these programs, where would you begin? And I don't mean to suggest that, again,

you have to do our job. But you must have given some thought to this, so there must be some order of process or priority in your mind as to what we might do. And I recognize you can't think politically, because those ramifications, the dynamics of that gets burdensome, but in the best way you can.

Mr. SMITH. But, Congressman, in this community everybody thinks politically. The problem is sometimes we think too politically. We are so aware of the difficulties of making some changes that it—we essentially pre-compromise before we have to.

I think the way one—you are going to produce a bill in your committees over these various jurisdictional items. I think what you need to do is try to create in each of the major program areas steps towards dismantling those particular programs or rethinking them.

We have talked a bit about the ecological restoration elements, the fast growing areas, and areas that are beginning to explode are the places probably to start. Because, you know, the old adage, before it grows, kill it in the nest type thing.

And programs that are exploding should be the starting points. Programs that are relatively static you can wait a while because those aren't as essential right now, they are not going to be growing very much. But certainly the areas where—the wetlands area where the government role is probably perceived as negatively as anything in America today. I mean I am from Louisiana, a State that virtually is a wetland, and the antagonism that the wetlands rules have created in my State are amazing.

And that is happening across the country. Programs that essentially—I don't think you should say immediately we are going to save a lot of money at this point. When you tear down an old building in the middle of a healthy city, you incur costs before you clear the ground and then restore economic viability.

There are going to be economic consequences of dismantling government. It is going to cost some money. But pulling out decayed programs, dealing out decayed teeth, is a starting point. The things, the dirty dozen are a good starting point. Those were meant to be areas we could move on immediately.

The areas that we have talked about today, the establishing a Dutch auction or asking GAO to conduct an evaluation of that, will take a few months. But then you will have a procedure on your hands that you can introduce with a few of the military facilities this year. You could start that in this Congress.

The other areas, I started out in—when I was at EPA, I was at EPA for five years, and I remember as I was—I came in as a knee jerk liberal to this town, as many people do. I was beginning to get a little cynical about government. In one moment I said we have got to cut this agency. A friend of mine said, yes, but be careful you don't cut the viable programs in the agency. At that time I said, Congressman, you could swing an ax in this agency for days and never hit live wood. There is a tendency to be too conservative. Let's start cutting. If the squeals are too loud, we will back away for political reasons, even if we don't do it for rational reasons.

Mr. KNOLLENBERG. But now you set up, Mr. Rezendes, a little bit of a system, I believe, by which considerations in changing the DOE could be evaluated. Would you like to comment on that?

Mr. REZENDES. Yes, I guess my message to you would be in looking at the Department of Energy, is that as you go about thinking about these roles and missions and moving or privatizing, I guess when we look at them, I guess my reaction would be most of these functions will continue, somehow, somewhere.

You have very little discretion in terms of maybe some of the R&D programs, some of the other kinds of things, but cleanup of the nuclear weapons complex will go on. Whether it should be a Department of Energy function or someplace else is another story. Producing nuclear warheads is a governmental function that must go on somewhere, somehow. Producing electricity, even in the Power Marketing Administration, is an activity, whether that needs to be privatized or it is more efficient in the government sector.

But my thrust is that while you—if you dismantle the Department of Energy, the lights won't go out and the workers won't go home. Somebody is going to be doing something somewhere across the country. The real question is what is the configuration and what is the best place to do this. And as you move, for example, take for example one of the common ones we hear a lot is moving the weapons complex to DOD. You need to take a heavy look. This needs to be part of the restructuring of the Federal Government. Because by moving that to DOD, you are having a major impact on their missions, on their roles, on their priorities.

The same thing with environmental protection, if you move the cleanup there. Each one of these is going to have major impact throughout. And you may want to take a serious look at, across the Federal Government, what kind of activities are similar or in kind that you want to extract and create some kind of separate organization or unit to deal with those.

But the other point I would mention, even if you could close some of these places down, for example, some of the weapons complexes, give the land back, some of the exit costs out of doing that may make it more costly than keeping them running in the short term. In the long term, it may be better.

Even in the Power Market Administration, which we have no objections to having Power Market Administration be a private entity. That is fine. But we also need to look clearly at what are the unfunded liabilities the Federal Government has at some of these. We have Federal employees at Bonneville Power who have never paid into their pension funds. We have unfunded pensions that we need to worry about.

We really need to take a real hard study in the details on each of these proposals to make sure it is in our best interest as we move forward. That is my only message.

Mr. KNOLLENBERG. Thank you. Thanks to the entire panel. I appreciate your testimony.

Mr. MYERS. Thank you, Joe. And, Mr. Chapman, I apologize for trying to take two terms away from you, but I am not going to be thinking of retirement either.

Mr. Chapman.

Mr. CHAPMAN. Mr. Chairman, thank you very much. I really don't have any specific questions other than I think that I concur in what the last speaker just said, that sometimes these decisions

that seem pretty simple may have consequences that are pretty difficult to deal with.

I would think that my personal view would be there is perhaps a more expansive role for the Federal Government in some of the activities and perhaps some of the gentlemen who have testified here today would concur.

As I was looking through the calendar and reminiscing about my terms on the committee and my role with the Superconducting-Supercollider, I cannot help but revisit the debates and the arguments. One of the world's most expensive R&D efforts or attempted efforts was the SSC.

I concur wholeheartedly that the way that developed, it was a terrible waste of resources. But at the same time, if in fact the power of that particular atom smasher would lead to developments yet unknown, I still cannot imagine either a private industry or consortium of private industries that could have undertaken that effort. We obviously didn't do it very well.

But I will remain convinced, I expect the rest of my life, that at some point that research should occur, and I hope I live to see it because the history of R&D, whether or not it is engaged in by the public or the private sector, chronicles and writes the history of the greatness of this country.

And I hope we don't ever—I hope we don't ever get away from it. I think that in this rush to downsize government and privatize everything, I would agree with the gentleman from GAO, I think we need to be very, very careful that we don't destroy the initiative by destroying government, we don't destroy the initiative to do the things that have made the private sector the greatest in the world.

And I am curious to hear you gentlemen use the models that we ought to follow and the models are China and Russia and other countries that I am damn proud I don't live in.

So I appreciate your testimony and I think you have provided some creative thinking here that I think we really need. And I appreciate your approach to it and hope that you are a part of beginning something that, working together will improve this government and the lives of American people.

Mr. SMITH. One point about that. I think you raise some very interesting questions with how one advances the so-called public goods associated with especially basic R&D. And there is a tremendously interesting set of intellectual questions.

The problem is it is not so much that there is an easy answer, but that the Federal R&D establishment seems not to be working as well as we hoped it would after World War II.

But the general argument about worrying that we may be going too fast in the privatization and reducing the scope of government, at least as far as I know, the only thing that has been cut yet is a few of the committee staff positions. There is a tremendous—that is not all the American people wanted.

Let's see whether or not we can actually privatize a dam in the United States, allow any segment of the American inland waterways to be put into private hands, and all the other things that we have suggested. We can worry if by this time next year half of the Department of Energy is in private hands, and if it happens, I may

come back and say you are going too fast. I hope I have that opportunity.

But until then the real risk is we are going to be bogged down in business as usual and never taking the imaginative—the first thing you could do, this is something that just might make sense for the agency to do anyway, is to put out an open offer that anyone who thinks they can do what the government is now doing better, can come forward to your committee and present a proposal, and you will entertain it and consider it and have it evaluated by outside appraisers.

Because if we open the door to privatization, to creative entrepreneurial spirit and no one comes, well, then we maybe have to keep it in government. But as long as that door's locked, we don't know. And I think we have got to give the American people a chance to take back their government.

Mr. CHAPMAN. OK. Mr. Chairman, thank you. And I thank the gentlemen for their insightful testimony.

Mr. MYERS. Thank you, Jim. Well, look at it this way, we have one less lab now coming on the market than we would have had otherwise. Where did you learn to speak Mr. Smith? It wasn't Louisiana. You didn't finish a sentence a while ago. The dam what? You said privatize the dam. Dam what?

Mr. SMITH. Louisiana was the place I learned to speak. If you have ever heard Russell Long, you know he was very eloquent. But if you ever heard his uncle, Earl Long, speak, he was a very fast talking speaker, but he was a southerner. So not all southerners talk slow.

Mr. MYERS. He was fast on his feet, too, wasn't he?

Mr. SMITH. He was also one of the funniest politicians in the world's history if you ever heard him talk.

Mr. MYERS. He hasn't heard Bob Dole.

Mr. Riggs.

Mr. RIGGS. Mr. Chairman, again I apologize to the witnesses. Going back and forth between two simultaneous subcommittee hearings is a difficult thing to do.

Gentlemen, I am wondering, since I wasn't here for the testimony, I am wondering if we can establish as a rule of thumb whether it is good to get the Federal Government out of the R&D business.

And with respect to our mission here in terms of finding rescissions, or spending cuts in the current fiscal year, as well as preparing spending bills or appropriation bills for the upcoming fiscal year, whether we could use that as a general rule of thumb.

Mr. TAYLOR. I think absolutely, Congressman. If we are to judge whether we need to keep an undertaking of the government or whether we should protect it, it seems the first thing we do is look at the track record.

Forty years of Federal R&D spending on energy, \$90 billion put on this side of the scale, how much has been commercialized over here? If you see one-tenth of it, I would be shocked. Frankly, the academic literature is bereft of virtually any example of an important commercialized outcome of energy R&D that wouldn't have either, A, been undertaken by the private sector anyway, demonstrably, or B, was worth a penny in the marketplace.

There might be some out there. I am not aware of it. It better come close to \$90 billion or any businessman in America would shut that sector down in his business. And frankly, the academic literature on this is real clear, big giant hole in the ground. It is like shooting it into space. And this again is not simply a matter of left or right. The Brookings Institute has concluded this. Economists from all over America have written Ph.D.s on this matter and found exactly the same.

And as I said in my testimony, there are very good reasons for that. People make profits in this country by producing new technologies, new devices that allow them to corner markets for some time before their competitors catch up. There is every incentive to invest in good ideas.

But what happens far too often is someone who can't raise money in the private sector for an undertaking, probably for pretty good reason, but of course it is his heart's content to try this or that undertaking out, comes and peddles this stuff to you folks. And the kind of boondoggles in the Federal budget that passed on this matter, like syn fuels, just are staggering.

Frankly, if you are going to maintain that the Federal Government has any business in this, you have to answer affirmatively the following questions: Who is most careful and most disciplined with money? Private sector individuals who own that money or public officials who spend other people's money?

And after looking at the record of the government, not only in the Federal energy R&D area, but in all areas, the S&L and everything else, I think that is an answer that is pretty obvious. And I would say no.

Mr. SMITH. You might want to have some hearings on this specific sub-point, and there are some people more expert than anyone in this panel. Nathan Rosenberg, a professor at Stanford University, has spent his life, he is not right or left, he's just an analyst, looking at the ways in which research becomes reality. And it is often very complicated.

One example is the transformation of steel making from charcoal to coke. That process was very complicated, it took many, many years, because coal was a very varying substance. There were different chemicals in it. Charcoal was a very pure substance. But once you moved to a purified coal, the coke, you were able to move the steel industry into a whole new level of scale because now you were able to bear the weight of the ore on these very durable coke bricks rather than the very fragile charcoal bricks.

But his argument has always been that the difference between basic research and applied research is extremely complicated and requires pulling, the marketplace pulling ideas out of the scientific community, not just pushing.

Most government R&D efforts have been to say let's fund good research and magical things will happen. Well, they don't. You need to have someone continuously saying how can I make a buck out of it. And the genius of the capitalist system is it has lots and lots of people always thinking, gee, I wonder what I could use this for, what it might be good for. It is very hard to create that richness of incentives in a bureaucracy, even in a government bureaucracy, especially.

Mr. HODGE. We often tend to look at this as only a one-sided equation. We see that Federal dollars disappear and we figure that the projects disappear or the opportunities disappear. And it really isn't so.

A lot of articles have been published recently looking at universities, both public and private. And what has been happening as Federal research dollars have been dwindling in real terms over recent years, is that the university is becoming very entrepreneurial and reaching out to the corporate sector, the business sector, and creating some very strong partnerships.

And so now what we are seeing is that corporate and private dollars in research funding with universities is beginning to exceed that of Federal dollars. So you know the opportunity is there. So when the Federal Government begins to pull back out of this, it doesn't necessarily mean that the research will disappear. It could create a vacuum that will allow private monies and capital to come flowing in, perhaps much more efficiently, producing better outcomes as a result.

It will actually improve, I think, university research and other laboratory research, because it will force them to work with a very efficient, very dollar-oriented private sector. That will produce eventually better outcomes for the economy.

Mr. RIGGS. I know we are under the five-minute rule, so I want to ask just a follow-up if I can to that. We have heard a lot of political rhetoric in recent weeks, most of it coming from the other side of the aisle, that I think has some substance, and that is this notion of corporate welfare.

And I would like you to know that I for one am very interested in hearing from you with regard to that, since I think a lot of that largess can be directly traced back, perhaps, to this subcommittee. I would like to know specifically from you what we can do on a programmatic line item basis to get at some of that corporate welfare and target it in both our rescission efforts and in our 1996 appropriation bills.

Mr. HODGE. Well, sure. Mr. Livingston had it best. He has the line item veto in this town. And use it. And we would be delighted to sit down and walk through the reports and the bills. It is not hard to find and, you know, I just turned to the index and find, you know, energy research and other research, zero it out.

If it didn't exist yesterday, this would be the first rule, if it didn't exist yesterday, it shouldn't exist today. Or if it didn't exist last year, it shouldn't exist today. Then we will start working backwards through things that are least important. And I think the list would be long and the savings would be large because I think we can start working through this budget quite hastily between the four of us and come up with some very big savings.

Mr. SMITH. One of the areas where I think—you asked a good question. One of the things is when rents go up in New York City, sometimes the tenants decide they would rather be landowners. One of the things you might want to do is to systematically start raising what are our user fees by segment, raising power marketing fees by price, but always allowing the people to say, look, at any time in this game if you want to go private, I think if we systematically started raising the perceived subsidy—let's start with

the corporations, and then let them at any point come in and take over those functions.

Waterways I think would be vastly better managed if they were run by the barge industry, because then they would be dredging efficiently, they would be operating these canal systems under rules that would avoid some of the congestion.

I was the Senior Research Economist at the Association American of Railroads for a number of years. The railroads are carrying vastly more ton miles of freight on vastly fewer miles of trackage because they spent lots of time and energy learning how to move traffic more efficiently and in more efficient configurations. The waterway users can do the same thing if they controlled their right of way. The way to do it is let them own it.

Mr. TAYLOR. I would have to agree. And I think that besides energy R&D, which again, if it is worthwhile doing, then private sector individuals should do it, that should be the test. All of that R&D budget I would call a corporate subsidy and zero out.

We don't spend R&D money for a lot of other industries. Why pick energy? Simply because it has clout in Washington, that is why. And that ought to stop and Bob Reich was right about that. But the Power Marketing Administration also represents corporate subsidies to a large degree.

Most of the support—in fact, over lunch today I was talking to a former economist at the U.S. Chamber of Commerce. He was talking to me about his old war stories when he was there. And he mentioned that when he gave a talk during some testimony about privatizing the power marketing administrations, he caught unshirted anger from his members who were in the areas which benefit by two and three kilowatt hour electricity, and that this is the sort of thing that cost him almost his job.

The bottom line is the biggest defenders of these programs are those companies that live and die by those low, low, low rates. They are being paid for by the American taxpayer. They are completely indefensible, except as a matter of political buy-off and pork barrel.

Mr. SMITH. Congressman Chapman originally said he wouldn't want to live in Russia. The Russian distortion of energy prices in many ways is even worse than the United States. It has the most aluminum and titanium intensive economy in the world. Why? Because they copied our model of EPA TVA dams. They built these massive electro-generating facilities, but they didn't have a consumer sector to absorb the electricity. So the only thing they could do was put in aluminum plants to soak up the all the electricity. Then they had to figure something to use it for. So their planes use more aluminum and they built a titanium submarine, remember? Nobody could figure out why. They had nothing else to do with it. They had no civilian economy.

The argument is we have put in in the northwest part of the United States an aluminum facility which benefits from cheap electricity. Cheap electricity to them, not to the U.S. taxpayer. The monies that your committee now has to appropriate to cover the bad loans that BPA put out are coming back to play a game in misallocating credit in America, and they are a form of corporate welfare. Cutting the rich off, and this is a advantage that you will

have with your Democratic colleagues, I think, and working with Bob Reich. Bob Reich laid out the gauntlet, he said, let's look to end corporate subsidies as well as the other welfare subsidies in America. He is right. This is a win/win situation. Let's go for it.

Mr. HODGE. I think maybe one last point, as you begin scouring the budget looking for spending cuts, be very, very careful of the labels of the programs. The names of the programs are extremely deceptive. Here is a very good example. This shows you how programs can reinvent themselves over the generations. There is a little thing down in Muscle Shoals called the National Fertilizer Development Center, which now calls itself the TVA Energy Research—or Environmental Research Center. It was started in World War I to produce bombs for World War I. It missed the war effort and it was then turned into a fertilizer plant. And for the last 65 or 70 years it has been giving away free fertilizer to the \$9 billion a year fertilizer industry. It is now—its job is obviously done, so it is now chasing environmental dollars, and so it changed its name to the TVA Environmental Research Center. It is basically studying how to clean itself up.

So be very careful when you see a name, it is extremely deceptive because they are not what they appear. And I would put that first on my list just because it is funny to cut out of the Federal budget.

Mr. RIGGS. Thank you, Mr. Chairman.

Mr. MYERS. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Mr. Chairman, I know the hour is growing late.

Mr. MYERS. Take your time.

Mr. FRELINGHUYSEN. I have learned a lot through this process. I just had a general comment. The gentleman from the General Accounting Office, on page 6 of his testimony, said that a series of questions could be addressed when considering changes in DOE's mission. To a certain extent these are questions that could have been addressed in previous years, aren't they?

Mr. REZENDES. Oh, yes.

Mr. FRELINGHUYSEN. And were these questions raised in previous years?

Mr. REZENDES. No. And I think—no, you are right. And I think the reason I am saying this is an appropriate time now to do this is because looking at DOE's missions compared to what they were when they first started, they have changed drastically.

So it is a good opportunity to sit back and say is this when the—if we were creating a Department of Energy today, is this the configuration of missions and roles that we would want in a Cabinet level office?

Mr. FRELINGHUYSEN. A lot of the questions that you have raised here have been answered by the gentlemen that sit with you at the table. And I wonder to what extent the GAO would take the opportunity to review the testimony that has been given by representatives at the table to see to what extent those suggestions have validity.

Mr. REZENDES. Well, it depends on what you want to achieve. For example, I mean we just had a discussion here in R&D, that R&D could be cut. It all depends on what you want the mission to

be, or what market failure you are looking at for the Federal Government to step in and to resolve.

For example, I think the closer we get to high energy research, basic research, nuclear weapons research, probably the closer the answer is, yes, we need a Federal role there. Maybe the closer you get to energy technologies and tech transfer, maybe not.

But when you—somehow you need to have something in your head as to what you want to achieve, what you want to achieve as a Nation, what kind of role and missions you want accomplished or what kind of market failure you are looking at. Say, for example, take this even a step further if I can, looking at the defense. I think there would be—we could get a stronger consensus that having nuclear weapons and having a research base to do that is a legitimate government function and one we would probably want to do.

Then the next question we have to ask ourselves is what kind of infrastructure do you need to do that? What kind of costs, skills, and abilities from scientists and engineers and nuclear physicists, what kind of collection of those do you need to do that? And you may be surprised, or you may be pleasantly surprised that it may be few or it may be a lot.

And once you have that infrastructure there with skills and abilities, then you can move on. And then you can decide, well, do we need three national labs devoted to this, do we need one, do we need two? Are there other ways to do that?

Mr. FRELINGHUYSEN. Well, some of the gentlemen with you have testified and given, I think, some pretty good ideas for us to consider. Now whose responsibility is it besides the people on this panel? Does the GAO have a responsibility to evaluate whether some of the ideas that have been put forward today have some credibility?

Mr. REZENDES. We make our living doing evaluations like that. In fact on the Uranium Enrichment Corporation, we have been advocating government privatization of that, we have been required to review the privatization report plan which was expected to come out in June or July. We do that routinely.

I don't want to put GAO in the position of—we work for Congress, we work for mostly, but limited resources we have, for committee Chairmen, to evaluate what they need as an information source. I don't want to evaluate every proposal from every think tank that is out there. But to the extent that we can be helpful, we would be delighted to give our thoughts on that.

Mr. TAYLOR. If I can for just one moment. I don't want to beat up on my friends at GAO. I have a number of friends there and don't want to be unfair, but if you ask the GAO who are the top 40 energy analysts in the country who would be good for input in their report, and you ask virtually anybody else outside of Washington to compile a similar list, if there is three similar names on there, I would be shell-shocked.

Jimmy Carter was responsible for the worst energy fiasco this country has ever undertaken, the worst waste of taxpayer money. And he was asked, as someone who is a serious energy analyst, noneconomist. I am shocked. There are a number of people like this who GAO routinely turns to for energy commentary, and they are

not in the least representative, not just of my community, but of the academic community, that are conceded by all sides to be those individuals who are on the cutting edge of their energy research.

And for a moment, this stuff about market failure is kind of one of those galling presences of knowledge that we get to use in to Washington, D.C. We stop even recognizing its very existence. For example, the notion that, well, there is a market failure because maybe the private sector wouldn't have undertaken high-tech energy research.

Well, fellows, when we have an energy glut of historic portions, when electricity rates, the cost of generating electricity is lower than virtually ever before, when we have lower gas prices than 1972 or 1963, would a private sector individual be failing us by saying, gee, we have really got a lot of electricity, maybe it is not such a good idea to invest in finding newer expensive means by which to generate. For example, with advanced fusion research, they couldn't come on line until 2045 with about \$40 billion. That's not market failure, that is intelligent allocation of resources.

Only in Washington would we say, well, no, maybe we know better than they do how to invest money, maybe we know better than they do that this project is worth investing and this isn't. Only divorced from the marketplace can someone pretend to know that. And frankly it is worth flagging since it is an easy mistake to make.

Mr. CHAPMAN. Mr. Chairman, if I may interject myself here, I am having a difficult time staying quiet.

Mr. MYERS. Will you yield?

Mr. FRELINGHUYSEN. Yes, I yield, Mr. Chairman.

Mr. CHAPMAN. The gentlemen on this side of the table, though, get to cast votes on things like going to war, and we went to war not for naked aggression, but to protect the oil reserves in the Middle East. It puts a different spin on whether or not we ought to be doing energy R&D.

I happen to disagree with you I guess absolutely, totally. I think our national energy policy and energy R&D is as much national security as all the tanks and soldiers we have in the world. Someone said what we have done in oil and gas and other energy R&D has not made any sense. The technology and the enhanced oil recovery techniques that have produced hundreds of millions of barrels of oil domestically are the direct result of some of the Federal investment in energy R&D.

And I happen to believe that if you tack onto the cost of the oil that we import in this country, if you add to that cost the cost of the military that we have to keep in the Persian Gulf today to make damn sure the Straits of Hormuz are not closed and to make sure that Saddam Hussein is controlled, and make sure the Saudis can continue to produce that oil, that oil gets real expensive real quick.

And I just happen to believe that it is—it is fundamentally unfair to somehow suggest there is no appropriate Federal role in making those decisions and somehow we ought to turn all that over to the private sector, when the gentlemen that are behind this desk have to do things like debate and vote on sending hundreds of thousands of young men and women into harm's way just so we

can have those energy supplies, which right now may be cheap. The reason they are cheap is because we are spending hundreds of billions of dollars.

Mr. SMITH. Congressman, let me just try to express my—you are reframing this into your concern here. America does have an energy policy, but I don't think we have made it—

Mr. CHAPMAN. Let's import all our oil and gas, of course, we do.

Mr. SMITH. No, it is basically to make sure that nobody is allowed to produce oil and gas in the United States anymore. We basically have senior oil officials—Ken Durr of Chevron, at a bitter speech he gave, said we are investing abroad not because we want to, we are not leaving the United States, we have been exiled. We blocked the development of oil offshore in the United States. We block it in ANWR. We block the whole—and then we go out and try to spend money on high-cost energy facilities. One foot on the brake, one foot on the gas peddle, we are spinning in a spot.

If we want an energy policy that makes sense, let's look at it, but let's not jump out and say that because there is oil elsewhere in the world, that sometimes our interest requires to defend, or Congress thinks they do, that we have to rush out and do something foolish here at home. Two silly mistakes don't make one right.

Mr. CHAPMAN. Well, I don't disagree with you at all. Excuse me, Mr. Chairman, for taking this time. I would be one of those who in the decade I have spent in the Congress has been screaming that we ought to be a bit more thoughtful about our national energy policy. And it is for very parochial reasons. It is what we do back in Texas.

Mr. HODGE. You should be allowed to do it as well as possible.

Mr. CHAPMAN. But at the same time, I would disagree very much with some of the Federal policies that have prevented, perhaps, the logical and, I think quite frankly, the environmentally safe development of oil and gas reserves.

But I think it is impossible to divorce from those decisions in that policy an appropriate role for the Federal Government on the research side, which is what we are talking about.

Mr. TAYLOR. One brief note if I can about the example about the Persian Gulf. I want to remind the subcommittee that it was not Saddam Hussein who decided to quit selling us oil. We decided we didn't want to buy it anymore. Saddam Hussein was more than anxious to sell.

Why was that? Obviously, because his economy ground to a halt without oil revenue. Most of the OPEC members in the Middle East are in the same boat. The idea that they could sustain a long-term embargo and threaten our energy security frankly has no credibility on virtually any side of the national security apparatus.

The concerns are elsewhere and maybe they are well taken. We don't want Saddam Hussein to have a lot of oil revenues or what have you. Fine. But the idea that somehow our oil security is at risk, the amount of oil that we get in this country, at what price, is at risk because of Saddam Hussein or Middle Eastern instability, frankly is not what happened in the first place.

We were the ones who took that oil off the market. And the United States survived quite nicely without it for several months. After

the price spike, oil came down to about \$28, \$25 a barrel, and then it went down of course after the war.

Now are you telling me that it is important to have Americans able to make sure oil prices aren't \$10 more a barrel than they ought to be? I wouldn't agree and we opposed the war, by the way. But I don't think it is a good analogy.

Mr. MYERS. Brief comment, Mr. Smith?

Mr. SMITH. I just was trying to say, there are things we might want to do, if you want to look at them broadly, you were mentioning historical analogy of I guess it was Bruce of Scotland on the spiders at the beginning of your testimony. There was an example, Prince Henry the navigator of Portugal, who basically wanted to have some basic R&D done. We needed a new navigational device, nobody knew how to do it. He didn't fund a Portuguese R&D facility. He put out a prize. He said, listen, this is something we know we could use. Anyone who comes up with it, here is a prize, a large sum of money at the time. If we thought more creatively and said, look, if we want to do something, we still don't necessarily have to do it by creating bureaucrats to do it.

Mr. MYERS. Where did the Prince get his money, though?

Mr. SMITH. I agree, he got it out of taxpayers' dollars. That is a compromise statement on my part.

Mr. RIGGS. It is a different kind of subsidy.

Mr. MYERS. Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Thank you, Mr. Chairman. I am energized by the discussion. That doesn't mean I want to prolong it. But let me say, Mr. Chairman, that—

Mr. MYERS. That didn't come out of your time.

Mr. FRELINGHUYSEN. Thank you. I will sum up. The gentleman from the GAO said it is an ideal time to reevaluate the DOE and its missions. And from my point of view, being from a State where we abolished our Department of Energy, I think that a lot of what has been said by the gentlemen who are with you this afternoon does deserve our consideration because I don't think we are just here to reevaluate the DOE and its missions and do what is comfortable and traditionally safe.

I think we ought to take a look at some ideas that have somewhat, let's say, been out of general favor and consideration for any number of reasons. The four of you agree that it is an ideal time, and I don't think the GAO ought to take itself out of the loop in terms of looking at some ideas which have the appearance of being radical.

Mr. REZENDES. No, not at all.

Mr. FRELINGHUYSEN. I think you have to be part of the solution, no matter how radical the ideas may seem.

Mr. REZENDES. I would be delighted. I didn't mean to—

Mr. FRELINGHUYSEN. Thank you, Mr. Chairman.

Mr. MYERS. Did you want to finish?

Mr. REZENDES. Yes, I just did not mean to imply that we would not be delighted to.

Mr. MYERS. Well, thank you. I have two or three comments. Mr. Taylor, you speak about the selling of assets. Congress and this committee has given consideration to that and during the Reagan days, just a while ago, we did sell quite a few assets. The problem

was, they did not go to retire debt. They were added on to make the budget deficit look better.

And there is this rush today to balance the budget. You think Congress has any likelihood of applying the sale of those assets to reducing national debt, rather than to make the deficit look better. You reach the same point, but it really distorts the amount of money we are spending if we sell assets. As a businessman, every time I sold an asset, at least IRS didn't look at it that way. It has to be paid for in a different account.

So I quite agree that we are considering right now the sale of some of those assets, and some of them are not needed, no question about it. I might also say that, Mr. Smith, you described *laissez faire* when I went to school. You are not quite that old. But we used to talk about *laissez faire*, but most kids today I think don't know what it means. But the least government is the best government.

But on your page 2, it is interesting, you commented in the fourth paragraph, "My liberal and business friends have told me already that this election signifies only that one team has replaced another; the field and the game haven't changed. Politicians come and go but the bureaucracy lives forever." You just described term limits. I don't know whether you intended to do that, but that is exactly what happens with term limits.

I have been here long enough, the Chairman and I have, that it is not going to affect us, but that is one of the effects term limits might have. Bureaucracy goes on, and this committee has learned that bureaucrats come in here and they take advantage if they find out that you have inexperience up here. We have duplication of appropriations. You wouldn't wish that would happen, would you, by a bureaucrat or a Cabinet head? But it does happen. That is something we have to constantly guard against here.

As far as sale of the national labs is concerned, we have also looked at that. The problem is this: We have to listen to everyone. I tell each one of you, we have the utility industry come in, and we ask them why they are not doing this? With the tax structure today, they can't afford to. If I was CEO of a big utility, you think I would be looking at an advanced reactor or a new way of producing? They are operating these old generation stations that were designated 30 or 40 years ago to be terminated, but they can't build a new one because they can't afford due to the tax structure.

I don't disagree with what you have been recommending here, but you can't get industry to do the advanced research, especially in the area we do business in, the very expensive research with the unknown likelihood of success, unless you also change the tax structure.

So this is a problem we have today, if we are to continue to provide the energy that most of us take for granted. I am older than about anybody here. I can recall when we wired our house back in Indiana years ago. Are you from Louisiana, by the way?

Mr. SMITH. I was born in Mobile, but I was raised in Pearl River, yes, sir.

Mr. MYERS. Okay. But anyway, I can recall, we take it for granted today that we have electricity. But it took a lot of effort to get the electricity.

Mr. SMITH. Most of my neighbors didn't have electricity.

Mr. MYERS. But you didn't have indoor plumbing did you, either?
Mr. SMITH. We did.

Mr. MYERS. Oh, you are bragging now. But I think we quite agree that we maybe have more labs than we can afford. I don't think there is any question about that. It is something this committee is going to be looking at.

But we can't do it alone. The authorizing committee must look at that also. Some of your recommendations will take authorizations. But the labs, I quite agree, are doing some of the work that we just absolutely have to have, that would not be done without similarly changing the tax law so that the government shares in some of the risk, which we are not willing to do yet today. But we just can't change without the other, or our country will be losing even more opportunity to be competitive in the world.

So these are not questions that we can answer easily. Just changing missions from one agency to another, I don't know if that is going to save us any money. We have to take a look at it, but not necessarily does that indicate things can be done more effectively. That decision was made years ago when the Department of Energy was given the responsibility for nuclear warheads, nuclear weapons, because there is a corollary here between the civilian side of the research as well as the military side.

So there are benefits from both, and advantage to having one agency and not having duplication of research. There is some advantage to having DOE do the military weapons. But it is something we will have to look at and make that decision along with a lot of other things. But as I understand, you are going to have a report on the missions, recommendations?

Mr. REZENDES. Yes.

Mr. MYERS. How soon?

Mr. REZENDES. Probably within the next couple weeks.

Mr. MYERS. Well, would you please share with this committee?

Mr. REZENDES. Sure, be delighted.

Mr. MYERS. We are having a hearing on January 31st on that very issue, much of what you people talked about here today. We certainly appreciate your testimony, and suggestions about how we can do a better job with less people and less effort.

And many of you touched on that very effort and this committee is very vitally concerned about that. We have gotten the message, we have been concerned about it, but now we have some help to do the job.

I am not at all sure selling the assets is the answer, but we are going to look at it. I am not sure it would ever get past this administration, too, selling the assets. We have a problem, but no easy answers.

But in closing, I do want to thank each of you for giving us this two and a half hours this afternoon. It was very enlightening to us, and I want to thank the audience here for spending the time with us. You know, these issues and questions go on and we would like to hear from you.

We are not going to invite you to come and testify, but if you have some suggestions, some notions, send us a letter, send this

committee a letter, because we are looking for ways to be more efficient.

At this time, Mr. Chairman Bevill wants to have a question.

Mr. BEVILL. Thank you, Mr. Chairman. I will just make this brief. I appreciate the testimony each of you have presented. This is what we are looking for, suggestions, and we will look into this.

Frequently we ask the witnesses to give us a biographical sketch of your expertise in these various fields because we are going to be weighing all these things and looking at all your suggestions and we would appreciate it, if you have no objections. If you do, don't do it, but we would like to have that in the record, too.

Thank you.

Mr. MYERS. Okay. With no further questions, we thank you again for your testimony today and please keep us advised. I appreciate each of your efforts, I tell you. Thanks to all the witnesses. The committee will stand adjourned until January 31.

SUBCOMMITTEE ON FOREIGN OPERATIONS, EXPORT FINANCING, AND
RELATED PROGRAMS

SONNY CALLAHAN, Alabama, *Chairman*

JOHN EDWARD PORTER, Illinois
BOB LIVINGSTON, Louisiana
JIM LIGHTFOOT, Iowa
FRANK R. WOLF, Virginia
RON PACKARD, California
JOE KNOLLENBERG, Michigan
MICHAEL P. FORBES, New York
JIM BUNN, Oregon

CHARLES WILSON, Texas
SIDNEY R. YATES, Illinois
NANCY PELOSI, California
ESTEBAN EDWARD TORRES, California

NOTE: Under Committee Rules, Mr. Livingston, as Chairman of the Full Committee, and Mr. Obey, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

CHARLES FLICKNER, WILLIAM B. INGLEE, and JOHN SHANK, *Staff Assistants*,
LORI MAES, *Administrative Aide*

THURSDAY, JANUARY 26, 1995.

**FOREIGN OPERATIONS IN AN ERA OF BUDGET
REDUCTIONS: PART I**

WITNESSES

HON. MICKEY EDWARDS, FORMER MEMBER OF CONGRESS

HON. MATT McHUGH, FORMER MEMBER OF CONGRESS

CHAIRMAN'S OPENING STATEMENT

Mr. CALLAHAN. We are going to call this first meeting together this year and this is the first time I have utilized the gavel since I was a Democrat in the State Senate in Alabama. I am using the gavel that belonged to a close personal friend of mine in Alabama, Judge Bonner, who was a probate judge in Wilcox County. That is where I got the gavel in case you wanted to know, but we want to thank all of the committee Members and all of you for coming today.

This is the first meeting of our subcommittee. I think it is the earliest subcommittee meeting in recent years anyway, earliest with respect to number of weeks into the session, but we have got a bigger responsibility than we had in the past, at least our side has, to learn more about the process. I don't come into this process with a great reservoir of knowledge about foreign aid, foreign affairs, but fortunately with the help of what I consider the greatest subcommittee staff on the Hill, and with the help of my friend and colleague from Texas and the other Members of the subcommittee who have been very patient with me, we are learning the process.

And so our first meeting today is to begin that process and to inform you that we are going to start meetings on time, as we did today, that our meetings are going to be brief, that we are going to welcome our witnesses, such as former Congressman McHugh and former Congressman Edwards today. They have all the time in the world and that we really appreciate them coming.

So with that in mind, we are going to give you today, the Members of the committee, a proposed schedule of events for this coming year going through the budget cycle. I thought you all ought to have some guidelines as to which direction we are going to take, some time frame so you can plan your busy schedules and perform your other subcommittee work, so we are going to give you this today or give it to your staff so you can have a good idea of what we are going to do.

I have an opening statement, opening remarks, but I am not going to put you through that, as am I seldom going to put you through it during the committee process. I have never done a lot of that. I don't intend to do that. We encourage any Member of this subcommittee who wants to have an opening statement, not necessarily today, but in any of our meetings to do as they wish but let's not waste each other's time by reading a long lengthy statement unless we have a point to make, which I am sure you will adhere.

So I am going to close my official opening statement and yield to my good friend and colleague and a man that I am really going to lean on this year for his advice and his reservoir of knowledge, the gentleman from Texas, Mr. Wilson.

WELCOMING REMARKS

Mr. WILSON. Thank you very much, Mr. Chairman. I, too, will pass on giving an opening statement, other than to say that the Minority is very pleased that you are the Chairman. We are looking forward to a collegial and cooperative working situation. It is not only desirable that it be that way, but it is an absolute necessity, because I think this bill is going to be a very difficult bill to pass on the Floor this year, given our budget constraints and given our domestic situation.

I join you in welcoming Mr. McHugh and Mr. Edwards. I can think of several times in the past on the Floor, that the bill would not have passed without the leadership of those two, and without their ability to compromise and to see the other side.

The Minority is extremely pleased with the Majority's staff and we are absolutely delighted that Chairman Obey assigned us, Mr. Peel, for our side.

Mr. CALLAHAN. Well, we are delighted to have Mr. Peel too because as I told him in our first organizational meeting, that we are going to have to lean on his knowledge, too, which is vast.

Mr. WILSON. I hope we can take a bill to the full committee that will pass unanimously. I hope we can take a bill to the Floor that will pass.

Mr. CALLAHAN. I hope you are right.

Mr. Chairman, we welcome you to our first meeting of this subcommittee and I would offer the opportunity for any Member who wanted to have an opening statement to submit it to the record.

If the Chairman, however, would like to have a few minutes to express any views that he might wish to, we certainly at this point, Mr. Chairman, welcome you and thank you for attending our first meeting.

Mr. LIVINGSTON. Thank you so much, Mr. Chairman. I apologize for being a couple minutes late. I got delayed by a couple folks upstairs but I want to welcome our witnesses, Mr. McHugh, Mr. Edwards, great to have you back. Mr. McHugh and I had a chance to chat just the other day and it is most enjoyable and we wish you well at the World Bank. Mr. Edwards, I haven't seen you since you grew your beard. The jury is out on that, but we certainly welcome you.

Mr. EDWARDS. I would remind the Chair that mine looks better than yours did when you had one.

Mr. LIVINGSTON. Mine was considerably grayer than yours is.

Mr. KNOLLENBERG. That is the mark of academia.

Mr. LIVINGSTON. That is right. But all I can say to you, Mickey Edwards, our good friend, you left too early, but certainly you preceded me on this subcommittee and we are just tickled to death that you could come back and give us your ideas on how we can run a better world, both of you.

This is a different world. I think the market has changed in the last few months since the November elections and now that we are growing accustomed to our new roles in life on both sides of the aisle, we have to feel our way—

Mr. YATES. Temporary.

Mr. LIVINGSTON. On-the-job training. We are going to make mistakes but we hope to also learn by whatever mistakes we have made in the past, build on it and to run an effective foreign policy based on common sense and wisdom, and that is a tall order.

We look to both of you for your input on how exactly we could do that. Many people criticize the foreign aid program, and we who have dealt with these issues know that it goes far to aiding people who are truly in need, who simply have no alternatives, no where else to turn, but that it also lends credence to the American foreign policy, American strategic interests and political interests throughout the world. So there is a true purpose in having a viable foreign policy and a viable foreign aid program, if it is utilized with discretion and wisdom.

AGE OF CUTBACKS

I might add, though, this also is an age of cutbacks. The American people I think have spoken loudly that they believe it is time, it is high time that the taxpayers be given some relief and that government start to live within its means, start to live more or less on a diet which every American family has to, and we just can't have everything we wish for, and if we are going to avoid a catastrophe such as happened to the Mexican citizens a few weeks ago when they woke up and found themselves considerably poorer than they were before they went to bed with the fall of the peso, we have to start living within our means. We have to start balancing our budget. We have to stop borrowing against the future and piling debt upon debt on the shoulders of our children and our grand-

children, and that means that the foreign aid program is going to have to take its knocks as well as any other program.

So with that admonition, I just want to say, Mr. Chairman, I congratulate you.

Is this the first formal hearing?

Mr. CALLAHAN. This is the first formal hearing.

Mr. LIVINGSTON. Well, I congratulate you on your assumption of this post. I look forward to working closely with you and thank you for giving me this opportunity to make a couple of comments.

Mr. CALLAHAN. Thank you for giving me this opportunity. I want to remark to Mickey Edwards, if Mickey had stayed, Mr. Chairman, I wouldn't be sitting here, so, Mickey—

Mr. EDWARDS. Glad to do it, Sonny.

Mr. CALLAHAN. I see you here—I am here looking at you today with mixed emotions, but let me start off by saying that both Mr. Edwards and Mr. McHugh are here today in a personal capacity. They are not here in a professional capacity, although they bring a lot of professional data with them. They are here expressing their own personal views and the reason we chose or selected them to come to this particular meeting was to sort of give us a foreign aid lesson 101, because many of us are relatively new to this process and what we wanted you both to do today was to come to us and give us an indication of whether we are going in the right direction or whether the administration is going in the right direction or the wrong direction and if there is anything that you can remember that came up during your tenure here in the Congress that could be beneficial to us or some direction you think we ought to take, we would welcome that advice.

I have a resume of both of our former colleagues and they are long, but both of them are well respected individuals now in private life but they were tremendously respected when they served here in the Congress. Both of them on this subcommittee, both of them well respected, and people that we went to to solicit their advice as to how we should vote on any particular issue, and their research, in the area of foreign aid.

Mickey, we are going to recognize you first to say anything you want and then we will recognize Matt and he can say anything and then we will open it up to the committee for questions.

MR. EDWARD'S OPENING STATEMENT

Mr. EDWARDS. Great. Mr. Chairman, I have a prepared statement but I will just read parts of it, not all of it.

But I do want to say that having been the Ranking Minority member, Charlie, I know how you feel, but I want to tell you, I have waited a very long time to be able to call somebody from my own party Mr. Chairman. It is a delight, you know, for both you, Sonny, and for Bob. I am very pleased. It made me very proud after seeing what you have done, and not just taking the Majority, but the way you have conducted yourselves in moving into those new responsibilities, and I have been—it has been a great pleasure to me.

In response to your concern, Sonny, I don't want to trade places. I did 16 years of it and I am very happy teaching now instead.

NO CONSTITUENCY FOR FOREIGN AID

I found during my years in Congress, as you all have found, that there is no constituency in this country for foreign aid, or not a very large constituency for foreign aid, and most Americans would tend to argue rather forcefully that what we should do is take care of our own problems in this country first. Our foreign policy should be concerned primarily, and I think many people would say solely, with our own national interest.

That is a very easy thing to say. Take care of ourselves first, and while as you all know I do favor using America's resources to promote democracy throughout the world rather than merely to enjoy it, I know that as Representatives of the American people who elected you, it is your primary responsibility to take care of American interests first, and the problem that you have to wrestle with is how to define what is the American interest, and it is a matter of allocating your resources between what appears to be urgent for the moment and the imperatives of the future for the national security.

PROMOTING AMERICAN SECURITY AND PROSPERITY

If our foreign policy is based on the belief that we want above all to preserve peace in the sense of avoiding a conflict that will cause the loss of American lives and that we want international prosperity in the sense that we want people in other parts of the world to be able to buy American products and we want international stability so we don't have an accumulation of power by a country that could pose a threat to the United States, then we have to react not only to the immediate problems that get the headlines, but we also have to act as well to help keep the peace in places that are far from our own shores. We have to encourage the prosperity of people who could form markets for our own goods, we have to ensure respect for human rights around the world in order to make unnecessary the political revolutions that topple governments and then throw the world into turmoil.

If we are to take seriously the responsibility of promoting American security and prosperity in the future as well as today, then American foreign policy and American foreign aid has to be aggressive and proactive. There is a lot of American money wasted on foreign aid programs, I know that, that are not productive. We spend money to shore up—or have in the past, to shore up governments that are hostile to the American people and our interests and they were repressive to their own people, and those expenditures never should have been made. They were worse than wasteful, they were counterproductive, and along that line, I take great pride in the fact that I played a part in making very substantial reductions in foreign aid expenditures during the years when I was the Ranking Republican on this subcommittee and reduced foreign aid spending by billions of dollars during that time.

But I would argue to you that there is a difference between trimming and slashing and the difference is not the amount. You can trim a budget by \$4 billion or you can slash it by \$4 billion. And if you slash it, you just start cutting willy-nilly and whatever is left standing is what your foreign policy is, and it seems to me that

while there are some foreign assistance programs that should not only be trimmed but eliminated altogether, there are also some that probably need to be strengthened and expanded.

If I can address myself to my Republican colleagues first, because it took a lot of work, Mr. Chairman, over the years for me to line up Republican support for a foreign aid bill. There was a natural reluctance on my side of the aisle to support foreign aid, but I would point out that the money we spent to prevent the spread of the pro-Soviet forces in Central America or indirectly to block the Soviet invasion of Afghanistan could well be justified not as helping other people through but as a long-term investment in the United States. President Reagan's Caribbean basin mission was an investment not just in the Caribbean but in strengthening the economy of the United States, and when we use our resources to help poorer nations protect the world's environment or stop the flow of drugs, we are investing in the well-being of the American people, not just people in other countries.

That doesn't mean that I am ready to embrace a massive foreign aid program. I regret that over the years we have put money in the pockets of dictators and oppressors, we sustained tyrants, we indirectly subsidized repression and torture, we enriched people who did not believe in freedom or human rights or free enterprise. We were often supportive of governments that were collaborators, willing or not, in the expansion of a Soviet Union that was in fact at one time an evil empire. So I would argue to you, looking for a general policy, it should be America's policy to resist tyranny either of the right or left, to create a world of freedom, stability and prosperity, and that means a proactive and an aggressive foreign aid program. We can do it because our hearts are good or we can do it because it is an investment in our security and prosperity 5, 10 or 20 years in the future.

MANDATE FOR SUBSTANTIAL REDUCTIONS

You have a mandate from the people and from the leadership to make substantial reductions. I think you have to do that, but it can be done differently. I personally would urge this committee to seriously consider reducing America's participation in multilateral aid programs over which we have very little control and emphasize instead a foreign policy supported by direct bilateral programs and making maximum use of private voluntary organizations. I urge the committee to focus its attention on efforts to do those things that will help Americans, to improve the environment, stop the flow of drugs, spread democracy and human rights.

Those of you who are on this committee have actually an opportunity that people on the other subcommittees don't have, because by exercising deliberation and judgment rather than just embracing the blandishments of all those people who say, cut foreign aid everywhere, cut the foreign aid budget and we will balance the budget, at least as my constituents would, but you have the opportunity to do more than almost anybody else, not only to provide savings in the Federal budget, but also to do those kinds of things that are going to make the world safer, that are going to make the world more prosperous. So I would be glad to answer questions after Matt speaks, but I want to thank you again for allowing me

to, one more time, share in the work of this committee. It is a very difficult job and I wish you great success at it.

Mr. CALLAHAN. Thank you, Mickey.

[The information follows:]

TESTIMONY BEFORE THE SUBCOMMITTEE
ON FOREIGN OPERATIONS
THE APPROPRIATIONS COMMITTEE
HOUSE OF REPRESENTATIVES

JANUARY 26 1995

MICKEY EDWARDS
HARVARD UNIVERSITY

MICKEY EDWARDS
SUBCOMMITTEE ON FOREIGN OPERATIONS
PAGE ONE

Thank you, Mr. Chairman.

My name is Mickey Edwards. It was my great honor to serve as a member of the House of Representatives for 16 years, to serve as a member of this subcommittee for 12 years, and to serve as the ranking Republican on this subcommittee.

I welcome the opportunity to share again with this committee my thoughts regarding American foreign policy and the role of the foreign assistance program in effecting that policy. And I want to say to you, personally, Mr. Chairman, that I appreciate very much your generosity and the generosity of your colleagues in allowing me to take part once again in the important work of this committee.

I found during my years in Congress that there is no great constituency in this country for foreign aid. I think it's fair to say that most Americans would argue quite forcefully that we should

MICKEY EDWARDS/2

take care of our own problems in this country first, and that our foreign policy should be concerned primarily, and perhaps solely, with our own national interest.

That is certainly easy to say. And while I do favor the use of America's resources to promote the cause of democracy throughout the world, I too believe that as representatives of the American people, it is your primary responsibility to serve American interests first.

The problem with which this subcommittee must wrestle is how to define American interests. Like a family allocating its resources, a balance must be found between the urgency of the moment and the imperatives of the future.

If America's foreign policy is based on the belief that we want above all to preserve peace, at least in the sense of avoiding any conflict that involves the possible loss of American lives; and that we want international prosperity, at least in the sense that

MICKEY EDWARDS/3

we want peoples in other parts of the world to buy American products and thereby help keep American workers working; and that we want international stability, at least in the sense that we want to prevent the accumulation of power by any nation that might ultimately pose a threat to this country, then we must react not only to the immediacy of the problems that most attract public attention, but we must act as well to help keep the peace in places far from our own shores, we must encourage the prosperity of peoples who may form markets for our goods, and we must ensure respect for human rights in order to make unnecessary the political revolutions that topple governments and throw the world into turmoil.

If we are to take seriously the responsibility of promoting American security and prosperity in the future as well as today, then American foreign policy and American aid policy must be aggressive and proactive. There is a great deal of American money

MICKEY EDWARDS/4

wasted on foreign aid programs that are not productive or that serve to shore up governments that are hostile to American interests or repressive to their own people. Those expenditures are worse than wasteful; they are counter-productive.

I took great pride in the part I played in making substantial reductions in American foreign aid expenditures during the years when I served as the ranking Republican member of this subcommittee. During that time, we succeeded in reducing foreign aid spending by billions of dollars.

But there is a difference between trimming and slashing and the difference is not the amount. One may trim a budget by four billion dollars or one may slash a budget by four billion dollars. A slasher flails away until a sufficient amount of a budget has been lopped off, and what remains standing becomes American foreign policy. The fact is, some assistance programs should be trimmed, others should be eliminated altogether, while others should be

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increased, not reduced.

Because my colleagues on the Democratic side of the aisle tended to be more supportive of foreign aid over the years, I will address myself to my fellow Republicans by pointing out that the money we spent to prevent the spread of pro-Soviet forces in Central America or, less visibly and less directly, to block the Soviet invasion of Afghanistan, could well be justified as a long-term investment in the security of the United States. President Reagan's Caribbean Basin Initiative was an investment not just in the Caribbean, but in strengthening the economy of the United States.

When we use our resources to help poorer nations protect the world's environment, or to stop the flow of drugs, we are investing in the well-being of the American people.

By saying all of these things I do not mean to embrace a massive foreign aid program. Over the years we have wasted not

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millions but billions of taxpayer dollars. We have put money in the pockets of dictators and oppressors. In the name of realpolitik, we have sustained tyrants and indirectly subsidized repression and torture. We have enriched people who did not believe in freedom, did not believe in human rights, did not believe in free enterprise, and were willing or ancillary collaborators in the expansion of a Soviet Union that was, in fact, at one time an evil empire.

It should be America's policy to resist tyranny of either the left or the right; to create a world of freedom, stability, and prosperity. We can do this because our hearts are good or we can do it because it is an investment in the security and prosperity of an America five, ten, or twenty years in the future. I urge this committee to take seriously its mandate both from the American people and from the Republican leadership to make substantial reductions in the money we put into overseas programs, and to

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reduce our support of mismanaged agencies, whether national or international.

I urge the committee to reduce America's participation in multilateral efforts over which we have little control, and to emphasize instead a foreign policy supported by direct and bilateral programs and making maximum use of private, voluntary organizations.

And I urge the committee to focus attention on efforts to do those things that help America and Americans: efforts to improve the world environment; efforts to stop the flow of drugs; efforts to spread democracy and human rights -- those things that in the long term will provide substantial benefit to your constituents.

It is our role as Americans, I believe, not just to enjoy liberty, but to promote it. That, I believe, is our philosophical lodestar and our moral imperative. It happens, however, that it also is pragmatically in our national interest. I also believe

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compassion and concern for a sense of connectedness with our fellow human beings should impel us to do what we can to improve the living conditions of people elsewhere, but because your responsibility is to the people whose money you take to perform these services, it is fortuitous that creating prosperity elsewhere creates markets for the products of American workers.

Because these things are true, those of you who serve on this committee have an opportunity, by exercising deliberation and judgment, rather than embracing the simplistic blandishments of those who would eliminate all foreign aid, to do more than almost any other members of Congress to help provide not only savings in the federal budget but also to provide a better, safer, and more prosperous future for the American people.

Thank you again, Mr. Chairman, for allowing me to share these thoughts with you. Your work is difficult and I wish you well.

Mr. CALLAHAN. Matt.

MR. MCHUGH'S OPENING STATEMENT

Mr. MCHUGH. Thank you very much, Mr. Chairman and Members of the committee. I am delighted to be here, especially for your inaugural meeting, and my personal congratulations to you, Sonny, on your Chairmanship. I think all of you will enjoy this subcommittee. It is one on which I served for 15 years and made many friends on both sides of the aisle, and I am pleased especially to be here with Mickey with whom I served many of those years.

I would like to emphasize what you said, Mr. Chairman, at the beginning, and that is that I am here individually and not representing the World Bank.

This is a fascinating subcommittee and I think it is also a very challenging one for you, perhaps more so than when Mickey and I were here, because most of the issues we dealt with were framed in the context of the Cold War competition and, while that was more threatening to the United States in many ways, I think the world is much more fragmented and complicated now than it was then and it requires a more sophisticated understanding, perhaps, of countries and regions.

I think it is also challenging because you have less resources to work with. Ten years ago, in 1985, we were spending on foreign assistance about \$18.5 billion. Today, I think the number is about \$13.7 billion. That is a 24 percent cut in 10 years just in nominal terms, and, if you factor inflation into it, it is over a 50 percent cut in foreign aid in 10 years.

We are spending less than 1 percent of our total budget on foreign assistance. I think you must know, as I did from my town meetings back home, that this is not something that is publicly well understood. In fact, just this week there was a poll released by the University of Maryland. Over 800 Americans were contacted and, on average, people thought that we were spending 18 percent of our budget on foreign assistance, which would be about \$270 billion, or 20 times what we are actually spending.

When I had those town meetings back home and we got into a discussion of foreign aid, which was almost always negative from the public's point of view, I would usually start by asking how many people think we spend about 25 percent of our budget on foreign assistance. Most people raised their hands.

This is not to say that everything in the foreign aid budget is good. As Mickey indicated, there has been some waste. There has been some inefficiency. If the aid is not advancing our interests and our values effectively, then we are spending too much, however modest the program may be.

But my point is that there is a lot of misinformation out there and, in some measure, those of us who know most about the program from the President on down have to do a better job of educating people as to what the facts really are, and I would hope that as you make decisions about the foreign aid program this year, very tough decisions like you will have to make on many programs, that you can make them on the basis of the facts and not on the myths that are very pervasive.

I think one of the other myths, in addition to the size of the program, is the feeling on the part of many people that foreign assistance has been a total waste of money, that it is nothing more than an international welfare program that just funnels taxpayer dollars out without contributing to anything of use to the United States.

Again, there have been examples of that and they need to be weeded out. One example is too many, but there are significant successes to which the foreign aid program has contributed. During the Cold War, for example, we used to have some great debates here about the military assistance program, and I didn't support all of the military assistance, particularly where I thought it was supporting repressive regimes. But I have no doubt that our military assistance program contributed to containing the spread of Communism in certain parts of the world.

In terms of our economic development program, there is no question that economic development assistance has contributed to significant economic growth over time in many countries that were recipients of foreign aid.

For example, there are 20 countries that have graduated as aid recipients from IDA, the soft loan window of the World Bank, countries which now are not only stable and friendly to the United States, but are increasingly important markets for our exports.

As you probably know, 40 percent of our exports today go to developing countries and that is the fastest growing part of our export trade. Thus, we have a direct interest in this kind of growth and stability, and to some extent I think the foreign aid program has contributed to that.

In human development terms, there has been more progress than at any time in history over the past 50 years, since the end of the Second World War. For example, life expectancy in the developing world has doubled. That is really remarkable. Death rates for children and infants have been cut in half. The number of children entering school has gone from less than one-half of those eligible for school to more than three-quarters. Finally, in the past 25 years alone, average per capita income has doubled.

These are rather extraordinary accomplishments, and I don't say that foreign aid is responsible for all of that. There are many factors that go into it, but I do think these are success stories that serve the interests of the United States and that foreign aid has been an instrument by which we have tried as a country to promote these kinds of things and we have had some notable successes.

If I can put this another way, Mr. Chairman, I think if 10 years ago someone had come to us on the subcommittee and said that in 10 years, in 1995, we would have a foreign aid program that does many things, that is, promotes trade and helps our exporters, promotes long-term economic development, supports family planning, supports our security interests in the Middle East, and all the rest of what the program does, and if that person also told us that the Cold War would be over and we would be spending less on defense as a result, but our foreign aid program would have to assume at least for awhile some additional responsibilities to help the former socialist countries move to democracy and free and open markets and therefore there would be more of a burden on foreign aid, and

then told us that we would have to do that with 24 percent less money, I think most of us would have concluded that it would be a bargain in terms of American interests. And that is where we are today. I think to the extent that foreign assistance is effective, is properly targeted, and is not inefficiently used, and you have to be sure that those things are true, the foreign aid program, given the limited resources applied, is a bargain in terms of American interests.

Having said all that, I am sure I have made the basic point that I am a supporter of the foreign assistance program to the extent that it is efficiently used. But the premise of your hearing is, like it or not, there may have to be some difficult decisions about cutting this program, for reasons which all of us understand, and then the issue becomes how do you go about doing it.

I don't envy you that job for the reasons that I have indicated. I would not like to see the foreign aid program cut in the absence of clear indications of inefficiencies and waste, but you may have to do it and that is not easy.

I am not going to be so presumptuous as to suggest which programs you should cut and which ones you should protect in specific terms. That is not appropriate for me, especially since I am at one of the agencies that receives foreign aid. I have opinions, but I won't express them here. But I do think there may be some general approaches or principles which you can apply which I suppose are fairly obvious.

First of all, it seems to me you should try to be selective and discriminating. It is always possible to approach this with an across-the-board cut, but generally I think that this is not the best approach. We are trying to do a lot of things with this foreign aid bill with limited resources now. They are stretched very thin. If you reduce everything proportionately across the board, you weaken everything proportionately. And all of these programs aren't equal. Some are more important and more effective than others, so I would hope that you would be able to discriminate as you look at these programs and consider where they might have to be reduced.

If that is true, the question is, how do you approach selectivity? There are a variety of ways to do that. One is to determine for yourself which is the most important interest or goal of the foreign aid program. Is it to support our exporters in their international marketplace endeavors, like the Eximbank does? Is it to support long-term economic development, multilaterally or bilaterally? Is it our shorter-term political interests, our family planning programs, and so on? These are all legitimate interests and therefore it is tough to make those choices.

As some of you will remember, when I was here I always had at the top of my priority list the long-term economic development and human development parts of the program. In my judgment, they clearly reflected American values and interests, and polls tended to show that people would support this aspect of foreign aid where it was efficiently done.

And secondly, I always felt that that type of long-term human and economic development promotes the kind of moderate political institutions we care about, promotes stability, and provides ultimately markets and jobs in the United States, which are important

to us economically. But that was a personal view and each of you, therefore, has to look at this program and try to determine what is most important for you in funding foreign aid.

Some people look at it by region. Latin America is very important to the United States, simply because it is—these are our closest neighbors. The Middle East has always been critically important to the U.S. and that is reflected in this bill. Now we have Eastern and Central Europe and the former Soviet Union.

Again, speaking for myself, I was always a little bit concerned that in that kind of an approach, an area like sub-Saharan Africa would be overlooked; strategically it is not as apparent that a region like sub-Saharan Africa is critical to the United States, and yet if you look at the desperate underdevelopment there, the human condition, there is no region that is worse off. It follows that there is no greater potential for growth in human and economic terms. Moreover, the United States tends to respond to recurring crises with money and sometimes even with troops. Crises like Somalia and Rwanda are expensive to the United States and to the West, and unless we deal with the underlying underdevelopment problems in human and economic terms, these crises will continue to occur, we will continue to respond to them, and it will continue to be very expensive. Thus, we have reason to not lose sight of a region like Africa as we consider priorities.

Another approach to selectivity is to consider the effectiveness of programs. As I said, I am not going to tell you which ones you should cut. I looked through the committee report from last year's bill and I noticed, just by way of example, that one of the programs that was cited as being one to look at carefully in terms of effectiveness is the International Narcotics Control program. I am not saying you should cut that. I am saying it is an example of where the committee itself has previously questioned effectiveness.

Obviously, we have drug problem in this country. Part of the problem is the flow of drugs in. It makes sense to think about helping those countries where the drugs are—coca is grown, for example, to try to get a handle on that.

The question is, are we spending \$100 million effectively? And the committee has suggested that one needs to look at that. Those are the kinds of questions that I think you have to get into as you look to save some resources.

Two other quick points on selectivity. One, I think it is important to ask what are the policies of the countries we are helping? Do they conform to our own values and our own interests? Are these countries that are receiving American foreign aid committed to human rights and Democratic institutions? Are they following sound economic policies? Are they for relatively open trade regimes? If these governments are not adhering to fundamental American principles, interests and values, then it seems to me there is an area where you can cut.

Finally, I would cite a principle of selectivity which may smack of self-interest because I am with the World Bank. I think one of the advantages, if I may say so, of international development institutions is what we call leveraging. If one believes that these institutions are pursuing interests which are consistent with American policy, investing in people and education and promoting open mar-

kets and the kind of capitalistic principles which I think the international institutions do, then for every dollar you put into those institutions, you get a much bigger payoff. If IDA, for example, when the U.S. puts a dollar in, there are \$6 spent on these programs. If you don't believe the programs are effective, or if you think they are not pursuing goals which are consistent with our interests, then that leveraging doesn't have much persuasive value; but if you do think they are pursuing interests consistent with U.S. interests, then one dollar put in there goes much further than a dollar put someplace else. So I think the leveraging factor is one which you should look at as you try to make the tough choices on aid.

Well, those are a few thoughts, Mr. Chairman, and I appreciate again the opportunity to offer them. I think our foreign aid program is important in terms of promoting the interests and values of the people of our country, and in a way it is not just a question of how they promote economic, political or security interests, which are paramount questions, but I think we are judged in some measure by this program. Others judge our values and our willingness to provide hope and leadership through this program, which is one where we engage the rest of the world on a daily basis, and if we want to provide hope and if we want to provide leadership, we have to be sure this program, as modest as it is, is effective and I hope in that context that you will look at the program carefully. And I wish you well. Thank you.

CHECK AND BALANCE

Mr. CALLAHAN. Well, thank you very much. Let me thank you both for your testimony, but maybe you can start educating me now, which you already have somewhat. But you know, I have a personal philosophy that maybe is right, maybe is wrong, and maybe you all can give me some input on that, and that, in my opinion, the foreign policy, according to the Constitution, is left to the administrative branch of government.

The Congress is the check and balance of that, and when we get into micromanaging programs or we get into weighing the impact or the effects of any given program, either in economic aid or military aid or grants or whatever, I have difficulty in putting myself in the administrative branch, the Secretary of State's position. He is trying to keep fires put out all over the world and sometimes an observation of mine, and it certainly doesn't apply to either of you, was that Congress was going in a different direction, individual Congressmen flying all over the world expressing to people and to heads of states in foreign countries their own personal views, and I think interfering with the ability of the Secretary of State or to balance this complicated act of foreign aid.

LACK OF PUBLIC SUPPORT

So my own philosophy is that I don't think we should micromanage, but I think we have a constitutional challenge to audit this, to look at the programs they are spending this money on and then to provide suggestions and input to them to redirect sometimes their priorities.

I have the same problems that both of you have, representing a very conservative area of south Alabama which doesn't really ap-

preciate what they hear about foreign aid. They don't get the full indication of what it is or what it represents, or what the favorable results are.

I don't know whether to take what one of my predecessors, Otto Passman, is alleged to have said. I didn't really get to meet Otto, but I heard that when he was Chairman of this committee, he had the same problem, so he would go home and say that he was going to cut foreign aid every way that he could, but just to make doubly sure that we were getting the best bang for our dollar, he was going to visit every country that got any foreign aid to make sure they were spending it right.

Now, I don't know that we are going to go that far, but we all have similar problems politically trying to convey to our constituents the real need for this. But we do have a bipartisan, I think, obligation to ensure that the administration has the necessary tools to perform the duties that the American people have given to them, and it is hard sometimes for people to recognize that because of an investment in a foreign country, maybe we save billions and billions of dollars by not having to send troops there to protect an ally, but through the investment, as you have mentioned, that it creates American jobs and it helps our farmers. It utilizes surplus equipment, and then from the humanitarian point of view, the thousands and hundreds of thousands of lives that have been saved because of the efforts we have made by directing aid to undeveloped countries to feed their starving children and to give them necessary medicines and inoculate them against horrible diseases. It really ought to make all of us at least be able to sleep well at night knowing that is the purpose behind our efforts here and then we will just have to answer politically in our own individual ways as to whether or not it is justifiable.

FOREIGN AID REDUCTION

You are both right. Unfortunately at this time in our history, we are going to have to probably cut foreign aid per se. We are going to have to reduce the appropriation even more from the 24 percent you mentioned. But at the same time, maybe we can find in our hearing process some mechanism to better utilize the remaining monies that would be available, and I agree with you that it ought not be across-the-board cut, that we ought to look at program by program, suggest or to solicit information from the various agencies as to why did you spend the money like this or is there a better way?

BIPARTISAN CHALLENGE

So we have a challenge in that respect in front of us and I am sure that my colleagues on the committee will agree with me that we are going to accept that challenge; we are going to accept it in a bipartisan sense. We are going to encourage the administration to have constant dialogue with us to explain these programs, and we are all going to have our pet projects, I know Mr. Wilson has some, and I know I have some too. One of them, for example, was when the administration said to us we need millions of dollars to build homes for retiring Russian soldiers. That aggravated me and a lot of American people, but my question to you is should we

micromanage to that extent? Should I tell through this legislation the Secretary of State that, yes, you can help Russia in some areas, but you can't build homes for its retiring soldiers because we don't give our retiring soldiers that privilege or that assistance. Should we micromanage to that extent or should we have private dialogue with the administration? How should we handle that as an example?

Mr. EDWARDS. Mr. Chairman, first of all, I think your statement about the importance and the purpose of a foreign assistance program is very well said, and it gives me confidence you are going to be a very good Chairman of this subcommittee.

In terms of the lack of public support for foreign assistance programs, what you did in making the case just now, which is what we always had to do when I was here, is go to the American people and put it in terms of their interests, the jobs it is going to help them get and so forth.

MICROMANAGEMENT

I guess, Mr. Chairman, and my colleagues here that I served with for so many years know how I feel on this issue, I don't agree with you, sir, that it is micromanagement. I read the Constitution very differently than that. The President is the Commander in Chief of the Armed Forces, but the Constitution states very clearly that all legislative power is in the Congress and it doesn't say all domestic legislative power.

ROLE OF CONGRESS

Democrats who disagreed with President Reagan when he was President on his foreign policy understood that it was the role of Congress to assert itself in foreign policy matters and Republicans have done that when Democrats have been President, and I thought that was perfectly proper.

I thought the thing to do was to win the battle on the Floor or in the country and not to hide during the Reagan years behind the fact that the President is supposed to make foreign policy because I don't find that anywhere in the Constitution. I think that is something that has grown up and people have come to believe that, and I would say that you and the committee have a very important role in determining what the policy of the United States is on a lot of international affairs issues.

Obviously, the President has the State Department. He has all of the intelligence agencies. He has a much greater capacity to be knowledgeable in international affairs and to effect international affairs, and therefore a Congress should show some deference and should show respect for the tremendous advantage Presidents have in dealing with this issue, but I think constitutionally the ultimate decision as to what our policy should be is very clearly within the Congress and not within the White House.

Mr. MCHUGH. Mr. Chairman, I basically agree with that. There is no doubt that the Congress has the right to set any standards it wishes in terms of the appropriations process, and we have traditionally imposed restrictions and earmarkings on this bill.

It is a question, as you said in your opening statement, of balance, what is judicious for the Congress to do, and there is no ques-

tion that it is sometimes better not to micromanage. It is important that Congress be satisfied that the thrust of the program protects our fundamental interest and values. You are inevitably going to have Members who have certain earmarking requests. You have to exercise some judgment about what goes too far.

TRAVEL

One other thing I would say, and you mentioned travel. This is always sensitive because of the politics of travel, but since I am not here anymore, I am not running for office, I can say to you that I think it is very important that you as Chairman and other Members of the subcommittee do travel because a fundamental part of your responsibility is to understand how effective these programs are and the more so when the sources are limited and you are going to have to cut in some areas and protect certain other areas.

So the more you can do to understand what are the real implications of these cuts and what are the real benefits of those programs you are protecting, the better off you will be and the more responsible you are, and while you can get a lot of information at these hearings and by calling in experts from the administration and outside the government, in some ways there is no substitute for seeing things yourself on the ground and talking directly to government leaders and others in countries where we have programs.

So I would hope that, again, striking the proper balance, you would undertake to travel. I often thought that Members who didn't travel should be criticized by the media rather than Members who traveled, so long as those trips are responsible trips.

Mr. EDWARDS. If I could add one thing to that, Mr. Chairman, obviously the idea of taking foreign trips has been abused over the years, but it is very important. I recall—you asked for personal examples. I recall one trip I made where I went to the headquarters of the International Fund for Agricultural Development and was able to engage the IFAD people in some very serious questions about the management of their programs and the oversight of their programs. From what I learned, I came back, offered an amendment. We wrote them out and we saved a great deal more money than the trip costs. So it is beneficial sometimes to find out what really is happening to the American taxpayers' dollars.

Mr. CALLAHAN. Mr. Chairman.

Mr. LIVINGSTON. Thank you, Mr. Chairman. I apologize for having to step out, but I had to attend another briefing.

MINORITY REPORT

Last year we included in the House-passed foreign operations Minority report a quote, which I would like to read at this point. It says, "The key measure of the country's commitment to development is its economic policies. Throughout the world, the countries that have developed successfully are those that have pursued outward-looking and free market oriented economic policies. These countries place a premium on individual initiative, free up the burdens of excessive taxation, regulation and a large subsidized state sector. They also protect private property rights, encourage private banking and other financial activity, allow for the market deter-

mination of wage and prices, promote free trade, encourage capital investment, both domestic and foreign.”

INDEX OF ECONOMIC FREEDOM

Since we got that language in, the Heritage Foundation has produced a book entitled, *The Index of Economic Freedom*, which ranks various countries according to economic freedom within their borders. I understand some of those countries are contesting their ranking and there may be an addendum to it, but at any rate, my question to you is, do you agree with the goals of promoting economic freedom in our foreign assistance program, and do you think that we could use something like the Heritage Foundation's index to direct our foreign aid program?

Mr. MCHUGH. Well, I certainly think that the goals as stated in the quote are legitimate and important goals for U.S. foreign policy. I think it is consistent with not only our values, but our experience as to what works and what doesn't work.

I haven't seen the ratings from the American Heritage Foundation ratings, so I am not really in a position to judge if they make sense or not country by country. Obviously, the phase of development, economically, politically, and in human terms, differs from country to country depending upon its experience and its history, and I think we have to be careful not to expect that each country will meet the highest standards immediately. It takes time. It is a very difficult and complicated process.

The real question then is, is the government committed to this process on a sustained basis so that it is moving in the right direction, and are our foreign aid programs being helpful or retarding that process?

DEVELOPMENT OF DEMOCRATIC INSTITUTIONS

Secondly, I would say that other things are important as well. For example, development of democratic institutions goes hand in hand with this kind of free market economic progress, and so we need to also look at those kinds of tests. Are democratic institutions being promoted, not only in government, but in the private sector, nongovernmental organizations and free press, human rights, and so on? All of these things are of a piece in terms of what works and what reflects our interests and values.

Mr. EDWARDS. I absolutely agree with the statement, and, as Matt said, I don't know that you can wait until they have completely fulfilled all of the conditions as part of what I was saying to the Chairman about my belief that Congress has a major role to play.

I have supported always conditionality to push in those directions, but I think, for example, of the former Soviet Union, eastern European countries that were trying to move in that direction, and it would probably be a mistake, it would be a mistake to not provide assistance to them as they move in that direction.

So Heritage has probably done a good thing with the list, but I don't think we should insist that everybody has met all of those standards the way we would want them to before we provide assistance.

RWANDA

Mr. LIVINGSTON. I would simply counter and say that obviously in a situation like Rwanda where we have immediate need for refugee or humanitarian assistance, you are not going to sit around and wait for them to develop economically or politically in terms of freedom before you give them that assistance. But there have been countries which have been recipients of U.S. aid for years who we discover later siphoned this money off and it ends up in Swiss bank accounts. Obviously I am sure you would agree that that is what we need to discourage.

Mr. MCHUGH. Yes.

Mr. LIVINGSTON. Thank you, Mr. Chairman.

Mr. CALLAHAN. Mr. Wilson.

Mr. WILSON. I don't have any questions, Mr. Chairman.

Mr. CALLAHAN. I guess we are going to go by seniority, if that is all right with everybody. Mr. Torres.

PUBLIC MISUNDERSTANDING OF FOREIGN AID

Mr. TORRES. I just wondered, Mr. Edwards and Mr. McHugh, if, based on your comments, we see a trend in our country that part of the problem with foreign aid programs is Americans' lack of support and interest in foreign assistance.

There seems to be just a complete misunderstanding of the economics that are involved in the benefits to Americans of foreign aid. Everybody perceives that foreign aid is just a giveaway. The American public somehow doesn't understand that we really don't give away money. We really give letters of credit. We provide for guarantees. We do those things that involve American products and American manpower and American capital somewhere. That is really an investment on our part.

My question is, what would it take to convince the American public of the importance and the desirability of a strong foreign aid program, making them understand that it is not really a giveaway but really an investment for jobs and economic development for own country?

Mr. EDWARDS. Well, I think you have got to sell it. It is unfortunate that we call it a foreign aid program or assistance program because if it is structured correctly, looking at the right goals, it is an investment program. It is an investment in our security. It is an investment in our prosperity.

If you don't help other people to be able to buy our products or be able to maintain a democratic society, it ends up costing us a great deal more, but we don't talk about that very much, and I will be the first to admit it. I spent 12 years on this subcommittee and when I went back to my district, I didn't talk a lot about it, you know? I didn't say this is where I spend my time.

You know, what we need to do is obviously perfect the ability to talk about these programs in terms of how it is going to help somebody in California and Alabama and Oklahoma because the American people have a lot on their plate. They are struggling to keep up with the demands of putting their children in college and doing everything else, and they are not going to be interested in—you know, they may have good hearts, but they are not interested in

helping somebody somewhere else while they are struggling, and so it has to be put in terms of how it is going to help them, and I don't think that either Republican or Democratic Congresses or Republican or Democratic Presidents have done a very good job of doing that, of saying, this is an investment in our future, our stability, our economy, but that is what has to be done.

Mr. TORRES. Matt.

UNIVERSITY OF MARYLAND POLL

Mr. MCHUGH. I am not sure if you were here when I mentioned during my opening comments a poll that was recently released by the University of Maryland which showed a number of things, one of which was that people on average thought that we spent 18 percent of our budget, which would amount to \$270 billion a year, on foreign aid.

It also showed that when asked how much—of course everybody thought we should spend less than that, which we would all agree with, but when people were asked what is the appropriate level, on average people came out about 8 percent of our budget, which is a heck of a lot more than we are actually spending.

The poll also shows that people are prepared to support foreign assistance if they can understand the direct connection between our values and interests and the aid, and that is where we fail. As Mickey said, the President and all of us have never done a good enough job explaining what is the relevance of this. People just think it is an international welfare program. Why is it important to us? These things can be explained, and when they are, I think people will understand.

That is not to say that foreign aid is more important than what we do at home, and none of us would argue that we should be spending a lot more money on foreign assistance, but I think people would support the current levels of foreign assistance if they understood what the connection is between the money that we are spending and what we are getting out of it, in terms of our values, in terms of our exports and jobs, the kinds of connections which I think we can make and which I have tried to touch on in my opening comments. But none of us has done enough on that.

One other piece of gratuitous advice from my experience: I was a Democrat in a Republican conservative district, and I spent a lot of my time on foreign policy issues. I didn't always talk about it back home, but people kind of knew. My experience, not only in my own case but in watching friends and colleagues in other districts, was that very few, if any, lost their political races on the basis of what they did on foreign policy or certainly foreign aid issues.

If they were serving a district effectively in other ways, if they were reasonably responsible on other domestic issues, which people focus on a lot more, people tend to trust their Representatives to do the right thing on foreign policy and foreign aid issues. This is not something people know a lot about, as we have said, and so if they trust you in other respects, it seems to me they will give you your judgment on these kinds of issues, and I think for that reason, Members have a lot more leeway and discretion here than sometimes we think we do.

Mr. EDWARDS. The Chairman talked about the oversight responsibilities of the subcommittee and the conditionality that the subcommittee ought to look at is not just in terms of what they are doing moving toward a free market system, but in terms of what kind of governments they have, because a lot of the bad rap that the foreign assistance programs got was because we were supporting governments that were really not supportable. We were supporting some pretty repressive regimes and people would look and say, this is where we are sending our money and it became very hard to sustain an argument in favor of doing that.

So you need to do a good job of setting out conditions for who is a deserving recipient, and I think that will make it more acceptable to the American people.

Mr. TORRES. Mr. Chairman, we are under the five-minute rule, I gather.

Mr. CALLAHAN. Yes.

Mr. TORRES. Is my time up?

Mr. CALLAHAN. Yes. We can come back to you. I think we are going to get through before, but we will come back to you.

Mr. CALLAHAN. Mr. Wolf.

Mr. WOLF. Thank you, Mr. Chairman. I want to welcome both of you. I have always been a great supporter of foreign aid I think of Afghanistan, and the Contras in El Salvador and Nicaragua really did make a difference. I am also concerned about the Africa situation. I want to ask you why—we reversed the role. We are in a different role, you are international and Mickey is not, but it is two different questions.

HUMAN RIGHTS

Matt, how do we make the international institutions more understanding and aggressive with regard to promoting human rights? I mean, I have seen loans in China, the situation now with slave labor, and the gulags. There are more gulags in China than there are in the Soviet Union. The persecution of Christians, raiding the house churches, the Dali Lama in Tibet, and on and on. And how do we get international institutions to be much more sensitive to that. Oftentimes we are, but they aren't.

AFRICA

And then Mickey, I share Mr. McHugh's concerns, I believe we have to be careful. We should not write Africa off. We have to make Africa more effective. Much is given and much is expected. Many people in Africa, and I have been to Sudan and Ethiopia many times. They really are the least of these that were talked about, that Christ talked about in Matthew 25, the least of these, how do we get a constituency in the country, foreign aid to Africa, and particularly those who are really poor and downtrodden and have no opportunity?

So since you are with an international institution, how do we make them more sensitive? And Mickey, how do we develop the African aid situation so we can continue to help the poor people in southern Sudan and places like that?

HUMAN RIGHTS

Mr. MCHUGH. Frank, I appreciate your question. They are both important. First of all, I share your concern about the human rights problems in some of these countries and we, as Members of Congress, need to be very concerned about that and use this program where one can to advance our concerns about human rights, and I did that as you do now when I was here.

It is difficult, frankly, for international institutions—let's just take the World Bank as an example. The World Bank is owned by 176 governments, virtually all of the governments in the world, with the exception of Cuba and one other.

They are represented on a board, a bank board. China, for example, has a seat on the Board of the World Bank. It is very difficult to advance political agendas in an international institution where all of the governments in their various forms are represented. That is not to say that human rights aren't important. They are.

The bank attempts to foster more open and accountable government by promoting things like civil service reform and transparency in government, encouraging governments to have more participation by its people in the decisions of government, but, frankly, it is not as easy for a multilateral institution to foster a political agenda as it is for a government like the United States to promote a political agenda.

And so I would say that as Members of this committee concerned about human rights and other items, that you have to look at all of the tools available to you in our foreign aid program are the most appropriate for advancing a political agenda.

I would argue that it is not the multilateral institutions. On the other hand, if one of our goals, as Bob Livingston said, is to promote more open markets, more liberal trade regimes, privatization, the kinds of deregulation which fosters private investment and growth, the international institutions are quite important and that is one of their fundamental purposes. They are leveraging these kinds of economic changes, and that is appropriate and feasible for an international agency like the World Bank to do, whereas, a political agenda is a much more difficult thing.

Mr. EDWARDS. I agree first of all in regard to Matthew's answer, I believe I agree it is hard to get international institutions, multilateral agencies to do that, which is why I suggested we focus more on bilateral assistance rather than multilateral because I have always been bothered by that problem.

What do you do about Sudan and places like that? The real enemy of this committee is invisibility. Many of the things that you have to try to deal with, to try to help the cases like the ones in Africa are that you have that information, but the people out in the country don't have that information, and if there is a situation like Rwanda, it may get on the news, although it took awhile for that to happen.

The only real answer I have is doing informational things in your districts, doing informational things through press conferences up here. You have done that very well on a number of issues where you focus public attention at press conferences up here on international problems. I think you have got to do that.

I don't think you are ever going to be able to win a lot of public support for going in and helping the starving people in Africa if they don't know about it, and you are just going in and saying, trust me, we need to do this and you need to find a way to put the spotlight on some of those worse situations.

Mr. WOLF. Thank you, Mr. Chairman.

Mr. CALLAHAN. Mr. Packard.

Mr. PACKARD. Thank you, Mr. Chairman. It is a pleasure to be on the committee for the first time.

Mr. CALLAHAN. Glad to have you here.

CHANGES IN FOREIGN AID POLICY

Mr. PACKARD. I think that generally the feeling is that there is a chance to shift gears in many of our programs, and I would like to pick your brain if I may on how you would recommend we make some changes in our foreign aid policy.

If we were to zero out the foreign aid program, start at a zero base as though it doesn't exist now and you, with your experience, would be called upon to rebuild the program and start from scratch, what priorities would you change, and how would you restructure the program?

Heretofore, we have in most programs, and I presume in this program, used the previous year's budget as the baseline for which you build your current budget and priorities. What would you change if you were to start from nothing and build your program up?

Mr. EDWARDS. Well, the first thing I would do, Ron, is I would start from nothing. I think that the great enemy of controlist governments is that we tend to just start with whatever we did last year and we either cut from it or add to it.

I think Matthew said it very well earlier. I think what you do is you start with putting a list together of what are your interests, what are your priorities, where is there a crisis situation that has to be dealt with, where is there a region where stability is necessary? Where is there a potential threat? Where is there a potential market?

And I would make a list of the five or six things that are very, very important to this committee and to the country, and then I would start looking at each country one at a time and looking at the international institutions one at a time and see who fits without any preconceptions.

Just because Matthew and I funded it when we were on the committee or in some cases it got funded despite our efforts to stop it, but just because it got funded doesn't mean that it deserves therefore to automatically get either an increase or a certain percentage reduction, but I don't think you can do it country by country. I think you first have to start with what are your interest blocks and when you do that, then you can see how the countries and the agencies fit into that kind of scenario.

Mr. MCHUGH. Yes, Ron, that is how I would approach it too, and in my opening comments I did try to cite the criteria I would use when you have to be selective. Now, it is easier on the appropriations committee to limit appropriations or to eliminate a program that is in existence than it is to create something new because that

is generally the authorizing committee's job. In a sense, you have to work within what is already there because you are the appropriators and not the authorizers.

Nonetheless, you have a tremendous amount of ability to, within that context, be selective and, as Mickey has said and as I indicated in my opening statement, you have to decide what are the most important priorities given the world we are dealing with now, which is a much different world than existed during the Cold War, a much more hopeful world in some respects, but more complicated, and what are the instrumentalities that can most effectively promote those fundamental interests that you have identified?

So while I think it is a useful exercise to go back to square one and ground zero, as appropriators you probably can't do it completely; but you do have some flexibility, and I would use the selective criteria I cited earlier what are your priorities, what regions are most important to you, and so on.

Which of the programs that you have to work with have been most effective and which ones least effective? What are the countries doing to advance the interests and values that we are supporting? If they are not committed, then that is an area that you can cut back.

Finally, as I indicated earlier, for me an important consideration is what kind of leverage do you get from a U.S. investment in terms of getting other countries to follow our lead? If you can get six dollars committed for every dollar you put in, it is better than one for one.

FOREIGN AID PROCESS

Mr. PACKARD. The foreign operations activities, at least in the past, have been broken down into several titles. Has it been where those titles allocated specific amounts of money and then you divided the money within those titles, or are you looking at each program within those titles and putting a dollar amount on that, and then letting that come out to whatever that title would total? How has it been done and would you change that process?

Mr. MCHUGH. Well, as a practical matter, the Chairman has a considerable amount of discretion in terms of how the debate starts and where you begin from, because usually the Chairman will put together his mark. That is, he will have a draft bill which will suggest dollar amounts for each of these areas, and, depending upon the approach of the Chairman, he probably will consult with you before he actually does that and keep you involved in the process along the way.

In any case, when the time comes to make your decisions, you will have before you the Chairman's mark in each of these categories. The subcommittee will start with that and go up or down or propose to eliminate.

When I served here I worked with Chairmen who would consult with me and others on this. We would look at the bill as a whole, just as you are suggesting, and we would start with the subcategories. We would look at each of these programs. We knew more about some than others, but we would then decide what the appropriate number was.

Now, we had to be realistic in the end as to what the total was, but to the extent that you could get down to the specifics of each of these programs and really try to understand how they work and are they effective, the better off you are rather than dealing with large categories which may or may not reflect those amounts.

POLITICAL PHILOSOPHY

Mr. EDWARDS. The political philosophy gets into it at this point because what we would find sometimes is that in the areas that were economic, we might deal with regions. We might say, you know, let's see how much should go to Sub-Saharan Africa or what should go to Latin America, what should go to economic incentive programs?

MILITARY PROGRAM

When you got to the military part of it, you got to the military training programs, the MAP programs, it became very country by country and people divided up as to whether they thought the Sandinistas were good or Fernando "El Negro" Chamorro was good. So in those cases you really got into country by country, and you are not going to be able to avoid that.

There are going to be disagreements, I am sure, among people on the committee as to which countries are deserving of support, but except for that, most of it was done by big categories, which we are going to put so much into economic development and then you would debate within that as to where to put it and how to allocate it.

ELIMINATING PROGRAMS

Mr. PACKARD. I think my time is up. Let me ask one last question and I want to come back to this basic question, if I may. Hopefully it will be short. Are there any items that you have funded in these titles in the past that have become obvious, because of changes in world conditions, that could be eliminated or severely cut back? I am asking now for very specifics.

Mr. EDWARDS. I can't think of one offhand, although I do think that the recommendation by the State Department, which has been overruled now by the Vice President, but the recommendation by the State Department for consolidation of agencies, including AID and some others, is probably a very good idea.

Maybe it can't be done immediately if they are in the process of their own internal reforms, but in this case I think the Vice President is wrong and the State Department's recommendations were correct, and the influence that this committee could have in moving the administration program, kind of combining of agencies, would probably be very beneficial.

Mr. MCHUGH. Two quick comments, Ron. I think it would be inappropriate, as I said at the beginning of my comments, for me to say that you shouldn't fund this or that account, because I am with an agency now that receives support from the foreign aid program. Moreover, we have been away for two years, and you will be in a much better position to judge what the current effectiveness of these programs really is.

AID MERGER

In terms of an AID merger, I would not offer a final conclusion, but I must say I am a skeptic about these consolidation plans. I have observed reorganizations in various places over time, and I am a skeptic because I see enormous amounts of dislocation, distraction, people get bogged down for a long time. They wonder, what is going to happen to me, and get off the substance of what the job really is all about.

I have also seen situations where reorganization is suggested when people don't have any other—anything else of merit to offer and they want to demonstrate they are doing something. Now, I am not suggesting that that is behind the current proposal to merge AID.

That is a generalization, but I have seen it happen enough times, and what results from it is not so much a substantive improvement in the implementation of programs, but a lot of disruption, a lot of distraction, a lot of worrying about what is going to happen to me, and I therefore am a real skeptic about this.

I know there is some overlap between AID and other agencies in the State Department, and I think the committee should at least be looking at where those kinds of overlaps can be resolved and some savings achieved, but I would have to be persuaded that consolidating AID into the State Department would be beneficial.

Finally, these agencies have somewhat different outlooks. AID is focused or should be focused on long-term economic development. That necessarily is a long-term complicated undertaking. The State Department, appropriately, is more often concerned about short-term political interests. These things are both legitimate, but if AID gets folded into the State Department, there is at least a risk that the long-term economic development focus will be compromised—more compromised than it already is—by the short-term political interests of the State Department. If you think that that is an appropriate thing, that may not bother you, but it bothers me.

Mr. PACKARD. Thank you, Mr. Chairman.

Mr. CALLAHAN. We have a vote. We are going to get you out of here by noon, but I would like for you all to stay a little longer. Joe, if you like, you can stay and I will go or Nancy, if you would like to question while I go vote, we will do that, or we can all go vote and come right back.

Ms. PELOSI. In the interest of our witnesses' time, let's continue. We are so close by and as long as you have a Republican to chair the meeting, we can proceed. So I guess it is up to you, Mr. Chairman.

Mr. EDWARDS. Of course Nancy as Sonny said, Matthew and I don't have anything to do. It is great.

Ms. PELOSI. Well, lunch. There is always lunch. I do this, Mr. Chairman, out of consideration for our witnesses' time, but also with regret that you won't be here to hear my questions, but you will hear them another time.

I can't tell you what a pleasure it is to see both of you again. What do I call you now, professor?

Mr. EDWARDS. I started to say before that Matthew keeps talking about where he works, but Harvard is kind of an international institution too.

PRIORITY DIFFERENCES

Ms. PELOSI. I will say the Honorable Mr. Edwards was speaking before about the political perspective and what was going on in Central America. It calls to mind once again the heated battles that took place in the 1980s in this Congress. Both of you obviously were leaders in that fray. Thank heavens that is behind us, but we still do have our differences in terms of priorities and part of it relates to something you said, the Honorable Mr. McHugh, when you said long term, short term. I refer to it as enlightened and short term, but not necessarily that particular case.

For example, some issues, like protecting the environment and promoting human rights are worthy causes which I wholeheartedly support. It is difficult, however, to convince others sometimes why it is in our national interest to advance these causes and take the leadership on these causes not only because it is the right thing to do, but also because there is a price to pay at the end of the road if we do not, in terms of political refugees or environmental refugees or degradation of the environment. As long as we breathe air and drink water, as I am fond of saying, we have an interest in what is happening to the environment all over the world.

CHINA

In addition to that in the changing world, for example, with the multilaterals, as economies are emerging such as China, how can a country be held out as one of the economic powers, and at the same time that this great economic engine is churning, show up at the IDA window?

So what criteria do we establish to say you cannot have it both ways? I use China as an example because I am most familiar with that.

AIDS

In any event, the issue of AIDS, is another example. I bring that up a great deal because I am very familiar with the issue and its international implications. I would like to see it on the G-7 agenda when they meet because it has tremendous ramifications, in Africa for sure in terms of what it does to the economies of those countries. If, in fact, the G-7 is supposed to be a place where the world economic leaders talk about the world economy, we cannot ignore the clear and obvious devastation to certain economies that something like AIDS causes, particularly in Africa.

HUMAN SUFFERING

So those are some of the challenges that I see. I was pleased to hear what you had said, Mickey, about prevention and about making issues like this more visible; preventing famines in Africa, for example, by making people more aware of what the problem is, and addressing it when it is cheaper to do so, both from the human cost and from the standpoint of our committee dollars as well.

Thank you, Mr. Chairman.

Mr. MCHUGH. Well, I agree—Nancy, I agree with what you have said and in a way you have demonstrated that many of these things are related. We tend to look at programs separately and we tend to look at problems separately, but in fact many of the things you have touched on demonstrate that human suffering is not just a humanitarian problem. It is an economic problem. It is a political problem to the extent it fosters instability, and perhaps radical political responses; it then becomes a major security problem, or at the very least, an immigration problem.

All of these things fit together and are related, and it seems to me as we look at the foreign aid bill, you have to bear that in mind because there are implications and ripple effects from what you do in one program to another.

IDA

You mentioned China, and that is a good example of what the multilaterals in the case that you cited need to look at carefully and will be talking about. The current replenishment of IDA, which is called IDA 10, is the result of an international agreement, and pursuant to that agreement, Sub-Saharan Africa was targeted to receive about 45 percent of all of the IDA resources during this period.

CHINA AND INDIA

China and India in the past have been significant recipients because they had a large number of very poor people, but the truth is that because of some economic reforms, both of those countries are growing economically and have access to private capital, which they did not have many times in the past, as a result of which, their participation in IDA has come down significantly as a percentage of IDA resources. As the governments begin to negotiate IDA 11, a very difficult negotiation given the budgetary constraints these countries have, one of the major issues will relate to the participation of a country like China or even India. Are these countries appropriate for graduation from IDA now? I cannot predict what is going to happen there, but I think it is quite possible that both India and China would not only be substantially phased down, but conceivably could be graduated from IDA for the very reason you suggest. There have been significant economic gains and they have access to private capital markets that they didn't have before; at the same time the desperate needs in places like Africa, Sub-Saharan Africa, and Bangladesh continue and, with limited resources, need to be given even a higher priority.

Ms. PELOSI. I appreciate that. Thank you, Matthew.

Mr. EDWARDS. Nancy, in my opening statement, I referred to the need to do things about protecting world environment and you mentioned disease, AIDS, which is also important. Drug control is. Those things are areas where we can demonstrate, I think, if we do a better job of it, that there is a very specific effect on people in this country and a benefit, but we don't do a very good job of doing that.

I wish that it were true that the American people wanted to help deal with a problem in Brazil or Uganda because they want to

help, but the fact is we have to show them that it is also a direct benefit to people here.

There is one place, if I could pick up on what you said about China, one of the roles of this committee is to see that it has its values clear about what the terms are which will determine whether we are for giving somebody aid or not, and hold the administration's feet to the fire in that regard.

There is a tendency for people in the State Department and in the Executive Branch generally to get caught up in the demands of real politic and they will look at something like China where there are human rights abuses and where China no more deserves MFN than the man in the moon, but say, well, because they are big and they are important, we need to do this.

And those are places where this committee can exercise the independent judgment of saying, these are the conditions we are going to impose on country A or B and if these are not met, they are not going to get any assistance.

Mr. PELOSI. I appreciate that.

Mr. CALLAHAN. Nancy, I don't want you to miss this vote. You have got like one minute left.

Mr. PELOSI. Thank you, Mr. Chairman.

Mr. CALLAHAN. Mr. Knollenberg.

RUSSIA

Mr. KNOLLENBERG. I especially appreciate having two former Members come in here and testify on this subcommittee. I have been here for a short time—this is my second term. It should give you some idea of my lack of experience in terms of institutional history, but I have followed this subject a great deal in my position in private life. I understand, Matthew, why you would be reluctant to be specific because of the situation you are in, and Mickey, I know that you too have been nonspecific, possibly for the same reasons, as to specific areas of cutting. However as somebody walking in the door who is looking at this broad agenda, I want to visit one specific area, and I know that you may be reluctant to comment on it, but it is Russia.

Now, you gentlemen were here during the Cold War confrontation and certainly in those years, Russia was not an aid recipient—it was a different kind of aid we were shoving at Russia, a different attitude entirely. I presume that you were also here in the formative months when they were determining what to do about giving aid to Russia.

My question is looking at it today, 1995, there must be some thoughts you have about what we should do with respect to Russia. I am going to ask the question and you can chose to answer it. Is Russian aid one of those areas that you might think strongly about cutting?

Mr. EDWARDS. Yes. I was a big advocate of providing assistance to Russia, in fact, to all of the former Soviet Union and Eastern Europe. I felt it was very important to do that.

I was in favor of some conditionality, you know, the convertibility of the ruble was an important issue and things like that, but we have to apply the same standards to Russia that we would other countries. I was very bothered when Yeltsin burned down the parliament. I am not happy with what they are doing in Chechnya. It seems to me that, just as we talked about in China, if you say we have an interest in helping these people along and therefore you turn a blind eye to whatever they do, that suggests that they are not really acting as democracies, they are not really acting in terms of freedom.

In my school at Harvard, Warren Christopher just gave a speech the other day in which he defended the fact that in fact Russia is moving well along the line, the lines toward democracy, and I thought that was a pathetic excuse for an attempt to justify their policy there.

I think at this point we need to look seriously at what is happening in Russia and in other parts of Eastern Europe as well. If they are continuing to move in the direction we think it is important for them to move in, then we should reward them. We should increase what we give to them. But if they are not, if they are slipping back into nondemocratic or aggressive modes, then we should respond by withholding support.

Mr. KNOLLENBERG. Matthew.

Mr. MCHUGH. Well, I basically agree with that. I think the United States, the West, and the international community have a very strong interest in seeing this transition work. I think it is also obvious that there will be ups and downs. This is a very complicated situation.

The history of Russia and then the Soviet Union is not one of democracy and open markets, and so they are attempting to make a transition, and there inevitably will be political crises, as well as economic slippage, and we need to be realistic about that.

It goes back to something that Bob Livingston raised earlier about the criteria the American Heritage Foundation promulgated. If we hold a country like Russia to standards which we think are important to reach and expect them to reach them in a straight line, we are being unrealistic.

So it is a question of what we can realistically expect, given their history, given where they are today, given the inherent political and economic difficulties. We can't expect perfection. But that doesn't mean we should just give the money without question.

We have to demonstrate to ourselves and to our constituents that this money is being used effectively, that there is a connection between the expenditure and the results, and therefore when you have slippage and when you have an apparent lack of commitment to certain fundamental things economically or politically, you have to ratchet down some of that support, not only to send a signal to the recipients of aid, but to demonstrate demonstrating to your own constituents, who you want to support this program, that you are willing to make these kinds of decisions and can cut back when it is appropriate.

So I don't think there is a simple answer to it. I don't think one can be precise about exactly what the right number is, but I do think one has to be prepared to ratchet down as circumstances change, recognizing, however, that the process is going to be untidy, that there will be disappointments, that it is not going to be a straight-line progress to democracy and capitalism.

Mr. KNOLLENBERG. I know my time has expired. The only thing I was going to say, I think you had said, Matthew, you had not seen that study.

Mr. MCHUGH. No.

Mr. KNOLLENBERG. Some of the countries in the study were unusual. I thought Israel was further down than they should have been. It might be of interest for you to evaluate it, but it certainly surprised me in some ways and maybe it did surprise some of the other Members here too. I appreciate your testimony and thank you very much.

CONSTITUTIONAL AUTHORITY

Mr. CALLAHAN. We are going to have the Heritage people here next Tuesday if you want to follow it up. Following up with what Joe is saying though, and let me correct a question that was not responded to in the theme that I wanted to discuss, and that is the constitutional authority. I know that constitutionally we have the authority, we can do anything we want, but I am saying, in the scope of micromanagement, how far should we go and with the situation in Russia and Chechnya, you know, a lot of people in Alabama are wondering about that and they are concerned about that. They see this, what we consider needless killing taking place.

Should we as a Congress micromanage to the extent of, say, through a supplemental appropriation bill or through a rescission bill, putting language in there telling Russia that such things as, "we don't like that, you stop this invasion, you stop this killing that is taking place" or else prohibit the administration from giving any further aid to Russia than has already been appropriated, should we go that far or should we have confidence in the administration in dealing with this complex Russian affair that is almost like a civil war taking place? How far should we go? Should we use our own gut instincts and say, hey, this looks wrong to me, therefore, we are going to use the authority of the Congress to dictate what the State Department is going to convey to Yeltsin?

Mr. EDWARDS. I think it is a matter of balance, Mr. Chairman. Obviously the first obligation is to see that the taxpayers' money is wisely spent and that the taxpayers in this country are not subsidizing the slaughter of people by Russian troops, and the only avenue left is for the Congress to step in and stop it, stop the support at least of the Russians, I would do that.

That is not the way I would first proceed. You know, I would think that because the people downtown also know the power of this committee, that it would be very beneficial for Members of the committee to meet with the Secretary of State, to meet with the President and to convey, if the committee has strong feelings in that regard, and to convey it and see if the administration will move its position a little bit to accommodate that, because having the world see a rift between the legislative and Executive Branch

sometimes may be necessary, but it should be the last thing, not the first thing. Hopefully it could be worked out in a way that we have a common face to the world.

Mr. MCHUGH. I agree with that. I think you should start with the presumption with any administration that it should have the leeway and discretion to conduct the policy, but the administration has a responsibility to consult carefully and listen carefully to the views of the Members of Congress, and hopefully in this process one can avoid the kind of rift that sometimes takes place publicly which makes it more difficult to conduct policy and makes it more difficult for people to understand what our policy is.

MEXICAN LOAN

Conditionality is also very tricky. You are confronting a current situation with Mexico where the administration is asking you to support a \$40 billion loan guarantee program and Members, I know, have different positions on that, and I am not here to testify on it. But just on one point. It is obvious that in any situation like this, if the Congress chooses to impose many conditions, it will make it increasingly difficult for the Mexican Government to respond in a constructive way. The Mexicans have their own political considerations.

That is not to say you shouldn't have some conditions. It is simply to say that when we are considering how far to go in terms of micromanaging or conditioning assistance, one has to take into account the political context on the other side in terms of effectiveness and if one can avoid conditionality or public rift or micromanagement, I think it is generally better, regardless of which party is controlling the White House.

Therefore the consultation process is critically important, so that Congress has the confidence that it is being listened to; ultimately if it believes that it is not being listened to or it believes that the administration is fundamentally wrong, then as a last resort, conditionality is what Congress has not only the right to do, but should do.

Mr. PACKARD. Mr. Chairman, may I just—if you will yield for just a moment on that point.

Mr. CALLAHAN. Yes.

Mr. PACKARD. What role, Matthew, would the World Bank have, if any, in the loan guarantee package?

Mr. MCHUGH. The bank doesn't have a role in guarantees to Mexico. The bank has been involved in the past in encouraging the Mexican Government to adopt economic reforms which include privatization of state enterprises and a more liberal trade regime, and the kinds of things that you talked about earlier as being in our interest.

In the current crisis situation, where Mexico is facing an immediate problem, the IMF is more directly involved in providing assistance, short-term assistance, but it has been concluded by the economists that the IMF assistance would not be sufficient to deal with the current magnitude of the crisis, and therefore the U.S. has proposed this additional loan guarantee package.

In the meantime, the World Bank is involved in Mexico significantly with intermediate term economic development programs

which do not directly address the current situation. We are also providing—we have also sent down a whole team of experts to consult with the Mexican Government, but in terms of financial resources, it is more medium term.

Mr. PACKARD. May I ask a little more on that if I may. It is such a current issue, Mr. Chairman.

Mr. CALLAHAN. Yes.

Mr. PACKARD. Do I hear from you then that the \$40 billion that is being proposed, at least being considered to come to the Congress does not include all of the assistance that is being considered for Mexico?

Mr. MCHUGH. That is my understanding, yes.

Mr. PACKARD. Do we have a dollar figure on the immediate assistance from IMF and other agencies over and above the \$40 billion?

Mr. MCHUGH. Well, I wouldn't want to cite any specific figure. I have read in the papers that come through my office recently that the IMF team in consultation with Mexico is thinking about a \$3.5 billion short-term assistance package.

Mr. PACKARD. I see. Thank you, Mr. Chairman.

Mr. CALLAHAN. Along those lines, Matthew, I don't want to put you on the spot. Don't answer it if you think there is a conflict. Is there another alternative to the \$40 billion loan guarantee? I mean, can you envision any other aid or message that we could send to the world monetary market that we are going to do something other than guarantee this loan? Is there another way or would you rather not?

Mr. MCHUGH. I am really not in the best position to judge that. I am not an economist, but in a way, once the proposal is made, it creates its own dynamic. Once the administration, such as this one, says this is the response that we think is the most appropriate, then in terms of confidence, in terms of judgments that others will make about Mexico and whether it can sustain or get through this crisis, the judgments will be made in large part upon what happens to that initiative which has been identified as the approach that needs to be taken.

So I guess what I am saying is even if there are other alternatives, and I am not sure there are, the judgments that will be made and the confidence factor that is at play will turn on what happens to this \$40 billion package. The proposal takes on an importance, once the proposal is made, that transcends these other alternatives.

Mr. CALLAHAN. I understand, but the same importance would be if the Congress gave somebody an indication that they were not going to be—not going to give the administrative branch the authority to do this. Wouldn't that have a negative impact on the market and even compound Mexico's problem?

Mr. MCHUGH. Yes, it would.

Mr. CALLAHAN. And if that were the case, what would happen? I mean, what if the administration couldn't get the necessary support of the Congress? Would we go through and give them an extension on the temporary monies that we have already given them, the \$9 billion? Would we increase the \$9 billion on a temporary basis, or what would the administration do?

I have heard the downsides of what would happen and the domino effect on Latin America and the other countries there, but I really don't see a broad support here until the administration comes up and convinces both sides of the aisle of the absolute necessity to do this, and I just wonder if there is another way.

Mr. MCHUGH. I don't know if there is, Mr. Chairman. It is not apparent to me at the moment.

Mr. CALLAHAN. Well, we don't even have legislation up here yet. All I know is what I read in *The Washington Post* and the *Washington Times* and the *Mobile paper*.

Mr. PACKARD. On that point, Mr. Chairman, I think it is important if you have any influence with the administration, it is extremely important that they recognize that there is a significant resistance here.

We are not finding near the support that even our leadership has indicated might be there in most instances. We took a poll of the California delegation, for example, the other day, and out of 25 Republicans we couldn't find more than one that would vote for it under the present circumstances. So it has not received broad support here.

Mr. WILSON. That is very significant coming from Mr. Packard of California, because one of the major arguments is the immigration problem in Texas and California.

Mr. PACKARD. We are all aware of it too. With that information, there was still that resistance.

Mr. WILSON. That is sobering.

MULTILATERAL BANKS

Mr. CALLAHAN. I want to get you out of here by noon. Two points I would like to make to both witnesses—once again, back to this micromanagement. Are we putting too many conditions on the multilateral banks and the grant programs on such issues as environmental controls, as population control? Are we micromanaging too much in that respect, or should we continue to dictate to the administration and to the banks the conditions on which these monies must be loaned, or are we going too far in those particular areas?

Mr. MCHUGH. I can tell you that the bank is very sensitive to what the Members of Congress say about environment and a variety of other issues. The Congress has been outspoken in many of these areas.

If I may say so, I think the bank has responded in these areas in a very significant way in terms of the environmental priorities that it has been setting in its projects and in developing environmental action plans with these developing countries.

We are much more open in terms of disclosure of information, and so on.

As Mickey said earlier, it is a question of balance. I think that it is not as productive to write something into the law as it is to informally make known what your concerns are, so long as you believe there is a sensitivity. It is like dealing with the administration on other foreign policy issues: so long as you believe that these institutions are listening and are responsive to legitimate concerns,

you can avoid writing specific conditions in the law. That creates problems.

MULTILATERAL VERSUS BILATERAL

When I was here on the Hill, a lot of people would say, as I think Mickey did earlier, that the United States doesn't have much influence with these international institutions, and therefore, why not spend the money bilaterally?

When I joined an international institution, I found that everybody who is not an American believes that the institution is dominated by the United States. It has an American President. It is located in Washington. The Congress is outspoken and regular in its prescriptions for these institutions.

So in a way an institution like the world bank has the worst of both possible worlds politically. I think it is important for you to express your concerns in these areas. I think it is important for the banks to respond to your legitimate concerns, and so long as you are satisfied that the banks are responding, recognizing they are international institutions with a lot of other governments involved, then I think it would be helpful not to write these things into law.

If you are dissatisfied, as a last resort you would have to make a judgment about that, but I would hope you could avoid it.

Mr. EDWARDS. I would divide the question probably a little differently. You use the phrase micromanagement, and I think clearly the committee doesn't want to micromanage. The question becomes one of—the scope, the dimension of the problem.

If you are talking about something where the administration or the international institutions are taking policies, directions that are counter to what the Congress believes ought to be done, then I think very clearly you ought to step in. I think that is the case in China. I think insisting on human rights, honor human rights is an area where Congress should step in if they see that that is not being done.

But when you get down into some of the finer points of the economic situation or the development of a particular nation's economy, one of my frustrations was that we in the Congress did not have the expertise in most cases that the administration had in being able to try to deal with those and deal with the international agencies.

So on those areas where you don't need expertise, you just need a conscience, you need a sense of what our general direction as a country ought to be, that is clearly a place where the Congress ought to intervene when necessary, but outside of that, I would be very reluctant to get into the details because I am not sure that we often have the knowledge, the information base we need to do that correctly.

Mr. CALLAHAN. And lastly, in your statement or in one of the responses, you mentioned that you would favor bilateral types of financial arrangements as opposed to multilateral ones. Can you give us an example of why bilateral would be better. I know we would have more control over it.

Mr. EDWARDS. Well, I think that it is a matter—I think of a different interpretation than the one Matthew has given. And I can't cite chapter and verse, but my recollection of the time I was on the

committee was that we very frequently ran into situations where various international institutions were not responsive to the concerns that we had, that during the Cold War days, for example, which thankfully are gone, there was a lot of assistance given to countries which had very poor records of support for American policies, American—conflicts in the United Nations over American foreign policy.

I guess it goes really back to what Matthew said. It is true that there is a leveraging effect in the international agencies, but if they are doing something you don't want them to do, then having them do six times as much of it is not a good thing, and so I just think we are better served by, as much as possible, using agencies that we have direct control over where we are able to tell them what possibilities we want pursued and put our money into it that way.

Mr. MCHUGH. If I may just comment on that because this is fundamental to my—not only my current interests, but—

Mr. EDWARDS. However, I do think the World Bank ought to stay there and Matthew ought to keep his job.

Mr. MCHUGH. But these are views I had when I was here and so they are not new. I think that both bilateral and multilateral agencies are important tools. They do different things. They are different instrumentalities. For example, if one believes, as I think all of us do, that promoting economic reforms of a free market nature with privatization and deregulation and phasing out of subsidies and open trade regimes are important things to do, AID does not have the leverage, does not have the clout to get governments to do these things, which are often difficult to do.

These are politically very hard things to do for governments. If you are going to take subsidies away from certain commodities in a country, there are people who will resist that politically. If you are going to privatize state-run enterprises in which some of the elites have had an interest for a long time, that is politically difficult to do. If you are going to open up your markets and have competition from other countries for your fragile local producers, that is a hard thing to do.

The international institutions, because they have significant resources and because they have very capable staffs, because they are significant institutions representing the international community, they have the leverage to get these governments to act, where any bilateral agency doesn't have that kind of leverage.

Now, it is a question of whether or not, as we have both said, those kinds of goals are consistent with our interests, and the agencies are being effective in promoting them. You have to make your own judgment about that, but if you conclude that these agencies are effective and are promoting goals consistent with our interests, the leveraging of the money is really quite important, especially as the money shrinks that you have available to use.

I would simply urge you to look carefully at that. It is somewhat politically less sensitive than it used to be because, as Mickey said, in the past international institutions would sometimes lend to countries which were not always on the U.S. side in the ideological struggle.

Fortunately the world has changed and most of these countries accept the U.S. position ideologically. It is really a question of tech-

nically how can we get governments that accept our concepts for economic growth and development to move along more effectively using the agencies at our disposal.

Mr. CALLAHAN. You have one.

ACCOUNTABILITY

Mr. PACKARD. I have one because you and I both have an important meeting coming at 12:00. And I am not going to ask a question I was going to ask, but I just want to bring out the point. For some time I have been concerned about the effectiveness of our oversight and accountability of our foreign aid where countries do not report back how it is being spent. We really don't know that it is going where it was intended to go in every case, and I would be interested, of course, in how that can be better structured so that we address the conditions, conditionalities, we address the accountability and the oversight as the money is being used in the recipient country, and we of course address at the same time the other country's sovereignty problems and concerns.

All of that I think we need to think about, look at, and study rather carefully and see if it is being as effectively done as it should be. I am constantly getting reports back from my constituents and from other people that there is little or no accountability once the money flows to make certain that it is going where it was intended to go. I won't ask for a response, Mr. Chairman.

Mr. CALLAHAN. Matthew, Mickey, I really appreciate both of you coming to get us started in this vein. We would like to have an ongoing dialogue with each of you, and I would like to keep in touch with you. We truly appreciate your coming and spending time with us today.

TUESDAY, JANUARY 31, 1995.

**FOREIGN OPERATIONS IN AN ERA OF BUDGET
REDUCTIONS: PART II**

WITNESSES

KIM R. HOLMES, VICE PRESIDENT, HERITAGE FOUNDATION
JULIA VADALA TAFT, PRESIDENT AND CEO, INTERACTION
LINDA F. POWERS, VICE PRESIDENT, INTERNATIONAL FINANCE,
ENRON DEVELOPMENT CORPORATION

CHAIRMAN'S OPENING STATEMENT

Mr. CALLAHAN. Today the subcommittee is pleased to welcome three outside witnesses to our panel: Kim Holmes with the Heritage Foundation; Julia Taft with InterAction; and Linda Powers with Enron Corporation. Each of our witnesses represents a different but equally important part of the overall foreign operations equation.

Kim Holmes and the Heritage Foundation will share new and innovative ideas on how our foreign aid program can be reformed and improved.

Julia Taft at InterAction will provide the subcommittee with a wealth of knowledge and experience on how current programs should work.

Linda Powers from the Enron Corporation will share her insights on how the private sector can help developing countries with their long-term developmental needs.

It is a pleasure to welcome all of you today and we look forward to hearing your testimony.

Before proceeding I would like to make a few short opening comments. This is the subcommittee's second hearing of the year on Foreign Operations in the Era of Budget Reductions. Both the subject and timing of our hearings this year are meant to reflect the new political environment in America. Last November, the American people told the Congress that they were frustrated and unhappy with business as usual.

At the center of this discontent was a belief that the role in government must be restricted and that government spending must be reduced. As Chairman Bob Livingston has stated on numerous occasions, the Committee on Appropriations will have a leading role in meeting this challenge. Each subcommittee is well aware that the program under its jurisdiction must carefully be reviewed. And this subcommittee will be no exception.

In undertaking our review, there are a number of important points I believe must guide us. We know that budget reductions will be a certainty. I feel strongly that the American people will not sit by and accept deep domestic cuts without expecting foreign aid to share in these reductions.

In this regard, I believe our mandate is clear. Having said this, I believe it is critical that we ensure these reductions are undertaken wisely and fairly. Our action will have broad, long-term implications for the nature and direction of foreign aid, not to mention American foreign policy.

In order to accomplish these objectives, we will need to carefully and responsibly review all aspects of our foreign operations budget. Our hearings and the testimony of our witnesses will be absolutely critical to ensuring that our job is done well.

Finally, I firmly believe our success will be determined by our ability to work together in a bipartisan manner. And I want to tell you that it has been very pleasant to me during this first month to be able to work with Charlie Wilson and to know that this committee is going to operate in a bipartisan manner; that we might have some philosophical differences from time to time, but we have a responsibility that both of us understand. And I appreciate the courtesy that Charlie and his staff has given to us.

We also intend to work with the Legislative and the Executive Branch of government. Our mission here is not to interfere, not to destroy the ability to have an effective foreign policy and to recognize that the United States Constitution, I think, gives fairly broad authority to the administrative branch of government to administer foreign affairs.

So we don't have a mission to embarrass the administration. We want to assist the administration and we firmly intend to do that. And at the same time we have a responsibility to the American people from a fiscal point of view, and occasionally from a policy point of view, to make our views and their views known.

So we have a daunting task ahead of us. For that reason, I am looking forward to the testimony of our witnesses today.

I would at this time yield to Mr. Wilson for any opening statement that he might have.

Mr. WILSON. Mr. Chairman, I don't have an opening statement. John C. White, an old friend of mine from Texas who used to be Chairman of the Democratic National Committee has died. There is a memorial service for him at 11:00. He died unfortunately last week. I am going to have to excuse myself around 11:00.

Mr. CALLAHAN. I understand. I first met him when he came to address the Alabama legislature when he was Chairman of the Democratic Party. I was a member of the Democratic Party at that time.

Mr. WILSON. I wish you still were, Mr. Chairman.

Mr. CALLAHAN. Well, we just won't get into that. So with that, we are going to ask you to be as brief as you possibly can. We want to hear every thought that you have, but at the same time we want to get as much as we can from this meeting, and we are going to try to promptly end it at 12:00.

So, Mr. Holmes, if you would start.

MR. HOLMES' OPENING STATEMENT

Mr. HOLMES. Mr. Chairman, Members of the committee, thank you very much for giving me the opportunity to testify before you this morning on a very important issue facing our Nation. I would just like to start by saying I believe it has been recognized for quite some time now by nearly everyone from the center, the left, and even the right of the political spectrum that our foreign aid program is critically flawed. In addition to having too many goals and too little focus, U.S. development assistance programs, in particu-

lar, have done little to advance economic growth in the developing world.

Far more important than economic aid in determining whether a developing country emerges from poverty is that country's economic policies—in short, how free its economy is.

I think that this fundamental fact has been ignored or overlooked by the designers of our American foreign aid program. And I think it is about time that they begin looking at it, because without question, this Congress has a unique opportunity to reform foreign aid. And I hope and believe that this opportunity must be seized.

The American people will support a foreign aid program, I am convinced of that, but only one that serves American interests and promotes international growth.

Now, we at the Heritage Foundation have examined this issue of foreign aid closely. We have published a book called "The Index of Economic Freedom," which is a study that measures the comparative economic freedom of 101 countries around the world. This index scores countries on 10 factors that include, for example, taxation levels, trade barriers, regulation, and openness to foreign investment.

The purpose of this study was to introduce a new understanding of economic development. Hitherto most development economists and indeed the U.S. foreign aid bureaucracy believed that a laundry list of factors, health, education, environment, and population controls, must be manipulated by governments in order for economic development to occur. The index takes a different approach.

It is based on the premise that economic freedom is a most important factor in economic development, or as we prefer to call it, economic growth. As we discovered in the index, how free an economy was and not the amount of economic assistance it had received was the most important and consistent determining factor in a country's level of economic development and its rate of economic growth.

This being the case, we concluded that the purpose of economic development assistance should be to promote economic freedom and to create economic growth that will some day make aid unnecessary.

The index of freedom is more than just a study of the factors contributing to economic development. It also can be instrumental in evaluating America's development assistance programs. We believe that the index can be used as a tool to decide whether particular countries are deserving of development assistance, and if so, to determine what kind of aid is best for them.

Now, the assumption behind the index, and indeed our entire approach at Heritage to reforming foreign aid, is that U.S. foreign assistance programs should serve three fundamental purposes. The first is to enhance U.S. national security. The second is to advance American national interests. And the third, which I have already discussed, is to promote economic growth around the world, which creates markets for American goods and also contributes to democratization and international stability.

While we believe that U.S. foreign assistance should be used under certain circumstances for humanitarian purposes and also to help friendly countries in an emergency, we also firmly believe that

U.S. foreign aid programs should be understood primarily as an extension of U.S. foreign policy and should be designed to advance its goals.

Therefore, some form of assistance to advance the process of democratization, if these programs are effective and given to deserving countries, would be compatible with the U.S. goal of promoting international stability. But economic development assistance, which by and large has failed, should be highly scrutinized and curtailed. To the extent that current military and security assistance programs serve the national interest, they too should be continued.

Economic support for Egypt, Israel, Russia and the new independent states of the former Soviet Union should by and large be retained, although in cases of Russia and the NIS, some cuts can be safely made. However, these so-called economic support funds for Israel and Egypt and other countries should not be understood as a means to promote economic development, for they surely do not serve this goal, but rather as a form of security support assistance and as a political demonstration of U.S. support for the Middle East peace process.

With these assumptions in mind, we have prepared a list of recommendations that I have outlined in some detail in the written testimony, and we would hope that you would consider these recommendations as you review the foreign aid program.

I need not remind the Members of the committee that the balanced budget amendment, if it passes the whole Congress, will bring every Federal spending program under close scrutiny, and I believe the foreign assistance program should be no exception.

I will go through briefly the recommendations, but at the very end I will present a couple of budget options on where these recommendations will lead us in terms of the budget.

Our first recommendation is that economic development aid be made contingent upon a recipient country's commitment to free markets as determined by the Index of Economic Freedom.

Now, some have argued, including the Director of the AID, that economic freedom is too narrow a factor to base economic development assistance on. I would argue on the contrary that the current approach by AID is too broad, too unfocused, and does not have one overriding strategic mission for our economic assistance. We believe that promoting economic freedom and economic growth should be the strategic mission of AID.

The problem with the current approach of AID is it tries to do too much and ends up doing too little.

Our second recommendation is that as you look for cuts, you should concentrate primarily on economic development assistance programs. This is the area that has failed the most, and where cuts should be concentrated. Of course, many will argue that by taking this approach, that you will not be compassionate and that you will not be taking enough consideration of the needs of people in the developing world.

Our view, on the contrary, is that the way the economic development assistance has been applied in the past, it has created a dependence of many countries on our aid. By preventing many of these countries from making the necessary economic reforms, it has

perpetuated—although unintended—some of the very kinds of misguided economic policies and the poverty that it is supposed to be eliminating.

It is of course very true that you can always find some good that was done for some people by our development assistance programs. But first-aid, which is what these programs really are, deals only with the symptoms and not the causes of the problems you find with poverty in the developing world. Certainly first-aid is not a development strategy. Promoting economic freedom and economic growth is a development strategy.

Finally, of course, if you do cut the development assistance aid, some will charge that you are endorsing isolationism. Where economic assistance has strategic and political importance, as I have said, it should be continued. But where it has failed, primarily in the developing world, it should be curtailed.

Pursuing a failed policy is no demonstration of international credibility. I would prefer that we concentrate far more on free trade and using our military alliance as a way of demonstrating our international commitments.

A third recommendation is that you trim and rename the economic support fund programs. We believe that you should continue the economic support funds for Israel and Egypt for national security reasons and to demonstrate our support for the Middle East peace process. But we do not believe you should call them economic support funds because that is in fact misleading. We recommend you call them security supporting assistance, which is what they were called before 1978 when their name was changed to its current form.

We believe, however, that you should look at cutting non-Israeli and non-Egyptian economic support funds for countries like Cyprus, Morocco and others, where their political importance is not as important as it is for Israel and Egypt.

Our fourth recommendation is that you revamp and cut aid to Russia and the NIS.

We gave this question of aid to Russia much thought. And we believe it should be continued to demonstrate our commitment to reform inside Russia and also to prevent the isolation of Russia. But I will admit that this is a close call because of the events happening in Chechnya and also the general orientation of the Yeltsin government in a less cooperative way towards the United States.

However, we do believe at this time that it should be continued. I would ask you, though, and encourage you to look at the way the AID has dealt with Russian aid. Many of the people involved in managing, organizing, dispensing Russian aid do not have significant Russian experience. There has been heavy reliance on traditional contractors and an inappropriate approach for Russia. By its concentration on development in the Third World, some of the programs quite frankly don't fit Russia. They may fit other parts of the world, but they don't fit Russia.

Also, we believe that some of the health and environmental programs that you find in Russia and the NIS are not working very well. You find that in many cases it is very difficult to find good projects.

Therefore, we recommend that you move some of the money that exists on health and environmental programs over to democracy training and technical assistance to help Russia and the NIS countries move toward democracy and a free market.

A fifth recommendation is that you reduce funding to all multilateral development banks. We believe it is time to reassess our commitments to the MDBs. Many of the efforts of the World Bank duplicate private sector initiatives, particularly in lending.

Also, some of the structural adjustment programs have not been particularly successful. We estimate that nearly half of the economic reform programs agreed to by the World Bank as conditions for loans have failed.

As a result of this, we believe it is time to start thinking about phasing out funding for the MDBs and to let private banks take over.

Our last recommendation is that you abolish the Agency for International Development. When the AID was first started by President Kennedy, it was understood to be a temporary and a transitional agency. Over the years, however, it has developed too many goals and it lacks a sufficient focus to be effective. It has not succeeded in spurring economic development as promised.

We believe the private sector, trade and free markets have achieved whatever success there has been in the development world, not economic development assistance.

The 1992 Ferris Commission, with which I am sure you are familiar, recommended that AID be abolished. We believe that should be done and the remaining programs be folded into the State Department or other existing agencies.

Now, we have developed at Heritage two options, option A and B, based on these recommendations. I will briefly outline these options before I end my opening statement.

Option A is our minimum reduction option. We recommend reducing most bilateral development assistance programs by 50 percent. This would create a total of savings of \$1.8 billion in this area.

We also recommend trimming aid to Russia and the NIS by \$200 million. We believe that the bilateral development assistance reduction should be made in such programs as the African Development Foundation, the Eastern and Baltic programs, the Inter-American Foundation, international organizations, population control, migration and refugee programs.

Moreover, we envision in this option A by, I repeat, our minimum option, shrinking funding for multilateral development banks by 25 percent for a total savings of \$481 million.

Finally, we propose a savings of \$100 million in administrative costs for abolishing AID.

The total savings for option A for fiscal 1996 would be \$2.58 billion.

To assist you in deciding which countries should be actually cut in option A, we have supplied you in my written testimony with a list of aid recipients which have scored poorly on the Index of Economic Freedom. These are the countries we scored as mostly unfree or economically repressed. It is our judgment these countries

should be closely scrutinized and be prime candidates for reduction or outright elimination of economic assistance funds.

Option B is more ambitious. It includes some elements that we would not recommend at this point, but others with which we might agree. If the new budget environment requires that you achieve more drastic reductions, you should look at this option B.

We have a menu of cuts in this option. Nearly all development assistance is eliminated for a total of \$3.6 billion savings in fiscal 1996, including that for Russia and the NIS. That is another \$839 million in savings.

Also in this option is a 50 percent drop in funding for the World Bank, the International Monetary Fund and other MDBs, for a total savings of \$963 million. This option also includes a 50 percent reduction of economic support funds for all countries except Egypt and Israel. It also includes a \$100 million savings resulting from the abolition of AID.

Option B, the more ambitious option, would give you a savings of \$5.67 billion for fiscal 1996.

In conclusion, I would very much agree with the Chairman that this is a time to eliminate wasteful government spending. I believe that the funds that you save from cutting foreign aid could be better spent on defense readiness and making up for the hundred billion dollars shortfall in the Clinton administration's five-year budget defense plan.

I think we need to give our foreign aid program a new strategic mission and a new focus, which I believe should be to promote economic freedom and economic growth throughout the world. To serve our security interests and to promote economic growth is in my estimation the best foreign aid program.

Thank you very much.

Mr. CALLAHAN. Thank you. Ms. Taft.

MS. TAFT'S OPENING STATEMENT

Ms. TAFT. Thank you very much, sir, for inviting me here before the subcommittee. This is going to be a very interesting discussion, so I want to keep my comments as short as possible, because we see the world through quite a different lens.

Mr. CALLAHAN. We take it you don't agree with him?

Ms. TAFT. He is offering some very interesting debates—a debate, I think mostly about what kind of commitment we should be having with the rest of the world.

I represent 160 nongovernmental organizations that are U.S. based. They are in 3,000 communities in the United States. Every one of your constituents is probably affiliated or a donor in some way to these kinds of organizations that have a sustained interest in our relationship, both on a humanitarian and an economic and a people-to-people basis with the rest of the world. And that is what I am here to talk about. What it is that we believe the engagement with our friends and people in need across the world have in common with the United States?

The American people give over \$4 billion every year to our agencies for assistance. This is quite a lot more than we get from the Federal Government or any other investment. But it does reflect a

partnership which we think is very important. You can't just let the private sector do everything. There does have to be leadership.

You are quite aware of the poll that was discussed, I think, by Matt McHugh last week. We have copies of the poll about American attitudes. Three-quarters of the American people, according to this University of Maryland poll, favor increasing or maintaining assistance to the developing world.

Unfortunately, they believe that most of the assistance is about 15 percent of the actual U.S. Government budget. But as we all know, it is less than 1 percent. And the kinds of funds that we are particularly committed to with the private voluntary agencies are those that are dedicated to sustainable development, which is only about \$4 billion of the \$14 billion that is currently invested in the variety of programs that Kim was talking about.

When we talk about foreign assistance, we are really talking about something that isn't foreign. Almost all of the issues that we are addressing are related to our broad-based economic interest in the stable world. They are related to problems of issues like pollution, which do cross borders. We are concerned about the economic and the human viability of societies all over the world, so that they do have the political and the economic security to live in freedom overseas. We believe development assistance is very much in our national interest.

Now, not since the Second World War have we had a chance like we do now to reevaluate where we ought to be going with foreign aid. For 50 years, our plan and our energies and immense investments have been placed in trying to combat communism.

You know, we have won the war. Now we have peace to deal with and the question is, what are we going to do in terms of leadership with all these countries that have now thrown off, or tried to throw off, the yoke of communism? What are we doing to help them? The challenge of American leadership is not one of military security now. The challenge of American leadership is, how do we help other countries with their economic and social and democratic institutions? We cannot at this time afford to give up.

If you look at the wave of democracy that is sweeping throughout the world, it is just stunning. Even in Africa, sub-Saharan Africa, which gets a bad rap a lot of times, they have had 20 multiparty elections in the last three or four years. Latin America, in 1980, only had four functioning democracies; now there is only one country in all of Latin America that is Communist. Central Europe and Russia, we have been discussing, or Kim has been discussing the transformations there.

There is an immense change in the world, whether it is the Middle East or South Africa, or the move to democracy; we never thought in our lifetimes that we would see this.

Now the question is, what do we do with all this new attention toward democracy, the idea that America is now the only superpower? How are we going to help them rather than turn our backs on them? I think this is the challenge that we are talking about. And to only do it in terms of American self-interest, short-term economic self-interest at this time is not what we think the role of the United States ought to be in the world.

We have a national leadership role in the world. Countries all over are looking to see what kind of values we have. The American people are committed to the moral imperative that we reach out.

Eighty percent of the world lives in developing countries. We have a real question as to whether these people are going to ultimately be consumers of our economic vitality and our exports or whether they are going to be consumers of relief. And we think the stakes are very high, that if we don't deal with some of the basic root causes of dissension, and inequity, if we don't deal with health care problems, if we don't deal with helping people in these countries be empowered to have more control over their future—then they are going to be consumers of relief, and they are not going to be consumers of our products. So we think that moral imperative is there.

About half of our agencies are faith-based agencies. Every faith in this country is committed to this connectedness with the world and the value that we help others. The question is, do any of these programs work?

We know that development works. We have reams of reports that we can show to you. But the kind of development we can show you is community-based, people-to-people kinds of programs which get down to help the civil societies in these countries.

Saving lives is one of the biggest priorities of many of our development assistance programs. As stated in the editorial today about Jim Grant, who was the Executive Director of UNICEF who died on Saturday, whom many of us have worked for and loved very much and respected immensely—the editorial talked about the real successes that happened under his jurisdiction. I must add, with a lot of U.S. support and NGO involvement. But this was the UNICEF contribution to child survival.

The statistics are astounding. Two-and-a-half million children every year now live that would have died because of immunization programs. We have clean water reaching 60 percent of rural families around the developing world. Smallpox has been eradicated. These are all indications of real, measurable changes that have been made that you can't quantify in a single measurement of how free an economy is. These are investments in people. These are investments in the future of a stable world. So we think that not only do they save lives, they are very cost-efficient.

When one looks at the downward spiral of some of the failing states now, we see that the amount of relief, disaster assistance and displacement which occurs.

It cost us almost as much money to help in the tragedy in Rwanda as the entire development fund for Africa had allocated to it last year. And we believe that development interventions are much more cost effective than having to respond to disasters after they occur.

We will always respond to disasters. It is a very popular and generous program because it does resonate with the American value system. But we have got to have some investments in a development program so we don't always have to deal with disasters.

Our agencies are getting stretched very thin by trying to be so responsive that we are diverting our attention from the real, important issues of development.

But we also think that sustainable development investments are important for our markets at home. We know that 40 percent of U.S. exports go to the developing world, and that it is the fastest growing export market for the United States. Mature markets of Europe are not going to have the absorptive capacity for our products. An emphasis on helping promote political and social stability in these countries around the world will in fact pay off to our own advantage because they will be attractive locations for businesses to enter.

One example that comes to mind right now is with South Africa. Of course, we were all so excited and reaffirmed with the election in April. One of the reasons that the election was so successful and the transition so peaceful was that, for a number of years, AID and the nongovernmental organizations had been investing resources in a whole range of community-based groups—in training, in organizations, in peasant associations—to help people figure out how they were going to have more of a role in shaping their future.

So when it came time for the political change—and I must add that the democracy efforts that were done with NED in AID were very good at that time too—but when the transition came, it was peaceful, because people had been helped to figure out how they are going to have a stake in their future.

Now I understand every single week a new American company is going into South Africa. The climate is very ripe for investment.

Yet I do believe, sir, on the Heritage index of your economic freedom, South Africa is not high, and in fact that is one of the places where more businesses are going in, because the business community is saying that they think they ought to make an investment here.

Now, when we try to teach the American people about what is working and not working in development assistance, we believe we have to explain what is really happening to people—not so much to institutions in the developing world; but what is happening to people is that the literacy rates have improved by a third in just the past several years. The best investment that we have found in terms of human development has been in education for girls and trying to bring them into the school systems, to stay in those school systems.

For every year of education a girl has beyond the fourth grade she has one less child. She has more opportunities for her own economic investment and her own ability to help her own family. So those kinds of programs in basic education, we think, have long-term benefits.

If we look even at South Korea. After the Korean War we were investing heavily in education, basic education and other development programs in South Korea. That education has paid off for South Korea and for us in the long run because now every year Korea imports from the United States more in commodity goods than we ever gave them collectively in foreign aid. So that is a long-term view of what an investment is, and education is very high on that.

Now, I know that we have to look at cutbacks. But I also think we ought to have to look at investments. Where do you get the big-

gest bang for the buck? Where do we put money in that actually leverages other money?

Let me give you just one example that comes to mind, and that is the Citizens Network for Foreign Affairs, which has an AID-funded project with American companies that are in agribusiness, and they are trying to promote agribusiness in Russia. For every one dollar that AID has been providing, they have been able to leverage \$5 from our private business sector to invest in trade development in the former Soviet Union.

This kind of leveraging is very important. It is leverage that the PVOs also bring to the table in their ability to get donor funds from Americans. But the U.S. Government can't be missing from the table. If we do not contribute to the multilateral banks, if we do not contribute to the United Nations for a number of their programs, we are not going to be there, and our voice is not going to be there, and we are not going to have the ability to leverage other development assistance.

In closing—you have my full testimony. I don't have all of the specifics of where you should cut and where you shouldn't cut. We would be glad to work with the committee and with the staff and our member agencies to identify some very specific, cost effective initiatives, because we do understand that there needs to be some trimming. However, we believe you ought to look at a few priorities: First, programs that reach the poor, we think, where maximum control is at the local level, with a lot of public participation that does build self-reliance; those should be supported. Those are the kinds of programs which the NGOs, the private voluntary agencies, are heavily engaged in.

Second, we do believe you should support disaster relief and refugee assistance programs. These programs save lives every single day, and they reflect the best of the humanitarian spirit.

Thirdly, when you are looking at bilateral aid, the government-to-government programs, I think, are ones you have to look at very, very carefully. Those that are not responsive to the kinds of concerns about rule of law or free-market policies or partnership with the private sector are ones whose approval do not deserve as much support as they have had in the past.

We believe that bilateral aid should go to those governments that really have broad-based citizen involvement in the design and implementation of the policies, aid to poor countries rather than middle-income countries. There are lots of problems that we have seen in the past of aid that has gone to countries for political purposes or for strategic purposes which have had a very bad effect on the managing of those countries. We are encouraged that AID has closed missions in 23 countries. We think they can trim a little bit more.

But in this regard, we do strongly believe that Africa, sub-Saharan Africa, must remain a high priority. It is unconscionable that the richest nation in the world currently gives only about 5 percent of the official development aid that goes into that entire continent. And that is—there are 450 million people who are not only having some of the greatest needs in the world but they also have a great potential; and we must not forget them.

As you proceed with your difficult challenges ahead, please know we stand ready to help. We do believe that if the U.S. is not out there leading the donors, leading the value systems, leading the economic changes that need to be done, that nobody will lead. And so we are encouraged that you will make the right decision, and we want to be there to help you as you look at the development assistance and the NGO portion of it.

Thank you, sir.

Mr. CALLAHAN. Thank you. I think you had some materials you wanted to submit.

Ms. TAFT. If I may, sir, one is a poll which you may be interested in the results. And we do have a publication, Ten Myths and Realities of Foreign Aid, if I could submit it for the record.

Mr. CALLAHAN. Without objection.

[CLERK'S NOTE.—The publication mentioned above was retained in the Committee files.]

[The information follows:]

**TESTIMONY BEFORE THE SUBCOMMITTEE
ON FOREIGN OPERATIONS**

**THE COMMITTEE ON APPROPRIATIONS
U.S. HOUSE OF REPRESENTATIVES**

JANUARY 31, 1995

**JULIA TAFT
PRESIDENT AND CEO
INTERACTION**

Mr. Chairman, thank you very much for the opportunity to testify before your sub-committee today and congratulations you on your chairmanship of this very important sub-committee.

I am the President and CEO of InterAction, a coalition of 160 U.S.-based private and voluntary organizations involved in international humanitarian assistance and long-term development work. Our member organizations and others like them are supported by millions of people across the country who give of their time and donate over \$2 billion annually to support this work.

To those who would say that there is no constituency for foreign aid, I would simply say look at the outpouring of support our members receive from their donors and volunteers every day in every Congressional district from Mobile, Alabama to Des Moines, Iowa to southern California and everywhere in between.

Just last week, the University of Maryland released the results of a nationwide poll on American attitudes towards foreign assistance. The key findings of the poll showed that:

*** Three quarters of Americans favor maintaining or increasing funding for foreign aid;**

*** Most Americans believe that the federal government spends more than 15 times the actual expenditures in foreign aid;**

* Among all of the different foreign aid programs, Americans prefer overwhelmingly those which save human lives and help the poor become self-reliant.

I have brought copies of the full poll results with me today for your information. But, what the poll results show is that Americans care most about precisely those programs which are the most vulnerable to budget cuts.

I want to talk about two issues today. First, I want to talk about why humanitarian and development assistance programs are so vitally important to America's national interests and our stake in the world. Second, I want to propose some priorities to you in evaluating our investments in humanitarian and development assistance.

DEVELOPMENT ASSISTANCE AND THE NATIONAL INTEREST

Not since the end of the Second World War has our nation faced such a critical crossroads in our relations with the rest of the world. In the period between the two great wars, we learned the hard lesson that we cannot retreat from our engagement with the world. Truman applied that lesson in designing the Marshall plan. Subsequent American policies, with strong bipartisan support, committed our country to the long battle to contain communism. The current threats to peace and prosperity are different, but they are no less compelling today than they were fifty years ago. We have won the Cold War, but we cannot afford to lose the peace.

In 1980, Latin America had only four functioning democracies. Now there is only one country in the hemisphere under a dictatorship. Central Europe and Russia have undergone an astounding transformation. The peace process in the Middle East and the end of apartheid in South Africa are events we never thought we would see in our lifetimes. In all of these miraculous changes, development assistance has played a role.

We cannot turn our backs on people throughout the world who look to us now for leadership, not in military and security assistance, but rather in promoting democracy, in supporting economic development and in meeting basic human needs. In this post-Cold War era of spreading chaos, the global economic marketplace and instantaneous telecommunications, our stake in the rest of the world, and the developing world in particular, is greater than ever.

What we're talking about is **not foreign aid**. There is nothing foreign about meeting global threats to our own security. Rather, we're talking about international development assistance -- an investment in people, peace and prosperity that serves Americans every bit as much as people abroad.

Our members have first-hand knowledge about the effectiveness of people-to-people programs and how they serve the national interest:

1) **They save lives:** I could give you many examples but let me just cite a couple. Over two and a half million children are alive today who otherwise would not be due to investments in child survival. Clean water is now available to 60% of rural families in the developing world.

Small pox has been eradicated, and with continuing progress polio will also be eradicated by the turn of the century.

- 2) **They reduce the need for costly relief:** The preventive response to the southern Africa drought in 1992 saved millions of lives, prevented a much more costly relief effort, and new drought-resistant crop varieties are continuing to prevent famine in Africa.
- 3) **They expand our markets overseas and create jobs at home:** Forty percent of US exports (\$180 billion worth in 1993) go to the developing world and they are growing faster than any other export market. Effective aid programs are the foundation upon which trade is built and will help ensure that the 80% of the world's population living in the developing world will become consumers of American goods and services and not recipients of relief. In addition, 70% of foreign assistance is spent on American goods and services.
- 4) **They directly address some of our most critical domestic problems:** The battles against the AIDS epidemic, the loss of biodiversity, job insecurity and forced migration must all be waged on an international basis.
- 5) **They teach skills and build self-reliance:** Investments in basic education have increased literacy rates by one-third. Increasing education for girls and women has perhaps the highest payoff of any investment in terms of reduced fertility rates, higher incomes, and better family health. Over 20 million people in the developing world have received loans from micro-enterprise programs, one of the most innovative programs with repayment rates exceeding 95%.
- 6) **They are cost-effective:** Federal support to PVOs helps them leverage four dollars for every one they receive from the government. U.S. government contributions to multilateral

organizations are multiplied several times over.

These successes have resulted from a sustained focus over time, the development of expertise, and from collaboration among USAID, other donors, PVOs and UN specialized agencies. It is a partnership which produces results and which needs to be maintained because there is much yet to be done and because the American people strongly support this endeavor.

Mr. Chairman, you face the unenviable task of identifying areas where cuts may have to be made in the international assistance account. Let me say, however, that you have already succeeded! Since 1985, the U.S. foreign assistance program has been cut by 50% in real terms and 33% in dollar amounts.

While I believe that certain reforms are necessary and efficiencies can be made, further cuts in the programs we support will come at the expense of investments which will pay off many times over in the future. Investments in development assistance bring long-term returns through increased trade and creation of jobs in the U.S. They also reduce expenditures on international humanitarian relief and can reduce the costs of domestic programs addressing problems with international origins. This long-term perspective is critical in making the best investment choices today affecting our future and the future of our children.

PRIORITIES FOR HUMANITARIAN AND DEVELOPMENT ASSISTANCE

Let me turn now to the question of priorities: where can our investments in humanitarian and

development assistance get the most bang for the buck? I would like to propose a set of priorities which I think should be used when you evaluate bilateral and multilateral aid programs. Applied across the board, these priorities would dramatically reform our international assistance program. While much progress has been made in reform at AID and the World Bank, more needs to be done.

Put simply, ask yourselves four questions: Do these programs help those who need it most? Do they build self-reliance? Do they have a long-term impact? And, do they get results in a cost-effective way?

I propose the following priorities:

1. **Programs which reach the poor directly with maximum local control, invest in human capital and build self-reliance.** People-to-people assistance, such as those programs carried out by PVOs, are probably the most cost-effective investment which can be made with federal funds. These programs are locally-run, non-bureaucratic and promote self-reliance. They reach the poor directly with investments in education, health, economic growth, private business development, environmental stabilization, family planning, agricultural production, democratization and the rule of law.
2. **Disaster relief and refugee assistance programs.** These programs save millions of lives every day and reflect the best of America's humanitarian spirit.

3. Government-to-government programs with governments which have a demonstrated commitment to responsive governance, the rule of law, free market economic policies and partnership with the private sector. International development programs should prioritize aid to governments in those countries where the host government has a demonstrated commitment to the effective investment of aid resources. The use of aid resources to induce policy reform should be left to the multilateral lending institutions. Bilateral aid should go to governments truly committed to a partnership in development meaning broad citizen involvement in the design and implementation of policies and programs.

The private sector, whether in this country or abroad, cannot do it all. Therefore, we support effective partnerships between the public and private sectors and bilateral aid to governments which meet the criteria I have just mentioned.

4. Aid to poor countries rather than middle income countries. Scarce aid resources should be concentrated on those countries which are the poorest and those programs which target the poor. Special consideration must be made for sub-Saharan Africa because both the human need is so great and the untapped economic potential is so large. Middle-income countries should become targets for trade promotion, democratization and programs addressing global issues, where appropriate.

5. Programs which show results. Development is a long-term process and results are not always immediately apparent. Nonetheless, in this era of shrinking resources, every program

must be able to show either short-term or long-term returns from our investment. We should insist on nothing less.

Mr. Chairman, in conclusion let me say that I and my staff and our member organizations welcome the opportunity to work closely with you as you move ahead in determining funding levels for humanitarian and development assistance. PVOs have played a leading role in supporting recent reforms that focus programs on people-oriented solutions. We will continue to do so with the Executive Branch and with the 104th Congress. The public-private partnership is a critical part of our success in development assistance, and that means a real commitment from each side to the partnership. We stand ready, but we need the full commitment from the government and that means a commitment of resources.

The support of the American people for these programs, their effectiveness overseas and their importance to the long-term peace and prosperity of the world and the United States are the untold story of international development assistance. Most of all, they reflect America's unparalleled leadership in the world. If we don't lead, who will?



Americans and Foreign Aid

A STUDY OF AMERICAN PUBLIC ATTITUDES

Summary of Findings

January 23, 1995

Conducted by the
Program on International Policy Attitudes

A joint program of the
Center for the Study of Policy Attitudes
and the
Center for International and Security Studies at Maryland
School of Public Affairs, University of Maryland

Principal Investigator
Steven Kull

Contrary to the widespread assumption that the American public is strongly opposed to foreign aid, a new study of American attitudes by the Program on International Policy Attitudes (PIPA) has found strong support for maintaining foreign aid at current spending levels or higher. Much of the resistance to foreign aid spending seems to be based on an extreme overestimation of how much the US spends on foreign aid. The PIPA study also shows that Americans want to shift the emphasis of foreign aid spending away from geopolitical allies and toward poor countries. This study included:

- ◆ a nationwide poll of 801 randomly selected adult Americans, (conducted January 12-15, 1995, margin of error of plus or minus 3.5-4.0%.)
- ◆ a review of existing poll data
- ◆ focus groups held in Portland, Oregon and Baltimore, Maryland
- ◆ open-ended telephone interviews

The key findings of the PIPA study are:

1 An overwhelming majority of Americans embraces the principle that the United States should give some aid to help people in foreign countries who are in genuine need.

Eighty percent of those polled agreed that "the United States should be willing to share at least a small portion of its wealth with those in the world who are in great need." This attitude spread across party lines--78% of Republicans agreed.

When poll questions ask respondents to establish priorities, foreign aid is usually given a lower priority than domestic concerns. Eighty-six percent agreed that "Taking care of problems at home is more important than giving aid to foreign countries."

But this does not mean that the majority is against spending any money on the lower priority item of foreign aid. Only 8% said they wanted to eliminate foreign aid entirely.

Several focus group members echoed the statement of a Baltimore man who said, "I think we're a wealthy enough country that we can do both [take care of the poor here and give foreign aid]."

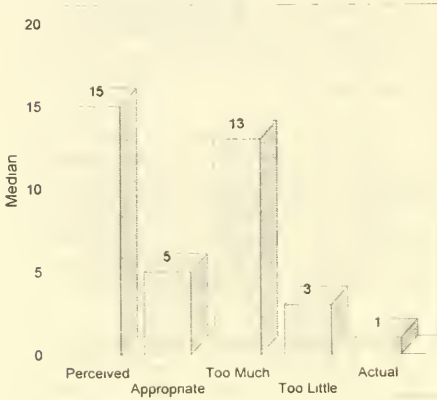
The idea that foreign aid should be replaced by private giving is also rejected. Fifty-eight percent disagreed with the argument that "Helping people in foreign countries is not the proper role for the US government. This should be strictly a private matter, taken care of by individuals giving donations through private organizations."

2 A strong majority says that the United States is spending too much on foreign aid. But this attitude is based on the assumption that the US is spending vastly more than it is, in fact. Asked what an "appropriate" amount would be, the median level proposed is 5 times present spending levels.

Although only a few Americans want to eliminate foreign aid, the PIPA poll found that initially 75% felt that the US spends "too much" on it. A somewhat lower number--64%--said they actually wanted to cut foreign aid spending.

However, this feeling that the US is spending too much seems to be based on the assumption that the US is spending vastly more than it really is. Asked to estimate how much of the federal budget goes to foreign aid, the median estimate was 15%--15 times the actual amount of 1%. The average was even higher--18%. Still higher estimates have been found in other polls. In an October 1993

Foreign Aid as a Percentage of Federal Budget



Louis Harris poll, the average estimate was 33%, and in a November 1994 Harvard School of Public Health poll, 27% assumed that foreign aid was the largest item in the federal budget—larger than the defense budget or social security.

In the PIPA poll, when respondents were asked what an "appropriate amount" would be to spend on foreign aid, the median response was 5% of the budget—5 times present spending levels. The average was 8 percent. Republicans and Democrats did not differ.

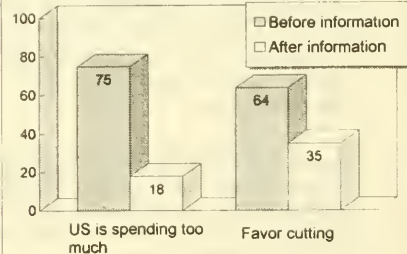
To explore the range of what would be an acceptable level of spending, respondents were then asked "At what percentage would you feel that [foreign aid spending] is starting to be too much?" The median response was 13%. Asked how much would start to be "too little", the median response was 3%—still three times the present spending levels. For Republicans, this number was 2%.

3 When informed about the actual amount of spending on foreign aid, a strong majority favors either maintaining or increasing it.

Asked how they would feel if the US would spend 1% on foreign aid (the amount the US does spend), 18% said this would be "too much"—down from the 75% who had originally said the US is spending too much. Thirty-three percent said this would be "too little" and 46% said it would be about right. Thus, 79% were ready to support present spending levels.

Later in the questionnaire, when respondents were told how much the US spends and how much the average taxpayer pays and to assume that any change they propose would affect their own taxes, 35% said they wanted to cut foreign aid spending—down from the 64% who originally wanted to cut spending. Twenty-five percent wanted to increase spending and 37% wanted to keep it the same. Thus, 62% wanted to at least maintain present spending levels. (Note: It is not unusual for people to respond differently to questions about whether they endorse a level of spending and questions that ask them to actively set a level of spending.)

Changes in attitudes in response to information about actual amount of foreign aid



A similar dynamic was uncovered when respondents were asked to think about how much development assistance the US gives as a percentage of its gross national product, as compared to other industrialized countries. Eighty-one percent incorrectly assumed that the US gives more. When asked how much the US "should" give as a percentage of GNP, 68% said the US should give the same as other industrialized countries. This would be more than the US presently spends.

4 The public wants to change the mix of priorities in foreign aid spending, putting less emphasis on securing US strategic allies and bases around the world and more emphasis on helping the poor and needy.

Support for the traditional objective of using foreign aid to maintain US strategic allies and bases around the world has become quite soft. Fifty-one percent disagreed with the statement that:

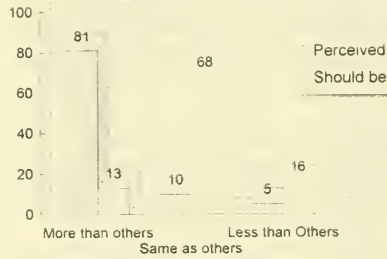
Giving foreign aid to countries who are strategically positioned in the world is a good idea because it ensures that they will stay friendly to us.

with just 45% agreeing. A plurality of 48% agreed with the statement:

Now that the Cold War is over it should no longer be necessary for the US to give money to other countries to make sure that they stay friendly to us or let us base US troops on their territory primarily to defend them.

This attitude is reflected in spending priorities. When the elements of the foreign aid budget were broken out and respondents were told how much was spent on each item and how much the average taxpayer pays, a majority wanted to cut aid to Israel and Egypt (56%) and military aid in general (52%).

Beliefs about US level of Development Assistance Compared to other Industrialized Countries



In fact, US spending as a percentage of GNP ranks at the bottom of the 22 OECD countries

Support for aid to Turkey and Greece was also fairly low with 37% wanting to cut it.

However, programs that emphasize helping the poor and needy were quite popular. On all programs related to helping the poor, strong majorities wanted to either maintain or increase spending—child survival programs (91%), peace corps (90%), humanitarian relief (87%), environmental aid to poor countries (79%), assistance to help poor countries develop (75%), and family planning (74%).

There are indications that this desire for a shift in priorities may be a trend, perhaps reflecting the end of the Cold War. In a question that was asked by Beldon and Russonello in 1986, a plurality of 44% said that the most important countries to get US aid were those that were "important to US security." When this question was asked again in 1992, this number dropped to 21%. Instead, the new plurality of 44% was for "countries with the poorest economies."

	Increase	Maintain	Cut	Increase + Maintain
Child Survival	56	35	8	91
Peace Corps	47	43	9	90
Humanitarian Relief	41	46	12	87
Environmental Aid	38	41	20	79
Assistance to Poor Countries	29	46	24	75
Family Planning	36	38	25	74
Former Socialist Countries	20	52	28	72
Turkey and Greece	6	55	38	61
Military Aid	6	41	52	47
Israel/Egypt	4	38	56	42

Apparently, Americans would be willing to pay significantly more to help the poor, provided that they see it as having a good chance of substantially reducing suffering. Respondents were asked to imagine that the UN had developed a large scale plan for virtually eliminating hunger over a period of five years. Asked to imagine that they were confident that the plan might work and that people in other countries were willing to do their part, 78% said they were willing to pay \$50 per year for five years, and 74% said they were willing to pay \$100 per year for five years in support of this plan.

5 Support for spending on poor countries stems partly from a belief that the world is so interconnected that it is in the economic interest of the US to promote the development of Third World countries.

The majority of Americans seems to feel that giving foreign aid is in the economic

interest of the US. Sixty-three percent of respondents agreed that "The world economy is so interconnected today that, in the long run, helping Third World countries to develop is in the economic interest of the US. Many of these countries will become trading partners that buy our exports, so in the long run, our aid will pay off economically." A 1993 USAID study found that strong majorities of Americans believe that improvements in Third World economies would have a positive effect on US business opportunities (80%) and the US economy (72%).

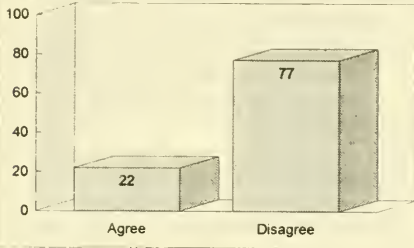
6 Strong support also comes from the attitude that the US has a moral obligation to help nations in need; an overwhelming majority reject the idea that the US should only give aid when it promotes the US national interest.

Most Americans feel that moral reasons for giving aid are strong enough in and of themselves. Sixty-seven percent agree that "As one of the world's rich nations, the United States has a moral responsibility toward poor nations to help them develop economically and improve their people's lives."

An overwhelming majority rejects the idea that the US should only give aid when it serves the national interest. Seventy-seven percent disagreed with the statement that:

We should only make commitments to send aid to parts of the world where we have security interests. These include the former Soviet republics and Eastern Europe where we want to prevent the reemergence of the Russian empire, and the Middle East where we want to ensure access to oil. We should not send aid to other parts of the world, such as Africa, Asia or Latin America because we do not really have vital security interests there.

"We should only make commitments to send aid to parts of the world where we have security interests."



Seventy-six percent agreed that "We should send aid to starving people irrespective of whether it will promote the national interest." A Baltimore man participating in a PIPA focus group made this point clearly when he said:

"I guess I disagree with the proposition that foreign aid must be directly related to strategic interests. In a sense, it goes back to what Barry Goldwater said about foreign aid: 'Foreign aid is bribery.' I guess I'd like to think not. That as a citizen in a community of nations, there are objectives that may or may not be linked to American strategic interests, (like) feeding the starving..."

Americans' responsiveness to suffering does not seem to be greatly influenced by national boundaries. When half the sample was asked how much it troubled them when they hear about hungry children *inside* the US, on a scale of 1 to 10, the average answer was 8.6. When the other half sample was asked about hungry children *outside* the US, the average answer was 7.2

7 A strong majority supports the principle of giving aid to help countries move toward democracy, including former socialist countries, and is unhappy about the amount of aid that goes to countries that are not democratic or have poor human rights records.

Apparently, most Americans feel that US foreign aid policy should be strongly influenced by the American values of democracy and human rights. Sixty-seven percent agreed that, "Foreign aid to newly democratic countries is a good investment for America. Democracies are more stable, have better human rights, and are more likely to be friends with the US."

Seventy-two percent supported maintaining or increasing aid to "countries of the former Soviet Union and Eastern Europe making the transition from socialism to capitalism and democracy." Fifty-nine percent agreed that "it would be foolish to not help the Russians make the transition to democracy and capitalism."

However, arguments that are presented in terms of traditional geopolitics are found less convincing. Only 46% agreed that "Giving aid to countries that used to be part of the Soviet Union or under its influence reduces the chances that they will once again be dominated by Russia."

Finally, most Americans feel that, in general, US foreign aid policy has not been discriminating enough. Eighty percent agreed that "too much US foreign aid goes to governments that are not very democratic and have poor human rights records. This is not consistent with American principles."

8 The majority believes there is widespread waste and corruption in foreign aid programs. A strong majority would be willing to pay more in taxes if they believed that more aid would get to the people who really need it.

Most Americans are frustrated with the performance of foreign aid programs. Eighty-three percent agreed that "There is so much waste and corruption in the process of giving foreign aid that very little aid actually reaches the people who really need it."

Fifty-eight percent concurred that "If I knew that most foreign aid was going to the poor people who really need it rather than to wasteful bureaucracies and corrupt governments, I would be willing to pay more in taxes for foreign aid."

9 To promote self-reliance, the majority is willing to spend more on aid that emphasizes training and development, and is willing to give poor countries preferential trade treatment.

Americans put such a high value on self-reliance that they are willing to pay more in taxes in support of foreign aid programs that are designed to foster it. Sixty-five percent supported the statement :

I prefer to give a hand up rather than a handout. Simply giving money and goods to poor countries can make them dependent. Whenever possible, I prefer to give them training and access to credit and other resources so that they can become self-reliant and I would be willing to pay more in taxes to that end.

A strong majority also saw promoting development as a way of avoiding the need for humanitarian relief. Eighty percent agreed that "the really intelligent thing to do is to help poor countries develop so that their economies are strong enough to cope with (disasters)."

Focus group and interview participants likewise stressed the goal of self-sufficiency when giving foreign aid. "Humanitarian aid is kind of a crisis situation," said a Portland woman. "But development [aid] builds the country so that people can do better for themselves ... you really see the long-term results." She concluded, "You can give them food, but that doesn't mean they will have food two years later."

Consistent with this emphasis on making developing countries more self-reliant, 69% favored transferring some trade quotas from wealthier countries to developing countries, so that they can sell more of their products in the US, even when it was suggested that taking quotas away from other countries might be politically sensitive.

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The Program on International Policy Attitudes (PIPA) is a joint program of the Center for International and Security Studies at Maryland and the Center for the Study of Policy Attitudes. PIPA undertakes research on American attitudes in both the public and in the policymaking community toward a variety of international and foreign policy issues. It seeks to disseminate its findings to members of government, the press, and the public, as well as academia.

The Center for International and Security Studies at Maryland (CISSM), at the University of Maryland's School for Public Affairs, pursues policy-oriented scholarship on major issues facing the United States in the global arena. Using its research, forums, and publications, CISSM links the University and the policy community to improve communication between scholars and practitioners.

The Center for the Study of Policy Attitudes (CSPA) is an independent nonprofit organization of social science researchers devoted to increasing understanding of public and elite attitudes shaping contemporary public policy. Using innovative research methods, CSPA seeks not only to examine overt policy opinions or positions, but to reveal the underlying values, assumptions, and feelings that sustain such opinions.

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Mr. CALLAHAN. Other materials may be submitted by other witnesses and other Members of the committee.

Ms. Powers.

MS. POWER'S OPENING STATEMENT

Ms. POWERS. We have had two rather contrasting views now, food for thought.

I am Linda Powers, Vice President of Global Finance, from Enron; and I would like to offer a third perspective, and maybe distinguish a little bit between the goals that we are after versus the approach by which we get there.

My remarks are going to be based on the firsthand experience of the business community in these developing countries that are major recipients of foreign aid—experiences from my company and from several others in our industry, Mission Energy, AES, General Electric Power Systems. I would like to start off with some of the goals that we are trying to achieve, but then I want to spend most of my allotted time talking about three things—about a different way to approach getting to those goals.

I want to describe to you some major changes that have been going on in the developing countries, that have opened up a new possibility: the possibility for the private sector to deliver a lot of these development benefits that the existing foreign assistance programs have been trying to deliver.

And secondly, I want to explain to you exactly how that is working, with a couple of real world examples. And then I will tie that, thirdly, to some of the budget considerations that you have to think about and what that means about where you can cut some of the spending and where the spending can be made more effective.

Let me just say before I start that my remarks are not addressing humanitarian assistance. That is a separate area and a separate set of considerations.

The goals, what are we after? I would suggest that we are after basically three things here. First of all, I think we can all agree that we are after the goal of getting these countries on the road to their own development, getting the development, their own growth under way so it can become a self-sustaining thing.

The second goal, which is more controversial as you have already seen this morning, is coping with the existing problems, the difficult situations, the poverty and tough conditions in these countries right now. And then, thirdly, we are trying to be consistent with our own national interests.

Out of these three, I would suggest from a private sector perspective that the first is the most important. The only way that these countries are ever going to be able to really, truly raise their standard of living is through development and progress. No matter how well intentioned we are and no matter how rich a country we are, there is no way we will ever have enough foreign assistance funds to address all of the needs, let alone to make a general increase in the standard of living. So how do we go about spending our foreign assistance dollars in a way to get the most impact in helping these countries move towards their own development?

What our programs are, by and large, doing now, and have been doing up until now, has been spending a lot of money primarily on

various kinds of policy analyses and recommendations, technical assistance, and planning exercises. In other words, they have been advising these countries on what they need to do and how they need to do it to get their own growth under way.

What I am here to describe to you this morning is the way in which changes in the circumstances of these countries are now enabling companies like my own to have a more effective impact in connection with the private infrastructure projects that we are building in these countries. What is happening is these countries have begun allowing companies like ours to come in and develop and own and operate the basic infrastructure—that is, the infrastructure that they need to develop, but also to improve the living standards of their population. It is electricity, it is safe drinking water, it is telephones, it is the basics.

What these private infrastructure projects are doing is, they are serving as the action-forcing events that are finally making it necessary for these countries to implement these policy changes that we have been telling them for such a long time would be a good idea.

The other thing that the development projects are doing is, as part of putting the projects in place, we are putting a lot of actual physical facilities in place, that is hospitals, schools, things like that, to address the immediate problem conditions in the areas of those projects.

So what you have now—and this really is not much known outside the sector and the companies that are doing it (it is relatively recent) is that you have private parties beginning to bear the costs for the kinds of reform efforts, bringing them to fruition with the host countries, and bearing the costs for the facilities that you need to address the problem conditions in the meantime.

Now that the private sector is beginning to do those two things, what that means is that the foreign assistance programs can and should cut way back on the amount of spending that they are doing on the kind of things they have been doing up until now—that is, advising countries to do exactly what these projects are now doing.

What we do need the foreign assistance program to still continue doing—and this is absolutely essential—is helping to provide the lending to finance these projects. Without that assistance on the lending, we don't have a source of financing, and the private sector players can't bring these projects to fruition—We can't continue to play this role.

So what I am going to suggest to you in my concluding recommendation is that you cut way back, as I have said, on the existing policy and technical assistance activities, take a fraction of that money and rechannel it to the finance agencies. That is what is essential.

Now, what will this approach do for you? It will do two really important things. One thing it will do is, it will leverage the U.S. taxpayers' dollar very significantly. The U.S. taxpayer will stop spending money for a lot of these development benefits that we in the private sector are now paying for; and also, more importantly in a way, each dollar that you put into the finance agencies achieves \$20 to \$40 of lending capacity for each dollar, as opposed to foreign grants, which are just one for one. So you get a lot of leverage.

The other important thing about this approach is, it is not just doable for a couple of countries in the best cases. It is doable everywhere. And it is already happening in a surprising range of countries. It is not just India and China; it is the poorest and weakest.

For example, Mozambique had the unfortunate distinction of being ranked as the poorest country in 1994. Up until just three years ago, it was a war-torn country and had a Marxist economy. My company is now in there pursuing a \$500 million project.

We have already completed projects in other countries like the Dominican Republic, Guatemala, Colombia, et cetera. Another one of our fellow companies in the industry—AES—is completing a similar sized project, \$400 million, that they are pursuing in Uganda.

If this approach can work in those kinds of places, I think it is really worth serious consideration.

I am just going to touch on a few highlights of the explanation that is in my written testimony of how this process works, why it works; and then I would be happy to answer any questions.

Basically, this whole new approach has come about because developing countries have changed their thinking about how infrastructure should be provided. They used to feel absolutely it should be a government function. And what forced them to change their thinking was mainly two things:

One, necessity. They couldn't finance them anymore. There was no more money. They didn't have their own money, and sovereign credit had dried up, and sovereign aid had dried up from a number of sources like the former Soviet Union.

The other thing that forced them into a change of thinking was that the old statist approach didn't work. Under the statist approach, they typically built projects too large, they got completed way after schedule, way over budget, were loaded up with five or ten times the employees they should have, and they didn't function. The availability, for example, of power plants was usually something like 50 percent when it should be 85 to 90 percent.

Those are the kinds of problems that created the opening for our companies to come in, starting in the last five years or so, and do these projects privately, take huge risks, undertake huge costs, but get compensated for it, including the costs of the development benefits that we are bringing, and still deliver the services cheaper and more reliably than what they had before.

So how do we do it? When we come in to do one of these projects, how does it happen that we achieve these two kinds of development benefits I describe?

First of all, in achieving the first kind of development benefit, helping these countries finally implement the changes we have been telling them for so long that they needed to do, here is how it works.

We sit down with the host country ministries. It usually takes two or three years to develop one of these projects, and we have teams of people meeting with them on a daily basis throughout this time. And what you do is you work out everything. You work out what the size of the infrastructure need really is, how much electric power is really needed, where can the fuel can come from, figure out the site, you figure out where the equipment is going to

come from, you figure out all the contracts, you put the contracts in place to sell the electricity.

You work all of that out. In order to work that out, what happens is the authorities find out that—at least I will give you four examples of major areas where they really have to finally get in place the market-oriented reforms that have been talked about:

Property rights. You have got to have enforceable contracts, mortgages, security interests, et cetera. And they have got to remain enforceable and valid and binding.

Marketing pricing. One of the biggest problems in these countries is they have all had hugely subsidized infrastructure services. It has been a huge drain on the treasuries. It has distorted their economies, made their industries wasteful and made it unattractive economically to provide these services as widely and with as much investment in the facility as you should. Projects like ours aren't financeable as long as you have artificially depressed prices. So they have to bring the prices into alignment with market pricing.

Regulatory reforms. All the things like permits and approvals that you have to have. Certainty and transparency. Then, sound lending practices. Most developing countries have banks that are state owned or controlled, and they don't have experience with project lending or financing. You go through one of these project processes and you start to get an education on that front.

Just to give you one real-world example of it, our company is just closing this week a \$920 million power plant in Dabhol, India. It is one of the poorest there is in India, south of Bombay. Just to give two examples, it has been a typical two-to-three-year development process. The state in which the project is located has had heavily subsidized prices for electricity. They are now revamping the entire pricing structure to bring it into line with the market the pricing strategy of our project. And the five state banks in India that had been influenced by state lending priorities and so forth now have world-class experience in project financing.

The second kind of development benefit, I will just give you a brief glimpse of from our real-world example in India, that is dealing with the current problem conditions. In our \$920 million India project, we have got \$24.5 million of capital expenditures for a 50-bed hospital, a primary school, a vocational school, and other improvements like that.

And that is not an isolated example. That is absolutely typical in these projects because you need that kind of thing in order to have local support.

I think it may go without saying—I will just mention it in passing before I come to my last point about what needs remain for foreign assistance—these projects are obviously of great benefit to U.S. national interests. They are of tremendous economic value. You have got hundreds of millions of dollars of capital equipment and high value-added engineering and other services being sourced in the U.S. for each project. These projects are going to surpass aircraft this decade in export value to the U.S.

That brings me to the last piece of the picture, and that is, if the private sector—if these projects are being so effective in making regulatory reform happen and in dealing with the needs for hospitals, schools, et cetera, what does that leave for the foreign assistance program to do?

It leaves one critical thing, and I can't emphasize enough how essential this is, and that is the lending that we need for these projects. We put hundreds of millions of our own money in in the form of equity, and we have to have some kind of debt source for the rest of the project costs. I won't go into why (it is laid out in my paper) but the fact of the matter is that, for the time being, the private commercial banks are nowhere in sight for this project lending, and they are not going to be anytime soon. The capital markets are there, on and off. External events can cause them to evaporate overnight. We have had this happen. You can be a year into the financing process; you get down to the last minute and the market goes.

So the only viable source that we have for probably the next 10 years is the public finance agencies. As I said at the beginning, in particular the national ones are absolutely critical. They are tremendously efficient. They get \$20 to \$40 of lending for each dollar that is put into them. Without them, we are not going to be able to continue doing this private-sector role.

So if you want to save money and still get further in achieving these foreign assistance goals, we would like to recommend to you that you consider serious cuts in the existing foreign assistance programs and channeling a fraction of that to the finance agencies.

Thanks.

[The statement of Ms. Powers follows:]

TESTIMONY
by
LINDA F. POWERS
before the
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS
U.S. House of Representatives

Tuesday, January 31, 1995

Good morning. My name is Linda Powers, and I am Vice President, Global Finance, of Enron Development Corp.

This Committee's hearings on the U.S. foreign assistance program could not be more timely, and I very much appreciate the opportunity to appear and share some thoughts from a private sector perspective on what works and what does not work in developing economies.

My company, Enron, is based in Texas, and is the largest natural gas company in the world outside of the Former Soviet Union. We develop and finance clean energy projects in countries around the world. My remarks this morning are based on first-hand experience in developing countries that are significant recipients of foreign assistance -- the experience of my own company, as well as three other leading developers of energy projects in these countries: Mission Energy, of California, AES, based in Virginia, and General Electric Power Systems, based in New York. Collectively, our companies will bring to closure projects totalling nearly \$10 billion *per year* for the next several years, and more thereafter.

In my allotted time this morning, I would like to do three things:

- First, describe a profound change in the way many developing countries are seeking to meet their needs for new and upgraded infrastructure. This change has opened the way for private companies to begin delivering development assistance.
- Second, explain how this new private sector approach to development assistance is working, and why it is proving to be more effective than existing public foreign assistance programs.
- Third, suggest how this private sector approach can serve as basis for significant reductions in foreign aid spending, limiting U.S. foreign assistance dollars to a very surgical role, and at the same time achieving development goals *more* effectively.

My remarks today do not address humanitarian assistance. That involves a different set of considerations, and is a relatively limited part of U.S. foreign assistance spending.

What the U.S. does with its foreign assistance program is very important: the U.S. provides fully one-fifth of all government sponsored aid worldwide. As such, it has an important impact both in and of itself, and as a model for others. What the U.S. does in foreign assistance is also important as a point of comparison with what it does to address various needs at home.

To be successful, the U.S. foreign assistance program must essentially do three things: (1) promote the recipient country's own development and growth; (2) cope with existing problem conditions in the recipient country (medical, educational, etc.) in the interim, until the country's own development progress can alleviate these problems; and (3) be consistent with U.S. national interests. Of these three keys, the first is the most important. It is only by fostering a country's own development that the country's living conditions can really be improved. Foreign assistance was never meant to be a way of life, and assistance funds by themselves can never be sufficient to meet the full extent of existing needs, let alone lift the general standard of living.

With this in mind, the core question for this Committee to address in reviewing the 150 Account is: what kinds of expenditures will have the most impact helping a recipient country get its own development process underway? A secondary question is: how much money should be spent on alleviating current problems instead, and in what fashion?

I would like to recommend to this Committee that a greater impact in fostering development can be achieved, and current problems can be alleviated to a greater extent, with smaller amounts of money if this money is spent in a different way than is now occurring under U.S. foreign assistance programs. At present, the mainstays of assistance efforts are various kinds of policy recommendations and "support", technical assistance and planning exercises. Despite the large amounts of funds being spent in this way, there are very little visible or measurable results being produced, as numerous GAO and other reports have documented.

Thanks to certain changes in the developing countries which I will describe in a minute, a new way of achieving the same development goals has become possible. Private parties, like our company and others, are now able to develop, construct, own and operate private infrastructure projects in these countries. In the process of doing so, private parties are able to achieve the two things which U.S. foreign assistance efforts have long been trying (without much success) to achieve: (1) the projects are serving as action-forcing events that are getting the host countries to finally *implement* the legal and policy changes long urged upon them; and (2) as an adjunct to these projects, to win local support, the private developers are installing substantial amounts of medical facilities, schools and the like to alleviate current problems in these countries.

Under this new approach, the private parties are bearing the costs, both for bringing the policy reform process to fruition with the host country governments, and for the facilities to alleviate current problems. In fact, the amount of money private parties are spending on these things in conjunction with these infrastructure projects is already surpassing what the U.S. has been able to spend in public funds, as I will illustrate shortly with some real world examples. Since private parties are spending their own money on these things, they are also maximizing the efficiency.

As a result, the U.S. can and should now cut way back on the amounts of foreign assistance funds it is spending on these things. Instead, the U.S. should take a fraction of these savings and spend it in a different way: providing some of the lending capacity needed to enable the private sector to continue this growing role. Private parties are putting hundreds of millions of dollars of equity into these projects, but the projects are too big for the companies to be able to finance entirely from their own resources. The projects can only go forward if project lending is available to combine with the equity. For the medium-term future (but not forever) the only viable source for such lending is the public finance agencies: the national ones (OPIC and ExIm) and, to some extent, the multilateral development banks (MDBs).

By making significant cuts in the current foreign assistance activities that are no longer useful, and rechanneling a small portion to the finance agencies, this Committee can enable the private sector to continue this growing role in footing the bills for development assistance and producing more visible results. This approach achieves tremendous leveraging of U.S. taxpayer dollars: U.S. taxpayers no longer pay for much of these development benefits -- they only loan some of the money to the private parties who develop these projects, who pay for the benefits as part of the project costs and repay the loans. Furthermore, instead of these dollars being spent one-for-one, as foreign assistance grants are, each dollar provided to a finance agency is able to achieve twenty to forty times that amount in lending capacity.

This private sector driven approach I am describing applies not only in the energy sector, which is my company's area of activity, but also in the other infrastructure sectors -- toll roads and other transport facilities; water and sewage; telecom -- and potentially in industrial sectors. Furthermore, it is an approach that is working in the whole range of developing countries: both the larger and stronger ones, such as India and China, and also the poorest and weakest, such as Mozambique and Uganda. My own company, for example, has already completed major projects in some very difficult countries, such as Guatemala (\$92 million), Dominican Republic (\$205 million), Colombia (\$215 million) and the Philippines (\$135 million and \$130 million), and the project we are pursuing in Mozambique is also quite large (\$500 million). AES' project in Uganda is similarly large (\$400 million).

Let me now describe more specifically why this new approach has come about and how it works.

Changes In Developing Countries Have Opened The Way For A Major Private Role In Development

In the last five years, there have been major changes in many developing countries' views on how infrastructure activities should best be organized, administered, and even owned. Functions that were once considered the "natural" domain of government have been found to operate more efficiently and cheaply when turned over to private business. In addition, areas viewed as "natural" monopolies have been found to be appropriate for intense competition, e.g., the generation of electricity and even the construction and operation of large roadways.

The main impetus for this fundamental change in thinking came from necessity: the developing countries were no longer able to arrange public financing for these infrastructure projects. They did not have the huge amounts of funds themselves, and they no longer had access to the kinds of credits they had in the past. Sovereign lending tailed off because of bad experiences in the past, and some major foreign aid sources (such as the USSR) had disappeared.

Another impetus for this change in thinking has been that the old statist approach to these infrastructure projects has been a failure. Under the old approach, government planners conceived and controlled the projects, with very poor results. The projects were typically large and overly ambitious, completed far later than scheduled, at costs far greater than originally budgeted, staffed with five to ten times the number of employees necessary for effective operation, and operated at very low levels of utilization, safety, and environmental responsibility. Just to give you one example from my company's sector: electric power plants typically operated at only about 50% of capacity, whereas the norm should be 85-90%.

Such problems are typical and widespread in the developing countries: the lights don't stay on, the water isn't safe to drink, the roads are dangerous and congested, and phone calls are impossible to make or receive. These problems are what has created the opportunity for private companies like ours to come in, undertake enormous risks and costs (including ancillary benefits costs), get compensated for those risks and costs, and still deliver the services more reliably and cheaply than the existing public projects in these countries.

Furthermore, these infrastructure problems are the most important issue to be addressed by the developing countries themselves and by assistance donors. Why? Because basic infrastructure (electricity, safe water, sewage treatment, transport and telephones) is the essential key, both to enable economic growth to occur and to improve the living conditions of the population.

Many developing countries have now looked around the world and recognized that reliance on markets and entrepreneurial capitalism have enabled other non-Western countries such as the Asian tigers to develop, despite some difficult political situations and limited natural resource bases. As a result, they have begun to open their own infrastructure sectors to private ownership and operation.

The acceptance of these changes to long-held ways of thinking, and the speed with which they have spread around the globe, has been breathtaking. Country after country has sold government-run enterprises or opened up new facilities to private suppliers--places as diverse and unlikely as Ghana, Bolivia, and Bangladesh are currently proposing or entertaining offers from private sector suppliers like ourselves to buy existing power plants, or to build and operate new ones to meet added demand. It is perhaps not surprising that the foreign aid programs have failed to keep pace with these changes. However, as I explained at the outset, it is time to recognize this wave of change that has swept over the developing countries, recognize the new role that the private sector is now playing in development, and change U.S. foreign assistance spending accordingly.

The Private Sector Is Now Delivering Greater Amounts Of Development Benefits, and Doing So More Effectively, Than Existing U.S. Foreign Assistance Programs

When a firm like Enron, Mission or AES goes into a foreign country to undertake a project, just what do we do? In simplest terms, we identify the need, select a suitable site, design an appropriately sized facility, work out fuel supplies, develop relations with local and central government officials in order to secure the necessary permits and approvals, negotiate power sales contracts, finance and construct the facility, and operate and maintain it over its (20-30 year) useful life. We make money by selling an important commodity -- electricity -- to the local people at a reasonable price.

If we are successful, the results are not only the addition of valuable physical assets to the country, but, equally important, the creation of "commercial infrastructure". These projects must be put together and financed using standard private sector tools. This process, which for the first round of projects is invariably painful and time-consuming, forces governmental officials of the country in question to deal with the reforms needed in these key areas:

1. **Property rights**, including the enforceability of contracts. We cannot finance large projects if the pricing in sales contracts is viewed as subject to on-going negotiation even after project completion, or if real estate obligations, be they sales or leases, can be later overturned by government fiat.
2. **Market pricing**. We borrow money from lenders who want it back, and investors who want a return on their investment. Thus, the price at which we sell our product must be sufficient to cover all our fixed and variable costs, and allow a reasonable profit. Infrastructure services in these countries, such as electricity, are frequently priced with no linkage whatsoever to their costs, and heavily subsidized. These subsidies are a huge drain on the national or state treasury, distort resource allocations, allow industry to be wasteful and uncompetitive, and make further investment in more infrastructure facilities unattractive or impossible. In private projects like ours, costs must be honestly reflected in the prices charged and collected in order for the project to be financeable.
3. **Regulatory reform**. One of the most important regulatory reforms -- privatization -- is, by definition, the necessary starting point for any of these private infrastructure projects. Beyond that, potential investors for such projects are not attracted to countries in which the permits and approvals necessary for plant construction and operation cannot be determined with certainty, or where such permits can be arbitrarily withdrawn or modified. Transparency and predictability in this area are essential, and some streamlining is often necessary as well.
4. **Sound lending**. We deal with real-world financial institutions who are very concerned about project credit strength, security arrangements to bolster credit, currency convertibility, dispute resolution and the like. Banks in many of the developing countries have been state owned or controlled, and their lending has been influenced by government

interests and priorities. They have little experience with international standards of credit analysis, comparative rates of return and sound lending practices. In private infrastructure projects, the financing packages are typically assembled from number of different lenders, both local and international. The lenders must learn each others' requirements and work out common loan terms for the projects.

These are the kinds of important changes in laws, policies and practices that private sector led infrastructure projects are causing to finally be implemented. By working closely with private developers, engineers, financial advisors, lawyers and lenders throughout the several-year process of project development and financing, host country authorities come to recognize that the project can only go forward to fruition if these kinds of changes are made. Importantly, the project also provides these authorities with some "cover" against domestic criticism and resistance to these changes: the authorities can point to immediate, tangible benefits as a counterweight (ending of brown-outs, availability of new drinking water supplies, and the like).

Let me give you a real world example to illustrate these points. Just yesterday, Enron reached closing on a \$920 million power plant project in Dabhol, one of the poorest areas of India, just south of Bombay. The project has been put together by an all-U.S. consortium (Enron, Bechtel and GE), and is using U.S. sourcing for the capital equipment, engineering and other services, other than the local labor and materials for construction.

This is the first privately developed independent power plant in India. Like most such projects, it has taken nearly three years to develop the project and arrange the financing. Throughout this process, we have worked with the numerous relevant ministries of the Government of India and the State of Maharashtra on a daily basis, as well as with the Foreign Investment Promotion Board, the central bank, and five leading Indian banks. We have had teams of specialists on the ground, addressing each set of issues (electricity sales, fuel supply, environmental requirements, site acquisition from over 600 landowners, construction arrangements, equipment procurement, financing, foreign exchange requirements, legal and tax issues, relations with surrounding villages, etc.), and working to obtain the nearly 150 different kinds of permits and approvals required.

Working through this process has given the Indian authorities a real and concrete understanding of the kinds of legal and policy changes needed in India, and has given the Indian banks a real and concrete understanding of sound project lending practices. Moreover, our company spent an enormous amount of its own money -- approximately \$20 million -- on this education and project development process alone, not including any project costs.

Thus, in only one large project by one U.S. company, we have already spent more money on the educational process than the U.S. could afford to spend in public funds for this purpose. Furthermore, the education provided by our project has had a greater impact than would further general technical assistance, and has finally achieved some key changes that have long been urged by development institutions such as the World Bank and AID. Just two of a number of examples:

- The State of Maharashtra, where our project is located in India, is now revamping its electricity rate structure to end electricity price subsidies.
- Five leading Indian banks are playing a major role in the total financing package for our power plant project. They have not previously done project financing, but through the financing process on our project they have developed a thorough understanding of project finance, international lending practices, project credit evaluation and security requirements, and the like -- something that no amount of technical assistance could have achieved as effectively as a real live project.

In these and many other ways, projects like ours help a host country actually put in place the "commercial infrastructure" necessary for development to occur -- i.e., the policies, laws and practices that are the basic tools of a market economy. As I said at the beginning, this is the first key to a successful foreign assistance program.

Now, let me describe how our India project is achieving what I described earlier as the second key to a successful foreign assistance program: coping with current problems in the host country. As I have already mentioned, the total project costs are about \$920 million. Included in this amount are very substantial amounts of medical, educational, employment and other benefits of the kind traditionally thought of as the job of foreign assistance programs.

Specifically, our capital expenditure budget for the project includes **\$24.5 million** for a fifty-bed hospital, a primary school, a vocational school, drinking water pipelines for the surrounding villages and road improvements. The budget also includes an additional **\$75 million** for port improvements (dredging, new jetties, etc.) that will be available for general public use. Finally, the project includes employment for several hundred persons, both at the plant and elsewhere, with an annual payroll of \$5 million throughout the life of the project. We provide extensive training for the employees, and these are high value jobs relative to the local economy.

Why do we, and other developers, include such things in our projects? To win local support and support of the authorities, and contribute to the general improvement of conditions in the area. It is somewhat like the kind of improvements and amenities a real estate developer provides in connection with a sub-division project. Since private infrastructure projects are such a large and long term (20-30 year) investment, it is essential that local and governmental support be very solid. Therefore, Enron and other project developers are careful to include substantial benefits in their projects. (For example, AES has included \$14.2 million in its \$344 million project in Pakistan, \$31 million in its \$680 million project in another part of India, and similar items elsewhere.)

So, in this regard as well, private projects are delivering larger amounts of real, tangible benefits for immediate improvements in local health, education and employment conditions than the U.S. could afford to do with public foreign assistance funds. As I said at the beginning, coping with such existing problems is the second key to a successful foreign assistance program.

The success of these private projects in achieving the third key -- benefitting U.S. interests -- should already be obvious from my description of the projects, and I will touch on it only briefly. One of the main (though not the only) benefits to U.S. interests lies in the economic value of these infrastructure projects. They are very large, usually ranging from about \$200-700 million *per project*. They include correspondingly large amounts of capital equipment, and engineering and other high value-added services. Since much of these goods and services can be sourced in the U.S., these infrastructure projects are the most important area of growth in export value to the U.S. In fact, they are already catching up to aircraft in export importance, and should surpass aircraft during this decade.

Limited Amounts Of Public Funds Remain Essential (For Now) To Help Provide The Necessary Lending Capacity For These Private Infrastructure Projects

These, then, are the ways in which this private sector- and market-driven approach is achieving the three keys to a successful foreign assistance program. The existing foreign assistance programs should perhaps be commended for having done such a thorough job of advising countries on what needs to be done and how they should do it. But now, these countries do not need any more studies, harangues, or advice. They need to get on with the doing. I have just outlined the reasons why private infrastructure projects are now the most effective way to make this happen.

Let me now fill in the last piece of the picture: what role does this leave for public foreign assistance efforts to play? Apart from humanitarian assistance (which I am not addressing), it leaves one limited surgical role that is absolutely essential in order for the private sector to be able to continue delivering these development benefits as I have described: providing some of the lending capacity needed for these infrastructure projects.

These projects have to be financed on a project finance basis. Companies like ours put in a large amount of equity -- usually 25-30%. (In our India project, for example, we have put in 30% equity: that's \$300 million, cash.) Companies then need a source of debt financing for the rest of the project costs.

As I explained at the beginning of my remarks, the only viable source for such debt at this time is the public finance agencies. Companies are not able to finance them through balance sheet borrowing because these projects are so huge that even a large company like Enron's balance sheet cannot support them.

Commercial banks are unwilling (for now) to provide the project finance for these projects for several reasons. First, they are still feeling chastened by the prior bad experiences with LDC sovereign loans. Although project loans are more secure in some important ways than sovereign loans, the projects are still exposed to country and political risks. These risks can be hard to predict over the long term, and hard to cope with. Second, the typical duration of these infrastructure projects is twenty to thirty years, and the minimum period needed to pay off the

project debt is ten to fifteen years. Commercial banks cannot handle such long repayment periods. Third, a track record has not yet developed on these kinds of projects, as the first such projects have only begun in the last several years. As a result, commercial banks do not yet have enough benchmarks to help them overcome the other concerns.

The only other possible source of project debt is tapping the capital markets directly (large institutional investors). Our company has been an industry leader in this. We, and other U.S. companies, were first able to tap these sources in late 1993 and have tried to do so in several more transactions since. However, this is an extremely unreliable source: the capital markets' availability for these emerging markets projects evaporated overnight in the first quarter of last year when interest rates rose in the U.S., and again evaporated overnight at the end of December due to the crisis in Mexico. Just to give you two examples: \$150 million of the debt for our India project, and all of the debt for a \$130 million project we have under way in China, was planned to come from the capital markets and scheduled for closing this month. These financings had been nearly a year in the making and both became impossible at the last minute due to external events. For India, we scrambled to arrange bridge financing, and for China we are still searching.

For these reasons, the public finance agencies are absolutely essential. It should now be clear, but I would like to underscore as well, that companies like ours using these agencies for project finance are **not** seeking to duck putting our own money in (I have already explained that we put in tens of millions in risk money for development costs, and hundreds of millions in project equity). Even more importantly, we are **not** seeking to use these agencies for a pricing advantage -- it is a question of sheer availability of lending. We are paying relatively high rates for the financing from these agencies, and we support the idea that the pricing should reasonably reflect the risks. For example, in our India project we are paying an all-in rate of about 11% on the \$400 million in financing from OPIC and ExIm, and in some of our other projects we are paying considerably higher.

We expect our need for public finance agencies to continue for the medium-term future, but not forever -- just until a sufficient track record of success with enough of these projects in enough countries builds up so that private lenders will gradually come in. A realistic estimate might be about ten to twelve years (figuring on two to three years for development, three years for construction and a couple of years of operations for each project comprising the track record).

I will make only a few overall comments on the finance agencies, as I understand that hearings are likely to be held later on, specifically to address the finance agencies. This morning, keeping the focus on the 150 Account overall, I would like to leave you with just two final points about these finance agencies.

First, a serious gap is already growing between the current lending capacity of these agencies and the amounts of lending needed for all the sound private infrastructure projects that are finishing the development process and coming ready for financing and construction. I would be happy to provide the Committee with facts and figures documenting this. This capacity shortfall is

especially acute at one of the U.S. agencies -- the Overseas Private Investment Corporation (OPIC). The shortfall would also become immediately acute if certain proposed cuts were made in the U.S. Export Import Bank. Together, these two agencies and their lending are absolutely essential to the ability of the private sector to continue the growing role in development assistance that I have described today. They are the most important among all of the finance agencies at this time.

The World Bank and other multilateral development banks (MDBs) also have the potential to become useful players for private infrastructure projects. To date, experience with them has been very mixed. There are a few bright spots. The most important of these is the new guarantee program at the World Bank for private projects, but it is having to operate with one hand tied behind its back. Other bright spots include the new program for private project lending at the InterAmerican Development Bank, and individual positive experiences (such as our current experience on the Mozambique project with the International Development Association). Apart from these bright spots, the majority of the MDB programs are still operating under the old approach and as such are not very useful. With only four or five key changes, the MDBs could become important players for private infrastructure projects. We believe these changes should be quite achievable, and are heartened by the MDBs' own growing recognition of the need for such changes.

The second of my two final points is to come full circle, and re-emphasize as I did at the outset, that as this Committee considers what changes and cuts to make in the 150 Account, it is important to recognize how much more mileage can be obtained from spending smaller amounts of money but channelling them to the finance agencies and cutting the amount of spending on policy advice, technical assistance and planning exercises. This change in spending approach will relieve the U.S. taxpayer of paying for a lot of development benefits that private parties can now provide, and will achieve leveraging of twenty to forty dollars per dollar of public funds spent.

Thank you for allowing me to appear before you today. I will of course be happy to try to answer any questions you may have.

NEED TO REFORM

Mr. CALLAHAN. Thank you very much for your testimony, all three of you. All of them were educational and interesting. In fact, I got a note from the Chairman here saying we ought to adopt some of these projects. I don't know which one of you he was talking about.

I do agree, and I think all of you had a common theme. You talked essentially about, you recognize the need to reform in some manner. The question is how you reform.

You recognize the dilemma we are in about having to cut the overall foreign aid package. And yet we still don't have that much money to cut because the package has been cut dramatically over the past 10 or 12 years.

INDIA AND PAKISTAN PROJECTS

With regard to your comments the EximBank or the financial institutions and private enterprise, particularly the portion about going in and helping a country to develop its own schools and hospitals. What percentage of an investment—if you go into the Indian project like you mentioned which is worth \$900 million, and I assume that is a capital investment, how much money would you spend on a project like that, in charitable-type improvements to the community? Would you build schools? Would you build hospitals? Is that included in the \$900 million?

What percentage of the \$900 million would go towards improving the local humanitarian situation?

Ms. POWERS. In the case of India, which is a good example proportionally, we have got \$24.5 million for one set of those, which is the hospital, the schools, and drinking water pipelines to the villages.

We also have an additional \$75 million in port improvements, that the port is available for everybody to use, the fishing communities and so forth. And we have an annual payroll of \$5 million a year for the life of the project. That is very typical.

I will just give you other examples so you have a sense. AES has a \$300 million project in Pakistan, and they have got \$14 million of schools, hospitals, et cetera, in there. And they have a project of \$680 million in another part of India that has got \$30 million in it. So you are getting tens of millions of dollars in each one of these projects, each one, in those benefits.

Mr. CALLAHAN. What happens after the physical facility is built? Who runs the hospital? Where do they get the expertise to manage the hospital, to deliver the services? Who does that?

Ms. POWERS. In our case in India, for example, the state will be supplying the doctors and personnel to run the hospital; and we continue to foot the bills throughout the life of the project.

Mr. CALLAHAN. Do you also continue to pay an annual contribution to the hospital to deliver the services?

Ms. POWERS. The operating costs.

Mr. CALLAHAN. And that comes out of the operations of the power plant?

Ms. POWERS. That is correct.

Mr. CALLAHAN. If the committee could do something or this Congress could do something to enhance this—first, provide them with electricity through this capital investment of private funds; and secondly, deliver humanitarian services through hospital services—are you saying that what we do is expand the monetary capabilities of the multilateral banks or the Eximbank? Or how could we best serve the purposes of your theory?

Ms. POWERS. You can best serve it by making sure that OPIC and Exim and, to a secondary extent, the multilaterals have lending capacity enough to provide the debt for these projects. For example—well, we would be happy to supply you with figures from industry to show what are the projected amounts of projects over the next three years needing financing.

In the India case we have been discussing, we got \$300 million of the financing from Exim and another \$100 million from OPIC for a total of \$400 million. We put in \$300 million cash, as our own equity, and the remainder came mainly from Indian banks.

Mr. CALLAHAN. When you apply for a guarantee or a loan, do they take any of this into consideration?

Ms. POWERS. The development benefits? No. What Exim is oriented towards is U.S. exports. They are keyed towards promoting U.S. exports. So they look—they certainly value the benefit to the host country, and OPIC in particular especially values the benefit to the host country. But it is not the eligibility criteria.

Mr. CALLAHAN. I am going to yield to some of my colleagues.

Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

I thank all of you for coming this morning.

INDEX ON ECONOMIC FREEDOM

Dr. Holmes, last year in a letter to Chairman Obey, I joined with Chairman Livingston in support for the establishment of an Index on Economic Freedom. One concern that we have about the implementation of such an index goes back to Disraeli's old line, "There are lies, damn lies and statistics."

Folks in the pro-Israel community, for example, have presented us with an analysis of your work on Israel. They have raised a number of reasonable objections to the methodology with respect to Israel. Rather than ask you to answer it at this point, I would like to enter some specific concerns into the record and ask that you respond to these when you have time to take a look at them.

The point, quite simply, is, if we are to move closer towards implementing such an index, I think we are going to see other nations registering similar kinds of objections. So I guess the question would be, who is going to establish the ratings, the State Department?

Mr. HOLMES. Well, we have recommended in the past that this is something that the Agency for International Development tried to do; they have not taken our recommendation. Since we are recommending it be abolished, I guess we are going to have to recommend the State Department or someone else, do it.

The methodology that we have used in the Index of Economic Freedom is one that was carefully considered. We have talked to a number of embassies since the index came out. Not surprisingly, the ones who get good scores are happy with the methodology. The ones that don't are not terribly happy.

We have been quite surprised and satisfied with the overall reaction to the methodology. And it is one that has been really thought about for decades now by economists, starting with Milton Friedman and others, about what kind of factors are most important in determining economic growth around the world.

So there are a lot of forefathers and intellectual work that has gone into this. Brian Johnson and Tom Sheehy, who are present here, are the authors of the Index of Economic Freedom. I will ask them to prepare a written response to the objections from the Israelis that you mention.

I will mention, we did meet with the economics counselor from the Israeli Embassy and had what I thought was a very cordial conversation with him. As the counselor said to me, he thought we had, and I quote him, "given Israel fair treatment."

Mr. LIGHTFOOT. I thought it was a good idea or I wouldn't have signed the letter last year. We need something of this nature. But just in terms of the mechanics of putting this type of thing in place, do you think we should have some sort of appeals process in case countries who feel like they were not treated fairly could appeal and have hearings?

Mr. HOLMES. Of course. The index we have published will be published every year, and we will be updating it every year; and whatever system or methodology that the government would put in place should have some kind of a system that would, over time, entail consultation with the countries that are interested in the studies. I think that goes without question.

METHODOLOGY

And I would say that as the years go by, everyone would not only start thinking about economic development in a new way, which frankly is the primary purpose of the study, but they also will refine the methodology—the data would be completely worked out to conform to the factors of the methodology—and that in this way I believe that the U.S. government could create a methodology that would in the long run be accepted by most people.

Mr. LIGHTFOOT. Last week we had some consulting engineers in our district who were in and quite frankly they support a lot of the things you mentioned here today. I really am kind of excited about some of the things that you mentioned, I think they offer some good, common-sense approaches to some of the these positions.

PROBLEMS WITH MULTILATERAL BANKS

I have always supported organizations like Exim, and I hope that we will continue to do that as a group. One of the things that was expressed was some frustration about the development banks and problems that they perceived in dealing with them. We discovered that back in December, for example, the Inter-American Bank awarded to French firms two sole-source, noncompeted road projects in Haiti. It seems rather strange that if we invade a coun-

try to give them their freedom, that they sole-source, noncompete, a road project out to a foreign country.

It seems like we ought to at least have the right to bid on the work, if nothing else. What do we have to do to ease the concerns of my constituents about this particular issue?

Ms. POWERS. I didn't have time, but it is in my written testimony, the experience with the multilaterals has been very mixed. They have the potential to be very useful lenders to the kind of projects I am describing. There are some bright spots where, for example, they have at the Inter-American Development Bank a new program for private lending to private projects, and they have a new guaranty program at the World Bank.

But the majority of their activity is still the old kind of approach, like what your constituents experienced, where basically the bank staff decides in a sort of stultified kind of way what kind of projects should be done and how. And that approach is not tremendously useful anymore.

NEW APPROACHES

But what I would say to you is, it really would only take four or five changes in their programs, in the way they are operating, to bring them around to a new approach and make them useful so that, for example, your constituents could come in with a road project that they have conceived, they found the need in the country, and get the financing for it. That would be the ideal situation.

HELPING U.S. COMPANIES WIN PROJECTS

Mr. LIGHTFOOT. One last question, this type of problem, is it internal with the banks or someone from an agricultural area? We felt for years that the State Department is always on the other side, not ours. Is the American diplomatic community trying to help American businesses in competing for these kinds of contracts?

The Haiti thing, for example, this to me is just almost abusive, that we spend billions of dollars to go down there and then our people don't even get a shot at the projects. Is it the banks? Is it the diplomatic corps? Where is the problem?

Ms. POWERS. As far as helping U.S. companies win these projects, can I tell you that our experience is not with the State Department, in particular, but both the Commerce Department and the Treasury Department have been tremendously helpful in advocacy efforts. When we have gone to them, they have helped us win a major project in India, the offshore oil and gas fields, et cetera.

It may be that your constituents have not had the benefit of the right players in the administration helping with their advocacy, but some elements of the agencies are very helpful.

Mr. LIGHTFOOT. Thank you very much. I just think that, whether it is my constituents or not, if they are American business people they ought to have a shot at the projects.

Thank you, Mr. Chairman.

Mr. CALLAHAN. Mr. Torres.

Mr. TORRES. Thank you, Mr. Chairman. I just arrived, I am sorry for my tardiness. I would at this time just pass and you can come back to me again. Thank you.

Mr. CALLAHAN. Mr. Wolfe, we will come back to you, Mr. Torres. Mr. Wolf.

Mr. WOLF. Thank you, Mr. Chairman. I will be brief because I came in after my colleagues here and I have another meeting. I just would like to ask the witnesses if they could just submit something for the record, maybe make a very brief comment.

HUMAN RIGHTS

Mr. Holmes, I think there is a lot of merit with what you are doing. I am concerned that you don't put in anything with regard to human rights. And we have had a record sometimes with regard to China. They are persecuting Christians in China. It is a fact. They are going into house churches; they are raiding them.

They have an organ transplant program where for \$30,000 if you need a kidney transplant, you can get it. They will kill a prisoner in the prison, take the kidney, and transplant it for \$30,000. They have plundered Tibet. And I am a little disappointed that there is no indication in your ratings, which—I generally think you have a lot of good points—that you would not put anything in with regard to humanitarian aid with regard to our values.

Would you want to comment maybe a little bit here, or if you want to just submit something for the record?

Mr. HOLMES. I will make a brief comment if you like. I will submit a written statement as well.

[The information follows:]

Testimony of Kim R. Holmes,
Vice President and Director of Foreign and Defense Policy Studies,
The Heritage Foundation,

House Appropriations Committee
Subcommittee on Foreign Operations

--January 31, 1995--

Mr. Chairman, thank you for the chance to testify before the House Appropriations Subcommittee on Foreign Operations. It has been recognized for years now, by nearly everyone --from the right, left and center of the political spectrum-- that the U.S. foreign aid program is critically flawed. In addition to having too many goals and too little focus, U.S. development assistance programs have done little to advance economic growth in the developing world. Far more important than economic aid in determining whether a developing country emerges from poverty is that country's own economic policies--in short, how free its economy is. This fundamental fact has been overlooked by the designers of America's foreign aid program. It is about time that they begin looking at it. Without question, this Congress has a unique opportunity to reform foreign aid. This opportunity must be seized. The American people will support a foreign aid program, but only one that serves American interests and promotes international economic growth.

We, at the Heritage Foundation, have examined the issue of foreign aid closely.

We have published the **Index of Economic Freedom**, a study that measures the comparative economic freedom of 101 countries around the world. The Index scores countries on ten factors, including taxation levels, trade barriers, regulations and openness to foreign investment. The purpose of this study was to introduce a new understanding of economic development. Hitherto most development economists and indeed the U.S. foreign aid bureaucracy believed that a laundry list of factors ranging from health, education and even population controls must be manipulated by governments in order for economic development to occur. The Index takes a different approach. It is based on the premise that economic freedom is the most important factor in economic development--or as we prefer to call it, economic growth. As we discovered in the Index, how free an economy was, and not the amount of economic assistance it had received, was the most important and consistent determining factor in a country's level of economic development and its rate of economic growth. This being the case, we concluded that the purpose of economic aid should be to promote economic freedom and to create the economic growth that will someday make this aid unnecessary.

But the **Index of Economic Freedom** is more than a study of the factors contributing to economic development. It also can be instrumental in evaluating America's development assistance programs. The Index can be a useful tool to decide

whether particular countries are deserving of development assistance, and if so, to determine what kind of aid is best for them.

The assumption behind the Index and indeed our entire approach to reforming foreign aid is that U.S. foreign assistance programs should serve three fundamental purposes. They are: 1) to enhance U.S. national security; 2) to advance American national interests; and 3) to promote economic growth around the world, which creates markets for American goods and contributes to democratization and international stability. While we believe that U.S. foreign assistance should be used under certain circumstances for humanitarian purposes and to help friendly foreign countries in an emergency, we also believe that U.S. foreign aid programs should be understood primarily as an extension of U.S. foreign policy, and should be designed to advance its goals.

Thus, some forms of assistance to advance the process of democratization, if they are effective and given to deserving countries, would be compatible with the U.S. goal of promoting international stability. But economic development assistance, which has by and large failed, should be highly scrutinized and curtailed. To the extent that current military and security assistance programs serve the national interest, they, too, should be continued. Economic support for Israel, Egypt, Russia, and the New Independent States (NIS) of the former Soviet Union should by and large be retained, although in the cases of Russia and the NIS, some cuts can be safely made. However, so-called economic support funds for Israel and Egypt should not be understood as a means to promote economic

development, for they surely do not serve this goal, but rather as a form of security support assistance and as a political demonstration of U.S. support for the Middle East peace process.

With these assumptions in mind, we have prepared a list of recommendations which should be considered as the committee reviews the foreign aid program. I need not remind the members of the committee that the balanced budget amendment, if it passes the whole Congress, will bring every federal spending program under close scrutiny. Foreign assistance programs should be no exception. Thus, in this spirit, we recommend that:

**Economic Development aid be made contingent upon a recipient country's commitment to free markets as determined by The Index of Economic Freedom.*

There is a stark contrast between the tremendous economic progress made by such countries as Hong Kong and Singapore that have pursued free market development strategies and other poorer countries like Tanzania and Ethiopia that have pursued a statist approach to economic development. Indeed it should come as no surprise that two of the greatest development success stories of the last few decades, Hong Kong and Singapore, share the highest Index of Economic Freedom score of 1.25. These are two outstanding examples of countries that have elected to unleash the entrepreneurial energies of their peoples by pursuing free market economic policies. The results have been spectacular. The per capita GDPs of Hong Kong and Singapore have grown nearly eight-fold since the

mid-1960s. Over the same period the per capita GDPs of Ethiopia, Chad and Angola grew hardly at all primarily because their economies were unfree.

No one can seriously argue that economic assistance from the advanced industrial democracies is mainly responsible for the economic growth rates of Hong Kong, Singapore or even other "Asian Tigers" like Taiwan or South Korea. To be sure, some of these countries (like South Korea) have received massive amounts of military aid, but surely no reputable economist would contend that spending money on tanks and guns is an economic development strategy. No, the reason the economies of these countries have grown is that they have chosen market economies.

Economic development aid not only does little to advance economic development, it can even be detrimental to the welfare of the countries receiving it. Tanzania is a case in point. Once a *cause celebre* of Western donors, by the early 1970s Tanzania had become one of the most heavily-aided countries in the developing world. The U.S. Agency for International Development (AID) was heavily involved in Tanzania, providing financial support and technical assistance for forced rural collectivization, one of Tanzania's many disastrous socialist schemes. Today, Tanzania is the world's second poorest country, being worse off now than it was at the time of its independence. Foreign aid unquestionably contributed to the destruction of Tanzania's economy. It encouraged and enabled governments to pursue harmful statist economic policies that made economic growth next to impossible to achieve.

Another case in point is Chile, only the outcome has been markedly different. Over the last several years, Chile has had one of the fastest growing economies in the world. It is now the leading "Latin Jaguar." Yet foreign aid had nothing to do with Chile's development success. Indeed, the seeds of this success were laid only after the Chilean government of General Augusto Pinochet was cut off from virtually all foreign aid following its 1973 *coup d'etat*.

Here is how this success story happened. In 1970, Chile was the world's second largest per capita recipient of foreign aid. It was also stagnating economically. In 1973, Salvadore Allende's last year as president, Chile's GDP shrank by 5.6 percent. Around 75 percent of Chile's GDP at this time was controlled by the government. However, after Pinochet came to power, most of Chile's foreign aid was cut off. Unable to rely on the crutch of foreign aid, Pinochet embarked on a privatization and market reform program that transformed Chile's economy. By 1990 government control of the economy had dropped to 25 percent. Moreover, Chile's infant mortality rate was reduced from 78 to 17 per 1,000 births between 1970 and 1991, and its life expectancy rate rose from 64 to 72 years between 1970 and 1990. These improvements occurred because of economic growth, and not because of foreign aid programs.

The Index of Economic Freedom is designed to help identify instances in which development aid is playing the type of destructive role that it once played in Chile. By

helping to determine which countries are economically free, the Index can help policymakers decide which countries are deserving of economic aid--i.e., those that are making progress toward a free market--and those that are not deserving--i.e., those that are unfree and are not making progress toward a free market. Governments with unfree economic policies--those possessing very high taxes, protectionist trade policies, hostile foreign investment climates and burdensome economic regulations, for example--will only waste economic aid. In fact, in many instances economic aid is a crutch upon which the governments become dependent and which prevents them from making the economic reforms necessary to create economic growth.

The Index of Economic Freedom has been recognized by many concerned with the future of the U.S. foreign aid program as the best means of identifying those countries with a commitment to free-market generated economic growth. George M. Ferris, Jr., Chairman of the 1992 President's Commission on the Management of AID Programs, urged AID to establish an Index of Economic Freedom for the purpose of allocating development aid among countries. Last year, minority members of this Committee, including a few of you here today, encouraged AID to develop and use an Index of Economic Freedom as a tool for its development aid allocation decisions. Unfortunately, AID has resisted doing so, despite the fact that it has the requisite data readily available.

Instead of putting the Index at the heart of America's development assistance program, AID allocates aid according to a hodgepodge collection of criteria that are not

nearly as important as economic freedom. Take, for example, AID's criterion of democracy and lawful governance. To be sure, democracy is in the long run important to economic growth and stability, but democracy alone is no guarantee of economic development. Singapore is no democracy, yet its free economy generates very high rates of economic growth. By the same token, Russia is slowly developing democratic institutions, yet its economy is mostly unfree and stagnating.

Economic freedom is far more important to economic development than democracy. In fact, in most cases, economic freedom is the best foundation upon which to build democracy. In the long run free economies produce growth and a middle class that come to demand civil rights, political representation and protection for their property. In short, as has been seen in Taiwan, South Korea, Chile and many other countries, economic liberalization creates pressures for political liberalization. Some countries like Singapore lag behind, but not all countries march in lock-step toward democracy. While the pace of change may differ, most countries that are economically free tend over time to become politically free as well. It is probably only a matter of time before Singapore follows the path of Chile.

Fortunately, Singapore and other authoritarian regimes that pursue free market policies do not need nor receive U.S. economic aid. Thus, the moral question of whether we should be aiding an undemocratic free market country does not often arise. However, there may be a time when this question would arise if an undemocratic government

making progress toward economic reform were to ask for aid. They could ask us for assistance to help them in their transition toward a free market economy even though they are undemocratic. We may be facing such a question with respect to Russia sooner than we think.

Should we give economic aid to a government that is abusing the human rights of its people? The short answer is "no, unless it serves some higher national interest." This has been a long-standing tradition in U.S. foreign aid policy. It was widely practiced during the Cold War and, if national security considerations warrant, it should continue in the post-Cold War era as well. However, there should be fewer instances in which national security considerations call for dispensing economic assistance. While we can justify giving economic aid to less than savory governments for national security reasons, we should not as part of our development assistance strategy be in the habit of aiding countries that are egregiously abusing their citizens. While a case could be made that in the long run supporting economic freedom would lead to political freedom, we cannot in extreme cases wait until that day comes. Unlike private trade, government aid is too direct a symbol of official and moral support. Discretion will have to be exercised if a recipient government becomes abusive of its people.

Another flawed AID criteria is "need" as determined by social indicators. If this criteria is applied, all poor countries are more or less deserving of economic aid. In fact, the poorest countries would be the most deserving of aid. But what if the recipient

country's own economic policies are mainly responsible for its poverty? If all we are doing is putting a Band-Aid on misery that it is self-inflicted, how can we say that we are making a substantial difference? And if our aid is being used by corrupt governments to perpetuate the very economic policies that are causing the poverty, how can we in good conscience continue to dispense aid that amounts to little more than a subsidy of economic misery? Looked at this way, we are not satisfying the needs of poor people, but acting as accomplices to governments that are keeping them poor.

To be sure, one can find a U.S.-supported health or education program abroad that has "done some good" for some people in the developing world. Just as first-aid relieves the pain and suffering of a sick patient, aid can relieve in a limited way the pain and suffering of people who are economically victimized by their own governments. But economic first aid is not a development strategy. It does not produce economic growth. Free economies not only produce economic growth, they produce the wealth needed to improve health and education standards for the greatest number of people. A free economy does far more to educate people and raise health standards than U.S. economic assistance. In short, it does more to meet the "needs" of the people.

Far from being too "narrow" a criteria for dispensing economic aid, as AID Administrator Brian Atwood charges, the Index of Economic Freedom encompasses the broadest possible number of factors that determine economic development. The best way to address social "needs", clean up the environment, raise health standards, stabilize

population growth and promote democratization is to produce economic growth. And the best way to produce economic growth is to advance economic freedom. This is a development strategy that is no less sophisticated for its simplicity of purpose. In fact, it is far more sophisticated than the ahistorical analysis that passes for economic development theory.

A country's progress toward establishing free markets should be the sole determinant in allocating development aid among countries. This is the approach of Senator Mitch McConnell's foreign aid reform proposal unveiled this past December. The McConnell proposal would condition development aid on the adoption of free market policies by recipient governments as determined, in fact, by many of the factors of the Index of Economic Freedom. Vice President Al Gore's 1993 "Creating a Government That Works Better and Costs Less" report notes that "AID does not have a single, clearly defined and articulated strategic mission." A free market focus is what the U.S. development aid program desperately needs.

**Cut development aid spending.*

The conclusions of **The Index of Economic Freedom** suggest that U.S. economic development assistance programs should be cut. Even if a case could be made that all economic assistance were needed to promote economic development around the world—a case that cannot be seriously made—the new budget environment would argue in

favor of reductions in U.S. development assistance programs. I recommend to you the two following budgetary options. Our analysis is based on the figures from last year's foreign operations budget.

Option A (\$1.8 billion savings). We assume that development aid should be given under the right conditions—i.e., when it is directed at countries moving toward free markets and used by them to assist them in the transition. Under these conditions, development aid can make a difference, although not a very large one. If used wisely, primarily to promote private enterprise, it can encourage an environment in which a free market can grow. With this assumption in mind, we have prepared a recommendation that cuts most bilateral assistance programs by 50 percent. Called Option A (see Appendix A for more details), we anticipate from these reductions a savings of \$1.8 billion in fiscal 1996. In our range of options, we consider Option A to be the absolute minimum amount which should be reduced from this year's development assistance budget. Under no circumstances should the Clinton administration's development assistance programs be fully funded.

To assist you in deciding which countries' aid should be cut in Option A, we have supplied you with a list of development aid recipients scoring poorly on **The Index of Economic Freedom**. These are countries that received either a "mostly unfree" or "repressed" score on the Index. Our judgment is that you should scrutinize these countries very closely and consider them prime candidates for reductions or outright

elimination of economic development funds. They should be at the top of the list in your efforts to meet the 50 percent reduction target.

Option B (\$3.6 billion savings). The new budget environment may require that you consider more drastic reductions in the development assistance accounts. If this turns out to be the case, you can look to our Option B menu of cuts in the development assistance accounts. In this option nearly all development assistance aid is eliminated. Thus, all funding would be cut for the African Development Foundation, the Development Assistance Fund, the Development Fund for Africa, Eastern Europe and Baltic assistance, population control and other development programs (see Appendix A). Savings from this option would amount to \$3.6 billion for fiscal 1996.

As you move to reduce development aid spending, you certainly will hear examples of development aid programs that "have made a difference" in the lives of people throughout the developing world. Without question, there have been "successful" development aid programs. Yet what is the measure of success? Have these programs really made a difference to national development, or have they been an oasis of achievement in an otherwise barren environment? The best designed and executed agricultural project will mean little in a country that is destroying itself through foolish economic policies.

Whether you choose Option A or Option B, you should be aware that critics of cuts in development aid will try to paint your efforts as lacking in compassion. They will use the same arguments that some people marshalled to justify America's failed welfare system—that "you don't care about people" or that "some people" have been helped by the aid. You should not be deterred by such arguments. Economic aid that does not encourage economic growth or serves no discernible strategic interest of the United States is not only a waste, it is downright harmful to the people we are pretending to help. Like our own welfare recipients, foreign governments develop a kind of corrupting dependence on U.S. government funding. Although the programs are different, the results are the same: an encouragement of behavior that is self-destructive.

Major cuts in development assistance do not amount to neo-isolationism. Neither Option A or Option B touches military or security assistance programs. Nor does it affect aid to Egypt and Israel. It affects only the aid that purports to spur economic development. Since it turns out that most of this aid has been a failure, eliminating it would have no discernible impact on international stability or international economic development. America's overseas commitments would be solidly demonstrated not only by the continuation of military and security aid, but by the far more important military alliance and security commitments that the United States has made to friends and allies overseas.

In the end, it must be realized that the only reliable development strategy is one that recognizes the true power of the market and the private sector. In his excellent report, **Development and the National Interest** (1989), former AID Administrator Alan Woods estimated that the American private sector invested \$12 billion a year to overseas development efforts. However, the best "aid" a country can give any other is free trade. The some \$4 billion of bilateral development aid the U.S. provides to the development world is a drop in the bucket compared the trillions of dollars that changes hands every year in private trade. No wonder that one of the most desired prizes from the U.S. these days is not economic aid, but a free trade agreement. Most developing countries have come to realize that their future rests not with AID or the World Bank, but with NAFTA and other free trade agreements.

**Trim and rename Economic Support Funds.*

The rationale for Economic Support Funds (ESF) differs from that of development aid. ESF is given to advance U.S. political and security interests. While ESF, like development aid, does little or nothing to advance economic development--in fact, an argument can be made it actually retards economic growth--we recommend continuing ESF for Egypt and Israel. However, we believe that ESF funds should be renamed to more accurately reflect their purpose. Since they are primarily intended to support our security interests, we believe that they should be renamed "Security Supporting

Assistance," which was what they were called before their name was changed to Economic Support Funds in 1978. Israel and Egypt are by far the biggest recipients of U.S. foreign aid. This year, Israel and Egypt will receive \$1.2 billion and \$815 million respectively in Economic Support Funds (ESF). These two countries command the bulk of ESF funding.

Option A (no savings). No cuts of ESF are recommended in Option A.

Option B (\$167 million savings). In this option we recommend a 50 percent reduction of economic support funds for all countries except Israel and Egypt. In 1995, \$334 million of ESF was appropriated for such countries as Cyprus, Turkey, Morocco, Cambodia and Ecuador. A 50 percent cut would damage our relations with these countries, but it would not irreparably harm our fundamental national security interests. Such a reduction would realize a savings of \$167 million.

**Revamp and cut aid to Russia and the New Independent States (NIS).*

It is axiomatic that the U.S. has a vital stake in Russia's future. Russia faces momentous challenges. Whether or not foreign aid can improve Russia's chances of succeeding in developing free market and democratic systems is uncertain. I am inclined at this time to give the benefit of a doubt to continuing a foreign aid program for Russia. I

am sufficiently convinced that on balance, Western engagement in terms of foreign aid helps keep the reforming spirit —however it may flicker— alive. However, this is a close call. Moreover, the point at which aid to Russia should be ended, including a drastic reversal on reform, could come overnight.

What is crystal clear is that the case to continue Russian aid has been weakened by the poor performance of AID. Without taking local conditions into account, AID applied its Third World experience to Russia, allocating the bulk of contracts to its "traditional" contractors, as opposed to organizations and professionals with appropriate regional, industry and language experience. These multi-million dollar non-governmental organizations— including CARE, Save the Children, the Academy for Educational Development, Experiment in International Living/World Vision and the Urban Institute— had little or no prior experience in the former Soviet Union. Unfortunately, their organizational culture, shaped by years of working in the developing world, has often hindered their work in the region. Meanwhile, Russian non-governmental organizations, even the most pro-reform ones, are excluded from the AID bidding process.

Indeed, the AID contracting process is arcane, and often understood only by those with long-term relationships with the Agency. This effectively screens out worthwhile organizations which lack an inside track. Tom Dine, AID's Assistant Coordinator for the NIS, has publicly stated that if he could have one wish fulfilled, it would be the abolition of AID's contracting

office, which has been primarily responsible for perpetuating the cozy relationship with traditional contractors..

Option A (\$200 million savings). The following recommendations are made in

Option A. The Congress should:

1) Reduce aid to Russia and the NIS from \$839 million to \$639 million. The pace of the aid delivered to this region so far has been slow, in part because these countries are incapable of digesting the aid that already has been appropriated. This region should not escape budget cuts. A good place to look to is the Officer Resettlement Program (ORP) which helps to build Russian army officers returning from abroad. The idea was to prevent a restive and angry Russian army from challenging Yeltsin's democratic regime. However, the Russian military has been mainly responsible for the debacle in Chechnya. It stands to reason that if aid should be cut, they should be at the top of the list. Thus, a \$100 million rescision should be imposed on funds already appropriated but not spent on the Officer Resettlement Program, plus another \$100 cut from fiscal 1996's budget not only for next year's appropriation for the ORP but other such aid programs as the Eurasian Foundation and the Enterprise Funds which have not performed as well as expected.

2) Reprogram \$75 million from health and environmental programs to other programs. Health and environmental programs have a relatively low impact on the development of a free market in Russia. There are difficulties identifying worthy projects in

Russia and NIS. As a result, these funds are disbursed at a slower rate than even in other areas. At the same time, democratic reform, rule of law and other crucial tasks are underfunded. Thus, the money could be better used in building democratic institutions in Russia. This proposal results in no net change in the overall Russian and NIS assistance budget.

Option B (\$839 million savings). The most optimal circumstances for choosing this option would be a determination by you that Russia no longer deserves our aid or that the aid is not effectively assisting the transition to democracy and a free market. Indeed, while in our estimation Russia is still deserving of aid for now, it is not difficult to imagine circumstances in the near future when it would not. The war in Chechnya has raised serious doubts about President Yeltsin's commitment to democracy and reform. It is not even clear if he is in charge of the country. Moreover, Russian foreign policy has become less friendly in the past year. Yeltsin is opposing the expansion of NATO and is also interfering in his neighbors affairs.

If based on these facts you were to decide that aid to Russia should be eliminated entirely, you would realize a savings of \$839 million for fiscal 1996. However, at this time we do not recommend this option. I fear that cutting off all aid at this point would only drive Russia further into isolation from the world community. Moreover, our democratic friends inside Russia tells us that the aid is still an important symbol of our commitment to them. However, I cannot predict where I will stand on the issue of Russian aid next year. If current

trends inside Russia continue, I fear that I would be hard pressed to recommend a continuation of aid next year.

**Reduce funding to all multilateral development banks (MDB).*

The fiscal 1995 House Republican Budget would have ended U.S. support for The International Development Association (IDA), the concessional loan window of the World Bank. This proposal would have realized savings in the billions over a five year period. The Republican budget alternative also proposed that the U.S. withhold all new capital contributions to the International Bank for Reconstruction and Development, the Asian Development Bank, the International Finance Corporation, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the African Development Fund. This proposal would also have realized savings in the billions over five years. Whether the U.S. chooses to zero-out some of these activities or make across the board funding cuts, it should begin stepping away from the MDBs.

The MDBs duplicate many private sector activities, particularly lending. Many of the MDB loans could be secured from private financial institutions. Indeed, over the last decade, there has been a flood of investment to the developing world. The fact that many World Bank loans could be easily privatized makes the point its lending activities are redundant.

It is argued that there are troubled countries that would not be able to attract capital without the MDBs. To the extent that this is true, it can be largely attributed to the economic policies of such countries --policies for which the World Bank, the International Monetary Fund, and other MDBs bear considerable responsibility. Consider the words of Czech Prime Minister Vaclav Klaus, who has complained about the statist orientation of the IMF and World Bank. Klaus has noted that IMF and World Bank aid "is wrong and counterproductive." This aid, Klaus maintains, "is not taken seriously, neither by the donors nor recipients. They are misused, misdirected. They simply disappear. They are very often counterproductive. They prolong the moment when the necessary domestic changes have to be implemented." Klaus' insight can explain the deterioration of the World Bank's project performance, as documented in the Bank's own 1992 "Wapenhans Report," which criticizes the World Bank. It also highlights the importance of aiding only those countries rapidly moving towards the establishment of a free market economy, as is the Czech Republic. This imperative has been unappreciated by the MDBs, and the U.S., frankly, has little chance of changing this.

Another problem for the World Bank is the corruption of its conditionality. The World Bank's structural adjustment programs, which are foreign aid packages designed to liberalize the economies of developing countries, have not been effective. It has been estimated that some half of all economic reform programs which the the IMF and the World Bank endorse break down. Yet the donors almost always soon return. In other

instances, development aid recipients pretend to comply with the economic adjustment program conditions while donors simply pretend to believe them. This hypocrisy and lack of responsibility is a fallow field for planting the seeds of economic growth.

This game of pretend is not necessary. Even the World Bank concedes this to be true when it notes in its 1993 *World Development Report* that: "Some of the most dramatic 'adjustment' reforms took place without adjustment lending (as in Chile and Vietnam), and some countries that received adjustment loans did little or nothing to pursue reforms (for example, Tanzania and Zambia)." The key to developing vibrant free market economic growth is not to be found in the MDBs.

This Committee's report of last year quoted a 1982 Reagan administration review of the multilateral development banks and their contribution to American security: "To the extent that the MDBs encourage the participation of developing countries in that international system on a permanent and self-sustaining basis, they are one of the major vehicles available for pursuing these U.S. economic and political/strategic interests." In the succeeding 13 years, I have not seen the MDBs achieve these goals to much of an extent at all. Rather than make a ritualistic annual appropriation to these institutions, I encourage the Committee to make 1995, the fiftieth anniversary of the creation of the International Monetary Fund and the World Bank, a time of fundamental reassessment. This best would be done with a funding cut.

Option A (\$481 million savings). In this option funding for all MDBs would be reduced by 25 percent. This would result in a savings of \$481 million for fiscal 1996. Reducing the MDBs in this way would send a signal to the world community that unless the MDBs undertake major reform, the United States will likely begin to step away from them and their approach to multilateral development assistance which they represent.

Option B (\$963 million savings). In this option funding for all MDBs would be reduced by 50 percent. This would result in a savings of \$963 million for fiscal 1996. This option would be chosen to demonstrate that the U.S. has chosen to disengage from multilateral development assistance altogether.

**Eliminate the Agency for International Development.*

AID has fundamentally failed at its mission of promoting economic development overseas. Since its creation in 1961, AID has spent over \$144 billion in development aid. Yet most of the countries that have received U.S. development aid remain mired in poverty, repression, and dependence. Of course, a large part of this failure can be

attributed to the fact that development aid has been used to prop up socialist economies; hence the urgency of utilizing *The Index of Economic Freedom*.

Before taking charge of AID two years ago, incoming Administrator Brian Atwood labeled the Agency a "disaster." Atwood soon after volunteered AID as a "reinvention lab" for Vice President Al Gore's task force to reinvent the federal government. Of course, AID had undergone four major management reorganizations and had been the subject of fourteen management studies within the previous eight years.

While Vice President Gore's September 1993 *Creating a Government That Works Better and Costs Less: Agency for International Development* found that "Reinvention is not simply an option or a challenge for AID; it is an imperative," this report rejected "reasonable arguments" for AID's absorption into the State Department or for its abolition. The President's Commission on the Management of AID Programs (1992) and numerous other studies had recommended absorption into State; the Hamilton-Gilman Task Force Report (1989) had recommended abolition. The Vice President's report instead concluded that with reform and strong leadership, AID "could reclaim its potential to be an effective provider of U.S. development assistance."

I would assume that AID has been implementing the reforms recommended in the Vice President's report. Yet press reports over the last few weeks suggest that AID came

within a few threads of extinction at the hands of the "Super State Department" proposal rejected last week. What is troubling is what this says about AID's reform progress. It appears that either the Vice President's report was not the right prescription for shaping AID into an effective provider of development assistance or that AID has been rejecting its medicine. Neither answer is encouraging and the situation begs the question of where AID goes from here? It should go away. We have heard too many promises of reform, from both Republican and Democratic Administrations, to give AID any more chances.

Defenders of AID make the point that another chance is due because AID has been laboring under hopelessly burdensome and conflicting foreign aid legislation. Indeed, *Creating a Government That Works Better and Costs Less: Agency for International Development* concluded that "AID does not have a single, clearly defined and articulated strategic mission." The report notes that AID's reinvention can only succeed if the Foreign Assistance Act of 1961 (as amended) is replaced with comprehensive new authorizing legislation.

Yet AID struck out with its legislative reform effort. The Peace, Prosperity, and Democracy Act of 1994 was a bureaucratic catch-all which did nothing to give AID a strong focus, never mind a free market development vision. Not surprisingly, it went nowhere in the last Congress. So AID continues to operate without the reform foundation everyone, including AID, realizes is desperately needed. Stated bluntly, how can this Committee in good faith continue to fund such an operation?

A trimmed down development aid program aimed at developing free markets around the world could be run out of the State Department, utilizing its worldwide presence and achieving economies of scale. Any ESF could be administered by such offices as the Under Secretary for Arms Control and International Security Affairs and the Bureau of Political and Military Affairs.

Option A and B (\$100 million savings). It has been estimated that that if AID were eliminated and its remaining functions folded over into the State Department, \$100 million could be saved in overhead and administrative costs.

CONCLUSION

There should be no doubt that the foreign aid budget will be cut this year. The only question is by how much. With that reality in mind, I have combined the total savings from all the recommendations made in this testimony into two budgetary options which I hope you will consider. They are:

Option A (\$2.58 billion savings). This option represents the minimum amount which should be cut from this year's foreign aid budget. Thus, we recommend reducing most bilateral development assistance programs by 50 percent (for a total of \$1.8 billion in savings for fiscal 1996), while trimming aid to Russia and the NIS by \$200 million (see Appendix A). The bilateral development assistance reduction should be made in the

following programs: African Development Foundation; Development Assistance Fund; Development Fund for Africa; Eastern Europe and Baltic programs; the Inter-American Foundation; International Organizations; population control, migration and refugee programs. Moreover, we envision in this option shrinking funding for multilateral development banks by 25 percent for a total savings of \$481 million. Finally, we propose a savings of \$100 million in administrative costs from abolishing AID.

To assist you in deciding which countries should be cut in Option A, we have supplied you with a list of aid recipients scoring poorly on **The Index of Economic Freedom**. These are countries that received either a "mostly unfree" or "repressed" score on the Index. Our judgment is that you should scrutinize these countries very closely and consider them prime candidates for reductions or outright elimination of funds. They should be at the top of the list in your efforts to meet the 50 percent reduction target.

Option B (\$5.67 billion savings). The new budget environment may require that you consider more drastic reductions than outlined in Option A. If this turns out to be the case, you can look to our Option B menu of cuts. In this option nearly all development assistance aid is eliminated (\$3.6 billion in savings), including that for Russia and the NIS (\$839 million in savings). The bilateral assistance programs affected would be the African Development Foundation, the Development Assistance Fund, the Development Fund for Africa, Eastern European and Baltic assistance, population control and other development programs (see Appendix A). Also in this option is a 50 percent drop in funding for the

World Bank, the International Monetary Fund and other multilateral development banks for a total savings of \$963 million. Moreover, this option includes a 50 percent reduction of economic support funds for all countries except for Egypt and Israel (\$167 million in savings). Finally, \$100 million would be saving from abolishing AID. Total savings from this option would amount to \$5.4 billion for fiscal 1996.

APPENDIX A**I. Option A:****Savings Total: \$2.58 billion**

- *Reduce bilateral economic assistance.*

Scope: Cut funding for the following programs by 50 percent:

1. African Development Foundation
2. Development Assistance Fund
3. Development Fund for Africa
4. Eastern Europe and the Baltics
5. Inter-American Foundation
6. International Organizations
7. Population Control
8. Migration and Refugee program¹
9. Other Accounts

Savings: \$1.8 billion.

¹ The Republican-backed budget proposal for FY 1994 and 1995 recommended this cut by \$54 million. This is the figure that was used to generate the total savings.

- *Reduce economic aid to Russia and the newly independent states.*

Scope:

1. Reduce funding for Russia and newly independent states by \$200 million.

Savings: \$200 million.

- *Reduce funding to international financial institutions.*

Scope:

1. Reduce funding for all multilateral development banks (World Bank, IMF, IDB, etc.) by 25 percent.

Savings: \$481 million.

- *Eliminate the Agency for International Development*

Scope:

1. Savings from cutting administrative costs would amount to about \$100 million.

Savings: \$100 million

II. Option B:**Savings Total: \$5.67 billion**

- *Significantly reduce bilateral economic assistance.*

Scope: Eliminate all funding for the following programs:

1. African Development Foundation
2. Development Assistance Fund
3. Development Fund for Africa
4. Eastern Europe and Baltics
5. Inter-American Foundation
6. International Organizations
7. Population Control
8. Migration and Refugee program²
9. Other Accounts

Savings: \$3.6 billion.

- *Eliminate economic aid to Russia and the newly independent states.*

² The Republican-backed budget proposal for FY 1994 and 1995 recommended this cut by \$54 million. This is the figure that was used to generate the total savings.

Scope:

1. Eliminate all funding for Russia and newly independent states.

Savings: \$839 million.

- *Reduce funding to international financial institutions.*

Scope:

1. Reduce funding for all multilateral development banks (World Bank, IMF, IDB, etc.)
by 50 percent.

Savings: \$963 million.

- *Cut Economic Support Funds.*

Scope:

1. Cut funding for all countries except Israel and Egypt by 50 percent.

Savings: \$167 million.

• *Eliminate the Agency for International Development*

Scope:

1. Savings from cutting administrative costs would amount to about \$100 million.

Savings: \$100 million

Appendix B**I. FOREIGN AID RECIPIENTS SCORING POORLY ON THE
INDEX OF ECONOMIC FREEDOM**

The following countries receive U.S. economic development assistance and also scored poorly on the "*Index of Economic Freedom*."³ Countries ranked by the "Index" were categorized into one of the four following groups.

Countries whose scores fell between 1.00 and 1.99: **FREE**

Countries whose scores fell between 2.00 and 2.99: **MOSTLY FREE**

Countries whose scores fell between 3.00 and 3.99: **MOSTLY NOT FREE**

Countries whose scores fell between 4.00 and 5.00: **REPRESSED**

Congress would do well to look at those countries categorized as "mostly not free" and "repressed" to decide whether U.S. aid should be spent in those countries. There are other countries that receive foreign aid but were not ranked on the "Index." Those countries should be included in any analysis of which U.S. foreign aid recipients should be cut-off.

³ *Congressional Presentation: Summary Tables, Fiscal Year 1995*, Agency for International Development, Washington, D.C., 1994.

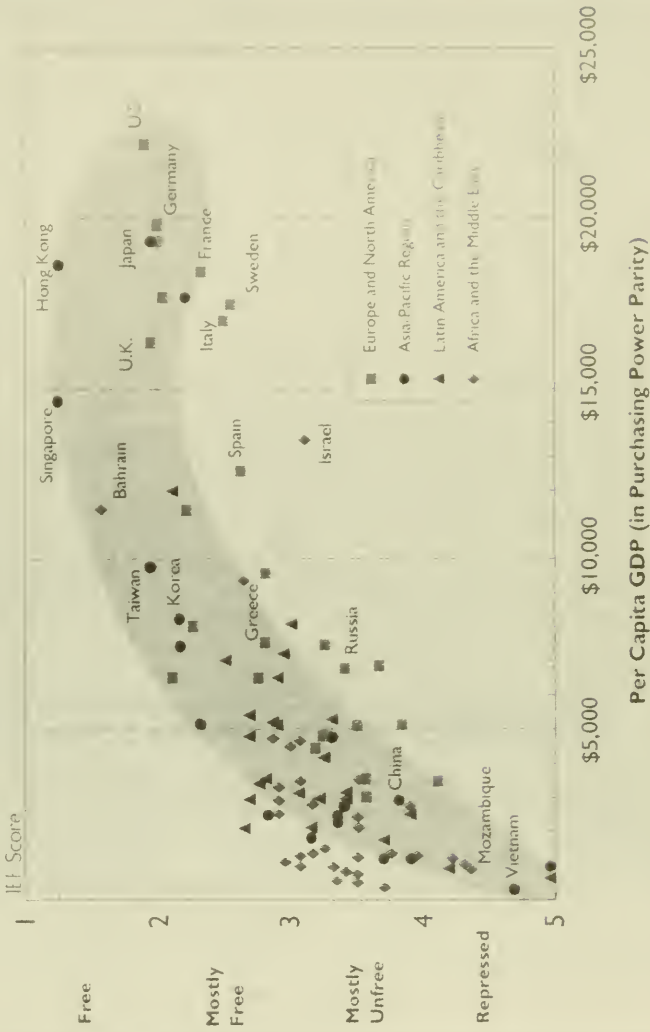
COUNTRY	IEF SCORE
SOUTH AFRICA	3.00
BOTSWANA	3.05
GABON	3.05
GUATEMALA	3.05
KENYA	3.05
MEXICO	3.05
ZAMBIA	3.05
ISRAEL	3.10
HONDURAS	3.25
NIGERIA	3.15
BOLIVIA	3.20
ECUADOR	3.25
IVORY COAST	3.25
POLAND	3.25
BRAZIL	3.30
GHANA	3.30
PHILIPPINES	3.30
MONGOLIA	3.33
GUINEA	3.35
DOMINICAN REPUBLIC	3.40
MALAWI	3.40

PERU	3.40
RUSSIA	3.40
BULGARIA	3.50
CAMEROON	3.50
EGYPT	3.50
MADAGASCAR	3.50
MALI	3.50
TANZANIA	3.50
ZIMBABWE	3.50
ALBANIA	3.55
ROMANIA	3.55
BELARUS	3.65
GUYANA	3.70
INDIA	3.70
YEMEN	3.75
ETHIOPIA	3.80
BANGLADESH	3.90
CONGO	3.90
NICARAGUA	3.90
UKRAINE	3.90
SIERRA LEONE	3.95
MOLDOVA	4.10

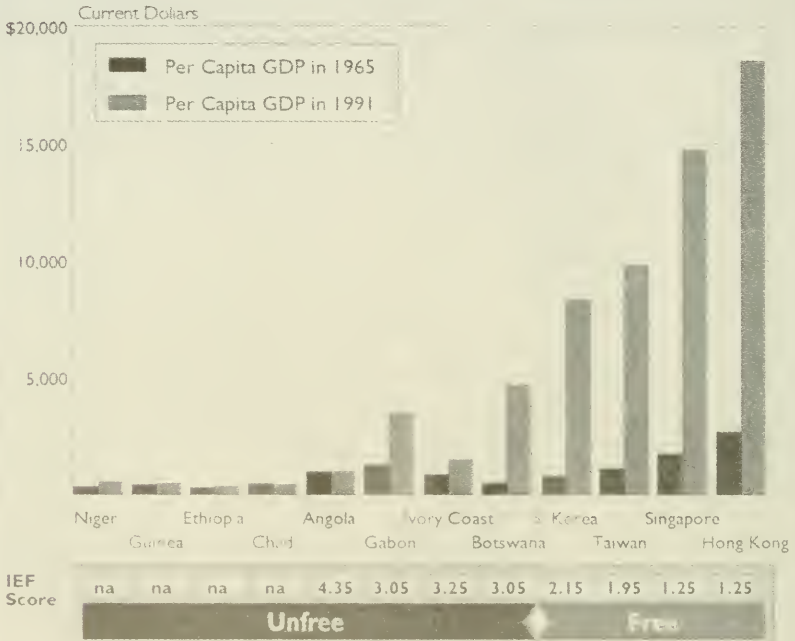
HAITI	4.20
ANGOLA	4.35
MOZAMBIQUE	4.40

THE CURVE OF ECONOMIC FREEDOM

A Comparison of Economic Freedom and Wealth



PER CAPITA GDP GROWTH IN DEVELOPING COUNTRIES: 1965 AND 1991



Note: IEF scores are in parentheses. The scores range from 5 (most free) to 1 (most unfree). World Bank and Asia Development Bank. Heritage Foundation. Background: The World Bank (1991) and the Asian Development Bank (1994). United Nations Development Programme (1994).

Mr. HOLMES. I say in my testimony that the values that you mention, the concern about human rights, should be a factor in deciding on the dispensing of foreign aid or economic aid. It is not in the index because we were trying to concentrate on economic development—which is what economic development assistance was supposed to be promising—and what is the development strategy that will produce economic growth, higher standards of living, more wealth for more people. As for China, we would want a policy that produces further economic liberalization. It would help to create the pressures for a better respect for human rights, for democratization in the long run.

But you can't micromanage that with a development strategy at any given particular time. It is a long-range kind of thing.

But I just wanted to emphasize that I do believe that if any government is abusing its people, we have to consider that in giving economic development aid.

Mr. WOLF. I wonder, would the same argument have been made—and I went back and looked in the Holocaust Museum at some of the statements made by the Roosevelt government at that time with regard to Nazi Germany. Nazi Germany was a barbarian government, and there were American businesses saying we should continue to do business because there was profit there. Economic freedom and human freedom, human rights, are really two different things.

I think you really ought to go back and find out whether you factor human rights into this, or else I don't think it is going to be very good, nor will it, nor should it be supported by the American people. Frankly Congress has disappointed me in the past. Congress voted for MFN for China without even conditioning it and doing something, which I think is kind of amazing.

But I would ask you to develop this a little more, because I agree with about 90 percent of what you are saying. I think the missing ingredient, the sugar that makes this pie taste better, would be if you could factor that in. And maybe in the interests of these gentlemen that are here, if you can come by my office or submit something for the record.

Mr. WOLF. With regard to Julia Taft, I agree with almost everything you have said. I think groups like yours are going to have to come up, though, and supply the committee with ideas on how we make it work better and how we can do it better than we have done it in the past. But I agree with you. It says in the Bible, to whom much is given, much is expected.

This country has been blessed in so many ways. To just ignore the continent of Africa and say, we are not going to participate and help would really be a mistake—the feeding camps of Ethiopia and Sudan and places that need our help.

I think it would be helpful if those in your community could submit something for the record. How could we make it work better so the American people know it is not going into the pockets of a dictator but going into the mouths of people who are starving? There is a little bit of a disconnect there. If you could do that, I would appreciate that.

Ms. TAFT. Sure.

[The information follows:]

Making it work better is one part of the answer. With your experience in Africa, Congressman, I know you are well aware of the things that PVOs are already doing on the ground with out development assistance dollars—and using those dollars to leverage private donations—to feed people and help them out of poverty. I would also argue that there has been a real attempt over the last couple of years to make some hard choices, to narrow our commitments to those countries where there is an enabling political climate for real change. There is certainly more that can be done, by more rigorously applying this criteria, reducing our level of government-to-government aid and channeling more assistance through private sector, people-to-people channels at the grassroots. Not only are agencies such as those represented by InterAction and their local counterparts better connected than governments to the people who actually need the assistance, but it is only by giving people opportunities and strengthening the institutions of civil society that we can foster real and sustained democratic and economic reform. We would be happy to work with this subcommittee to identify those programs we think have been most effective.

The other answer is to educate the American people. Many of the agencies in InterAction are trying to do their part, to make people understand how interconnected their lives are with what happens in the rest of world, and why the resources that we spend on development assistance abroad are actually a modest, cost-effective investment in our own and in our children's future. But we need strong presidential and congressional leadership to do this. The Marshall Plan was not a popular plan, but it was the right thing to do, and President Truman made a convincing case for what turned out to be one of the most essential investments this country has ever made. We need the members of this subcommittee to take the lead in informing the public ensuring a responsible debate on foreign assistance and continued U.S. leadership. Ironically, in cutting back resources for development assistance, the programs that this Congress may put most in jeopardy are those that do deliver assistance directly to the neediest peoples, that save lives, promote local capacity and help others become self-sufficient, peaceful cohabitants in our shared world.

Mr. WOLF. Thank you for recognizing me, Mr. Chairman.

Mr. CALLAHAN. Mr. Packard.

Mr. PACKARD. Thank you, Mr. Chairman.

CRITERIA IN DETERMINING FOREIGN AID

Mr. Holmes, I really did appreciate and reviewed in a little bit of detail your report. I notice that the bulk of our foreign aid goes to three countries, particularly, that rate low in economic freedom—below the 50 percentile, all of them—and yet you have made quite a point in your statement that this should be a significant criteria, perhaps the most significant criteria as we determine where our foreign aid should go.

Should we aid countries with high economic freedom, most of which probably don't need it as much as some of those in the lower areas; or should we aid countries more in the lower economic freedom area with some conditions that would guide them toward economic freedom?

What are some of the firm guidelines that you would recommend this committee use in determining where our foreign aid goes?

Mr. HOLMES. I believe you can draw the conclusion from that that development assistance does not make that much of a difference in countries that lack economic freedom. And I would submit to you that poor economic policies are strangling the economy and preventing the economic growth that we are trying to create.

In other words, we are working at cross-purposes. If you give them economic assistance and they have economic policies that prevent economic growth, then you are wasting your time unless they make changes in their economic policies.

If you can determine that the technical and development assistance that you are providing to these countries is being used in a way to create a private sector and a free market, and that the country has officially made a commitment to creating economic free market reforms, and that assistance is being used to help them move in that direction, we believe you can make a case for development assistance.

Unfortunately, that is not our current approach. Our current approach is unfocused, comprising, a collection of things that we believe make up development like population control, health and environment and the like. These are things that are very difficult for governments to manipulate.

It is very difficult for us to even handle some of these social issues inside the United States where we have full sovereignty over our own people. It is even more difficult to solve these social problems by manipulating foreign governments, by giving them aid with some of the fundamental misconceptions about what aid can do.

I should like to make a distinction between economic assistance and what today is called "economic support funds" for Egypt and Israel. If you can make the case for aid on political or military or strategic grounds, go ahead and do it.

In the case of Russia, as I said in my opening statement, I believe we are not quite to the point where we want to cut off aid. However, there are problems with the way the aid is being handled.

And I also testified that we should be changing the name of our economic support funds to economic support assistance. This would provide us with a more realistic understanding of what we are trying to achieve in these countries.

REDIRECTING FOREIGN AID

Mr. PACKARD. Ms. Taft, you outlined in your statement four or five priorities—five, I think it was, priorities that ought to be used as guidelines. The bulk of our current foreign aid goes to countries that do not meet these priorities. Are you suggesting that we redirect our aid program to fit into these priorities, which would significantly redirect our current program?

Ms. TAFT. Yes, sir, particularly for the multilateral banks and with the bilateral assistance that is called sustainable development.

I think what we are basically saying is not necessarily inconsistent with the other presenters today, except that we are trying to look at the political and social indicators, not just the economic indicators.

We believe that you have got to make sure that programs, whether they are at the national level or at the community-based level, that they actually reach the people who need the assistance. Whether it is learning how to read or whether it is learning how to control family size, these are important programs that are mostly done by the nongovernmental sector, but often co-funded with foreign aid, which really are the people-to-people guarantees that there is going to be a framework for economic stability.

When we talk about, and I wanted to jump in here because it seems to me that if we look at conditionality on the economic basis and we don't look at human rights, as Congressman Wolf has pointed out, if we don't look at longevity, if we don't look at how many people have any access to their own credit or any kinds of programs which will promote their own standard of living, they are not going to be good employees for the energy companies that are going up around the world. They are not going to be a constituency that is going to be educated enough even to work and participate in the economic development.

INFRASTRUCTURE

I was reminded of the "16 Tons" song—am I too old, or maybe you all are too young?—about selling your soul to the company store. It is wonderful that we have companies that are willing to make broad-based investments overseas in infrastructure. But the human side of that infrastructure comes from the education programs, the health training programs, the child survival programs that are in those communities, that will provide support for this economic engine that our corporations are investing in.

I think it is very compatible. But if we don't look at the people-to-people side of this, which is what we are funding out of development assistance, then nobody else is going to be funding that. And these companies are going to end up being in countries that are going to have civil war and strive because there is no equity in the development portfolio. We just feel very concerned about that.

Mr. PACKARD. My time may be gone, but let me ask the one final question, and ask for a 30-second response from each of you.

Assume, as we have adopted in our House rules, that every agency starts at a zero base, as though they don't exist, and we rebuild that agency based upon our current priorities. How would you rebuild our foreign aid program from zero?

RESTRUCTURING FOREIGN AID

Your testimonies don't do that. You take what we have now and make some modifications, and cut and so forth. But there is no real restructuring. How would you restructure the foreign aid program?

Ms. TAFT. Thirty seconds, okay. I would probably—

Mr. PACKARD. Submit it for the record if you have to go over 30 seconds.

Mr. HOLMES. I will go first if you want.

First of all, I would abolish AID. I would drastically reduce economic development assistance according to the criteria of the Index of Economic Freedom. The remaining aid for military and security assistance, as administered by the Pentagon, I would keep that there, and I would restructure the remaining functions that exist for the multilateral banks and the like. I would put what is left over from the abolished AID into the State Department.

Mr. PACKARD. Thank you.

Ms. POWERS. Well, I would agree with much of that. I would bring an end to AID, and the necessary functions (the security and humanitarian) let them be consolidated with the State Department, whatever.

I would significantly increase the amount of lending capacity in the finance agencies. And I would exert a lot of pressure to change the direction of the lending of the multilaterals to be comparable to the OPIC and Exim-type lending, and only on that basis keep their funding going as well.

Ms. TAFT. Okay. One thing I would do is get AID out of the business of structural adjustment. I don't think the investment of personnel in that area is as important as it is in some of the technical transfers. I would emphasize the people-to-people program and such technological transfers which actually also help our community for agriculture research.

I would look at the domestic agencies to find out what kinds of investments they are making on the global issues in which now the full burden is being borne by the foreign aid accounts. Such things as disease control and epidemiology, the Centers for Disease Control, the finest in the world, it has no international mandate whatsoever.

We cannot control diseases at our border. They ought to be having resources that are reprogrammed from within their own area to address that.

The same is true for the Environmental Protection Agency, energy, et cetera. I would look at leveraging that we possibly could do on those accounts.

You know, the amount of money we are talking about is about \$4 billion, which is just a little bit more than building the new airport in Denver, Colorado. I am not so sure that we are going to make as many savings as we can, but we will submit for the record some other suggestions on a bottom-up review, if this would be helpful for you, sir.

Mr. PACKARD. Thank you.

Thank you, Mr. Chairman.

Mr. CALLAHAN. Ms. Pelosi.

Ms. PELOSI. Thank you, Mr. Chairman.

Since I was in another meeting earlier, I am going to defer for the moment to my colleague, Mr. Torres, with your permission, Mr. Chairman.

MULTILATERAL DEVELOPMENT BANKS

Mr. TORRES. I thank the gentlelady for yielding to me.

I listened with interest, Mr. Holmes, to your answer to Mr. Packard, your 30-second answer, and I was struck by the kind of butcher-block approach to some of the ways you would devise to deal with foreign assistance.

Let me comment on one of those that I picked up. I understand that our contribution to the MDBs is more than offset by the benefits that are gained by American exporters.

In 1993, for instance, U.S. companies earned \$2.7 billion directly from procurement contracts with the banks. The Treasury Department tells us that an additional \$5 billion in U.S. exports can be

attributed to the market opening reforms advanced by the banks. That is over \$7 billion in U.S. exports which create or sustain, in our estimation, about 146,000 American jobs.

Aren't these banks in our own economic interests?

Mr. HOLMES. Well, when I talk to American businessmen, particularly those who are exporters, they tell me time and time again that the best thing that the United States Government can do for enhancing their market around the world is to get out of the way. And very few times have I heard any of them tell me they rely on these MDBs for their support.

Now, I have heard Linda's testimony, and there is much of what she says that I think is worth considering. Looking at the Trade Development Agency, the Eximbank and OPIC and the like, I happen to believe, and many of my colleagues at the Heritage Foundation share my view, that we should be taking a hard look at the export subsidies function of those banks.

The kind of project financing of private initiatives that Linda is talking about is very interesting and very innovative, and if we have our support in the short term.

I think, though, that we could consider phasing out this kind of project financing over a long period of time. I don't know how long it might be. It could be 10 years or so. But that is just on these public financing institutions.

Now, on the World Bank and others, I said in my testimony that there are some particular problems there with the large projects and the structural adjustment kind of approach, which I think has not worked, and it is primarily for that reason that we have recommended in my testimony that we reduce funding to the MDB banks. But I want to draw a distinction between the World Bank and the public financing banks that Linda is talking about.

CHILE

Mr. TORRES. I apologize, I came in late, and I did not hear your testimony. I had read your paper, though, and I was interested that you cited the case of Chile. You make a good case for Chile, and you say that foreign aid had nothing to do with Chile's development success.

In your statement you use the government of General Pinochet in particular as an example of a country that has achieved economic freedom, do you not?

Mr. HOLMES. Yes, I do.

Mr. TORRES. However, you seem to have overlooked the fact that the government was a military dictatorship, one of which I know. I was in Chile for long periods of time, and I observed that regime. During Pinochet's rule, as you probably are aware, more than 3,000 people disappeared or were killed—they are still grappling with that issue—while he brought about what you caught this economic freedom.

Are you proposing a Pinochet solution for other situations?

Mr. HOLMES. Absolutely not. What I state in my testimony is a fact. It is a fact that the government of Pinochet liberalized the economy, produced economic growth that laid the foundation for the democratization of Chile.

Just because—

Mr. TORRES. A terrible cost to pay, though.

Mr. HOLMES. I am not endorsing that as a cost, nor does that have to be the road that any particular country takes. Just because we talk about the fact that they developed economic liberalization that led to democracy doesn't mean I endorse the human rights abuse of the Pinochet government. It is a non-connection.

However, I will tell you this as a fact. I was in Santiago last year, and I was talking to one of the leaders of the Christian Democratic Party, a person who had been imprisoned by Pinochet, and he told me that the abuses of this government were absolutely horrible, that he had suffered himself, but he is awfully glad that some of the changes occurred so they could build a democracy on top of the economic liberalization.

He is making no moral judgment at all—or no moral support for Pinochet, since he suffered himself from what Pinochet did. I am pointing out the fact that, historically, you find that countries, whether they are dictatorships or democracies, that adopt economic liberal approaches will in the end grow economically, which will there other lay the foundations for greater respect for democracy and human rights later on.

The thing is that these countries don't move all at the same pace. They don't march in lockstep towards some goal.

It is a similar problem I have with the question of China. Just because China is liberalizing economically right now and is making some progress, I don't know if it will lead to democracy. Maybe it will, maybe it won't.

But the historical record shows that if you have economic liberalization, it does create pressures for democratization. On the other hand, if you have governments that repress their people economically and also have a stagnation of their economy, the result is not only less economic freedom but, by and large, a lack of political freedom in the long run as well.

Mr. CALLAHAN. We can come back to you, Esteban, but some of the other Members have been very patient. So at this time we want to be sure they get their allotted time.

Mr. Knollenberg.

Mr. KNOLLENBERG. Mr. Chairman, thank you very much.

Panel, thank you.

I want to direct my first question to Ms. Taft. I think in your testimony, and I did catch, all of yours—incidentally I am familiar with "16 Tons," and I may be one of the few here that are. I have even sung that song.

UNIVERSITY OF MARYLAND STUDY

But the question is, with reference to the study done with the University of Maryland, which states that some three fourths of the respondents said they were for maintaining or increasing foreign aid, what country did you do that in?

I ask that somewhat facetiously, but I can tell you as Members of this panel can tell you, that is not what we are getting back home from our constituents. So I think the way in which those questions were phrased determined the final result.

Would you respond?

Ms. TAFT. Yes, sir. First of all, we did not do the poll ourselves. It was done by the University of Maryland, and it queried 800 people. Plus, they had a series of focus groups from all over the country, half Republican, half Democrat.

What I didn't mention, and to be transparent and honest I should have, is that generally when first asked, Do you support foreign aid or don't you, they all say—well, not they all, but a high percentage say they think foreign aid is too high and it is wastefully spent.

But then when you start asking more delineation, when they find out how little it is, they are surprised. But then you say, Now, if the programs were to go—and let me just go through these because I think it is very useful.

Mr. KNOLLENBERG. You can be brief, if you would.

Ms. TAFT. Yes, sir. Child survival was the highest investment that the American people wanted. Peace Corps was next. Humanitarian relief. Environmental aid, 79 percent. Assistance to poor countries, 75. Family planning, 74. Those are the highest categories.

Those are all investments that American people think resonate with them, and their concerns.

Mr. KNOLLENBERG. And you said that study was available to us?

Ms. TAFT. Yes, sir, we have copies for you.

Mr. KNOLLENBERG. I would like to have it.

The next question I direct at Mr. Holmes, and also at Ms. Powers. This study is very interesting and I find it to be fascinating. It has a multitude of uses, I see.

MOZAMBIQUE

One of the things I remember Ms. Powers saying is that your company is investing \$500 million in Mozambique. Mozambique happens to be off the chart when it comes to repressive status. And I know when you develop these kinds of studies and you come up with the graphics, it is going to catch some people in some corners occasionally, and it won't perhaps reflect the trends of the last year or two, perhaps due to the time frame it was taken in.

I am not trying to pitch you two at each other's throats, but you didn't go in there, Ms. Powers, without some assurances that Mozambique, repressive as it was by this study, didn't offer some opportunities. And I am sure Mr. Holmes, you wouldn't say that this is an empirical, faultless guide. There are some other parts to it that we have to look at.

Ms. POWERS. I think you put your finger on it, which is that even though Mozambique, and that is not the only country that didn't have a good score on index, is moving in the right direction, and in that way it is compatible with what Kim Holmes has said, that countries which are moving in the right direction, the snapshot may not capture the movement, but that is compatible with the concept of foreign assistance that he is proposing.

We have the same situation in India, which I think ranked a 4, but not a 3. Again, the situation is this. The project in Mozambique was a major subject, for example, they had the election last fall, and it was something that was held up as a major example of the kind of benefit that is coming and will come with the changes in

laws and policy that the government was trying to put in place, and the same in India.

Mr. KNOLLENBERG. Mr. Holmes?

Mr. HOLMES. I think Mozambique has the distinction of being the poorest country in the world, as Mr. Wolf said, and it scores poorly on our index as well.

We also have to realize that Linda's company is going in with certain guarantees that the market would not provide for lending. And so in many ways this does reflect what we are saying about the unfree nature of the Mozambique economy. You have to make certain allowances for it if you are going to do work there.

But I would also agree with her that these kind of private initiatives are a lot better way of helping countries approach adopted by the AID.

I will add that one of the most interesting things about this index is how over time, once we produce more editions of it, say four or five years from now, you will have trend lines being established. From there you will have a very good look at how these countries are doing and which direction they are moving. The first edition is really a snapshot; it is just a beginning. So over time I think these trends will be a very helpful feature of the index.

Mr. KNOLLENBERG. Thank you. I believe my time may have expired, in which case I ask the Chair to take over at this point.

Mr. CALLAHAN. Thank you.

Mr. Forbes.

Mr. FORBES. Thank you, Mr. Chairman.

I want to thank our panel for being here today and I appreciate your comments.

ISRAEL

Mr. Holmes, if I might, I am extremely concerned, I think, about this Index of Economic Freedom, particularly as we look at its application in the case of Israel.

It is troubling to me, that a snapshot be used as a way to judge whether the economy is free or mostly not free, as has been judged in the case of Israel, and I am fearful that if this kind of measurement becomes more commonplace, we will ignore some of the major advances that have been made in the Israeli economy.

I noted particularly that in the case of Israel, where they have a tremendous pressure on their defense and immigration capabilities, no adjustment is being made in the case of comparing it from one nation to another. There is a unique situation in Israel, and if you are talking about government consumption as a measurement, the amount of money that Israel spends on defense and on immigration is not somehow adjusted when you compare it to other nations.

So it is particularly troubling to me that there are not such adjustments in the index. I was wondering if you would comment on that.

Mr. HOLMES. Yes, I would be glad to. One of the things that was critically important for the methodology of this index is that we measure each country, 101 countries of the index, equally, and according to the same standards. We were very careful in devising the factors in a way that we could collect the data that was not

only of the same quality, but also came from the same time and would enable us to measure the countries on the same standards.

We could not under any circumstances get into the business of trying to explain or making special allowances for countries because of their special circumstances. If we did that, the comparative nature of the study would be flawed.

And even though it is certainly true that Israel gets a bad score on government consumption, that is a fact. We all know why it is a fact. And anyone who is concerned about Israel and its score will know that it is a fact, and therefore will be able to make the allowances for that, as we know in fact why it happens.

But we could not go through on each of the factors and change the scores because of the special circumstances. That was not what the study was intended to do. I am afraid if we did that, then I would be open to any country on any factor who would come to me and explain their special case.

Mr. FORBES. I think that is my point, is that no two countries are static and no two countries have the same kinds of conditions necessarily. There are certain pressures on one nation vis-a-vis pressures on another nation. And that is why I am concerned about the index, because there doesn't seem to be some adjustment made for that.

Israel has amongst the highest per capita income in the world, yet it seems we have skewed the results with the index and that the scoring for Israel does not account for more static and unique parts of their economy. So I am troubled by that.

Mr. HOLMES. I can assure you the results were not skewed. In fact, they are measured on the same standards that all other countries are measured. That is the only way you could have an adequate comparison. So therefore the score is the most accurate score on a comparative basis that you can have. To do anything differently would be to use a flawed methodology.

Mr. FORBES. Thank you.

Mr. CALLAHAN. Ms. Pelosi.

Ms. PELOSI. Thank you very much, Mr. Chairman.

I was listening with interest to the presentation, the questions that our colleagues had, and it reminded me of how you most appropriately, Mr. Chairman, opened this series of hearings on foreign assistance with a presentation by two of our former colleagues, Mr. McHugh and Mr. Edwards of Oklahoma.

I saw in their presentation, which was bipartisan, a basis for us to proceed which was values based, which was pragmatic, and which was in our national interest.

INDEX OF ECONOMIC FREEDOM

It interested me to see this Index of Economic Freedom as some kind of proposal about foreign aid being in opposition to what our two colleagues in very bipartisan fashion said.

I say that because in the forward to this book, fourth paragraph down, first sentence, it says, "U.S. development aid should have one priority, and one priority alone: promoting the kind of free market growth which enables the recipient country to prosper without foreign aid."

I think that that is not a statement of what our national interest is in presenting foreign aid. Therefore it is interesting to see what categories are used to give a mark to the various countries. Just on the basis of what our colleagues told us in our first hearing, I think that they would disagree with that statement. I strenuously do.

I think our foreign policy has to be in our national interest, values based, and certainly promote economic freedom and free markets, but also democracy and democratic principles as well.

LEGAL SYSTEM FACTOR

But let's put that aside for a moment, because obviously we disagree on that. Let's just say we are talking about promoting economic freedom in these countries. Why then wouldn't there be factors that would talk about the legal system in the country?

Assistance takes many forms, it is not just aid. It is also other kinds of assistance that we give through multilaterals in terms of loan guarantees, and also the granting of unfettered, preferential access to the U.S. market, in many cases where we suffer a huge trade deficit to the disadvantage of our own overall trade imbalance.

But let's just talk about economics for the moment. Wouldn't it be in the interest of someone who might be interested in doing business in a country, or wouldn't it be in the interest of developing a free market economy in the country, if there were a factor called a legal system, where contracts have standing? And why wouldn't there be a criterion or a factor for, for example, corruption in that country as well?

Now, I am for the moment setting aside the values that Mr. Wolf spoke to so eloquently earlier and which I modestly associate myself with, if not with the eloquence with which he delivered them. But let's just talk business for the moment.

I believe that promoting human rights and promoting democratic principles is in the interest of a real free market economy's success as well as in protecting investors in the United States from getting involved in these countries.

So my question to you, Mr. Holmes, would be, why not include those factors of, say, a legal system wherein a contract would be honored, or, the factor of corruption, which in many of these countries, as you know, is rampant? Could you respond to that, please?

Mr. HOLMES. Yes, I would be glad to. On the sentence that you quoted from on page 5 in the forward, I am referring to U.S. economic development aid. In my testimony I was talking about overall foreign aid, which includes the whole gamut of foreign aid; I said that the purpose of foreign aid should be to serve the national interest, protect national security, and promote economic development. The sentence you are referring to concerns economic development aid, which is supposed to be supporting or promoting economic development.

Ms. PELOSI. I understand your distinction, but I still think you are ignoring the issue of the environment and population growth, which have a bearing on the economy of a country as well.

Mr. HOLMES. With that, we will have to respectfully disagree.

Ms. PELOSI. I am sure there will be many instances where we will.

Mr. HOLMES. On your questions about the legal system, I will say at the outset, in conjunction with what I was saying just a moment ago, when you are doing a study like this it is very important that you have data that can be used across the board for comparative purposes. The data must be accurate, and it must be used in a comparative way.

This is necessary for the study to have any value.

Ms. PELOSI. Excuse me. That last adjective—

Mr. HOLMES. Reliable and consistent data. As far as the legal system and corruption are concerned, we capture the question of a legal system in the factor on property rights and also in the factor on regulation as well. You talked about contracts and the like. You cannot have a legal system that would protect property rights in any major way that does not also protect contracts.

And so this is something that could be measured.

Ms. PELOSI. On that, we will respectfully disagree as well. Property rights are important and regulation—these are interesting in your list of factors, but I don't think you can dismiss so readily the contracts by just—

Mr. HOLMES. I wasn't dismissing them. I was saying it is included on the score on property rights.

Also, you mentioned the corruption. That is captured in the factor on regulations and also on the black market.

When you have high levels of corruption in the government, you will have high levels of black market. If you get a poor score on the regulations score, we had a factor on corruption in that as well.

So these factors were looked at. They were put into the factors that could be measured. If you have a broad notion of a legal system and you are trying to come up with a quantitative measure, I would ask you to consider the other alternative that it would not be reliable and not be based on consistent and reliable data. This is extremely important.

Ms. PELOSI. What you are telling us basically is the factors you have chosen are only those factors on which you can find reliable and comparative data?

Mr. HOLMES. They are the factors which in addition to the reliable and consistent data capture the broadest elements of the economic system.

Ms. PELOSI. But they may not necessarily be reliable and comparative? You said "in addition to."

Mr. HOLMES. That too.

Ms. PELOSI. Let me just say one thing. I want to comment on the factors. I think that they are interesting. I think that they are sterile. I think that if they are to have validity, they have to take place within the context of the people of the country.

But in terms of workers' rights, and workers are a factor of production, if we are speaking just economically here and not in a more humanitarian way, this analysis would have more validity if

it respected the role that workers and their rights play in an economic system. While I know you place a value in our foreign policy on promoting economic growth, you pass it off lightly here. But workers as a part of production cannot be ignored if you are doing an analysis of economic freedom.

Mr. CALLAHAN. If the gentlelady will yield.

Ms. PELOSI. You have been more than generous, Mr. Chairman.

Mr. CALLAHAN. Let me give you another observation of what you are saying. The Heritage Foundation is not a governmental entity. It comes with some positive recommendations that indicate their philosophy. But I think that is the argument in the sense that they are saying, we have no bible, we have no established criteria AID has not come forward, even though we have pleaded with them to give us guidelines—if you want to include all of the recommendations that you would like to include, that is all right. But we don't have a set of guidelines; we are haphazard in our direction.

What the Heritage Foundation is saying is this is one way you can weigh it, that they take into consideration a certain philosophy, but that the government, the administrative branch, ought to be able to come to the Congress and say, "This is our index, and this is how we establish the priorities of the money that is available. And therein lies the problem."

So I just thought—

Ms. PELOSI. Will the gentleman yield?

Thank you, Mr. Chairman.

Mr. Chairman, I think that what you are doing here is very valid. I think it is most appropriate that the Heritage Foundation and the other organizations with standing on these issues have the opportunity to present their Index on Economic Freedom. That is why we are so pleased that InterAction is represented and others as well. But that doesn't mean that we can't comment on what they comment on.

I certainly respect their right to put this forth. But I also believe it is our role to comment on how that is in context. And the Administration has talked about promoting democratic values, sustainable development, and promoting free market economies. They have established some principles. Unfortunately the legislation did not pass last year which would have revamped foreign aid.

I am not here as an apologist for the administration's proposal. I have certainly disagreed enough with them on human rights too. But what I am saying is that, just speaking in terms of economic freedom, I think it would have more validity if it addressed the issue of legal systems and workers rights in those areas to see if we are fully going to get to free market economies.

That is not to say this is not a legitimate representation of somebody else's point of view.

Mr. CALLAHAN. I would agree with the gentlelady in saying they ought to have an established criteria for their support of any project or any country or any humanitarian need. I am saying, we don't have a guideline, or at least I don't, that tells me this is how we determine the priority of the money that was available for this particular project.

So this is the only index I have. We have one other index, and that is our subcommittee index, and in our subcommittee index we

said we are not going to let these meetings go over two hours. We are three minutes away from that.

I just want to take this opportunity to thank our panelists for coming today. You have given us some interesting materials to think about. I don't know that we can reach a resolve from what you have said. You have said in a sense that maybe we need a new engine to pull this train.

Some of you have said maybe we need new commodities for the train to haul. Some of you are saying that maybe we ought to take up the tracks and take the train in another direction. And this is what this committee is going to try to establish as we go through this process.

Ms. PELOSI. Mr. Chairman, may we submit questions for the record for the witnesses?

Mr. CALLAHAN. Very certainly so.

Ms. PELOSI. Thank you, Mr. Chairman.

Mr. CALLAHAN. I would like for the record to show that Chairman Livingston and Mr. Yates were present for a substantial part of the testimony today but were unable to remain to ask questions.

The hearing will be adjourned. Our next hearing will be February 16th, when we expect the Secretary of State, Mr. Christopher, to come by and explain his 1996 budget.

Thank you for coming.

[Questions and Answers for the Record Follow:]

Questions for the Record Submitted by Mr. Lightfoot

SUBMITTED TO HERITAGE FOUNDATION

Question. the folks in the pro Israel community have presented me with an analysis of your work on Israel. They have raised a number of what I believe are reasonable objections to your methodology with respect to Israel. At this point let me enter those specific concerns into the record and ask the heritage folks to respond to them for the record.

APPLICABILITY OF THE INDEX TO ISRAEL:

Israel is a crucial military ally and the only democracy in that region of the world. The aid which we provide to Israel is strictly used to help keep her militarily strong. Israel uses the military aid to procure defense items and the economic aid to pay off past military debt. U.S. assistance to Israel has very little to do with economic development.

Given this, do you agree that aid to Israel should be critiqued by standards other than those within your economic index?

The introduction to the Index of Economic Freedom report acknowledges that foreign aid may be justified for reasons beyond economic freedom. The report authors state: "The U.S. should continue providing foreign aid when necessary to bolster allies abroad."

Are you referring to countries like Israel, which continues to play a central role in America's Middle East foreign policy? Do you agree that assistance to Israel is critical for American national interests?

METHODOLOGY:

You state in chapter 3 of the report that the index is "the ideal mechanism for judging which countries should receive foreign aid." If that is the case, then it is critical that the data and analysis contained in the report be as accurate and careful as possible. Nonetheless, in reading the report, several questions emerge about the methodology used in compiling several of the report's indexes.

In the case of Israel, she received a relatively low score of 3.1 out of 5.0, mainly because of low scores in four categories: taxation, government consumption, monetary policy and black market. There are significant questions about your findings in each of these categories.

Black Market:

First, in the black market category, Israel receives a poor ranking of "4," meaning that black market activity is high. Without citing sources, the report estimates that black market activity is between 21 percent and 30 percent of GDP. Yet authoritative Israeli government estimates indicate that it comprises less than 10 percent of GDP. This figure would give Israel the best ranking in this category.

How can you claim that Israel's black market activity is so high without referencing any sources? How do you arrive at your figure of 21 percent to 30 percent?

Again without sources, the Index says that "Israel's import barriers have created a substantial smuggling business in consumer goods." Yet, one page earlier, the report gives Israel a high mark for trade policy. In the words of the report, Israel has a "low level of protectionism."

How can Israel have scored so poorly in the black market category if -- according to the same report -- Israel has a liberal trade regime, no barriers to capital flows and investment, and a low level of regulation? How do you justify the report's claim that "Israel's import's barriers have created a substantial business in consumer goods" when you also give Israel high marks for trade policy and low levels of protectionism?

Over the past three years, Israel's budget deficit as a share of GDP was cut in half, and of the 400,000 new jobs created since 1990, 92 percent are in the private sector.

If the government of Israel is overwhelmingly involved in the economy, how do you account for these facts? Hasn't Israel made enormous strides in moving toward privatization?

What is the U.S. share of government expenditures? Does that include spending by states and cities? Can you estimate the total share of U.S. expenditures if city and state funding was included?

Isn't it true that for a country like Israel, all of government spending is included -- thus resulting in the high 52 percent figure -- whereas the U.S. total only includes federal spending? Shouldn't your index have accounted for these differences in calculations?

In Summary:

Isn't it true that if your report had accounted for both the significant stresses and the recent achievements in Israel's economy, then Israel would have received a higher rating of mostly free?

MISSING THE TREND:

The report unfairly judges Israel as being relatively unfree because the report focuses solely on static indicators, rather than looking at the trend in Israel toward greater openness and competition. Economic growth has averaged more than 5 percent per year in the 1990s and unemployment has dropped from double digits in the early 1990s to 7.6 percent in 1994, despite the population surge from new immigrants.

Shouldn't your report acknowledge the significant structural reform Israel has undergone in the last five years? Shouldn't there be an account of the trend toward economic openness? By not accounting for the improvement in Israel's economy, doesn't your report inaccurately portray Israel as a relatively unfree nation?

Monetary Policy:

Israel is given the worst ranking in the category of monetary policy -- a "5" -- because of "a very high level of inflation." Your report measures inflation from 1980 to 1993, giving each year equal weighting. Yet, prior to its 1985 stabilization program, Israel faced extremely high inflation, exceeding 400 percent in one year. After enacting the stabilization program, however, Israel brought its inflation under control. By 1992, inflation was at 9 percent.

Given this, was it fair to judge the past 13 years of Israel's inflation rates equally? Shouldn't there be some way of accounting for Israel's tough anti-inflation policies of the last nine years? In Israel's case, wouldn't it have been more accurate to account for the marked improvement since 1985 by awarding Israel a higher score in this category?

Your definition of monetary policy is overly strict, concentrating solely on inflation. You do not take into account the unique situation that Israel faces in terms of immigration. Over a very short period of time, Israel has had to accommodate some 600,000 new immigrants, mostly from the former Soviet Union. The housing demand of these immigrants has driven up the cost of housing, which is the main cause of Israel's inflation rate today. Without the housing surge, the rate would be 7 to 8 percent. Additionally, Israel has had to focus its economic policies in the 1990s toward growth in order to provide jobs for the newcomers. As you understand, inflation is the natural result of such rapid growth.

Shouldn't there be some way for accounting for special circumstances in a particular country; for example, Israel's massive influx of immigrants over the past five years? Shouldn't your report have accounted for this influx and its effect on the Israeli economy?

Government Consumption of Economic Output:

In giving Israel the lowest score possible in the category of Government Consumption, the report again fails to take into account Israel's unique situation. According to the report, spending by the Israeli government accounted for 52 percent of GDP in 1991. Yet Israel faces an inordinately high burden in terms of inflation, spending nearly 20 percent of its 1991 budget on immigration absorption. Furthermore, while your report acknowledges the inordinate military burden faced by Israel, it fails to make any adjustment for these expenditures, which accounted for 18 percent of the government's budget.

Shouldn't your report account for this dual burden of immigration and defense spending? Why is Israel penalized for bearing one of the heaviest defense burdens in the world?

Answer. The Heritage Foundation stands by its grading of Israel in the Index of Economic Freedom. Indeed, Israel is not a booming free market and is in fact by global standards a "mostly not free" economy. The Index is not the only report to come to this conclusion. Israeli economist and Hoover Institution Fellow Alvin Rabushka has published an annual "report card" on Israel's economy and consistently has given most aspects of its economy a "D" or an "F." In Rabushka's February 1994 "Scorecard on the Israeli Economy," he graded the economy in seven areas. In the Tel Aviv Stock Exchange, he gives Israel an "A." But, in loan guarantees, privatization, agriculture, and tax reform, he gives Israel a "D." And in the business environment and in economic freedom, he gives Israel an "F."

While some claim that Israel has reformed its economy, Rabushka argues that Israel still maintains essentially a government-controlled economy. Rabushka states: "Israeli officials have perfected the art of talking reform, but practicing socialism. They speak about restructuring money-losing state-owned enterprises, but continue to shower them with taxpayer subsidies. They denounce bureaucrats as obstacles to growth and progress, but appoint more of them. They pontificate about the need to control public spending, but increase the size of the budget deficit. They profess to be concerned about improving incentives to work and invest, but raise the top marginal rate of tax. Talk reform, practice socialism—this is the motto of Israeli economic policy."

Rabushka is not alone in his criticism of the Israeli economy. Since 1986, the Fraser Institute in Vancouver, Canada, and the Liberty Fund in Indianapolis have convened a series of six conferences in which developing an index of economic freedom was the subject. The panels included such economists as Milton Friedman, Peter Bauer, and Charles Murray. As a result, the last conference, held in 1993, found that Israel consistently scored poorly in objective measures of economic freedom. After ranking some 100 countries, only four former communist countries and India scored consistently worse than Israel.

In a recent op-ed published in the *Washington Times* (1/9/95) by Robert Loewenberg, president of the Institute for Advanced Strategic and Political Studies in Jerusalem, Loewenberg states: "The trouble with all this aid is that it props up Israel's socialist economy—with its cartels, monopolies, high tax rates, subsidies, and extraordinary high levels of government intervention (among the highest in the industrialized world). The same type of economic system that failed in Eastern Europe and the Soviet Union survives in Israel because the United States provides the life support."

There are those who argue that the Index incorrectly gives Israel bad scores in a few categories which affect their overall ranking. Following are specific responses to those arguments.

BLACK MARKET

The authors devised the Index of Economic Freedom so that the largest amount of economic information could be considered. It was in this spirit that the authors chose to include factors that often compliment each other. For example, the authors believe there is a connection between high barriers to trade and the level of black market activity. For example, while normally high tariffs are conducive to smuggling and other black market activity, even a country with low average tariff rates can still have high levels of smuggling. The reasons: other types of trade barriers may be present and not accurately accounted for by measuring average tariff rates. There may be a large number of non-tariff barriers which constrain imports and thus contribute to smuggling.

Israel is such a case. While Israel scored well on the Index in trade, that factor was based on an average tariff rate. Yet, this fails to take into account specific levels of protectionism for specific products. Israel, for example, still maintains rather high tariffs on specific items. It is in these items that incentives for smuggling are greatest.

According to the, "1994 National Trade Estimate Report on Foreign Trade Barriers," written by the U.S. Trade Representative's office, Israel maintains rather high trade barriers in some goods. In agricultural products, for example, the USTR states: "Israel's agricultural import restrictions are extensive. These include quotas, licensing restrictions, variable levies, and outright prohibitions on a range of agricultural goods. Agricultural non-tariff measures (such as quotas and bans) are not prohibited by the [U.S.-Israel free trade area]."

In another example supplied by the U.S. Department of Commerce in March, 1994, a case of sparkling wine imported into Israel with a value of \$100 will end up costing the consumer almost three times as much. Here is how that happens. A \$100 case of imported wine is levied at a one percent port fee (\$1.00), a 0.5 percent stevedoring fee (\$.50), a 30 percent compulsory levy (\$30.00), a 17 percent customs duty (\$17.26), a purchase tax of 45 percent of a specified formula of the previous taxes (\$107.11), and a 17 percent value added tax applied to a formula of the above taxes (\$43.50). The total taxes applied to a \$100 case of sparkling wine is \$199.37, bringing the total price of the case of wine to \$299.37.

These circumstances often provide incentives for smuggling. While the Israeli government may argue that "officially" smuggling is virtually non-existent, others disagree. In Alvin Rabushka's 1994 scorecard, the author seeks to answer the rhetorical question, "Why smuggling is so pervasive in Israel?" Rabushka writes: "An Israeli acquaintance, recently visiting the United States, purchased a Walkman for \$120 and brought it back with him to Israel. The Walkman was defective so he shipped it back to the store at which he purchased it for repair. The store repaired the Walkman, and returned it by air freight to Israel. The customs authorities intercepted the package, and notified the Walkman's owner that he could collect his prized possession upon payment of \$220 in import charges. A Walkman that costs \$120 in New York costs \$340 in Israel? Nothing more needs to be said about this absurdity."

The authors weighed heavily these conditions and based their black market score for Israel accordingly.

MONETARY POLICY

It has been argued that grading Israel on its average inflation rate is "unfair." These critics argue that while their inflation was astronomical in the early 1980s, they now have it under control. Yet, this position clearly stems from lack of thorough reading of the Index of Economic Freedom's methodology. In the Index, the authors state: "The inflation rate is directly linked to the government's ability to manage the supply of money in the economy." High levels of inflation often are the result of the government resorting to the printing press to cover its short term ex-

penditures and to finance its budget deficits. The best kind of monetary policy is one where the government is largely removed from such economic decisions and the market determines the value of the currency. Such is the case when currencies are pegged to commodities, like gold. In the absence of such a system, the inflation rate is the best way to measure a government's ability to maintain the value of its currency.

The most object way to measure monetary policy is to examine the average inflation rate over time. This is necessary because although a government may be successful in keeping inflation low for a few years, the real challenge comes in maintaining the value of a currency over time. That is why economists and reports published by the World Bank and IMF use an average inflation rate figure. To examine merely how Israel has managed its money supply over the last five years would be like ignoring the inflation levels in the U.S. in the early 1980s that resulted from the Carter years. While it may benefit some countries to ignore their inflation history, it would distort the larger picture of how well a country can manage the supply of their currency over time.

GOVERNMENT CONSUMPTION

The authors of the Index graded Israel poorly in this factor because the government's consumption of GDP was around 50 percent in 1991 (the most recent figure available at the time of publication). While the Israeli government does not dispute the number, they argue that special considerations should be afforded them because of their high level of military and other spending. Yet, affording any country a special consideration would totally nullify the objectivity of the Index. The idea of the Index is to paint an objective picture of a country's level of economic freedom on a global scale. To do this, all countries must be graded equally. This is the same situation as the objective standards applied in U.S. education. All students are graded on a scale of "A" "B" "C", etc. Teachers are not expected to grade one student on a different scale because of personal problems at home or for other reasons. The grading system applies the same criteria for all students. The Index uses the same reasoning. While there may be many reasons—some of them certainly understandable—as to why Israel's government consumes so much of its economic output, the fact remains that it has a "very high level of government consumption." The Index does not seek to judge Israel in terms fixing a score. The place to judge Israel in this matter is in the interpretation of the score.

CONCLUSION

While critics of the Index will continue to argue that we scored Israel too harshly, there will be those who will continue to voice their agreement with our Israel score. One such supporter is Likud leader Benjamin Netanyahu who at a lecture at the Heritage Foundation on February 6, 1995, endorsed the Index's scoring of Israel.

While Israel's economy indeed has been liberalized, it has yet to sustain this level of reform for a long enough period for it to significantly change its overall economic freedom score. The Index seeks to measure the level of economic freedom. It is, at this point, a snap-shot of where Israel is today. It does not seek to make judgments about where the country is headed and how far it must go before it can significantly move "up" on the scale. That judgment will come later in subsequent editions which will enable us to establish trends over time. Regardless of the tremendous progress Israel has achieved in recent years, the fact remains that it is not a "free market" by the standards set by Hong Kong, the U.S., and other developed nations. On a global scale, Israel remains a "mostly not free" economy.

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The Big Picture Looks Bright

LEONARDO
LEIDERMAN

In the preceding article, Alvin Rabushka ignores profound changes in Israel's economy.

Rabushka argues that, while in principle the impressive growth of the Israeli economy in the last four years could be considered a "miracle," the truth is closer to a mirage. Much of the growth, he argues, was associated with massive, and sometimes inefficient, government investment in housing to absorb the new immigrants from the former Soviet Union. Moreover, if the economy's rate of growth is corrected for population growth and for government intervention in housing, the "miracle" disappears. All that is left, according to Rabushka, is one of the world's last socialist economies.

I have no trouble with Rabushka's arithmetic. But I find it more appropriate to focus on the gradual, yet fundamental, process of transformation and reform of the Israeli economy in recent years, and on what remains to be done to complete this process.

In the four years 1990-1993, real gross domestic product (GDP) grew at a remarkable cumulative rate of 24 percent. There can be no doubt that this growth was influenced by the public sector's expensive over-investment in housing. Moreover, after taking into account cumulative population growth of about 16 percent from 1990 to 1993, the average per capita GDP growth rate is only 2 percent per year—respectable but hardly miraculous. For these and other reasons, there is no serious analysis of the Israeli economy that

characterizes it as a "miracle."

What is problematic in Rabushka's analysis, however, is the sole use of the most recent three or four years to assess Israel's growth performance and economic health. In understanding economic growth as a process, rather than as a single event, we usually teach our students four basic principles: First, don't ignore initial conditions; second, take a long-term perspective of decades instead of single years; third, look at the economy beyond transitional periods of adjustment to major shocks; and fourth, be cautious when assessing the importance of per capita GDP growth rates during periods for which there are substantial changes in population.

Unfortunately, Rabushka's analysis violates all four principles.

In the early 1990s, Israel began to recover from the deep economic recession of the late 1980s. At the same time, a major wave of immigrants arrived. We must be very cautious in reaching broad conclusions about underlying economic forces from observations of so short and tumultuous a period.

My most serious criticism of Rabushka's analysis, however, is his failure to recognize the *major transformation of the Israeli economy* that began after the 1985 program to reduce runaway inflation. In the period before 1985, the Israeli economy was characterized by triple-digit inflation, high government budget deficits and a very high ratio of public debt to GDP. There was an excessive dose of government intervention in the capi-

The Good News

The disinflation program of 1985 worked; inflation fell from 445 percent in 1984 to 10 percent in 1993.

The government slashed its domestic budget deficit from 16 percent of GDP in 1984 to 1.3 percent in 1989-90.

Government intervention in the capital market has been sharply reduced.

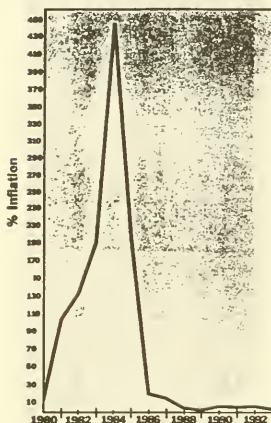
Reduction in bank reserve requirements put them now at levels similar to most advanced economies.

Israeli businesses today can lend and borrow at interest rates similar to those in the world capital markets.

Economic competition has increased; the private business sector of the 1990s is efficient and dynamic.

and foreign exchange markets: institutional investors were required to hold almost all of their assets in the form of government-issued securities, most of which are non-negotiable and non-traded; government committees offered special credit terms to "priority sectors," such as exports;

CONTROLLING RUNAWAY INFLATION



Israel can point to significant achievements in its efforts to improve the economy—most notably, a program that tamed the runaway inflation of the early 1980s (above). By slashing the domestic government budget deficit from about 16 percent of GDP in 1984 to about 1.3 percent of GDP in 1986-88, Israel lowered inflation to about 10 percent per year.

Israel's go-slow economic reform has yielded steady growth, both in private spending and domestic investment. Compared to a 1980 baseline index designated as 100 (right), both consumption and investment more than doubled over the past 13 years.

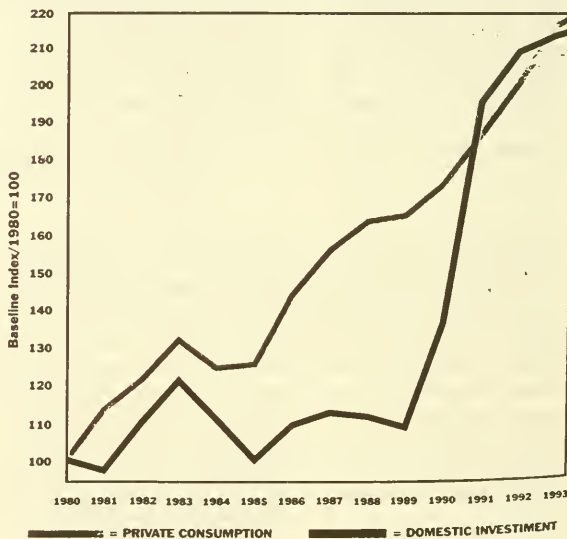
and severe restrictions were placed on international capital transactions and citizens' foreign currency accounts.

The result of this government intervention was a segmented market, with different sectors and individuals having different degrees of access to borrowing and lending under different terms. Things began to change in the second half of the 1980s. First, the disinflation program, within a few months of its implementation in July 1985, reduced the rate of inflation from a high of 445 percent in 1984 to about 15-18 percent per year by 1991. Further progress was made in 1992-1993, when the rate of inflation fell to about 10 percent per year. A key factor in this achievement was the government's will-

ingness to slash the domestic government budget deficit from about 16 percent of GDP in 1984 to about 1.3 percent of GDP in 1986-88. This had serious consequences: for example, 25 percent of the employees of the Israel Aircraft Industry were fired in the mid-1980s. That same fiscal discipline has been maintained. The government has also committed itself to further reductions in the fiscal deficit and to further reductions in inflation rates to levels that prevail in most industrialized countries.

Second, starting in 1987, Israel embarked on a process of financial deregulation and reform. In contrast to the 1985 disinflation program, this process proceeded slowly and cautiously. No official announcement was made about

THE PACE OF CHANGE: SLOW BUT STEADY





The Tel Aviv Stock Exchange (above) lists more than 600 companies, with a total value of shares in excess of \$7 billion.

the exact policy measures nor about a timetable for liberalization. Proponents of gradualism argued that this somewhat ambiguous approach was justified in view of the strong political opposition that various interest groups raised against a single and comprehensive package of reforms—opposition that could have resulted in the total failure of reform. Opponents of gradualism, on the other hand, argued that the lack of an official commitment and timetable created unnecessary and harmful delays.

Despite this go-slow approach, Israel can point to significant achievements—for example, much less government intervention in the capital market. Segmentation in the credit market has been eliminated, so that all borrowers and lenders receive equal access. Bank reserve requirements have been decreased to levels similar to those in most advanced economies, reducing what amounted to a de facto "tax" on banks.

The most salient achievement is the substantial narrowing of various interest rate spreads (e.g.,

between borrowing and lending rates) and the convergence of domestic interest rates with rates in Western Europe. Specifically, the gap between the cost of foreign currency borrowed in Israel and borrowed abroad has decreased from 13 percent in 1987, to 5 percent in 1989, to 1 percent in 1993.

Put differently, Israeli borrowers and lenders are now effectively paying and charging interest rates similar to rates prevailing in world capital markets—quite a major change for the Israeli economy!

These are impressive changes. True, much remains to be done. Israel has not yet established full convertibility of its currency, so that the shekel cannot be exchanged for foreign currencies in unlimited amounts. Without a fully open capital account, capital movements and investments to and from Israel are restricted. Restrictions on portfolio allocations of institutional investors need to be relaxed (for example, pension funds have to be allowed to invest a much larger share of their portfolios in foreign stock and bond markets than is present-

ly allowed, in order to diversify their menu of holdings). Privatization of public sector enterprises has not been completed. Although all political parties agree that more reform measures are needed, at present no strong incentives prod politicians and policymakers to expand the reforms. On the whole, I believe that a less gradual approach would have resulted in more progress, but still, the past seven years have seen enormous progress.

The labor market has also gone through some transformation, reflected in the enhanced flexibility of the wage-setting process. In the early 1980s, employers were unable to lower real wages. The recession of 1988-89 and the Russian immigration, however, resulted in a drop in business-sector real wages of about 5.5 percent in the last three years. Business firms also benefited from a rise in labor productivity of about 2 percent per year between 1989 and 1993.

In short, I disagree with Rabushka's view that Israel is one of

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The Big Picture Looks Bright

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the world's last remaining socialist economies. If we take into account the unique burden of defense spending, Israel's ratio of government spending to GDP is not very different from European economies like Belgium, the Netherlands, Spain or Sweden. Furthermore, the ratio of the national budget deficit to GDP and the ratio of public debt to GDP are both lower than in several well-known capitalist economies in Europe, including Italy, Spain and Belgium. It is true that the burden of high taxes is quite oppressive. Yet how can one ignore the substantial defense spending that some of these taxes are required to finance?

In looking for bright spots, Rabushka alludes to the impressive stock market performance for various periods up to the end of 1993. This performance is attributed to two main factors: the absence of both a capital gains tax and direct taxes on profits of most export-oriented firms. It is dangerous to analyze fundamental trends in an economy

on the basis of stock market fluctuations over a relatively short period. Stock markets are subject to fads and bubbles that have no connection with real economic developments.

That much remains to be done is undoubtedly true. Market-based forces and institutions in the Israeli economy need strengthening. In particular, public sector enterprises (including various commercial banks) need to be privatized, along the lines of the successful semi-privatization of Bezek, Israel's telecommunications conglomerate, and the current efforts to fully privatize El Al, the national airline. Government intervention must be reduced, and the economy should be opened to foreign competition. (For the record, I favor allowing McDonald's to import its own french fries!) But Israel is not alone in this respect. Numerous non-socialist industrialized nations are moving in the same direction.

Israel's economy in 1994 is very different from what it was 10 or 20 years ago. In contrast to the major macroeconomic mismanagement of the 1970s and early 1980s, the government's fiscal and monetary policy is now strong and disciplined. Like Canada and the United Kingdom, Israel has adopted an official inflation target. The degree of competition has increased, and the 1990s feature an extremely dynamic and efficient private business sector. All of this, along with continued, though gradual, structural changes and liberalization, provides a solid basis for substantial economic growth in the coming years.

True, implementation of structural reforms has been too slow. It is easy to criticize policy-makers for that, and to claim that they talk reform but practice status quo. But social scientists like us must also understand the politico-economic reasons for their lethargy. As long as the government is relatively weak, depending on a marginal majority to maintain its ruling coalition, there is little incentive for politicians to make drastic changes. Gradualism in reform is just one consequence of this political "equilibrium."

Israel's economic growth is neither miracle nor mirage. What is important is that the process is moving in the right direction, transforming Israel into a strong market-based economy, well integrated with the rest of the world. ●

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Questions for the Record Submitted by Mr. Torres

SUBMITTED TO HERITAGE FOUNDATION

Question. I understand that in the World Bank, for every dollar we put in, the Bank can lend \$131. We just couldn't duplicate that with our bilateral program. And the Bank lends to countries that we support—South Africa, Central Europe, and Latin America and in support of the Middle East peace process. Do you believe that the MDB's are cost effective? Haven't the MDBs undertaken reforms to streamline their operations, become more cost-effective and more sensitive to the needs of taxpayers and borrowers? Don't these changes address some of your concerns?

Answer. The World Bank, and other multilateral development banks like it, have failed in their main mission: promoting economic development in less developed nations. As a result, the U.S. taxpayer, who has been asked to support the largest portion of the budget for these international institutions, have been swindled out of billions of dollars. They are being told that their money is being spent to help the poor in other countries. In reality, the money is doing more harm than good. It is creating a world of dependents, forever cursed with poverty. One need only look to the World Bank itself for confirmation of the failures of international welfare. In their *World Development Report: 1993*, the World Bank states: "Some of the most dramatic 'adjustment' reforms took place without adjustment lending (as in Chile and Vietnam), and some countries that received adjustment loans did little or nothing to pursue reforms (for example, Tanzania and Zambia)."

It is misleading to argue that, regardless of the little impact the multilateral development banks (MDBs) have had on economic development, MDBs should still be supported because they benefit U.S. companies. Surely, the main purpose of multilateral development banks is to promote economic growth in less developed countries and not to line the pockets of a few corporate beneficiaries from donor countries. But regardless of whether these institutions benefit a select group of corporate interests, we must ask ourselves, is it really the purpose of the federal government to use taxpayer money to invest in a few U.S. corporations? This is little more than corporate welfare, which has little, if any, impact on promoting growth in less developed countries.

Questions for the Record Submitted by Ms. Pelosi

SUBMITTED TO HERITAGE FOUNDATION

Question. The foreword to *The Index of Economic Freedom* cites Admiral Nance's statement that "the amount of money the United States has spent since 1947 on foreign aid equals more than one-third of the federal debt. Much of it has been wasted." If you examine the methodology for this analysis, done in 1982, you will note that it is based on a number of curious assumptions, including the assumption that all of the money for the foreign aid budget is borrowed, even in years when the U.S. government runs a surplus; the assumption that, in those years with a deficit, all of the foreign aid budget was borrowed and other program's budgets were not; and, the assumption that none of the debts were ever paid off. The Congressional Research Service (CRS) also released a report in 1982 using different assumptions and methodologies, and arriving at different conclusions. What do you think of the methodology used for the analysis cited by Admiral Nance and what do you think of the other CRS methodologies?

At this Subcommittee's first hearing, former Member Mickey Edwards noted that "there is a difference between trimming and slashing and the difference is not the amount . . . A slasher flails away until a sufficient amount of a budget has been lopped off, and what remains standing becomes American foreign policy." Our former colleague, a Republican, is highly respected for his experience and views on foreign policy issues. What do you think of Representative Edwards' comment?

It is my understanding that A.I.D. has had in place for several years a performance-based country allocation system. One of the factors in A.I.D.'s system is economic performance. Are you familiar with A.I.D.'s model? What do you think of it? How does your model differ in methodology from A.I.D.'s on economic criteria?

In your report and statement, you indicate that "not one country receiving foreign aid has succeeded in developing sustained economic growth." However, a careful look at the listing of countries which you consider "most free" shows that 19 of the 20 are current or former recipients of U.S. assistance. How do you explain the difference between your statement and the facts?

In your report, you assert that "with little foreign aid, South Korea has become one of the fastest growing countries in the world." However, at one point, U.S. assistance alone was providing over 7% of the Government of Korea's funding. Between 1962 and 1985, Korea received more than \$8 billion in assistance from the multilateral development banks. In fact, the economic development in Korea was based on the United States providing funding for education and other assistance so that the country could develop. Why have you ignored these factors in your report?

Answer. I think that what Admiral Nance was addressing, regardless of how the money was raised and spent, is the failure of U.S. economic assistance to promote economic growth. This is not a radical statement. One need not look any further than the current batch of U.S. aid recipients to see that these are basically the same poverty stricken countries that were on the list nearly four decades ago. Even a cursory examination of the facts will lead most objective observers to the conclusion that massive transfers of wealth from the developed world to the less developed world have done little to promote economic development in less developed countries. Regardless of which methodology is used to determine what levels of funds were spent and what the sources for that funding was, this does not alter the finding that economic development assistance is a failure.

We agree wholeheartedly with former Congressman Mickey's Edwards' plea for having policy drive our budget debates. Budgets should never be the main driving force behind foreign policy. Foreign policies should be established and then budgets should be created to support it. That is precisely the purpose of the Index of Economic Freedom—to give economic aid a strategic mission which can be used to drive policy. We assume that it is in the U.S. national interest for developing countries to grow economically. Thus, the question of policy is "how best do we support economic growth?" The answer is to encourage countries to liberalize their economies. If economic aid actually hinders economic liberalization, it is not only a hindrance to economic growth, but harmful to our national interests. It not only hurts the people it is trying to help, and wasting our money in the process, it is subsidizing foreign economic policies that are contrary to the national interests of the United States.

We are very familiar with AID's performance-based country allocation system. While we welcome the idea of adopting performance criteria, we are concerned that free market considerations are not taken seriously enough in AID's system. Instead of focusing sharply on the factors of the Index of Economic Freedom, AID adopts a wide range of criteria such as population growth and educational levels that are not nearly as important to economic growth as taxation, regulation, trade, legal and other economic policy issues. A preoccupation with health and environmental factors as a matter of development policy—as opposed to considerations of human need—puts the cart before the horse. A cleaner environment and better health standards are the result of economic development, not the cause of it.

For example, the problem for some developing countries is not that the population is growing too rapidly, but that their economies are growing too slowly. Slow economic growth is the result of unfree economic policies. And slow economic growth produces an economy that is unable to sustain large populations. AID's mistake is fundamentally misunderstanding the nature of economic growth and development.

SUBMITTED TO INTER-ACTION

Question. In your statement you indicate that we have "won the Cold War, but we cannot afford to lose the peace." What do you think would happen worldwide if we fail to address the needs of developing countries?

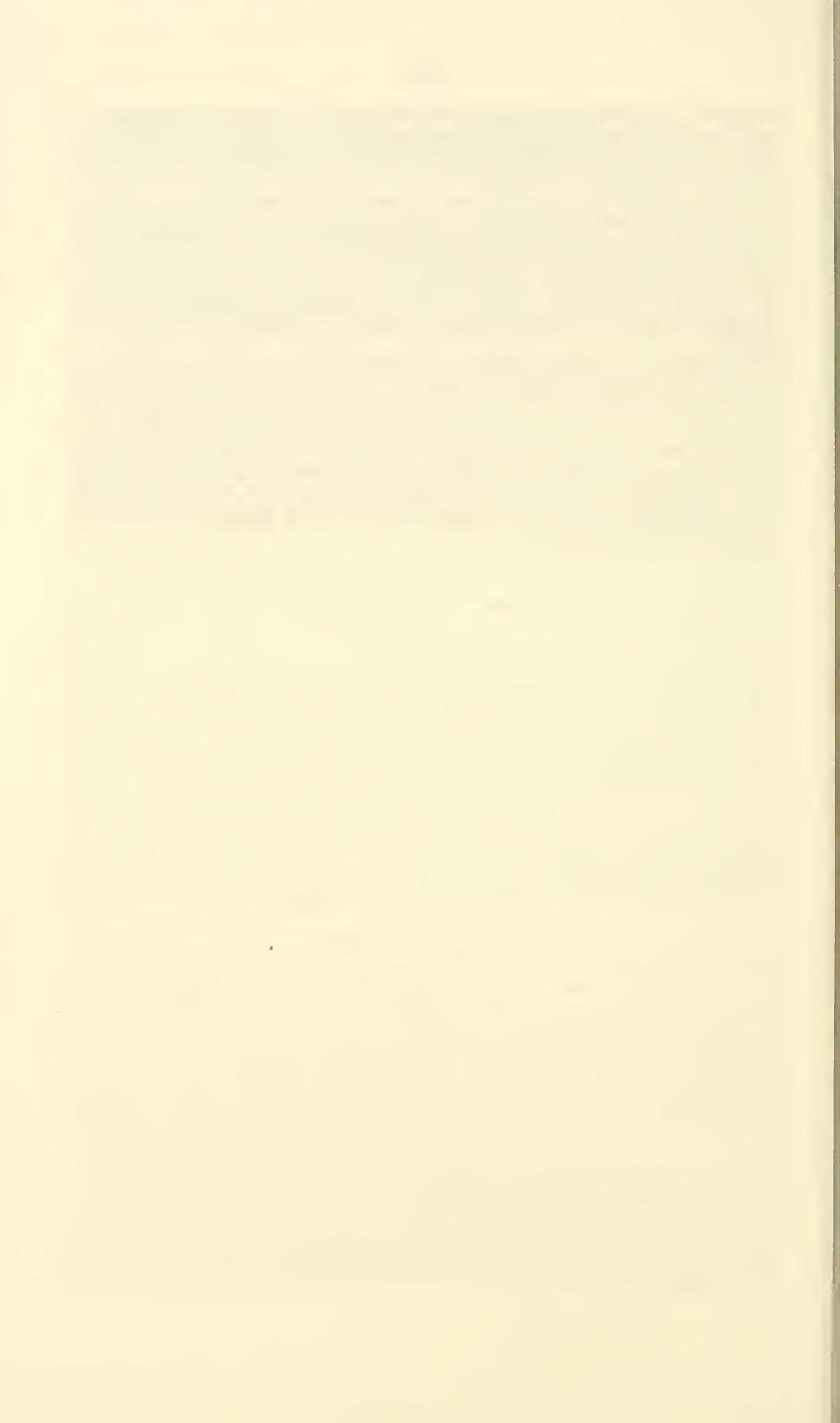
Answer. If we define our national interest as achieving lasting peace and economic security—and I don't think anyone would disagree with that—then failing to address the needs of developing countries will put our American national interest at serious risk. Development assistance is the best tool we have to promote democracy and economic growth around the globe. The greatest problems facing America today are global in nature: Environmental degradation, terrorism, job security and AIDS, to name a few. These problems will only worsen if we withdraw U.S. leadership and engagement around the globe.

Let me give you a couple of concrete examples of the widespread impact of cuts in development assistance. In one basic education project that operates in several African and Latin American countries, if cuts were made according to the 50 percent scenario recommended by the Heritage Foundation, experts estimate that up to 3.6 million girls would be eliminated from the development picture. This in turn would cause infant mortality to rise and market productivity to fall in those countries. It is estimated that every additional year of schooling for girls lowers child death rates by 5–10 percent; in countries where girls are less than half of the enrolled school

population, economic growth is depressed by 25 percent. You can't promote stability and democracy in such a climate, and as these indicators worsen, the likelihood for conflict and humanitarian crisis increases. And since developing countries are now the source of nearly all of the growth for new U.S. export markets, this will mean fewer jobs at home.

Another example is our support for biodiversity. A 50 percent cut in this area would mean that resources would no longer be available to help local groups in Asia learn how to manage their precious natural resource base in a cost-effective and sustainable way. These cuts will eliminate projects that offer important benefits to the American public, such as a project in Fiji to collect rare plants for drug research; and projects which hold the potential for lucrative enterprises between the U.S. and the expanding Asian/Pacific markets, such as support for partnerships with local groups in the Solomon Islands that supply necessary ingredients for U.S. manufacturers.

Our programs have already reaped and continue to reap success. The U.S. spent over \$30 million over 10 years to eradicate smallpox, and now saves \$150 million a year on immunization and treatment for that disease. Current immunization efforts prevent the deaths of over 3 million children per year; and as many as 1.7 million deaths a year could be prevented through increased immunization efforts. There are many more examples of such success. The bottom line is that cutting development assistance programs will cost lives. It will be read by the rest of the world as a shirking of U.S. leadership, and will reduce our chances for achieving sustained peace and stability around the world. It will put more of a burden on our shoulders to respond to crises and threats unilaterally, and will limit opportunities for Americans to realize a better future.



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NOTE: Under Committee Rules, Mr. Livingston, as Chairman of the Full Committee, and Mr. Obey, as Ranking Minority Member of the Full Committee, are authorized to sit as Members of all Subcommittees.

DEBORAH WEATHERLY, LORETTA BEAUMONT, MARK MIODUSKI, and JOEL KAPLAN,
Staff Assistants

WEDNESDAY, JANUARY 11, 1995.

CITIZENS AGAINST GOVERNMENT WASTE

WITNESS

THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Mr. REGULA. I would like to call the committee hearing to order. This is a maiden voyage for me as Chairman, and being a former Navy man, I guess I could classify it as my shakedown cruise. So if we have a few glitches, I hope you will bear with me.

I plan to have the four witnesses testify as, in effect, a panel before we have questions. This will enable the Members who may have other committee commitments to at least hear the testimony and then, as they choose, stay to question one or all of the witnesses during the time allocated.

Our first guest this morning is Tom Schatz, President of the Citizens Against Government Waste, and he is going to testify on some of the suggestions they have. The four groups that will be represented this morning have an interest historically of trying to get efficiency in government, and those seem to be the watchwords in 1995: how can we make government more efficient? Certainly we in the appropriations process are on the cutting edge of that type of challenge.

Mr. Schatz, welcome.

Mr. SCHATZ. Thank you very much, Mr. Chairman. I appreciate the opportunity to testify today before the Appropriations Subcommittee on Interior.

I am Tom Schatz, representing the 600,000 members of Citizens Against Government Waste. I am both thrilled and honored to be

the first witness before you in the 104th Congress. Your interest in our comments are a true indication of the tidal wave of change that swept the country on November 8th.

CAGW was created 11 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission, formally known as the President's Private Sector Study on Cost Control. These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1986, the implementation of Grace Commission recommendations has helped save taxpayers more than \$250 billion. Other CAGW cost-cutting proposals enacted in 1993 and 1994 will save more than \$100 billion over the next five years.

Last week, the Mighty Morphin Power Rangers made an appearance on Capitol Hill. But you and the other members of the Appropriations Committee have the opportunity to be the real power rangers. Children and adults alike will appreciate the work you do to morph the mentality of the Federal Government out-of-control spending machine. This subcommittee has the opportunity to show taxpayers that you got the message last November. Use your "zero power" to simply eliminate funding for programs. You can cut government waste and nonessential spending and create a smaller government.

Do we need to spend \$30 million on an Institute of Museum Services to provide funds for private, nonprofit museums? Do we need to spend \$8 million on a Commission of Fine Arts, which was established in 1910? Do we need to spend nearly \$3 million on an Advisory Council on Historic Preservation? Do we really need \$48,000 for salaries and expenses at the Franklin Delano Memorial Commission? While this may be a more appropriate topic for the authorizing committee, should the Departments of Interior and Energy be merged and how should that be funded?

Mr. Chairman, you and the Members of this subcommittee face one of the most important tasks confronting our country, eliminating pork-barrel and other nonessential spending and funding the restructuring of departments and agencies under your jurisdiction. Not only do you have an opportunity to save tax dollars, but you also have the chance to alter the power structure and the logrolling that too often occurs with appropriations.

The first step is to reverse some old assumptions. Congress has often viewed programs as perpetual, without taking enough time to evaluate their effectiveness. The premise has been how much was spent last year and how much are we supposed to spend this year, rather than whether the money is spent well or should be spent at all. This is, after all, not the government's money—it's the taxpayers'.

Every expenditure should be viewed from the ground up—instead of making the assumption that everything is sacrosanct. If you were starting the Department of the Interior and related expenditures today, how would it be done? Only by changing the Congress' view of spending can we get it under control. And while the authorizing committees will eventually begin rebuilding the Federal Government from the bottom up, you and your colleagues on the Appropriations Committee must make the zero-baseline deci-

sions that America needs to eliminate the deficit and pay for major tax reductions.

With your new leadership on Appropriations, and bipartisan support for change, CAGW hopes to help you usher in a new era. That is why we welcome this hearing and the fresh look you have pledged at every program under your jurisdiction. It is also why CAGW supported the rules change to allow Members to kill unauthorized projects through "points of order."

The Department of the Interior, established in 1849, is one of the government's oldest departments. The Grace Commission noted that in performing its mission, the Department of the Interior "is often placed in conflicting roles—conservator and developer, trustee and program manager. The beauty and resources of the national parks, wilderness areas, and lands managed by Interior provide leisure time enjoyment. The land and its surface and mineral resources present opportunities for economic growth, development, and increased energy self-sufficiency.

In addition, Interior has a standing role as trustee and fiduciary for Native Americans. A significant part of this mission includes the economic, social, and political development of individual resources.

While everyone complains about spending being cut to the bone, the spending levels at Interior increased by an average of nearly 6 percent in fiscal years 1994 and 1995. I would note that the increase was only 3 percent between 1994 and 1995.

One of the favorite conduits for pork in Interior has been the National Park Service, which has earned the agency the unwanted title of "National Pork Service." CAGW understands the importance of many of the projects undertaken by the Park Service, but we are highly critical of how some of them are funded. In particular, the appropriations process has been used to build projects of little national value. These "personal monuments to incumbency" are persuasive and constant reminders of the "power" of congressional office holders.

Another agency within your jurisdiction, the Bureau of Indian Affairs, has an abysmal record of mismanagement that dollar for dollar is worse than the often-maligned Department of Defense.

BIA has lost at least \$17 million in trust fund money over the past 10 years. Former Interior Inspector General James Richards said, "The Bureau of Indian Affairs is one organization where additional funding would probably not effect significant improvements."

The Boston Globe reported a tribe in Maine has either lost or is in debt for an estimated \$20 million on six defaulted business ventures, including at least \$4 million the tribe and its businesses owe the Federal Government.

Surely BIA must be cut back and manage its affairs better, but I urge you and the authorizing committee to consider a bolder, fresher, and more basic idea: restoring dignity to the American Indians by increased self-governance.

After noting "serious administrative and personnel deficiencies" and "woefully weak" financial and information systems at BIA dating back to the mid-seventies, the Grace Commission put it best:

"Does the concept of Indian sovereignty over tribal lands have any real meaning if it can only be achieved by eternal reliance on

Federal financial assistance? Are the tribes always to be wards of the Federal Government or should there be a foreseeable end to its role as trustee?"

At the approach of the end of the millennium, it is time to settle all treaty and legal disputes, and end patronizing government control that sets these Americans apart from their countrymen. Zero out BIA, Mr. Chairman. That would be a change consistent with the 1994 election results.

Since 1991, CAGW has chronicled follies with our Pig Book, including Interior. In compiling the Pig Book, we look at all appropriations and through seven criteria to determine whether or not a project is pork. The criteria have been established by CAGW and the Porkbusters Coalition, comprised of Senators, Representatives and other public interest groups, several of whom you have speaking before you this morning.

A project is pork if it is requested by only one chamber of Congress, not specifically authorized, not competitively awarded, not requested by the President, greatly exceeds the President's budget request or the previous year's funding, not the subject of a congressional hearing, or serves only a local interest. CAGW calls it pork if it meets only one of these criteria; the Porkbusters take three of the seven and have introduced legislation to eliminate pork barrel items in each of the last two sessions of Congress.

Last year, CAGW identified \$213 million in pork in the Interior Appropriations bill. \$3.35 million was added in conference for building rehabilitation at the National Center for Preservation Technology in Louisiana. The center was scheduled to be built in Georgia, but when Wyche Fowler lost his Senate seat, the project was suddenly moved to Natchitoches College, which at that time, had not a single employee experienced in preservation study.

\$700,000 was added in conference for the Alpine Lakes Management Area.

The 1995 Pig Book, due out on February 15th, will bring bad news to the American taxpayer. There is still pork in the Interior appropriations, but it is less than in 1994. For 1996, CAGW would like to issue a pork-free report. Here is a sneak preview of the 1995 Pig Book:

\$3.7 million was added in the Senate for the National Trails Center visitors center in Iowa.

\$2 million was added in the Senate for visitor center rehabilitation at the Grand Canyon National Park in Arizona.

\$500,000 was added in the House for the Lincoln Home National Historic Site in Springfield, Illinois.

Continued authorization of a study to determine if a footbridge should be built from New Jersey to Ellis Island. The study could cost \$2.6 million, construction \$15 million. The House properly restricted further funding, but unfortunately yielded to the Senate in conference. There is no great demand for this project; if it was good enough for our ancestors to reach Ellis Island by boat, it is good enough for today's taxpayers. Sink this project by sticking to your guns this year—don't give in to the Senate.

All of this pork can be eliminated. Politically, there is only one way to do so: by having each Member of this subcommittee and the Appropriations Committee take a "no earmarks" pledge.

Mr. Chairman, you can make government smaller not just by cutting the pork. By using your new "zero power"—simply eliminating funding for programs—you can also attack waste, mismanagement and nonessential programs elsewhere in the Departments of the Interior and Energy and related agencies under your jurisdiction.

The Grace Commission Task Force on the Department of the Interior made 27 recommendations that would have saved \$1.3 billion over three years, yet unimplemented recommendations include:

Implement an asset management program to increase sales of unneeded Federal land and place proceeds in the general fund. Five-year savings are estimated at more than \$1 billion.

Privatize public rangelands through sale or lease to reduce the cost and improve rangeland management. Five-year savings are estimated at \$184 million.

Improve coordination of land management functions between the Forest Service and Bureau of Land Management. CAGW recommends going a step further: Return "commercial" Federal lands to the States where it really belongs.

CAGW joins budget hawks in calling for the privatization or elimination of various programs that are currently being funded through the Department of Energy in the Interior appropriations bill. We recommend that the government:

Sell off the Naval Petroleum Reserves. What was once considered vital to national security in 1912, as the Navy switched from coal to petroleum, the NPR now accounts for only about 1 percent of U.S. domestic output. It has outlived its usefulness. Five-year savings are estimated at \$2.4 billion.

Halt acquisitions of crude oil for the Strategic Petroleum Reserve, which would still leave SPR with nearly 610 million barrels by the end of 1999—enough for energy emergencies. Five-year savings are estimated at \$325 million.

Eliminate further funding for the Clean Coal Technology program that private businesses already have an economic incentive to undertake following the Clean Air Act of 1990. Zero it out and get five-year savings that are estimated at \$20 million.

Current Interior appropriations are also being used to fund the National Endowment for the Arts and Humanities. Zero out the NEA and NEH, saving \$142 million this year, and cut the Smithsonian's budget to wipe out its attempt to rewrite history in the Enola Gay exhibit.

It is time to take a hard look at other outdated and nonessential programs. Established more than 30 years ago to provide professional services to private, not-for-profit museums, the Institute of Museum Services should rejustify its existence and \$30 million appropriation. Since 1910, the government has been funding the Commission of Fine Arts and added to its duties in 1988; it is time to draw the curtain on the commission. The Advisory Council on Historic Preservation costs the taxpayers \$2.9 million and "advises the President and Congress on preservation matters and provides consultation on historic properties threatened by Federal action." In other words, the Federal Government has created an organization to counteract its own destructive actions. Wouldn't it be smarter to simply not threaten historic properties in the first place?

The important functions that Interior would be left with, such as research and development on oil, coal, and other fossil fuels, could be combined with similar Department of Energy activities to create a new Department of Natural Resources. Savings could reach as much as \$10 billion over five years. If the subcommittee operates on the presumption of proving the merits of programs, rather than perpetuating those which have simply been around for a long time, these recommendations become very logical.

Before approving the expenditure of one tax dollar on programs under your jurisdiction, Members of this subcommittee should ask themselves two questions: (1) Is this project worth the further weakening of our representative government, and

(2) is this a project that I want my children and grandchildren to be responsible for paying?

When considering rescissions for this fiscal year, those same questions should be asked.

To help end the pork barrel spending on Capitol Hill, Congress should: (1) establish a procedure to rescind all spending items determined to be pork on the basis of the Porkbusters' objective tests;

(2) Grant the President line-item veto authority;

(3) prohibit any member from placing a project specifically benefiting his or her district or State into a bill under consideration in his or her committee; and

(4) Prevent any physical structure or other project from being named after a Member of Congress until 10 years after he or she has left office.

Only someone who imagines that Federal funds are somehow "free" and do not first have to be taken from working Americans would confuse pork with petty cash. The proper comparison is not between pork and the total Federal budget, but between pork and the average family budget. In 1994, a median-income, two-earner family paid \$5,581 in Federal income taxes. This means that \$1 billion in pork, wastes the combined taxes of approximately 1.8 million median-income families. Current funding rules do not allow cuts in discretionary spending to be used to pay for tax cuts. In principle, however, eliminating \$1 billion in pork could provide \$1,000 in tax relief to 1 million American families.

People want their power back. Taxpayers are no longer amused by inadequate and irresponsible management of our government, because their future is in jeopardy. The budget crisis cannot be ignored, and that is why their amusement has been replaced with outrage. Members of this subcommittee should be equally outraged. You hold the "zero power" to cut the waste and the nonessential program. It is time to stop taking our tax dollars and start making tough choices.

Restoring fiscal sanity to our nation is the most important job for the 104th Congress. The country every day slips perilously closer to bankruptcy. The national debt is expected to rise to nearly \$6 trillion by the end of the century. This is not the legacy that we should leave to our children and grandchildren. Spending has not been cut to the bone. Money is being wasted daily and the clock is ticking. We are sitting on a fiscal time bomb that needs to be defused.

You have an opportunity to continue the mission that Peter Grace and Ronald Reagan started 13 years ago when President Reagan signed the Executive order formally establishing the President's private sector survey on cost control, and to deliver on the call for change made on November 8th.

If you don't take the right steps now, there may never again be such an opportunity.

This concludes my testimony. I will be glad to answer any questions you may have.

Mr. REGULA. Thank you, Mr. Schatz.

[The statement and biography of Mr. Schatz follows:]

**Testimony of
Thomas A. Schatz,
President of Citizens Against Government Waste
before the
House Interior Subcommittee on Appropriations
January 11, 1995**

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Appropriations Subcommittee on Interior. My name is Tom Schatz and I represent the 600,000 members of the Citizens Against Government Waste (CAGW). I am both thrilled and honored to be the first witness before you in the 104th Congress. Your interest in CAGW's comments are a true indication of the tidal wave of change that swept the country on November 8th.

CAGW was created 11 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Study on Cost Control). These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1986, the implementation of Grace Commission recommendations has helped save taxpayers more than \$250 billion. Other CAGW cost-cutting proposals enacted in 1993 and 1994 will save more than \$100 billion over the next five years. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

Last week, the Mighty Morphin Power Rangers made an appearance on Capitol Hill. But you and the other members of the appropriations committee have the opportunity to be the real power rangers. Children and adults alike will appreciate the work you do to morph the mentality of the federal government's out-of-control spending machine. This subcommittee has the opportunity to show taxpayers that you got the message last November. Use your "zero power" to simply eliminate funding for programs. You can cut government waste and create a smaller government.

Do we need to spend \$30 million on an Institute of Museum Services to provide funds for private, nonprofit museums? Do we need to spend \$8 million on a Commission of Fine Arts, which was established in 1910? Do we need to spend \$2.9 million on an Advisory Council on Historic Preservation? Do we need to spend \$2.7 million for the Pennsylvania Avenue Development Corporation? Should the Departments of Interior and Energy be merged?

Mr. Chairman, you and the members of this subcommittee face one of the most important tasks confronting our country -- eliminating pork-barrel and other non-essential

spending and funding the restructuring of departments and agencies under your jurisdiction. Not only do you have an opportunity to save tax dollars, but you also have the chance to alter the power structure and the log-rolling that too often occurs with appropriations.

The first step is to reverse some old assumptions. Congress has often viewed programs as perpetual, without taking enough time to evaluate their effectiveness. The premise has been: How much was spent last year, and how much are we supposed to spend this year, rather than whether the money is spent well or should be spent at all. This is, after all, not the government's money -- it's the taxpayer's. Every expenditure should be viewed from the ground up -- instead of making the assumption that everything is sacrosanct. If you were starting the Department of the Interior and related expenditures today, how would it be done? Only by changing the Congress' view of spending can we get it under control. And, until the authorizing committees can begin rebuilding the federal government from the bottom up, you and your colleagues on the appropriations committee must make the zero-baseline decisions that America needs to eliminate the deficit and pay for major tax reductions.

With your new leadership on appropriations, and bipartisan support for change, CAGW hopes to help you usher in a new era. End billion-dollar boondoggles and blatant and bragged-about excesses. I will offer solutions.

Many in Washington dismiss pork as a minor problem in the grand scheme of fiscal policy. Their standard argument runs about as follows: Pork adds "only" a few billion dollars to the federal budget. So eliminating pork would hardly put a dent in the deficit. This argument makes the very size of the deficit an excuse to waste even more of the taxpayers' money. The main problem with the "pork is small potatoes" argument, however, is that it's just plain wrong. Not only does pork eat a bigger slice of the federal budget than most observers realize, it is a root cause of some of our nation's most debilitating fiscal and political pathologies.

The biggest cost of pork cannot be measured in dollars and cents. More critical than sheer monetary losses is the corresponding debasement of the political process. In order to bring home the bacon, lawmakers have repeatedly twisted or broken the rules Congress has established to ensure that public monies are allocated fairly and effectively. Hundreds of projects are funded annually without benefit of a hearing, without proper legal authorization, without being subjected to a competitive test, and in violation of rules against earmarking. Whether our form of government can long endure when lawmakers show so little respect for due process is an open question.

That's why we welcome this hearing and the fresh look you have pledged at every program under your jurisdiction. It's also why CAGW supported the rules change to be able to eliminate pork-barrel projects with the new open rules. By allowing members to kill unauthorized projects through "points of order," Congress can be substantially more responsive to getting rid of wasteful projects.

Pork has had a detrimental effect on House-Senate conference committee deliberations. The conference is supposed to iron out differences between the two chambers. The conference committee was not set up to be a magician's hat where projects magically appear. What's pulled out of the hat is not a rabbit, but a pig. The conference committee has become a proverbial fairy godmother to politicians. The practice of creating programs and projects that have no basis in either body of Congress has become far too commonplace.

Pork-barreling encourages citizens to take a cynical, self-serving view of their role in the political process. It legitimizes a politics of plunder, enticing citizens to demand special favors at the expense of other districts and states.

The Department of the Interior, established in 1849, is one of the government's oldest departments. The Grace Commission found that in performing its mission, the Department of Interior:

is often placed in conflicting roles -- conservator and developer, trustee and program manager. The beauty and resources of the national parks, wilderness areas, and lands managed by Interior provide leisure time enjoyment. The land and its surface and mineral resources present opportunities for economic growth, development, and increased energy self-sufficiency. In addition, Interior has a standing role as trustee and fiduciary for the Native Americans. A significant part of this mission includes the economic, social, and political development of individual and tribal resources.

While everyone complains about spending being cut to the bone, the spending levels at Interior increased by an average of nearly six percent in fiscal years 1994 and 1995. Not too shabby for a country on the brink of fiscal disaster.

One of the favorite conduits for pork in Interior has been the National Park Service (NPS), which has earned the agency the unwanted title of "National Pork Service." Whenever an appropriator wants to siphon money back into their district through Interior, they conveniently find a project of little national value that has to be built. These "personal monuments to incumbency" are persuasive and constant reminders of the "power" of congressional officeholders.

CAGW understands the importance of many of the projects undertaken by the department, but we are highly critical of how some of them are funded. American land is a very precious commodity. We must ensure that in its public use, taxpayers receive the most benefit for the least harm. Funding monstrous visitors centers or non-essential "historic" sites with disregard to national priority and cost-effectiveness can be the most destructive task that we undertake when trying to preserve our history. Many Park Service projects are meant to preserve the memory of some of our most respected presidents, patriots, and public servants. It is embarrassing to think that we would tarnish

the reputation of our American heroes by associating them with multi-million dollar boondoggles that undermine representative government.

Another agency within your jurisdiction, the Bureau of Indian Affairs (BIA), has a record of mismanagement that dollar for dollar is worse than the often-maligned Department of Defense.

For example:

- BIA has lost at least \$17 million in trust fund money over the past 10 years. Numerous housing subsidies were denied to needy Indians while some money was awarded to unqualified people, including some agency employees. BIA can't account for \$3 billion in federal property, which amounts to about half of all assets. Former Interior Inspector General James Richards said, "The Bureau of Indian Affairs is one organization where additional funding would probably not affect significant improvements."
- The *Boston Globe* reported a tribe in Maine has either lost or is in debt for an estimated \$20 million on six defaulted business ventures, including at least \$4 million the tribe and its businesses owe the federal government, and \$2.3 million in federal grants that were used for part of the investments. "Federal investigators also want to know why BIA continued to approve guarantees on high risk loans to the Penobscots and other tribes, as well as grants sources say propped up failing investments."

Surely BIA must be cut back and manage its affairs better, but I urge you and the authorizing committee to consider a bolder, fresher, and more basic idea: restoring dignity to the American Indians by increased self-governance. There is no reason to perpetuate a system that cannot account for the tribes' money -- surely they can handle it better than BIA. Why not give control over finances, and Indian lands, to the tribes? At the approach of the end of the millennium, it is time to settle all treaty and legal disputes, and end patronizing government control that sets these Americans apart from their countrymen. Zero out BIA, Mr. Chairman. That would be a change consistent with the 1994 election results.

Mr. Chairman, since 1991, CAGW has chronicled follies with our *Pig Book*, including Interior. In compiling the *Pig Book*, we look at all appropriations and through seven criteria to determine whether or not a project is pork. The criteria have been established by CAGW and the Porkbusters Coalition, comprised of senators, representatives and other public interest groups. A project is pork if it is requested by only one chamber of Congress; not specifically authorized; not competitively awarded; not requested by the president; greatly exceeds the president's budget request or the previous year's funding; not the subject of a congressional hearing; or, serves only a local interest. CAGW calls it pork if it meets only one of these criteria; the porkbusters require three of the seven criteria to be met and have introduced legislation to eliminate pork-barrel items in each of the last two sessions of Congress.

In 1991, CAGW identified the following projects as pork:

- \$13 million for "America's Industrial Heritage," a theme park covering nine industrial sites in southwestern Pennsylvania.
- \$11 million for "Steamtown," a project with which I'm sure everyone in this room is familiar. A former Smithsonian curator called it "a third-rate collection in a place to which it has no relevance." Since 1986, this so-called historic site has received more than \$80 million in development and operating funds -- without being subject to the regular process of authorization and review and competition with other components of the national park system. In 1993, the House passed a bill to severely limit funding for Steamtown but the Senate never got a chance to vote on a similar bill. While Steamtown unfortunately is near completion, the least this subcommittee can do is prevent a similar train wreck somewhere else in the nation.
- \$4.5 million to renovate the Keith-Albee Theater in Huntington, West Virginia, and in turn, a four-screen multiplex theater.

In 1992, CAGW continued its close scrutiny of appropriations. Interior pork amounted to more than \$206 million. Examples included:

- \$6 million directed out of the National Park Service budget to be used for construction of the Franklin Delano Roosevelt Memorial. Established in 1955, the FDR Commission was charged with building a memorial for our 32nd president. Despite the fact that FDR said he wanted a memorial no larger than his desk, which actually lies behind the National Archives, the commission has planned, and Congress has authorized, to date, \$36 million for this 9-acre garden plaza in downtown Washington. At the very least, staff funding of \$48,000 in FY 1995 could be zeroed out.
- \$5 million for 1992 activities related to the Salmon Summit, which was convened in 1990 to formulate a plan to keep the National Marine and Fisheries Service from listing the salmon on its endangered species list. The summit failed to produce a long-term solution for salmon recovery which was amenable to all parties. That was done by the northwest region's governors outside of the summit.
- \$2.7 million appropriated for the Abraham Lincoln Research and Interpretive Center in Springfield, Illinois. This project is duplicative of a visitors center which already exists at the Lincoln National Historic Site.

1993 was no different. Once again the Interior Department was used to funnel pork -- \$367 million worth, including:

- \$3.5 million (\$2.9 million above the budget request) for a visitor center at Lyndon B. Johnson National Historic Park, TX. The LBJ State Historic Park down the road already has a visitor center.
- \$2 million for Walk on the Mountain. Visitors to this covered sky walk in downtown Tacoma, WA will be able to see Mt. Ranier National Park in the distance, but only on one of the 57 clear days a year in Tacoma. The cost per viewing day for one year is \$35,088. At least this one was eliminated.

Last year, CAGW identified \$213 million in pork in the Interior Appropriations bill.

- \$3.35 million was added in conference for building rehabilitation at the National Center for preservation Technology in Louisiana. The center was scheduled to be built in Georgia, but when Wyche Fowler lost his Senate seat, the project was moved to Natchitoches College, which at that time, had not a single employee experienced in preservation study.
- \$700,000 was added in conference for the Alpine Lakes Management Area.

The 1995 *Pig Book*, due out on February 15th, will bring bad news to the American taxpayer. There's still pork in the Interior Appropriations, but it's less than in 1994. For 1996, CAGW would like to issue a pork-free report. Here's a sneak preview of the 1995 *Pig Book*:

- \$3.7 million was added in the Senate for the National Trails Center visitors center in Iowa.
- \$2 million was added in the Senate for visitor center rehabilitation at the Grand Canyon National Park in Arizona.
- \$500,000 was added in the House for the Lincoln Home National Historic Site (Corneau House) in Springfield, Illinois.
- Continued authorization of a study to determine if a footbridge should be built from New Jersey to Ellis Island. The study could cost \$2.6 million; construction \$15 million. The House restricted further funding, but yielded to the Senate in conference. There's no great demand for this project; if it was good enough for our ancestors to reach Ellis Island by boat, it's good enough for today's taxpayers. Sink this project by sticking to your guns this year -- don't give in to the Senate.

All of this excessive, self-serving pork can be eliminated. Politically, there is only one way to do so: by having each member of this subcommittee take a "no earmarks" pledge.

Mr. Chairman, you can make government smaller not just by cutting the pork. By using your new "zero power" -- simply eliminating funding for programs -- you can also attack waste, mismanagement and non-essential programs elsewhere in the Departments of Interior and Energy and related agencies under your jurisdiction.

The Grace Commission Task Force on the Department of the Interior made 27 recommendations that would have saved \$1.3 billion over three years, including Bureau of Land Management reforms, concessions management reform, block grants for the Fish and Wildlife Service, and improved financial management for the department, particularly the Bureau of Indian Affairs.

Unimplemented recommendations include:

- Implement an asset management program to increase sales of unneeded federal land and place proceeds in the general fund. Five-year savings are estimated at more than \$1 billion.
- Privatize public rangelands through sale or lease to reduce cost and improve rangeland management. Five-year savings are estimated at \$184 million.
- Improve concessioner competition in national parks by eliminating the right of preferential renewal of concessioner contracts and instituting other reforms. Five-year savings are estimated at \$60 million.
- Improve coordination of land management functions between the Forest Service and Bureau of Land Management. CAGW recommends going a step further: return "commercial" federal lands to the states. This land belongs to the people of the states in which it is located. Give it, then, back to the states.

CAGW joins budget hawks in calling for the privatization or elimination of various programs that are currently being funded through the Department of Energy in the Interior appropriations bill. We recommend that the government:

- Sell off the Naval Petroleum Reserves. What was once considered vital to national security in 1912, as the Navy switched from coal to petroleum, the NPR accounts for only about one percent of U.S. domestic output. It has outlived its usefulness. Five-year savings are estimated at \$2.4 billion.
- Halt acquisitions of crude oil for the Strategic Petroleum Reserve (SPR), which would still leave SPR with nearly 610 million barrels by the end of 1999 -- enough for energy emergencies. Five-year savings are estimated at \$325 million.
- Eliminate further funding for the Clean Coal Technology program that private businesses already have an economic incentive to undertake following the Clean Air Act of 1990. Zero it out and get five-year savings that are estimated at \$20 million.

Current Interior appropriations are being used to fund the National Endowment for the Arts and Humanities (NEA, NEH), and the Smithsonian Institution. The federal government is mired in enough controversy that it doesn't need to continue funding the NEA and NEH, saving \$142 million, or the Smithsonian's latest effort to rewrite history in the Enola Gay exhibit.

At the beginning of my testimony, I mentioned some outdated and non-essential programs. Established more than 30 years ago to provide professional services to private, not-for-profit museums, the Institute of Museum Services should re-justify its existence and \$30 million appropriation. Since 1910, the federal government has been funding the Commission of Fine Arts and added to its duties in 1988 -- it's time to draw the curtain on the commission. The Advisory Council on Historic Preservation costs the taxpayers \$2.9 million and "advises the President and Congress on preservation matters and provides consultation on historic properties threatened by federal action." In other words, the federal government has created an organization to counteract its own destructive actions. Wouldn't it be smarter to simply not threaten historic properties in the first place?

The important functions that Interior would be left with, such as research and development on oil, coal, and other fossil fuels, could be combined with similar Department of Energy activities to create a new department of Natural Resources. Savings could reach as much as \$10 billion over five years. If the subcommittee operates on the presumption of proving the merits of programs, rather than perpetuating those which have simply been around for a long time, these recommendations are logical.

Before approving the expenditure of one tax dollar on programs under your jurisdiction, members of this subcommittee should ask themselves two questions: (1) is this project worth the further weakening of our representative government? , and (2) is this a project that I want my children and grandchildren to be responsible for paying? When considering rescissions for this fiscal year, those same questions should be asked.

Some comedians have made a living off the pork-barrel follies of Congress. While pork draws attention, it's not funny to the taxpayers who have borne the burden of excesses for decades. Whether it be an unnecessary program, or a deserving one that circumvents the proper procedures, closer scrutiny must be paid to eliminate this embarrassing waste of tax dollars. Each pork-barrel project represents a serious breakdown in the system that causes billions of dollars to be wasted annually.

Eliminating pork is not a trivial pursuit or quixotic exercise, but a fiscal and political imperative. Pork promotes fiscal profligacy, weakens the capacity of citizens to hold elected officials accountable, subverts procedural safeguards established to check and deter abuses of power, and debases the civic culture. Eliminating pork would do much more than shave a few billion dollars from the deficit. It would detoxify the appropriations process and make electoral contests more competitive. A pork-free

Congress would be more attuned to the wishes and interests of taxpayers, and less pliant to special interest pressure.

There are steps that can be taken to stop this insane waste of our tax dollars. But unless something is done immediately, the American public will continue to lose confidence in the system and their trust will be even harder to regain.

To end the pork infestation on Capitol Hill, Congress should: (1) establish a procedure to rescind all spending items determined to be pork on the basis of objective tests; (2) grant the president line-item veto authority; (3) prohibit any member from placing a project specifically benefiting his or her district or state into a bill under consideration in his or her committee; and (4) prevent any physical structure or other project from being named after a member of Congress until ten years after he or she has left office.

All projects that meet any one of the Congressional Porkbusters Coalition criteria should be terminated. As mentioned above, a project is pork if it: is requested by only one chamber of Congress; not specifically authorized; not competitively awarded; not requested by the president; greatly exceeds the president's budget request or the previous year's funding; not the subject of a congressional hearing; or, serves only a local interest.

Congress' practice of bundling hundreds of separate spending items into gigantic appropriations bills renders the presidential veto all but useless in the fight against pork. The power to veto and reduce line item in spending bills would enable the president to remove pork and fat from the budget without disturbing the normal flow of business. According to the General Accounting Office, line-item veto authority could have reduced federal spending by more than \$70 billion during FYs 1984-89.

Martin Gross, author of best-selling books on government waste, offers an ingenious proposal to suppress pork. Most pork-barrel waste originates in the appropriations committees. Congress should adopt a rule that no committee may approve an appropriation that singles out any of its members' districts or states for special benefit. Committee members might try to get around this restriction through political horse trading: "You put my project in your bill and I'll put yours in my bill." However, Congress could define such deals as unethical behavior and enforce the new anti-pork rules.

Members have often approved projects that become reminders of their ability to "deliver the goods" back home -- their names appear on parks, buildings, and other physical structures. This subcommittee can take the lead in eliminating these incumbency protection monuments by prohibiting the naming of any project after a sitting member of Congress and establishing a reasonable time limit -- perhaps 10 years -- beyond retirement before a member's name can be used.

Only someone who imagines that federal funds are somehow "free" and do not first have to be taken from working Americans would confuse pork with petty cash. The proper comparison is not between pork and the total federal budget, but between pork and the average family budget. In 1994, a median-income, two-earner family paid \$5,581 in federal income taxes. This means that \$10 billion in pork wastes the combined taxes of approximately 1.8 million median income families. Current funding rules do not allow cuts in discretionary spending to be used to pay for tax cuts. In principle, however, eliminating \$1 billion in pork could provide \$1,000 in tax relief to 1 million American families.

People are calling for smaller government and less intervention in their lives. The 10th Amendment, which is in the midst of a revival, specifically states: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." More and more people want less and less control over their money by Washington.

Congress usually has good intentions when appropriating money, but the power to do good is also the power to do mischief with our tax dollars. Care must be taken when looking at individual projects; the more open and honest you are, the more likely a project is to withstand the light of day.

By adopting the changes recommended by CAGW, this subcommittee can signal a new beginning that other subcommittees can follow.

People want their power back. By cleaning up the appropriations process, you can make a difference. Discretionary spending is one-third of the federal budget; it's real money. It's time to stop taking our tax dollars and start making tough choices.

Taxpayers are no longer amused by inadequate and irresponsible management of our government, because their future is in jeopardy. The budget crisis cannot be ignored, and that's why their amusement has been replaced with outrage. Members of this subcommittee must be equally as outraged. You hold the "zero power" to cut the waste.

Restoring fiscal sanity to our nation is the most important job for the 104th Congress. The country is awash in a sea of red ink, and every day slips perilously closer to bankruptcy. The national debt is expected to rise to nearly \$6 trillion by the end of the century. This is not the legacy that we should leave to our children and grandchildren. Spending has not been cut to the bone. Money is being wasted daily and the clock is ticking. We're sitting on a fiscal time bomb that needs to be defused.

You have an opportunity to continue the mission that Peter Grace and Ronald Reagan started 13 years ago when President Reagan signed Executive Order 12369 in 1982 formally establishing the President's Private Sector Survey on Cost Control, and to deliver on the call for change made on November 8th.

If you don't take the right steps now, there may never again be such an opportunity

This concludes my testimony. I'll be glad to answer any questions you may have.

THOMAS A. SCHATZ

President

Citizens Against Government Waste and
Council for Citizens Against Government Waste

Thomas A. Schatz is President of Citizens Against Government Waste (CAGW) and the Council for Citizens Against Government Waste (CCAGW).

CAGW was founded by J. Peter Grace and Jack Anderson in 1984 following the release of the Grace Commission report. It is a 501(c) (3) nonprofit, educational organization with more than 600,000 members nationwide. Mr. Schatz is a nationally recognized spokesperson on government waste and has appeared on hundreds of radio talk shows from coast to coast, including KABC in Los Angeles, WGN in Chicago, WOAI in San Antonio, and WBZ in Boston. His national television appearances include: "ABC News with Peter Jennings," "CBS News with Dan Rather," "NBC News with Tom Brokaw," CNN, CNBC, "Larry King Live," "The McNeil-Lehrer News Hour," and numerous local network affiliates.

According to the official Office of Management and Budget figures, implementation of Grace Commission recommendations has saved taxpayers \$152.4 billion through 1990, and CAGW estimates another \$100 billion have been saved since then. An additional \$78 billion will be saved over the next five years from recommendations proposed by CAGW in 1993.

As President of CCAGW, the 501(c) (4) nonprofit lobbying organization, Tom Schatz spearheaded the Coalition for Military Base Closings which successfully lobbied for the closure of obsolete military bases, saving taxpayers \$2 billion per year. Mr. Schatz has also testified on government waste issues before committees of the United States Senate and House of Representatives.

During his eight years with CAGW, Mr. Schatz has been instrumental in a development program that increased membership from 5,000 to 600,000 over a five-year period.

Prior to joining CAGW in 1986, Mr. Schatz spent six years as legislative director for Congressman Hamilton Fish and two years practicing law and lobbying.

Mr. Schatz holds a law degree from George Washington University and was graduated from the State University of New York at Binghamton with a BA degree, With Honors, in Political Science. He is married to Leslee Behar and has two daughters, Samantha and Alexandra.

WEDNESDAY, JANUARY 11, 1995.

THE HERITAGE FOUNDATION**WITNESS****SCOTT A. HODGE, SENIOR BUDGET FELLOW**

Mr. REGULA. For the committee Members that came in late, we want to hear all of our speakers first and then we will go to questions. That way, if you have other commitments, you will be able to hear the testimony.

Our next speaker is from the Heritage Foundation, Scott Hodge. Mr. HODGE. Thank you, Mr. Chairman.

Distinguished Members of the committee, I am Scott Hodge, Senior Budget Fellow at the Heritage Foundation, one of Washington's oldest and more respected think tanks I like to think. I would like to summarize my prepared statement and just briefly go over the high points.

I admit having gone through the material preparing for this testimony you face a daunting task in reinventing the government or programs within your committee jurisdiction. Rather than read off a list of areas that I would like to see cut, I would like to outline a business plan that will give these cuts coherence and purpose.

You must think of this challenge as if you were the board of directors of a diverse multinational corporation that is facing receivership. With a budget of over \$13 billion, this committee would rank somewhere in the Fortune 500. So what you need I believe is a tough, short-term strategy followed by a thoughtful, but aggressive, long-term strategy for reinventing and redefining the programs within this committee.

In the short term, companies take the first step of halting the bleeding. This means taking measures to cut your losses, putting a halt to new project expansions and placing yourself in a position to make the long-term adjustments that are needed.

In the short term, this committee should halt funding for the \$235 million in land purchases approved for this fiscal year and impose a five-year moratorium on future land acquisitions, the reason being that if we are having a hard time managing the lands we currently own, why should we acquire new ones?

In the same manner, we should halt funding for the \$593 million in new construction projects approved for this fiscal year and impose a moratorium on all future projects. Both the National Performance Review and the GAO have outlined massive and very expensive backlogs of maintenance needs for both the Park Service and the National Forest Service. Before these new projects are funded, we should maintain the old ones.

We should halt funding for the National Biological Survey immediately. This program has not been authorized and no funds should be appropriated. We should also consider the same measure for the Bureau of Land Management, which I understand has also not been authorized for many years.

We should halt funding for any project which was not authorized or which was earmarked in the House-Senate Conference Committee reports. We should also halt funding for any project purely of local nature that does not have national or purely regional interest.

I suggest we should repeal committee instructions which force agencies to spend money they would not otherwise have spent. According to the National Performance Review, the language in the 1992 House-Senate Conference Committee reports included 2,150 directives, earmarks instructions and prohibitions for just the Department of Interior alone. Each one of those items costs taxpayers money.

In the long term, corporations ask themselves tough questions: What is our core business? What activities should we quit doing? After answering these questions, a good CEO moves quickly to shed all enterprises not related to the company's core business. When Sears faced restructuring, it sold the Sears Tower in order raise cash for capital improvements and fund employee buyouts. It closed unprofitable and uncompetitive divisions such as the catalogue division. It sold Dean Witter, which may have been profitable but did not fit into the company's future; and the company gave line managers and store managers greater authority to implement cost saving measures within their own departments and allowed them to run these operations at the local level.

These are the bold steps for government that I believe taxpayers are expecting from this new Congress. For government, I think we should ask three key questions of every program:

Is this a Federal function or could it be the responsibility of State and local governments?

Is this activity more appropriately left to the private sector, or if indeed there is a public purpose for this activity, perhaps we can use privatization or other entrepreneurial measures to bring efficiencies to that public good.

Is this program broken? Has it become outmoded or obsolete? Does it duplicate other programs? If the answer to these questions is yes, we should terminate or reform it immediately.

I believe the committee should build upon proposals put forth in last year's budget alternative—some call it the Kasich budget—and many of these spending cuts that were recommended; and they were quite bold, I think, such as restructuring the Department of Interior by consolidating the major land functions into a single land management agency, abolishing the Bureau of Mines, abolishing the helium reserves, abolishing the Geological Survey, abolishing the National Biological Survey and reducing funding for the arts and humanities.

While last year these recommendations may have seemed bold, this year they are not bold enough to do the task that is at hand in balancing the Federal budget by 2002. These recommendations last year would have trimmed \$11 billion out of this committee's responsibilities, a figure representing just less than 20 percent of the committee's spending over the next five years. This year, I believe the committee should look to cut total spending by over half over the next five years.

And for the sake of time, I won't get into each Kasich recommendation, but I heartily endorse abolishing the Bureau of Mines, privatizing helium reserves, abolishing the National Biological Survey and eliminating funding for the Kennedy Center.

I would like to address some areas where I think we can go a step further. Some of these recommendations will require the co-

operation and use of the various authorizing committees, but I don't have to remind this committee that you are not obligated to appropriate funds for programs that don't work and have not been authorized. Nor are you obligated to fully fund programs that don't work which have been authorized. I think you should use that stick to force real reforms from the authorizing committees.

I think we should begin this committee's reorganization by first transferring responsibilities to States. It is time that our approach to land and resource management issues move in the same direction this Nation is moving on welfare reform. This means consolidating dozens of programs into a single block grant and giving broad responsibilities for running the programs back to the States. This strategy would mean for this committee that the Bureau of Land Management, the U.S. Fish and Wildlife Service, the National Park Service and the Forest Service would be consolidated into a single Natural Resources agency.

Congress should then spend five to seven years giving most of those lands back to the States. The Federal Government would keep for itself only those parts of wilderness areas deemed to be of national significance. These of course would include the crown jewels of this Nation, Yellowstone, Yosemite, Grand Canyon, et cetera.

It would also keep those resources which cross multiple State boundaries. States would be given full title to Federal lands along with full authority and responsibility to manage these resources according to the values of taxpayers and citizens in each State. In some cases, this land transfer would mean a loss of revenue for the Federal Government, but I believe this loss would be offset by reducing the cost of managing and maintaining these resources. Once reorganized, Congress and this committee can then focus greater attention on bringing entrepreneurial management to these national treasures that are still in our possession.

The first step must be for Congress to remove the barriers that keep local managers in these parks from using entrepreneurial techniques such as privatization. In the past, Congress stood in the way of raising entrance fees and prevented park managers from contracting out even basic functions such as garbage collection. I don't believe a ranger should be collecting garbage in Yellowstone National Park. That should be a private function, contracted out to private organizations.

Managers should be given reasonable freedom to set market-based entrance fees that reflect user demands on the resource in addition to covering the cost of maintaining and improving those facilities. I think the model for such reform should be other national treasures such as Mount Vernon and Williamsburg. Both facilities have been privately operated for decades by nonprofit organizations; both have market-based entrance fees that cover the cost of maintaining those facilities, and entrance fees that don't seem to keep millions of visitors away each year.

Our next step should be to eliminate private activities run by the government, closing Department of Energy research projects and turning those projects and facilities over to the private sector who will most benefit from that research. We should sell the Naval Petroleum Reserves. The Elk Hills facility, Teapot Dome field and the

oil shale reserves should be sold within the next three years. The Clinton administration projects that the sale of the Elk Hills facility will generate net proceeds of \$1.6 billion. We should begin measures to privatize the strategic petroleum reserves.

I think one interesting approach would be that suggested by the CBO in 1981 when Alice Rivlin headed that office. This strategy would effectively privatize the petroleum reserves by selling shares or interest to investors who would then be free to trade those shares on the open market. This recommendation effectively turns the reserves into a futures market, but one that trades real reserves rather than future options. In 1981, CBO estimated that this recommendation would save or generate some \$20 billion over five years. Perhaps today that figure would be higher.

I believe, next, we should allow the Smithsonian Institution and National Gallery of Art to charge entrance fees. We should lift the ban on their ability to do so. I believe, given the millions of visitors who come to those facilities each year, the entrance fee would not have to be that high. We should defund immediately the National Foundation on Arts and Humanities. I think after 25 years of existence it is time for these institutions to become sort of the United Way of the arts and humanities, fully private institutions who must raise charitable contributions in order to fund the projects valued by their donors. This would remove all politics from the arts and humanities funding and ensure that private funding is targeted at projects approved by donors.

Lastly, I think we should begin closing agencies that have become outmoded, duplicative or not a good expenditure of taxpayers' money, and that would include the Commission on Fine Arts, the Advisory Council on Historic Preservation, the Franklin Roosevelt Memorial Commission, the National Capital Planning Commission and the Pennsylvania Avenue Development Corporation.

You face a tough task this year. I think you can go a long way toward this task by using some bold, businesslike approaches to cutting spending.

Let me leave you with this: This difficult task must be taken within the context of the overall budget, and in some degree, the entire Contract With America. Remember, the Contract With America contains a \$500-per-child tax credit. There are 117,000 children, on average, in every congressional district, meaning the typical congressional district will receive about \$59 million a year in family tax relief through that family tax credit. So while we are cutting spending in some of these very sensitive programs, the other part of the Contract With America will be returning money and cash to cash-starved American families in your district.

Thank you very much.

Mr. REGULA. Thank you.

[The statement and biography of Mr. Hodge follows.]

TESTIMONY
BEFORE THE INTERIOR SUBCOMMITTEE
COMMITTEE ON APPROPRIATIONS
January 11, 1995

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A Strategy to Cut Interior and Related Agency Spending

Mr. Chairman, distinguished members of the Committee, my name is Scott Hodge, I am a senior budget fellow at the Heritage Foundation. Thank you for inviting me here this morning to discuss ways to cut spending or, as some are calling it, "reinventing" government programs. Like all committees in Congress, the members of this committee face a daunting task in finding the cuts and reforms needed to make your contribution toward the eventual goal of balancing the federal budget.

But as many in Washington are now discovering, there is no end to the lists being presented of ways to cut government spending. Indeed, for over 20 years now, The Heritage Foundation has contributed its share of studies and reports on ways of downsizing the federal government. Our recommendations have focused on strategies for transferring federal functions down to the appropriate state or local level of government, transferring federal functions to the private sector, or eliminating outmoded, inefficient, obsolete or duplicative programs.

Other organizations, including the Congressional Budget Office, have also spent years proposing spending cut recommendations. In fact, the task facing Congress and this Committee would be far easier today had Members implemented these ideas years ago. Unfortunately, many of the reforms developed by the CBO nearly fifteen years ago, when it was headed by current OMB Director Alice Rivlin, are as relevant today as they were then.

Some of the programs under this Committee's jurisdiction which were suggested for reform by CBO during the early 1980s include:

- Privatizing the Strategic Petroleum Reserves by selling shares to investors;
- Eliminating the States' share of the Land and Water Conservation Fund;
- Eliminating Urban Park Grants;
- Increasing fees for outdoor recreation and topographic maps;

- Increasing entry fees for outdoor recreation areas;
- Reducing funding for energy technology research; and
- Reducing subsidies for Arts and Humanities;

But implementing long lists of spending cuts will be difficult and will appear arbitrary. What is needed is a strategy or business plan that will give these cuts coherence and a purpose. You must face the challenge as any business would in the face of hard financial times. Indeed, the combined resources of the agencies within this committee's jurisdiction would certainly make it a Fortune 500 corporation. So the task at hand is not all that different from the major corporate restructurings that have taken place over the past 10 years or so. What is needed is a tough short-term strategy, followed by a thoughtful, but aggressive long-term strategy.

Short-Term Strategies

The first step companies take is to stop the bleeding. This means taking measures to cut your losses, putting a halt to all new projects or expansions, and placing yourself in a position to make the long-term reforms needed to make the organization solvent.

The short-term strategy for this committee should contain at least seven steps:

1. Halt funding for all new land purchases approved for fiscal 1995 and impose a five year moratorium on all future land acquisitions. The rationale for this measure is that if we do not have the resources to adequately manage the land the government now owns, why should we add to this burden?
2. Halt funding for all new construction projects approved for fiscal 1995 and impose a moratorium on all future new projects. Al Gore's National Performance Review reports a backlog of maintenance funding in the National Park System that will cost \$5 billion to clean up. The General Accounting Office reports that the Forest Service will need \$644 million to meet its maintenance backlog. Until these priorities are met no new projects should be initiated.
3. Halt funding for the National Biological Survey. This program has not been authorized so no funds should be appropriated. The Congressional Research Service reports that the Biological Survey is still trying to define its mission. Until Congress clearly defines its mission it should not be funded.
4. Halt funding for the Bureau of Land Management until it is authorized and its mission modernized.
5. Halt funding for any project which was not authorized or which was earmarked in either the House, Senate or conference committees.
6. Halt funding for any new project which is of a purely local nature and has no national significance.
7. Repeal any committee instructions to agencies which force those agencies to spend money they would not have otherwise spent. According to the NPR, "The Interior

Department found that language in its 1992 House, Senate, and conference committee reports included some 2,150 directives, earmarks, instructions, and prohibitions.¹

Due to the short notice I was given to prepare for this testimony it was not possible to estimate the potential savings from these measures. I suspect, however, that the savings would be significant.

Long-Term Strategies

The key to a long-term strategy is asking the question: "What is our core business and what activities should we quit doing?" After answering this question, a good CEO moves quickly to shed all enterprises not related to the company's core business. Assets are sold to raise the cash needed for debt reduction or to finance capital improvements. Unproductive or extraneous divisions are sold or spun off through employee stock ownership plans. Outmoded or unsalvageable functions are simply closed. Managers are given greater authority to be implement cost-saving measures within their own departments and allowed to run their operation in an entrepreneurial manner.

In government, I think there are three key questions that need to be asked in order to get back to basics:

1. Is this a function or activity that is more appropriately the domain of state and local governments?
2. Is this activity more appropriately left to the private sector? Or, if it is determined that there is a public purpose for this activity, can private institutions carry out this program either directly or under contract to government?
3. Does this program no longer work? Has it become outmoded or obsolete? Does it duplicate other programs?

Using these questions as your guide, the committee's bolder, long-term strategy should build upon the proposals put forth in last year's Republican Budget Alternative, also known as the Kasich Budget. The spending cuts recommended in the Republican budget relevant to this committee include the following:

- Impose a five-year moratorium on federal land purchases. Savings: \$1.066 billion over five years.
- Restructure the Department of the Interior by consolidating major land functions into a single land management agency. Savings: \$3.226 billion over five years.
- Make the Forest Service more efficient to bring management costs in line with the costs achieved by state programs. Savings \$155 million over five years.
- Abolish the Bureau of Mines. Savings: \$872 million over five years.
- Privatize the Helium Reserves. Savings: \$9 million over five years.
- Abolish the Geological Survey. Savings: \$3.261 billion over five years.

¹ NPR, p. 13.

- Abolish the National Biological Survey. Savings: \$139 million over five years.
- Downsize the Minerals Management Service. Savings: \$465 million over five years.
- Expand authority to collect park entrance and recreation user fees commensurate with the costs of operations. New revenues: \$600 million over five years.
- Reorganize the Bureau of Indian Affairs transferring greater management authority to the tribes, while block granting assistance. Savings: \$215 million over five years.
- Restructure the Naval Petroleum Reserves. Savings: \$143 million over five years.
- Terminate the Clean Coal Program. Savings: \$19 million over five years.
- Halt acquisition of new crude oil for the Strategic Petroleum Reserve. Savings: \$362 million over five years.
- Eliminate federal funding for the John F. Kennedy Center for the Performing Arts. Savings: \$102 million over five years.
- Reduce funding for the Arts and Humanities (including the Smithsonian). Savings \$531 million over five years.

While these recommendations may have seemed bold when they were introduced last year, they are not bold enough for today's climate and the savings needed to balance the budget. The spending cuts and fee increases for the Interior and related agencies in the Kasich budget last year totaled more than \$11 billion in deficit reduction over five years. This represents less than a 20 percent cumulative cut in the committee's funding over five years. This year, the committee should look to cut total spending by at least half.

For the sake of time I will not go over each of the Kasich recommendations individually. I heartily endorse abolishing the Bureau of Mines, privatizing the Helium Reserves, abolishing the Geological Survey, abolishing the National Biological Survey, and eliminating funding for the Kennedy Center. But I would like to address the areas in which I think the committee can be bolder and in keeping with the principles of shedding non-federal functions to state governments and the private sector, and eliminating programs that we can no longer afford. Of course, some of my suggestions will require the cooperation of the appropriate authorizing committees.

Land and Resource Management:

Last year the Republican budget recommended restructuring the Department of Interior, making the Forest Service more efficient, and giving the Park Service greater authority to raise user fees. While these are solid recommendations, they do not go far enough. I think it is time that land and resource management move in the same direction this nation is moving on welfare reform. This means consolidating dozens of programs into a single block grant and giving broad responsibility for running and managing the programs to the states.

What this strategy would mean for land and resource management programs is consolidating the four major agencies -- the Bureau of Land Management, the U.S. Fish and Wildlife Service, the National Park Service, and the U.S. Forest Service into a single

natural resources agency. Congress should then begin a five to seven year effort to give most of the land controlled by this agency back to the states. The federal government would keep only those parks and wilderness areas deemed of national significance. These would of course include the "Crown Jewels" (Yellowstone, Yosemite, the Grand Canyon etc.), and those that cross multiple state boundaries.

The states would be given full title to the federal land along with full authority to manage the resources according to the values of the citizens of each state. In some cases, this land transfer would, of course, mean a loss of revenue for the federal government. But this loss would be more than offset by the reduced costs of managing and maintaining these resources.

After these resources have been transferred to the appropriate level of government, Congress and this committee can focus greater attention on bringing entrepreneurial management to the key remaining national resources. The first step must be for Congress to remove the barriers that keep local managers from using entrepreneurial techniques such as privatization. In the past, Congress has stood in the way of raising the entrance fees for National Parks and has prevented Park managers from contracting out basic functions such as garbage collection.

Managers should be given reasonable freedom to set entrance fees that reflect users' demand on the resource in addition to the cost of maintaining and improving these facilities. The model for such reforms should be other national treasures such as Mount Vernon and Williamsburg. Both have been privately operated for decades. Both have relatively steep entrance fees that cover the cost of maintaining these high-quality facilities. But the level of these fees don't seem to deter millions of tourists from visiting each year.

While the savings from this recommendation are hard to calculate, it is safe to say that they will be many times the \$3.5 billion in savings the Kasich Budget achieved from these same programs.

Department of Energy Research

The Kasich Budget last year recommended terminating the Clean Coal Technology program and reducing non-renewable energy research spending by 25 percent over five years. This year, the committee should terminate federal funding for this research and take steps toward moving the research projects and facilities into the private sector.

Naval Petroleum Reserves:

The Republican Budget recommended improving the management of the Elk Hills, California, oil field through the increased use of private management. The committee should go further. These fields, along with the Teapot Dome field and the Oil

Shale reserves, should be sold to the private sector within the next three years. The Clinton Administration projects that the sale of the Elk Hills field alone will generate net proceeds of \$1.6 billion.

Strategic Petroleum Reserves:

The Republican Budget rightly suggests halting the acquisition of new crude for the Strategic Petroleum Reserves. Indeed, the committee appropriated no new money for this purpose. However, these facilities will now require millions of dollars to upgrade and repair. Perhaps a new approach is needed to meet the Nation's strategic oil needs.

One approach worth considering was suggested by the Congressional Budget Office in 1981. This strategy would effectively privatize the SPR by selling shares or interest to investors who would then be free to trade these shares in the open market. This recommendation would turn the SPR into a "futures" market trading real reserves rather than future options. In 1981, CBO estimated that this recommendation would save or generate some \$20 billion over five years. This figure could be considerably higher today.

Smithsonian Institution and the National Gallery of Art:

Last year's Republican Budget recommended reduced funding for the Smithsonian and the National Gallery. As an alternative to this proposal, I would suggest that Congress lift the ban on the ability of these institutions to charge entrance fees that truly reflect the cost of providing this valuable resource. Given the millions of visitors each year to these museums, the entrance fee would not have to be set very high to meet the costs. Thus it would not be a barrier to low income visitors.

National Foundation on the Arts and Humanities

The Republican Budget recommended modest reductions in arts and humanities funding. This year the committee should zero out spending for the National Foundation for Arts and Humanities. After 25 years of existence, it is time for the National Endowments to become the United Way of the arts and humanities, fully private institutions who must raise charitable contributions in order to fund the projects valued by the donors. This will remove the politics from arts and humanities funding, and insure that funding is targeted to projects approved of by donors. All federal funding for the Foundation should be terminated immediately. The Foundations should then be established as independent, non-profit organizations.

Commission of Fine Arts

Congress already possesses the long-standing office of the Architect of the Capitol, whose skills, resources and capabilities render him and his staff more than suitable to provide such advisory services directly, or through referral, in the event that

Members of Congress, the President, or any of the Cabinet heads, have a need for expert guidance and advice on the fine arts. The Commission should be abolished.

Advisory Council on Historic Preservation

Historic preservation, including the development of appropriate policies, should be a local responsibility and activity, except in instances where the landmark is of national significance. These latter cases are handled quite satisfactorily by the U. S. National Park Service and its Division of Cultural Resources. The Council is redundant and should be abolished.

Franklin Delano Roosevelt Memorial Commission

Before his death President Roosevelt requested that any memorial for him be simple, no larger than his desk, and placed near the National Archives. Although this request was fulfilled many years ago, Congress has persisted in trying to erect something grander. President Roosevelt should be honored by this Congress by honoring his request. Federal funding for the Commission should end.

National Capital Planning Commission

Washington DC is unique among U.S. cities in having a federally-funded planning commission to help guide its development. Despite whatever expertise this Commission brings to bear on its subject city, the economic and social environment of Washington D.C. continues to deteriorate. Crime is endemic, business and residents continue to flee, poverty remains unrelieved and Federal/local relationships remain as dynamic and combative as usual. Commission should be terminated to give the new Congress and the mayor the opportunity to establish a fresh approach to the relationship unhindered by the attitudes, prejudices and ineffective institutions of the past.

Pennsylvania Avenue Development Corporation

Since 1964 the Corporation has invested millions of taxpayer dollars on this two mile stretch of road, best known to Americans as the route of the inaugural parade, turning the once decrepit strip of deteriorated buildings into an attractive urban showpiece by the mid 1980s. Although the task has been fulfilled, the Corporation continues to exist and draw substantial public funds -- an estimated \$184 million in FY 1995 -- to engage in commercial real estate development activities best left to the private sector. The Corporation has achieved its initial goal and should now be terminated.

Conclusion

This committee has a tough task ahead of itself in finding its share of spending cuts to help balance the federal budget. But it can go a long way toward that goal while also achieving major reforms in the programs under its jurisdiction if it takes a bold, business-like approach to cutting spending.



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BIOGRAPHY

SCOTT A. HODGE

Grover M. Hermann Fellow in Federal
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Scott Hodge is the Grover M. Hermann Fellow in Federal Budgetary Affairs at The Heritage Foundation, in Washington, DC, and is recognized as one of Washington's leading experts on wasteful government spending.

Mr. Hodge is the principal architect of Heritage's economic plan "Putting Families First." This plan combines tax relief for families with children and economic growth incentives with tough measures to cut federal spending and reduce the deficit. The major elements of Putting Families First were adopted into the Republicans' Contract with America.

The author of more than 50 Heritage Foundation studies on government spending and fiscal policy, Mr. Hodge has also written for numerous publications such as The Wall Street Journal, The Cleveland Plain Dealer, Newsday, USA Today, and The Washington Times.

Mr. Hodge has conducted nearly 300 radio interviews nationwide, and is frequently interviewed by network news programs such as NBC Nightly News, CBS Nightly News, and CNN. In addition, he is regularly consulted on stories about wasteful spending by ABC's "Prime-Time Live" and "20/20," NBC's "Dateline," and CBS's "Street Stories."

Before coming to Heritage, Mr. Hodge was a research associate at the Heartland Institute in Chicago where he studied state and local tax policy, business climate, and the privatization of government services. Mr. Hodge holds a bachelor's degree in political economy from the University of Illinois at Chicago.

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WEDNESDAY, JANUARY 11, 1995.

CITIZENS FOR A SOUND ECONOMY**WITNESS****NANCY MITCHELL, VICE PRESIDENT OF POLICY**

Mr. REGULA. Our next witness will be Nancy Mitchell for Citizens for a Sound Economy. Your statement will be made part of the record.

Ms. MITCHELL. Good morning, Mr. Chairman and Members of the committee. My name is Nancy Mitchell, and I am Vice President for Policy Implementation at the Citizens for a Sound Economy Foundation, a nonpartisan, nonprofit research and education organization formed in 1984 to study and develop market-based solutions to public policy problems. Our 250,000 members have worked long and hard to help reverse the trend of ever higher tax burdens and government spending. I am grateful for having the opportunity to testify before you today.

As Congress strives to eliminate unnecessary and outdated programs and regulations, this subcommittee has a unique chance to take the lead in the pursuit of fiscal sanity and economic growth. Today, a wide consensus among economists exists that reducing the influence of government is one of the most effective ways to achieve these important goals. Robert J. Barro of Harvard University, for example, concluded in a statistical study that "growth is inversely related to the share of government consumption in GDP." Raising government spending and taxation by 10 percent, on the other hand, would "decrease long-term growth rates by 1.4 percentage points," according to a National Bureau of Economic Research Study. From the anachronism of the Department of Energy and the Bureau of Mines to the Federal Government's ownership of 119 major forests and 86 percent of the State of Nevada, from the extensive list of government-managed and taxpayer-financed museums, art galleries, think tanks and the like to the environmental destruction and waste of the U.S. Forest Service, it is abundantly clear that a real potential for budget savings exists within the jurisdiction of this committee.

Created in an emotional reaction to the energy problems of the 1970s, the Department of Energy has continued to grow throughout the years, now with over 170,000 full-time and contractual employees and a budget approaching \$18 billion, up 30 percent since 1987. We strongly believe that the DOE should be abolished, and we urge you to seriously reexamine all Energy Department spending over which you have authority.

One of the chief official objectives of the DOE is to ensure "efficiency in energy use" through independent projects as well as an intricate set of regulations and subsidies. Consistent with the experience of political controls throughout the world, central planning from Washington, D.C. in the area of energy has failed to produce meaningful success stories. Overall, for example, the DOE has spent \$50 billion since 1980 in developing energy production conservation technologies with little or no progress. As the Congressional Budget Office reports, "Despite two decades of spending, few successful energy technologies have emerged from these research

and development programs. Almost one-fifth of this \$50 billion has been devoted to finding more effective ways to recover fossil fuels as well as to the development of more environmentally sound coal technology under the Clean Coal Technology Program. These areas are better handled by the private sector.

As the CBO notes in reference to fossil fuel development, private companies spend a substantial amount of money in this area, and with much better results. The major new technologies for enhanced oil recovery, for example, have come from private industry, not DOE. In other areas, DOE continues to develop technologies in which the market clearly has no interest. For example, the DOE spent hundreds of millions of dollars developing coal-powered magnet hydrodynamics, even though the interest in this venture was negligible outside the DOE.

The Clean Coal Program was started in 1984, and has now, after five rounds of negotiations with industry interests, committed itself to subsidize the same to the tune of some \$2.7 billion over the next few years in order to reduce coal-derived pollution. The Clean Air Act Amendments of 1990, however, impose a stringent legal mandate on industry to lower coal emissions, thus removing the environmental argument for further Clean Coal subsidies.

The development of renewable energy technologies is another case in point. These technologies, the Energy Information Administration wrote in 1980, "seem to promise supplies of energy that are virtually unlimited and cheap." The same year, EIA estimated a 20 percent increase in energy consumption of renewable fuels over the next decade. But over a decade and \$6 billion later, the absolute level of consumption of renewable energy is actually down 10 percent. Energy efficiency and conservation are, of course, laudable and important goals. But as in all other sectors of the economy, the Federal Government is ill equipped to be the source of innovations and progress in this area. These goals, on the other hand, are continuously and successfully pursued by the private sector. The amount of energy consumed per \$1,000 of GDP has consistently declined about 1 percent annually since 1929. This means that producing \$1 worth of goods and services today requires less than two-thirds the amount of gas and oil it did only two decades ago, and that energy use per capita declined 7 percent throughout the 1980s.

The view that we somehow were "running out" of natural resources such as oil was another major rationale behind the institution and expansion of the Department of Energy. Yet nothing could be further from the truth. Proven reserves of oil, for example, have increased tenfold since 1950, and similar increases of coal and natural gas have been recorded. Given current consumption patterns, we have well into the 26th century before we run out of oil. Long before we reach that point, however, we can be sure that market mechanisms, if left unobstructed, will have provided sufficient incentives to stimulate the development of effective substitutes. The incentives driving this discovery process are rather straightforward. As the supply of a natural resource dries up, its price increases. As the price increases, it will be more profitable to pursue research in developing alternatives, as well as extracting more hard-to-get deposits.

The Strategic Petroleum Reserve, a government-owned stock of almost 600 million barrels of crude oil created in 1975 to help avert future energy crises, is perhaps the ultimate manifestation of energy policy gone wrong. Since its inception, the SPR has lost \$7 billion as a result of a depreciation in price of the stored oil alone. The annual cost of upkeep now runs around \$200 million. In spite of its staggering costs, the SPR has conferred very limited, if any, benefits on the American public. It has only been used once, during the 1990-91 Persian Gulf crisis. The DOE caused unnecessary turmoil in the oil market by not releasing as much oil as expected, which was partially due to the fact that the minimum bidding price was set too high. As the CBO notes, this uncertainty "caused individuals and businesses to hold onto their stocks of oil and petroleum products, and that additional demand for private stocks raised oil imports and prices—just the opposite of the original intent of the Strategic Petroleum Reserve release." Moreover, once the flow began, the allies had won the war, and the extra flow artificially depressed already-declining oil prices. As the CBO concludes, "virtually every step the United States took in response to the management of emergency reserves and demand reduction simply added to the uncertainty in the oil markets."

The chances of a repeat of the 1973-74 crisis are minimal. For one, as Energy Secretary Hazel O'Leary noted, compared with 10 to 15 years ago, we are today "importing oil from a much more diverse group of nations, some of whom are very strong allies." As the rationale for the SPR falls, so does that of the funding for U.S. membership in the International Energy Administration, whose mission is to manage oil distribution in the developed world, if necessary. Central planning is bad at all levels, including in the international realm.

The sale of the U.S. Crude oil reserves could add as much as \$10 billion to the Treasury, well-needed money in times of fiscal hardship. The storage reservoirs are in bad and deteriorating shape, "threatened by major problems in the mechanical, civil, and electrical systems," as the General Accounting Office put it. A recent DOE press release refers to its Weeks Island, Louisiana site as "posing too great of an environmental risk to surrounding land and aquatic ecosystems" and calls for a \$75 to \$100 million relocation program. These problems can make it virtually impossible to safely remove much of the oil in the future. This is another reason for marketing the oil as soon as possible.

The composition of the Department of the Interior can probably be better understood from the perspective of history and special-interest lobbying than from the standards of economics and common sense. Many of its functions are outdated and could be either abolished, privatized, transferred to another department and/or drastically cut back.

The burdensome regulations that prevent property owners from controlling their property must be reformed. In about four-fifths of the Indian territories, for example, Native Americans must receive the Federal Government's approval before building a fence or installing an irrigation system, due to a 1934 congressional decision based on the view that Indians were not culturally suited to bear the full responsibility of individual ownership.

Trusting Native Americans with real ownership, moreover, would probably significantly boost their level of economic development. For example, as the Political Economy Research Center has documented, the average value of agricultural output per acre can be as much as 15 times greater on privately owned Indian land as opposed to reservation land. The situation for both American taxpayers, as well as Native Americans, would also greatly improve by finally implementing real reforms in the intricate latticework of Federal programs designated to assist the Indian tribes, costing a whopping \$4.7 billion per year for a total of roughly 1 million Indians as of 1991, according to a General Accounting office study. This equals \$20,000 for every Indian family of four. In spite of this massive Federal effort, or perhaps because of it, many tribes remain impoverished.

Martin Gross, for example, notes that "on many reservations Indians live in near abject poverty, with an unemployment rate of 45 percent." Economist Terry Anderson found that American Indian households are three times more likely than average to have annual incomes below \$2,500 a year, and only one-third as likely as other households to have incomes above \$30,000.

Setting up a lavish welfare system robs Indians of the constructive incentives for economic independence. The Bureau of Indian Affairs, a relic dating back to 1824, should be abolished. Any essential functions it currently provides could, if necessary, be furnished by already existing government agencies.

The activities of the Fish and Wildlife Service should be examined carefully and scaled back wherever possible. There are many successful examples of how the private sector can outdo the government in protecting wildlife. The Nature Conservancy and Ducks and Trouts Unlimited, for example, are buying and leasing large amounts of land throughout the United States. Organizations such as Forest Trust and the Sand County Foundation focus on educating landowners in effective property management as well as respecting wildlife.

Another successful strategy is practiced by the Defenders of Wildlife, who encourage land owners to respect the habitat of animals like wolves. The group pays private landowners up to \$5,000 if they can prove that a litter of wolf pups has been successfully reared on their property. Many other examples abound.

The results of dynamic, nongovernment approaches of this kind sharply contrast with government initiatives in these areas, such as the Endangered Species Act. The ESA, in fact, creates perverse incentives for landowners who find an endangered species that may actually hamper recovery efforts. The ESA specifically states that government-declared endangered species must be protected without reference to possible economic or other impacts. Despite such draconian measures, however, the ESA has largely failed to fulfill its objective of removing endangered species from the list. On average, only one animal per year has been delisted during the two decades of the ESA. The list currently comprises 853 animals. Moreover, the majority of the species removed from the list were taken off due to extinction or original data error.

The Bureau of Mines provides one of the most obvious examples of waste in the Department of the Interior's budget. Created in

1910 as a reaction to the 3,000 annual deaths among miners, the drastic decline in mining employment and the vastly improved safety record in the business has eliminated its original rationale. Two decades ago it even lost its jurisdiction over safety matters to the Labor Department. What, then, does the Bureau of Mines, with its \$175 million annual budget, up 20 percent since 1983, and 2,000 employees accomplish? Focusing on nonfuel minerals such as gold and copper, its self-described mission is to make the "best possible technology available to U.S. mineral producers."

The National Biological Survey, now renamed the National Biological Service, is another program that should be reexamined. The Interior Department wants a \$200-million-per-year "systematic biological inventory of the entire Nation." As Robert Gordon, Executive Director of the National Wildlife Institute, notes, "Essentially, what they are proposing is that the government permanently keep track of almost every living thing in the United States. That isn't physically possible." In addition to being impossible, the proposed survey may impose new costs on private property owners. "Give us the tools," as Mr. Babbitt asks, "to preserve, maintain and foster the recovery of endangered species wherever they occur, without regard to geography, location, or land ownership."

In addition to these faults, the NBS Act of 1993 has not been signed into law yet. According to House Rule 21, Clause 2(a), "No appropriations shall be reported in any general appropriations bill, or shall be in order as an amendment thereto, for any expenditure not previously authorized by law, except to continue appropriations for public works and objects which are already in progress." Hence, it would be a violation of House rules to appropriate funds for the NBS.

The Forest Service owns 191 million acres of forest, or 12 percent of the U.S. land area. While Federal forest holdings have been fairly constant since the mid-1930s, the number of employees has increased from 4,000 to 33,000. In addition to a \$1.3 billion annual appropriation, the Service sells timber of roughly the same amount every year. However, this hasn't stopped the agency from running annual deficits as high as \$2 billion.

The routine losses are the result of an inexplicable policy of rewarding the timber industry at the taxpayers' expense. The Service also invests a generous \$200 million per year in adding miles to the timber roads, whose mileage already exceeds 340,000. The environmental results have been disastrous, as the Political Economy Research Center reports: "These roads, primarily designated to facilitate logging, extend into the ecologically fragile back country of the Rocky Mountains and Alaska, where they are causing massive soil erosion, damaging trout and salmon fisheries and causing other environmental harm. In many cases, the costs of these logging activities far exceed any commercial benefits from the timber required, so the environmental destruction would not have occurred in the absence of government subsidies."

What ever happened to common sense? The Forest Service should be privatized. Again, the sale receipts of some 119 major forests are likely to make balancing the Federal budget a lot easier. As Richard Stroup and John Baden argue, it would have other benefits, too:

"Privatizing the national forests should end many of the obstacles to good management. Not only would decision-makers be given larger amounts of validated and continuously updated information, but political obstacles to efficient management would largely disappear. Perhaps just as important, environmentalists, timber producers, miners, recreationists, and others who make demands on the Forest Service would move away from their carping and fault-finding toward positive and constructive accommodation."

At least two major reasons exist why the government should eliminate subsidies to the arts and humanities. First, government-sponsored culture strongly tends to subsidize the aesthetic pleasures of individuals with above-average incomes at the taxpayer expense of individuals further down the socioeconomic ladder. As Edward C. Banfield notes, "The art public is now, as it has always been, overwhelmingly middle and upper-middle class and above average in income." This is reflected in the fact that blue collar workers constitute just 7 percent of the overall art museum audience.

Second, government-run cultural institutions and subsidies inevitably force the government to make decisions on which art or art form is more valuable, more needy, than others. In the process of distributing millions of dollars, it is inevitable that many American taxpayers will often disagree with the standards—or the lack of standards—applied by the culture bureaucrats. We have all heard the horror stories, such as the graphic "Piss Christ" by Andres Serrano, funded by the National Endowment for the Arts and over 200 million Christians in their capacity of taxpayers. Thomas Jefferson noted in 1786 that "to compel a man to furnish contributions of money for the propagation of opinions which he disbelieves is sinful and tyrannical." Government-funded art is as wrong as government control of editorial pages.

The CBO has suggested eliminating the funding for the National Endowments for the Arts and the Humanities, the Smithsonian, and the National Gallery of Art, as well as the Corporation for Public Broadcasting, for a total five-year savings of \$5.7 billion. Nongovernment institutions and individuals could clearly fund these type of organizations, if necessary. In 1991 alone, private philanthropists contributed \$8.8 billion to arts, culture, and humanities.

As I have attempted to show, Citizens for a Sound Economy Foundation believes that many government functions under this subcommittee can be abolished, privatized, transferred to other government agencies, or drastically downsized. The rationale behind these reform measures is not that, for example, energy conservation and efficiency is unimportant, or that healthy forests are unnecessary, or that respect for wildlife is a luxury. Quite the opposite. We think that sensible reforms replacing government ownership and controls in these critical areas with the natural strength and dynamics of the private sector will benefit not only taxpayers, but also promote the health of the American environment and good stewardship of natural resources. The same goes for putting an end to the wasteful policies toward Native Americans, which have seriously undermined their economic progress, as well as dismantling the Federal intervention in an area as sensitive as the arts and hu-

manities. As in so many other cases, limited government, fiscal responsibility, and progress go hand in hand.

I will be happy to answer any questions you may have on this issue.

Mr. REGULA. Thank you.

[The statement and biography of Ms. Mitchell follows:]



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TESTIMONY OF NANCY MITCHELL
VICE PRESIDENT
CITIZENS FOR A SOUND ECONOMY FOUNDATION
before the
SUBCOMMITTEE ON INTERIOR AND RELATED AGENCIES
of the
HOUSE APPROPRIATIONS COMMITTEE

January 11, 1995

Good Morning. Mr. Chairman and Members of the Committee: my name is Nancy Mitchell, and I am Vice President for Policy Implementation at the Citizens for a Sound Economy Foundation (CSEF), a non-partisan, non-profit, research and education organization formed in 1984 to study and develop market-based solutions to public policy problems. Our 250,000 members have worked long and hard to help reverse the trend of ever-higher tax burdens and government spending. I am grateful for having the opportunity to testify before you today.

As Congress strives to eliminate unnecessary and outdated programs and regulations, this Subcommittee has a unique chance to take the lead in the pursuit of fiscal sanity and economic growth. Today, a wide consensus among economists exists that reducing the influence of government is one of the most effective ways to achieve these important goals. Robert J. Barro of Harvard University, for example, concluded in a statistical study that "growth is inversely related to the share of government consumption in GDP."¹ Raising government spending and taxation by 10 percent, on the other hand, would "decrease long-term growth rates by 1.4 percentage points," according to a National Bureau for Economic Research study.²

From the anachronism of the Department of Energy and the Bureau of Mines to the federal government's ownership of 119 major forests and 86 percent of the state of Nevada, from the extensive list of government-managed and taxpayer-financed museums, art galleries, think tanks and the like to the environmental destruction and waste of the U.S. Forest Service, it is abundantly clear that a real potential for budget savings exists within the jurisdiction of this committee.

THE DEPARTMENT OF ENERGY

Created in an emotional reaction to the energy problems of the 1970s, the Department of Energy (DOE) has continued to grow throughout the years, now with over 170,000 full-

time and contractual employees and a budget approaching \$18 billion, up 30 percent since 1987. We strongly believe that the DOE should be abolished, and we urge you to seriously re-examine all Energy Department spending over which you have authority.

Energy Production Conservation Technologies. One of the chief official objective of the DOE is to ensure "efficiency in energy use"³ through independent projects as well as an intricate set of regulations and subsidies. Consistent with the experience of political controls throughout the world, central planning from Washington, D.C. in the area of energy has failed to produce meaningful success stories. Overall, for example, the DOE has spent \$50 billion since 1980 in developing energy production conservation technologies with little or no progress.⁴ As the Congressional Budget Office reports: "Despite two decades of spending, few successful energy technologies have emerged from these research and development (R&D) programs."⁵

Almost one-fifth of this \$50 billion has been devoted to finding more effective ways to recover fossil fuels as well as to the development of more environmentally sound coal technology under the Clean Coal Technology Program.⁶ These areas are better handled by the private sector.

As the CBO notes in reference to fossil fuel development, private companies spend a substantial amount of money in this area, and with much better results. "The major new technologies for enhanced oil recovery, for example, have come from private industry, not DOE. In other areas, DOE continues to develop technologies in which the market clearly has no interest."⁷ For example, the DOE spent hundreds of millions of dollars developing coal-powered magnetohydrodynamics, even though the interest in this venture was negligible outside the DOE.⁸

The Clean Coal Program was started in 1984, and has now, after five rounds of negotiations with industry interests, committed itself to subsidize the same to the tune of some \$2.7 billion over the next few years in order to reduce coal-derived pollution.⁹ The Clean Air Act Amendments of 1990, however, impose a stringent legal mandate on industry to lower coal emissions, thus removing the environmental argument for further Clean Coal subsidies.

The development of renewable energy technologies is another case in point. These technologies, the Energy Information Administration wrote in 1980, "seem to promise supplies of energy that are virtually unlimited and cheap..."¹⁰ The same year, EIA estimated a 20 percent increase in energy consumption of renewable fuels over the next decade. But over a decade and \$6 billion later, the absolute level of consumption of renewable energy is actually down 10 percent.¹¹

Energy efficiency and conservation are, of course, laudable and important goals. But as in all other sectors of the economy, the federal government is ill-equipped to be the source of innovations and progress in this area. These goals, on the other hand, are continuously

and successfully pursued by the private sector. The amount of energy consumed per \$1,000 of GDP has consistently declined about 1 percent annually since 1929.¹² This means that producing one dollar's worth of goods and services today requires less than two-thirds the amount of gas and oil it did only two decades ago,¹³ and that energy use per capita declined 7 percent throughout the 1980s.¹⁴

The view that we somehow were "running out" of natural resources such as oil was another major rationale behind the institution and expansion of the Department of Energy. Yet nothing could be further from the truth. Proven reserves of oil, for example, have increased 10-fold since 1950, and similar increases of coal and natural gas have been recorded.¹⁵ Given current consumption patterns, we have well into the 26th century before we run out of oil. Long before we reach that point, however, we can be sure that market mechanisms, if left unobstructed, will have provided sufficient incentives to stimulate the development of effective substitutes. The incentives driving this discovery process is rather straightforward. As the supply of a natural resource dries up, its price increases. As the price increases, it will be more profitable to pursue research in developing alternatives (as well as extracting more hard-to-get deposits).

The Strategic Petroleum Reserve (SPR). The SPR, a government-owned stock of almost 600 million barrels of crude oil created in 1975 to help avert future energy crises, is perhaps the ultimate manifestation of energy policy gone wrong. Since its inception, the SPR has lost \$7 billion as a result of a depreciation in price of the stored oil alone.¹⁶ The annual cost of upkeep now runs around \$200 million.¹⁷ In spite of its staggering costs, the SPR has conferred very limited, if any, benefits on the American public. It has only been used once, during the 1990/91 Persian Gulf crisis.¹⁸ The DOE caused unnecessary turmoil in the oil market by not releasing as much oil as expected, which was partially due to the fact that the minimum bidding price was set too high.¹⁹ As the CBO notes, this uncertainty "caused individuals and businesses to hold onto their stocks of oil and petroleum products, and that additional demand for private stocks raised oil imports and prices--just the opposite of the original intent of the Strategic Petroleum Reserve release."²⁰ Moreover, once the flow began, the allies had won the war, and the extra flow artificially depressed already-declining oil prices. As the CBO concludes, "virtually every step the United States ... took in response to the management of emergency reserves and demand reduction simply added to the uncertainty in the oil markets."²¹

The chances of a repeat of the 1973-74 crisis are minimal. For one, as Energy Secretary Hazel O'Leary noted, compared with 10 to 15 years ago, we are today "importing [oil] from a much more diverse group of nations, some of whom are very strong allies." As the rationale for the SPR falls, so does that of the funding for U.S. membership in the International Energy Administration, whose mission is to manage oil distribution in the developed world if necessary. Central planning is bad at all levels, including in the international realm.

The sale of the U.S. crude oil reserves could add as much as \$10 billion to the

Treasury, well needed money in times of fiscal hardship. The storage reservoirs are in bad and deteriorating shape, "threatened by major problems in the mechanical, civil, and electrical systems," as the General Accounting Office put it.²² (A recent DOE press release refers to its Weeks Island, Louisiana site as "pos[ing] too great of an environmental risk to surrounding land and aquatic ecosystems" and calls for a \$75 to \$100 million relocation program).²³ These problems can make it virtually impossible to safely remove much of the oil in the future. This is another reason for marketing the oil as soon as possible.

THE DEPARTMENT OF THE INTERIOR

The composition of the Department of the Interior can probably be better understood from the perspective of history and special-interest lobbying than from the standards of economics and common sense. Many of its functions are outdated and could be either abolished, privatized, transferred to another department and/or drastically cut back.

The burdensome regulations that prevent property owners from controlling their property must be reformed. In about fourth-fifths of the Indian territories, for example, Native Americans must receive the federal government's approval before building a fence or installing an irrigation system, due to a 1934 Congressional decision based on the view that Indians were not culturally suited to bear the full responsibility of individual ownership.²⁴

Trusting Native Americans with real ownership, moreover, would probably significantly boost their level of economic development. For example, as the Political Economy Research Center has documented, the average value of agricultural output per acre can be as much as 15 times greater on privately owned Indian land as opposed to reservation land.

The situation for both American taxpayers as well as Native Americans would also greatly improve by finally implementing real reforms in the intricate lattice work of federal programs designated to assist the Indian tribes, costing a whopping \$4.7 billion per year for a total of roughly 1 million Indians in as of 1991, according to a General Accounting office study.²⁵ This equals \$20,000 for every Indian family of four. In spite of this massive federal effort, or perhaps because of it, many tribes remain impoverished. Martin Gross, for example, notes that "many reservation Indians live in near abject poverty, with an unemployment rate of 45 percent."²⁶ Economist Terry Anderson found that American Indian households are three times more likely than average to have annual incomes below \$2,500 a year, and only one-third as likely as other households to have incomes above \$30,000. Setting up a lavish welfare system robs Indians of the constructive incentives for economic independence. The Bureau of Indian Affairs, a relic dating back to 1824, should be abolished. Any essential functions it currently provides could, if necessary, be furnished by already existing government agencies.

The activities of the Fish and Wildlife Service should be examined carefully and scaled back wherever possible. There are many successful examples of how the private

sphere can outdo the government in protecting wildlife. The Nature Conservancy and Ducks and Trout Unlimited, for example, are buying and leasing large amounts of land throughout the United States. Organizations such as Forest Trust and the Sand County Foundation focus on educating landowners in effective property management as well as respecting wildlife. Another successful strategy is practiced by the Defenders of Wildlife, who encourage land owners to respect the habitat of animals like wolves. The group pays private land owners up to \$5,000 if they can prove that a litter of wolf pups has been successfully reared on their property. Many other examples abound.

The results of dynamic, non-government approaches of this kind sharply contrast with government initiatives in these areas, such as the Endangered Species Act. The ESA, in fact, creates perverse incentives for land owners who find an endangered species that may actually hamper recovery efforts.²⁷ The ESA specifically states that government-declared endangered species must take place "without reference to possible economic or other impacts."²⁸ Despite such draconian measures, however, the ESA has largely failed to fulfill its objective of removing endangered species from the list. On average, only one animal per year has been de-listed during the two decades of the ESA (the list currently comprises 853 animals). Moreover, the majority of the species removed from the list were taken off due to extinction or original data error.²⁹

The Bureau of Mines provides one of the most obvious examples of waste in the Department of the Interior's budget. Created in 1910 as a reaction to the 3,000 annual deaths among miners, the drastic decline in mining employment and the vastly improved safety record in the business has eliminated its original rationale.³⁰ Two decades ago it even lost its jurisdiction over safety matters to the Labor Department. What, then, does the Bureau of Mines, with its \$175 million annual budget (up 20 percent since 1983) and 2,000 employees accomplish? Focusing on non-fuel minerals such as gold and copper, it's self-described mission is to make the "best possible technology available to U.S. mineral producers."³¹

The National Biological Survey (now renamed to the National Biological Service) is another program that should be re-examined. The Interior Department wants a \$200-million-per-year "systematic biological inventory of the entire nation."³² As Robert Gordon, Executive Director of the National Wildlife Institute, notes: "Essentially, what they are proposing is that the government permanently keep track of almost every living thing in the United States. That isn't physically possible."³³ In addition to being impossible, the proposed Survey may impose new costs on private property owners. "Give us the tools," as Mr. Babbitt asks, "to preserve, maintain and foster the recovery of endangered species wherever they occur, without regard to geography, location, or land ownership."³⁴

In addition to these faults, the NBS Act of 1993 has not been signed into law yet. According to House Rule 21, Clause 2(a), "No appropriations shall be reported in any general appropriations bill, or shall be in order as an amendment thereto, for any expenditure not previously authorized by law, except to continue appropriations for public works and

objects which are already in progress." Hence, it would be a violation of House rules to appropriate funds for the NBS.³⁵

THE FOREST SERVICE (USDA)

The Forest Service owns 191 million acres of forest, or 12 percent of the U.S. land area. While federal forest holdings have been fairly constant since the mid-1930s, the number of employees has increased from 4,000 to 33,000.³⁶ In addition to a \$1.3 billion annual appropriation, the Service sells timber of roughly the same amount every year. However, this hasn't stopped the agency from running annual deficits as high as \$2 billion.³⁷ The routine losses are the result of an inexplicable policy of rewarding the timber industry at the taxpayers' expense. The Service also invests a generous \$200 million per year in adding miles to the timber roads, whose mileage already exceed 340,000. The environmental results have been disastrous, as the Political Economy Research Center reports:

*These roads, primarily designated to facilitate logging, extend into the ecologically fragile backcountry of the Rocky Mountains and Alaska, where they are causing massive soil erosion, damaging trout and salmon fisheries and causing other environmental harm. In many cases, the costs of these logging activities far exceed any commercial benefits from the timber required; so the environmental destruction would not have occurred in the absence of government subsidies.*³⁸

What ever happened to common sense? The Forest Service should be privatized. Again, the sale receipts of some 119 major forests are likely to make balancing the federal budget a lot easier. As Richard Stroup and John Baden argue, it would have other benefits, too:

*Privatizing the national forests should end many of the obstacles to good management. Not only would decision makers be given larger amounts of validated and continuously updated information, but political obstacles to efficient management would largely disappear. Perhaps just as important, environmentalists, timber producers, miners, recreationists, and others who make demands on the Forest Service would quickly move away from their carping and fault-finding toward positive and constructive accommodation.*³⁹

THE ARTS AND HUMANITIES

At least two major reasons exist why the government should eliminate subsidies to the arts and humanities. First, government-sponsored culture strongly tends to subsidize the aesthetic pleasures of individuals with above-average incomes at the taxpayer-expense of individuals further down the socio-economic ladder. As Edward C. Banfield notes, "[t]he art public is now, as it has always been, overwhelmingly middle and upper-middle class and above average in income."⁴⁰ This is reflected in the fact that blue collar workers constitute just 7 percent of the overall art museum audience.⁴¹

Second, government-run cultural institutions and subsidies inevitably force the government to make decisions on which art or art form is more valuable, more needy, than others. In the process of distributing millions of dollars, it is inevitable that many American taxpayers will often disagree with the standards--or the lack of standards--applied by the culture bureaucrats. (We have all heard the horror stories, such as the graphic "Piss Christ" by Andres Serrano, funded by the National Endowment for the Arts and over 200 million Christians in their capacity of taxpayers)⁴². Thomas Jefferson noted in 1786 that "to compel a man to furnish contributions of money for the propagation of opinions which he disbelieves is sinful and tyrannical."⁴³ Government-funded art is as wrong as government control of editorial pages.

The CBO has suggested eliminating the funding for the National Endowments for the Arts and the Humanities, the Smithsonian, and the National Gallery of Art (as well as the Corporation for Public Broadcasting) for a total of five-year savings of \$5.7 billion.⁴⁴ Non-government institutions and individuals could clearly fund these type of organizations, if necessary. In 1991 alone, private philanthropists contributed \$8.8 billion to arts, culture, and humanities.⁴⁵

CONCLUSION

As I have attempted to show, Citizens for a Sound Economy Foundation believes that many government functions under this subcommittee can be abolished, privatized, transferred to other government agencies, or drastically downsized. The rationale behind these reform measures is not that, for example, energy conservation and efficiency is unimportant, or that healthy forests are unnecessary, or that respect for wildlife is a luxury. Quite the opposite: we think that sensible reforms replacing government ownership and controls in these critical areas with the natural strength and dynamics of the private sector will benefit not only taxpayers, but also promote the health of the American environment and good stewardship of natural resources. The same goes for putting an end to the wasteful policies toward Native Americans, which have seriously undermined their economic progress, as well as dismantling the federal intervention in an area as sensitive as the arts and humanities. As in so many other cases, limited government, fiscal responsibility, and progress go hand in hand. I will be happy to answer any questions you may have on this issue. Thank you, Mr. Chairman and members of the Subcommittee.

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Nancy L. Mitchell

Nancy Mitchell is Vice President of Policy Implementation at Citizens for a Sound Economy (CSE), a 250,000 member, non-partisan public policy organization. She came to CSE in August 1, 1992. In this capacity, Mitchell oversees communications, mobilization, and state CSE organizations in New York, New Jersey, Texas, Oklahoma, Louisiana and Virginia. By educating and mobilizing lawmakers, administration officials, media, citizens, as well as business and community leaders, Mrs. Mitchell works to implement policy proposals.

Prior to joining CSE, Mitchell served as Associate Director and Economist of the President's Council on Competitiveness. At the White House, Mitchell researched several issues for this regulatory review body chaired by Vice President Quayle, including environment, transportation, immigration, labor, financial services, and energy. Mitchell worked with executive branch agencies to ensure new regulations would not unduly burden the productive sector of the economy. Also, Mitchell was chief editor of a major deregulation report, covering the transportation, telecommunications, energy, and financial service industries.

Before her work at the President's Council on Competitiveness, Mitchell served as Economic Counsel for Senator William Armstrong, a member of the Republican leadership. In this capacity, Mitchell analyzed and developed economic policy proposals, drafted legislation, and formulated long-term tax and budget strategy.

Prior to working for Senator Armstrong and following the November, 1988 election, Mitchell served on the Independent Regulatory Agencies Transition Team preparing reports on the Federal Trade Commission for the incoming Bush\Quayle Administration.

A graduate of the University of Georgia (B.A., Economics '85) and George Mason University (M.A., Economics), Mitchell began her career at the Republican National Committee, where she served as Chief Economist of the 240-person organization. While at the RNC, Mitchell analyzed policy proposals on such issues as tax, budget, trade, labor, agriculture, and regulation.

Mrs. Mitchell and her husband Dan co-host " Mitchells in the Morning," a public affairs television show aired nationally on cable television.

Mitchell resides with her husband and three children in Fairfax, Virginia.

WEDNESDAY, JANUARY 11, 1995.

THE CATO INSTITUTE

WITNESSES

STEPHEN MOORE, DIRECTOR OF FISCAL POLICY STUDIES

JERRY TAYLOR, DIRECTOR OF NATURAL RESOURCE STUDIES

Mr. REGULA. Before we have our last witness, let me say for those who might not have been here earlier, what I plan to do after we have heard all four witnesses is to have questions, and we will take the Chairman of the full committee, first; the Ranking Member of the full committee if he chooses; and thirdly the Ranking Member of the subcommittee. After that, we will follow in the order in which those of you have arrived as Members of the committee.

The panelists have agreed that they will answer questions that will be submitted for the record, so if you have questions that we don't have time to cover today, we will see that they are given to the witnesses and copies of the responses will be forwarded to each of you respectively as may be the case so that you know what kind of an answer you have received.

I apologize that we didn't get the executive summary on each testimony. I did not have time to advise panelists today that that would be the policy.

Our last witness is Jerry Taylor, Director of Natural Resources, or Steve Moore.

Mr. MOORE. I understand you only want five minutes?

Mr. REGULA. Please summarize as much as possible.

You are the Director of Fiscal Policy for CATO.

Mr. MOORE. Chairman Livingston, I understand that the other day that when you came out you had your knives and hatchet in hands. I think that is a very important symbolic importance. We think this is an area of the budget where you should take out a chain saw, quite frankly.

Two quick points about The CATO Institute's plan for the budget: I just wanted to tell you that we have put forward a plan to balance the budget by 2000 with a \$400 million tax cut, about twice the size of what the GOP contract talks about. So it can be done and it should be done.

One specific of that plan that I think is of urgent importance, we call for a 3 percent across-the-board rescission of all non-social security programs for the second half of 1995 and an additional 3 percent across-the-board rescission in 1996. This is a way of pulling forward tough choices and giving instant credibility to your plans to reduce the deficit.

I would like to talk about the area of the National Endowment for the Arts. We think this program should be defunded, for three reasons. First, this is a program that subsidizes the rich. If you look at the clientele for these programs, it is mostly the affluent that are watching programs on public TV and listening to NPR. They certainly have the resources to fund those programs if they want them to continue.

Second, many of the programs are offensive to people and those are not the type of programs that should be paid for with tax money.

Finally, even if these programs on NPR that are funded by such programs as NEA—even if they were subsidizing entirely wholesome activities, we believe that there is nowhere in the Constitution where that type of activity is sanctioned. The word “arts” does not appear in the Constitution, and we think it is an affront to the idea of the limited powers of government that programs like NEA receive funding.

Mr. YATES. Do you include the National Endowment for the Humanities and IMS as well?

Mr. MOORE. No, I am just talking about NEA and NEH.

Mr. JERRY TAYLOR. Thank you, Mr. Chairman, for inviting me to speak here today before the subcommittee. I will focus on the energy aspects of this subcommittee’s purview.

I think the fundamental question the subcommittee has to ask itself is who is best entrusted to manage the distribution and production of energy, private sector entrepreneurs or government planners? I think the entire history of the 20th century indicates where that answer should be made, with private sector entities, which brings into question the rationale for the Department of Energy.

The problem with DOE is not its administrative structure but the very fact of its existence. It should be abolished. There is no more need for a Department of Energy than there is a need for a department of automobiles or a department of sporting goods. Energy is just one other commodity in the economy, no different and no more in need of government oversight than any other.

DOE should not only be abolished but all its responsibilities outside the weapons programs should be abolished as well. Simply reshuffling responsibilities from DOE to Commerce or Interior or EPA is not satisfactory.

Mr. DICKS. What about the wet-waste cleanup program?

Mr. JERRY TAYLOR. That is a proper purview for EPA.

The research and development program at DOE is a very expensive, billion-dollar proposition for the American taxpayer. Robert Reich pointed out that corporate subsidies litter this budget. Aside from the fact that I think he is under the confused idea that maybe letting people keep their tax money is subsidy, a specific appropriation for the research and development of the energy industry is a very blatant corporate subsidy.

Why is the energy industry getting a free ride off the American taxpayer for expenditures most other industries have to undertake on their own? That is a blatant subsidy, and for further discussion on this, I recommend a Brookings Institution publication from 1991 by Noel and Cohen entitled *The Technology Pork Barrel*, discussing how very little production has ever come out of Federal R&D or laboratory work.

The second point on energy conservation, prices should dictate how we invest our resources. If energy conservation is more cost effective, private individuals aren’t stupid—businessmen don’t have no concern at all how they invest their money. They will invest in a conservation technology. If conservation is more expensive, they won’t invest. They shouldn’t be encouraged to invest with artificial prices, because prices, if anything, are reflections of relative scarcity. If the price of something—say, energy conservation—is twice

what it is for, say, energy supply, the resources for domestic conservation are twice as scarce as the resources required to continue using basic energy—that is basic Economics 101.

The Strategic Petroleum Reserve, the Naval Petroleum Reserve, the Oil Shale Reserves should be privatized. They are giant boondoggles; they crowd out the private sector. Private oil interests have no incentive to not have stockpiles, to not invest in the future; but as long as the government is doing it for them, they are not going to invest in their own stockpiles or futures contracts if, when the time comes for these reserves to be released in the marketplace, the government is going to drown out any profit they might receive.

It is basically—and this is probably a point for another time, perhaps, but the Strategic Petroleum Reserve is a solution waiting for a problem. There is no potential on the horizon for anything like the oil shortages that this dinosaur program was designed to address in the 1970s.

The power marketing authorities, these agencies are environmentally destructive and subsidize excessive energy use. There is no reason why certain regions of this country ought to be paying electricity prices half what they might be in other parts of this country simply for political expediency. This encourages excessive energy use, and the environmental record of the authorities is abominable, and we shouldn't be subsidizing energy laboratories.

Even Hazel O'Leary, I understand, in Investors Business Daily, advocated eliminating these programs right after the elections. These laboratories undertake activities that should be undertaken by the corporate sector. There is no reason for the taxpayer to say, we are going to get welfare mothers off the dole when there is nothing to show for it when you analyze what we have gotten for our money.

On public lands there will be interest in leasing out exploration rights, but the fundamental question is why in the world does the Federal Government own these vast stretches of oil lands that are commercially very viable? We tell Yeltsin to privatize commercially valuable land and get it into the private sector, but ignore it. If we were to sell the offshore areas, we are looking at oil that on the market is worth \$420 billion.

I don't need to remind this subcommittee we are \$6 trillion in debt, and when you are that far in debt, you have to start looking at the assets you hold to retire that debt. We are talking about \$200 billion in sales that could be used to retire the debt. There is no reason for the Federal Government to be a vast landowner of resources.

Using lands in ANWR, is it going to be dictated by political considerations or economic considerations? I suggest the latter, and history shows the folly of the government in deciding they know better than anybody else how land ought to be used, and resources ought to be distributed and how resources ought to be invested.

Thank you.

[The statements and biographies of Messrs. Moore and Taylor follow:]

TESTIMONY OF
STEPHEN MOORE
DIRECTOR OF FISCAL POLICY STUDIES
THE CATO INSTITUTE

Mr. Chairman, I am honored to have the opportunity to discuss the Cato Institute's ideas for reducing federal spending in the area of the Department of Interior, the Department of Energy and related agencies.

Later this month the Cato Institute will release a comprehensive budget plan that outlines how the federal budget could be balanced by the year 2000 without new taxes. Indeed, the Cato Institute plan would balance the budget and allow for \$400 billion of tax cuts--or more than twice what the GOP Contract with America calls for. Our budget plan would reduce federal spending by \$1 trillion over five years--that is it would reduce five year spending from \$9 trillion down to \$8 trillion. This is a far more ambitious agenda than what would be required under the balanced budget amendment now being debated.

I know that this committee is most interested in our specific recommendations with respect to the spending program's under your jurisdiction, but I would like to briefly tell you of the broad fiscal strategy we have developed.

There are eight components to the Cato budget plan:

1) A 4.5 percent across-the-board rescission in all federal programs except Social Security for the second half of 1995 through the end of FY 1996. The centerpiece to any credible plan to reduce the deficit is to pull forward the hard choices. The more common practice of extending budget caps continually out in the future, as has been the Bush-Clinton approach for the past six years, defers tough decisions that never seem to be made. The Congress must showcase its commitment to long term fiscal restraint by cutting spending immediately--that is cuts from the already approved 1995 budget.

2) The termination of more than 100 federal programs and agencies--a large number of which fall under this subcommittee's jurisdiction.

3) A reduction in the defense budget to \$200 billion by the year 2000 to reflect the post-Cold War realities.

4) A 60 percent reduction in the foreign assistance budget.

5) Long term cost reduction reforms in Social Security, such as significantly raising the retirement age, with the eventual goal of privatizing the program.

6) A series of health care reforms, including cost sharing and Medical Savings Accounts, to reduce the inflation in Medicare and Medicaid.

7) A plan to end the federal government's failed role in welfare by turning all public assistance programs over to the states and private charities.

8) The sale of at least \$200 billion worth of non-environmentally sensitive federal lands and other federal assets with the proceeds used to reduce interest on the national debt.

The Cato Institute budget would dramatically reverse the growth of government that has occurred over the past quarter century. Tables 1 and 2 show where the budget savings come from. Table 3 shows that if all the Cato recommendations were adopted, federal spending would be reduced from 22 to 17.5 percent of GDP.

Now to get specific. In the area of this Committee's jurisdiction, the Cato Institute has recommended dozens of program terminations.

The Department of Energy should be eliminated--with its few worthwhile projects transferred to the Departments of Interior and Defense. America does have a highly effective national energy policy. That policy is called the free market. When the government has intervened in energy policy it has almost always worsened the crisis--as with the energy price controls and windfall profits taxes of the 1970s. There is no case for government sponsored energy conservation programs. The price system creates exactly the proper amount of business and consumer conservation efforts.

The primary rationale for abolishing the Department of Energy--in addition to saving money--is to eliminate the policy and bureaucratic apparatus to prevent future government interventions into energy policy. That is, the DOE should be closed down to preclude it from doing more damage.

Within the Department of Energy the following specific programs and projects should be terminated:

Nuclear reactor R&D

Energy conservation programs

Power Marketing Administration subsidies

General Science and Research activities

Uranium supply and enrichment activities

Fossil energy research & Development

Naval Petroleum Reserves (privatize)

Strategic Petroleum Reserve (privatize)

Energy Information Administration

Clean Coal Technology

Solar and Renewable Energy programs

New Generation of Vehicles

Defense Reinvestment and Conversion

High performance computing and communications

In the area of Interior, the following programs should be ended:

Bureau of Reclamation water projects

National Biological Survey

Bureau of Mines

Helium fund and reserves (privatize)

African Elephant Conservation Fund

Sport Fish Restoration Fund

Another area of interest to this Committee is the cultural activities of the federal government. The Cato Institute has recently published a study calling for the removal of the federal government from many of the arts and culture programs that now receive federal subsidy. I would be happy to make that available to the members of the committee.

We urge Congress to privatize the National Endowment for the Arts and the National Endowment for the Humanities. It is our view that arts and culture play a vital role in society, but that there is no rationale for government financing of such activities. There are several reasons why they should be particular targets for privatization:

1) Studies show that the clientele for most arts and culture programs are those with high or above average incomes. The NEA has been called "high-brow pork-barrel. Americans who benefit from these programs can afford to pay for them.

2) The highly controversial nature of many of the NEA projects and NEH curriculum is offensive to many Americans. Taxpayers should not be compelled to pay for them even though they do not huge price tags.

3) NEA, NEH, and other such programs have had the unfortunate and unavoidable effect of politicizing our culture. Issues of free speech and free expression dissolve if all art is privately funded.

4) Most importantly, even if NEH and NEA were funding wholesome conservative programs that the vast majority of Americans support, these agencies would be inappropriate. Taxpayer subsidies of the arts and culture lay outside the range of proper functions of the federal government. Where, after all, in the Constitution is Congress granted the authority to subsidize the arts? The authority to subsidize art is not one of the enumerated powers granted to Congress.

Thank you, Mr. Chairman, for the opportunity to present my views on how to cut federal spending.

TABLE 1

The Cato Budget Alternative

	Fiscal Year					
	95	96	97	98	99	2000
Outlays						
Programs						
Defense	269	260	250	235	220	200
Social Security	333	349	365	382	400	404
Medical	269	282	304	329	355	372
International	20	18	16	14	12	10
Other	486	471	471	471	471	471
Total	1377	1380	1406	1431	1458	1457
Deposit insurance	-17	-12	-5	-5	-4	-2
Offsetting receipts	-77	-72	-75	-80	-83	-86
Net interest	225	235	231	228	222	210
Total Outlays	1508	1531	1557	1574	1593	1579
Revenues	1353	1373	1422	1482	1542	1613
Deficits	155	158	136	93	51	-34

* Congressional Budget Office, The Economic and Budget Outlook, August, 1994.

TABLE 2

Cato's Proposed Budget Savings (Billions of Dollars)

Fiscal Year	95	96	97	98	99	2000
Defense	4	17	33	56	78	98
Social Security	0	1	3	6	8	16
Medical	4	21	33	44	59	68
International	1	3	6	8	11	14
Other Domestic	7	26	30	34	59	115
Net interest	1	10	22	36	55	80
Total	17	78	127	184	270	391

Assumptions for savings:

Defense spending: 3 percent sequester for second half of 1995; an additional 3 percent sequester for 1996 then reduced to \$200 billion by 2000, 2.5 percent of GDP.

Social Security: Retirement age raised and benefit formula indexed.

Medical: 5 percent sequester for second half of 1995 then cost control measures outlined above reduce inflation rate from 10 to 8 percent.

Other domestic: 5 percent sequester for second half of FY1995 then spending freezed at 1995 level through 2000. Spending cuts to comply with cap as detailed in text above.

International Affairs: Elimination of all foreign aid programs; an overall 60 percent reduction in international affairs appropriations.

Net Interest: Interest rate savings from deficit reduction assuming a 6 percent interest rate on federal treasury notes and from sale of \$100 billion of federal assets.

TABLE 3

The Burden of Taxes and Spending Under Cato Budget Alternative
(% of GDP)

Fiscal Year	94	95	96	97	98	99	2000
Outlays	22.2	21.3	20.6	20.0	19.2	18.6	17.5
Defense	4.2	3.8	3.5	3.2	2.9	2.6	2.3
Domestic	15.0	14.3	13.9	13.8	13.5	13.4	12.8
Net Interest	3.0	3.2	3.2	3.0	2.8	2.6	2.4
Revenues	19.0	19.0	18.5	18.2	18.1	18.0	17.9
Deficit	3.2	2.3	2.1	1.8	1.1	0.6	-0.4



STEPHEN MOORE

DIRECTOR OF FISCAL POLICY STUDIES

Businesses are the main force for driving out government. Since the late 1970s, the federal budget has grown faster than the economy. It was a scound of maladministration. Under the administration of Chester A. Arthur (1881-1884), the country returned to the gold standard.

It is a tragedy that a society in receipt of such a large amount of government spending, including social security, has created a mechanism to allow the state to tax citizens helplessly without protest.

Moore's research on Stephen Moore and the Cato Institute's research on government spending and the federal budget crisis has created a mechanism to allow the state to tax citizens helplessly without protest.

Moore's research on the federal budget crisis has created a mechanism to allow the state to tax citizens helplessly without protest.



Stephen Moore, Cato's director of fiscal policy studies, talks about the profligate Bush administration at the National Press Club as William A. Niskanen listens.

Moore brought an extensive background in economic

and fiscal policy to the Cato Institute when he came on board in 1997. A former

Grover M. Hermann fellow in budgetary affairs at the Heritage Foundation, he is the author of two books, *Out of Control: A Blueprint for Reform* (1997) and *Out of Control: A Blueprint for Reform* (1997).



Stephen Moore on CNN discussing federal aid to the cities with Mayor Sharon Pratt Kelly of the District of Columbia.

Moore is a contributing editor at the *Washington Post* and his articles frequently appear in the *Wall Street Journal*, *Newsweek*, and *Business Week*.

Moore holds a B.A. in economics from the University of Illinois and did his graduate work in economics at George Mason University.

Moore has hands-on experience in dealing with the federal budget crisis. In 1987 he served as the research coordinator for President Reagan's National Commission on Privatization. In 1988 he served as a special consultant to the National Economic Commission, which was appointed to provide a blueprint for reducing the deficit. Moore played a critical role in steering that commission away from tax proposals and toward spending restraint.

Most recently he spent ten months as a visiting fellow at the Joint Economic Committee working for Rep. Dick Armey (R-Tex.).

TESTIMONY OF
JERRY TAYLOR
DIRECTOR OF NATURAL RESOURCE STUDIES
THE CATO INSTITUTE

Mr. Chairman, I am honored to have the opportunity to discuss federal energy policy and the U.S. Department of Energy before this subcommittee. Last November, the American people made clear their desire for a smaller, less expensive, and less intrusive federal government. The federal energy budget is one of the best places to begin keeping faith with the American people.

Energy production and distribution, like other goods and services in the economy, should be left to consumers and entrepreneurs in the market, not "planned" by government bodies. In fact, the long history of United States oil, gas, and electricity regulation, taxation, and subsidization makes abundantly clear that shortages and energy crisis are engendered by government intervention, not market failure.

Oil and natural gas today are cheap and plentiful, as they almost always have been when not subject to heavy government regulation. Although energy consumers have profited handsomely from the deregulatory undertakings of the 1980s, much more can and should be done to remove the province of energy from the dead hand of government planners to the invisible hand of the marketplace. To wit, this Congress should:

Eliminate the U.S. Department of Energy and transfer all weapons-related responsibilities to an independent, non-Cabinet agency and environmental activities to the

Environmental Protection Agency;

Eliminate all energy research and development expenditures;

Eliminate all energy conservation programs;

Privatize the Strategic Petroleum Reserve, the Naval Petroleum Reserve, and all federal oil shale reserves;

Privatize the Power Marketing Administrations;

Eliminate the Energy Information Administration; and

Sell federal energy land holdings.

Eliminate the Department of Energy

The first place to begin the dismantling of energy regulation by the simple elimination of the Department of Energy. The problem with the DOE is not its administrative structure but the very fact of its existence. The Department's responsibilities should not be reshuffled to other agencies; they should be summarily ended.

A centralized federal agency is dangerous because it offers "one stop" central planning. The thousands of pages of regulation that emanated from DOE and its predecessor agencies in

the 1970s is testament to the perils of federal bureaucracy. The privatization of energy decision-making, not DOE's emergency preparedness program, is the nation's "insurance policy" against any future energy challenge.

Although eliminating DOE as a cabinet department would be helpful, little would ultimately be gained by simply reshuffling program responsibilities from one agency to another. While environmental responsibilities are best handled at the EPA, weapons-related responsibilities should be handled by a smaller, independent, non-Cabinet agency. The rest of DOE's programming, however, should not be sent hither and yon throughout the federal bureaucracy; they should be eliminated forthwith.

Research and Development

Several weeks ago, Labor Secretary Robert Reich made an excellent point by observing the degree to which corporate subsidies litter the federal budget. Although the Secretary is under the impression that allowing taxpayers to keep their own money often-times amounts to a "subsidy," corporate welfarism is an expensive and egregious burden on the American taxpayer. Perhaps nowhere is this more true than in the DOE budget for energy research and development.

The federal government spends \$7.1 billion annually on various research and development programs for the energy industry, a blatant subsidy to an industry more than financially

capable to pay for its own such programs. Most of this funding goes to traditional energy industries such as coal, fossil fuels, and nuclear. Moreover, those expenditures have brought very little return to the taxpayer. Virtually every significant advance in energy technology was made by private investment in the private sector -- federal research and development undertakings have had little if any real impact on the energy industry (for an excellent overview of the literature regarding the effectiveness of federal research and development spending, see Linda Cohen and Roger Noll, *The Technology Pork Barrel* (Washington: Brookings Institution) 1991). If those research activities undertaken by the DOE have any merit, let those industries in question pay for it themselves like most other industries are forced to do in a free market economy.

Political favoritism for renewable energy sources (the target of much federal research, development, and production subsidy) is misplaced, particularly since renewable energies each have their own, seldom acknowledged environmental problems, such as avian deaths from electric wind generation, heavy industrial waste from the manufacture of solar equipment, energy inputs that exceed energy outputs from biomass sources, and damaged river habitats from hydropower. If fossil fuels begin to become scarcer, that scarcity will be reflected in rising prices and fuel switching in the marketplace. Government involvement is not necessary.

Market prices, not taxpayer or ratepayer subsidies, should determine America's fuel choices. Since a price is nothing but a reflection of relative scarcity, it's axiomatic that if a "green" or "renewable" energy source is more expensive than traditional energy sources, the resources required to "go green" are more scarce than the alternatives.

Energy Conservation

If energy conservation undertakings are warranted -- and they often are -- then the gains of energy conservation will be reflected in market prices and no subsidy is necessary. If certain energy conservation practices cost more money than they save through conservation, then a subsidy is unwarranted. Either way, there is no compelling need for conservation subsidies. They invariably do more economic harm than good. The federal taxpayer is left holding the tab -- nearly \$1 billion dollars in 1995.

It is important to keep in mind that energy is simply one of several economic inputs, such as labor, capital, and other natural resources. Often times, it makes economic sense to substitute one input for another. Today, for example, energy is often cheaper than labor or capital, and it makes sense for manufacturers to intensify energy use and substitute that input for another. This is not "wasteful," but is instead a conservation of resources.

America, despite popular opinion to the contrary, is one of the most energy efficient nations in the world, faces no prospects for energy shortages in the future, and is awash in cheap and abundant energy. Moreover, there are no identifiable "market failures" for energy conservation subsidies to correct. Although conservation advocates argue that subsidies are necessary to offset subsidies for energy production, the best course for the Congress to take is to eliminate all the subsidies in question and not to erect another set to offset other ill-advised economic policies (for a more complete discussion of energy conservation, see Jerry Taylor, "Energy Conservation: The Case Against Coercion, *Policy Analysis* no. 189, Cato Institute, March 9, 1993).

Federal Energy Assets

The dual attraction of selling federal energy assets to the private sector is the accrual of billions of Treasury dollars that can be used for deficit reduction and the significant stimulus that such a policy would provide to the energy economy. Accordingly, the Congress should sell its five federal power marketing agencies, four naval petroleum reserves, three oil shale reserves, and all DOE research and development laboratories.

All of these entities and programs should be privately reorganized. Power marketing agencies such as the Bonneville Power Administration are poorly managed at taxpayer expense.

They historically have caused serious environmental damage by utterly destroying river ecosystems and often generate more pollution than the industry standard. Moreover, their mission of subsidizing electricity usage only serves to encourage inefficient energy consumption (see, for example, David Shapiro, *Generating Failure: Public Power Policy in the Northwest* (Lanham, MD: University Press of America / Cato Institute) 1989). There is simply no systemic reason why certain regions of the country today cannot operate under privately-owned power authorities. Sale of those entities would save taxpayers \$4.2 billion annually in operating expenditures plus whatever they would sell for in the private market.

The federal energy laboratories are blatant subsidies to an energy industry that can "free ride" on taxpayer-funded research and development costs that most other industries rightly pay for themselves. Even Energy Secretary Hazel O'Leary has suggested to the administration that DOE's five power marketing authorities should be sold-off to the private sector ("Can Energy Department Wither Away?" *Investor's Business Daily*, January 5, 1995, p.1). An new, independent agency may want to continue contracting with those laboratories on the matter of federal nuclear-related questions, but the rest of the federal funding directed to those entities should be eliminated.

The Strategic Petroleum Reserve (SPR) has proven to be an abject failure, and its problems have only mounted while it has

waited for the energy crisis that has not come -- and will not come without a reimposition of price and allocation regulation.

Taxpayers are burdened with billions of dollars of net booked cost in excess of current market value and face expensive upgrades to maintain its withdrawal readiness. It is time to privatize or liquidate the stockpile (currently 591 million barrels) and all related facilities. Not only would this benefit the Treasury with billions in revenue, it would promote good energy policy across the board. Without the SPR's safety net, government officials would be less tempted to interfere with market prices and allocation. Absent the long shadow cast by the reserve, corporate entities would be encouraged to provide for their own stockpiles without fear of being drowned by a flood of government oil (and collapsing prices) in the event large withdrawals were made. Yet even private stockpiles are of little value in today's oil market, where futures contracts accomplish what stockpiles once did without the sunken costs.

The Naval Petroleum Reserves and various federal oil shale reserves share all the problems of the SPR and should likewise be sold to the private sector.

Public Energy Holdings

The domestic energy industry operates in a regulatory strait-jacket that prohibits the commercialization of vast energy holdings, micromanages commercial practices, and discourages

market entry. The rationales for these anti-competitive practices are discredited relics of the progressive era; that government planners are better land managers than private stewards and that energy corporations are natural monopolies that must be overseen by political bodies. It is time to jettison these myths.

The United States petroleum industry has steadily lost market share to foreign oil suppliers. While this partly reflects the fact that the lower-48 states are a very mature oil province, it also is because drilling and production from the most promising regions of the country -- the Arctic National Wildlife Refuge (ANWR) and other Alaskan areas, the outer continental shelf, and Point Arguello off California -- have been blocked by Congress. Privatizing oil and gas lands would provide a tremendous windfall to the U.S. Treasury, make the much-maligned "high cost" U.S. energy industry more globally competitive, and provide a stimulus to the American economy.

Federal land leasing for oil and gas development has been regulated by the Interior Department since the first claim was made in 1880. Not surprisingly, politicization has hallmarked public land development since. Yet economics, not politics, should dictate how land is used, and those decisions should be made by private land owners, not absentee government planner-landlords. Congress should do more than simply change the rules about how certain public lands like ANWR are used. It should get

out of the business of owning commercially valuable real estate altogether and sell those lands to the public. If Boris Yeltsin can do it, so can the United States Congress. Fossil energy on federal lands is worth approximately \$420 billion in today's market. Even in land sales could garner only half of that, \$210 billion would be a significant down-payment on the national debt.

Conclusion

Federal energy policy has always been based upon a series of dubious rationales. One is that energy is too important to be left to market forces alone. The truth, however, is that the more important an industry, the more imperative that it be left in the hands of private management. Another fallacy is that energy generation and distribution is a natural monopoly that necessitates strict government regulation. Economists today recognize that "government failure" is a far more serious problem than "market failure." Monopoly regulation has shown itself in most circumstances to be even more damaging to consumer interests than worst-case scenarios of unrestrained quasi-monopoly practice. Finally, energy security concerns haunt much government regulatory activity, despite the fact that the world is awash with cheap energy and even worst-case distant supply events dictate market management rather than political planning.

In sum, there is no reason to treat energy any differently than any other commodity or service in the economy. Allowing the invisible hand of the marketplace the authority to allocate

energy resources would provide massive windfalls to the federal Treasury, reinvigorate the American economy, and institutionalize the plentiful and inexpensive energy for generations to come.

More directly for this committee, \$14 billion in annual federal outlays could be eliminated and hundreds of billions of dollars could be invested in retiring the national debt. That would be a good fiscal start for any Congress, and an appropriate one for the 104th.



JERRY TAYLOR

DIRECTOR OF NATURAL RESOURCE STUDIES

Under the Department of Energy's new program, "National Energy Research and Development Administration," the "Market-Oriented Energy" program will focus on energy efficiency, conservation, and alternative energy sources. The program will provide grants to research and development projects in these areas.

Support for energy efficiency research will be provided through the National Energy Research and Development Administration's Energy Efficiency Research and Development program. This program will fund research and development projects in energy efficiency.



John Easton Jr. of the U.S. Department of Energy and Cato adjunct scholar Robert L. Bradley Jr. participate in Cato's conference on national energy policy organized by Jerry Taylor.

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Jerry Taylor discusses national energy policy and conservation mandates at Cato's conference.

Mr. REGULA. I thank all of you for what I would characterize as provocative testimony. In the interest of the schedules of the Chairman of the full committee, I will defer to him for questions.

Mr. LIVINGSTON. Thank you, Mr. Chairman.

Just in the last hour, I have heard some of the most stimulating testimony that I have heard in 18 years of serving in Congress. Let me ask that I have unanimous consent to introduce for the record an article written by Robert J. Samuelson appearing in today's Post, which I think highlights some of the suggestions by some of the witnesses.

Mr. REGULA. Without objection.

[The information follows:]

[From the Washington Post, Jan. 11, 1995]

SPIGOT OF LAST RESORT

(By Robert J. Samuelson)

(Congress must ask: What can and should government do?)

The case against Amtrak and many other federal programs—programs that ought to be eliminated—is not that they are worthless. It is that they are not the job of government, or at least the federal government. For too long, it has been treated as the spigot of last resort: an open-ended support system for activities shunned by the private market or, for whatever reason, deemed desirable by some eager group of influentials. In the process, government has been trivialized. It has been reduced from an instrument of overriding national goals into one of narrow and sometimes petty purposes.

Our budget debates suffer from an absence of a "public philosophy." If the Republican Congress is to mend this, its deliberations must rise above a mere accounting exercise. By "public philosophy," I mean a set of principles—and a restraining sense of tradition—that reserves the use of the federal government only for problems that are genuinely important and national in scope. Amtrak fails this test. It carries less than one percent of intercity travel, and half of that is in the Northeast Corridor.

It is important to purge whole programs, as opposed to merely cutting them, to restore a seriousness to government by defining some activities as outside its responsibilities. "Public philosophy" ought to engage more than likes or dislikes. I like books, but it is not government's job to subsidize the Holy Cow! Press with a \$30,000 grant or the Yale Review with a \$10,000 grant. (These grants were made by the National Endowment for the Arts in 1993.) I like food, but it is not government's job to subsidize farmers' incomes. Good literature does not depend on the National Endowment; food would be produced without subsidies.

No important national purposes are served; instead such programs are justified by the mushier concepts of aiding the "deserving" or promoting "worthy" causes. A public philosophy poses the most basic question: What can and should government do? The habit of asking and answering this question inspires a tradition of thinking in terms of responsibility, obligation and competence. In this sense, public philosophy acquires authority in the same manner as common law; by practice and precedent.

The usual objection made to slaughtering programs like Amtrak is that their spending is so small that it won't make much difference. This is a cynical, unprincipled argument; if programs aren't justified, they should be ended, whether they cost \$1 million or \$10 billion. But as an arithmetic proposition, the objection has merit. Consider some programs that are routinely suggested (by me, at least) for termination, along with 1995 spending estimates from the Congressional Budget Office:

Farm income supports: \$9.8 billion.

Amtrak: \$1 billion.

Culture agencies (the endowments for the Arts and Humanities; the Corporation for Public Broadcasting): \$673 million.

Mass-transit subsidies for localities: \$3.8 billion.

The Small Business Administration: \$508 million.

Propaganda agencies (Radio Free Europe, Voice of America, TV Marti, etc.): \$486 million.

Regional development (Economic Development Administration; Appalachian Regional Commission): \$487 million.

None of these programs promotes vital national goals. Local transit benefits localities; they should pay. Few small businesses receive SBA subsidies; none should. With CNN, fax machines and the Internet, propaganda agencies are dinosaurs. When 98 percent of households have TVs and 81 percent have VCRs, government doesn't need to subsidize "public" TV. But all these programs cost only \$16.8 billion—a lot of money, but loose change in a \$1.5 trillion budget with a \$176 billion deficit.

Might other programs be ended? Sure. But even doubling the savings, which is generous, leaves a huge deficit. (Note—as many will—that the list excludes defense. It is an essential function of government. Of course, there's waste, and it should be eliminated when possible. But it's worth noting that defense has dropped from 27 to 18 percent of federal spending since 1985. In 1995 defense totals \$270 billion; if its share had stayed stable, that would be \$140 billion higher.)

The arithmetic shows why a viable public philosophy requires a true commitment to a balanced budget. In democracies, even silly programs are legitimate if they are widely popular. But their legitimacy is suspect if no real choice is posed. A balanced-budget standard demands that benefits and burdens be calibrated. Such discipline reveals that budget balancing involves either raising taxes or cutting popular programs like Social Security (\$334 billion) or Medicare (\$176 billion).

It is unclear whether Republicans will genuinely transform the budget debate. So far, they talk better than they behave. House Speaker Newt Gingrich plugs a balanced budget—and then sets a target of 2002, which is laughably distant. It is so remote that it doesn't impose any practical limits on present actions. Proposed Republican "tax cuts" merely redirect the spigot to a new class of constituents. Such "cuts" barely differ from new spending; both disgorge benefits with borrowed funds.

There is a bigger omission even in Republican rhetoric. Gingrich, though posing as a candid critic of the welfare state, evades its largest dilemma: how to support retirees without overburdening workers. The dilemma worsens dramatically in the next century, when the baby boomers retire. Present-oriented politics avoids these issues; future-oriented politics would engage them. The budget can't be balanced by slashing "traditional" welfare; Aid to Families with Dependent Children is 1.2 percent of federal spending, food stamps 1.7 percent.

What connects these larger issues to Amtrak and farm subsidies is the climate of public opinion. The symbolic importance of ending these unjustified programs overshadows their size. If they enjoy immortality, then the political process is captive to past commitments, no matter how dubious. It can't raise basic questions of responsibility or adjust to changing social conditions. The spigot may be twisted a little here and there; but it will keep gushing until it bursts.

Mr. LIVINGSTON. Thank you.

I would like to first of all, thank all of the witnesses that have already appeared and invite any others who have testimony that also provides us with suggestions on where the United States Government can cut back or reduce its role, to submit them to the Committee.

Mr. LIVINGSTON. In the interests of time, I don't think that we will be able to hear everybody today. We will have additional hearings in other subcommittees, however, and these witnesses and perhaps other witnesses will be invited to appear there. You may have already received such invitations. If you would like to testify, contact the Appropriations Committee, and we will do our best to accommodate you with the limited time available.

I think that it is important that everyone understands that we are in the process—we in the Congress and specifically in the House, are in the process of rethinking the role of the United States Government. The witnesses have eloquently testified to the fact that there is a need to rethink.

Vice President Gore, to his credit, has undertaken the role of supervising the reinvention of government. I would personally say that it is my belief that we should not be reinventing; we ought to be thinking in terms of reducing government. In that vein, we are going to be doing that in this committee.

This subcommittee and the other subcommittees are going to be at the center of attention of America when we start focusing on our objective of reducing government, reducing it substantially. Why? Because the simple fact is that with \$250 billion of deficits accumulated year after year after year, we are handing an unbearable burden to our children and our grandchildren, and we are threatening not only a lowering of the standard of living to future generations, but almost obliteration of any viable standard of living unless we get it under control.

So I believe very strongly that the testimony of the witnesses should be taken seriously. Many of their recommendations—certainly not all, but many of their recommendations will be seriously considered by me for implementation; and I would hope that they will be seriously considered in a bipartisan fashion by all the Members of this subcommittee.

Thank you for your testimony. I regret that I have to run to another subcommittee shortly.

Congratulations, Mr. Chairman, for holding these historical hearings.

Mr. REGULA. Thank you, Mr. Chairman.

Mr. LIVINGSTON. Historical, not hysterical.

Mr. REGULA. Some of both.

Do you plan to testify before the appropriate authorizing committees, because much of what you have discussed really requires action by the authorizing committees in terms of jurisdiction.

Mr. MOORE. If we are invited.

Mr. SCHATZ. We will seek that opportunity.

Mr. HODGE. Some of us are working behind the scenes with those committees and Mr. Kasich and his staff as well.

Mr. REGULA. Natural Resources would be the major committee of jurisdiction, as well as the former Education and Labor Committee.

I will direct this question to anybody. Do you think leasing some of the public lands to States and/or local communities is an option, an alternative to sale or transfer?

Mr. JERRY TAYLOR. I think that is an alternative, but the fundamental problem is not administration of those public lands, but the ownership of these lands, itself. That doesn't necessarily change if you look at State and local governments. Their records are somewhat better, but not that much better.

Commercially productive lands ought to be held by those that are in the private sector, and I have yet to hear a compelling reason since 1930 about how it is that the Federal Government is a better manager of land than a private entity. If you look at environmental destruction, you are generally looking at land that is federally held. Private land managers have no incentive to make political decisions about how land is used as opposed to wise decisions about its value in the future.

In the southeastern part of the country, 30 percent of the revenue of timber companies that own the land is gathered from hiking and fishing. They have every incentive of keeping the value of that land high. You don't see rational policies like that in the Bureau of Land Management, which has had a policy of destroying the land, subsidizing building of roads. I think the private managers are better able to manage the land.

Ms. MITCHELL. You could always restrict to a certain extent who you are willing to sell the lands to. There have been some proposals—I would endorse what my fellow panelists said—you would only sell the lands to nonprofits who share a certain mission on the land, so you have reassurance that the land could be kept pristine, et cetera. Those private organizations tend to have a much better record of sustaining a higher quality environment, et cetera, over those lands.

Mr. YATES. Will you yield for a moment?

Does your colleague agree with you on that, or does he want the opportunity to sell it commercially?

Mr. JERRY TAYLOR. I agree on some land. For example, environmentally sensitive lands that generally don't have a high commercial value are more than capable of being managed very well by environmental organizations.

Mr. YATES. What would you do with the Presidio in California?

Mr. JERRY TAYLOR. I would probably grant that to a nonprofit or environmental group.

Mr. MOORE. We are not talking here about environmentally sensitive lands. Back in the 1980s, during the Reagan administration, the Interior Department did a survey of Federal landholdings. The Federal Government owns vast holdings of urban land which have no environmental significance whatsoever.

Mr. REGULA. Are those under the jurisdiction of this committee? We will find out.

Mr. MOORE. I just wanted to make that point.

Mr. HODGE. The other thing we need to consider is the political nature of these various approaches. I think that is why you will get some disagreement on this panel.

During the 1980s, the discussion of selling Federal lands created a political uproar, and perhaps we should go back to the original mission of some of these Federal agencies, which was to privatize or give away Federal lands, and that, since those missions stopped almost a hundred years ago, we should go back to those original missions and start pushing those lands back to the States, perhaps where they rightfully belong. So rather than getting into the political uproar of selling lands and creating a very sensitive political situation, let's give the land back to the States. If they would like to sell it, fine. If the taxpayers within those States determine that they would like to preserve those as environmental preserves, let them do so.

Mr. YATES. What do you mean by "back to the States"?

Mr. REGULA. I have a number of questions for the record, but my five minutes are up, so I am going to recognize the Ranking Minority Member.

Mr. YATES. Will you caution the witnesses about the fact that we each have five minutes and in answers—

Mr. REGULA. Be as brief as possible.

Mr. YATES. Mr. Schatz, you don't like the Roosevelt Memorial, I take it, from your statement. Do you also object to this committee appropriating money to repair the Jefferson Memorial and the Lincoln Memorial?

Mr. SCHATZ. I worked for many years for Hamilton Fish, and he was involved with this memorial. It has been my understanding

that, having looked at the small stone behind the archives, that that is all FDR asked for. You are so close it would be silly not to finish it, but we don't need to be doing these things in the future.

In terms of salaries—

Mr. YATES. What does that mean? Suppose you wanted to have a memorial, say Mr. Gingrich became President and somebody wanted to create a memorial for Mr. Gingrich upon his demise.

Mr. SCHATZ. I would think Mr. Gingrich, given his view of public spending, would want it solely done by the private sector.

Mr. YATES. Mr. Hodge, you want to close the national parks, I take it, from your statement.

Mr. HODGE. I think that goes a bit further than the intentions of my statement. I believe that there are treasures that could be and perhaps should be considered of the national interest that we would all agree are part of the long tradition of this country—as much so as the Constitution itself—and therefore this body should have responsibility for managing—

Mr. YATES. The statement that you made on October 28 says, sell public lands or give them back to the States. There are no exceptions to that, so I assume that means selling the parks, selling the forests, selling the public lands, wherever they are.

What would you do with the scenic rivers? We have bought land, the Federal Government has dedicated land along the banks of scenic rivers.

You would sell the lands along the scenic rivers because of their scenic value. They would have tremendous real estate value.

Mr. JERRY TAYLOR. My statement dealt solely with energy lands. When you have scenic or recreational lands, that I have no objection to. In fact, I would urge that this land be deeded to nonprofit organizations.

But when we are talking about Federal lands, the estimates I have seen, the total value is somewhere around \$500 billion; \$420 billion of that is solely for oil lands held offshore, in Point Arguello, in ANWR.

Mr. YATES. What would you do with the national forests?

Mr. JERRY TAYLOR. I would give them to the National Audubon Society or the Nature Conservancy. I think these people do a far better job of managing land.

Mr. YATES. Would you do it with the trees on them, or would you permit the trees to be cut first?

Mr. JERRY TAYLOR. They can do whatever they want with the land, and I have no objection.

Mr. HODGE. They allow oil extraction in some of their preserves. They do it in quite a high quality fashion.

Mr. YATES. I didn't understand what you mean—you did not quite make clear to me; do you favor closing the national parks? Do you favor selling off the national forests? Would you sell public lands or give them back to the States?

Mr. HODGE. I think that there are certain national treasures that should be held—

Mr. YATES. Give me an example of that.

Mr. HODGE. Yellowstone.

Mr. YATES. You would keep Yellowstone?

Mr. HODGE. I think so.

Mr. YATES. Would you keep the building where George Washington was sworn in, in New York City?

Mr. HODGE. No, because I understand his home was bought in the 1800s by the private sector because the Federal Government wouldn't. So his home is privatized and that should be too.

Mr. REGULA. The gentlelady from Nevada.

Mrs. VUCANOVICH. There are a couple of questions that I have that deal with my State, and I don't know which of you, whoever, would like to answer.

For instance, if the Department of Energy were to be abolished, what would any of you recommend be done with our Nevada test site, which is very important to our national security? The Department of Energy is not my favorite agency. We have a lot of differences.

Mr. SCHATZ. It is my belief—I think most of us would say that the defense-related activities of energy are very critical to this country and should be moved to the DOD because they are defense related. We are talking about energy information and other things that duplicate what Interior does.

Ms. MITCHELL. Everything will start to be justified as defense related.

Mrs. VUCANOVICH. It certainly is a very key issue. It is a test site.

The other question that I was going to ask, and of course I have a lot of Federal lands—86 percent of my State is Federal land. If the BLM and Forest Service lands would be turned over to the States, which I have thought is a great idea for a long time now, we are talking about unfunded mandates. Would there be some sort of a risk of running into the unfunded mandates problem? I assume we are talking about turning them over to the States.

Mr. HODGE. The risk is only there if mandates follow the transfer of those lands; but if some of these mandates and rules and regulations are lifted and full control, ownership and responsibility are given back to the States, I don't think that that would be a problem. I think many States would welcome the opportunity to be able to manage these resources, sell them off or extract coal, do whatever they would like so that the revenue stream would follow the transfer of those lands.

Mrs. VUCANOVICH. Well, this is something I have proposed for a long time. We had the famous Sage Brush Rebellion, which is just to say, let's give these lands back to the States.

I know there are lots of other Members that have questions, but those two concerned me. Thank you, Mr. Chairman.

Mr. REGULA. The gentleman from Colorado.

Mr. SKAGGS. Thank you, Mr. Chairman. I would like to engage you individually or collectively on some of what seem to me to be underlying premises of your testimony. There is a thread through, I think, everyone's testimony perhaps that programs that are not authorized should not be funded. Is that a fair generalization?

That leads me to ask about your views of the filibuster in the Senate, since what stands between authorizing many of these things—BLM, for instance, has been subject to the rules of the Senate for interminable debate that has gotten in the way of following the regular order that is appropriate for authorized programs. I as-

sume from what you are saying that you would like to remove those kinds of artificial roadblocks to the regular order and will be testifying in front of the Senate to expedite the process.

Mr. MOORE. I wouldn't. I am a strong supporter of the filibuster. I think the idea of making the requirement of three-fifths to two-thirds to pass laws is something that many States do. That would require a constitutional change, but I think it is an important protection of minorities that we have the filibuster in the Senate, and I would like to see something like that in the House.

Mr. SKAGGS. You acknowledge that that has a constitutional dimension to it?

Mr. MOORE. I don't believe the three-fifths passed last week has a constitutional—

Ms. MITCHELL. We would take a position on a constitutional matter. However, if there were a policy matter where we thought winning it would involve defeating a filibuster attempt, we would put as many resources into it as we could to help people who were fighting the filibuster.

Mr. SCHATZ. I understand you are trying to connect things, but there is some separation. The fact is, whether authorized or unauthorized, it is time to take a close look at it. In the House some of the problems developed on projects, we are talking about what we consider kind of pork-barrel projects, not whole agencies being funded or unfunded.

Mr. SKAGGS. So you don't take that position with regard to BLM?

Mr. SCHATZ. We look at more selected projects. I think you should look at everything whether authorized or unauthorized.

Mr. SKAGGS. We should look at some other criteria, not the fact that BLM is not authorized?

Mr. SCHATZ. I wouldn't disagree.

Mr. REGULA. Do you think we might deal with those by making them subject to authorization, at least initially, so we could establish our funding? Because these things are always subject to a point of order. By then, this committee could establish a policy point of view.

Mr. HODGE. It is certain that stick has the same function as a sequester. It forces dramatic and very quick action. Your willingness to hold up funding for a program until the authorizing committees give it a clear and modern mission, I think is very important, and it wouldn't happen, I think, virtually overnight.

Mr. SKAGGS. A particular authorizing question that comes up, I think in both Mr. Hodge's and Ms. Mitchell's testimony relates to the National Biological Survey. I think each of you has said that should be killed because it is not authorized.

Ms. MITCHELL. In part.

Mr. SKAGGS. And your recommendation to the committee is that it is not authorized?

Mr. HODGE. That is our understanding.

Mr. SKAGGS. This subcommittee has gone to some pains in its appropriations to make clear that the only activities under NBS that proceed are those that are authorized in law. I would refer you to page 276, of our report for fiscal year 1995's funding, which reflects the same policy that was taken for fiscal year 1994. I think it is fundamentally misleading to file testimony that asserts outright

that something is going on that is unauthorized in this area, because it is simply not true.

Mrs. VUCANOVICH. Will the gentleman yield? The Survey is ongoing.

Mr. SKAGGS. But only those programs within the Survey that have statutory authorization. We have limited the appropriation to those programs that are authorized because they existed prior in the Fish and Wildlife Service, or USGS or other areas of the department.

Mr. REGULA. You are saying they are authorized as part of the whole and are now conducted by the National Biological Survey, but they are still authorized functions. Would you suggest that these functions be given back to the appropriate agencies or abolished?

Ms. MITCHELL. If for some reason—in my effort to concentrate my remarks, I probably gave short shrift to what our organization believes to be the main argument for not funding the Biological Survey; we think its purpose and mission is at odds with what the Federal Government should be doing.

Mr. SKAGGS. Let's engage in an underlying policy debate on this; but to submit testimony that is, I think, fundamentally misleading about the authorized basis for what we have appropriated doesn't do service to an informed debate on the issue.

Mr. TAYLOR. I think the gentleman puts more credibility behind the authorization than is actually there. I think we have been playing fast and loose—

Mr. REGULA. We are going to explore this subject at length.

The gentleman from Washington.

Mr. NETHERCUTT. Thank you, Mr. Chairman. I just want to talk very briefly about a few particular items.

Ms. Mitchell, in your written testimony—and other witnesses also talked about the Bureau of Indian Affairs—you said any essential function could, if necessary, be furnished by already existing government agencies. Do you believe there are essential functions of BIA, and if so, where would you want those functions to go?

Ms. MITCHELL. Whether or not there are essential functions is a subject on which people could disagree. I wanted to focus on the area that we thought presented a real hardship to Native Americans, so I am not sure I can answer that question fully, but would be happy to provide a more detailed response with recommendations about where we think those duties or responsibilities could be transferred.

Mr. NETHERCUTT. Mr. Hodge, in your discussion about the National Park Service, I know there was a bill proposed last year that advocated a base-closure commission approach National Park Service property. Would that be something you would favor?

Mr. HODGE. I think so. That would bring some standardization, some rationality to the process of determining which public lands, which parks are clearly in the national interest, are the treasures that we want to hold on to, and which are those that perhaps should be community parks, State parks or private lands. I think that a base closure-style commission is a sound idea and it seems

to have worked fairly well with closing obsolete military bases and could, I think, serve a useful function in this area as well.

Mr. NETHERCUTT. Is it a preferred way to make these determinations?

Mr. HODGE. It is certainly a fallback position. In large measure, Members need political cover and granting that, I think, this is a second-best option for achieving the goals I think we all want to get to.

Mr. NETHERCUTT. Your first option is—

Mr. HODGE. For this committee to make those decisions.

Mr. JERRY TAYLOR. There is much to be said for the proposition that the Congress should establish a commission to examine public lands, find out which are primarily used for esthetic recreational purposes, which generally have commercial value, and categorize these lands. Those that have recreational esthetic value, we will trust the environmental community to manage it. The commercial lands, we can sell off and let anybody bid on.

Mr. HODGE. Don't forget that the Federal Government owns nearly one-third of the Nation's land mass, and in some States far more than that. I understand that only China and the now former Soviet Union owned more of their country's available lands than this country. So I think it is time that we take a second look at this and we start moving in the direction that we are on welfare; that is, returning responsibility and management efforts back to the States and to the taxpayers and citizens of those States.

Mr. NETHERCUTT. One final question. You talked about the strategic petroleum reserves and the sale of the Alaska National Wildlife Refuge, et cetera. Do you think there has to be a balance between the national security interests of this oil land and the move to sell Federal lands?

Mr. JERRY TAYLOR. I understand the concern. That was the reason we set up the Strategic Petroleum Reserve in the first place. If we are concerned about ability to procure oil, why aren't we opening up ANWR? The SPR, in particular, it is very hard to foresee how that would ever be used. We can't virtually get the oil out of it without more appropriations.

I can't imagine the scenario in which we would have to use it. The oil countries are going bankrupt. An embargo would be state suicide for the Middle Eastern nations. When Iraq, during the Gulf War, went off, it made no difference. I can't imagine the scenario in which we would be faced with a potential problem like that, because it doesn't fit any geopolitical realities that are on anybody's radar screen.

Mr. MOORE. Even if one were to accept there was a rationale for the SPR there is no rationale for having the Naval Reserves.

We had a report on that and would be happy to make that available to the committee.

Mr. REGULA. The gentleman from Oregon.

Mr. BUNN. I have heard discussion about turning land back to the States. As someone from a State which is heavily owned by the Federal Government, forest land is a major concern. If you have the Audubon Society as well as the State forestry departments managing forests—you will find that the two have a very different approach to it. How do we find that balance?

Mr. JERRY TAYLOR. A number of the environmental groups, when they own property they don't wall it off and just allow deep green backpackers to the land. They use the land in the wisest manner they see fit. For example, the Rainey Wildlife Refuge allows gas exploration, grazing activities, a number of commercial activities.

The Audubon Society feels they can make sure the commercial interests mesh with the environmental ecosystem. They do quite well. I am not sure that if the environmentalists were to inherit Yosemite or Yellowstone or the Grand Canyon, they would make sure no man saw it again.

For those lands for which we have a conflict of interest, I think again there are two ways to decide the issue. We can go to Congress every year and see who has more political muscle and that is how it is decided. Sometimes you win, sometimes you lose. Or you allow timber to be there, or for recreational purposes. Let the market decide. That is the most democratic process of all.

Mr. BUNN. So you put the Federal lands up for bids and let the market determine how these lands will be best utilized?

Mr. JERRY TAYLOR. Yes. See who wants to use the land the most. Private timber companies don't exactly strip everything they own. When they are leasing lands they might never see again down the road, they take advantage of it. When they own property, they never do that.

Mr. HODGE. Once the land is in the hands of the States, the States could use covenants, for instance, to protect some of their interests, their State interests in that land, and that would dictate some of the uses as we see in covenants used today. So there are many ways of getting around some of these obstacles if we give the States the opportunity to be entrepreneurial and self-determining.

Mr. BUNN. Shifting to another area, if we cut off funding for public broadcasting, or the NEA, won't it take a long time when an entity has developed a certain funding pattern, for them to be able to operate independently?

Ms. MITCHELL. Businesses start and stop overnight all the time. I would argue that for example, for public broadcasting, which has a fair name recognition now, it would probably be easier to get the funding to turn it into a nonprofit than if you were trying to start from scratch. It would help them that they had been in existence and had a following.

Mr. HODGE. Both these organizations have considerable recognition in the corporate community. They have been established over the years, and they have, I think, a sound infrastructure for picking up and becoming nonprofit, wholly owned institutions.

Ms. MITCHELL. They have hard viewers in this industry. The thing that drives it is, what type of advertising dollars could be attractive, and they have demonstrable, qualifiable viewership.

Mr. SCHATZ. On another area of the arts, the letter requesting funds for the Metropolitan Opera points out that the budget for 1995 is \$340 million, two-thirds covered by earned income such as box office receipts and endowment fund income. The Opera receives \$1 million in government support, and it is a long-standing, well-operated organization, but you are not going to see an end to the Metropolitan Opera if you eliminate funding.

Mr. REGULA. One of the arguments is that the NEA becomes a Good Housekeeping Seal that generates a lot of local funds.

Ms. MITCHELL. I would argue you would get private organizations that would serve that purpose as well. For example, United Way or—we have private versions of that all across the spectrum, particularly in the arts, as a matter of fact.

Mr. MOORE. I don't think the American public views the NEA as a Good Housekeeping Seal of Approval. I think some of these activities will get better funding and some won't.

This is a way of separating out quality types of programs versus garbage that is funded. The appropriate way to do that is to have this done privately. But some of these programs now funded will not receive funding, and that is appropriate.

Mr. BUNN. On the idea of charging admission to the Smithsonian, where do we draw the line? Do we say there is a high demand for the Washington Monument certain times of the month and we will charge a large admission at those times, or will we in the future require a ticket to see the Congress?

Ms. MITCHELL. We provide access, by and large, to affluent Americans, and that access is paid for by lower-income Americans. The data available shows that, by a vast majority, upper-income Americans benefit by the largesse of lower-income taxpayers. So I think that you would obviously have a problem when you set out to do it, but that is the context being put forward. If you wanted to privatize running of that, you would get pricing that reflects the demand to see it, so during springtime you pay more to see some of these things.

Mr. HODGE. The Smithsonian is an operation with a membership program, magazines and all of these things, which is very similar to—when I go to Williamsburg, for instance, I can purchase a day-long pass, a half-day pass, or I can purchase a full-year pass for 30 bucks, which provides me the opportunity to go there at any time that I would like. At the same time, however, you can walk through Williamsburg without paying a fee. If you want to go in and see unique facilities they have, you would pay the entrance fee.

There is an instance where you have a fully private operation, which has public access except for certain things; and the Smithsonian does that with its movies as well. Perhaps we could extend that to other operations.

Mr. REGULA. Mr. Kolbe.

Mr. KOLBE. I am intrigued by the testimony. I couldn't help but think at the outset the last time you people were invited to give testimony before some committee like this. In the interest of stimulating real discussion, this is only useful to us if we are provocative, so I will try to play devil's advocate.

A question—Mr. Bunn asked the question about the Capitol, and you kind of slid it over to the Smithsonian. Are there some things that are of such importance that the public ought to have access to them without charge? In other words, this is a enormously expensive edifice to maintain. Should we charge for people to come into the Capitol?

Ms. MITCHELL. I am torn, because the American people paid for the Capitol to be built to begin with. They already paid.

Mr. KOLBE. That is true of all the things we are talking about. Would you sell this—

Mr. HODGE. Every person that walks through the door imposes some impact on that facility. They wear down the steps, they brush against the walls.

Mr. KOLBE. We are replacing the steps now.

Mr. HODGE. Perhaps even a dollar of entrance fees—many other countries charge for their major museums and facilities. In Europe, it is common to pay a small token in order to take a tour.

In some measure, what you want to do is be able to offset the impact that those two feet have as they walk through that facility, and it is often not covered by general tax dollars. You want to give people the understanding that this is a privilege.

Ms. MITCHELL. I would say that you probably should.

Mr. JERRY TAYLOR. I would say no. Why should people pay to see the people they have sent here to pass laws in their interest?

Mr. KOLBE. That is an important philosophical issue, the same with the White House.

Mr. JERRY TAYLOR. There are a lot of places to save money in the government budget. To spend a lot of time on nickels and dimes, entrance fees, seems to me to be a waste of effort. Closing down everything the Department of Energy does, save for nuclear weapons-related matters would save \$14 billion a year. That dwarfs anything you are going to save on maintenance fees and is politically doable.

Mr. MOORE. You only have a limited amount of political capital and you have to expend a lot of political capital—

Mr. KOLBE. I am trying to be provocative.

Mr. SCHATZ. To make sure I am not associated—I want to add agreement that the Capitol should be open and that should be the last thing you think of.

Mr. KOLBE. I brought it up to see if there were some limits.

This one may be quick. The Bureau of Indian Affairs, which I think of all the agencies in the Federal Government is the most mismanaged and inefficient and worst operation that we have—don't we have a problem with treaty obligations?

Mr. SCHATZ. We should resolve those over the years.

Mr. KOLBE. Through negotiations with the tribes?

Mr. SCHATZ. Yes. That is a committee issue, one that is tough. If the goal is to turn this land back to Indians and self-government, how do you get there, and then you move forward from that point.

Mr. KOLBE. Having been engaged for my entire time in Congress and 30 years before that in negotiations just over water rights with Indian tribes, I don't know how long it will take to accomplish this.

Mr. JERRY TAYLOR. It is a difficult question.

Mr. KOLBE. One last question. Let me just ask, is there an area where the Federal Government has a role in research? We heard, and I agree, why should the government be doing research that benefits corporations?

Is there any role at all for government? Is there any public research that has value?

Mr. MOORE. You mean in the area of energy?

Mr. KOLBE. In general.

Mr. JERRY TAYLOR. I would say, not if research has to be done. There are enough private entities to take that on a one-time basis for a committee who wants information. But outside of that, the record of public research and development has been a giant black hole. It is not just the assessment of anyone, but Brookings published a book noting that the return on a dollar in public research and development has been horrible and every important gain in the economy comes from private, not public dollars. The reason is that research and development, when publicly invested in, is for private purposes. Private research is based on merit and what is important to research or not.

Mr. KOLBE. You said research and development. I was trying to focus on some basic research. It is hard for me to imagine that a company is going to have much interest in astronomy research on black holes in space.

Ms. MITCHELL. Private foundations may. All of us are nonprofit, and we get a lot of our operating dollars from foundations, where we make a case for what is worthwhile and please fund us. I think you will find a lot of foundation dollars in that area, if not corporate.

We could not begin to speculate on the potential commercial offshoots from that research, and if there were commercial uses, you would find plenty of corporate dollars going in that direction as well.

Mr. MOORE. Everything under the purview of this committee. You should get out of the research business; the only area should be pharmaceutical and medical.

Mr. HODGE. I would agree that in the area of disease perhaps where there are such horrible potentials that would sweep through a population, there you have a very legitimate reason for primary research. But in such areas as energy, I just don't see that overriding the national interest.

Mr. KOLBE. I can think of a much greater economic incentive in the area of medical research and disease, that would be an incentive for somebody to do research there, than I can looking at quasars and black holes.

Mr. MOORE. I was thinking of very basic research that might not be done by pharmaceutical companies. In the area that you are talking about, energy research, astronomy and stuff like that, I see no role for government in that.

Mr. KOLBE. Thank you, Mr. Chairman.

Mr. REGULA. We are going to adjourn at noon. I just wanted to say for the record that we are going to go until 12.

Secondly, we invited Brookings to testify and they declined.

Thirdly, the committee hearings historically have been open. Perhaps you haven't aggressively pursued the ability to testify, and I hope you will aggressively pursue opportunities in other subcommittees to take your message because a lot of what you are saying involves them.

The gentleman from North Carolina.

Mr. CHARLES TAYLOR. I appreciate the gentleman calling these witnesses here. It is refreshing. I can associate with what they have said. Some of what they have said would lead me to believe they have been smoking a little funny weed somewhere. There is

so much to touch on, it is hard for me to talk about all of it, but I will narrow it down to general forestry.

The idea of turning forestry over to an environmental group strikes me as wrong, because environmental groups don't have a clue about the environment or about the resources, and most of what they have sent Congress in the four years since I have been here has been false. The Forest Service was created and has been pushed by these environmental groups. My experience has shown that the depth of dumb cannot be fathomed in Washington, and when the Forest Service builds roads, many times it builds them in a way that you can turn them into interstates, something unnecessary for harvesting timber. That type of road is a one-size-fits-all governmental image that is used all across the country, and that is a problem with big government.

The Forest Service was created to provide the country a source of fiber with an understanding in the last century that we are going to become more urban and will need that source of fiber. Managed silviculture is the most sincere of environmental actions that we can have. Otherwise, we will be making these renewable resource chairs and tables out of finite resources. We should be returning the Forest Service back to its role, and we can do that and cut the cost, but not destroy the Forest Service itself.

We have a hundred years of silviculture experience, most of which is ignored by Agriculture and our universities. I charge this to the fact that you folks read somewhere along the way about below-cost timber sales. That is a falsehood. It is a lot like the myth about old growth.

An environmental organization that we put together at home, held a hearing, and everyone came out understanding there is no such thing as below-cost sales. There is no way you can have a below-cost sale. You build a road; you have 1,000 acres and you harvest 100 acres, the road costs a \$100,000. Today, they charge that to that one sale. IRS would not allow you to do that, not with 900 acres to be harvested in the future. They would charge a small percentage.

If it is a cash flow situation, it is still false because what you say in charging to the cost of harvesting timber, harvesting timber is profitable. We make \$300 million in this country that goes to the Treasury in addition to over \$288 million that goes to local governments—over half a billion dollars. If you use that figure and say, we are going to put all the cost of the Forest Service to it, that stretches credibility.

The cost of archeological studies is charged to the harvesting plan, as is the cost of the appeals that may come in from groups. Groups add to the cost by taking a salvage sale and appealing it until the salvage timber is worthless, and all of that cost is charged to the harvest of other parts of the Forest Service timber program, which means they are driving the sales cost down and charging it again to cost.

Many people are trying to stop cutting and their cost is charged to harvest. You cannot say if I run a small 7-11 store that the cost of doing business in that block is going to be charged to my 7-11 store no matter how unrelated it is, and you charge it to my profit.

There is much saving that can be made in that one area, but it comes from going back to the thoughts of why we have a Forest Service. It is not here as a park, although since 1964, they have tried to make the forest into a park. We had national parks to be parks and that is why it was put under Interior, and we put Forest Service under Agriculture so we could teach the growing of timber in the best way.

We should be working to make America the lumber bin of the world with those forestlands—I am not talking about parklands—those forestlands that have the site indexes and criteria that will allow them to produce timber. The reason would be sound environmentally. As we have become the wheat and grain bin of the world, we would be taking pressure off of more sensitive parts of the world. We would be providing timber, help our balance of payments and make ourselves more profitable.

So the forest could be a profitable part of the government if we could clean out the bureaucracy, if we could get rid of goofy thoughts that are beginning to evolve, like the National Biological Survey. We could find that we have added a great deal to saving money in government.

So I disagree with the turning over of the forests to organizations that can't find themselves in a phone booth on a good day. But your thrust in trying to make change is good and many of the things that you are talking about here are right on target.

Mr. JERRY TAYLOR. This is the fundamental problem with these programs. You said that the forest was founded to provide the country with a source of fiber. I thought that is what timber companies and private sector people do.

If we have to make sure the country gets something, why don't we have a national automobile industry? We don't need government ownership to make sure we get forest products. I understand these weren't meant for environmental purposes. Now we have more roads in the national parks—

Mr. CHARLES TAYLOR. Let me respond.

The last thing is that we may need national forests. Eighty percent of the counties in my district are affected. I don't have a private timber industry without the Forest Service being involved, because they don't own the land. There is no giant timber industry. Big companies have their own land, but 99 percent of the industry is made up of small loggers and mills.

Mr. REGULA. There are twice as many visitor days by the public in the national forests than in the national parks, which is a fact that most people don't recognize, and it is growing because the forests are multiple use, you can hunt or fish, which you can't do in the parks, so that is something we have to wrestle with as a forest issue.

Mr. CHARLES TAYLOR. You need harvests to promote game.

Mr. REGULA. This has raised a lot of interesting issues—forestry, Biological Survey, NEA, NEH, fees—and each of these will be addressed at hearings with the appropriate people from the agencies, but I think this has been a very useful hearing.

Dave?

Mr. SKAGGS. If I can invite your comment again on what seems to me to be a crosscut theme, which is we should be looking at

these issues in terms of increased reliance on classical economic analysis, the free market working its will. It seems to me, at least as my modest training in economics serves me now, we look to government, to the public's exercise of its judgment through our public institutions to deal with questions of externalities, either negative or positive externalities that aren't inherently built into a market system; and a lot of the ultimate debate, it seems to me, coming out of your testimony is, how do we identify externalities that are not susceptible to market solutions in a way that honors the values of this society as expressed through its governmental entities, whether it is looking to the role of a clean air regulation as being a more appropriate way than subsidizing certain alternative energy research to get at externalities of fossil fuel pollution? How do we get at an appropriate identification of externalities? Isn't the political process ultimately the only way you do that?

Mr. JERRY TAYLOR. Classically, when we talk about externalities, we are talking about harming an individual's right to pursue his business or desires. The kinds of externalities that this committee would be considering do not meet that standard.

If you are talking about pollution, me using my land in a certain manner someone else doesn't like, and they say, you are blocking my view and I won't get to think of the vistas and views I have otherwise seen, that is not an externality. That is somebody exercising their property in a way you don't like.

I believe the political process is one in which we decide, frankly, how the government will go about its job of protecting the rights and liberties and pursuit of happiness.

Someone should be able to use their property in ways they see fit as long as they are not harming the others.

Mr. REGULA. Would you accept zoning if there were compensation for deprivation of property value?

Mr. JERRY TAYLOR. Yes. The government can take property, but it has to pay for it. Zoning doesn't make any requirement whatsoever.

Mr. SKAGGS. Should the private property owner compensate the government?

Mr. JERRY TAYLOR. We talk about the taking of the use of properties. If your property's value drops 10 percent, there is no guarantee you didn't own that land, but if someone says, no, you can't use your lands to do X, that is a taking of the use of your land. It might affect your value one way or the other and that should be compensated.

Mr. SKAGGS. If zoning laws prohibit the waste dump from going in next to me, that diminishes the person's property, but the guarantee against the garbage dump enhances mine.

Mr. JERRY TAYLOR. It has also to do with changes in property use. There is something wrong with public action to do harm to someone else's property.

Mr. SKAGGS. What about Heritage?

Ms. MITCHELL. It seems to me there is an element or public-good argument to the case you are making. Like, are there in fact certain goods that are not in any individual's interest to provide but in all our interest to provide? I think it gets at the fundamental question that you have in my question, our organizations' represen-

tation of what we think are not public good and therefore should be provided to the private sector.

You have got onto the fundamental theoretical question, I think, underlying all of our testimony.

Mr. TAYLOR. I would say that zoning is understood as being a failure of management. We will move now to different methods, such as easements for various land restrictions that are needed.

Mr. REGULA. We have scenic easements now.

Mr. TAYLOR. It depends on who gets there first or last or with the most effort.

Mr. REGULA. Any further questions of the witnesses?

Thank you for coming. I think you have stimulated interesting discussion. We will address these issues in future hearings.

If any Members have questions for the record, we would like to have responses in two weeks. They will be submitted to the Member as well as being in the record.

The hearing is adjourned.

[Additional Committee questions for the record, follow:]

Questions for Scott Hodge, Heritage Foundation

Question: Mr. Hodge, in your testimony you proposed charging fees for using public lands and visiting museums that are currently free and open to the public. Can you identify specific examples of places where fees should be charged, and in your opinion, what level of fees would be reasonable?

Answer: Mr. Chairman, rather than proscribe a specific user fee policy for the Smithsonian and other park facilities, I would like to outline the variety of policies used by other public and private museums in this country and abroad. Heritage Foundation staff conducted an informal survey of 12 facilities; 9 in this country and 3 abroad. We inquired about each facility's entrance fee structure, membership options, and, if possible, how much of the institution's operating budgets are covered by entrance fees.

Our findings, which are attached, are as varied as the institutions we surveyed. For example, some institutions require a set fee at all times while others only ask for donations of a specified amount. The optional plans operate on a "honor" system whereby those who pay are given a button or tag signifying that they have paid the fee. This system effectively uses "peer pressure" -- if you will -- to encourage people to pay the requested ticket price. Nearly every domestic institution offers "memberships" or annual passes which afford either unlimited entry into the facility, in other cases, a certain number of free visits are included.

Many of the more "public" facilities, such as the Chicago Art Museum, offer a "free day" where no fees are requested. Typically, it is these days that school groups and those who can not afford a \$6.50 ticket price attend the museum. Every institution -- even those that are normally free -- charges for special events and displays.

The amount of operating expenses covered by entrance fees also varies quite greatly. Purely private facilities, such as George Washington's Mount Vernon Home in Alexandria, Virginia, cover roughly 70 percent of their operating expenses through entrance fees. Other public facilities, such as the Museum of Modern Art in New York City, cover roughly 10 percent of their costs. But, these facilities are often heavily endowed through past philanthropic contributions. Sometimes the earnings from these endowments bring in more revenue than turnstile ticket fees.

How all of these options would effect the Smithsonian and other park facilities is difficult to project. A political decision would have to be made as to how "private" to make these institutions. Certainly the world-class reputation of the Smithsonian would make it very attractive to philanthropic donations, as it already receives many in-kind contributions each year. Thus the entrance fees would not have to be very high.

However, what our survey does show, especially in the case of Hearst Castle and Colonial Williamsburg, is that the market will bear fairly high ticket prices if the product is worthwhile.

Museum of Science and Industry, Chicago

Admission Fees:

Adult- \$6.00
 Children (5-12)- \$2.50 (free under 5)
 Senior Citizens- \$5.00

There are also admission prices for the OmniMax Theater, but there are combination prices including the museum:

Adults- \$10.00
 Children- \$5.50 (free under 5)
 Senior Citizens- \$8.00

Members:

\$45- individual, includes unlimited entrance to the museum and 4 tickets to the OmniMax Theater.
 \$60- family, includes unlimited entrance to the museum and 8 tickets to the OmniMax Theater.
 \$1,500- lifetime membership with family benefits.

Free hours/days:

-Thursday

Denver Museum of Art

Admission Fees:

Adults- \$3.00
 Students, Seniors, Children- \$1.50
 5 and under- Free

Special Exhibitions Fees (including admission to the whole museum):

Adults- \$6.50
 Students, Seniors, Children- \$4.00
 percent and under- Free

Members (unlimited visits):

\$40- family
 \$30- individual
 \$30- senior couple
 \$20- student or individual senior

Free hours/days:

-Saturday

Art Institute of Chicago

Admission Fees:

Adults- \$6.50

Children- \$3.25

Admission Fees are discretionary, but are mandatory when there is a special exhibit.

Members (unlimited visits):

\$45- individual

\$55- family

Free hours/days:

Tuesday

Financial Impact of Admission Fees:

Total Admission Fees (without special exhibitions) constitute for 3% of revenues
(with special exhibition fees) constitute for 4% of revenues

1994 Numbers: Total Revenue: \$61,739,000

Admission Revenue: \$2,753,000

Mt. Vernon, George Washington's Home

Admission Fees:

Adults- \$7.00

Senior Citizens-\$6.50

Children- \$3.00

Group rates (20+)- Adults- \$6.50

Free hours/days:

Only free on George Washington's birthday.

Membership:

Don't have a strict membership program, but have an annual pass (fee: \$12.00) and a donation program-
Donate \$50.00- receive 4 admission passes

\$100- receive 8

\$250- receive 16, etc.

Financial Impact of Admission Fees:

Total admission fees cover 70% of the operating costs. Further revenues are generated through the shops and restaurants. Mt. Vernon receives no money from the government.

Metropolitan Museum of Art, NY

Admission Fees (suggested):

Adults- \$7.00

Students, Seniors- \$3.50

Tours- Adults- \$8.00

Students, Seniors- \$6.00

Financial Impact of Admission Fees:

Total Admission Fees constitute 9.6% of operating revenue and support

Comments:

Total Attendance- 1993- 1994: 4,188,150

Paid Admission- 2,101,103

Non-Paid Admission- 1,054,056

The Museum of Modern Art, NY

Admission Fees:

Adults- \$8.00

Students, Senior Citizens- \$5.00

Free hours/days:

Thursday' s and Fridays (5:30-8:30 pm)- pay as you wish

Financial Impact of Admission Fees:

Total Admission Revenue- \$7,660,000

Total Revenue and Support- \$65,074,000

(roughly 10%)

Museum of Natural History, NY

Admission Fees:

Adults- \$6.00

Children- \$3.00

Do have group rates and charge extra for special events.

Colonial Williamsburg

Admission Fees:

Ticket Options (group discounts are also available)-

A Museums Ticket- combines admission to Wallace Gallery, Folk Art Center and Bassett Hall

Adults- \$10.00

Children- \$6.50

Annual Museums Ticket- combines admission to Wallace Gallery, Folk art Center and Bassett Hall. Valid for one year.

Adults- \$17.00

Children- \$10.00

Patriot's Ticket- everything plus tour.

Adults- \$30.00

Children- \$18.00

Basic Admission Ticket- includes basic exhibits, but there are restrictions.

Adult- \$25.00

Children- \$15.

Free hours/days:

Do not have any set schedule, but sometimes offers free entrance on special occasions (Eg. All military people during Persian Gulf War).

Financial Impact of Admission Fees:

Williamsburg does not receive any money from the government.

Admission tickets cover 50% of operating costs. Total ticket revenue was \$16 million.

Other funds are generated from endowments, hotel/museum packages, royalties, donations.

Hearst Castle, California

Admission Fees:

Day: Adults- \$14.00

Children- \$8.00

(under 5 free)

Evening: Adults- \$25.00

Children- \$13.00

Groups of 12 + receive 10% discount

Comments:

They are part of California State Park and have no say on the prices.

Buckingham Palace, England**Admission Fees** (in Pounds- 1 Pound = \$1.6):

Adults- 7.95
Children- 5.25
(under 5 free)
Senior Citizens- 5.95

Families of no more than 5- 21.95
Groups of 15- Adult- 7.15
Children- 4.75

Prado Art Museum, Spain**Admission Fees:**

Adults- \$4.00
Children- \$1.50

Comments:

Only tourists pay

Germany**Admission Fees (in Marks- 1DM = \$0.65):**

2-5 Marks for most facilities

WEDNESDAY, JANUARY 18, 1995.

DEPARTMENT OF THE INTERIOR

WITNESS

HON. BRUCE BABBITT, SECRETARY OF THE INTERIOR

DEPARTMENT OF THE INTERIOR

Mr. REGULA. We will get started with the hearing this morning.

We are happy to welcome Secretary Babbitt. We look forward to your comments on the many wide-ranging responsibilities you have. It is quite evident that there is a lot of interest in the subjects covered by your testimony.

What we are trying to do in this committee is to take a zero-base budgeting approach. Perhaps you might comment, if you were given a clean sheet of paper and asked to design the Department of Interior today, what would you keep or add on to and what might you change. We are always looking for ways to make government more efficient and more effective in serving the people of the United States. It is the challenge that confronts our committee and all of the committees of appropriations. We are pleased that we can have the chairman of the full committee here today, because I know that he is trying to bring the same kind of approach to the responsibilities of the full committee.

Mr. Chairman, would you like to make any opening comments?

Mr. LIVINGSTON. Thank you, Mr. Chairman. I have no opening statement. We welcome the Secretary, and look forward to your testimony.

Mr. REGULA. Mr. Secretary, it is all yours.

OPENING REMARKS

Secretary BABBITT. Mr. Livingston, Mr. Regula, Members, it is a pleasure to return here as the sun rises on an entirely new era. I must say that I have enjoyed working with the committee and I anticipate the chance to develop a strong and productive working relationship with all of you under the new order and the new leadership of this committee.

Mr. Chairman, I think I should respond to your challenge to describe where it is we might take this process by making a few remarks for the Members about the distinctive nature of the Department of the Interior.

To begin with, in dollar terms it is a very small agency. Our budget under the jurisdiction of this committee is approximately \$6.6 billion, which is a fraction of most cabinet agencies, or about 1.3 percent of discretionary spending. And the reason for that is that unlike most cabinet agencies, we are not in the grant-making business. That is, obviously the flip side of what we do, which is operate programs, 80 percent of the budget of this department is in operational accounts, which is equivalent to running the national parks, managing the public lands, the mineral leasing programs, the various environmental programs, the Bureau of Indian Affairs, and the Fish and Wildlife Service.

So at the same time that I point out this is a small agency, I direct your attention to the difficulty of making reductions. They can

be made, but it is not a matter of cutting grant programs as the check goes out in the mail. It is more a question of looking at operational programs, looking at personnel, and trying to find those priorities.

PERSONNEL REDUCTIONS

Now, what I have learned in my two years in this town is that the appropriate place to begin is to see if we can streamline and reduce the number of personnel in this Department. Like most of you, I have never in my entire career in government seen an agency that couldn't be run more efficiently and where in fact the number of personnel could not be reduced. We have been at that for the last two years and set a 10 percent personnel reduction goal as our first step. We are halfway there. There were almost 80,000 employees in the department; that translates into about an 8,000 reduction or 10 percent goal. We have eliminated 4,000 positions in the department. That is a 5 percent reduction. It is on the way to 10 percent.

Hopefully we can make those reductions at the same time that we maintain and hopefully increase the level of service. Now reducing operational programs is easier said than done, particularly when we are looking at a national park system where visitation is going steadily up or the Bureau of Indian Affairs where programs, particularly the education programs, are going up in terms of the number of people served.

So at the same time that we have committed to that 10 percent overall reduction, we have set a goal of cutting by 50 percent the supervisory and headquarters overhead of this Department. We are well on our way to that target, which means we must increase supervisory ratios, move people out of headquarters, give them a choice of going out to the field, and there has been some dislocation. But by and large I would say that that has worked rather well.

We have a large reorganization proposal for the National Park Service, or will have before this committee in the next few weeks. We have undertaken similar efforts, notably in the Bureau of Land Management and the Bureau of Reclamation, which have made dramatic reductions in the Denver Operations Center and in Washington, just as an example.

We are trying to spend a lot of time looking at this issue of customer service, and we have asked all of the agencies that make these changes to, in effect, survey the customers; and customers are a diverse group. They include Indian tribes, states, localities, and people who visit national parks. We have actually begun to go out and take surveys of our customers.

I will leave these for your inspection, because they point out very accurately in my judgment what it is we need to do to improve the directions that we can take to more efficiency. Customers are actually enormously perceptive as they walk through Yellowstone National Park and any other facility in terms of the kinds of things that we are doing. There are a variety of other program initiatives. If I were to select one to call to your attention, it relates to the use of technology.

USE OF TECHNOLOGY

I think many of the members of this committee have correctly identified the technology revolution as a wonderful opportunity for both efficiency and increase in services. The one that I think is developing in the most promising way is a project called the National Spatial Data Infrastructure, which is a government-wide effort under the leadership of the Interior Department to consolidate all geographic information in the Federal Government. This includes highways, weather data, resource extraction, research, geology, and getting the entire Federal Government into the position of developing databases within their agencies which are tied electronically to a central index with agreed-upon data collection standards.

We then do two things. We make that data in its entirety available to every member of the public, right down to a student using an Apple computer, to allow access to any database in the entire Federal Government. The savings side of this is with this effort will come a mandate to every Federal agency that before you go out to collect data, whether it is mapping for highways, infrastructure or whatever, you must access this database and then make an affirmative demonstration that you have searched the indexes and that the data is not there.

SCIENCE AGENCIES

Lastly, a brief word about the science agencies, because they have surfaced as an object of discussion. There are three science agencies in the Department of Interior. The United States Geological Survey, the Bureau of Mines and the National Biological Service. The functions of the USGS I think are perhaps best known, and they are the oldest ongoing science effort. They relate to a number of important things: disaster warning mitigation and prevention; the earthquakes in Japan; and the floods in California. The USGS has really been on the front end of earthquake research, seismology, volcanology, a whole variety of efforts that seem in recent years to be perhaps more important than they have ever been.

The USGS does a baseline mapping function throughout the United States, and they have done it for the last 100 years. The data that they produce is of world quality and it provides a base from which many private companies and entrepreneurial people then develop their own site-specific data. The mapping function of the USGS has undergone a revolution with the construction, the mandate of this Congress, of the Earth Observation Satellite Center in Sioux City, South Dakota where the USGS is in charge of taking down the remote sensing data of an entire government satellite program and transforming that into archives, information and databases which are, in turn, available to GIS users in every corner of this country. USGS, again at the direction of Congress, put up in recent years an expanded water quality program which basically is an attempt to see if we can get basic data from the streams, lakes and increasingly underground aquifers that cross State lines on a regional basis throughout the country.

The Bureau of Mines focuses primarily on materials, technology, mine safety, and basic scientific issues that really go beyond the capacity of private sector research. For example, large, aerial applica-

tions of controlling acid rain drainage and increasing research into in situ mining. This is a very interesting technology which seems to produce the possibility of extracting metals particularly from underground without any significant disturbance at all through the use of various kinds of solvent extraction and increasingly through biological ways with bacteria that bonds to various kinds of sulfides and other materials.

The Biological Service is the most recent of the Interior science agencies. What we have attempted to do there over the last two years is to bring together a variety of disparate efforts across the department, from the National Park Service, the Fish and Wildlife Service, the Bureau of Land Management and to consolidate them to see if we can give some focus and direction to eliminate waste; and I think very importantly to provide a degree of separation between regulation and science.

There are many concerns in Congress, of which I share, that our difficulties with regulation, particularly environmental regulation and specifically the Endangered Species Act, have come from the lack of quality, consistent peer review science that is being done a step away. Recognizing human nature, we say to the regulators, you don't direct the research. We do it at a step removed.

In response to concerns in the Congress, we've renamed the Biological Survey the Biological Service. This is an overt and deliberate attempt to underline the fact that very little of the function of this organization is related to counting. It is much more related to fisheries, to handling waterfowl issues, the Research Center at Patuxent, the Wildlife Research Center in Wisconsin, some really extraordinary facilities. This is superb biology, but science which must be focused, kept a step removed.

We have in the last year acquired Dr. Ron Pulliam, who is formerly the Director of the Ecological Center at the University of Georgia. He is an extraordinary scientist, and I hope you will all have a chance to meet him. I think he is a major acquisition.

BUREAU OF INDIAN AFFAIRS

Lastly, a word about the Bureau of Indian Affairs. It is a subject of some complexity. We have received a lot of questions and a lot of informational requests. The important thing in a nutshell about the Bureau of Indian Affairs is that I think we have reached a consensus among the leadership on both sides of the Congress and the department that this self-governance concept is really important, and that it is the correct way to go. We need to begin thinking of Indian tribes not as dependents who should be administered by an eternal bureaucracy. Rather we should begin looking at those programs as more analogous to States or counties or municipal governments and begin to take these programs and move them out and invest individual tribes with responsibility. That process is underway. I think it merits some discussion. I think it can be accelerated.

A word of caution—there are some concerns. Tribes are in different stages of evolution on their capacity to attempt governance. But the concept is undeniably correct, and I believe it is a fruitful area for inquiry and guidance from this committee.

Lastly, let me just again say I look forward to working with this committee. I understand the realities. I understand the mandate that the Chairman and the members of this committee have from the public, and I am prepared to do everything possible to work out an appropriate response to find efficiencies, to deal with these situations, and see if we can respond to your directives and your target in a way that provides the maximum degree of accountability to both the public and the Congress.

[The prepared statement of Secretary Babbitt follows:]

STATEMENT OF BRUCE BABBITT
SECRETARY OF THE INTERIOR
BEFORE THE HOUSE APPROPRIATIONS SUBCOMMITTEE
ON INTERIOR AND RELATED AGENCIES

JANUARY 18, 1995

I am pleased to be here at today's hearing on the Department of the Interior. We are entering a pivotal period in our Nation's history, a time in which all of the assumptions about the role of government and the services it provides to the people are under close and critical examination. We welcome this review.

Let me take a moment to describe the important work the Department performs. Our primary purpose is the preservation, management, and judicious use of the natural and cultural resources entrusted to the Department's care. I want to first emphasize Interior's unique responsibilities at the national level. For example, Interior manages 368 parks and historic sites, more than 500 wildlife refuges, and hundreds of recreation sites on a total of over 440 million acres of Federally owned land. Interior manages oil, gas, mining, grazing, and other leasing of those lands both on and off shore and will collect over \$5.5 billion in receipts in 1995, of which more than \$1 billion goes to states and tribes. The Federal lands are one of our Nation's great assets, belonging to all the people and providing open space, heritage protection, watershed, wilderness, recreation, as well as capital wealth.

In addition, Interior is a science agency which examines biological diversity across large ecosystems and addresses critical national safety issues such as earthquake and volcano monitoring. Interior also serves in a Government-to-Government relationship with Native Americans and the 56 million acres held in trust by the United States for Native Americans.

Our appropriation, subject to the jurisdiction of this Subcommittee, is \$6.6 billion for 1995. This is not a small number, but it represents less than half the funding under the jurisdiction of the Subcommittee and only 1.3 percent of discretionary Federal funding. Most of our budget pays for people, whether they are park rangers on the land at Yosemite, Big Bend, or Cuyahoga Valley, or geologists monitoring fault movement on the San Andreas fault. In the Department's land management and science bureaus, about 80 percent of our funding is in operational accounts. Land acquisition, construction, and grants make up a relatively smaller part of funding for these bureaus and for the Department overall. In the case of the Bureau of Indian Affairs, contrary to what one often reads in the press, of every dollar appropriated for BIA operations, 86 cents goes to reservations for tribal priority programs, tribal government, education, and other programs.

REINVENTION IN THE INTERIOR DEPARTMENT

Over the past two years, one of my principal goals as Secretary has been to ensure that the funding the American people provide is used as efficiently and productively as possible. We have focused on three areas -- streamlining, reengineering, and customer service -- as a way to achieve this goal. As a result, we have been a leader in the Administration's initiative to reinvent Government. The following are examples of our accomplishments:

Streamlining:

- We have closed one regional office and downsized two others in the Minerals Management Service.
- We are closing three research centers in the Bureau of Mines.
- Supervisory staff in the Office of Surface Mining Reclamation and Enforcement will be down 48 percent by the end of this year.
- The Bureau of Reclamation staff has been reduced by 1,200 since January 1993.
- We are doubling the span of control of our managers (from the current 1 to 7 ratio of supervisors to employees) to meet the Vice President's goal and put Interior more in line with private sector organizations.
- We are cutting headquarters staff in half and significantly reducing personnel, budget, procurement, and accounting specialists.

Reengineering:

- We have reduced the delivery time for Geological Survey maps from 6-8 weeks to 10 days, and hope to further reduce the time to 2-5 days.
- Using interactive computer technology, MMS engineers can now analyze seismic information to identify potential off shore oil and gas deposits in days, rather than weeks.
- We have taken the steps needed to permit the sharing of geographical data across the entire Federal Government and throughout industry by establishing a National Spatial Data Infrastructure.
- We are increasing personnel staffing ratios to 1 to 100, clustering personnel advisory centers, reforming the performance appraisal system, developing a paperless hiring system, and automating job rating systems.

- We have compared the efficiency of each of our financial offices and used private sector and bureau assistance to restructure this function in Interior, reducing central bureau staff by 25 percent.
- We are one of the leading agencies in implementing electronic commerce, an initiative to permit paperless purchasing, increased competition, and price savings.

Customer Service:

- Each Interior bureau has published customer service plans, including more than 100 specific customer service standards across the Department. For example, BLM has committed to provide customers applying for permits an answer within five business days, and the Geological Survey will provide information around the clock on the location and magnitude of significant earthquakes.
- The National Park Service is working with the University of Idaho to develop and analyze customer service surveys across the Park Service. This has made interpretive programs more meaningful to visitors. For example, through these surveys, the Park Service recognized that about one-third of visitors to the White House were children, yet tours were geared primarily to adults.

In summary, since 1993 through the end of this year, we will have reduced about 4,000 FTEs. We are reducing headquarters staff and unnecessary management layers by 7,200 FTEs and will be moving the balance of these positions to the field. This effort is saving money. We cut \$74 million in 1994 for administrative streamlining and FTE usage reductions, with another \$79 million projected in 1995. These reductions were proposed in our budget and enacted in this Subcommittee's appropriations bills.

FURTHER EFFORTS

When President Clinton took office, he promised the American people that he would restore fiscal responsibility to the Federal Government and invest in our shared future as Americans. In the last two years, we have made good on that promise. The President's bold economic policies have helped to create over five million new jobs. We worked to enact the largest deficit reduction bill in history, a tough program designed to reduce projected deficits by \$500 billion over five years. And, because the economy is responding, experts now predict that we will reach a full \$700 billion in deficit reduction during that same period.

As a result of these efforts, the President has put forth a plan to cut taxes for middle-class Americans and to pay for it by cutting spending. As part of this effort, we are now working on the second phase of reinvention. The President has asked that we look at every single Government program to find and eliminate things that don't

need to be done by the Federal Government. We will bear in mind the President's admonition, as well, that:

It is not enough to cut government just for the sake of cutting it. Government is not inherently good or bad. In a new time, with a new economy, with new demands on ordinary American families, we need a leaner, but not a meaner government. We need to put government back on the side of hardworking Americans.

While carrying out these efforts, I am continuing to focus on our investment to improve our environmental infrastructure. By focusing on improving the operation of our parks, wildlife refuges, and public lands, we can better serve our visitors and preserve these natural, cultural, and recreational places held dear to Americans, places that shape our national identity. In 1994, for example, recreational visitors to our National Parks, refuges, and public land totaled more than 400 million.

Let me spend a minute presenting my views on the need for a strong science program. When I came to Interior, biological science was fragmented, much of it housed in our bureaus with regulatory responsibilities. Sound science, so critical to the Department's every action, was suffering because of this fragmented structure where scientists on one side of the fence often didn't talk to people on the other side. By consolidating the science capability of seven Interior bureaus, we have a critical mass of biological science that is accessible to every manager in the Department. The National Biological Service is not a literal "survey" -- survey activities make up a very small portion of its activities and budget. "Service" more accurately describes the partnership orientation of NBS. Partnerships -- not a Nationwide count across the landscape -- is what NBS is all about. The NBS is not only providing sound science for the Department. For example, NBS provides critical data which is essential for every state fish and game commission in the country to set hunting seasons and bag limits. Last year I signed agreements with two major private timber companies so that, by characterizing the biota of these companies' property, NBS scientists could give them the valuable management data they need to continue to efficiently use their lands, while protecting biological resources.

We also need the science that the Geological Survey is doing because it is national in scope and would not be done otherwise. The need for comprehensive earth science data was only brought home too sharply by last week's floods and the anniversary of last year's earthquake in California. One of the Geological Survey programs that has been questioned is the mapping program. The Survey provides coordination and leadership of mapping efforts, including development of standards, adherence to requirements, and research and development. Without a Geological Survey presence, commercial firms would concentrate only on those areas where mapping is commercially viable, with the result that only 10-20 percent of the country (mostly the populous areas) would be covered and updated with sufficient maps. Land and

resource management, emergency response, hazard mitigation, and law enforcement responsibilities occur in the other 80 percent of the country. Mapping for these purposes is not likely to be commercially viable.

The Department's third research bureau is the Bureau of Mines. As a product of its reinvention effort over the last year, the Bureau has consolidated its research and is moving from 14 separate facilities to four centers of excellence. Bureau scientists are working to develop technologies to protect miners from continuing hazards involving roof falls, explosions, fire, and exposure to coal dust and other contaminants. This research is not being done -- and will not be done -- by industry. In addition, much of the damage from past mining activities exists on public lands. The bureau is using its metallurgical expertise to find ways to solve the acid mine drainage problem created by past mining practices and to extract dangerous metal and other contaminants from our land and water.

I am also deeply committed to the full realization of the Federal Indian policy of Government-to-Government relationships with Indian tribes. We continue to work toward enhancing our partnership with tribal governments by encouraging and promoting self-determination and self-governance programs. By almost any standard, the delivery of services to American Indians has to improve.

CONCLUSION

In summary, the country has laid out an important historic task for us to undertake. Clearly, this is a big challenge. I am confident we will be successful if we all work together in a renewed spirit of bipartisanship, one that focuses on reality, not rhetoric or recklessness. As the President has said, "This country works best when it works together." We are ready to work with this Subcommittee, this Congress, and the American people to move forward and get the job done.

This concludes my prepared statement. I will be pleased to answer any questions you may have.

Mr. REGULA. Thank you, Mr. Secretary. That is a great note to end on.

We are happy also to welcome Mary Ann Lawler, the budget officer, who has to deal with the dollars and cents. The Secretary has agreed that he can come back this afternoon, so we will go until 12:00, adjourn and the reconvene at 1:30. What I would like to do is the first time around limit your statements or questions to five minutes. We will go on from there and take a longer period of time, maybe 10 minutes in the second time around, if it takes three rounds, fine. But I just want to give everybody an opportunity to participate, because the information here is extremely important.

Mr. Chairman, I know you have other committees to attend, so I would like to give you an opportunity to ask questions as you might choose.

CONSOLIDATING LAND MANAGEMENT BUREAUS

Mr. LIVINGSTON. Thank you very much, Mr. Chairman. I will be brief.

I will just ask one question in deference to you and the rest of the committee. Mr. Secretary, once again, welcome, and I appreciate your fine statement. As you have noted, we are under a new age here, and budgetary constraints are at the top of the billing. Those budgetary constraints pretty well tell a need for the four primary Federal land management agencies, the National Park Service, the Bureau of Land Management, and the Fish and Wildlife Service within the Interior Department, and the Forest Service, within Agriculture, to refocus, combine or even eliminate certain missions, programs, activities and field locations, to increase efficiency within their individual framework of law and land units.

Unfortunately, though, as I understand it, the agency-by-agency approach won't really reap the potential to achieve consolidations and efficiencies that probably could be derived if we had a collaborative effort that is interdepartmental. So I just wondered what you intend to do to consolidate the activities of not only the agencies within your department, but also those within the Department of Agriculture, so that we can have a comprehensive effort in this regard.

Secretary BABBITT. Mr. Chairman, my own experience in this governmental process is that the results from rearranging boxes on charts are almost always disappointing. I participated in a large effort back in the Carter administration in which commissions spent years penciling in boxes and consolidating. I saw it in State government during my tenure as governor, and I felt the results were never very satisfactory. But the real issue was bringing people together and saying, disregard the organizational lines and focus on what it is we can do together. I mean we are one government, and we have one constituency—the people.

Now, we are doing some interesting things. Let me give you one example in what I would call this virtual consolidation. The Bureau of Land Management and the United States Forest Service have a lot of related functions. Across the American west the Forest Service tends to administer the high land where the trees are. As you follow the drainage downhill, you will find as you get out of the trees into the lower land, BLM is administering. Often it's in the

same drainage. And what we have tried to do is put together some experimental programs to say to resource users, such as grazing permittees, mineral users and others, that we will treat this land area as one unit and invite you to make one application, a grazing application for example.

We now have a couple of BLM offices. I think there is one in Oregon where a forest supervisor is now in charge of the BLM district office. We have effectively consolidated the offices right on the ground. And the Forest Service in turn is going to invite a BLM district manager to be a district supervisor in the Forest Service. I think, if we really keep pushing, we can find lots of efficiencies and vastly improve customer service, without addressing the issue of dismantling agencies.

And I would add finally that I believe I am the first Secretary of the Interior in history who has publicly said I believe land management is better because of the competition provided by the Forest Service and the Department of Agriculture, of BLM and the Interior Department. I want to be on record as the first Secretary who has ever said, I don't want the U.S. Forest Service. It is a great agency with a marvelous tradition. It belongs in the Department of Agriculture in my judgment.

Mr. LIVINGSTON. Well, thank you, and I wish you well.

Mr. REGULA. We are happy to welcome Senator Burns this morning. We welcome him any time. We have to redefine this as the upper body.

Senator BURNS. You don't have to redefine it. It is assumed so, sir.

Mr. REGULA. Mr. McDade, a long-time member of this subcommittee and one of our senior members, it is all yours.

PERFORMANCE STANDARDS

Mr. MCDADE. Mr. Chairman, thank you, and Mr. Secretary, let me welcome you and congratulate you on the statement you made, especially your willingness to cooperate in trying to achieve some new goals that are set upon all of us. We want to do so cooperatively to every extent that we can.

Let me ask this. We have been told that many of the bureaus in the department are currently developing the organization plans that include both budget and management reforms. It seems to us that the quid pro quo for that is accountability. Is the department developing performance standards so that the Congress and the American people are assured that the bureaus are accomplishing their mission?

Secretary BABBITT. Mr. McDade, with all of those reorganization plans, we will have performance goals in terms of work levels, customer satisfaction, and efficiency. You will have before you very shortly in this committee a reorganizational plan for the National Park Service for your approval, and I will invite your attention to that. It will state very explicitly what it is we expect the National Park Service to provide, what it is they should not provide, because it can be provided more effectively by concessions, by the contracting out of services, and the like.

Mr. MCDADE. Do you expect the other bureaus to have performance standards as well?

Secretary BABBITT. Absolutely.

Mr. MCDADE. Are they all going to be reorganized as you see it?

Secretary BABBITT. Our reorganization priorities have been the Bureau of Reclamation where we are, I would say, farther down the course. It has really been a dramatic restructuring and downsizing and redirecting of the Bureau of Reclamation. The National Park Service and the Office of Surface Mining—I believe their reorganization plan has been up here and approved by this Congress. The short answer is yes. All agencies will have those plans. Some are considerably ahead of others.

Mr. MCDADE. And consistent with the performance standards would be implemented?

Secretary BABBITT. Yes, sir.

STAFF REDUCTIONS

Mr. MCDADE. Mr. Secretary, let me change the topic. The performance review, along with OMB, generally gave guidance that there would be a 12 percent reduction of full-time equivalent staff between fiscal year 1993 and 1999. Is that an accurate statement?

Secretary BABBITT. Yes, sir.

Mr. MCDADE. Interior's three land management agencies, beyond Fish and Wildlife and National Park Service and the Forest Service, collectively have reduced staff, as we are told, by 2,600 people. Is that an accurate statement?

Secretary BABBITT. Mr. McDade, I am not certain, because I don't know the Forest Service numbers.

Mr. MCDADE. Yes.

Secretary BABBITT. Our employment levels are approximately 78,000, and our commitment through the period is approximately a 7,000 reduction. It is approximately 10 percent.

Mr. MCDADE. As we look back at that in fiscal years 1994 and 1995, it looks to us like the majority of the people who went off the payroll went off because of the buyout provisions.

Secretary BABBITT. It has been very effective.

Mr. MCDADE. Do you have a number showing how many people have been off the payroll because of the buyouts?

Secretary BABBITT. I would say two-thirds to three-quarters.

Ms. LAWLER. By the end of this fiscal year, we estimate 4,000 people will be off the rolls.

Secretary BABBITT. Buyout has been the driver. There has been natural attrition, but buyout has been the driver.

Mr. MCDADE. As you look at this fiscal year, do you see that buyout mechanism providing savings to the department and the taxpayers?

Secretary BABBITT. Yes, sir, I do.

Mr. MCDADE. What kind of a number do you attach to that, to the savings I am trying to get at, Mr. Secretary?

Secretary BABBITT. I would have to give you—I can tell you what we have saved so far through principally FTE reductions; it is approximately \$50 million.

Mr. MCDADE. And can we ascribe four-sixths of that to the buyout?

Secretary BABBITT. That may be a little high, but it is in the right order, yes.

Mr. MCDADE. What do you anticipate for this fiscal year?

Secretary BABBITT. Somewhat less. I think the buyouts last fiscal year were about 3,000 FTEs; about 1,000 to 1,500 this year.

Mr. MCDADE. 1,500?

Secretary BABBITT. Yes.

Mr. MCDADE. Mr. Secretary, you testified that you have currently about 5,000 people off the payroll through your initiatives and that is 5 percent. One of the questions that floats around the Hill all the time is how much these cuts are going to be. If you were directed to find 10 percent savings, where would you go? What would you do?

Secretary BABBITT. Well, the first thing I would do is call OMB and get my instructions, because this is a—

Mr. MCDADE. Marching orders, huh?

Mr. SKEEN. The line is going to be busy.

Secretary BABBITT. We have moved our budget process up to OMB, and the President's budget will be out I believe in approximately two weeks, and at that point I will be free to begin to discuss these cases.

Mr. MCDADE. Mr. Secretary, thank you, and we look forward to talking with you again in about two weeks.

Thank you, Mr. Chairman.

HOUSING

Mr. REGULA. Thank you. I noted that you are proposing a housing initiative. I wonder if you would describe for the committee what you would like to accomplish.

Secretary BABBITT. Mr. Chairman, if you look at the construction line items in all of the agencies, there are substantial sums in construction budgets, and most of those sums are for maintenance, repair and rehab. The single most dramatic need, I believe, if I were to look across the entire department, would be repair of some BIA school facilities, and on a larger scale, employee housing in the national parks.

We have allowed employee housing to just—there are all of these units out in Yellowstone that were put up in the 1940s, and tin sheds were built over them to keep the roofs from collapsing. They look like handcrafted. There are people living in tents up on Isle Royal, and it has been neglected for the—it is a typical infrastructure problem. It is not something that a visitor to a park sees, and therefore there hasn't been a lot of pressure, but I think that simple decency demands that we try to whittle that back on down. We are doing a lot of other things.

We are trying to move as much housing as possible out of parks. We have had Fannie Mae out looking at possibilities and have brought in the president of Kaufman and Braun, to see if we can find some innovative ways to finance. But I just think we have an absolute obligation to try.

Mr. REGULA. Are you looking at public-private partnerships?

Secretary BABBITT. We absolutely are. For example, again, at Yellowstone, we have isolated some land in Gardena, outside of the boundaries of the park, which is Federal land. I believe we can simply go to the private sector and say, here is the land now and here is what we want done. Bid it out and do the financing in a

way that will put that housing within the reach of the department employees, particularly since the land is already in our inventory and the financing is only—not the land acquisition, but for construction. That is just one example.

Mr. REGULA. Do you think there is any possibility if we get more self-governance in Indian tribes that they can perhaps follow the same pattern?

Secretary BABBITT. I don't want to over-promise on the BIA issues, but the answer is yes. We can and should move in that direction.

ENDANGERED SPECIES LISTINGS

Mr. REGULA. One of the proposals that has floated around is to put a freeze on the Endangered Species Act. What consequences do you think that would have on any future designations?

Secretary BABBITT. You anticipate my question. A freeze on the pipeline of listings—

Mr. REGULA. Right.

Secretary BABBITT [continuing]. Would in my judgment not have a major effect. As you note, we are operating now under a court order which came down at the end of 1992 requiring us to list, I believe, 450 species across this four-year period. My own sense is that most of the difficult issues have now been listed. For example, there is a large number of plant species in that list which are not very difficult issues, because the protection of the plant species does not include private land. It therefore becomes essentially public land management issues.

Mr. REGULA. Is there any follow-up to determine what might at one point be thought of as being endangered, but later is found to be widely available and therefore a particular species could be removed or delisted?

Secretary BABBITT. Well, I think there are several approaches to that. We had coming up on the list a butterfly in Nevada. I called Ron Pulliam about 18 months ago and asked what kind of science is behind that determination? He mobilized a project at the University of Nevada, and they came back 90 days later and said this butterfly doesn't need listing. It is doing just fine.

And I think there are more of those instances out there that we recognize, and people who use the snail darter as an example have a point. When a species is coming in the pipeline there are some basic scientific questions: Where are they? Are they really a problem? And are they really a species?

And we know those issues must be dealt with in a thorough, independent way. There is another example. There is a willow, the Arizona willow, which is on a petition now. We put a lot of effort into that, and we discovered probably another 20 locales. We originally thought it was just in the White Mountains in Arizona. It now turns out that it is in many of the plateau areas in southwestern Utah. I think there are more of those out there.

Now, as to delisting, we are having a careful look at that. I will give you one example that we are discussing right now, the green-back cutthroat trout. Now, when you have had enough of this, I will be happy to quit. I don't know how much taste you have for all of these critters.

Mr. REGULA. We will let you have the greenbacks.

Secretary BABBITT. The greenback cutthroat is an extraordinary fish in—

Senator BURNS. Down in Ohio.

Secretary BABBITT. Colorado.

It has made a wonderful comeback and we are really right at the threshold now of going down to the State of Colorado and working our way off the list. There are a fair number of those.

Now, Mr. Bevill, I may say, had an extremely interesting issue because the famous Alabama sturgeon has apparently swum entirely out of sight.

Mr. BEVILL. Left the country.

Secretary BABBITT. And a fair amount of search and science there ultimately worked in his favor. I mean if it is gone, you can't list it.

Mr. REGULA. Thank you. I have some additional questions. I am particularly interested in our outreach education program, Internet. But, Mr. Taylor.

CUSTOMER SERVICE

Mr. TAYLOR. Mr. Chairman, Mr. Secretary. I would like, since my time is limited, I would like to put up a tape here while we are going. It is nothing sensational. It just has to do with—

Secretary BABBITT. Are you quoting me?

Mr. TAYLOR. No. This is a call to the Interior Department, and I don't want to take my whole five minutes. I want to go ahead with my questions while the tape is going. It is nothing sensational. I appreciate your new attitude and I really do—

Senator BURNS. They ain't answering the phone.

Mr. TAYLOR. And I believe in that sincerely, because after all, Paul had a conversion on the way to Damascus and I felt like you could have one on the way to Capitol Hill. But one of the reasons I am playing this tape, I had a constituent pass it on to me and in the beginning of your statement here, one of the things you focus on, and I am quoting from your statement, your three areas that you have worked on, streamlining, engineering, and customer service. And I don't have time to spend on everything, but I wanted to sort of dwell on the customer service, because it is at the heart of a lot of what I think people are concerned about up there. It is not critical, because I don't blame you for this. This is a problem that bureaucracy has.

But it has been pointed out many times that—in your statement that you have been a leader in administrative efforts for reinventing government. I think you have published customer service plans, including more than 100 specific customer service standards. The National Park is developing and analyzing customer service surveys, and even now you are working on the second phase, because the first phase obviously of customer service has been accomplished. We are going into the second phase of reinventing government, and I think it is stated there that, you know, you want to make government receptive to hard-working Americans, and you are proud that you cut the headquarters staff in half.

And there is, you know, we are downsizing government, and I appreciate that effort. It is just that maybe in this case is it possible we cut the wrong half? Has there been more emphasis on changing people whose political ideas or political correctness isn't with you rather than on trying to get the department back to what people want?

NATIONAL BIOLOGICAL SURVEY

The National Biological Survey, and I am being very sincere in saying this, the thing that disturbed people about it I think was the arrogance of it. You and I were in committee together—what?—two years ago in the Merchant Marine Committee, and we talked about—

Mr. DICKS. Mr. Chairman, is there a reason for this phone ringing? I mean at some point—

Mr. TAYLOR. I mean it is a natural—it is what happened. It gets better at the end. Finally, the fellow gets cut off altogether. But I think it is important that this is happening. This is the kind of service, and I said in the beginning, I am not blaming the Secretary, because he is not the one answering the phone. But there is still a great deal, even though the emphasis on customer service has been made in your speech, there is a great deal of that same problem attitude there. Because that is only one part of it. There is a film that goes about the country called Big Park, and the public sees it, gets incensed, many of them have written me about it.

We, the administrators, the bureaucrats, for lack of a better word, are not acting as public servants, and I think that is what the public is concerned about. I go back to the National Biological Survey we talked about a minute ago, you came in and said you want them to go on people's land without their permission; you and I even discussed why you wanted to have them not come under the Freedom of Information Act, to find out what they may have found on their land.

That attitude I hope will be changed in the department. I think it is going to be necessary, if we are to move the parks in the right direction, that we abolish that sort of attitude, we move as much of the bureaucracy, we try to get back to the point where we all are public servants, and we are going to manage the lands for the general public use, not from a bureaucratic use.

Mr. REGULA. Maybe we can pursue this in the next round, but I want to give you an opportunity to respond.

Secretary BABBITT. Very briefly, the telephone response is unacceptable, period. With respect to private lands, since I have been Secretary, we have had a written policy which says no government employee of the Department of the Interior will go on private land without the written permission of the owner, period.

Mr. TAYLOR. That, of course, was put through the Congress in 1993 by an amendment to the National Biological Survey bill. It wasn't necessarily the beginning policy of the department.

Secretary BABBITT. Well, I acknowledge the congressional direction, but in fact it was, is and has been the policy of the department nonstop since I unpacked my bags in January of 1993.

Mr. REGULA. Mr. Nethercutt.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Mr. Secretary, I am going to be a little more parochial. I represent the east side of the State of Washington.

Secretary BABBITT. I have read about you.

ECOSYSTEM STUDIES

Mr. NETHERCUTT. There is a study ongoing on the ecosystem. I don't know if you are familiar with it. I don't want to pin you down if it is something that is too specific. I have read that you have some interest in studying and managing ecosystems instead of Federal lands, an either/or proposition. Is that your policy, number one, as an agency, as head of an agency? Out our way we are concerned about any encroachment that ecosystem management might have on the sovereignty of State and county and local officials.

Can you reassure us, sir?

Secretary BABBITT. This department, under my management, has no intention of managing private land in any way whatsoever.

Now, why this notion of a need to look at the whole system? A nice example is what is working out of the forest plan, where we have responsibilities under the endangered species act. The reason we looked at the entire system is so that we can put the burden of species protection on the Federal link in Washington. We are now issuing rules removing the private woodland from the heavier burden of compliance. The reason we look at them is to try to see if we can't move the burden of complying with the law on to the national forest lands. I have been successful, let me say increasingly successful, in doing that.

Mr. NETHERCUTT. Do you have any sense that people in county and State and local governments would be concerned about a broad-based study that could have some—

Secretary BABBITT. Yes, sure.

Mr. NETHERCUTT. Can you assure them or me or us, that there is no intention on the part of the Federal Government to encroach upon that sovereignty and to manage lands that are not strictly Federal lands? That is, in the name of ecosystem management.

Secretary BABBITT. I can. Let me just for the sake of clarity point out that there are Federal laws such as the Endangered Species Act which—and section 404, a variety of laws which do have implications to private land. As long as that is the law, I have to comply with the law. But I have no management ambitions of any kind apart from the narrow requirements of existing Federal law.

Mr. NETHERCUTT. All of us will have to establish priorities as we look at fiscal pressures imposed on the Federal Government. Are ecosystem management activities conducted by the Biological Service a high priority, or are they something that we can afford to do without?

Secretary BABBITT. Well, the Biological Service has only a minuscule amount of its resources devoted to these kinds of issues. What kinds of issues are those? Well, certainly they have participated in the forest plan process which has now been approved by Judge Dwyer, and that was surely a systemic look. I would argue that the comprehensive list has helped private landowners because we have managed, not entirely, but I think a great deal, to pass the burden of owl protection on to Federal land.

The Biological Service is deeply involved in the salmon issues in the northwest. It shares that responsibility with Marine Fisheries and the Fish and Wildlife Service. We have got a critical set of issues there about learning more about how to enhance and protect those fisheries with minimum impact.

I am anticipating that was the question you will probably ask.

Mr. NETHERCUTT. That is coming next.

Secretary BABBITT. I would simply submit that those can be—that science which can be helpful, science in my judgment should not make management decisions. The Biological Service as long as I am in this town will make no management decisions of any kind. The reason to put it together was to get it away from that, to try to get some objectivity. Then hopefully Ron Pulliam can come up here, put the results in front of you and say now let the argument begin. And we duke it out about what we should do with land management on the basis of science.

DAM REMOVAL

Mr. NETHERCUTT. Just one more, if I may. I say this respectfully to you. I have read that you have been quoted as saying that one of your priorities is dam removal. This concerns me.

Snake River and Columbia River are in my district and there is a concern that drawdowns, dam removals, and other such activities have very negative impacts on agriculture, transportation, recreation and so forth.

Were you misquoted, sir? Can you assure us that that is not a policy objective of the department, or is it?

Secretary BABBITT. Congressman, I appreciate your questions. I have a feeling we may get along better than you expect, and that you will come to see that I am not the ogre that is occasionally portrayed in the press. Now, to answer your question. I do not advocate removal of dams on the Columbia River system. This issue kind of spun out of control. I mean it is part of the political process, because of a discussion we have had in this committee and elsewhere about two dams on the Elwha River in Olympic National Park. For the benefit of the press, the Elwha and Glines Canyon dams in Olympic National Park are two dams which have been the subject of a congressionally-authorized study of the EIS. The preliminary one has been—and it is an interesting and I believe quite close case.

To the extent you want to get into that more, I know it is not in your district, Mr. Dicks is here and he is the ranking expert on Elwha and Glines Canyon dams. I urge you to listen to him carefully, as I do. I think the case on those two dams deserves careful consideration. The Columbia River, no.

Mr. NETHERCUTT. The Snake, no?

Secretary BABBITT. Snake, no.

Mr. REGULA. Thank you very much.

Mr. Skaggs.

PUBLIC LANDS MANAGEMENT

Mr. SKAGGS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. Your prepared statement includes the following sentence which I will read back to you. "The Federal

lands are one of our Nation's great assets belonging to all of the people and providing open space, heritage protection, watershed, wilderness recreation, as well as capital wealth." The subcommittee a week ago was the beneficiary of several lectures that would essentially support a contrary point of view, and I wanted to invite you in my five minutes to perhaps deliver a bit of a homily to us that would state your philosophy of Federal public lands management.

Why should we prefer holding these properties as a national asset versus what was advocated a week ago, which was having a presumption that whenever possible they should be sold off, given away and commercialized?

Secretary BABBITT. Mr. Skaggs, as you probably know, this is an issue that I have been deeply involved in since the day that I entered public life in January of 1975. I entered public life on the threshold of the sagebrush rebellion as a western governor. There is a sagebrush rebellion, Mrs. Vucanovich and others know, in each generation out west. Whatever side you are on, wherever you come from, each generation is fated in sort of a kabuki ritual to enter the stage and redo this debate as if it had never happened before. It happened in the 1950s. It happened back in the 1920s, a moment in which Herbert Hoover asked the Congress to give the lands to the States and the States said, no, they didn't want them. But I don't mean to get mired down in the details of history.

What have I learned from the sagebrush rebellion? I deeply believe that the public lands belong to the public. Why is that? It is because the public values in the western lands are very high relative to the economic uses, which are important and justifiable. The west is not Iowa farmland. Iowa farmland is legitimately homesteaded and transferred because the dominant use of that land is 100 percent productively agricultural. Western lands are different. There are enormous public value, watershed, recreation, wildlife, that are shared by all of the people of the United States.

Now, my second point is this. Does that mean that all public lands should be frozen in place as if mandated on stone tablets for all time? No, of course not. And the Congress has recognized that across the years by giving us a pretty fair amount of flexibility to convey lands in those cases where the balance shifts the other way.

Mrs. Vucanovich is familiar with the Burton-Santini Act. It is a nice example. Las Vegas was landlocked. The Nevada delegation came in and drew a big square around Las Vegas and enacted a really nice law to facilitate the sale of BLM lands for the obvious purpose of allowing the expansion of Las Vegas. When I was governor of Arizona, we looked at the map of Arizona and said we want to consolidate lands. I called in the BLM State director, and we sat down across the table and swapped two million acres of land from State to Federal and Federal to State pursuant to existing statutory authority.

There are indemnity selections outstanding which give flexibility to the States. Scott Matheson, the Governor of Utah, came up with a series of important land tenure proposals in the State of Utah that he didn't think would be accommodated under existing law. He came to the Congress, and two or three years ago what was originally known as Project Bold was passed by this Congress as

Federal law, mandating a whole series of exchanges within the State of Utah.

So in a nutshell, the presumption for western lands and public ownership should be that they appropriately remain. They are national assets, the benefits of which are shared by the entire Nation. Although western communities have specific needs, as they do and will in a changing developing environment, we should have the flexibility to meet their land needs, and I believe we do if we administer the laws that you provided to us.

Mr. REGULA. A follow-up question?

Mr. SKAGGS. I will get it the next round.

Thank you.

Mr. REGULA. Okay.

Mr. Skeen.

PUBLIC LANDS TRANSFERS

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Secretary, it is a real pleasure to be with you. I have an affection and a disaffection for you that goes through a whole range of times. But I want to say this for your benefit, because we have had rare opportunities to be face-to-face. I have never seen you back off or neglect to go into any kind of a hostile group to meet with them face-to-face, to give them your ideas and to meet with them and give them an audience. I want to say to you that takes a lot of guts and nerve. Because I have been in audiences with you when they were very, very hostile.

And you will sit in the back of the room and kind of survey the thing and stay out of the way of the bats, and so on. I will take exception to what you are saying about public lands.

First of all, they are not properties of all of the people of the United States, even though they are Bureau of Land Management lands. Those lands were not offered to the States because nobody would accept them for agricultural production, except for grazing. In the old days when there were no fences, there was no water and there was less than 30 inches of rainfall so you couldn't raise a crop.

So BLM and those lands were used in alternate sections to finance railroads, mineral production and all the rest of it. But through the time span, now it is coming about that it is about time for the department to give land back to States, and I say this in kindness, too, because I am a former employee of the Department of the Interior. They gave me a job right out of college and I really appreciated that. Of course, the salary was magnificent in 1950. I think it was \$3600 a year.

Senator BURNS. You were overpaid.

Mr. SKEEN. Yes, I was overpaid. That is why I ran for Congress.

In any event, there is a move to transfer these lands now. Throughout the history of the Bureau of Land Management and the Department of the Interior, the department has periodically lifted the moratorium on sales of those lands. They were checkerboarded or isolated.

Today you can buy public lands that are classified as rough and mountainous without lifting the moratorium. You just apply, if you have a grazing permit. The last moratorium was lifted on land

sales somewhere in the late 1960s, early 1970s. I believe, and at that time a lot of it was bought by ranchers who were grazing in consolidated areas, because a lot of it is totally unmanageable, even by the Bureau of Land Management because it is so separated, and so disparate, and you know that as a fact.

I would like very much, and I know that Michael Dombek is doing a study now in your department on this transfer of land. We have a bill in Congress, as you well know, but it is time we faced up to this thing on a full scale. I don't know the best way to transfer some of these lands or get rid of them, but it is about time to send these lands back to the State as every other State in the United States was provided because they had the rainfall and the productivity aspects insofar as their land use was concerned.

So I would like to open this not as a question to you, but say it is time that maybe we ought to think about the relinquishment of some of these lands back to the States or back to the ownership of the grazers or people who are trying to produce on them and have had them in their possession or in their use for some four or five generations. It has created a tremendous problem, as you know, for the grazing fee question that we got into.

It is very difficult to make a living because there is no control of those markets, but ownership of land is a basic situation and ownership of land as far as States are concerned. We have a disagreement amongst ourselves in the Congress about whether or not they should be ceded to States through the State land commissioners or offered for sale to individuals that have the permits on them. So what I would like to say to you is this: I appreciate your openness and I appreciate your willingness to discuss these things, but I would like very much to see us have an open mind about the possibility of large transfers of these public lands and those public land States. And I thank you for being here this morning and I appreciate your audience, as I have always appreciated it very much.

Mr. REGULA. Mr. Bevill.

ENDANGERED SPECIES ACT

Mr. BEVILL. Thank you, Mr. Chairman.

I welcome you also, Mr. Secretary, and commend you for the tremendous job that you are doing as Secretary of the Interior. I want to pick up a little where you left off on the endangered species issue.

As you know, I am considered the Federal authority on the snail darter. As you know, the Endangered Species Act is up for re-authorization.

Secretary BABBITT. Yes, sir.

Mr. BEVILL. I would like to see some logic placed in that act that would consider the economic impact. Under the present law, as you know, that is not considered. As a matter of fact, when the snail darter case was being argued before the U.S. Supreme Court, I remember Justice Powell asked the lawyer making the argument on behalf of the snail darter, that if the snail darter was found under the Supreme Court building would have to tear it down to protect it? The attorney's answer was yes, we would.

So I haven't forgotten that. I was so shocked to know that was the case. I think some consideration to the economic impact should

be given when the act is renewed. The act certainly serves a great purpose and we all want our endangered species protected, but I think some common sense needs to be put into it

You are to be commended for the detailed efforts that you make in getting into this. I understand now you have a list of some 4,000 candidates for the endangered species list. That was last year. How many do you have now?

Secretary BABBITT. Mr. Chairman, I don't know. I would be happy to—

Mr. BEVILL. Well, you can put it in the record.

Secretary BABBITT. But you have made your point, and I will be happy to provide you an answer.

Mr. BEVILL. Just put it in the record, if you will.

Secretary BABBITT. Yes, sir.

[The information follows:]

CANDIDATE SPECIES FOR POSSIBLE LISTING

As of January, 1995, there are 936 U.S. listed species. There are currently over 4,000 candidate species now being considered for possible listing. Of these, about 310 U.S. species are believed by the Fish and Wildlife Service to warrant proposal to be listed as threatened or endangered. For the remaining 3,700 U.S. species, sufficient information is not presently available to determine whether listing is warranted. Comprehensive plant and animal notices of review are published in alternate years to seek status information on these species.

Mr. BEVILL. Regarding the Alabama sturgeon. I am pleased that it was not listed and I commend you for using the scientific evidence in making that decision.

So thank you very much. I will yield back the balance of my time, Mr. Chairman.

Mr. REGULA. Mr. Dicks.

DEFENDING THE ENDANGERED SPECIES ACT

Mr. DICKS. Let me ask this question: you are clearly one of the people who has responsibility for the Endangered Species Act. We have a new Congress, a Congress that is not going to be in my judgment nearly as sympathetic to the Endangered Species Act, and I would like you to make your best case and defend it here to this committee and in a sense to the Congress about why we have an Endangered Species Act, and why we—you know we in the northwest have gone through, you know, tremendous dislocation because of it, and in many cases I, in essence, have supported some of the administration's decisions because we are protecting some very crucial habitat that not only will help protect the spotted owl, but will also protect salmon species.

So there are some very positive benefits that come out of this act, even though it is highly controversial. And so I say to my colleagues, would I just say unfortunately my son decided as a senior at Stanford to write a paper on the Endangered Species Act and went back through the entire history and you are absolutely—pretty close to accurate on what the judge said.

Mr. BEVILL. What do you mean, pretty close?

Mr. DICKS. Pretty close. But the problem is before we had an Endangered Species Act and we took economics into consideration, we didn't protect any species. I mean that was the reason why Congress—Senator Hatfield and Congressman Dingell in 1973 came

through with a stronger Endangered Species Act because before that when it got down to any kind of tough decision-making we just waived the act, so they didn't defend the species. I would like you as Secretary of the Interior, the President's representative, to tell people why you think, you know, protecting these species and promoting biodiversity and ecosystems, why is that important to us as a society?

Secretary BABBITT. Well, as I read the Endangered Species Act, it reflects the judgment of this Congress and the American people that species are worth saving, whether it is the great whale, the bald eagle, the grizzly bear, the wolf, the greenback trout. There's a really remarkable list of species that come in contact with the protective provisions of this act. I don't think there is anyone who I have met who doesn't support the goal of protecting species.

Now, the difficulty comes because protecting species in most cases goes back to this more difficult question of protecting habitat. In some cases it is easy, because species tend to be highly adaptable and there is a lot of flexibility.

In other cases, species seem to be tied very tightly to very restricted habitats, and they in many cases, and the spotted owl is a good example, tend to be species which are signaling the onslaught of an even broader problem. They become—birds particularly—indicators for broader problems within a particular land area, and that takes us into the economics.

So referring to some of the previous comments, the issue in listing I think is not economic criteria. The issue that needs discussing is once the science has been done well, including peer review, and the decision has been made that the species is legitimately in trouble, then the question becomes how do you go about protecting habitat, whether it is the waters of the Columbia River, the forests of the northwest, the habitat of the desert, or whatever it may be. And that is the area that we legitimately need to debate.

I think what I can tell you after two years without attempting to cast any blame is that for much of the life of that act, we didn't make a very aggressive effort to try to figure out ways of constructing plans that placed as much of the burden as possible on public lands. This would have minimized the interference on private lands and sought to minimize any burden on small landowners. We need to distinguish between the Georgia Pacific Company, which has six million acres and can come forward and say, we can manage six million acres in a way that will protect the red cockaded woodpecker by creating management zones around these old growth snags, which the southern woodpecker relies on just like the northwestern owl, and we can do it with a minimal burden in the context of six million acres of land.

But that is not an adequate response to the owner of a 50-acre wood lot who shows up one day and says there is a woodpecker in a tree in the middle of his 50 acres. We need to have a different response. We are grappling as aggressively as we can to provide ways of saying to the small landowner, we can get you out from under this through a variety of management techniques, whether it is salmon, owls, tortoise or whatever. We have learned a lot. I welcome the debate.

Like so many other things, once the rhetoric has all been laid out between those who say no change ever, ever, this is all sacred, handed down on stone tablets, and those who say this is a misguided adventure, abolish it, that when we listen to the American people, we will find the American people saying something very differently. We support the protection of endangered species. We believe that nature is a God-given reality that deserves a certain level—a high level of respect, a large amount of stewardship, tempered by economic reality. I am ready and willing to start that discussion.

APPROVING HABITAT CONSERVATION PLANS

Mr. DICKS. Just one comment.

I appreciate that. One thing I would say to you that I think is very, very important, a number of the companies in the northwest who have spent an enormous amount of time developing habitat conservation plans, HCPs and some of them are now coming to the Department of the Interior to present these, which get into owls—and they are done on a multi-species basis. It seems to me that, you know, it is very much incumbent upon the Department, in my judgment, to find a way to be able to approve a multi-species HCP and to give these landowners some certainty about the situation that they are going to be faced with, and they are operating in good faith, they are working with the Fish and Wildlife Service, they are hand-in-hand with this, but I keep being told that there are some restrictions in whether we can actually do a multi-species HCP.

I just hope we can work together as we have over the last several years and with Mollie Beattie to make sure all of this effort that these people have put in is not going to come to naught.

If you could say a word on this, I would like to hear it.

Secretary BABBITT. Congressman, there are two areas where we have failed to produce up in the Pacific Northwest, because of the tangle of regulatory requirements. One is expediting timber sales now that Judge Dwyer has approved the overall plan. I represented two years ago in the northwest that once that plan was done, the timber would be running into the mills. And we have a mess on our hands. It is frustrating for everybody involved, and it is something that we need to look at in terms of regulatory reform.

The approval of the HCPs is exactly the same issue. Several of the big timber companies have made outstanding efforts in the Pacific Northwest, as you well know, and they have negotiated all of the basic requirements for compliance with the law only to find that the regulatory tangle between NEPA, the interface with the National Forest Management Act, the Endangered Species Act, all of the conflicting jurisdictions, has just absolutely strangled them procedurally. It is something we have to do something about.

Mr. REGULA. Mrs. Vucanovich.

PROTECTING THE SMALL LANDOWNER

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman, and Mr. Secretary, glad to see you again. I don't need to tell you, because you are certainly familiar with my State, how important your agency is to my State, 86 percent of the land is owned by the Federal Government, and I am sure that some of the questions that

I have to ask have already been asked. I just—you have just defended the Endangered Species Act, and I think that is fine, but when you talk about protecting the small landowner, you know the takings clause of the fifth amendment can't be applied based on the size of the property that the government is taking. So it is very nice to say that, but I don't know that in practice the small landowner is being protected, and I don't know if you want to comment about that before I make a couple of other comments.

Secretary BABBITT. Sure. My feeling is this: as you suggest, the fifth amendment sets a threshold of protection. There is a certain level of interference, regulatory burden, which the Supreme Court has said deprives landowners of the effective economic use of their lands. It is the Lucas decision and others. When that happens, the landowner has a constitutional right to compensation, either remove the regulation or condemn the property. That is what the Constitution says.

My concern is that above this level of constitutionality, there is an issue of fairness, and a landowner is entitled to more than constitutional protection. The landowner is entitled to say that regulation, even though my lawyer said there was not a constitutional protective taking, is still unreasonable. We must attempt in every case to reconcile the law with just plain, simple, reasonable substance. I am not suggesting that we should somehow modify or limit constitutional protection; I am saying we ought to have more protection in the name of—

Mrs. VUCANOVICH. That sounds good, but is that happening with the small landowners?

Secretary BABBITT. I believe that generally things are moving in that direction. Are there exceptions?

Yes, there are exceptions, and what I have tried diligently to do is to pounce on those exceptions as they come to my attention and say okay, let's analyze why it happened and how we can change the regulatory process to make sure it doesn't happen again. That is the importance of the so-called 4-D rule, of trying to work in timber areas of the northwest. And increasingly, they are looking at the southeast.

In Congressman Taylor's district, the Fish and Wildlife Service is now in the final stages of an unprecedented kind of regulatory approach to free up private landowners from the majority of the burden, for the reasons I have explained, between Great Smokey Mountain National Park and a large timber company. I think they have really stepped forward with a wonderful mode of communication.

We have the space, in my judgment, in the southern forests now to begin distinguishing between public and private land and between small entrepreneurs and the larger companies that we have already kind of worked things out with. We are doing this in Texas, not to everyone's satisfaction, but we laid out a proposal in Travis County in Austin last week that makes these kinds of decisions. Is it perfect? No. But I would suggest that if we really work these issues, maybe we can find some new areas—

FEDERAL LANDS POLICY

Mrs. VUCANOVICH. Well, I think most of us want to have that happen, because so many of us feel burdened, as it were, that represent federally managed and owned land, and you know, I will quickly make a comment and then it is almost a rhetorical question.

But last week in front of this committee we had some rather interesting and provocative testimony for achieving a wholesale change of your department, and in light of this I just would like to say are you—do you want to say why you think it is a good idea, or why you think it is a bad idea to combine agencies like BLM and the Forest Service and the National Park Service, or what is the objection to turning these lands over to the States? You know that this is the movement again in the west. I don't know if you have a comment. It is just a frustration to people in my district.

Secretary BABBITT. Sure, sure. With respect to merging of the Forest Service, National Marine Fisheries, all of the agencies together in one, my own governmental experience is that bigger bureaucracies hardly ever do anything except make the problem worse, and that in contrast when you have a reasonable number of different groups, it engenders a certain kind of comparative accountability and people really do say that throughout the western grazing debate, people come and say the Forest Service is doing it that way, why can't you do it that way, we prefer it that way, or we believe Don Young puts it the other way. He says, we would rather have the BLM in Alaska, because they have a lower overhead. You get those because people have—different customers have different perceptions, and I don't think you are going to solve that, improve it, by making it larger.

Now, with respect to the public ownership of public lands, we have a fundamental difference of opinion. I acknowledge that, and all I can say is we both have a lot of history and evidence and argumentation on our side, but I believe my reading of American history, the evolution of public land policies over the last 100 years, the public domain is national property.

Now, I readily concede that when I go home for Thanksgiving, my family, you know, wonders whether they should be carving up the turkey or the Secretary of the Interior.

Mrs. VUCANOVICH. A lot of people in my State think that way, too. Well, I thank you.

I have some questions that I will submit for the record, and I agree with you, we do have some very fundamental differences, and hopefully the people—so many of us in the west represent some people whose livelihood depends upon your views and there are lots of people in my district who don't have a lot of respect for BLM or the Department of Interior, and we hear from them a lot. So you know that, and you have heard from me a lot. But in any event, I will submit my questions for the record and appreciate your coming to this hearing.

Thank you.

Mr. REGULA. I might tell all of the Members, Mr. Bunn is next, but the Secretary will be back probably in about three or four weeks for another full day and this will be after we have received

the President's budget and your requests, so we will have another opportunity.

Secretary BABBITT. Mr. Chairman, I will be here any time, anywhere, as long as you want. I recognize who is in charge.

Mr. REGULA. Okay. I am getting used to it.

Mr. Bunn.

NORTHWEST TIMBER SALES

Mr. BUNN. Thank you, Mr. Chairman. You mentioned respect for private property rights and I think that is terrific, and the small landowner. But I think it is important to remember, it is not only the small landowner but the small mill owner in the small communities that depend on the Federal timber that are suffering. And under Option 9, I have heard a lot of different figures, but I think a year-and-a-half ago the figures coming from Interior and Agriculture were that we should have 2 million board feet the first year; 1.7 million the second, and about a million board feet the third year.

Now, clearly when you talk about the logs heading to the mills, they are not heading to the mills along those kind of numbers. When do you think we are going to get on track? And all of those that have been delayed, are we eventually going to be able to bring those back in for a higher level down the road?

Secretary BABBITT. Congressman, I think your figures are accurate, essentially accurate. I believe that most of the sales that have been made in the past are going to make their way into the mills. I cannot look you in the face and say that we have produced as I represented that we would. We have a tangle of legal problems that I have not—that have not been resolved to my satisfaction.

One of those, for example, is Fish and Wildlife consultation on individual timber sales. The scientists have said that they believe that the biological assumptions of Plan 9 require sort of redoing the consultation process on individual timber sales. I am not satisfied with that, because it was my intention and my perception when we drafted Plan 9 that there would be a timber sale process flowing out of that which basically says the timber sale is conducted and held in conformance with the parameters of Plan 9 to move ahead rather than have a separate consultation. That is one example.

What I say to you is I hear your complaint; it is legitimate, and we will keep trying, and I will be happy to report back here and tell you either we are making some progress, we need more resources, or we are going to change the regulations; we have to do something.

MARINE MAMMAL ACT

Mr. BUNN. I look forward to the report. The other thing I wanted to ask about, you talked about fishery recovery. The Marine Mammal Act, is it doing what we had hoped that it would do? Is it achieving its goals? And what impact is it having on threatened and endangered salmon?

Secretary BABBITT. I think the Marine Mammal Act has really worked out pretty well, if you look at the recovery of populations, the Stellar's sea lion and some of the other populations. The walrus in Alaska are doing very well. It is important that the subsistence

take of native Alaskans has been protected by the act. They now have the use of that resource. The issue of whether or not those sea lions which have learned—for them is that the mouth of the Columbia River is an interesting problem, and I—is that what you are referring to?

Mr. BUNN. I understand.

Secretary BABBITT. I am not prepared to say that the only answer is shoot the lions, but I acknowledge the problem.

Mr. REGULA. Excuse me for one second. As soon as Mr. Bunn finishes, we will vote and come back and perhaps we can finish by noon, but we will have an opportunity for more questions from the Members. Go ahead.

Mr. BUNN. But I mean can we conclude scientifically that the salmonoid population is being degraded by the Marine Mammal Act, at least in the Columbia, which was what I was looking for?

Secretary BABBITT. The recovery of the salmon and steelhead stocks would be done if there weren't sea lions eating the fish. Now, bear in mind the same proportions of protecting the fall runs or spring runs, as you know, has sufficient—not every fish is a protected fish. It is about one in 500. So if that sea lion is eating 500 fish, it is probably protected in the Snake River and that makes it harder to recover the species.

Mr. REGULA. We will recess for 10 minutes.

[Recess.]

Mr. REGULA. Mr. Taylor?

Mr. TAYLOR. I will go ahead, Mr. Chairman, if you like, or not.

Mr. REGULA. All right. Why don't you ask your questions; I will go over and vote, and you have some more, Dave? Okay.

Mr. TAYLOR. Mr. Babbitt, it is just us, there is no one else here, and I think that is what Connie Chung said, so—you know, I am surprised with a lot of your statements and am gratified with a lot of them. Frankly, when we were girting up in the robing room, you know, for the private property rights over the last two years, I didn't recognize you as being there. In fact, I thought you were over on the other side, but I mean I am glad to have you with us. We robe every Wednesday night at 6:00 o'clock.

Secretary BABBITT. You are going to ruin my reputation.

TAKINGS

Mr. TAYLOR. No, I appreciate it. The takings area, and what we need—and part of this is conversation to get your feeling about it, too—one of the things that disturbed us so much in the area of private property is the fact that as Mrs. Vucanovich said, large tracks, small tracks, if it is a 100 acres or 1,000 acres, when you come in and take land, for instance in eastern North Carolina, a farmer there had to give up 1,000 acres of his property for the red cockaded woodpecker that decided to nest there.

He then stated, he himself said it was prudent practice to cut the rest of it because he didn't want to be concerned about that woodpecker having a cousin that showed up in the same place. Now, we have put in, we have put in legislation that talks about takings.

Along the lines you are talking about, in fact far more conservative than what you were talking about a moment ago, Mr. Tauzin and I have a piece of legislation we put in last Congress and are

putting in this Congress that could compensate for takings, if there is a loss of at least 50 percent of that particular property that would be involved. Do you think you could support that type of takings?

And let me say just one other sentence. One of the reasons we are doing it, too, we recognize that we want to make it easy for the property owner up front, because under the law, the property owner does have the right to go into court, try to seek protection of the fifth amendment, go through the cases and make his case that his property has been taken. That has become almost impossible for the average citizen.

In the Myrtle Beach case, the gentleman there won and the regulation was held to take his property and he was compensated, but he had to spend \$500,000 up front out of his own pocket with no guarantee he would get it back in order to win. Now the average citizen can't put up that kind of money and that is the reason for the legislation we have put in is to try to protect the property owner up front and make the Government itself think, do we really need this property to protect that habitat, not just protect that endangered species, but protect the habitat. Could you support some legislation along that line?

Secretary BABBITT. Let me say this. I can't think of a single case in the endangered species land habitat conservation issue where, the Fish and Wildlife Service's regulatory activity has devalued a tract of land by as much as 50 percent. That is a high figure, I acknowledge that. And my own view is we ought to stay way clear of that, because that is an awful burden. I don't think that is fair, quite apart from whether or not it gives rise to constitutional takings, and I believe that I can structure a regulatory process that keeps us away from that.

Now, in the Texas proposal, the most current one, you have a large landscape and you have a lot of property owners. They are constructing a habitat plan, and the builder is paying a mitigation fee, so you can actually measure the level of the burden. You know, you don't have to go to a court because you construct a plan in which you work this all out with local officials. You say to someone who has, for example a \$100,000 lot and the local government puts up a mitigation fee and says your part of the mitigation fee will allow us to preserve habitat elsewhere with a surcharge of say \$1,500 on a lot that is valued at \$100,000.

That is the kind of analysis and possible solution that I would like to support. My concern with the legislation is it would create a legal and bureaucratic nightmare by increasing lawsuits.

In Arizona in November the legislature put a judicial compensation measure on the ballot, and the people of Arizona voted it down by a mile, because they are saying we don't intend and don't want to create a huge bureaucratic tangle. So I guess my answer is, I am not sure we are that far apart on our diagnosis of the problem.

Mr. TAYLOR. Well, would 80 percent be more reasonable or some percentage? Mr. Cone, probably lost the value of 90 or 95 or 100 percent of his 1,000 acres. Should he have been compensated?

Secretary BABBITT. That should have been avoided and I believe it could have been avoided. I would think that when you are ready

to impose a demonstrable 80 percent program, what we really ought to do is purchase the land or not do it.

Mr. TAYLOR. Well, that is essentially what Mr. Tauzin and I were saying with the legislation. We were saying if it is so important to the public policy that the great portion of this man's land be taken, then as in the case of a highway or a power line or anything else, then we pay him for it, we take it and pay him.

Secretary BABBITT. I agree with that conceptually. The important thing is to figure out how to do it without just grinding the system down in endless lawsuits and having lawyers soliciting everybody.

Mr. TAYLOR. But if you have legislation, the only legal question to determine by the jury is the value, and you automatically, if you come to the point you are taking, just as we do in highway condemnation, then we go to that point, the only legal question is the value and that is the jury just determines the value.

Secretary BABBITT. You have a higher regard for courts and lawyers than I do, because even condemnation turns into a mess. I would hope that we can continue this discussion and find a way that achieves that. Your hypothesis is that the economic value of this land has been reduced by 80 percent, and I am saying to you that is unreasonable. My intention is for that not to happen, and I acknowledge that there ought to be some way of putting that into law or regulation or something so that people have some assurance that it doesn't happen.

Mr. TAYLOR. If you will excuse us, we have about six minutes and we have got to go.

Mr. SKAGGS. Mr. Taylor, you are acting chairman at this point.

Mr. TAYLOR. We are going to go in recess because you and I will miss the vote if we don't go now.

Mr. SKAGGS. The question is whether we want to come back after the vote or after lunch?

Mr. TAYLOR. Yes. I would say that Mr. Regula will come back in a few minutes and reopen the committee.

Mr. Secretary, I apologize.

[Recess.]

Mr. REGULA. Mr. Secretary, I think maybe we can finish if we go about another 25 minutes, based on Members' requests, and that it I will probably be a lot more efficient use of all of our time.

Okay. Mr. Dicks, why don't you go ahead?

PACIFIC NORTHWEST TIMBER PRODUCTION

Mr. DICKS. Yeah. Let me ask you this, Mr. Secretary. You are the first to admit that in responding to Congressman Bunn from Oregon that we have not yet gotten anywhere close to 1.1 billion under the President's program, and I would—as I recall, we might be at 500, maybe 500, 600 million board feet, that might be even high, but somewhere in that range. If there continues to be—I mean at some point there is going to be a frustration level that is going to set in with the northwest congressional delegation, and what would the administration's view be if there was a legislative protection of the President's plan? I mean is that something that we ought to consider, or do you think that you can solve this thing administratively?

Secretary BABBITT. Well, obviously I would prefer to solve it administratively, but I think I owe you an answer as to whether or not we can. In my judgment, it is a mixture of three sets of issues. One is this sort of architectural issue.

Does Plan 9 have implicit sort of biological clearance or do you have to go back and treat a timber sale as if you had just arrived with Lewis and Clark to examine the forest for the first time?

The second one is the interagency issues. We have worked very well together, but it continues to be a difficult problem. And you know, we have the Forest Service, Fish and Wildlife, BLM, and to some degree EPA. We have worked well, but none of us is entirely satisfied. I have got to go back and see if we can wrap our arms around that.

The third, and I am not ready to cry wolf yet, may be a funding issue here. You know—

Mr. DICKS. Is it funding for timber sale preparation? Where do you think it is?

Secretary BABBITT. I think it is—

Mr. DICKS. Or is it to do the environmental work?

Secretary BABBITT. Well, there is a potential problem on both sides, and I think it is reasonable for you to ask the Forest Service about sale preparation and to lean on us, the Fish and Wildlife Service, about clearance.

Mr. DICKS. Well, and you got BLM, too, for Oregon. They are a very major player in Oregon.

Secretary BABBITT. Absolutely, absolutely. Very major—if you were to invite me to have a clear and concise answer before my next appearance, I would take that as a mandate from this committee.

Mr. DICKS. Yes, that would be good. We desperately need an answer about how we are going to get this done. There is frustration.

I represent the Olympic peninsula area as you mentioned in your testimony, and we have seen a dramatic reduction in the amount of timber that is—you know, we have gone from somewhere around 250 million board feet per year down to 10 to 15 million, and if we can't even get that out, I mean it is going to be very hard for me to go up there and explain to these people after they have waited for two or three years while we were in court and there were almost no timber sales whatsoever, that the administration now says after they had promised, they can't get these levels out, and so you know, we have got to get something done here, and I would—you know, you are the person in the administration who is in charge of this, as I understand it, on a kind of an interagency basis, so I hope that you would pull the Forest Service into this as well.

Mr. REGULA. I might advise the gentleman that we will have the Forest Service chief tomorrow.

INDIAN AFFAIRS

Mr. DICKS. Good. Well, we will get into that, too, but we need to get their help as well.

Let me ask you another question. I represent an area, we now have—I probably have 13 or 14 Indian tribes, and I have been in the Congress, this is my 18th—I guess my 19th year. And one of the areas that I feel great frustration about is the Bureau of Indian

Affairs. And just whether we are helping these tribes at this juncture or whether we are just keeping a certain condition out there that is not acceptable.

When you look at the alcoholism and the unemployment and the economic problems that face all of these tribes, I mean it seems to me that at some point this administration or some administration is going to have to reexamine what our policy is and whether we can figure out some way to do better. Now, I have been a supporter of self-determination, and I think there is some sense in Congress that maybe we need to—if there is an agency that really cries out for reinvention or maybe elimination and having somebody else do this job, it is the Bureau of Indian Affairs. I mean you have been there now for a couple of years. Give me your assessment. I mean is it—can we salvage the BIA or should it be redone or should somebody else take over this responsibility?

Secretary BABBITT. Mr. Dicks, the alternatives to the BIA are all worse in varying ways. The BIA is the product of some very unhappy history that goes all the way back to the founding of the department in 1849. The Indians themselves have a love-hate relationship with this organization, and as soon as you find a Native American leader testifying in favor of abolishing the BIA, you will find one right behind that leader saying no way. For all its faults, the BIA has been the one place that we can come in Washington, and it is the one place that stands as the surrogate for the Secretary of the Interior between that tribe and the outside world.

The issues with the BIA are very real, but they have been overblown. This notion that 14 percent of the money you appropriate goes to reservations is fiction. The correct figure is about 86 or 87 percent of the money does get out there. It is burdened with an unhappy history of kind of an in-grown, paternalistic, bureaucratic culture.

In a way the continual fire of criticism has turned them ever more inward. Congress, in the last decade, in its frustration has created a system in which the BIA is now in some large measure managed by committees of Native American leaders. It is the one agency in the Interior Department that I do not have sole management responsibility for. The Congress has turned it into a shared management system, and I can tell you that shared management leads to a variety of—makes everything a lot more difficult.

Now, what is—let me cut to the chase. What is the answer? There isn't a silver bullet. You know, a drastic action could have unfortunate consequences. We can make a lot of progress I believe, as I intimated earlier, by accelerating the self-government provisions. Congress is on the right track here. This was a congressional mandate. I think it is correct. And what I would invite you to do is make major judgments and set goals.

The one thing the Congress did in the last session with some parts of the self-government program, not all, was set targets and ask how much of this is going out next year and how much of a drawdown of the BIA do we expect. In the early days of this program, people set self-governance goals, money went out, but you didn't see any offsets in the drawdown of the BIA because nobody had mandated that, and it is hard work to do. I think those are

things we can discuss and that the committee can very appropriately set goals. They really help us, they really do.

Mr. REGULA. Would you yield?

DIRECTIVES ON INDIAN ISSUES

Mr. DICKS. Yes, I yield.

Mr. REGULA. For the record, I wondered if you would set out some of the things we can do in this subcommittee that are not an authorizing committee responsibility, either by eliminating directives that have become part of this committee's actions, or any other ways that we can help you accomplish your goals.

Secretary BABBITT. Well, the most obvious one is to examine this issue as funds go out to self-governance. What is the offset target? It is a fairly complex question. How much administrative overhead should be stripped out of the BIA and how should we measure that and mandate that? The Indian leaders themselves are vitally concerned about the savings from the streamlining, and that is an issue that I think you could be very helpful on.

The buy-in on streamlining that took place across Indian country was premised on the notion that the savings from the downsizing of the BIA would in fact go out in the form of block grants to the tribes. And we ought to have an up front discussion about that and make the rules clear and let everybody hear them and understand them and have some consultation.

INDIAN GAMING

Mr. DICKS. Let me ask you another question on this very sensitive subject and I have tried to work with the tribes from our State and region for many, many years, and have great respect for them and great respect for the government-to-government relationship and the trust responsibility. But let me ask you, one other area that just—we have seen an explosion in this area of gambling, and I would like to know what the administration's view of this is, and are there going to be any recommendations to the Congress about the explosion in Indian gambling casinos all over the country. Maybe if this will help the tribes and provide jobs, this isn't all bad. I don't necessarily oppose it. But it has become a major issue in my State, and I would kind of like to hear from you on this.

Secretary BABBITT. My experience from the past two years is that when Congress passed IGRA, it finessed most of the problems with some artful language that kind of just bridged the differences. What the courts have done is again and again interpreted IGRA in a way which has expanded the scope of Indian gaming, although that process is not over. Because the different circuit, courts of appeal have come out with remarkably different interpretations; whether it is the 11th circuit in Florida, the 10th circuit in Oklahoma and the 9th circuit in California, this debate is not yet over.

My sense of the debate last year, and this is just my interpretation of your activity on this, was that the impasse between the tribes and the States is neatly mirrored on Capitol Hill where there is no consensus about where to go.

Lastly, I must remind you and the governors that this is one area where I have not been a mediator or have kind of stepped in

to attempt to solve it because I believe that the trust responsibility in this area puts me in the Native American corner.

I think that is where I belong on this one, and I have been kind of frank and up front about that with the governors and others. Gaming, quite apart from all of the State/Federal Indian public policy matters, has been a real economic boon to a lot of Indian tribes. Not all of them, but it has made a real difference. By and large, those activities have been run well and the monies have been wisely used. 100 percent? No. Are there things to worry about, yes. But by and large it has worked to the advantage of the tribes that have access to them.

Mr. DICKS. One last question.

Mr. REGULA. One.

SALMON USSUE

Mr. DICKS. Obviously, we are facing a number of potential listings for salmon in the Pacific Northwest beyond the ones that have already been listed, and many of these are co-host species. What advice do you have for us on this as we kind of enter into this—we have obviously—there are problems on the Columbia and Snake River and we have problems with Canada and Alaska, but how are we going to—what can the congressional people from the northwest and the administration do to try to help solve these salmon issues?

Secretary BABBITT. Maybe it would be a good time for me to plead a conflicting engagement and leave before answering. Let me say this. The salmon issue needs—

Mr. DICKS. I realize the National Marine Fisheries has more responsibility here.

Secretary BABBITT. Okay. That is number one. I defer to the Marine Fisheries.

Mr. DICKS. Giving you a way out.

Secretary BABBITT. I think this one needs more work by all of us, the delegations, Marine Fisheries, Fish and Wildlife. We've got to work this one a little harder.

Mr. DICKS. The one thing would I just say on this last point, and then I am done, is we are cutting back people, but as we go out there and under the President's plan we try to do watershed restoration, we try to do watershed analysis and ecosystem management, you have to have some people in the Fish and Wildlife Service and the various agencies to do that work. And so one of the things we are running into is with all of this reinvention of government and downsizing comes at the same time that we are trying to do major initiatives to deal with habitat problems and other things that have to be done to restore these watersheds and to restore these salmon runs.

So I think that is one you are going to have to really look at, because I am getting reports from everyone in the region that they would like to do more and do the things that Secretary Babbitt tells us to do, but they keep getting their staffs cut. I mean at some point we have to realize, we ask these people to do it, they have got to have the resources to do it.

Secretary BABBITT. I would add only one thing. I do think that the role of the Northwest Power Planning Council gives us a reason for encouragement. I think that the plan that they have put into

effect, assuming that it remains in effect as a council plan, marks a big step forward and holds out the possibility that we can find an interstate consensus about the approaches and have more State/local interest group participation in the working of the plan rather than having it come from on high.

Mr. DICKS. Thank you, Mr. Chairman.

Mr. REGULA. Mr. Skaggs, how much time would you like? I am trying to determine whether we can finish up?

Mr. TAYLOR. I have one more quick question.

Mr. REGULA. All right. Then, Mr. Skaggs is next. What five, or seven minutes?

Mr. SKAGGS. Less than five, I hope. It depends on the Secretary, not me.

Mr. REGULA. Okay.

AUTHORIZATION OF THE NATIONAL BIOLOGICAL SERVICE

Mr. SKAGGS. Thanks, Mr. Chairman. Thanks for sticking around so we can wrap up.

Last week several of the witnesses suggested that the department was spending money on the National Biological Service that had not been authorized in law. And I pointed out that we had restricted your flexibility in using any appropriated funds only to those programs that have been clustered under the NBS that have been authorized. I just want you to state for the record whether you have been following our instructions in that regard.

Secretary BABBITT. The answer is yes. The distinction here I think is between authorized activity and the organizational instructions. Now my reading of the mandate that I have in the Interior Department is that I am bound firmly by Congress's definition of what I am authorized to do. And I have operated within those limits. The answer is yes.

Mr. SKAGGS. So the things that are going on under the rubric of the Biological Survey are the things that we have authorized that used to live in Fish and Wildlife and used to live in the Park Service, et cetera.

Secretary BABBITT. Precisely.

MORATORIUM ON LAND ACQUISITIONS AND CONSTRUCTION

Mr. SKAGGS. Thank you. It was also suggested last week that there be a five-year moratorium on any acquisitions or new construction under the jurisdiction of your department, and I just—again, you could probably speak for hours on this, but if you could give us a brief hint as to what the implications of that might be.

Secretary BABBITT. I think a moratorium is the least effective way to go about these issues. It becomes a sort of blanket substitute for making the hard decisions about which things you really can do, and which things have real importance. I would readily concede that in construction accounts and land accounts you have a spectrum from pretty urgent to, maybe discretionary. The new construction part has those in it as a function of the nature of the facility, the nature of the demand.

Land acquisition is one example that I think could illustrate my point. In the last few years in this committee we have been getting small, but significant sums of money to try to ease the transition

into these conservation plans under the Endangered Species Act. I think that is a good use of land and water conservation fund money, and we have put it to excellent use in southern California. That is Ron Packard's concern. Congressman Pickle has worked with us in central Texas in that habitat conservation plan. There are other examples in terms of in holdings, in parts and that kind of thing.

Mr. SKAGGS. But this is an instance in which prudent investment and new acquisitions avoid—to use your word—the train wreck and the cost of the train wreck there.

Secretary BABBITT. I think so. It doesn't mean you have to go along. You can argue for going along with everything, but some of it is important.

Mr. SKAGGS. Sure, sure. Thank you very much.

Mr. REGULA. Mr. Taylor, any other questions?

TRIBAL USE OF PUBLIC LANDS

Mr. TAYLOR. Yes. Mr. Secretary, when we were talking earlier you had indicated the States might be able to swap land or had swapped land with the BLM. How about for park land? And would that apply perhaps to leasing by tribes and others in the west? But I am from the east and we have counties where the government owns as much as 80 percent of the land, very hard economic situations, down and among the tribal towns where economic activities are going on, the parks come right into the town.

Is it possible for us, will you be open to negotiations of trading or long-term leasing or that sort of thing to enhance economic activities in those cases where it clearly did not make a significant ecological difference?

Secretary BABBITT. Mr. Congressman, the answer is yes. And in fact, you, meaning this Congress, last year passed a law mandating that we do that for Indian tribes. Specifically, that we send a list up here by January—I hope the deadline hasn't passed, January 23rd, specific proposals that involve allowing Indian tribes to assume management responsibilities on Federal lands as a way of partially getting at this.

Mr. TAYLOR. Thank you, Mr. Chairman.

BUREAU OF INDIAN AFFAIRS, BUDGET REDUCTION

Mr. REGULA. Mr. Secretary, as I understand it Indian self/governance does not limit the Federal budget exposure, it just changes the allocation between BIA and the tribes. If this is true, how can we meet our budget targets in these times of tight fiscal constraints?

Secretary BABBITT. That question has been asked me in every meeting that I have gone to with Indian leaders all over the west, and what I have said is I hope that as Secretary of the Interior I can protect the BIA budget as much as possible. What I have said to them is that I don't think I can realistically say we are going to hold you harmless. We did that last year and the year before.

Actually, the BIA budget since I have been in office has not suffered any reduction as a result of our effort. I have said to tribal leaders that I hope we can allocate whatever it is this committee decides it needs in a way that holds them harmless as much as

possible. But what I have also said to them is I don't think I can deliver them 100 percent or that in terms of all of the functions of the department that it would be reasonable to expect me to do that.

PRIORITIZING DEPARTMENTAL FUNCTIONS

Mr. REGULA. I note that last year in total we reduced \$31 million, because while operations were up, construction was down. I guess it reflects the fact that we needed to address operations, but we could postpone construction, which leads me to sort of a general question. If we have to assume we were going to have fiscal restraints in the fiscal year 1996 budget, would you welcome an opportunity to prioritize the functions in your department in terms of what could be reduced?

Secretary BABBITT. Mr. Chairman, the answer is a qualified yes. I am reluctant of course to lead the sheep to the slaughter by sort of showing up with suggestions. I recognize reality, and I recognize it is an interactive process and the point at which the President's budget is on the table so that my operating instructions are clear. I think I have an obligation to work with this committee and, once you have decided how much flesh you need, that I have some obligation to at least suggest where it can be cut with the least harm to the public interest.

Mr. REGULA. Well, I welcome that, because I think what we want to avoid is cutting into muscle, and last week we had testimony which made it sound easy, but we who have served on this committee for many years recognize that it is not going to be that easy. But I have always felt that the executive branch has the responsibility to administer the programs once we have established the levels of funding, and I would welcome prioritizing, because you I hope would know better than I where we can get some reductions. It is clear that this is going to be the mandate.

Secretary BABBITT. Mr. Chairman, I believe I have an obligation to respond to that, and I will attempt to do it as best I can.

CONSOLIDATING AGENCY FUNCTIONS

Mr. REGULA. I would hope that by the time we have the next hearing that we would be able to give you some idea of what we are seeking. Last week the Citizens Against Government Waste proposed creating a new department of natural resources and it is always easy to say let's move the chairs around and somehow we are going to gain great efficiencies. And they would put into that new department some of the energy functions, perhaps with an eye to abolishing or certainly reducing the fossil part of the Department of Energy.

Do you think a consolidation of this type would achieve any significant savings?

Secretary BABBITT. Mr. Chairman, much as I would like to preside over the Forest Service and a vast empire of national resource responsibilities, my own experience is that it does not save money and that more often than not it has the reverse impact, because it creates a larger, less accountable, more impenetrable bureaucracy. The task that we have together in this government is what I would call virtual governance. We have to look at a function and say the

issue is not what the function is, the issue is whether the function should be there or whether it should be changed or reduced.

Mr. REGULA. So you are subscribing to in a sense zero-base budgeting which I alluded to at the outset of the hearing and I think that is what we need to consider.

Secretary BABBITT. Sure.

PARK FEE COLLECTION

Mr. REGULA. Another area of course that is always suggested as a way of meeting our fiscal obligations would be to have more fees collected and also revising our concession contracts, and I would just like your comments on that possibility.

Secretary BABBITT. I think it makes sense. The Park Service in the last Congress produced draft legislation on both fronts. The fee concept was simply—I think just self-evident—that park fees are low by any standard. The American people are ready to pay if they believe that the money they pay is going back to the park.

As I told you yesterday, we had a remarkable instance of that in one small area where we could do it, and this was fishing licenses in Yellowstone. Through an historical anomaly, there was no charge to fish in Yellowstone National Park. The Park Service, after discussing it with me, decided to put a \$5 fee on it. It went into effect last year, and they collected several hundred thousand dollars. There was one objection, only one the whole summer, because people say, yeah, if I am going to be able to catch cutthroat trout in this extraordinary setting, I don't mind paying 5 bucks, and when I see it going back into direct improvement of the resource—

Mr. REGULA. That is the key, isn't it, it goes back into Yellowstone.

Secretary BABBITT. That is the one thing that makes it workable, so I think legislation embodying that concept makes it worthwhile.

Mr. REGULA. We need to change the authorizing process, the requirement that the fees now collected go to the Treasury and allow them, would you say, 100 percent back to the park of origin, or should we share some of that with the urban parks where it is obviously impossible to have some type of fee arrangement?

Secretary BABBITT. I think there ought to be some sharing across the system. It is only reasonable. My own feeling about urban parks is that you want to be real careful about fees in that there ought to be a presumption that the big urban parks, Gateway, Golden Gate, Cuyahoga, the Chattahoochee, are places where you really want people to do day trips. You want to use them on a day basis, and the fees can have the effect of discouraging visitation. I don't think that is true at all at Grand Canyon and Yellowstone, the destination parks, and that you can therefore anticipate some sharing.

PARK CONCESSIONS

Mr. REGULA. And likewise on concessions you would—were it possible, renegotiate concession contracts to ensure you are getting a fair return?

Secretary BABBITT. We need concessions legislation. My predecessor, Secretary Lujan, really demonstrated with his handling of

the Yosemite concession contract the possibilities here, and I think that it provides a model. And I think we need legislation. I think the Yosemite contract and the way it was worked out is within our existing mandate, but it is bumping up on the boundary of it. Before we go whole hog across the rest of the system, I would like this Congress to give us explicit authority to work that kind of concession where a significant part of the concession fee, again on exactly the same principle, flows back directly into that park and perhaps into the rest of the system.

PARK VISITATION

Mr. REGULA. There has been some discussion that we ought to take a look at all of the units, but perhaps this goes with zero-base concept, and there might be a few units that perhaps are not meeting the public need in terms of a cost benefit analysis are not useful, and I am talking about the park system. Has there been any study or any activity of any type within the department to evaluate the level of visitors and whether we are actually getting cost-effective usage of these public parks?

Secretary BABBITT. Mr. Chairman, I have got to give a personal answer to that. I view my job at the National Park System as defending the parks and saying when Congress establishes a park it is my job to make a case for the park. Now, to the extent that the Congress chooses to reexamine those issues, I will be available to provide whatever data you need, but you will never hear from this Secretary an argument for shrinking the national park system.

Mr. REGULA. Do you have data that would indicate the levels of visitation for each of the units? And I wonder if you do, if we could have this submitted for the record.

Secretary BABBITT. I would be happy to do so.

[The information follows:]

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>	
Abraham Lincoln Birthplace NHS	279,046	
Acadia NP	2,690,163	
Adams NHS	40,710	
Agate Fossil Beds NM	19,215	
Allegheny Portage Railroad NHS	146,435	
Amistad NRA	1,596,479	
Andersonville NHS	158,303	
Andrew Johnson NHS	58,353	
Aniakchak NM & Preserve	1,316	
Antietam NB	222,361	
Apostle Islands NL	143,408	
Appalachian NST	---	1/
Appomattox Court House NHP	251,452	
Arches NP	774,421	
Arkansas Post NMem	47,732	
Assateague Island NS	1,953,986	
Aztec Ruins NM	80,037	
Badlands NP	1,131,728	
Baltimore-Washington Parkway	---	2/
Bandelier NM	419,656	
Bent's Old Fort NHS	43,634	
Bering Land Bridge National Preserve	---	3/
Big Bend NP & Rio Grande W&S River	338,495	
Big Cypress National Preserve	269,399	
Big Hole NB	65,680	
Big South Fork Natl River & RA	702,728	
Big Thicket National Preserve	110,522	
Bighorn Canyon NRA	408,876	
Biscayne NP	22,534	
Black Canyon of the Gunnison NM	221,031	
Blue Ridge Parkway	16,892,443	
Bluestone NSR	65,240	
Booker T Washington NM	25,849	
Boston African American NHS	469,967	
Boston NHP	1,940,856	
Brown v. Board of Education NHS	---	4/
Bryce Canyon NP	1,067,914	
Buck Island Reef NM (see Christiansted NHS)	[57,095]	
Buffalo National River	944,056	
Cabrillo NM	1,113,022	

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>		<u>(Recreational)</u>
Canaveral NS	1,354,055	
Canyon de Chelly NM	767,247	
Canyonlands NP	428,175	
Cape Cod NS	5,158,050	
Cape Hatteras NS, Ft Raleigh NHS, Wright Bros NMem	3,177,636	
Cape Krus NM, Kobuk Val NP, Noatak Natl Pres	13,143	
Cape Lookout NS	259,898	
Capitol Reef NP	608,482	
Capulin Volcano NM	55,426	
Carl Sandburg Home NHS	55,572	
Carlsbad Caverns NP	613,559	
Casa Grande NM & Hohokam Pima NM	162,650	
Castillo de San Marcos NM & Ft Matanzas NM	1,070,005	
Castle Clinton NM	3,035,952	
Catoctin Mountain Park	682,879	
Cedar Breaks NM	724,625	
Chaco Culture NHP	73,159	
Chamizal NMem	263,209	
Channel Islands NP	182,439	
Charles Pickney NHS	---	4/
Chattahoochee River NRA	3,315,410	
Chesapeake & Ohio Canal NHP	1,351,316	
Chickamauga and Chattanooga NMP	1,006,045	
Chickasaw NRA	1,451,002	
Chiricahua NM & Ft Bowie NHS	113,753	
Christiansted NHS & Buck Island Reef NM	176,489	
City of Rocks National Reserve	79,415	
Colonial NHP	3,061,788	
Colorado NM	303,453	
Congaree Swamp NM	65,271	
Coronado NMem	85,843	
Coulee Dam NRA	1,525,337	
Cowpens NB	171,294	
Crater Lake NP	460,440	
Craters of the Moon NM	231,427	
Cumberland Gap NHP	913,634	
Cumberland Island NS	40,547	
Curecanti NRA	1,068,506	
Cuyahoga Valley NRA	2,933,773	
Dayton Aviation NHP	---	4/

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994
	Visitor Use
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>
De Soto NMem	251,512
Death Valley NM	953,062
Delaware Water Gap NRA	4,678,806
Denali NP & Preserve	490,295
Devils Postpile NM	117,463
Devils Tower NM	457,811
Dinosaur NM	483,673
Dry Tortugas NP	15,708
Ebey's Landing Natl Historical Reserve	---
Edgar Allan Poe NHS	14,046
Edison NHS	58,983
Effigy Mounds NM	96,045
Eisenhower NHS	109,035
El Malpais NM	100,726
El Morro NM & Zuni Cibola NHP	87,185
Eleanor Roosevelt NHS	78,458
Eugene O'Neill NHS	3,020
Everglades NP	903,732
Federal Hall NMem	138,798
Fire Island NS	667,632
Florissant Fossil Beds NM	98,857
Ford's Theatre NHS	985,505
Fort Caroline NMem	157,620
Fort Clatsop NMem	195,523
Fort Davis NHS	67,697
Fort Donelson NB	209,108
Fort Frederica NM	326,722
Fort Laramie NHS	80,344
Fort Larned NHS	46,788
Fort McHenry NM & Historic Shrine	563,616
Fort Necessity NB	105,401
Fort Point NHS	1,464,742
Fort Pulaski NM	340,233
Fort Raleigh NHS (see Cape Hatteras NS)	[321,445]
Fort Scott NHS	73,972
Fort Smith NHS	103,058
Fort Stanwix NM	47,729
Fort Sumter NM	340,553
Fort Union NM	20,141
Fort Union Trading Post NHS	24,936

3/

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>	
Fort Vancouver NHS	315,461	
Fossil Butte NM	25,276	
Frederick Law Olmsted NHS	3,642	
Fredericksburg/Spotsylvania NMP	503,468	
Friendship Hill NHS	15,077	
Gates of the Arctic NP & Preserve	1,706	
Gateway NRA	5,300,535	
Gauley NRA	221,234	
General Grant NMem	40,394	
George Rogers Clark NHP	156,015	
George Washington Birthplace NM	131,673	
George Washington Carver NM	35,729	
George Washington Memorial Parkway	6,550,080	5/
Gettysburg NMP	1,644,857	
Gila Cliff Dwellings NM	62,369	
Glacier Bay NP & Preserve	250,565	
Glacier NP	2,165,017	
Glen Canyon NRA	2,870,815	
Golden Gate NRA	14,695,771	
Golden Spike NHS	64,254	
Grand Canyon NP	4,358,963	
Grand Portage NM	68,548	
Grand Teton NP	2,578,217	
Grant-Kohrs Ranch NHS	26,205	
Great Basin NP	87,077	
Great Sand Dunes NM	312,367	
Great Smoky Mountains NP	8,688,972	
Greenbelt Park	357,071	
Guadalupe Mountains NP	201,543	
Guilford Courthouse NMP	207,467	
Gulf Islands NS	5,109,328	
Hagerman Fossil Beds NM	---	3/
Haleakala NP	1,510,765	
Hamilton Grange NMem		4/
Hampton NHS	30,186	
Harpers Ferry NHP	397,757	
Harry S Truman NHS	63,659	
Hawaii Volcanoes NP	1,141,644	
Herbert Hoover NHS	198,098	
Home of Franklin D Roosevelt NHS	165,832	

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>	
Homestead NM of America	32,041	
Hopewell Culture NHP	33,943	
Hopewell Furnace NHS	94,698	
Horseshoe Bend NMP	112,835	
Hot Springs NP	1,575,677	
Hovenweep NM & Yucca House NM	23,733	
Hubbell Trading Post NHS	235,838	
Independence NHP	3,148,300	
Indiana Dunes NL	1,690,481	
Isle Royale NP	24,792	
Jean Lafitte NHP & Preserve	905,022	
Jefferson Natl Expansion Memorial	2,555,175	
Jewel Cave NM	147,411	
Jimmy Carter NHS	28,314	
John D Rockefeller Jr Mem Parkway	1,251,855	
John Day Fossil Beds NM	115,442	
John F Kennedy NHS	12,528	
John Muir NHS	33,198	
Johnstown Flood NMem	111,055	
Joshua Tree NM	1,201,533	
Kalaupapa NHP	---	3/
Kaloko-Honokohau NHP	45,865	
Katmai NP & Preserve	53,974	
Kenai Fjords NP	210,591	
Kennesaw Mountain NBP	990,702	
Keweenaw NHP	---	6/
Kings Mountain NMP	227,581	
Klondike Gold Rush NHP	401,522	
Klondike Gold Rush NHP (Seattle)	100,181	
Knife River Indian Village NHS	17,078	
Lake Clark NP & Preserve	12,416	
Lake Mead NRA	9,399,396	
Lake Meredith NRA & Alibates Flint Quarry NM	1,542,610	
Lassen Volcanic NP	397,153	
Lava Beds NM	121,828	
Lincoln Boyhood NMem	166,104	
Lincoln Home NHS	460,807	
Little Bighorn NM	390,000	
Little River Canyon Natl Preserve	---	4/
Longfellow NHS	13,208	

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>	
Lowell NHP	462,050	
Lyndon B Johnson NHP	183,104	
Maggie L Walker NHS	9,596	
Mammoth Cave NP	2,016,272	
Manassas NBP	830,979	
Manzanar NHS	---	4/
Martin Luther King, Jr NHS	645,370	
Martin Van Buren NHS	13,875	
Mary McLeod Bethune Council House NHS	4,000	
Mesa Verde NP	683,059	
Minute Man NHP	1,093,000	
Mississippi NR & RA	---	6/
Mojave NP	---	4/
Monocacy NB	11,029	
Montezuma Castle NM & Tuzigoot NM	1,036,001	
Moores Creek NB	70,685	
Morristown NHP	546,137	
Mount Rainier NP	1,430,526	
Mount Rushmore NMem	2,040,529	
Muir Woods NM	1,452,912	
Natchez NHP	58,100	
Natchez Trace NST	---	7/
Natchez Trace Pkwy, Brices Xrds, Tupelo NB	5,484,536	
National Capital Parks-Central	10,640,012	
National Capital Parks-East	269,435	
National Park of American Samoa	---	6/
Natural Bridges NM	137,431	
Navajo NM	108,694	
New River Gorge National River	1,038,902	
Nez Perce NHP	263,456	
Ninety Six NHS	37,216	
Niobrara/Missouri NR	---	6/
N Cascades NP, Lk Chelan NRA, Ross Lk NRA	403,077	
Obed Wild & Scenic River	237,357	
Ocmulgee NM	110,571	
Olympic NP	3,388,208	
Oregon Caves NM	97,319	
Organ Pipe Cactus NM	272,679	
Ozark National Scenic Riverways	1,489,591	
Padre Island NS	820,028	

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994	
	Visitor Use	
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>	
Palo Alto Battlefield NHS	---	6/
Pea Ridge NMP	90,652	
Pecos NHP	38,933	
Perry's Victory & Intnl Peace Memorial	184,171	
Petersburg NB	222,471	
Petrified Forest NP	918,328	
Petroglyph NM	77,144	
Pictured Rocks NL	579,633	
Pinnacles NM	175,547	
Pipe Spring NM	47,451	
Pipestone NM	116,889	
Piscataway Park	126,946	
Point Reyes NS	2,436,768	
President's Park	---	8/
Presidio	---	9/
Prince William Forest Park	231,890	
Pu'uhonua O Honanau NHP	442,164	
Puukohola Heiau NHS	43,707	
Rainbow Bridge NM	278,578	
Redwood NP	446,790	
Richmond NBP	83,518	
Rock Creek Park	2,114,898	
Rocky Mountain NP	2,983,084	
Roger Williams NMem	43,874	
Russell Cave NM	29,984	
Sagamore Hill NHS	63,703	
Saguaro NM	769,417	
Saint Croix Island IHS	---	6/
Saint Croix NSR & Lower Saint Croix NSR	419,098	
Saint Paul's Church NHS	3,668	
Saint-Gaudens NHS	33,707	
Salem Maritime NHS	580,435	
Salinas Pueblo Missions NM	50,565	
Salt River Bay NHP & Ecological Preserve	---	4/
San Antonio Missions NHP	1,491,946	
San Francisco Maritime NHP	3,734,297	
San Juan Island NHP	212,814	
San Juan NHS	1,369,972	
Santa Monica Mountains NRA	402,265	
Saratoga NHP	199,086	

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994
	Visitor Use
<u>National Park Service Park Units:</u>	<u>(Recreational)</u>
Saugus Iron Works NHS	22,250
Scotts Bluff NM	140,091
Sequoia NP & Kings Canyon NP	1,707,581
Shenandoah NP	1,877,077
Shiloh NMP	346,347
Sitka NHP	135,099
Sleeping Bear Dunes NL	1,139,079
Springfield Armory NHS	15,340
Statue of Liberty NM & Ellis Island	4,111,720
Steamtown NHS	140,861
Stones River NB	203,199
Thaddeus Kosciuszko NMem	6,750
Theodore Roosevelt Birthplace NHS	17,890
Theodore Roosevelt Inaugural NHS	29,955
Theodore Roosevelt NP	504,594
Thomas Stone NHS	4,536
Timpanogos Cave NM	76,317
Timucuan Ecological & Hist Preserve	49,176
Tonto NM	70,038
Tumacacori NM	62,115
Tuskegee Institute NHS	604,035
Ulysses S Grant NHS	4,483
U.S.S. Arizona Memorial	1,445,426
Upper Delaware Scenic & Rec River	269,122
Valley Forge NHP	1,744,733
Vanderbilt Mansion NHS	319,447
Vicksburg NMP	832,362
Virgin Islands NP	654,890
Voyageurs NP	227,699
War in the Pacific NHP	102,549
Weir Farm NHS	7,321
Whiskeytown NRA	959,754
White House	1,194,378
White Sands NM	588,094
Whitman Mission NHS	71,270
William Howard Taft NHS	6,860
Wilson's Creek NB	194,449
Wind Cave NP	764,451
Wolf Trap Farm Park	612,110
Women's Rights NHP	28,929

NUMBER OF RECREATIONAL VISITS FOR FY 1994

	FY 1994 Visitor Use <u>(Recreational)</u>
<u>National Park Service Park Units:</u>	
Wrangell-Saint Elias NP & Preserve	49,963
Wright Brothers NMem (see Cape Hatteras NS)	[485,460]
Wupatki NM, Sunset Crater NM, Walnut Can NM	936,501
Yellowstone NP	3,076,262
Yosemite NP	4,003,583
Yukon-Charley Rivers Natl Preserve	676
Zion NP	2,316,734
Subtotal Park Units	265,265,235

- 1/ Counts not taken because pedestrian traffic and multiple access points along the Appalachian NST present problems in estimating visitation.
- 2/ Counts not taken of vehicular traffic and there are no visitor sites.
- 3/ Limited Federal and/or public facilities--counts not taken.
- 4/ Under development or renovation.
- 5/ Counts are given for George Washington Memorial Parkway because it includes the Arlington House, Clara Barton NHS, the LBJ Memorial Grove, and Theodore Roosevelt Island.
- 6/ No Federal and/or public facilities.
- 7/ Reported as part of Natchez Trace Parkway.
- 8/ Reported under White House.
- 9/ Not under NPS management until FY 1995.

EDUCATION AND TECHNOLOGY

Mr. REGULA. I was also interested in your comments on education. One of the concerns I have had of many of the agencies in Washington, the Smithsonian, the Kennedy Center, Library of Congress, the Wilson and so on is that it is not available to people across the country. Now, I know that a number of these agencies are going on Internet so that a student in a classroom in Ohio or Wyoming can plug in. I wish you would expand a little bit on how you see your department being active in this type of an outreach.

Secretary BABBITT. Well, the importance of this type of outreach is simply this. We have built a national park system of extraordinary beauty and importance. It remains as a practical matter outside the experience of a large portion of Americans. The reason for that is simply that that is an urbanizing country in which more and more kids are growing up with very little direct contact with what was once a part of the up bringing of virtually every American child. In my judgment, we must find ways to get back into cities and to touch and inspire and excite young people about what is out there.

It translates into the use of technology, the importance of education, and inferentially the importance of urban parks which are occasionally put at the top of these hit lists which I think makes no sense at all. It speaks for the importance—and I admit here that I am pandering directly to the Chairman on this, but for good reason. It speaks to the importance—

Mr. REGULA. You mean Cuyahoga is an urban park?

Secretary BABBITT. An environmental education center.

Mr. REGULA. I have been there and it is terrific. I know you have been there, also.

Secretary BABBITT. It is indeed. It is a model of the kind of technology and education we must do.

Mr. REGULA. And the beauty of it is that it is a public-private enterprise. The private sector has probably given more in terms of financial support than the public in making this happen. It is available to any student or class in northern Ohio, or for that matter all of Ohio, and it is fantastic. And I hope that you will push to see these types of facilities in some of the other urban parks and that should almost be a model.

Secretary BABBITT. It is indeed.

ELIMINATING THE U.S. GEOLOGICAL SURVEY

Mr. REGULA. Just a couple of quick questions. I am taking advantage of your generosity.

Maybe you could do this for the record, share with the committee your thoughts on the consequences of eliminating the United States Geological Survey. This is another agency that you have heard bandied around a lot by the various groups, and saying here is one we could eliminate and save money, and so take it from a zero-based budget concept as to what the mission is, why it is important, and any information that would be helpful to us in making a judgment as to what the future should be.

[The information follows:]

Consequences of Eliminating the U.S. Geological Survey

The U.S. Geological Survey (USGS) is the federal government's primary source of data on the quality and availability of the Nation's water resources; the Nation's primary provider of earth-science information on natural hazards, the environment, and mineral and energy resources; and the Nation's, principal civilian map making agency.

The USGS is an impartial fact-finding agency with no regulatory or resource management responsibilities. The USGS has maintained a 100-plus year tradition of producing credible, objective, unbiased information and findings that are used by all to understand and to effectively resolve environmental and natural resource problems, concerns and disputes between competing uses and users of the Nation's resources. The principle governing all USGS science, investigations, and assessments, is that of being policy-relevant but at the same time policy-neutral. When asked to identify its most significant contribution, those in government and the private sector, who know the USGS, nearly always point to the Survey's independent impartiality as the foundation of its value to society.

As the Chairman notes, the suggestion has been made that the USGS be abolished and that the functions the agency performs be: 1) turned over to other Federal agencies such as the National Science Foundation (NSF), Environment Protection Agency (EPA) or, the Defense Mapping Agency (DMA); 2) made the responsibility of State and local governments; or 3) turned over to the private sector. The remainder of this statement discusses the principal functions currently performed by USGS, the rationale for retaining these activities as appropriate responsibilities of the Federal Government, and the consequences of either abolishing them, relocating them elsewhere in the Federal Government, or privatizing them.

It has been suggested that research conducted by USGS could be undertaken instead by the NSF. Unlike the NSF, which supports a diverse portfolio of fundamental/basic research conducted largely in the Nation's universities, USGS research is problem-oriented and targeted at National, State, and local issues, concerns and needs. The USGS has the infrastructure and the capability to run long-term operational and monitoring programs such as continuous assessments of the Nation's water quality and regional earthquake monitoring, along with directly supportive earth science research. The USGS also has the full array of scientific resources and technologies necessary to marshal extensive, state-of-the-art scientific expertise in times of natural disasters.

For example, during the past few years, the USGS research and operational infrastructure supported rapid and effective responses to the following natural disasters: the Loma Prieta and Northridge, California earthquakes (with a total damage estimate of nearly \$30 billion, the Northridge earthquake was the most expensive national disaster ever to strike the United States); Hurricanes Hugo,

Andrew and Iniki; the Great Mississippi floods, and recent devastating floods in Arizona, Georgia, Texas, and California. In addition, the USGS successfully predicted the eruption of Mount Pinatubo, which threatened thousands of lives and exceedingly valuable equipment at Clark Air Base in the Philippines. USGS also monitors active Alaskan volcanoes that endanger jet aircraft and passengers flying over the widely-used Northern Pacific international air routes, as well as active volcanoes in Hawaii, Washington, Oregon and northern California, all of which threaten highly populated areas. In recent days, the USGS dispatched a team of its earthquake specialists to Kobe, Japan, to assist the Japanese government in the aftermath of the terrible earthquake that has taken more than 5,000 lives.

Mapping

Through its National Mapping Program, the USGS provides accurate and up-to-date basic map information for the entire United States in forms that can be readily applied to a wide variety of land management problems. These maps provide basic information that is needed by government agencies in dealing with key issues ranging from meeting energy demands to conserving natural resources. Map data, in computer-readable, form are becoming increasingly important in computer-based resource and geographic information systems to evaluate alternative management plans and to study the effects of different management policies.

The USGS plays a leading role in developing standards and coordinating Federal and State map requirements which make it possible for all levels of government, the public, and the private sector to produce, share, integrate, and coordinate geographic data. Consistency of map data collection and integration are critical to the Nation's ability to conduct regional and national analyses.

The USGS standard-setting work has led the way to the development of viable private sector mapping activities. Much of the current USGS mapping program is conducted through the private sector by contract. Geographic information systems software developers support USGS leadership in the standards development process, and regard it as necessary for their continued growth.

The USGS focuses its map production activities in those areas where market conditions are not conducive to the private sector supplying National needs, for example, fire-fighting on forest lands, public land management, and natural disaster response. The private sector, both by necessity and by definition, will operate only in profitable markets. Large tracts of Federal land in the West and elsewhere -- up to 80 percent of the Nation's land mass -- are essentially excluded under such conditions. In addition, the private sector operates with copyright restrictions that can inhibit the flow of information needed to meet land management and natural hazard needs in a timely and cost effective manner. A nationally-managed cartographic data base, coordination mechanism, and procedure for data sharing avoids repetitive and wasteful purchases of geographic information by all levels of government.

Water

The USGS has the principal responsibility within the Federal Government to provide the hydrologic information and understanding needed by others to achieve the best use and management of the Nation's water resources. Because many, if not most, water resources issues (rivers and groundwater aquifers) cross political boundaries, there is a compelling need for a Federal program in this area. USGS data and studies are widely regarded by members of the public and private sector, as well as by the international community, as comprehensive, objective and impartial. The recognized impartiality of the USGS has led to the ready acceptance of its observations and findings as part of the dispute resolution process in the Nation's courts.

To accomplish its mission, the USGS systematically collects and analyzes data to evaluate the quantity, quality and use of the Nation's water resources and provides results of these investigations to the public. The Survey's problem-oriented and basic hydrologic and related research aids in alleviating water resources problems and provides an understanding of hydrologic systems sufficient to predict their response to natural or human-caused stress. In addition, the USGS provides substantial scientific, technical, and data coordination assistance in hydrologic fields to the Environmental Protection Agency, the Departments of Defense and Energy, and 25 other Federal agencies.

More than 1,100 State and local governments voluntarily participate in the USGS cooperative program. These non-Federal agencies provide at least 50 percent of the cost of collecting of basic data and conducting studies. This program is used to assist the States in responding to many Federally-imposed environmental mandates by leveraging limited State and local funds to gather basic water data and conduct problem-oriented studies that are useful to both the cooperator and to the wider natural resource and environmental management community in understanding the breath and scope of water resources issues. In 1995, in order to fund additional high-priority work they need to have done, cooperators will provide an estimated \$23 million over and above the dollar-for-dollar matching requirement.

In addition, the Federal-State Cooperative Program supports two-thirds of the Nation's water data network, including some 3,000 streamflow stations which constitute the core of the National Weather Service Flood Forecasting Network.

All of the data and results of the USGS water programs, including the Federal-State Cooperative Program, have multiple uses and users. USGS water data are universally available through published reports and digital information resources. This would not be the case if private consulting firms were the only sources of basic water data and investigations for local, State, and Federal governments.

Geology

The USGS investigates and assesses the dynamic geologic processes that have shaped and are still shaping the Nation; the USGS assesses the Nation's mineral and energy resources, and identifies and investigates geologic hazards. Investigations of geologic hazards provide information for predicting and delineating hazards from earthquakes and volcanoes, recognizing areas of potential property damage and loss of life, and identifying engineering problems related to ground-failure hazards. Land management agencies use USGS energy and mineral resources investigations to assess the distribution, quantity, and quality of the Nation's resources in making land-use decisions. Regional geologic studies provide geologic maps and information that are essential to mineral, energy, and hazard assessments and to land-use decisions such as landfill siting and selection of transportation routes.

Summary

In summary, the nationwide work of the U.S. Geological Survey is focused on earth science issues related to four broad, socially relevant themes: (1) natural hazards (floods, droughts, earthquakes, hurricanes, volcanic eruptions, wild fires, and land subsidence); (2) natural resources (water, minerals and energy); (3) threats to the environment and human health (e.g., pesticides, pathogens, toxic metals and radionuclides in waters and unconsolidated sediments, and acid mine drainage effluent); and (4) the continuous collection, aggregation, management, and analysis of critical, national baseline data and information from a variety of scientific monitoring activities.

The proposals that have been offered regarding the abolishment of the USGS will yield little, if any, net budget savings to government because they merely involve relocating, elsewhere in the Federal establishment, the functions currently performed by USGS. Indeed, these proposals, if implemented, would likely require other Federal, State, and local agencies to procure basic data and scientific/technical expertise currently available from USGS, at considerably higher cost, from private sector firms. If the concept of Federal-State partnerships were to be abandoned, the multipurpose nature of USGS earth science information, made possible because of its current universal availability, would be lost. Such information would be regarded instead as a private good with access controlled by the private sector provider. Finally, the elimination of USGS Federal-State Cooperative Programs would shift to State and local governments the entire burden of gathering basic natural resource information needed by them to respond to Federally imposed environmental mandates.

SLANT DRILLING

Mr. REGULA. One other issue I would like perhaps for you to respond at the next hearing, and that is the question of slant drilling, because we have to deal with the moratoria question on the Outer Continental Shelf and I just happened to see a TV program that came out of the U.K. recently for British petroleum, you can go out many miles from on-shore facility using the newspaper slant drilling technology and I think it is probably a very sophisticated technique and perhaps you could either respond for the record or bring some information to our next hearing.

Secretary BABBITT. Sir, I would be happy to do that. The American oil companies are now doing this off the platforms in the Gulf of Mexico, and I would be happy to bring some of that up. It is a fascinating development.

Mr. REGULA. Well, I simply want to say, Mr. Secretary, I guess we have these roles to interact. But anyway, Mr. Secretary, I think you have done a terrific job this morning and I think your response has been very thought-provoking. This is the kind of information we need to make responsible judgments on the many challenges that confront us as we try to downsize costs, but at the same time not in any way jeopardize the important functions of your agency.

Secretary BABBITT. Mr. Chairman, thank you very much.

Mr. REGULA. The committee is adjourned.

[Questions and answers for the record follow:]

ADDITIONAL COMMITTEE QUESTIONS SUBMITTED FOR THE RECORD

Last week, several witnesses representing the Heritage Foundation, the Cato Institute, Citizens Against Government Waste, and Citizens for a Sound Economy appeared before the Committee and offered some interesting suggestions on how to trim Federal spending in the Interior Appropriations bill. Today, we would like to hear your suggestions and have you respond to the suggestions raised last week.

We will be cutting spending in fiscal years 1995 and 1996 and we will be giving consideration to all the suggestions we receive. The Committee is especially interested in terminating programs which have outlived their usefulness and in stopping new programs which have large outyear costs unless they are absolutely essential and are offset by reductions in other ongoing programs.

Question: What suggestions do you have for downsizing your agency?

Answer: As part of the Vice President's National Performance Review, the Department has developed and is implementing a streamlining plan to reduce bureaucracy and management layers and to strengthen our on-the-ground delivery of services. Over five years the goal is to reduce headquarters staffing by 49 percent and to establish a 1:14 supervisor to employee ratio. In addition, administrative streamlining efforts in FY 1994 and FY 1995 have saved \$89 million.

With respect to programs, a number of programs were recommended for termination or reduction in the President's 1995 budget. For example, that budget recommended, and the Congress agreed, that the U.S. Bureau of Mines (USBM) concentrate its efforts on four Centers of Excellence, eliminating funding for lower priority projects and for work that had been completed. As a continuation of the National Performance Review, the Department is now conducting a top-down review of all of our programs. After that review is completed, we will share our final recommendations with the Committee.

Question: What new projects will be starting this fiscal year?

Answer: The FY 1995 budget, as passed by Congress, did not contain a significant number of programs that were entirely new. However, there were some initiatives that reflect increased emphasis, such as the new Central Hazardous Material (HAZMAT) fund and the National Spatial Data Infrastructure (NSDI) initiative. For example, in the new Central HAZMAT fund, the Department's responsibilities for remedial investigations/feasibility studies and cleanups of hazardous sites is being carried out in a central program instead of by individual bureaus. This account was established by transferring funding and projects from the respective bureaus to the new activity group. For the NSDI program, funds were redirected from within the U.S. Geological Survey (USGS) cartographic program to support a National Performance Review initiative to foster national involvement in geospatial data beyond the Federal

sector. Because these type programs are a repackaging of current efforts, they have not been included.

Our list of new programs is as follows:

	Amount (\$ in 000)
Grants in Aid to Historically Black Colleges and Universities	1,500
Manzanar National Historic Site	232
Back to the River Greenway Project	200

Although these are not new programs in FY 1995, initial funding for the following legislated water rights settlements was appropriated in FY 1995:

	Amount (\$ in 000)
Northern Cheyenne	16,900
Yavapai-Prescott	300
Catawba	8,000

For construction and land acquisition, the Department has already provided the Subcommittee detailed information on all projects, including new projects in FY 1995.

LAND MANAGEMENT

Question: Do you think leasing some public lands to States or local communities is a viable alternative to sale or transfer? Would all transfer or leasing arrangements require action by the authorizing committees?

Answer: Leasing public lands to States or local communities is a viable alternative to sale or transfer, in some instances. In fact, the Department already has a number of leasing programs in operation. The Bureau of Land Management (BLM) makes lands available, at no cost, to State and local governments for a variety of purposes (such as parks, schools, recreational facilities, etc.), under the Recreation and Public Purposes Act. However, the Act specifically limits the use of the lands in question; it would not be appropriate to lease to States so they could sublease grazing, for instance.

At the end of FY 1993 (the last date for which we have data), there were 951 leases in effect totaling over 108,000 acres. Most of these leases were in States with large ratios of Federal ownership, such as Nevada (213 leases covering 31,000 acres); California (123 leases covering 18,000 acres); and Utah (117 leases covering almost 18,000 acres). Another example includes the 96 airport leases BLM had in effect at the end of FY 1993 covering almost 28,000 acres.

We have authority under existing law and under current limitations for our current programs. Beyond that, we would have to work with the authorizing committees.

Question: The Cato Institute testified that the Department did a survey in the 1980's which concluded that "the Federal Government owns vast holdings of urban land which have no environmental significance." Would you briefly comment on your perception of the value of the urban lands under your jurisdiction.

Answer: The Department has not completed a comprehensive analysis of the value of urban lands under our jurisdiction.

We know, though, that in some cases these lands are extremely valuable. For example, many National Park Service (NPS) holdings in cities such as Boston, New York, San Francisco, and Washington, D.C. would command substantial prices in the commercial or residential markets. While some of these lands may not have "environmental" significance, we must remember they have vital and important historical and cultural significance to the American people.

On the other hand, the Department also administers some urban lands which may have little or no value in the real estate market, while still being environmentally significant. For example, the Rocky Mountain Arsenal in Denver is controlled by the Army and, under the terms of legislation enacted about two years ago, is largely managed by the Fish and Wildlife Service (FWS) as an urban wildlife area. The Arsenal, which has been described as the "most polluted square mile in America," has major cleanup challenges and expenses that make much of it unsuitable for development. (The arsenal is actually much larger than a square mile; probably on the order of 20,000 acres).

The BLM does not have substantial Public Land holdings in urban areas. And, in rapidly growing areas such as the Las Vegas area, for instance, we already have an aggressive land exchange program in effect.

Question: Are there specific examples of Federal urban lands which would make good candidates for transfer to other entities for management?

Answer: Much of the Department's portfolio of urban lands is in the National Park System. The Department does not favor shrinking the National Park System.

Question: Can they do it?

Answer: There are certainly examples of State, local governments, and non-profit organizations successfully managing cultural sites in urban areas. However, the units that make up the National Park System were included because Congress judged them of such national significance that they should be managed by the Federal Government.

Question: For the record, provide the Committee with a list of those lands and your recommendation for disposing or retaining each of them.

Answer: The BLM, FWS, NPS, and the Bureau of Reclamation, have been directed to inventory their existing records and compile a list of urban lands under their jurisdiction. Due to the workload involved, we will have to provide the Committee this inventory at a later time.

Question: What guidance or criteria can you offer the Committee to help us identify low priority construction and land acquisition projects which could be terminated and appropriations rescinded?

Answer: As a general policy, the Department supports construction funding which is targeted towards our ever-growing backlog of rehabilitation and reconstruction projects at our heavily visited parks, refuges, and public lands recreation sites. We also recognize the importance of prioritizing projects based on set criteria. The reconstruction backlog in BLM totals \$119 million; FWS totals \$246 million; and NPS totals \$2.9 billion. With respect to the Bureau of Indian Affairs (BIA), the backlog of critical health and safety needs for facilities in Indian country is at least \$660 million. We must continue to alleviate these problems.

Our land acquisition priorities remain to protect wetland and riparian resources, to preserve critical habitat, and to improve recreational opportunities for the public.

Question: One of the public witnesses recommended a 5-year moratorium on new construction and land acquisition. Do you think this proposal would be acceptable for your agencies? What exceptions would you allow?

Answer: We do not recommend this approach. Generally, the Department has not recommended many "new" construction projects in recent budgets. Our emphasis has been on addressing our large backlogs of infrastructure repair and rehabilitation, particularly in the Park Service and the BIA. However, in putting together the budgets for the Department, proposed projects have to be evaluated case-by-case on the basis of need. It would not be prudent to arbitrarily foreclose all "new" projects. There are some cases where such construction ranks highly in our priority setting because of resource protection considerations or other pressing needs.

In the case of land acquisition, the same arguments apply. Each of our bureaus uses a priority system that establishes acquisition priorities on the basis of critical natural resource, wildlife and cultural resource protection.

GAO has recommended that the Secretaries of the Interior and Agriculture (1) jointly establish a policy on when lands should be purchased or when other protection alternatives should be used, (2) critically evaluate the need to purchase additional lands in existing projects, and (3) prepare plans identifying lands needed

to achieve project purposes and objectives for every new project before acquiring land.

Question: Does Interior have a policy on when lands should be purchased or when other protection alternatives should be used?

Answer: In the budgets submitted during this Administration, we have stressed the importance of land exchanges as an alternative to land purchase. Exchanges often allow acquisition of critical tracts of land at less cost to the Treasury and with less impact on the landowner. The Department also regards the acquisition of easements, as opposed to fee purchase, as an important approach in appropriate cases.

Question: Does Interior critically evaluate the need to purchase additional lands and prepare plans identifying lands needed to achieve project purposes and objectives for every new project before acquiring land?

Answer: Yes. When NPS does a new area study, it evaluates the resources in question, states how the area may be used, and recommends which areas may need to be protected or acquired. These studies are usually called for by Congress before it establishes a new park area.

The land management agencies in the Department also develop management plans for areas under their stewardship that guide them in acquisition planning.

It has now been documented that the process for exchanging Federal lands for non-Federal lands, when it has been used, has generally worked well.

Question: Do you agree, and to what extent can the Federal land base be adjusted through either exchanges or acquisition with funds generated through the sale of excess lands?

Answer: We agree that the process for exchanging Federal lands for non-Federal lands has generally worked well. In fact, we have had a number of success stories, including our ongoing efforts in Idaho.

However, the Administration does not support financing exchanges and acquisitions with funds generated through the sale of so-called "excess" lands. Lands that would be most attractive to potential purchasers are generally the same lands most likely to be beneficially exchanged.

The focus on reducing or reinventing government agencies and programs has caused policy makers to consider many alternatives to how government management and business are conducted. Considering (1) the responsibility for managing Federal land under a variety of laws that require stewardship of natural

resources as well as the economic activity generated on these lands and (2) the potential decline in resources and staff to meet these responsibilities and duties,

Question: Has Interior compared the cost of managing its lands to the costs incurred by the States in managing similar lands? If so, what did you find?

Answer: The Department has not conducted a comprehensive comparison of the costs of managing public lands to the costs incurred by the States in managing similar lands.

There are instances where land exchanges between the States and the Government can achieve economies through boundary consolidation and we favor consideration of such exchanges. However, as a general matter, the lands managed by BLM have high public values for the Nation as a whole, including scenic, recreational, wildlife, and watershed values. There is no reason to think that States could achieve significant economies in management if they continued to manage for these values.

Question: Has Interior considered the tradeoffs associated with transferring substantial acreage to the States and letting them assume the costs of managing the lands in return for obtaining the economic and other benefits associated with the land?

Answer: The Administration does not support the wholesale transfer of public lands to the States. Section 102 (a)(1) of the Federal Land Policy and Management Act states it is Congressional policy that "the public lands be retained in Federal ownership, unless as a result of the land use planning procedures provided for in the Act, it is determined that disposal of a particular parcel will serve the national interest..." The Department concurs in and supports this policy.

In only one or two States -- such as New Mexico with a number of oil and gas wells on public lands, and Wyoming which also has a large number of oil and gas wells, plus fully one-quarter of the nation's coal production -- the economic benefits to be gained by the States would outweigh the costs to the States of managing the public lands. However, in most public land States the costs of managing the Public Lands for a variety of values would outweigh the economic benefits associated with the land in States such as Alaska, Arizona, Idaho, and Nevada.

We are concerned that the transfer of public lands to the States, especially in States with important energy mineral resources on public lands, would deprive U.S. taxpayers of an important public asset, namely the royalties from commodity production which help lessen the public debt burden. For example, in 1994, royalties, bonus bids, and rentals from onshore oil and gas leases on public land totaled over \$700 million.

Our concerns go beyond financial ones: we manage these lands for all Americans. Taxpayers in urban areas and other States value these lands for the recreational,

scenic, and wildlife values they provide. We also cannot ignore what economists call the "existence" value of these lands; the comfort many people derive just knowing there are still "wide open spaces".

Question: Has Interior considered selling substantial acreage to private concerns at the highest obtainable price?

Answer: The Administration does not support the wholesale sale of the Public Land. The land managed by BLM has high public values for the Nation as a whole, including scenic, recreational, wildlife, and watershed values.

Every new land acquisition has the effect of increasing operations and maintenance funding for the land managing agencies. Currently, all of the land managing agencies show a significant O&M backlog.

Question: What is the Department doing to address this serious problem?

Answer: We have taken several steps to try to ensure we don't add to our operations and maintenance backlog with rash land acquisition decisions.

We have clearly defined land acquisition priorities to protect wetland and riparian resources, to preserve critical habitat, and to improve recreational opportunities for the public.

As a matter of general policy, the Department does not support the construction of new visitor centers which can significantly add to our O&M needs. We will, however, consider supporting such visitor centers where partnerships can be developed to substantially share both construction costs and operations and maintenance costs.

INTERIOR BUREAU ELIMINATIONS

Several agencies within your Department have been targeted by various groups for elimination or large reductions.

Question: To what extent could industry and the States be expected to take over the work that is currently performed by the U.S. Geological Survey?

Answer: The extent would be limited. The USGS must maintain a significant internal infrastructure in order to provide credible, nationally consistent, and objective earth science information to its users. In the process of doing this, USGS makes all of its maps, publications and data bases available to anyone who wishes to use them through its publication distribution network, USGS libraries, over 1,200 repository libraries, information offices, and increasingly by computer networks.

One of the greatest assets of USGS is its personnel. The USGS is able to conduct comprehensive, integrated, multidisciplinary studies and assessments because of the breadth of the scientific capabilities of its personnel and the personnel that support them. In addition, in times of emergencies such as earthquakes, floods, volcanic eruptions, and storms, personnel of USGS respond immediately to provide monitoring and scientific information help to local, State and Federal emergency care providers and responders.

The USGS infrastructure also includes establishing and maintaining nationally consistent standards for our many and varied data collection and monitoring activities. Finally, and perhaps most important, is the fact that essentially all information of USGS is in the public domain; it is a public good. Any one person, company, or Federal, State or local agency has equal access to our information. The economic benefit to the Nation is the greatest when USGS information is used by the largest number of customers. Access to earth science information, of the type that USGS provides, would likely have to be paid for several times over if USGS functions were conducted by industry or the States. Many functions would probably not be taken over by industry or States since there would be no profit. For example, it is estimated that topographic maps would only be made for the most heavily populated 10 to 20 percent of the country, where there is likely to be sufficient demand for the maps to provide a profit.

The February 1982 "Economic Report of the President" of the Council of Economic Advisors, in a discussion of "Public Goods," said "Another public good is information," "...but there are still cases where the private market does not generate sufficient information." "This provides the rationale for government financing of certain kinds of research." This is the need that is being met by USGS earth science information.

Question: Why do we still need a Bureau of Mines?

Answer: The USBM is the primary Federal organization that conducts fundamental research on reducing fatalities and injuries in mines, cleaning up and preventing environmental pollution resulting from mining operations, increasing recycling and conservation of materials, and collecting the statistical data on minerals and materials use in the economy.

Under the Federal Mine Safety and Health Act of 1977, the Secretary of the Interior has a legal responsibility to assist in improving working conditions in the mining and minerals processing industries. Although USBM research throughout this century has made mines safer places to work, mining continues to be one of the most hazardous of all occupations. Mine workers are killed or injured in fires, explosions, roof falls, and other accidents. Miners are exposed to respirable dusts such as coal and silica, diesel emission particulate, and other contaminants. The annual cost to society in payments to workers suffering from black lung disease is

more than \$1 billion. Research by the USBM works to reduce such costs in the future.

There are hundreds of thousands of abandoned mine and mineral-processing sites across the Nation -- many of them on Department of the Interior lands. Many of these sites pollute surface and groundwater. Others contain billions of tons of waste material. Frequently, they present safety hazards to nearby populations. Much of the cost of cleaning up these sites will have to be borne by Government. The USBM is researching cost effective ways to clean up such sites, to protect the public from abandoned mine hazards, and to develop systems to prevent mining pollution before it is created. The research USBM performs is long-term, higher-risk fundamental research that the private sector does not perform. Existing technology for environmental remediation is very costly. It is also of such limited success in permanently mitigating existing problems, that the need for innovative and cost-effective systems to address existing problems on Federal lands is paramount.

The USBM collects, analyzes, and disseminates minerals supply-and-demand information for more than 190 countries, 50 U.S. States, four U.S. Territories, and 100 commodities. The USBM studies are used by regulatory agencies, land management agencies, State and local governments, and national policy organizations to make sound policy decisions, based on independent science.

Minerals are produced and consumed in every State in the Nation. Per capita consumption of non-fuel minerals has grown to approximately 10 tons per year. Minerals are used to grow food; to build homes, workplaces, and roads; and to manufacture automobiles, computers, and televisions. Because of this tremendous need for minerals, it is vital to have an historical database of minerals information that continues to be updated and disseminated by the scientists of USBM, in order to understand the source of demand, supply and flow of minerals and materials in this country and throughout the world.

Question: What activities within the Bureau do you consider vital to the national interest? Please explain.

Answer: To determine which USBM activities are in the national interest, USBM completed a review of its programs, facilities, and operations. As a result of this review, USBM is in the process of streamlining its programs and organization. Over a multi-year period, the number of field facilities will be reduced to four major research centers that will focus on areas that USBM considers to be vital to the National interest. These areas are health and safety, pollution prevention and control, environmental remediation, and materials recycling and conservation. In addition, USBM will continue to publish the most important of its minerals information studies.

It is assumed that minerals and materials use will grow. Research to limit the impact of mining and mineral processing upon the environment of this planet is

vital. The USBM is a focal point in the Federal Government for this type of research. The Federal Government has particular liability for abandoned mine sites on public lands. No other organization -- private or public -- currently focuses on developing the technology for cleaning up pollution caused by mining and minerals processing.

Protecting the health and safety of mine workers also is in the national interest, because the huge cost of health care and compensation is borne not just by individual workers, their families, and employers, but by the entire country. Furthermore, USBM's role in tracking mineral-related supply-and-demand data is important to the national interest. The Administration has said that USBM's materials flow analyses are key to sustainable development efforts. The USBM data and analyses are used by Congress and Federal agencies in formulating policies that protect the environment, enhance worker health and safety, and foster trade and development. The USBM data and information is used by industry executives, market analysts, economists, scientists, engineers, teachers, and students.

The USBM needs to continue its research and information collection and analysis activities in order to supply policy makers with sound, unbiased scientific and minerals information. These activities should not be left to the private sector, whose interests lie in profit making; nor to regulatory agencies, whose enforcement responsibilities could conflict with the need for unbiased data.

Question: What are you doing to improve the management of the Bureau of Indian Affairs?

Answer: One of the highest priorities of this Administration is the continued enhancement of Indian self-determination, where Indian people fully participate in the planning, conduct, and administration of Indian programs and services. During the last two years, the Department and the BIA have achieved significant progress in accomplishing national self-determination objectives. In FY 1995, well over half of the Bureau's operating budget will be administered by Tribes who elect to operate various BIA programs under self-determination contracts, grants, or self-governance compacts. In the last two years we have seen an increase in the portion of the BIA operating budget where the individual Tribes set their own program priorities. In addition, for the first time, the Department is expanding the Self-Governance program so that these Tribes can elect to include eligible non-BIA programs in their compacts, further enhancing our government to government relationship with Tribes.

In recent years, BIA has made significant FTE and administrative reductions and realignments to meet the goals of the National Performance Review and improve the overall management of Bureau functions. As a result, the BIA is highly decentralized with over 85 percent of the BIA workforce concentrated at the front line at the agency, school, or reservation level. The BIA is committed to further restructuring to ensure the continued reductions of Central and Area Office staff and

the continued shift of resources and authority to the field. Tribal consultation has been held on the various streamlining options; the final plan will be presented to the Appropriations Committees. The BIA streamlining plan is due to the Department on February 28, 1995.

The Department and the Bureau have been aggressively pursuing improvements in trust funds management. The Secretary takes seriously the responsibilities as fiduciary for over \$2 billion in Tribal and individual Indian trust funds and recognizes that the trust funds require an even higher level of care than the traditional fiduciary. The Secretary's six point reform plan stresses sustained improvements in this program, including the development of the most appropriate vehicle for the management of Indian trust funds and ensuring the highest level of fiduciary and investment standards in the investment of these funds.

These are just a few areas where real progress is being made in the improvement of the management of the BIA. Secretary Babbitt and Assistant Secretary Deer have also seen many other improvements such as correction of material weaknesses and the establishment of reinvention labs to improve program delivery in the Bureau.

Question: To what extent is it possible to move toward an end to the Federal Government's role as trustee for the Indian people?

Answer: One constant that has remained throughout history is the continued existence of the United States Indian trust relationship. While the Federal trust obligation lies at the heart of the special relationship that exists between the Federal Government and the Indian Tribes, the scope of the United States responsibilities to American Indians extends beyond basic trust obligations to include a wide range of Federal service obligations. The Snyder Act; the Indian Self-Determination and Education Assistance Act; the Indian Education Amendments of 1978; and the Indian Reorganization Act are just a few of the many laws which have defined the Federal authority and obligation to provide various programs and services to Indian country.

One of the highest priorities of this Administration is the continued enhancement of Indian self-determination, where Indian people fully participate in the planning, conduct, and administration of Indian programs and services. Today, over half of the BIA operating budget is administered by Tribes who elect to operate various BIA programs under self-determination contracts, grants or compacts. Furthermore, the BIA has made significant FTE reductions and realignments and is currently holding Tribal consultation on further downsizing options.

It is the Tribes that should determine how quickly and in what manner Tribal governments assume self-governance. As we continue to see progress in Tribes assuming governmental responsibilities, the Federal presence will continue to diminish, although the Federal trust responsibility will remain.

It is widely known that Federal land management agencies are currently hampered in coordinating their activities because of (1) disparate missions and (2) separate, lengthy planning requirements -- both of which are rooted in the existing Federal land management framework of laws, agencies, and land units.

Question: Do you believe that the Federal land management agencies' disparate missions and user groups as well as procedural requirements for long-range planning pose significant barriers to the efficiencies that could be derived through improved interagency coordination, and if so, where would you suggest that the Congress begin to address these problems?

Answer: The Department has made enormous progress in the past two years to overcome such barriers. For example:

Gridlock over the management of public forest lands in the Pacific Northwest created an uncertain future for the people of the region. It was a problem the Administration inherited, and one that we made a priority to solve with the President's Forest Plan. In the true spirit of reinventing government, the Forest Plan is a model of inter-agency cooperation and coordination with seven different Federal agencies working together, sharing information, and making joint decisions. We are also working closely in partnership with State and local government, Indian Tribes, businesses, conservation groups, and individuals.

The Administration has established the South Florida Ecosystem Task Force to lead and coordinate the efforts of Federal agencies to work closely with the State, local governments, industry, conservation groups, and Tribal governments to restore the essential hydrologic functions of the historical wetlands in and around the Everglades in southern Florida. The Federal Government is also setting a new standard for public land management in the California Desert. The BLM and NPS are working together on all aspects of implementation of the *California Desert Wilderness Act*.

We would be pleased to continue to work with the Congress on the Administration's ongoing streamlining efforts and Reinventing Government initiative to achieve even better results.

Question: Beyond fiscal year 1995, how many employee reductions does the agency expect to achieve each year through fiscal year 1999 from voluntary or early out retirements, resignations, and reductions-in-force?

Answer: By FY 1999, Interior estimates it will reduce its full-time equivalent employment to 72,108, a reduction of a net 5,800 full-time equivalent staff-years (FTEs) from a FY 1993 base level of 77,937. This net number reflects a reduction of 6,800 permanent staff, offset by a special allocation of 1,000 new FTEs for seasonal

employment. All of the reduction will be achieved through buy-outs, early retirement, and normal attrition.

FY 1994 staffing was 76,371 FTEs, a level which partially reflected about 3,000 buyouts accepted in May 1994. The FTE target for FY 1995 is 75,840. However, in FY 1995, the Department will be accepting about 2,000 more buyouts. Therefore, the FTE usage projected for FY 1995 will be substantially under that target -- a total of about 74,000.

The FTE targets for 1997, 1998, and 1999 call for reducing staff gradually to the level of 72,108 FTEs. The Department will be able to achieve those reductions through buy-outs, early retirement, and normal attrition. However, office consolidations and closures required by budget cuts could possibly result in some reductions-in-force. Also, some employees affected by office closures will resign or retire rather than accept a transfer to a different job assignment. Since budget cuts and related office closures are not known, no estimate of that number has been made.

Question: In addition to identifying ways to become more efficient, have any services or programs been identified that may no longer be needed or that do not provide sufficient returns for their costs? If so, what are they? If not, do you think this could be a fruitful strategy to reduce FTEs?

Answer: A number of programs were recommended for termination or reduction in the President's 1995 budget. For example, that budget recommended, and the Congress agreed, that USBM concentrate its efforts on four Centers of Excellence, eliminating funding for lower priority projects and for work that had been completed. Other FY 1995 recommendations included ending the Rural Abandoned Mine Program funded in the Office of Surface Mining and the Water Resources Research Institutes in USGS. As a continuation of the National Performance Review, the Department is now conducting a top-down review of all of our programs. After that review is completed, we will share our final recommendations with the Committee.

In its review dealing with mining on Federal lands managed by BLM and the Forest Service, the GAO identified instances where the agencies had different regulations for the same subject (financial guarantee requirements for mining reclamation), duplicate requirements (BLM reviews mineral examinations done by equally qualified Forest Service examiners), and inefficient regulations that were being revised in both agencies (regulations dealing with residency on mining claims and other non-mining uses of mining claims).

Question: Are there efficiencies that could result from having one set of regulations that both BLM and the Forest Service would use for mining and other areas such as grazing on Federal lands?

Answer: Yes, the Forest Service and the BLM might act more efficiently in areas of common regulatory authority by engaging in joint rulemaking efforts.

However, the Forest Service and BLM share few common areas of regulatory authority because both agencies act under different statutory frameworks.

The BLM authority over mining, mineral development, surface management and land use planning on federal lands originates, in large part, from the Mining Law of 1872, the Materials Act of 1947, the Surface Resources Act of 1955, the Mineral Leasing Act, the Oil and Gas Reform Act of 1987 and the Federal Land Policy and Management Act (FLPMA).

On the other hand, the Forest Service's authority arises from a history of statutory transfers of authority from the Secretary of the Interior. In 1897, forest reserves were opened to prospecting and mineral development under the Organic Administration Act of 1897 (Organic Act). Forest reserves were administered by the Secretary of the Interior under the Organic Act until 1905 when the authority was transferred to the Secretary of Agriculture under the Act of February 1, 1905 (33 Stat. 628). For a time, the Secretary of Agriculture was also authorized to permit "prospecting, development and utilization of the mineral resources" on forest reserves under the Act of March 4, 1917 (Weeks Act). However, in 1946, under section 402 of the Reorganization Plan No. 3, the functions of the Secretary of Agriculture under the Weeks Act with respect to the uses of mineral deposits on forest reserves were transferred to the Secretary of the Interior (5 U.S.C. Appendix). An additional limited shift in authority occurred again in 1960, when authority to sell common varieties of mineral materials from forest reserves was transferred back to the Secretary of Agriculture under Section 1(l) of the Act of June 11, 1960 (7 U.S.C. § 220 (note)). Land use planning, which precedes Forest Service resource use decisions for such uses as grazing or timber harvest, is governed by the National Forest Management Act (16 U.S.C. §§ 472 *et seq.*).

These quite distinct statutory frameworks overlap in only a few limited areas: common variety minerals and some surface management matters. The major statutory authorities that the two agencies share are the Mineral Materials Act, the Surface Resources Act and portions of the Mineral Leasing Act, as amended. Their respective regulation of these areas are the areas which might be seen as duplicative in some ways.

There are admittedly distinctions in the way in which the two agencies regulate and dispose of common variety minerals, even though the statutory standards for such regulation arise from some of the same statutes. In this area, the agencies have attempted to harmonize many aspects of their separate rules. However, increased consistency and, perhaps joint rulemaking, would, in the end, create more efficient administration of common variety minerals by the Federal Government. In the discussions of mining law reform during the last Congress, the Department of Agriculture and the Department of the Interior developed and agreed upon technical amendments to the Surface Resources Act and the Mineral Materials Act that would have more easily allowed the two agencies to prepare and work under a common regulatory scheme in this area. Unfortunately, these technical

amendments were not all included in last year's House-passed mining law reform bill.

As to surface management, even though the Forest Service and BLM share a few common statutory authorities mentioned above, both agencies administer the lands and resources for which they have responsibility under different statutory purposes and management standards. Furthermore, BLM can rely on FLPMA to give it broader inspection and enforcement powers than the Forest Service can garner from the Organic Act. Therefore, the way the agencies engage in their management responsibility cannot ever be exactly the same given the differences in their mandates and powers. Nevertheless, where there are certain common regulatory themes that are not tied to differing statutory standards, the agencies' development of regulatory requirements could benefit from closer coordination. As envisioned by the Administration, mining law reform would foster that outcome. Moreover, our proposed grazing regulations have been jointly developed with the Department of Agriculture.

In response to your question, we should note some additional considerations involving regulation of locatable minerals. The Forest Service conducts mineral examinations under certain circumstances such as to determine if mineral materials are of common variety in nature or not, to determine if a mining claim is valid existing right within wilderness areas, or to determine validity where mining activities are at odds with the other surface uses of a particular forest area. Such examination activities complement the Forest Service's surface management activities. The Forest Service formerly engaged in mineral examinations of mining claims for which the claimant was seeking a patent under a memorandum of understanding created in 1954 with BLM. The Forest Service no longer conducts such patenting mineral examinations. In all instances where the Forest Service conducts a mineral examination, BLM reviews the report because, as is recognized in 36 C.F.R. § 228.1, BLM is the agency authorized to determine mineral rights established on Federal lands, including National Forest System lands administered by the Forest Service.

Question: How might these efficiencies translate into dollar savings?

Answer: As far as the regulatory development process is concerned, small marginal dollar savings might occur in somewhat reduced overall staff time and fewer or combined public meetings. The primary and more significant savings would be in reduced compliance costs to members of the public who would have to deal only with a single set of regulations.

RECREATIONAL USER FEES

Although entrance and user fees are charged at some sites, the fees generally cover only a small portion of the costs for the services provided to visitors. Improved pricing of user fees at recreational sites could help defray direct costs to the

government, shift the cost burden from the taxpayers in general to the beneficiaries of the services, and alleviate overcrowding at many sites. The administration's fiscal year 1995 budget proposal assumed that an additional \$32 million would be collected through entrance fees at national parks, and legislation was introduced, but not passed, in the 103rd Congress to increase such fees.

Question: What is the administration's current position on improved pricing of user fees at recreational sites and what can this subcommittee expect from the administration in its fiscal year 1996 budget?

Answer: The Administration and the Department continue to believe that enhanced park entrance fee authority is essential. Allowing this additional authority would provide NPS with increased financial resources and authorities to meet the growing visitor and other resource demands.

Question: What additional revenues could be raised if you were to charge market-based entrance fees for parks?

Answer: Last year, the Department submitted a legislative proposal that would have allowed NPS the authority to charge higher entrance fees than permitted by current law. The revenue estimates based upon last year's proposal assumed that NPS could have raised nearly \$300 million in additional revenue during a five year period. That assumption was based upon a gradual increase in entrance fees at certain parks. The Department continues to believe that such an increase is feasible.

BUREAU OF MINES

Various alternatives have been proposed to sell the Federal Government's helium processing and storage facilities or crude helium inventory. GAO has reviewed many of these alternatives and concludes that ultimately choosing among them is a public policy decision that should consider not only the effects of changes to conditions that existed in 1960 when the Helium Act was passed, but also (1) the interrelationship of the act's three objectives (conserve helium for future use, provide a sustained supply of helium for government activities, and foster and encourage private development and distribution of helium), recognizing that a change to one could affect another and (2) the decision's effect on the Federal budget and the total cost of supplying helium to the U.S. economy.

Question: What is the administration's current position on selling the Federal Government's helium processing and storage facilities or crude helium inventory? Does the Administration plan to propose legislation that would implement this alternative?

Answer: The Administration is preparing a legislative proposal to address the helium program that will be submitted to the Congress along with the USBM

budget request for FY 1996. We will be pleased to discuss the legislation after it has been submitted.

The Bureau allows private industry to store its crude helium in Cliffside, a natural gas field near Amarillo, Texas, where the privately-owned helium commingles with Federal helium. GAO has reported that this commingling may be degrading the purity of Federal helium, thereby increasing the cost to the Bureau to refine the Federal helium. Although the Bureau charges private industry a storage fee, the fee may not cover the increased Federal costs resulting from the commingling. GAO recommended that the Bureau either restrict private access to storage so that the purity of the Federal helium is maintained or impose a fee that covers the additional costs associated with private storage.

Question: What actions has the Bureau taken to implement GAO's recommendation?

Answer: The USBM currently is renegotiating contracts with the private sector to recover the full costs associated with storage.

QUESTIONS SUBMITTED BY THE HONORABLE RALPH REGULA

Question: Citizens Against Government Waste testified in favor of eliminating the Commission of Fine Arts and the Advisory Council on Historic Preservation. Quoting from their testimony "the Federal Government has created an organization to counteract its own destructive actions. Wouldn't it be smarter to simply not threaten historic properties in the first place?" Could you respond?

Answer: The Department does not agree with the assertions made by Citizens Against Government Waste that the Federal Government deliberately threatens historic properties. In the 1950s and 1960s some Federally supported programs such as highway construction, water impoundments and urban renewal were sometimes carried out in ways inconsistent with historic preservation. To counteract this problem, the Congress enacted the National Historic Preservation Act of 1966, which established the Advisory Council on Historic Preservation. The Act sought to ensure that Federal agencies consider the effect of Federal programs on historic buildings. Section 106 of the Act authorizes the Advisory Council to provide technical advice and training in preservation and preservation planning to Federal agencies. The law requires that Federal agencies weigh historic preservation along with other factors in planning their activities, so that they do not make such decisions without considering local, State and national interests in our historic heritage. The Advisory Council has served as advisor, negotiator and facilitator in this process. The Advisory Council is a cost-effective way of assuring that historic preservation considerations are taken account of in Federal programs.

In a similar fashion, the Commission of Fine Arts provides advice on design and aesthetic aspects of projects carried out by Federal agencies in the monumental core of Washington, D.C., as well as the design of Federal coins and medallions. Its existence is one of the reasons for the beauty of the Nation's Capital. Since 1910, the Commission has provided guidance and advice from people who are well known and respected in the fields of art and architecture.

Question: The Citizens Against Government Waste advocated improvements in the management of the Bureau of Indian Affairs, but they also challenged the authorizing committee to consider a bolder approach "restoring dignity to the American Indians by increased self-governance." Could you comment on your views on self-governance, and what we can do in the near-term in this subcommittee to promote self-governance? Over the long-term do you see savings resulting from increased self-governance?

Answer: We believe that the Self-Governance program embodies the government-to-government relationship and we have adopted the implementation of the Tribal Self-Governance Act of 1994 as one of the top priorities of the Department. We anticipate that 50 Tribes will participate in the Self-Governance program by 1996. In addition, we are expanding the Self-Governance program so

that these Tribes can elect to include eligible non-BIA programs in their compacts, further enhancing the government to government relationship.

In the near term, full promotion of self-governance must be accompanied by providing adequate resources to the BIA budget, both to provide a reasonable base for the self-governance Tribes as well as to ensure that the non-compacting Tribes are not adversely affected by increased compacting.

At the present time, not all Tribes want or are equipped to directly administer all the BIA programs. We believe that the Tribes should determine how quickly and in what manner Tribal governments assume Federal programs, and we do not support forcing block grants as this would remove Tribal choice of program delivery and undermine self-determination.

So far, self-governance compacts have not resulted in savings due to inherent economy of scale problems which result from splitting programs previously delivered to several Tribes. The goal of self-governance is not to reduce services to Tribes but to empower Tribes to manage BIA programs at the local level.

Question: What would be the impact of abolishing BIA as has been suggested by several groups including Citizens Against Government Waste and Citizens for a Sound Economy? If BIA were to be abolished, who would assume their functions and what are our obligations under existing treaties and under our trust responsibilities to native Americans?

Answer: In the last two centuries, Congress has passed more Federal laws dealing with Indians than any other group of people in the United States. The Snyder Act; the Indian Self-Determination and Education Assistance Act; the Indian Education Amendments of 1978; and the Indian Reorganization Act are just a few of the laws which have defined the Federal authority and obligation to provide various programs and services to Indian country. While the Federal trust obligation lies at the heart of this special relationship, the scope of the United States responsibilities to American Indians extends beyond basic trust obligations to include a wide range of Federal service obligations delivered in concert with the enhancement of Indian self-determination. Congress has placed the major responsibility for Indian matters in the Department of the Interior, chiefly BIA. However, if the BIA were abolished, the Federal Government's moral and legal obligation to fulfill the trust and statutory commitments would still remain pursuant to specific treaties, congressional enactments, and the Constitution itself.

One of the highest priorities of this Administration is the continued enhancement of Indian self-determination, where Indian people fully participate in the planning, conduct, and administration of Indian programs and services. Today, over half of the BIA operating budget is administered by Tribes who elect to operate various BIA programs under self-determination contracts, grants or compacts. Furthermore, the BIA has made significant FTE reductions and realignments and is currently holding

Tribal consultation on further downsizing options. We are convinced that as we continue to see progress in Tribes assuming governmental responsibilities, the Federal presence will continue to diminish. However, it is the Tribes that should determine how quickly and in what manner Tribal governments assume self-governance in Indian country.

Questions: According to Citizens for a Sound Economy, in about four fifths of the Indian Territories, Native Americans must receive the Federal Government's approval before building a fence or installing an irrigation system due to a 1934 Congressional decision based on the view that Indians were not culturally suited to bear the full responsibility of individual ownership. Could you comment on the statement by Citizens for a Sound Economy, and what are you doing to lessen the regulatory burden on native Americans and empower them with real ownership and responsibility?

Answer: The Congressional decision that Citizens for a Sound Economy cite is the Indian Reorganization Act of 1934 (IRA). Among other things, the IRA ended the policies established under the General Allotment Act of 1897 (GAA). The GAA was an attempt to force Indians to assimilate into the Anglo-American culture by forcing private land ownership on individual Indians. Such policies were at complete odds with the Indian custom of communal ownership of land. The GAA resulted in the loss of approximately two-thirds of the Tribal land base.

In the 1950s, the Federal Government made another attempt to force assimilation by terminating its relationship and obligations with 61 Tribes, bands and communities from 1954 to 1962. Termination had disastrous effects on these Tribes, including further loss of Tribal lands. Today, the Federal relationship with most of the terminated Tribes has been restored.

The Department opposes a return to the failed policies of forced assimilation and termination. The Department firmly supports Tribal sovereignty, our trust responsibilities, and our government-to-government relationship with Tribes, and would strongly oppose policies aimed at dissolution of these responsibilities. We must continue with the current course set for Tribal self-determination, recognizing that Tribal self-governance is a relatively new phenomenon, and full realization will not occur overnight.

Question: Despite substantial increases in funding for Indian programs, many native Americans continue to live in abject poverty. Have our policies contributed to effectively creating a welfare state on the Indian reservations?

Answer: Despite substantial nominal increases in funding for Indian programs, funding per capita on a constant dollar basis has declined, and has fallen short of identifiable need. The BIA operating budget has grown from \$904 million in 1985 to \$1.5 billion in 1995, funding has decreased on a per capita/constant dollar basis. In 1985, the BIA operating budget provided \$1,150 per capita, while in 1995 it

will provide only \$916 per capita (in constant dollars). While it is true that the plight of Native Americans remains serious, over the last 25 years, educational attainment and economic opportunities have increased.

Nevertheless, we agree that there is room for improvement in the Federal-Indian relationship. But this does not mean that the trust relationship should be abandoned. The situation of Indians will not be improved by abandoning the Federal trusteeship. What is needed is continued improvements in administration and continued progress toward the full realization of Indian self-determination.

Question: Citizens for a Sound Economy contend that there are many successful examples of how the private sector can out do the government in protecting wildlife. Could you comment on your view of the Federal role and how the public and private sector efforts are complimentary?

Answer: The success of the Endangered Species Act in preserving the nation's ecological health and variety of plant and animal species rests upon maintaining a necessary degree of coordination between public and private sector actors. Private concerns primarily focus around dealing with conflicts on the local level regarding species preservation and economic development. At the Federal level, concern focuses upon interpreting the frequency and intensity of these ecological conflicts as a measurement of the nation's biological health, and as an indicator of the effectiveness of natural resource management policies.

While private sector groups are often better prepared and positioned to handle localized wildlife protection issues, insufficient communications infrastructure and access to information hinders their ability to address issues characterized by larger geographical boundaries. The Federal role, representing the public's interest in national resource management decisions, is one of compiling and disseminating information from localized resource/wildlife conflicts for resource decision makers at the local, State and Federal levels.

Question: Are there cases where you believe the Federal role could be handled as well or better by private sector groups?

Answer: Federal participation in wildlife protection addresses areas where there is no economic incentive for private sector involvement. This is particularly necessary for endangered species issues where research is crucial to anticipating development conflicts before economic imperatives further complicate their resolution. This is not always feasible for private sector groups whose interests in wildlife protection issues are tied to revenue potential.

Warmwater aquaculture represents an area for private sector involvement. Research related to commercial fish production is a potential source of revenue and is of low priority to the Department of Interior, and could possibly be more appropriately handled by private sector groups.

Question: Citizens for a Sound Economy contend that the Biological Service "may impose new costs on private property owners." Could you respond to that allegation?

Answer: The National Biological Service (NBS), formerly the National Biological Survey, is not a literal "survey" of species across the United States. The NBS is an independent bureau at the Department of the Interior with no regulatory or management responsibilities, and it is therefore unlikely that NBS would impose any new costs on private property owners. Survey activities - actually collecting information on a specific geographic location - account for a modest amount of NBS's budget. In fact, it is more likely that NBS will reduce costs associated with unnecessary regulation by providing information that may show that species previously suspected to be threatened are in fact more abundant than suspected. NBS is also reducing potential costs to property owners by providing information about biological resources that will allow them to plan and make decisions before conflicts are created. For example, NBS is working with International Paper (one of the largest private landowners in the United States) to study three species of concern on its property in Alabama and suggest management actions that will protect them while allowing continued use of the land and its resources.

The NBS is dedicated to several functions - research, inventory and monitoring, and information transfer. Research on conservation of fish, wildlife, and other living resources is the primary NBS activity, comprising over 70 percent of all scientific programs. The NBS research is based on the tradition of management-oriented research on fish, wildlife, and habitats developed in the Fish and Wildlife Service, the National Park Service, and other Interior bureaus. Research on perennial management issues such as optimal management of harvested migratory birds, resolution of resource issues in national parks, and methods of restoring functions of degraded wetlands continues undiminished.

Several Members have raised the concern that NBS would trespass on private property in performing its "survey" activities. The NBS does not enter private property uninvited. Secretary Babbitt reiterated NBS's commitment to protecting private property rights in the January 5, 1995 Secretarial Order. "NBS employees are required to obtain permission from the land owner, lessee, or other lawful occupant before undertaking any work on private land. No new surveys will be initiated on private land without the prior written permission of the land owner."

Scientific information can "cut both ways." Some information may result in finding new species that need protection; some may demonstrate that a species is far more prevalent than expected. The NBS's work will continue to provide information that helps find solutions that accommodate both economic and conservation goals.

Question: The Cato Institute recommended terminating the African Elephant Conservation Fund and the Sport Fish Restoration Fund. What is your

reaction to this recommendation and what if any are the consequences of terminating these funds, both legally and programmatically?

Answer: We support both of these programs. While the African Elephant Fund is a small amount of money -- elimination would save less than \$1 million in discretionary outlays -- there are some real success stories to be told. There is a distinct Federal role here. African elephants are a tremendous resource and a little money can go a long way in directing conservation efforts in third world areas.

The Sports Fish Restoration program is funded by receipts from excise taxes -- generated from sales of fishing equipment, gasoline and from interest -- and is authorized for permanent-indefinite appropriation. Grants are made to States for sports fisheries programs from receipts collected in the previous year. While the Congress could legislate a different use for these receipts or use them to offset the deficit, such a redirection would be inconsistent with the purpose for which the excise taxes were originally imposed. The effect of redirecting the receipts would be devastating for State sports fish programs.

Question: We have heard a lot of discussion on unfunded mandates. However, we have a number of programs in your jurisdiction that are simply grant programs to the States. I have thought some of these might also be eliminated in exchange for lessening the burden on States with respect to unfunded mandates. Given that cuts in your budget are likely, how would you respond to the Heritage Foundation's recommendation to eliminate the State's share of the land and water conservation fund and urban park grants?

Answer: These two programs have been highly successful in expanding opportunities for outdoor recreation and rehabilitating urban park facilities. Both programs receive matching funds from State and local governments, thereby greatly expanding upon the initial Federal contribution. Thus, the Federal role is really one of a partnership with State and local agencies.

Recently, the National Park System Advisory Board conducted a study of these two programs. That review confirmed continued support at the State and local level. Additionally, both the National Governors' Association and the National Conference of Mayors strongly endorsed that review.

Question: The Heritage Foundation has recommended that we provide no funding for the Bureau of Land Management until it is reauthorized and its mission modernized. What would be the impact of implementing this recommendation?

Answer: Implementing this recommendation would have serious repercussions to BLM's many customers.

The BLM's customers are as varied as the diverse natural resources managed. The BLM provides service to a wide array of public land users: the mineral extraction

industry; utility companies that wish to use public land for transformer stations, communication sites, and other rights-of-way; the livestock industry; the timber industry; persons or groups interested in conservation or resource protection; and research scientists, among others. The BLM also provides extensive benefits to State and local governments in the form of Revenue Sharing and Payments in Lieu of Taxes.

The Public Lands managed by BLM offer recreational opportunities that are nationally significant and unique in their diversity, quantity, and quality. Nationally recognized resources managed by BLM include 32 National Wild and Scenic Rivers; 32 National Recreation, Scenic, and Historic Trails; 8 National Conservation Areas; 2 National Scenic Areas; 60 Back Country Byways; one National Recreation Area; and one National Outstanding Area.

The BLM also manages 785 developed, 365 semi-developed, and over 3,000 undeveloped recreation sites; over 14,100 miles of interpretive, hiking, vehicle, and equestrian trails; 535 boating access points along 746 river segments; 21 concession operations; 4 million acres of lakes and reservoirs; and 56 interpretive and visitor information centers.

The Public Lands also provide tremendous recreation opportunities for hunters and fishermen. The more than 270 million acres of Public Land provide important habitat for nearly 3,000 species of fish and wildlife. The BLM estimates visits to the Public Lands will be 65 million during FY 1996. The BLM estimates that over 8.4 million hunting days are spent on the Public Land, while an estimated three million visitor days are spent pursuing wildlife related activities such as bird watching, photography, and wildlife viewing. The BLM estimates over seven million angler days are spent on BLM waters.

Question: How can or should BLM's mission be modernized?

Answer: The Department believes that the mission of BLM as defined in the congressional declaration of policy in the Federal Land Policy and Management Act, 43 U.S.C. § 1701, remains current. The lands managed by BLM have high public values for the Nation as a whole and should be managed as provided in FLPMA. The Department believes that BLM modernization should focus on improved coordination and cooperation with the Forest Service and other agencies and on streamlining of BLM. As part of the Vice President's National Performance Review, BLM has reorganized at both the headquarters and field levels. These reorganizations were approved by the Committee last year and are being implemented.

Question: The Heritage Foundation and others have proposed creating one single land management agency. Could you comment on this recommendation and do you envision any cost savings from implementing this recommendation?

Answer: Bigger is not necessarily better. Creation of a super-agency for Federal land management could easily result in more bureaucracy, not less. As part of the Vice President's National Performance Review, the Department's goal has been to move funding and decision making authority to field level managers and to reduce bureaucratic overhead at the headquarters and regional level. We believe that this is the most fruitful approach to achieving administrative savings.

Where lands managed by different agencies are located in close proximity, the Department favors inter-agency cooperation as the most effective way to achieve efficiencies. For example, BLM and the Forest Service are working cooperatively in a number of areas to achieve "seamless" management at the local level and to achieve efficiencies.

Question: If no funding is provided to operate the Presidio, what would be the impact?

Answer: The operating funds for the Presidio (\$25 million) are being used to provide basic services there. These include law enforcement; fire, emergency and medical services; and maintenance and repair of buildings and grounds. In addition, some funds are being expended to facilitate leasing programs authorized by Congress. The current operating level is approximately one half of historic Army operating levels.

If no funding was provided to operate the Presidio, the Park Service would be in an untenable position as it has no administrative authority to divest the Presidio from the Golden Gate National Recreation Area. Therefore, funds would have to be found elsewhere in the National Park Service budget to maintain operations. The Presidio's urban location and historic use as a popular recreational area does not easily permit passive management such as fencing or closure.

QUESTIONS SUBMITTED BY THE HONORABLE SIDNEY R. YATES

Question: What exactly does the U.S. Geological Survey (USGS) do?

Answer: The USGS is the Nation's primary provider of earth science information on natural hazards, the environment, and mineral and energy resources, and the Federal Government's principal civilian map making agency, the primary source of its data on the quality and quantity of the Nation's water resources. To accomplish its mission of providing credible earth science information in response to the needs of Federal, State, and local agencies, USGS:

Evaluates hazards associated with earthquakes, volcanoes, floods, droughts, toxic materials, landslides, subsidence, and other ground failures; develops methods for hazards forecasting; and provides information to help Federal, State, and local agencies mitigate the effects of these hazards.

Operates digital seismograph stations as part of the U.S. National Seismic Network, supports the operation of 12 regional seismographic networks, and manages the National Strong Motion Network of 650 stations in 35 States. The information developed from these networks helps provide risk estimates for earthquake-prone regions of the Nation.

Operates three volcano observatories and maintains mobile monitoring equipment for responding to volcanic eruption threats around the world.

Assesses energy and mineral resources, provides unbiased information about their quantity and quality, determines origin and manner of occurrence, and develops techniques for discovery.

Conducts an expanding national program to describe the status and trends in the quantity and quality of surface-water and ground-water resources. The USGS monitors more than 45,000 stations that measure the amount and quality of surface-water and ground-water. Of these, about 10,000 are streamgaging stations that supply critical information for water resource management and the NOAA National Weather Service's flood forecasts system.

Develops technology to increase efficiency and expand collection of data for paper and digital maps to meet the needs of the public and the private sector.

Publishes approximately 3,000 new or updated reports and maps every year and maintains a stock of 88,500 different maps. Some 54,000 maps are required to cover the lower 48 States at a working scale of 1:24,000. The USGS distributed about 6.7 million maps in 1994 alone.

Conducts and sponsors supportive research in geology, hydrology, mapping, and related sciences.

Establishes and maintains national earth science data bases for use by Federal, State, and local land management and regulatory agencies; disseminates earth science data and information; and produces and updates geographic, cartographic, and remotely sensed information in graphic and digital forms.

Cooperates with more than 1,100 Federal, State, and local agencies. These partners provide nearly \$300 million annually in direct financial support. The funds in the mapping and water cooperative programs are matched by non-Federal cooperators. In 1995, to fund additional high-priority work they want done, cooperators will provide an estimated \$23 million over and above the dollar-for-dollar matching requirement.

Serves as the lead Federal coordinator for national geographic, geologic, and water resources data, and provides other scientific and technical assistance.

This list, though not exhaustive, provides a good overview of the full scope of the Survey's activities.

Question: Who benefits from your research?

Answer: As the Nation's primary earth science agency, the Survey's work touches the daily lives -- the health, safety, and well-being -- of almost every American. Because the Survey's mission is scientific rather than regulatory, our data collection activities, assessment programs, and supporting research are unbiased, reliable, and widely accepted. The USGS products are used extensively by Federal, State, and local agencies, by academic and private sector institutions, and by the general public. Furthermore, USGS ensures that the results of its work are given the widest possible distribution, which ensures equal access, optimal utilization, and cost effectiveness. The following description of three USGS program activities provides specific examples of the work we do and who benefits from it.

Northridge Earthquake -- Earthquakes cannot be controlled, but their negative impacts can be mitigated. The USGS research into earthquake hazards directly contributes to saving lives and avoiding damage. Intense application of results from earthquake studies in the Southern California region helped the area cope with the Northridge earthquake. This earthquake was the costliest natural disaster that our Nation has ever experienced (\$30 billion in damages, 60 people killed, 1,000 people hospitalized), but similar size earthquakes that have occurred recently around the world have resulted in greater damage, more lives lost, and larger economic costs. The impact of the Northridge earthquake was lessened by the use of

USGS information in the development of emergency response plans, in the application of building codes, and in the education of the general public and investment community about the earthquake risks and hazards in the Los Angeles region. But the work is not stopping here. The USGS and its many partners in Southern California are working to apply lessons learned from the Northridge earthquake to improve the region's disaster preparedness. For example, USGS information is being used by the State of California to develop maps showing earthquake risks in the counties most affected by the earthquake. The USGS data on strong-ground motion are being used to establish better engineering designs for welded steel joints, which are widely used in the Los Angeles area and did not fare well during the Northridge earthquake.

Herbicides in the Midwest -- Rumors circulated during the mid-1980's that ground water beneath the fertile farmland of the Midwest might be contaminated by herbicides. Had this been true, extensive monitoring and a ban on many widely used agricultural chemicals would have been necessary. A recently completed USGS assessment of water from shallow wells under corn and soybean fields across 12 Midwestern States indicated that the amounts of herbicides in drinking water did not exceed the EPA maximum contaminant levels. Published results of the study have calmed fears and will result in substantial savings in monitoring costs for State agencies.

Similar studies on rivers demonstrated that, in many Midwestern States, herbicides are a seasonal problem only. As a result, the expensive treatment of water supplies and costly monitoring for these contaminants can be greatly reduced for eight months of the year. Conversely, the studies show that herbicide concentrations in reservoirs remain relatively high throughout the year. States such as Kansas and Nebraska have used this information to target their efforts to control herbicide use in specific high-risk watersheds.

Such comprehensive studies require long-term regional or national investment. States, localities, and academia generally do not have the resources to undertake such studies. Equally important, studies done by regulatory agencies or by consultants working for the regulated community would be met with skepticism. Impartial assessments are necessary for reasoned approaches to water resources development, regulation, and protection.

Volcanic Disasters Averted -- The eruption at Mount Pinatubo in the Philippines could have killed tens of thousands of people were it not for quick work by USGS and its partners. More than 65,000 people were evacuated before the volcanic eruption, including 14,500 American military personnel and their families from nearby U.S. Clark Air Base. Hundreds of millions of dollars worth of aircraft and other military property were saved. The USGS has monitored active volcanoes since the early part of this century. Through its research, it has developed and improved instruments and methods to predict eruptions. These techniques enabled

USGS to predict the eruption of Mount Pinatubo and avert the destruction of life and property that could have followed.

Explosive volcanic eruptions like that of Mount Pinatubo also have occurred in the Cascade Range of Washington, Oregon, and California, and in a chain that stretches more than 1,000 miles along the full length of the Aleutian Islands to Anchorage, Alaska. Such explosive eruptions emit volcanic ash clouds that are a direct hazard to aircraft. For example, several eruptions of Redoubt Volcano, southwest of Anchorage, during 1989-90, resulted in more than \$100 million damage to aircraft and additional losses due to cancellations and delays in scheduled air traffic. To help reduce the hazard of volcanic ash to the air transport industry, USGS scientists now use advanced geophysical techniques to monitor the Alaskan volcanoes near Anchorage. The USGS, NOAA's National Weather Service, and the Federal Aviation Administration work together to protect flights by providing information to the aviation industry in a real-time framework. Consequently, during the three eruptions of Alaska's Mt. Spurr volcano in 1992, air travelers experienced no life-threatening or damaging encounters with ash.

National Fire Danger Assessment Program -- The USGS receives earth-observation images from sensors onboard orbiting satellites to determine vegetation conditions, or relative "greenness," of the conterminous United States. These data are used in the national fire danger assessment program. The USGS sends this information electronically to the U.S. Department of Agriculture Computing Center in Kansas City, which distributes it nationally over computer networks to Federal and State fire management agencies. Both Federal and State agencies use the information to determine local fire danger conditions and, where appropriate, issue safety advisories. Comparisons with historical data are made to evaluate current conditions and to forecast fire danger conditions. This additional information allows managers to allocate regional fire fighting resources where the need is greatest.

Question: In your statement you describe the "Reinvention in the Interior Department". In general, could you please explain the extent and success you have had in consolidating and streamlining USGS?

Answer: The USGS has made a significant effort to streamline its administrative and management workforce and at the same time improve its ability to provide earth science information to its customers. Bureau-level program support is less than four percent of the gross spending authority available to USGS. In the past year, USGS has reduced the number of Senior Executive Service positions by nearly 50 percent. For example, the Director's Office was reorganized, eliminating six Senior Executive Service positions. All program support functions are being consolidated and reduced. The total number of USGS employees will be reduced by about eight percent (about 800 positions) from FY 1993 to FY 1996, and headquarters FTE will continue to decrease. Target administrative positions will decrease from 542 in FY 1993 to 383 in FY 1996. Additional organizational

restructuring will be based on a strategic planning effort that will be completed by April 1995.

At the same time USGS is consolidating and streamlining its operations, it is enhancing its efforts to achieve improvements in the delivery of information to its customers, as a part of the National Performance Review. Significant USGS activities include:

- Establishing and setting customer service standards;
- Improving the Information and Product Dissemination System;
- Serving as the lead bureau for the implementation of the Interior Department Electronic Acquisition System (IDEAS);
- Developing a paperless time and attendance system;
- Implementing on-line access to the financial system throughout USGS;
- Serving as the lead bureau for the implementation of the Automated Vacancy Announcement System for the Department; and
- Developing bureauwide use of a paperless travel processing system with on-line access.

Question: How successful has the early retirement "buyout" program been?

Answer: Seven hundred and seventy four USGS employees accepted buyouts in FY 1994 and FY 1995. As a result, USGS not only successfully reduced its workforce but also fulfilled streamlining objectives, such as reduced numbers of GS 14/15 and SES positions, fewer administrative positions, and a smaller Headquarters staff.

Question: We have heard testimony before this subcommittee, calling for the abolition of USGS. Some "conservative" estimates are that the savings could amount to \$3.261 billion over five years. I wonder if you could tell the Committee what you think of this proposal?

Answer: The Department does not support the abolition of USGS. There are vital functions currently carried out by USGS that need to be maintained, such as national and global earthquake monitoring networks, volcano monitoring and aircraft warning systems, water gaging stations network, and "greenness" mapping as part of the National Fire Danger Assessment Program. The Federal Government would continue to accrue the costs of these functions in some other government entity, thereby reducing the effect of the savings by eliminating all funding for USGS.

It is highly unlikely that savings anywhere close to the estimate of \$3.3 billion over five years could be achieved. It should be noted that if one were to straight-line the funding level in the FY 1995 USGS appropriation for five years, total savings would be calculated at \$2.9 billion. More significantly, the cost of not having the information USGS provides to Federal, State, local agencies, industry, and the

general public could easily be greater than the savings. The information is necessary for many critical decisions and would have to be prepared, where profitable, by the private sector and paid for many times over by the users. Where the information is not profitable, but necessary for many decisions, the result would be less informed decisions.

There are also technical reasons why these savings would not be available. First, there would be significant costs to the Treasury associated with the termination of jobs involving 9,500 to 10,000 employees. Severance pay would be available to those employees not eligible for either voluntary or discontinued service retirement. Lump sum annual leave payments would be available for all employees with leave balances. Most employees would be eligible for unemployment compensation (therefore, funding at some level would be required to reimburse the Department of Labor).

Second, USGS has employees in about 238 locations throughout the country. In many of these locations, the employees work in rented facilities. Termination of these rental agreements would result in the Federal Government continuing to pay a substantial portion of these rent costs for some length of time based on leasing agreements. In many of these USGS locations, modifications to the space have been made (special use space) to accommodate the need for laboratories. If USGS were to terminate its rental of this type of space, the costs of restoring the space to return it to standard use space would be borne by the Government. A number of these locations store items, such as 100 million maps, the ice cores at the National Ice Core Lab, rock slices, satellite data, and aerial photography. Assuming that these items which are data and information that belong to the Nation would not be thrown away, the Government would have to continue to pay rent at these facilities or pay the transportation costs to move these items to a new location to be managed by a new entity.

Third, required administrative transactions to abolish the bureau would be protracted, necessitating either retention of a skeleton staff or transfer of responsibility to another organization's administrative staff (e.g., closure of procurements, contracts, and grants; resolution of fiscal transactions; processing of employee appeals; facilities management issues; disposition of property).

Question: Do you support privatization of USGS?

Answer: No, we do not support the privatization of USGS. The United States needs the science that USGS is doing because it is national in scope and the results of this work touches the daily lives -- the health, safety, and economic well being -- of almost every American. The need for comprehensive earth science information was brought home only too sharply by recent floods and the anniversary of last year's earthquake in Northridge, California. One of the USGS programs in which privatization has been proposed is the mapping program. The USGS provides coordination and leadership of mapping efforts, including

development of standards, adherence to requirements, and research and development. Without a USGS Nationwide presence, commercial firms would concentrate only on those areas where mapping is commercially viable, with the result that only a small part of the country (mostly the populous areas) would be covered with sufficient updated maps. Land and resource management, emergency response, hazard mitigation, and law enforcement responsibilities also occur in the rest of the country. Mapping for these purposes is not likely to be commercially viable, but is extremely necessary. USGS provides this support to the Nation.

Question: Geologists from this small scientific agency help in determining where to build highways, subways, schools and other public buildings, as well as determining where to reinforce existing bridges and the like. Can you put a price tag on the negative impact eliminating the Geological Survey would have on the public at large?

Answer: It would be extremely difficult to estimate the economic impact of the loss of scientific information provided by USGS. Certainly, there would be immediate losses where information on earthquakes, volcanoes, floods, and other hazards are concerned. But the longer term impacts are probably even more severe. The USGS recently performed a rigorous economic analysis on the cost benefit of one of its product types, geologic maps. This pilot study demonstrated that use of improved geologic map information could save \$1.5 million for siting a landfill and could save between \$1 million and \$3 million for siting a major road.

This is just one example of one type of USGS product, and the pilot only valued the product's use for two very specific applications. USGS information products have many applications for a wide variety of different users. The USGS standard topographic quadrangle, at a scale of 1:24,000, is the reference map series for the entire country with more than 50,000 separate titles. The digital components of these maps as well as other digital map products and standards are vital for all geographic information system (GIS) applications. The Bureau of the Census depends on USGS information to complete an accurate census of the United States. The USGS manages more than 10,000 stream gaging stations across our Nation that supply critical information for flood warnings and water resource management. The USGS National Water Quality Assessment Program supplies information needed to safeguard our water supply. The USGS risk assessments are crucial for evaluating geologic hazards such as earthquakes and landslides and for emergency response planning and designing mitigation measures. The USGS mineral and energy resource assessments provide key availability and quality information for land-use management and natural resource policy.

All of these products and services contribute to our Nation's economic health and public safety. The negative impact of eliminating USGS would be large, proportionately larger than current appropriations for the Survey, but an exact calculation is virtually impossible. For example, by having an experienced staff and strong-working relations with other Federal agencies and international groups,

USGS directly contributed to saving thousands of U.S. lives and millions of U.S. dollars by accurately forecasting the 1991 eruption of Mount Pinatubo near Clark Air Base in the Philippines. Evacuation of those facilities resulted from warnings provided by USGS scientists. The negative impact of abolishing USGS would be felt both in the short-term (from severe disruptions in hazard monitoring and real-time assessments) and in the long-term (from added costs for remediation, lack of basic data for land and resource decisions, and loss of economic competitiveness). The USGS provides far greater benefits to our society than the cost of its annual budget.

Question: In your considered opinion, do you believe any privately funded company could carry out the same functions as USGS?

Answer: No, we do not believe any privately funded company could perform the same functions as USGS because 1) the research it performs is of a national and regional applicability, regardless of commercial need; and 2) its mission to provide accurate and unbiased answers to nationwide natural resource questions and emergency response could not be accomplished by the private sector.

The USGS is predominantly a scientific service organization with the goal of satisfying customer needs for information. The USGS conducts research to support and enhance this principal service objective. The Department of the Interior, as well as other Federal and State agencies, seeks the scientific and technical assistance of USGS in three primary functional areas -- water resources, geology, and mapping.

An important component of the water resources function is the Federal-State Cooperative Program, a 50-50 matching program that assists States in responding to a wide variety of Federal environmental laws and requirements. This program leverages limited Federal, State, and local government funds available for gathering basic water data and conducting problem-oriented studies of shared interest to all participants. More than 1,100 State and local government cooperators voluntarily participate in the program, which supports 2/3 of the Nation's water data networks including over 3,000 streamflow stations (which constitute the core of the National Weather Service's Flood Forecasting Network). The USGS's more than 100-year investment in water data with which to understand and manage its water resources would be either lost, compromised, or rendered obsolete through failure to maintain and extend it. All of the data and results of USGS water programs, including the Federal-State Cooperative Program, are universally available through USGS water databases and published reports. Thus this information has multiple uses and users which would not be true if private consulting firms were the sole agents of States and the Federal Government to collect basic water data and perform investigations.

The USGS maintains a hazard research and monitoring program and associated emergency response activities, including a nationwide seismic monitoring network. The USGS estimates site-specific and regional geologic conditions and hazards (earthquakes, volcanic eruptions, landslides) and estimates potential adverse

impacts in order to reduce risks to our Nation's citizens and infrastructure. The USGS also assesses the distribution, quality, and quantity of our Nation's onshore and offshore minerals and energy resources. The private sector has no infrastructure or capability to run operational programs along with essential supportive regional or national geologic research or to marshal necessary resources and deploy them in times of natural disaster, such as is routinely done by USGS for emergency services such as were performed for the Northridge, California earthquake; the great Mississippi flood; the eruption of Mount Pinatubo and several Alaskan volcanoes; and recent devastating floods in Arizona, Georgia, Texas, and California.

The USGS is responsible for establishing and maintaining availability of nationwide map information, including a national database, coordination mechanisms, and procedures for data sharing. Market forces and copyright interests would interfere with privately funded implementation of these functions. Map information, if totally supplied by the private sector, would cost more, would likely be unavailable at the time of need (especially in emergency), and could not be shared with other Federal users because of copyright restrictions imposed by the private sector causing numerous purchases of the same information and greatly increasing cost to Federal, State, and local governments. National consistency/comparability of map data collection and presentation would be impossible to maintain, restricting or prohibiting the ability to conduct regional or national analyses and depictions of large-scale conditions.

USGS has over 300 cooperative agreements with other Federal agencies, and State and local entities and the private sector in implementing the National Mapping Program, much of which is performed with the assistance of the private sector via contract (e.g., large scale equipment acquisition and modernization, procurement of all aerial photography, production of map products and data, and operation of the EROS Data Center in Sioux Falls, South Dakota).

Question: Do you feel that a private company would invest the time and money in such profit poor endeavors?

Answer: Although we would not presume to speak for the private sector, we believe that commercial entities would be hard pressed to establish and maintain the infrastructure and the capability necessary to run long-term operational and monitoring programs along with directly related earth science research that is essential for problem solving at the national, State, and local level. Without market incentive, the costs would be prohibitive to maintain, for example: the national spatial data infrastructure which is essential to ensuring the availability of consistent, comparable, map data and information for the Nation; or the national seismic monitoring network which is the foundation for hazard assessment and risk analysis; or the nationwide water data network essential for local, State, regional, and national assessment of a wide variety of environmental issues relating to both water quality and streamflow.

Information provided the Committee indicates that a balance of \$230,900 is available from a rehabilitation project at J. Clark Salyer NWR, Upham, ND. It was further suggested that this balance is for "a badly needed project at Long Lake NWR, ND."

Question: Please explain what the need is at Long Lake NWR, ND.

Answer: A water control structure and outlet is needed at Long Lake NWR, ND to replace an existing undersized water control structure. The existing structure has undersized openings in the "C" Dike control structure which during heavy rain creates flooding of structures, dikes, and facilities. The "C" Dike also serves as a bridge along a county road which creates a safety concern when flooding occurs.

Question: What is to be accomplished with Phase 4 of the Ouray NWR, Vernal, UT pollution abatement and water supply project?

Answer: Planning, design, and construction to complete the last segment of a 25,000 ft. Pelican Lake pipeline to provide high-quality water to dilute irrigation drainwater contaminated with selenium are to be accomplished.

Question: How much is scheduled for Phase 4?

Answer: Of the \$795,000 balance remaining, \$714,000 is for Phase 4 of this project. The remaining balance is for previous phases which are in the warranty period.

Question: What problem would be created if there were no funding for Phase 4?

Answer: Phase 4 will complete the construction of the last segment of a buried pipeline extending 25,000 ft. from Pelican Lake providing high quality water to wetlands at Ouray NWR. Phase 4 also consists of constructing water management and water conservation structures at strategic points on the Refuge.

Question: What operational expenses will the Fish and Wildlife Service (FWS) incur when the Wichita NEC, Wichita, Kansas is complete?

Answer: Building operations will be paid by the State of Kansas; the Service will maintain an educational staff of one or two people.

Question: When is the facility expected to open?

Answer: Construction completion is scheduled for September 2, 1995.

Question: What change orders are anticipated?

Answer: Future change orders are difficult to anticipate, although at 27 percent construction completion, we have processed less than one percent of the

contract value in change orders. Currently, we are negotiating an additional structural modification.

Question: Why does the Service have to agree to change orders which would make the costs increase?

Answer: It is inevitable that with construction projects, especially large and complex projects, unforeseen construction problems will arise which are not covered by the specifications. In order to complete the project, changes may be necessary and these changes cause additional costs for labor and materials. These costs are the responsibility of the Service.

Question: Is it correct that \$49,762 originally needed for the Juneau dock replacement is no longer needed because the project is complete at a cost lower than the original estimate?

Answer: Yes, \$49,762 remains as a result of an engineering design change that occurred during the planning/design phase of the project. However, the Service plans to reprogram this savings to another Alaska project at Ketchikan. The Ketchikan project consists of replacing existing dock facilities and is categorized as a health and safety project. The Juneau project savings are needed at Ketchikan to cover projected contract change orders due to hazardous weather conditions, problems related to location, and other contract change orders.

Question: Is the same situation of savings of \$7,944 applicable to the Selawik NWR hangar?

Answer: The warranty period ends October 1995 for this project. The remaining funds are required for probable contract claims and other costs related to final inspections.

Question: Please explain why you think the proposed McDowell NFH, WV should be terminated?

Answer: In FY 1993, Congress appropriated \$250,000 to initiate a study to determine the feasibility of establishing a National Fish Hatchery in McDowell County, WV. An additional \$650,000 was appropriated for planning and design of the facility if a suitable site was identified in the feasibility study. The study is now complete. The Architectural and Engineering (A&E) firm contracted to complete the study (McDowell County, WV Federal Fish Hatchery Feasibility Study, Phase II report) found no suitable sites to establish a fish hatchery. This recommendation is based on the lack of water quality and quantity available. The Service agrees with the recommendations of the A&E feasibility report.

Question: How much is currently available from this appropriation?

Answer: As of January 25, 1995, the current available unobligated balance on this project is \$731,000.

Question: There are many projects associated with the Great Flood of 1993 and many of them have substantial unobligated balances. What problems are you experiencing in obligating this money?

Answer: At the same time, funding was received, a lengthy national debate ensued on floodplain management. Several months were spent determining basic strategies, *i.e.*, repair in kind, abandon the floodplain, reconnect floodplain lands to the river. A major alternative analysis was undertaken for all damages prior to any engineering design. When final decisions were made, the design process began. Designs are complete on all projects with the exception of some public boat landings and a Spillway project at Mark Twain NWR, Quincy, IL. All completed design projects are now in the solicitation phase and the Service anticipates obligation of funds for these projects by May 15, 1995. The remaining projects will be designed and funds obligated by September 30, 1995.

Question: Please explain the reasons for the large unobligated balances within the Natural Resource Damage Assessment and Restoration Fund.

Answer: This response addresses unobligated funds appropriated to the Department's Natural Resource Damage Assessment and Restoration (NRDAR) Fund that have been allocated to Departmental bureaus for the expressed purpose of conducting damage assessments for trust resources. In coordination with other trustees, the Department, principally through the FWS, assesses injuries to trust resources to seek compensation from principal responsible parties for injuries to or loss of trust resources. The NRDAR Fund provides the Department with the capability to build damage assessment cases which typically cover large geographical expanses and involve complex biological pathways of injury. Congress authorized this fund as a revolving, no-year fund. This allows Departmental flexibility to design and conduct multi-year investigations in order to capture fish and wildlife and other trust resource data across as many seasons as necessary and to accommodate strategic challenges associated with multi-year or -season field data collection. Annual appropriations since 1992 are allocated among competing Interior's Bureaus to maximize funding of the highest priority damage assessments, with the highest probability of success, and under conditions that maximize accountability, both for legal and public interest concerns. Department-wide allocations for FY 1995 were completed in December 1994. In effect, these dollars are just now reaching the Bureaus to meet their commitments.

To build legally defensible and scientifically strong damage assessment cases, the Department is required to conduct extensive field investigations and reviews of hundreds of sites and document the environmental effects of released hazardous

materials or spilled oil and their nexus to trust resources. Data collected must document and identify: (1) specific sources of hazardous materials or spilled oil and their pathways to lost or injured trust resources; (2) viable responsible parties; (3) factors leading to economic assessments of values of lost or injured trust resources; and, (4) appropriate remediation and restoration techniques and associated costs. Completion of these tasks require negotiating study task orders with other co-trustees, which may include not only other Federal but also State entities. It is difficult to get co-trustees to the study table before funds are actually available for expenditure. In the case of Interior's bureaus, they must wait for funds to have been awarded officially from the NRDAR Fund before coordinated study plans can be finalized which, in turn, can affect the dates for the actual conduct of studies or collection of data when funds will be obligated. The actual implementation of study plans may take place up to two years after the date of actual allocation, depending on the availability of expertise, seasonal consideration of trust resources, and/or the completion of other "preliminary" phases of prerequisite investigations. Also, the type of data and expertise that contributes to damage assessments may not be readily available because of the highly specialized nature of contaminant investigations and because of the sequential nature of "cause and effects" data. Also, funds may not be obligated immediately upon award because necessary authorizations to hire or contract with specific expertise may create some lag time, either because of internal personnel requirements or from the contractor's perspective.

Question: What problems would result from losing this money through a rescission?

Answer: Since 1992, the Congress has appropriated approximately \$20 million to the NRDAR Fund. This investment of \$20 million is responsible for capturing over \$180 million in negotiated settlements, to date, that will be used to restore injured natural resources. This estimate neither includes Potentially Responsible Party (PRP) funded remediation and restoration, nor PRP in-kind services. The deliberative and open process as described above, that invites PRP's, interested publics, and other trustees to participate has resulted in phenomenal return not only in dollars, but also in on-the-ground remediation and restoration. In this context, the way we manage the Fund is a benefit and not a liability in that funds, once obligated, have been leveraged in a manner producing significant benefits to the resource and has resulted in less expense to the American taxpayer who will, ultimately, be responsible for restoration of trust resources if PRP's are not brought to settlement agreements.

It is for this reason that the Department requested the Fund to be set up as a no-year, revolving fund. In other words, we are purposeful in dispersing funds so as to protect the public interest, to provide adequate opportunity for affected PRP's to negotiate agreeable settlements, and to minimize liability of the American public. Also, if the FY 1995 contribution to the NRDAR Fund were rescinded, these dollars would exact an irreversible penalty on our State, local, and Tribal partners who have

entered into good faith contracts with us to conduct studies or other activities necessary for coordinated damage assessments.

Question: How does fencing at Hakalua National Forest Wildlife Refuge protect endangered birds and stop destruction of native rain forest?

Answer: Fencing is required to prevent feral animal ingress. Fencing provides feral ungulate management control units from which free roaming feral cows and pigs can be systematically removed. Feral ungulates have been determined to be the most destructive force degrading the forest bird habitat resulting in extirpation of endangered species.

Question: For a number of FWS construction projects, there is an unobligated balance to cover construction contingencies and construction management costs. Generally speaking, how much of this is likely to be obligated?

Answer: Until construction and inspection are complete, there is no accurate means to determine funding surpluses or predict contingency costs to any degree of certainty. It is current Service policy that remaining contingency funding remain with the project until warranty completion to ensure adequate funds are available to cover possible contractor claims, warranty enforcement, or other unforeseen circumstances on every project. If funds do remain following the completion of the warranty period, Service policy states that the funds are transferred to the Service's Emergency Construction Project Fund, in accordance with Senate Report 101-534. Once transferred to the Emergency Account, these funds remain available and allow the Service to respond to unforeseen emergencies where human health and safety would be jeopardized if the funds were not available. If the Emergency Construction Fund is depleted or near depletion, the Service is forced to reprogram from other projects to address an emergency thus reducing amounts available for other priority projects.

Question: What, specifically, remains to be done with the balance of \$71,813 available for the Pacific Northwest Museum of Natural History in Oregon?

Answer: Remaining funds will complete remaining work on interpretive displays and exhibitry. Also, funds will cover any possible contractor claims.

Question: What ongoing responsibility will the FWS have in relation to this project?

Answer: The Service continues to provide professional design assistance for the impending outdoor exhibits and aquatic habitat creation for the Pacific Northwest Museum of Natural History. The Service also gives professional direction on exhibits (including exhibits related to the Service), repair, and upgrades to keep this museum at the highest quality and up-to-date.

Question: How does the FWS plan to fund the \$10 million needed to complete the water delivery system at the Stillwater National Wildlife Refuge, Nevada?

Answer: There is a total of \$1,203,452.00 earmarked for the water delivery system at Stillwater. The Bureau of Reclamation drew up a series of options for constructing the system. Costs for these systems ranged from \$7 million to \$32 million. These options were not acceptable and the Bureau was asked to present a proposal that could be constructed with the \$1.2 million available. If this money is taken from the budget, the Service would be unable to construct the water delivery system.

Question: What is your current schedule to obligate money available for the Walnut Creek NWR, Iowa project?

Answer: The schedule is as follows:

Unobligated balance	\$3,737,400
Exhibitory funds obligated January 27, 1995 contract awarded	2,344,605
Furnishings and equipment March 1995 begin procurement	<u>500,000</u>
Balance after March 1995	892,795

The remaining funds, except for \$150,000 for additional furnishing and equipment, are for Phase I construction warranty to cover change orders, modifications, etc. throughout the duration of construction of the Walnut Creek Prairie Learning Center which is scheduled to be complete in August 1996.

Question: What are the operating costs associated with the headquarters construction for the Little River National Wildlife Refuge?

Answer: The Service anticipates minimal additional operating costs for this facility. Currently, the Service's best estimate is not more than \$20,000 to \$25,000 per year.

Question: Why is it taking so long to obligate the money made available for water system and water tower rehabilitation and hazardous waste cleanup at Crab Orchard NWR?

Answer: Water System and Water Tower Rehabilitation: The Service is completing a feasibility study in order to look at design alternatives. This study was not originally included in the planning process of the project. Correcting the water system and water tower deficiencies is required in order to be in compliance with the Safe Drinking Water Act.

Hazardous Waste Cleanup -- The hazardous waste clean up process is ongoing, however, there are many regulatory and coordination issues under the Federal Facilities Agreement with regulatory agencies, and coordination with Potentially Responsible Parties under the Consent Decree which have affected the project schedule. However, the PCB Operable Unit has been put on the fast track, a remediation contractor was just hired and things are moving. It is anticipated that, on the PCB Operable unit alone, we will expend approximately \$5.0 Million in FY 1995. For the Metals Operable Unit and the Miscellaneous Unit, we will expend approximately \$3.2 million in FY 1995. For other units, the Service anticipates expending almost \$0.9 million. It is anticipated that the Service will carry a balance forward for FY 1996 of just over \$1.0 million. Some of this money was just recently received and needs to have work orders and contracts developed prior to expenditure.

Question: Is there any reason not to rescind the \$150,000 unobligated balance leftover on the Bogue Chitto NWR, LA?

Answer: The project is 98 percent complete. Remaining balances are for possible contract claim, warranty enforcement, or any unforeseen problems that could occur during the warranty/inspection period.

Question: How much of the amount appropriated for Cameron Prairie NWR, LA is for a radio tower and communications system?

Answer: The estimated cost for the radio tower is \$60,000; the estimated cost for the communications system is \$100,000.

Question: Why is this system needed?

Answer: The existing radio communications system at Cameron Prairie NWR can only transmit to a distance of eight miles; however, communication is needed for a minimum of 25 miles for safety reasons, and for compliance with a mandate effective January 1, 1995, to replace highband VHF radios with equipment that utilizes narrowband technology (12.5 kilohertz bandwidth). A 150-foot radio tower is needed to communicate hurricane information for the civil defense department during hurricane season, and to communicate with the automated water control structures in the Cameron-Creole area.

Question: What alternatives have been explored?

Answer: This is the only solution to communicate and control the water control structures. The height of the radio tower was determined by a U.S. Fish and Service Radio Coordinator in accordance with the new January 1 Federal mandate.

Question: Is there any reason not to rescind the unobligated balances of \$181,143 and \$147,700 from the Tensas River NWR, LA?

Answer: These funds are committed as these road projects are under construction, and upon completion will have a warranty period of one year. The funds are required to cover possible contract claims or unforeseen costs in relation to final inspection.

Question: What is the current land acquisition obligation status at Bald Knob NWR, AR?

Answer: An agreement was accepted on January 5, 1995, and the amount of \$2 million has been obligated for this purchase agreement. The remaining amount is needed for appraisal costs.

Question: What plans are there to use the unobligated balances at Roanoke River NWR, NC?

Answer: A purchase agreement was obligated on December 30, 1994, in the amount of \$630,000.

Question: What are the ongoing acquisition opportunities at Great Meadows NWR, MA?

Answer: The Service is currently in the final stages of negotiation on seven tracts of privately owned land totaling over 100 acres. These acquisitions are expected to be completed within the next four months. All available funds will be expended on 40 percent of these purchases. Additional funds will be proposed for reprogramming from John Heinz NWR to complete the acquisition. The Service is in the process of acquiring an additional six tracts totaling 66 acres whose owners are unknown at this time.

Question: How will the land acquisition balance at John Heinz refuge be used?

Answer: The outstanding land acquisition balance at John Heinz will be used to acquire one parcel (Darby Realty) at a cost of \$300,000. A contaminant study will be conducted prior to completion of the acquisition as soon as agreement on the conditions for the study is reached between the Service and the landowner. The final purchase agreement will follow the contaminants study. The Service plans to reprogram the remaining funds to Great Meadows NWR to acquire a 63 acre parcel that is threatened by development.

BUREAU OF LAND MANAGEMENT

Question: Can Phase 1 of the Campbell Creek Environmental Education Center in Alaska stand alone?

Answer: Yes. If only Phase I funding is received, Bureau of Land Management (BLM) could operate the facility, but would not be able to achieve the goals and objectives intended for this facility. Future funding would be required to achieve these goals.

Phase I funding includes site development, construction of the education center and one dormitory, utilities, and a bridge. It does not include construction funds for the second dormitory, parking, amphitheater, landscaping, interpretive trails and exhibits, warming huts, a weather station, and an observation deck.

Question: What will the operating costs be?

Answer: Operations and maintenance costs for this project are estimated at \$500,000 per year.

Question: What is the overall cost of the Yaquina Head project in Oregon?

Answer: The overall cost of the Yaquina Head project is \$21.4 million. In FY 1980, BLM was appropriated \$2.5 million for land acquisition which lies within the Yaquina Head Outstanding Natural Area designated boundaries. Between 1981 and 1984, BLM was appropriated \$11.1 million to construct the access road; develop utilities; rehabilitate the lower quarry into a marine tidal pool, including public access; and complete the architectural and engineering work for the interpretive center. The BLM was appropriated \$7.8 million for FY 1995 to construct the interpretive center. This is the final phase of this project.

Question: What are its operating costs expected to be?

Answer: Currently, the operations and maintenance costs at Yaquina Head are \$340,000 per year. Once the interpretive center is completed the operations and maintenance costs are estimated to be \$1.1 million annually.

Question: Will the operating costs be the responsibility of BLM?

Answer: Yes. BLM will be responsible for operating costs.

Question: Is any other entity cost sharing on this project?

Answer: No other agencies or groups are cost-sharing on this project. On an informal basis, many service groups perform service projects in association with the Natural Area and its associated facilities.

Question: What is the purpose of the land acquisition at Oregon City, "the end of the Oregon Trail?"

Answer: The purpose of the acquisition in Oregon City was to participate with several private and government entities to develop an "End of Oregon Trail" visitor area. The BLM's contribution was planned to be acquisition of about 19 of the total 100 acres for the site. The BLM parcel would have been used in part as a parking area. The remainder was to be a wetlands restoration project.

Question: Is a BLM facility paid for through Federal appropriations contemplated for this site?

Answer: There will be no BLM facility at the site and BLM has decided not to purchase the site. The Oregon Trail Foundation, a private organization, may pursue acquisition of the property along with development of a visitor center.

Question: What are your priorities for use of land acquisition monies associated with Idaho lands?

Answer: The priority use of land acquisition money appropriated for the Idaho Lands project for FY 1995 is acquisition of Garden Creek Ranch. The BLM has committed about \$1.6 million toward the purchase of the 10,000 acre ranch. The BLM does not have the total amount available for the purchase, however; the owner is donating the balance. The ranch adjoins the Craig Mountain Wildlife area.

Question: Why did you decide to drop the provision to increase grazing fees from your rangeland reform package?

Answer: Our goal all along has been to work with all competing interests and forge a new consensus for public land management. To reach that goal we want to set new standards for healthy rangelands and create a network of local advisory committees to work out local problems. We felt that the grazing fee issue overshadowed this goal and complicated our ongoing efforts to forge this new consensus. Therefore, we felt it was appropriate that the grazing fee issue be debated in the Congress.

Question: From the witnesses we had last week we repeatedly heard that this Committee should zero-out funding for BLM because it's not authorized. What would be the consequences of such a move?

Answer: The consequences of this action would be enormous.

The BLM's customers are as varied as the diverse natural resources managed. The BLM provides service to a wide array of public land users: the mineral extraction industry; utility companies that wish to use public land for transformer stations, communication sites, and other rights-of-way; the livestock industry; the timber

industry; recreational users; persons or groups interested in conservation or resource protection; and research scientists, among others. The BLM also provides extensive benefits to State and local governments in the form of Revenue Sharing and Payments in Lieu of Taxes.

The Public Lands managed by BLM offer recreational opportunities that are nationally significant and unique in their diversity, quantity, and quality. Nationally recognized resources managed by BLM include 32 National Wild and Scenic Rivers; 32 National Recreation, Scenic, and Historic Trails; eight National Conservation Areas; two National Scenic Areas; 60 Back Country Byways; one National Recreation Area; and one National Outstanding Area.

The BLM also manages 785 developed, 365 semi-developed, and over 3,000 undeveloped recreation sites; over 14,100 miles of interpretive, hiking, vehicle, and equestrian trails; 535 boating access points along 746 river segments; 21 concession operations; four million acres of lakes and reservoirs; and 56 interpretive and visitor information centers.

The Public Lands also provide tremendous recreation opportunities for hunters and anglers. The more than 270 million acres of Public Land provide important habitat for nearly 3,000 species of fish and wildlife. The BLM estimates visits to the Public Lands will be 65 million during FY 1996. The BLM estimates that over 8.4 million hunting days are spent on the Public Land, while an estimated three million visitor days are spent pursuing wildlife related activities such as bird watching, photography, and wildlife viewing. The BLM estimates over seven million angler days are spent on BLM waters.

NATIONAL PARK SERVICE

Question: Why is Native American Graves Protection and Repatriation Act money so slow in being obligated?

Answer: Because the Native American Graves Protection and Repatriation Act grants are awarded based upon proposals submitted by museums and Indian Tribes, grant obligations are delayed by the normal grant application and review process. For FY 1995 funding, proposals are due from the Tribes by February 10, 1995, and from museums by February 24, 1995. Shortly thereafter, review panels will develop funding recommendations for the approval of the Assistant Secretary for Fish and Wildlife and Parks. The panels are scheduled to meet in late March and early May. The grants should be awarded by June 30, 1995. In future years, grants could be expedited by calling for proposals in December, rather than February, and review panels could be scheduled earlier.

Question: Please explain why there are significant unobligated balances associated with land acquisition for the following park areas, with a brief explanation of what the current status of negotiations is: Acadia NP, ME; Antietam

NB, MD; Biscayne NP, FL; Congaree Swamp NM, SC; Gauley River NRA, WV; Lowell NHP, MA; Natchez NHP, MS; Obed River WSR, TN; Palo Alto NB, TX; Salt River Bay NHP and Preserve, VI; and Valley Forge NHP, PA.

Answer: The status of negotiations for each of the above mentioned parks is as follows:

Acadia NP, ME: The Act of September 25, 1986, established a permanent boundary for the park and directed that privately owned lands be acquired only with the owner's consent, unless the Secretary determines that use of the land is, or will be, detrimental to the park. Most recently, available funds in FY 1995 were used to acquire a conservation easement on Long Island. The Park Service is awaiting a new appraisal for the Palmer Estate before negotiations begin again.

Antietam NB, MD: The Land Protection Plan for the national battlefield recommends acquisitions of scenic easement interests in 95 percent of the privately owned land remaining to be protected. However, the obligation of funds at Antietam is slowed because of a disagreement between the parties regarding the value of the interest to be conveyed.

Biscayne NP, FL: The unobligated fund balance will be used to cover deficiencies in pending condemnation cases. Thus, the obligation of these funds must await the court's determination of the deficiency amounts.

Congaree Swamp NM, SC: Negotiations on nine tracts are currently underway, but are complicated by a difference between the landowners' expectations and the Government's estimate of the fair market value.

Gauley River NRA, WV: The Park Service has identified tracts for acquisition at Gauley River; however, there are existing title problems that must be resolved prior to acquisition.

Lowell NHP, MA: Negotiations are currently underway on three tracts, which should use about \$0.1 million of the unobligated balance. Condemnation authority is only to be used in consultation with the Lowell Historic Preservation Commission and the Lowell City Council.

Natchez NHP, MS: Negotiations are underway for 11 tracts at the Fort Rosalie site, which should use about \$1.6 million of the unobligated funds. The negotiations are difficult because of the difference between the landowners' expectations and the Government's fair market value estimate for the property.

Obed River WSR, TN: Negotiations are proceeding for two tracts and appraisals have been ordered on three other tracts for which the owners

are willing to sell. These two actions should result in the obligation of approximately \$0.2 million of the remaining fund balance. Negotiations on lower priority tracts were deferred pending the acquisition of higher priority tracts.

Palo Alto NB, TX: Appraisals have been ordered on five tracts with an estimated value of \$0.5 million; the remaining unobligated funds are targeted for the appraisal and acquisition of one tract with an estimated value of \$0.5 million.

Salt River Bay NHP, VI: Acquisition efforts are pending the approval by the Virgin Islands Government of the Park Service's Land Protection Plan. The Nature Conservancy has ordered appraisals and owners have offered to sell property; negotiations may proceed as soon as the plan is approved. The highest priority tract is valued at \$2.5 million.

Valley Forge NHP, PA: The Park Service is currently engaged in negotiations over the purchase of one tract. If these are successful, the Service should be able to obligate a large portion of the available funding.

Question: What do you think about some of the proposals we heard in this Committee room last week to give most of our National Parks to environmental groups like the Audubon Society and the Nature Conservancy?

Answer: Since 1916, the National Park Service (NPS) has served as the Nation's premier conservation organization, and it has developed a long tradition and history of managing, interpreting, and preserving the Nation's natural and cultural sites. Today that management challenge is vast, as there are 368 National Park sites spread throughout 49 States, the District of Columbia, American Samoa, Guam, Puerto Rico, Saipan, and the Virgin Islands. Visitation at these sites continues to grow, with more than 265 million visits in FY 1994; projections for FY 1995 and 1996 are 270 million and 276 million, respectively. In addition to visitation, there are other demands placed on park management. Some of these include natural resource threats such as air and water quality degradation, urban encroachment and other land use issues, law enforcement and search and rescue actions. For example, in FY 1993 alone, there were 6,200 search and rescue actions in the parks and more than 5,000 serious law enforcement incidents. Given its size and complexity, the nearly 18,000 NPS employees must possess diverse skills. Thus, while the Audubon Society and Nature Conservancy are eminent environmental organizations, it is doubtful that they currently possess either the infrastructure, capabilities, or funding to manage such a diverse system.

Question: There's been some news accounts that the authorizing committee is interested in creating a "Park Closure Commission", modeled after the military Base Closure Commission, to get rid of our supposedly unnecessary National Parks. What do you think of that?

Answer: We do not favor shrinking the National Park System. The system is a world recognized collection of units that collectively preserve the diverse natural and cultural heritage of the Nation.

BUREAU OF INDIAN AFFAIRS

Question: Please explain why there is a large unobligated balance associated with Bureau of Indian Affairs (BIA) school construction?

Answer: The BIA education construction budget was significantly increased in the early 1990's to address a large backlog of health and safety problems that had been permitted to develop in prior years. It has taken BIA time to catch up on the planning and design work for this higher level of funding. For construction of new schools to replace older buildings, BIA has caught up and will essentially be current in obligations by the end of FY 1995. For improvement and repair work, the Bureau is working towards this point, but has not reached it.

Many construction projects are handled through P.L. 93-638 contracts with Tribes. Although some Tribes have significant experience handling 638 construction, others are less experienced and the Bureau has to work with the Tribes to assure that they develop necessary expertise. This tends to lengthen the contract award process.

For construction handled directly by the BIA, most design work is contracted to Indian owned Architectural and Engineering firms under the Buy Indian Act. There is a limited number of such firms, with the result that there is a queue of projects awaiting design.

Question: What types of projects are included in the unobligated balance of \$156 million associated with education construction?

Answer: Projects included in the unobligated balance of \$156 million for education construction include the following:

New School Construction -- \$29.3 million for construction of new school projects which have completed the design phase and are projected to be awarded for construction during the next several months. This would include funds for the following schools on the New School Priority List: Chief Leschi, Washington; Eastern Cheyenne River, South Dakota; Haskell Indian Nations University, Kansas; Shoshone Bannock, Idaho; and Rock Point, New Mexico.

\$8.8 million for planing or design of the following projects on the New School Priority List: Seba Dalkai, Arizona; Shiprock Alternative, New Mexico; Tuba City, Arizona; Fond Du Lac Ojibway, Minnesota; Second Mesa, Arizona; and Zia, New Mexico. All of the projects should be contracted by the Tribes within the next 18 to 24 months.

Employee Housing -- \$6.9 million to provide for the repair of numerous health and safety deficiencies in employee quarters in schools and other locations as part of a multi-year program to improve conditions in over 4,000 employee housing units.

Facility Improvement and Repair -- \$111.5 million to address correction of health and safety deficiencies in schools. There is currently an estimated \$660 million backlog of facility improvement and repair projects for BIA facilities; most of them are education projects. Types of projects include repairs or replacements of buildings, installation of fire sprinklers and fire alarms; compliance with accessibility requirements; correction of environmental hazards; and, provision of additional space to address overcrowded conditions.

Question: What will happen if these projects are not funded?

Answer: There is currently a backlog of over \$660 million in facility improvement and repair projects on reservations. The majority of the backlog is comprised of critical health and safety projects for education facilities. Rescission of funds for these already funded projects that are currently in the construction planning or design stage would significantly delay progress on the inventory, forcing Indian children to remain in crowded and unsafe schools. If conditions at some schools are not corrected, students and teachers may be at significant risk which may result in the closure of schools and employee quarters.

There is also a significant backlog of construction and repair projects for detention centers. On many reservations, the lack of adequate and humane detention facilities forces courts to allow offenders to remain at large.

Question: In general, how would you describe the physical condition of BIA education facilities?

Answer: To get a picture of the conditions of BIA education facilities, it is important to have some perspective about the facilities inventory. The BIA education facilities program is comprised of approximately 20 million square feet of space in some 3,650 separate buildings in 470 locations. Approximately 26 percent of this space is in buildings over 50 years old; 63 percent of the space is in buildings over 30 years old.

Many of these education facilities are "make-shift" schools, as the buildings were not initially intended to serve as schools. Many are crowded; many are in remote locations; many are located in harsh climates. The \$660 million backlog of health and safety projects is an indication that many of the schools are dilapidated, in violation of safety requirements, and lack handicap accessibility.

Typical facility needs include fire safety corrections, and leaky roof repair; water and sewer system improvements; heating and ventilation repair; and providing access

for handicapped students. Numerous Inspector General reports and recent media reports have called attention to the poor condition of many facilities.

Question: What effect would a 10 percent cut in the BIA budget have on the overall quality of services provided to the American Indian community?

Answer: The income, employment, and educational attainment of the one million American Indians living on or near reservations falls below the general population. Tribes depend on BIA for the funding of a broad spectrum of critical programs such as an education system for over 50,000 Indian children; to 24 tribally controlled community colleges; to law enforcement and detention services on more than 200 reservations; to social services programs for children, families, the elderly, and the disabled; to management of the forest, mineral, fishery and farmland resources on more than 56 million acres of trust land; to the maintenance of over 20 thousand miles of roads on rural and isolated reservations; to economic development programs on some of the more depressed areas in the U.S.; to the implementation of legislated land and water claim settlements; to the construction and repair of schools and detention centers; to the repair of structural deficiencies on high hazard dams; and, to managing a trust fund of over \$2 billion.

In addition to current program needs, there are large infrastructure backlogs. For example, the backlog of repair projects to address critical health and safety problems in facilities such as schools and detention centers exceeds \$660 million. Of the top 50 Department of the Interior high hazard dams, 26 are on Indian reservations. The inventory of housing repairs for needy Indian families is well over \$370 million. The annual road maintenance need is over \$90 million.

Despite the complexities of BIA programs, a full 86 percent of the operating budget is going directly to the reservations. Functions remaining with the Bureau include the basic trust responsibilities such, as the Secretary's fiduciary requirements.

A reduction in the BIA budget is a reduction in programs critical to each of the 550 Tribes. Furthermore, a reduction in the BIA budget would undermine the policy of Indian self-determination, as self-determination will not be fully realized until Tribes have developed strong and stable governments capable of administering quality programs and developing the economies of their respective communities.

Question: You testified today that the "the delivery of services to American Indians has to improve." What necessary steps would you take to do so?

Answer: During the last two years, we have achieved significant progress in accomplishing national self-determination objectives. In FY 1995, well over half of the Bureau's operating budget will be administered by Tribes who elect to operate various BIA programs under self-determination contracts, grants, or self-governance compacts. In the last two years we have seen an increase in the portion of the BIA operating budget where the individual Tribes set their own program

priorities. In addition, for the first time, the Department is expanding the Self-Governance program so that these Tribes can elect to include eligible non-BIA programs in their compacts, further enhancing our government to government relationship with Tribes.

The BIA has also made significant FTE and administrative reductions and realignments to meet the goals of the National Performance Review and improve the overall management of Bureau functions. A full 86 percent of the BIA operating budget now goes directly to the Tribes. The BIA is committed to further restructuring to ensure the continued reductions of Central and Area Office staff and the continued shift of resources and authority to the field. Tribal consultation has been held on the various streamlining options; the final plan will be presented to the Appropriations Committees within the near future.

The Department and the Bureau have been aggressively pursuing improvements in trust funds management. The Secretary's six point reform plan stresses sustained improvements in this program, including the development of the most appropriate vehicle for the management of Indian trust funds and ensuring the highest level of fiduciary and investment standards in the investment of these funds.

We have also seen progress in the management of the BIA in many other areas, such as correction of material weaknesses and the establishment of reinvention labs to improve program delivery in the Bureau.

Question: Given the growth of the American Indian population and with more recognized Tribes, how much has the BIA grown in the last 10 years?

Answer: When you consider the growth in the American Indian population, the BIA budget has not grown in the last 10 years. Although the BIA operating budget has grown from \$904 million in 1985 to \$1.5 billion in 1995, funding has decreased on a per capita/constant dollar basis. In 1985, the BIA operating budget provided \$1,150 per capita, while in 1995 it will provide only \$916 per capita (in constant dollars).

Question: Do you expect this to be a trend which will continue?

Answer: Given Federal budget constraints and continued growth in the BIA service population, this trend will likely continue.

Question: What effect has this had on the services provided?

Answer: Numerous programs have remained at relatively the same funding levels since 1985, resulting in substantial per unit funding decreases, and consequently, reductions in services. For example, the Johnson O'Malley (JOM) Program served approximately 180,000 students in 1985 at a funding level of \$25.7 million; JOM now serves over 270,000 students at a funding level of \$26.7 million.

LAND ACQUISITION

The Committee heard testimony last week, that Federal land acquisition should be stopped.

Question: Can land exchanges meet all Federal land management requirements?

Answer: No. Land exchanges are one of many tools we use to meet our land management requirements. While we have stressed the use of land exchanges in recent budgets, we must continue to rely on land acquisition to meet our priorities to protect wetland and riparian resources, to preserve critical habitat, and to improve recreational opportunities for the public.

Question: What are barriers to land exchanges?

Answer: The major advantage of land exchange is that normally out-of-pocket acquisition cost to the Federal Government is limited. However, the land exchange process is often frustrated by lengthy negotiations and long lead times. Specific challenges include the following:

Current law requires that the government balance out values of the lands it is disposing of with the values of lands the government would be receiving. This includes NEPA clearances for archeological and endangered species values, among others. (Archeological clearances are the most time-consuming and expensive).

Land appraisals, title work and legal work have to be completed on two parcels, which can be very time consuming.

Federal law only allows intrastate exchanges. Many opportunities being explored on an interagency basis are interstate exchanges. A special act of Congress is needed to complete an interstate exchange, such as the Idaho Land Exchange Act.

We have streamlined our land exchange process to meet these challenges. We believe that our current processes are efficient, effective, and responsive to all of our customers. They also allow for input by all interested parties.

Under our current procedures, BLM identifies lands which may be available for exchange during its ongoing Resource Management Plan (RMP) process. BLM publishes a Notice of Realty Action (NORA) on lands which have been determined suitable for acquisition and disposal by exchange in the Federal Register, and once a week for three weeks thereafter in a newspaper of general circulation in the area of the lands to be acquired and the lands to be disposed of. The notice provides 45 days for comments by the public and interested

parties. The NORA is sent to respective State governors, as well as county and local jurisdictions, which have 60 days for comment. The NORA is also sent to all adjoining land owners and current land users.

Question: Isn't the overall amount of land managed by the Federal Government declining in relative terms because of the Alaska Native selections?

Answer: Yes. Over time, the amount of land managed by the Federal Government has declined in relative terms because of the Alaska Native selections. In total, more than 155 million acres in Alaska will be transferred from Federal to other ownership. Much of this acreage has already been transferred.

QUESTIONS SUBMITTED BY THE HONORABLE BARBARA F. VUCANOVICH

Full force and effect decisions are becoming a common means of implementing livestock grazing reductions on public lands. The increasingly common use of full force and effect decisions implies a widespread emergency of resource deterioration. However, this seems to contradict information provided by the Bureau of Land Management (BLM) indicating that range resources are in the best condition that they have been in since the turn of the century and that an improvement is occurring over large areas.

Question: How do you explain this apparent contradiction?

Answer: The BLM's proposal concerning full force and effect decisions will make decisions issued under the Grazing Administration Regulations consistent with decisions issued for most other BLM programs. These other programs are governed by a Departmental rule which provides that all final decisions are full force and effect decisions unless a separate agency rule is in force.

Rangeland conditions have improved on many upland areas since the 1930s. However, after initial improvement, this trend has progressed at a slower rate and in some areas little resource improvement has occurred. Riparian areas have not improved to the same degree as upland rangelands and much remains to be done to ensure their improvement in ecological health.

Full force and effect decisions are appropriate to ensure this improvement on BLM lands. This is particularly true in cases of drought, the occurrence of wildfire, or in situations which affect sensitive species and habitats.

Question: Could you comment on the rapid assessment on rangeland health that BLM is developing? In particular, what information would this new assessment provide that is different from the currently used SCS range condition inventory process? Also, what assurances can you provide that the rapid assessment process will accurately reflect range conditions?

Answer: The SCS method is designed to determine range condition and BLM uses this method when conducting range (ecological) condition inventories. These ecological site inventories, which are developed using soil survey data in combination with vegetation analysis, form the basis for identifying desired plant communities on rangeland areas. However, the rangeland health assessment being developed by BLM will have a different purpose:

1. Identify the biological health and functioning status of selected rangelands (e.g. functioning, non-functioning, or functioning at risk) to assist managers in selecting proper management activities and to resolve resource conflicts.

2. Identify the need for further studies, inventories, and evaluations.
3. Formulate resource objectives, including desired future conditions.

We intend to use good science to assure that the rapid assessment process accurately reflects range conditions.

Question: As you know, BLM is currently unauthorized. Do you have any objections to a permanent authorization for the Bureau?

Answer: No. The Department supports permanent authorization for BLM.

Question: There has been talk of restructuring the fee system for national parks and other Federal lands. Do you have any comments about restructuring the fee system, including input regarding how revenues generated from fees should be used?

Answer: Yes. Last year the Department submitted to the Congress a fee proposal, but it was not enacted. The NPS and the Department continue to believe that restructuring of the fee system would include the removal of legislative prohibitions against the collection of entrance fees at all sites, with a few exceptions; the removal of legislatively mandated fee caps and other constraints; and the setup of a park improvement fund that would reduce infrastructure needs. These changes should allow for more entrepreneurial management of the nation's fee sites; improvements in the management of those sites; and a more equitable distribution of costs to those who use the nation's recreational resources.

Question: Will you request full funding for the Federal Payments in Lieu of Taxes program?

Answer: We are unable to provide program specific funding levels for FY 1996 at this time. We will provide this information when the FY 1996 President's Budget is released on February 6, 1994.

Question: What is the status of the predator control program and does the Interior Department intend to continue the program?

Answer: Animal Damage Control (ADC) on BLM lands has traditionally been conducted by the USDA Animal and Plant Health Inspection Service (APHIS) in accordance with a Memorandum of Understanding signed in 1986 between the two agencies. The APHIS completes district level ADC plans with BLM's assistance, and BLM completes National Environmental Policy Act (NEPA) documents (environmental assessments) and authorized control work to be accomplished. Some BLM decisions to authorize APHIS have been appealed but control activities are continuing pending resolution of appeals.

The BLM is in the process of updating its national policy and MOU with APHIS. Under the proposed policy, all NEPA compliance work and decisions related to carrying out ADC on BLM lands would be transferred to APHIS. The APHIS and BLM will continue to coordinate ADC activities on the Public Lands; however, APHIS will have overall implementation responsibilities.

Question: There has been criticism in the past as to how the National Park Service (NPS) has managed its concessions operations. I personally have a very large problem right now at the Lake Mead National Recreation Area which I am working diligently to solve. Should I not be able to in the very near future, you will be hearing from me. Nevertheless, could you explain what plans you have for making NPS concessions operations run more smoothly and with this in mind, would there be any opportunity to save money?

Answer: The NPS has instituted several reforms in its concessions management program. In 1993, the Park Service promulgated new regulations to encourage competition in concession contract renewal. Contracts are issued for the shortest term possible, except where extremely large investments are required, to encourage more frequent review. Proposed new contract terms are carefully reviewed to assure that franchise fees and other considerations adequately reflect the probable value of the commercial activities authorized. And special provisions are being included in more contracts to ensure that concession facilities are improved without the granting of a possessory interest. In addition, NPS and the Department supported legislative reforms in the last Congress.

With regard to your specific concern about the concession operation at Lake Mead National Recreation Area, NPS is working with the concessionaire to develop an operating plan.

Question: One of the difficulties we are facing at Lake Mead is the confusion between the Coast Guard and the Park Service as to how river rafting operations and boating will be regulated. Could you tell me what you are doing to streamline and clarify this situation?

Answer: The Department is not aware of any confusion between the U.S. Coast Guard and NPS regarding the regulation of river rafting and boating operations. The U.S. Coast Guard regulates the use of navigable waters, which includes Lake Mead; NPS does not have jurisdiction over these matters. Accordingly, when NPS concession operations are conducted on navigable waters, concessionaires are required to comply with all applicable U.S. Coast Guard rules and regulations.

Question: Given that there exists today a viable private sector helium industry, why is the U.S. Bureau of Mines (USBM) in the helium business? Don't agencies like NASA and the DOD purchase all other products from the private sector?

Answer: NASA and the Department of Defense purchase all of their major requirements for helium from USBM, as required by law.

Question: Back in the early 1960s the Department borrowed \$252 million to get into the helium business. With interest, that unpaid debt is nearly \$1.3 billion, all due next year. What do you plan to do about this deadline?

Answer: The helium debt is made up of principal and interest borrowed by USBM from the Treasury to purchase helium in the 1960's, as well as a debt to the Treasury for pre-1960 helium facility construction legislatively established by the Helium Act of 1960. The purchase debt is due. In its October 1962 report on the Federal helium program (GAO/RCED-93-1), the General Accounting Office recommended that the debt be canceled. The 1992 report concluded that debt cancellation would not adversely affect the Federal budget because the debt consists of outlays that have already been appropriated and of interest that is a paper transaction, not an outlay. The Administration will address the debt in legislation on the helium program to be submitted with the FY 1996 budget.

Question: With so much of my State owned by the Federal Government, I would like to see a streamlining of the process by which Federal land exchanges are carried out. Are there any plans by which such a streamlining could occur?

Answer: We believe that our current processes are efficient, effective, and responsive to all of our customers. We also believe that we must allow for sufficient input by all parties who are affected by land exchanges.

Under our current procedures, BLM identifies lands which may be available for exchange during its ongoing Resource Management Plan (RMP) process. BLM publishes a Notice of Realty Action (NORA) on lands which have been determined suitable for acquisition and disposal by exchange in the Federal Register, and once a week for three weeks thereafter in a newspaper of general circulation in the area of the lands to be acquired and the lands to be disposed of. The notice provides 45 days for comments by the public and interested parties. The NORA is sent to respective State governors, as well as county and local jurisdictions, which have 60 days for comment. The NORA is also sent to all adjoining land owners and current land users.

The Fish and Wildlife Service works with the public as needed on land exchanges. Public involvement is through ongoing processes such as the Environmental Impact Statement (EIS) process, Endangered Species Act (ESA) consultations, and National Environmental Policy Act (NEPA) consultations. The Park Service works with individual landowners within or adjacent to park lands on exchange opportunities.

The Administration is committed to cutting red tape and streamlining processes. We would be pleased to work with the Committee to make sure we have the most efficient and effective land exchange program possible.

Question: Does the Office of Surface Mining (OSM) have on its rule making calendar a rule intended to enable it to require States to permit coal mine operators to pave State highways and other existing public roads that may be used by licensed coal trucks to move coal to market or by coal company employees, as well as other members of the public?

Answer: In the early spring of 1993, this issue was placed on OSM's rulemaking agenda. The issue of which roads are subject to regulation under SMCRA has been a continuing source of contention between OSM and State regulatory authorities. Most roads constructed as part of the mining operation for mine access and coal haulage are covered under SMCRA. However, roads outside this category are not treated by States in a consistent manner which results in disputes among OSM, States, coal mine operators, and concerned citizens. At this time, the agency has not made a final decision to proceed and the issue is currently under review. The agency is considering whether there is a need for a rulemaking based on the extent of the problem, whether further study is necessary, what alternatives there are to rulemaking and the kind and level of outreach that would be appropriate if OSM proceeded with a rule.

Question: Does OSM have on its rulemaking calendar a rule that would enable it to require States to permit as coal mines railroads built by licensed common carriers?

Answer: The regulation of railroads as an area for possible rulemaking has arisen as a result of citizen complaints and related jurisdiction and enforcement issues. For example, in October, 1993, a citizen alleged that a coal company was improperly excluded from regulation under SMCRA and in November 1993, citizens alleged that the Black Mesa/Kayenta mine permit failed to include the railroad leading to the Navajo generating station. We believe that these complaints raise issues of national importance. The multitude of railroad-related structures and facilities which operate in relation to surface coal mining operations throughout the country demands that we develop a systematic approach with clear standards to enable the consistent, definitive identification of those railroad structures that require regulation under SMCRA and those that do not. At this time, the issue is under review. A final decision to proceed with this rulemaking has not been made.

The OSM is reviewing the adequacy of existing regulations governing railroads as support facilities, including railroads built by licensed common carriers. As part of this review, OSM conducted a nationwide survey on railroad facilities associated with surface coal mining operations and is now in the process of analyzing the

results. The OSM will analyze the nature and extent of the problem, possible alternatives to rulemaking, and the level of outreach appropriate for the rule.

Mr. Secretary, as you know I am a defender of miners in my State and throughout the West who explore the open public domain lands and stake claims in search of developing future mines. Last September the conferees on the Fiscal Year 1995 Interior Appropriations bill, of which I was not a member then, agreed to adopt language barring your department from spending appropriated dollars to accept or process mineral patent applications under the Mining Law of 1872, *as amended*. However, the conferees did insist on two qualifications to that moratorium:

First, we said, that the moratorium was not to become effective until a *sine die* adjournment of the 103rd Congress took place without a mining law reform bill being enacted. A House/Senate conference, of which I was a member, on resolving H.R. 322 and S. 775 was going on then. I have reason to believe the Department took little or no actions on any mineral patent applications after October 1, 1994, including refusal to accept new applications at BLM State Offices, which I understand to be the proper place to legally file such applications for mineral patent. However, the 103rd Congress did not adjourn *sine die* until December 3, 1994.

Question: What was the legal reason for this inaction?

Answer: The moratorium is contained in sections 112 and 113 of the Interior and Related Agencies Appropriations Act for FY 1995 P.L. 103-332, 108 Stat. 2499 (1994) (Appropriations Act). Section 112 states that none of the funds made available by the Act, which took effect October 1, 1994, should be used to accept or process patent applications "[i]f the House-Senate Conference Committee on H.R. 322 fails to report legislation which is enacted prior to the adjournment of the 103rd Congress *sine die*...."

The Department of the Interior implemented the moratorium at the beginning of the fiscal year, on October 1, 1994, the date the Appropriations Act took effect. It was also two days after the key members of Congress working on Mining Law reform, including the principals of the House-Senate Conference Committee on H.R. 322, had publicly concluded that the Conference Committee would not report legislation, and therefore Mining Law reform was unequivocally dead for 103rd Congress.

The Chair of the Conference Committee, Senator Johnston, put it this way on the Senate Floor:

[T]he conference has concluded without the conferees reporting a recommendation.... In a meeting with the Senate conferees on Thursday, September 29, 1994, I and all of the Senate conferees declared that efforts to reform the Mining Law of 1872 were ended for the year. The 103rd Congress will adjourn *sine die* without having enacted reform. 140 Cong. Rec. S14135 (October 5, 1994).

We acknowledge that it is possible to interpret Section 112 to mean that the moratorium does not take effect until the Congress adjourns *sine die*, regardless of whether the Conference Committee had declared the reform effort dead. In fact, as you point out, the Congress did not adjourn *sine die* until December 3, 1994, after the lame-duck session called to vote on the GATT agreement completed its work.

Nevertheless, we believe our approach is based on the better statutory construction. That is, we believe Congress, in enacting section 112, contemplated the trigger for the moratorium to be October 1, 1994, the date the Appropriations Act took effect. This is a more reasonable interpretation than one that would postpone the effective date of the moratorium until more than two months into the fiscal year, after a lame duck session called to address a single unrelated issue, when everyone with an interest in Mining Law reform had abandoned the effort to enact legislation on September 29.

If Congress had intended the moratorium take effect only upon adjournment of the 103rd Congress *sine die*, it could have simply said so. Instead, section 112 addresses specifically the deliberations of the House-Senate Conference Committee then deliberating over Mining Law reform (H.R. 322), and speaks of the trigger as the "fail[ure of the Committee] to report legislation" which is enacted prior to adjournment *sine die*. At minimum, this formulation provides two independent triggers for the moratorium: the failure of the Conference Committee to report legislation and the failure of Congress to enact it prior to adjournment *sine die*. The former, of course, occurred on September 29, 1994.

The House-Senate Conference Committee reached an agreement regarding the patent moratorium language before the vote on the GATT agreement was postponed until a lame duck session. At the time the language was agreed upon, members understood that Congress would adjourn *sine die* around the beginning of the fiscal year. The legislative history explaining the patent moratorium in the Appropriations Act supports our interpretation. The House-passed appropriations bill contained a moratorium that would take effect when the rest of the bill took effect; namely, at the beginning of the fiscal year, October 1, 1994. The Senate-passed bill contained no moratorium at all. The Conference Committee explained that it included the House language, "modified to delete the [moratorium] if mining law reform legislation now in the House-Senate conference is enacted prior to *sine die* adjournment of the 103rd Congress." This clearly expresses the understanding that the moratorium on processing patent applications would take effect at the beginning of the fiscal year, but be lifted (or, in the words of the Conference Committee, "delete[d]") if Mining Law reform were enacted in that Congress.

Speaking of the Appropriations Conference Committee's action on the Senate floor, a day before the Conference Committee on Mining Law reform abandoned its efforts, Senator Byrd confirmed this interpretation:

The bill contains a 1-year moratorium on the issuance of mining patents on the public lands. The provision is repealed if mining law reform legislation now in a House-Senate conference is enacted prior to *sine die* adjournment of the 103d Congress. 140 Cong. Rec. S13540 (September 28, 1994)

The exemption in section 113 for certain applications from the moratorium is also relevant to resolving this question. The most important criterion to qualify for an exemption is that the applicant show that it had complied with certain requirements of the Mining Law "on or before the date of enactment of this Act ..." Congress chose, in other words, to make the cutoff for the exemption qualification not the date of adjournment, or even the beginning of the fiscal year, but rather the date of enactment. This is further evidence that Congress expected the moratorium to take effect as soon as possible, and only be repealed or lifted if Mining Law reform became a reality.

In addition, the conference report language clarifies that those applications which received first half final certificates on or before the date of enactment of the Act were to be exempt from the moratorium. Once again, this signifies a Congressional intent that the moratorium go into effect upon enactment of the Appropriations Act.

Second, the conferees insisted that mineral patent applications which had been submitted prior to the beginning of an appropriations moratorium and for which first half final certificate for patent had either been issued, or should have been but not for the delays of the Department, would be exempted from this moratorium. The conferees understood there to be about 422 such applications. Staff has shown me a list prepared at the department showing some 388 applications as exempt from the moratorium.

Question: What are your plans for processing these applications expeditiously? I seem to remember that last year's budget request asked for an increase in the Solicitor's Office funding to handle Endangered Species Act requirements. May we expect to see in your FY 1996 budget requested additional funding for meeting the requirements of the Mining Law? Also, why are there about over 30 fewer applications deemed exempt on your list than were thought to be qualified during the conference last September?

Answer: The 388 patent applications grandfathered under the patent processing moratorium include all applications which had received the first half final certificate by the effective date of the Appropriations Act, amounting to 277, and all applications which were pending in Washington, D.C., for final review prior to signing of the first half final certificate, amounting to 111. The BLM has compiled a listing of those grandfathered applications by serial number and name of applicant. The list is attached for your reference. Prior to the compilation of this list, BLM's records did not accurately reflect the number of applications that were pending in

the Solicitor's Office for review prior to Secretarial action on first half final certificates. This may have accounted for some difference in estimates given previously to the conferees. Additionally, a number of the applications originally appearing on BLM's Mineral Patent Adjudication Report were found, during our verification of the list of grandfathered patent applications, to be applications that were previously withdrawn or otherwise no longer pending for review.

Of the 388 patent applications listed, 31 are pending final review prior to issuance of patents. In addition, since the beginning of the current fiscal year, the Secretary has signed 55 first half final certificates, which have been returned to the appropriate BLM State Offices for assignment to a mineral examiner. Fifty-six applications remain to be reviewed before final action on first half final certificates. The Department has committed to completing the review of those 56 by June of this year. The remainder are currently awaiting or undergoing mineral examinations and preparation of mineral reports by professional staff in the appropriate State and field offices. These steps are the most technical and time consuming stages of the patenting process.

With regard to your FY 1996 budget question, we will respond to your question when the President's budget proposal is submitted to Congress on February 6, 1995.

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STATE	SERIAL	APPLICANT
AK	AA-012514	MIZE, FRANK, ET AL.
AK	AA-013705	O'CARROLL, ANNA, ET AL.
AK	AA-024795	NEWMAN, SALLY L.
AK	AA-063786	GRANATH, GENE A.
AK	AA-064561	TRACY PARTNERSHIP
AK	AA-066612	SCHNABEL, JOHN J.
AK	AA-069528	PYROLA PARTNERSHIP
AK	AA-071472	ANTHONY, MICHAEL R. MARK
AK	AA-073571	C-D DEVELOPMENT CORP.
AK	AA-075291	ANTHONY, MICHAEL R. MARK
AK	F-0023107	EICH, DENNIS
AK	F-0023138	COCKING, DUANE A.
AK	F-0023147	SWANBERG, NELS, ET AL.
AK	F-0023148	SWANBERG, NELS, ET AL.
AK	F-0023150	SWANBERG, NELS, ET AL.
AK	F-0023152	PEDERSON, STEVE
AK	F-0023158	MANGA, JOSEPH C.
AK	F-0035221	WILKINSON, FRED
AK	F-0035224	COLE, JOHN H.
AK	F-0074628	WINKLEY, BARBARA
AK	F-0074629	WINKLEY, BARBARA
AK	F-0074630	WINKLEY, BARBARA
AK	F-0074631	WINKLEY, BARBARA
AK	F-0081235	BOUCHER, BILL
AK	F-0081236	BOUCHER, BILL
AK	F-0081297	ALASKA GOLD COMPANY
AK	F-0085614	TWEET, N. B. & SONS
AK	F-0085756	LOUNDSBURY, JAMES
AK	F-0086279	TWEET, N. B. & SONS
AK	F-0086309	GREATLAND EXPLORATION LTD
AK	F-0086310	GREATLAND EXPLORATION LTD
AK	F-0087278	KILE, ALVIN L.
AZ	AMC-28246	MINERAL SERVICES CORP
AZ	AZA-18244	MAGMA COPPER CO
AZ	AZA-22975	SUPERIOR COMPANIES
AZ	AZA-23007	ONANON INC
AZ	AZA-23448	WILLSIE, CURT
AZ	AZA-23900	NORTH COUNTRY LAND & DEV
AZ	AZA-24486	CYPRUS MIAMI MINING CORP
AZ	AZA-24487	CYPRUS MIAMI MINING CORP
AZ	AZA-24569	CYPRUS MIAMI MINING CORP
AZ	AZA-24656	CYPRUS MIAMI MINING CORP
AZ	AZA-24750	CYPRUS MIAMI MINING CORP
AZ	AZA-24781	CYPRUS MIAMI MINING CORP
AZ	AZA-24826	CYPRUS MIAMI MINING CORP
AZ	AZA-25008	ASARCO INC
AZ	AZA-25259	CYPRUS MIAMI MINING CORP
AZ	AZA-25975	LETCHER, ALFRED
AZ	AZA-25976	LETCHER, ALFRED
AZ	AZA-26477	ASARCO INC
AZ	AZA-26478	ASARCO INC

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STATE	SERIAL	APPLICANT
AZ	AZA-26479	ASARCO INC
AZ	AZA-26481	ASARCO INC
AZ	AZA-27172	THORNE, CLAY ET AL
AZ	AZA-27208	THORNE, CLAY ET AL
AZ	AZA-27250	THORNE, CLAY ET AL
AZ	AZA-27280	SORSEN, WILLIAM W ET AL
AZ	AZA-27337	GUZMAN CONSTRUCTION CO
AZ	AZA-27369	SHUMWAY, RAY & MOLLY A
AZ	AZA-27911	CARLOTA COPPER COMPANY
AZ	AZA-28495	AZ EXPLORING & MINING CO
CA	CACA06490	Alkens Builders
CA	CACA15756	Cecil Burton, et al
CA	CACA19376	G. Antolini & Son
CA	CACA20881	Gold Fields Mining Corp.
CA	CACA20987	Lightweight Processing Co
CA	CACA21645	Estate of John Lighthill
CA	CACA22829	W.R. & John R. Williams
CA	CACA23574	Lightweight Processing Co
CA	CACA24013	Merril M. Wylie
CA	CACA24563	United States Gypsum Co
CA	CACA24570	Viceroy Gold Corporation
CA	CACA24571	Gold Fields Mining Corp
CA	CACA24679	United States Pumice Co.
CA	CACA26204	Vernon & Katheryn Smith
CA	CACA26484	Gold Fields Mining Corp
CA	CACA26490	Arthur & Toni Jacobs
CA	CACA26519	James Thomson
CA	CACA26695	Clyde Weekly et al
CA	CACA26770	Roland G. Knipe
CA	CACA26772	Mary Lou Billman et al
CA	CACA26815	Harold Allen et al
CA	CACA26816	Harold Allen et al
CA	CACA26817	Harold Allen et al
CA	CACA26818	Harold Allen et al
CA	CACA26819	Harold Allen et al
CA	CACA26820	Harold Allen et al
CA	CACA26880	Pluess-Staufer
CA	CACA27481	Bond Gold Colosseum Inc.
CA	CACA27734	Harold Allen et al
CA	CACA27739	Harold Allen et al
CA	CACA27790	Herbert Reiswig
CA	CACA27793	Blackstone Mines, Inc.
CA	CACA27794	Richard Brown, et al
CA	CACA27807	Niilo Hyytinen
CA	CACA27810	Brubaker-Mann Inc.
CA	CACA27921	Glass Mtn Pumice Inc
CA	CACA28104	Robert Dubois
CA	CACA28204	Provista Mining Co.
CA	CACA28288	Lemoin M. Brewer
CA	CACA28391	Mrs. Nels Lewellen
CA	CACA28456	Eileen Kunkel

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CA	CACA28542	Ulf T. Tiegen
CA	CACA28826	Emerson & Fay Ray Trust
CA	CACA28827	Emerson & Fay Ray Trust
CA	CACA29041	U.S. Borax
CA	CACA29042	U.S. Borax
CA	CACA29158	Jesse Collins et al
CA	CACA29403	Martin Mining Inc.
CA	CACA29420	Pfizer Inc.
CA	CACA29427	Floridin Co.
CA	CACA29446	Pfizer, Inc.
CA	CACA29447	Pfizer, Inc.
CA	CACA29546	R.E. Hecker
CA	CACA29681	Rheox, Inc.
CA	CACA29721	Rheox, Inc.
CA	CACA29722	Rheox, Inc.
CA	CACA29846	R.E. Hecker
CA	CACA29906	U.S. Borax
CA	CACA29997	Viceroy Gold Corporation
CA	CACA30197	Siegfried Rogge et al
CA	CACA30514	Pfizer, Inc.
CA	CACA30606	Lee L. Crowe
CA	CACA30673	Ken McMaster et al
CA	CACA30754	Hanson Natural Resources
CA	CACA30758	Hanson Natural Resources
CA	CACA30912	Viceroy Gold Corporation
CA	CACA31225	Robert Russell
CO	C-35080	HUGG, HARLAN & DOROTHY
CO	C-36293	HUGG, HARLAN & DOROTHY
CO	C-38579	EXXON CORP.
CO	C-39464	UNION OIL CO. OF CALIFORN
CO	C-41836	TOSCO CORP.
CO	COC-48471	THE MOUNT LOGAN CO.
CO	COC-53197	HOLNAM, INC.
IDI	IDI-04421	CLARK, DONALD L.
IDI	IDI-06399	CLARK, DONALD L.
IDI	IDI-20585	SUNBEAM MINING
IDI	IDI-20886	COLLARD, JAMES
IDI	IDI-21399	CASTLE, GEORGE C.
IDI	IDI-21537	OAKLEY VALLEY STONE INC
IDI	IDI-23045	OBERBILLIG, HARLOW H.
IDI	IDI-23096	HOWARD, GLENN L.
IDI	IDI-23105	KING, HUGH G.
IDI	IDI-26592	CASTLE, GEORGE C.
IDI	IDI-27110	DOREMUS, DAVID
IDI	IDI-27135	GREYHOUND MINING & MILLIN
IDI	IDI-27147	LAMBERT, JAMES
IDI	IDI-27248	WALKER, JACK A.
IDI	IDI-27374	BIG SLATE GR. PARTNERSHIP
IDI	IDI-27456	FAKE KALK, INC.
IDI	IDI-27528	GREYHOUND MINING & MILLIN
IDI	IDI-27862	CYPRUS THOMPSON CREEK MIN

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ID	IDI-28369	OWYHEE CALCIUM PRODUCTS,
ID	IDI-28455	MOON MINING
ID	IDI-28669	NORTHERN STONE SUPPLY, CO
ID	IDI-28704	THOMPSON, LYLE
ID	IDI-28750	MARLATT, PAUL ET.AL.
ID	IDI-29183	CHEMSTAR LIME COMPANY
ID	IDI-29284	SIMS, SANDY H.
ID	IDI-29459	NERCO DeLAMAR CO.
ID	IDI-29460	HECLA MINING CO.
ID	IDI-29489	SORAN, WILLIAM M.
ID	IDI-29490	GREGERSON, OLIVER
ID	IDI-29690	CHEMSTAR LIME CO.
MT	MT-055857	MANVILLE PRODUCTS CORP
MT	MT-077266	MILLER, KENNETH A, ET AL
MT	MT-077528	FOSTER, MERTON T
MT	MT-078916	AMERICAN COLLOID CO
MT	MT-079548	SMITH CLARK J
MT	MT-079683	MANVILLE SALES CORP
MT	MT-079684	MANVILLE SALES CORP
MT	MT-079685	MANVILLE SALES CORP
MT	MT-079686	MANVILLE SALES CORP
MT	MT-079687	MANVILLE SALES CORP
MT	MT-079688	MANVILLE SALES CORP
MT	MT-079689	MANVILLE SALES CORP
MT	MT-079690	MANVILLE SALES CORP
MT	MT-079691	MANVILLE SALES CORP
MT	MT-079692	MANVILLE SALES CORP
MT	MT-079693	MANVILLE SALES CORP
MT	MT-079694	MANVILLE SALES CORP
MT	MT-079695	MANVILLE SALES CORP
MT	MT-079696	MANVILLE SALES CORP
MT	MT-079697	MANVILLE SALES CORP
MT	MT-079698	MANVILLE SALES CORP
MT	MT-080235	MANVILLE SALES CORP
MT	MT-080236	MANVILLE SALES CORP
MT	MT-080237	MANVILLE SALES CORP
MT	MT-080238	MANVILLE SALES CORP
MT	MT-080239	MANVILLE SALES CORP
MT	MT-080435	NORANDA MINERALS CORP
MT	MT-080451	FOSTER, MERTON T, ET AL
MT	MT-080452	FOSTER, MERTON T, ET AL
MT	MT-080672	MANVILLE SALES CORP
MT	MT-080673	MANVILLE SALES CORP
MT	MT-080674	MANVILLE SALES CORP
MT	MT-080972	CROWN BUTTE MINES INC
MT	MT-081597	MOUAT, WILLIAM, ET AL
MT	MT-081598	SCHULLER INTL INC
MT	MT-081755	SCHULLER INTL INC
MT	MT-081756	SCHULLER INTL INC
MT	MT-081757	SCHULLER INTL INC
MT	MT-081758	SCHULLER INTL INC

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MT	MT-081759	SCHULLER INTL INC
MT	MT-081760	SCHULLER INTL INC
MT	MT-081862	AMERICAN COLLOID CO
MT	MT-082332	MOUAT, WILLIAM, ET AL
MT	MT-082715	STILLWATER MNG CO
NM	NM-078359	MCDERMOTT, THOMAS
NM	NM-081796	LARDNER, VINCENT
NM	NM-083002	COOK, RICHARD
NM	NM-086039	LOPEZ, ALBERT
NM	NM-087192	CENTEX AMERICAN
NM	NM-087193	CENTEX AMERICAN
NM	NM-089115	MAYFIELD, BOBBY
NV	NV-045246	PLACER U.S. INC.
NV	NV-046440	GREAT STAR CEMENT CORP.
NV	NV-048684	NEWMONT GOLD COMPANY
NV	NV-050134	GOLD FIELDS MINING CORP.
NV	NV-050135	GOLD FIELDS MINING CORP.
NV	NV-050136	GOLD FIELDS MINING CORP.
NV	NV-050137	GOLD FIELDS MINING CORP.
NV	NV-050138	GOLD FIELDS MINING CORP.
NV	NV-050139	GOLD FIELDS MINING CORP.
NV	NV-050159	BATTLE MOUNTAIN GOLD CO.
NV	NV-050160	BATTLE MOUNTAIN GOLD CO.
NV	NV-050229	COYOTE MINES INCORPORATED
NV	NV-051489	SMITH, DAVID C., ET AL
NV	NV-052340	AMERICAN BORATE COMPANY
NV	NV-052341	AMERICAN BORATE COMPANY
NV	NV-052445	GOLD FIELDS MINING CORP.
NV	NV-052880	HOYER, ANNELIE
NV	NV-053268	NEVADA CEMENT COMPANY
NV	NV-053378	AMERICAN BORATE COMPANY
NV	NV-053618	ATLAS GOLD MINING INC.
NV	NV-053619	ATLAS GOLD MINING INC.
NV	NV-053620	ATLAS GOLD MINING INC.
NV	NV-053621	NEWMONT GOLD COMPANY
NV	NV-053622	NEWMONT GOLD COMPANY
NV	NV-053626	FMG, INC.
NV	NV-053627	FMG, INC.
NV	NV-053679	FMG, INC.
NV	NV-053692	FMG, INC.
NV	NV-053746	NEVADA GOLD MINING INC.
NV	NV-053750	R.T. VANDERBILT CO., INC.
NV	NV-053751	FELLER HOLDING CORP.
NV	NV-053752	FELLER HOLDING CORP.
NV	NV-054064	G & R PROPERTIES, LTD.
NV	NV-054147	INDEPENDENCE MINING & FMC
NV	NV-054148	INDEPENDENCE MINING & FMC
NV	NV-054149	INDEPENDENCE MINING & FMC
NV	NV-054221	HEATER, PHILIP D.
NV	NV-054533	INDEPENDENCE MINING & FMC
NV	NV-054550	MOUNTAIN MINES

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STATE	SERIAL	APPLICANT
NV	NV-054965	MAGMA NEVADA MINING CO.
NV	NV-055051	INDEPENDENCE MINING & FMC
NV	NV-055099	HOVER, ANNELIE
NV	NV-055300	FLORIDIN COMPANY
NV	NV-055640	F.W. LEWIS INC.
NV	NV-055977	NEWMONT GOLD COMPANY
NV	NV-055978	NEWMONT GOLD COMPANY
NV	NV-055979	POOLE, VIRGIL, ET AL
NV	NV-055991	NEVADA PACIFIC COMPANY
NV	NV-056042	OBESTER, CLAIRE, ET AL
NV	NV-056101	NEWMONT GOLD COMPANY
NV	NV-056127	OIL DRI CORP. OF NEVADA
NV	NV-056238	PACIFIC COAST BLDG. PROD.
NV	NV-056331	INDEPENDENCE MINING & FMC
NV	NV-056332	INDEPENDENCE MINING & FMC
NV	NV-056337	HARRISON, P.G., ET AL
NV	NV-056350	HANSON NATURAL RESOURCE
NV	NV-056351	HANSON NATURAL RESOURCE
NV	NV-056352	HANSON NATURAL RESOURCE
NV	NV-056353	HANSON NATURAL RESOURCE
NV	NV-056354	HANSON NATURAL RESOURCE
NV	NV-056355	HANSON NATURAL RESOURCE
NV	NV-056424	BARRICK GOLDSTRIKE MINES
NV	NV-056425	BARRICK GOLDSTRIKE MINES
NV	NV-056426	INDEPENDENCE MINING & FMC
NV	NV-056427	KONCHER, L. & ZUNINO, S.
NV	NV-056428	INDEPENDENCE MINING & FMC
NV	NV-056429	INDEPENDENCE MINING & FMC
NV	NV-056430	INDEPENDENCE MINING & FMC
NV	NV-056448	KONCHER, LOUIS, ET AL
NV	NV-056755	NEWMONT GOLD COMPANY
NV	NV-056756	NEWMONT GOLD COMPANY
NV	NV-056772	HANSON NATURAL RESOURCES
NV	NV-056808	NEWMONT GOLD COMPANY
NV	NV-056809	NEWMONT GOLD COMPANY
NV	NV-056900	ECHO BAY EXPLORATION, INC.
NV	NV-056901	ECHO BAY EXPLORATION, INC.
NV	NV-057085	RND MTN, HOMESTAKE, BARGOLD
NV	NV-057175	UNITED STATES GYPSUM CO.
NV	NV-057457	LONE TREE MINING INC.
NV	NV-057494	LAC BULLFROG INC.
NV	NV-057495	LAC BULLFROG INC.
NV	NV-058089	MELDRUM, ET AL
NV	NV-058166	CR MINERALS CORP.
NV	NV-058167	CR MINERALS CORP.
NV	NV-058168	CR MINERALS CORP.
NV	NV-058169	CR MINERALS CORP.
NV	NV-058170	CR MINERALS CORP.
NV	NV-058227	NEWMONT GOLD CO.
OR	OR-038521	GARCIA, G & C
OR	OR-040630	PROW, DAVID ETAL

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STATE	SERIAL	APPLICANT
OR	OR-041731	WATERS, DAVEY ETAL
OR	OR-042686	MONROE, HAROLD
OR	OR-043015	RAINES, TERESA
OR	OR-043526	SAULSBERRY, LES, LINDA H
OR	OR-044233	TUCKER, CAROLINE
OR	OR-044644	CHADWICK, LYLE, BEVERLY
OR	OR-044681	TRESHAM, ROLAND
OR	OR-044788	CRAWFORD, BRUCE
OR	OR-044789	COLE, RAYMOND
OR	OR-045603	SMITH, WILLIAM RAY
OR	OR-045916	BYRD, RONALD W. ETAL
OR	OR-046711	CRAWFORD, BRUCE W.
OR	OR-046998	SHERRY & YATES, INC
OR	OR-047320	BROWN, DARRELL E.
OR	OR-048671	PONDEROSA MINE INC.
OR	OR-049212	RANNELLS, ANNA LU
OR	OR-47236	PETERSON, LYNN FRANK
UT	U-0056235	U.S. STEEL CORP.
UT	U-0056236	U.S. STEEL CORP.
UT	U-0063241	LARSON, FREDERICK H.
UT	U-0065275	CLIFFS SYNFUEL
UT	U-0065591	LARSON, FREDERICK H.
UT	U-0065592	LARSON, FREDERICK H.
UT	U-0065593	LARSON, FREDERICK H.
UT	U-0065594	LARSON, FREDERICK H.
UT	U-0065595	LARSON, FREDERICK H.
UT	U-0065596	LARSON, FREDERICK H.
UT	U-0065597	LARSON, FREDERICK H.
UT	U-0055598	LARSON, FREDERICK H.
UT	U-0069000	FULLER, GLEN & CONNIE
UT	U-0069736	BRUSH WELLMAN
UT	U-0070177	BRUSH WELLMAN
UT	U-0070404	BRUSH WELLMAN
UT	U-0070409	BRUSH WELLMAN
UT	U-0070807	BRUSH WELLMAN
UT	U-0070808	BRUSH WELLMAN
UT	U-0070817	BRUSH WELLMAN
WA	WA-046273	SMITH, EARNEST
WA	WA-046435	MCFARLAND, DOUGLAS
WA	WA-047040	JACKSON, ROBERT C.
WA	WA-048312	CROWN RESOURCE CORP.
WA	WA-049205	CASHMAN, JOE B.
WY	WYW080886	American Colloid Company
WY	WYW103164	Minerals Exploration Co.
WY	WYW111683	Kaycee Bentonite Ptrnsp
WY	WYW112144	Thomas A. Thorson, et al.
WY	WYW114240	American Colloid Company
WY	WYW114919	Lynn H. Grooms, et al.
WY	WYW114923	Lynn H. Grooms, et al.
WY	WYW114924	Lynn H. Grooms, et al.
WY	WYW114967	American Colloid Company

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STATE	SERIAL	APPLICANT
WY	WYW114968	American Colloid Company
WY	WYW114969	American Colloid Company
WY	WYW115139	American Colloid Company
WY	WYW115140	American Colloid Company
WY	WYW116301	American Colloid Company
WY	WYW116302	American Colloid Company
WY	WYW116303	American Colloid Company
WY	WYW117567	American Colloid Company
WY	WYW119093	American Colloid Company
WY	WYW119094	American Colloid Company
WY	WYW120312	American Colloid Company
WY	WYW120313	American Colloid Company
WY	WYW120907	American Colloid Company
WY	WYW121827	American Colloid Company
WY	WYW121828	American Colloid Company
WY	WYW122456	American Colloid Company
WY	WYW122457	American Colloid Company
WY	WYW123077	American Colloid Company
WY	WYW123078	American Colloid Company
WY	WYW124176	Thomas A. Thorson, et al.
WY	WYW124655	American Colloid Company
WY	WYW125774	David S. Baskett, et al.
WY	WYW126557	Myron Durtsche, et al.
WY	WYW126565	American Colloid Company
WY	WYW126894	Bud E. Burnaugh
WY	WYW127083	American Colloid Company
WY	WYW127084	American Colloid Company
WY	WYW127229	J.D.Schlosser, et al.
WY	WYW127230	J.D.Schlosser, et al.
WY	WYW127758	J.D.Schlosser, et al.
WY	WYW127759	J.D.Schlosser, et al.

QUESTIONS SUBMITTED BY THE HONORABLE CHARLES H. TAYLOR

Question: One of the Department's primary purposes is providing preservation and providing wilderness. You have 440 million acres in parks, wildlife refuges, historic sites, etc. There are nearly 100 million acres of wilderness in the National Forests under the Department of Agriculture. Should these lands be turned over to the Interior Department to be managed by the National Park Service (NPS)? Your department has the expertise and the science, right?

Answer: While the Department of the Interior does possess land management expertise and scientific capabilities, the public interest would not be served by the merger of the Forest Service and NPS. Competition between these two agencies breeds better land management practices. Ultimately this results in more efficient and effective management, leading to savings for the taxpayer. The Forest Service should remain in the Department of Agriculture and NPS should remain in the Department of the Interior.

The Department does not believe that, in most instances, economies would be achieved by transferring Forest Service wilderness areas to NPS. Currently these areas can be efficiently administered by the Forest Service in conjunction with adjacent National Forest lands. The NPS has the expertise to administer these areas, but if they were transferred to the Park Service, new NPS offices would, in many instances, be required to administer the wilderness areas.

Question: What do you mean when you say you provide "capital wealth"? (Page 1 of statement, last sentence of paragraph 2).

Answer: The public lands and resources administered by the Department produce significant revenue leasing of natural gas and oil, both offshore and onshore, from leasing or sale of coal, timber, and other commodities. Our current estimate of receipts for FY 1995 is \$5.5 billion.

Question: There is some concern that the staff being cut will affect the integrity of programs under the Department's jurisdiction and may not be "politically correct". What kind of staff are being cut? How many biologists are being let go? How many land managers? How many involved in setting department policy?

Answer: Buyouts are voluntary, and only employees who apply can be offered a buyout. Interior's bureaus did, however, use criteria for determining which employees were eligible to apply for a buyout and which applications would be given preference. These criteria differed among bureaus, but were intended to offer buyouts to higher graded supervisory personnel so that average grade levels could be reduced and the supervisory to non-supervisory ratio could be increased. Priority was also given to employees in administrative and support functions so that staffing in these areas could be reduced more easily without reductions in force.

For example, the Bureau of Land Management used the following criteria: Employees occupying the following positions were eligible to apply for buyouts in the following order of priority:

1. All SES, excluding non-career SES appointees
2. All GS/GM-15s
3. All GS/GM-14
4. Positions in Personnel Series (Occupation series GS-200s)
5. All Supervisory Positions GS/GM-13
6. Land Law Examiners, (Occupation series GS-965)
Legal Clerks, (Occupation series GS-986)
7. Cadastral Survey Positions in (Occupation series GS-1372 and GS-1373)
8. All employees in the following occupation series:
 - GS-018, Safety
 - GS-318, Secretary
 - GS-322, Clerk Typist
 - GS-334, Computer Specialist
 - GS-335, Computer Clerk & Assistant
 - GS-341, Administrative Officer
 - GS-342, Support Services
 - GS-343, Management and Program Analyst
 - GS-344, Management and Program Clerical & Administrative
 - GS-345, Program Analysis
 - GS-501, Financial Administration
 - GS-503, Financial Clerical and Assistant
 - GS-510, Accounting
 - GS-525, Accounting Technician
 - GS-560, Budget Analysis
 - GS-561, Budget Clerical and Assistant
 - GS-1035, Public Affairs Specialist
 - GS-1102, Contracting
 - GS-1105, Purchasing
 - GS-1654, Printing
 - GS-2001, General Supply
9. All Non-Supervisory Positions, GS/GM-13
10. All other eligible employees at these locations only - Washington Office, Service Center, NIFC, State Offices, and District Offices.

These priorities were used for the first round of buyouts in FY 1994. For the second round held in FY 1995 a similar set of priorities was used. In these first two rounds, 575 buyouts were accepted. In a third round, held in FY 1995, an additional 55 buyouts were accepted, and eligibility was limited to employees working resource areas (below district office level) in the field.

The Minerals Management Service gave first priority to areas targeted in the budget for staffing reductions, e.g. Alaska, Washington Headquarters, and administrative functions, and took all applications from those areas, highest grades first.

The NPS gave priority to the following categories in the order listed:

1. Career SES, GS 15, GS 14 employees in the Washington, Regional and Service Center offices
2. Supervisory employees at the GS-13 and GS 12 level in the Washington, Regional and Service Center offices
3. Non-supervisory employees at GS-13 and GS-12 level in the Washington, Regional and Service Center offices
4. Field supervisors (in parks and other field operations) at the GS 15 and GS 14 levels
5. All other Washington, Regional and Service Center office employees except Park Police.
6. Field employees at the GS-12 level and above regardless of supervisory status.

The Office of the Secretary priorities were:

1. Employees who are eligible for optional retirement at GS-14, GS-15, and SES and equivalent pay levels
2. Balance of GS-14, GS-15, and SES and equivalent pay levels
3. Supervisors and managers at any other grade, and finally
4. All other Office of the Secretary employees.

QUESTIONS SUBMITTED BY THE HONORABLE GEORGE R. NETHERCUTT, JR.

Question: The *St. Petersburg Times* quoted you during your presidential campaign as advocating a "Universal Needs Test" to discipline government spending. You said, "Every government expenditure - from farm programs to Social Security to defense - should be targeted on some measure of need. We should be asking of every program: Do we really need it, and are the benefits really going to the people we intended to help?" Now, in your current position as Secretary of the Interior, what criteria do you use to evaluate each program's usefulness. How many and which programs have received this analysis? Why have not all programs been analyzed in this way?

Answer: As part of the Vice President's National Performance Review, we looked very hard at the administration of the Department. We developed and are implementing a streamlining plan to reduce bureaucracy and management layers and to strengthen our on-the-ground delivery of services. Over five years the goal is to reduce headquarters staffing by 49 percent and to establish a 1:14 supervisor to employee ratio. In addition, administrative streamlining efforts in FY 1994 and FY 1995 have saved \$89 million.

With respect to operating programs, we have taken a hard look at a number of areas as part of the budget formulation process. A number of programs were recommended for termination or reduction in the President's 1995 Budget. For example, that budget recommended, and the Congress agreed, that USBM concentrate its efforts on four Centers of Excellence, eliminating funding for lower priority projects and for work that had been completed. As a continuation of the National Performance Review, the Department is now conducting a top-down, across-the-board review of all of our programs.

Question: Please provide the Committee with a thorough analysis of the Department of Interior's major programs based on the Universal Needs Test.

Answer: The second phase of the National Performance Review will be completed within the next couple of months. After we complete the review, we will share our final recommendations with the Committee.

Question: The Committee has previously received testimony that the Bureau of Indian Affairs (BIA) should be abolished. Do you agree? If not, what changes do you plan to make, if any, to the structure and effectiveness of the BIA so that our Native American population can be better served?

Answer: The Department does not agree that BIA should be abolished. The obligation that the Federal Government has to Native Americans is unique. While the Federal trust obligation lies at the heart of this special relationship, the scope of the United States responsibilities to American Indians extends beyond basic trust obligations to include a wide range of Federal service obligations delivered in

concert with the enhancement of Indian self-determination. Congress has placed the major responsibility for Indian matters in the Department of the Interior, chiefly BIA. However, if BIA were abolished, the Federal Government's moral and legal obligation to fulfill the trust and statutory commitments would still remain pursuant to specific treaties, statutes, and the Constitution itself.

One of the highest priorities of this Administration is the continued enhancement of Indian self-determination, where Indian people fully participate in the planning, conduct, and administration of Indian programs and services. Today, over half of the BIA operating budget is administered by Tribes who elect to operate various BIA programs under self-determination contracts, grants or compacts. Furthermore, the BIA has made significant FTE reductions and realignments and is currently holding Tribal consultation on further downsizing options. We are convinced that as we continue to see progress in Tribes assuming governmental responsibilities, the Federal presence will continue to diminish. However, it is the Tribes that should determine how quickly and in what manner Tribal governments assume self-governance in Indian country.

THURSDAY, JANUARY 19, 1995.

DEPARTMENT OF ENERGY

WITNESSES

HON. HAZEL R. O'LEARY, SECRETARY OF ENERGY
JOSEPH F. VIVONA, CHIEF FINANCIAL OFFICER
ELIZABETH SMEDLEY, CONTROLLER

OPENING REMARKS

Mr. REGULA. I want to call the hearing of the Interior Subcommittee to order today.

For those of you that were here yesterday, we had a lot of cameras and a lot of lights, but I think the cameras and lights are over with Big Bird and Barney this morning. So you can see the scale of what is important to the media; energy is not quite as significant as Big Bird and Barney.

Well, Madam Secretary, we are happy to welcome you today. I think that you deal with something that is extremely important. It affects energy policy, it affects military policy, it affects foreign policy, it affects the quality of life, it affects jobs. And for those of us that lived through the 1970s, we were made painfully aware of how a slight change in supply can have enormous impact up and down the chain of our economy, affecting the quality of life for the people that live in this Nation.

As I suggested to Secretary Babbitt yesterday, you probably can't totally address this today, but I hope prospectively that you will take a look at your department on a zero base budget, a clean sheet of paper. Energy is one of the newer departments, and if we were recreating it today, what would it look like to serve the needs of this Nation prospectively, given all the impacts that I mentioned earlier?

So with that, we will welcome your testimony. Can you summarize as you choose, and make the strong case for the important functions of the Department of Energy?

Secretary O'LEARY. Thank you, sir. I have long ago learned it certainly is better to summarize than to try to read, so with your approval I will submit my formal testimony and do a brief overview.

Since returning to the Department of Energy, and we have to recall that I have had the experience of working in Energy in two previous administrations. I have had a real opportunity to bring my current experience, the value of having worked in the private sector.

And so I begin by saying that basically my approach from the day that I stepped in the door, being January the 23rd, 1993, has been to try and apply some business practices to the operation of a very far-flung enterprise, far-flung in terms of its mandates, which you have outlined, and far-flung in terms of its geographic reach and the way it touches people and individuals.

The idea was to do more with less and to focus on how to do more with less by trying to identify the customers in the Department of Energy and ascertaining what they needed and desired, and certainly to make the government less intrusive.

The story I like to tell, and I think I have told in this room before, is sitting in my rather palatial office in Minnesota, I one day asked the question, for God's sake, who thought of this crazy regulation? And the people sitting around me looked at me rather sheepishly and said, you did, Mrs. O'Leary.

So I have learned the very hard way the balance of trying to make it simple, more direct, and having it serve the needs of business people, and more importantly, citizens.

The other thing has been to try to provide a higher return to the American taxpayer on the dollar expended. And I am well aware of the budget we command and how we spend it.

I want to talk quickly about reform, and look at the Department overall.

Mr. REGULA. Excuse me. Maybe it might be well if we just go over and vote rather than interrupt you.

Secretary O'LEARY. I will be right here. I am not going anywhere.

Mr. SKEEN. We will bring Big Bird back.

[Recess.]

Mr. REGULA. I think we will get started because we want to try to finish this morning. We have another hearing, the Chief of the Forest Service this afternoon. So, Madam Secretary, we will proceed.

Secretary O'LEARY. Thank you, Mr. Chairman. I will try to move along in a pace that gets that done.

I wanted to very quickly make three points about results and try to look at and improve our bottom line. Almost within the first month at the Department of Energy, we identified a way to save, over five years, \$1.5 billion by simply asking ourselves, have the salaried employees under contract in the DOE ever had their salaries scrutinized to market survey.

Appallingly, the answer was no, they had not. Once that survey was taken, we recognized that a large majority of those employees were above their salary bands within their various regional and metropolitan markets. Understanding that, we simply determined to freeze those salaries for a period of one year, causing that savings over a five-year period.

As you can well imagine, that was a very controversial stroke, but the kind of thing you would do in a business enterprise and no one would blink an eye. We did that and were able to capture those savings.

The other area in which it was apparent that savings could be garnered was in the area of how we managed and what we expected from our contracts. An example in 1994, we spent \$18 billion through contractors. And when I arrived in 1993, there were stacks this high on both sides of me, studies that indicated the Department could do a better job at contracting.

What I was told very quickly was "if you want to do something about this, you won't get a lot of help". I found someone in the outside sector that would take that on and give it a businesslike look. No one I knew or was advised to talk to would take on the struggle.

So when Bill White, our deputy, came on board, he said, "I would really like a big assignment". I said, "I have got one for you". A year later we finished a hard look at how we contract and we did

that through working with our public and with our major, large contractors. I am pleased to report that we have initiated contract reform which, is basically focused on tenets, again, used by the private sector.

First of all, competition. Many of our contractors have long-standing relationships with the Department and simply presumed that on a five-year cycle, those relationships would be continued.

The other thing was we had cost-plus contracts which simply meant that the contractor, by charging more, could earn more. It didn't make much sense either. We thought about performance based contracting, which would require a lot of training on the part of the department's managers to begin to articulate and define what they wanted. Much as you would if you were building a house, you don't give the contractor free run of the place. You try to figure out what the costs are for the services and the products you want and then you build in a reasonable fee, which is the case with our contractors, for meeting bogies.

The downside is if you don't meet your bogies, you don't deliver on the performance or product. Guess what? You don't get an award fee. That dramatic change was implemented with the reletting of the contract in our Idaho facility. We project a savings that might account for, in the short term, \$2 billion, but understand that over a five-year period, we will be letting over \$80 billion worth of contracts, and less as we begin to downsize.

Mr. REGULA. All studies?

Secretary O'LEARY. No, not studies. We are now in the phase of renegotiating contracts.

Let me give you another example. At Savannah River, in South Carolina, where Westinghouse has been an able contractor we asked ourselves, shall we continue that relationship or shall we let the open and free market allow us to hear from other bidders and understand how they would run a very complex business now moving from weapons production to cleanup, with some capability to hold some weapons production processing for cleanup? We opened that contract up for competition.

Mr. REGULA. So the \$80 billion is all of your external contracts?

Secretary O'LEARY. Exactly. And that is a projection over years. But understand that this is very painful controversial, even at the community level. I get myself in a bit of hot water here, but as can you imagine, the towns people in South Carolina may not necessarily see the value of offering competition to do that work. We have seen it pay off and will continue to see it pay off.

Another area I want to touch on simply involves getting more for less from the Department. This is a favorite of mine. It has to do with regulation. When I came back to the Department of Energy, I was finding it was taking five years from the passage of legislation to actually getting a regulation on the streets.

I said, oh my, it has taken 18 months, what has happened? This is what happens. Checks and balances, redundancy, and serial reviews, which makes a system overburdensome, long, and cost the taxpayer too much money. And for some of these, every time you see a change, it means go back to step 1. Start again.

Mr. REGULA. That looks like something we usually put on this side of the table.

Secretary O'LEARY. We walked through the door and working with our general counsel, Bob Nordhaus, determined we wanted to try to change that.

This chart demonstrates the layers of people who do what I call check the checkers. Now, we own a lot of that, both of us. Often the Congress has thought we need a heck of a lot of checking. We have thought that the contractor needed a whole lot of checking because we didn't know how to define the performance of the product we wanted.

We will change that, and we have been changing it. The point I want to make is, we didn't do it starting in November. We did it the day I walked through the door, and I would like the opportunity to continue to do it.

I want to move now very quickly to the downsizing, which is not really the issue. The issue ought to be reducing cost and improving service and this is the commitments we have made to the President of the United States; and I now want to share with this committee in a very formal way with you.

The Department has committed to reduce its budget, over a five-year period, \$10.6 billion. What that amounts to, quite frankly, is a 10 percent reduction of the budget expected over a five-year period, a static budget.

I suspect after we finish this year and the next, the number will be far greater. You need to understand that, of the moment, that is an estimate. I want to talk very quickly about from where it ought and should come. I know there is not going to be great agreement in the room. The targets for reduction of cost are appropriate. Let us talk about it so that the debate might begin.

In the area I believe there is a great concern, we have not attacked the energy efficiency and renewable programs. I will say why and leave that for question and answers, except to the extent that we expect to save \$3 billion in what we are calling a realignment of the Department of Energy.

What we have now come to call the four business areas of the Department were singular and distinct entities: the Defense Programs, Energy Resources, the Labs as they like to be called, and finally the Environmental Management program.

What we understand is that with some integration, and stripping out the layers of management and the redundant reviews, we can save a lot of money. We project we will save \$3 billion in that way, and much of it will come from the other traditional programs, and a share will come from energy efficiency, as well.

Mr. Skaggs, you will understand this example I am going to cite to you about redundancy and layers and not clearly understanding how the Department is managed. In Colorado, there are five separate senior people representing the Department of Energy. Someone from the Western Area Power Marketing Administration, someone from the National Renewable Energy Laboratory, someone from DOE Operations, and someone from Rocky Flats. If you are in Colorado and you are not involved in the Federal Government and you want to know who runs the business of the Department of Energy in Colorado, you have no idea. More importantly, each one of these fiefdoms has its own support system, manages its own

audit and regulatory crew. If this were a business, you wouldn't run it like that.

The other thing I should mention quickly is the Galvin Task Force. Last year, in January, it was clear that the role of our national laboratories, especially our 10 largest labs, was under question simply because the mandate of the Department of Energy is so different today than at the end of the Cold War. It is clear that the missions of the laboratories need to be relooked.

Rather than do that myself, I asked Bob Galvin, the chairman of the Executive Committee of Motorola, who has often been a critic of our laboratories, to pull together the best and brightest of our Nation who have used the labs to come back and tell us how we refocus in these labs to ensure getting our work done, and save money.

The area that I think will be the most controversial is in the environmental management area. This is not an area for which you have direct oversight but over which you all have concern, because all of you have constituents who are nearby neighbors in those sites. The largest reductions will come from that area, following the reductions from what we are calling our applied technology and some basic science programs.

Those are the areas in which we have identified savings. I recognize that there will be tremendous debate over them. I want to say this in closing, on this portion of my testimony.

If I were still in the private sector, a 10 percent reduction over five years would not be considered harsh. This is difficult in the government simply because of the way we run our business. And I know we will come to some of that when we, again, discuss the Strategic Petroleum Reserve or some of our other business enterprises.

Quite simply, it is because the Government has never really recognized a profit. We recognize revenues and incomes, which we normally set aside from operations that have revenue streams. We have never reinvested in those revenue streams. So we are going to have to think in a totally different way to get this job done.

I am well aware the GAO has just released a report, and there was some testimony on the Hill yesterday, regarding whether or not the Department of Energy can retool itself. And I believe that the testimony of my colleague from the GAO is, that he doesn't believe that that can be done because the DOE has never done it.

I would suggest to you that these are quite different times. I would also dare to suggest to you that this is quite a different Secretary of Energy. And I think if we burden ourselves, if we hobble ourselves by simply saying, it cannot be changed because no one can change it, I might suggest to you many of us would not be here today.

So I am clear we can change it. I am also clear we will do this in partnership. My philosophy has been, as I have sought to work with the Congress now on three separate occasions, that you don't do it alone; you do it in concert; you do it with great partnership. And part of the way we have attempted to do all of our work is to do it with great involvement from citizens and those whom we are calling stakeholders simply because they do business with us, or we impact and affect their lives.

Not only do I believe we can bring about change, I believe that change is required and necessary, and I came to the job to be a change agent. I am delighted to be able to respond to questions regarding this portion of the budget.

Like you, Mr. Chairman, I consider this an integral part of what we do.

I am reminded today of the API who yesterday reported for the first time, in I believe almost 20 years, the United States suffers now from imports above 50 percent. I believe the discussions we will have on this budget will play against that backdrop. And I very much look forward to answering all of your questions.

Thank you very much for your courtesies.

ENERGY SUPPLY PROJECTIONS

Mr. REGULA. Thank you. On that last note, I am interested, because we have had conflicting testimony as to the energy sufficiency of the United States. Some are saying that we don't need to worry about our sources because they are stable.

Do you have any report that attempts to project the needs and how we will meet them over, let's say, the next 50 years? I am talking about all forms of energy.

Secretary O'LEARY. Yes, we do, Mr. Chairman. And what I would like to do is supply to you and this committee reports that come from a divergent set of sources, those in favor of one energy source or supply, and international firms who are in it for the return, for the profit. In addition, our own energy information service; and certainly it would be important to review, as we do frequently, the work of international agencies who take a global view. And I think that is what we are forced to take. I want to start from the perspective of "do there continue to be concerns?"

The answer would be, absolutely yes, within the United States and within our partnership at the International Energy Agency, which was formed just after the advent of the first energy price shocks occasioned by the Seven-Day War.

The universe of suppliers of petroleum from whom we now import has broadened over that time. And that was occasioned by the fact that the price has spiked so dramatically in the 1980s, encouraging others to explore and then produce petroleum. So we have certainly increased our supply from Mexico, from Canada, especially with respect to natural gas, and Venezuela continues to be a long-term and very reliable supplier.

Having said that, we still must focus on the fact that the majority of these imports do come from what we call the Middle East, which is now more than ever, I believe, trying to sort out its relationship with the United States, as its attitudes, both toward trade and diplomacy, tilt more to their very fundamentalism that is borne out of their religious beliefs.

STRATEGIC PETROLEUM RESERVE

That sets up, for me, a concern that has to do with how nations align when we have disagreements over issues. Having said that, I would want to go now to the fact that we continue to have the Strategic Petroleum Reserve which acts, in my view, as the insurance against price and supply disruption.

Mr. REGULA. You think we should continue with it?

Secretary O'LEARY. I absolutely do, sir, although I recommend we not expand the Strategic Petroleum Reserve to its ultimate supply. But I believe that the 600 million capacity now existing is adequate because of this more diverse supply.

But what we have seen, and we saw just after the last conflict in the Middle East, is how prices can spike dramatically when there is uncertainty. That was on the advent of war, when prices more than doubled over a period of less than three months.

This is the kind of insurance that my colleagues would tell me that all of us have, and we will go out and buy when we are healthiest, when it is cheapest.

CLEAN CITIES PROGRAM

Mr. REGULA. Just one other question. I also have a number of questions for the record. The Clean Air Act is driving cities to respond in different ways to reduce emissions. It has even impacted on highway growth. What is the role of the Department in assisting cities and States to accommodate to the requirements of the Clean Air Act?

Secretary O'LEARY. Well, we have several requirements that were laid to the Department of Energy under the Energy Policy Act passed in 1992. And I would like to just check them off very briefly.

We engage both the cities and communities under what we have been calling our Clean Cities Program. And in that program what we have attempted to do is focus Federal resource, very meager indeed, help those cities who have not reached compliance under the Clean Air Act do so by reducing emissions from automobiles.

This is a very modest program which simply recognize that we can move the Federal fleet into cities like Las Vegas or Chicago, Philadelphia, the polluted cities in the southwest, and Texas, on up to California, by simply committing to have less polluting automobiles of the Federal van and car fleet moved into those cities so as to create the infrastructure which might support alternative fuels such as propane or methane, if that is what that community wants, or natural gas, which is what I use in my own private car and did when I was living in Minnesota.

It is a very modest Federal fund. What it tends to do is engage a city or county which then makes the same decision about its fleet, reducing not only emissions but creating a marketplace and putting jobs in place for conversion of those automobiles.

The example I would like to use, because I was just there recently, is in Chicago, where 118 interested firms, not all of them in the environment, some of them interested in their own economic well-being, came together in support of the Clean Cities Program and dedicated funding to creating the opportunity for converting the automobiles, for selling the fuel, and for laying in the services that service those automobiles.

That in my mind is a valid program. There is modest initiative on the part of the Federal Government that recoups value to the environment, value to the economy, and also value in terms of what the citizens in those cities want. We force no one to join the Clean Cities Program, and it was over-subscribed before the end of the year.

We had indicated we would bring 25 clean cities to the table, and I think now we are approaching about 34, and had done that well before the end of last year.

Mr. REGULA. Mr. McDade.

Mr. MCDADE. Thank you, Mr. Chairman.

Madam Secretary, let me welcome you and express our appreciation for your very fine testimony, which as always is informational and challenging. We appreciate it.

I can't help but reflect on a more personal note that about 20 years ago your late husband occupied that chair on that side of the aisle and gave this committee marvelous advice during the period of the energy crisis.

Secretary O'LEARY. Thank you. It is kind of you to say so. He was a great teacher for us all. I sat back there.

Mr. MCDADE. You changed your position pretty well. We are delighted that you are here.

NAVAL PETROLEUM RESERVES

Let me ask you a question, if I may. A lot of people are talking about the sale of the Naval Petroleum Reserve. I have seen estimates. I don't know if you agree with the estimates that it would bring in about \$1.6 billion. How do you feel about the Naval Petroleum Reserve? What do you think we ought to do with it?

Secretary O'LEARY. Oh, my. Well, if the Government were a business, it would be clear exactly how we should operate and what the plans should be for the Naval Petroleum Reserve. This is the example I was citing to the Chairman earlier on, of being hobbled by the Government not to run a business like a business. We are proposing under our budget cuts the sale of the Naval Petroleum Reserve, the idea we want to immediately recognize some profit which will return to the taxpayer by reducing the cost.

Mr. MCDADE. That \$1.6 billion, is that a ball park figure?

Secretary O'LEARY. That is a great ball park figure, by sale of this asset. If I were in the private sector, what I would prefer to do is first corporatize this enterprise and have the opportunity to reinvest funds so as to improve the field so that I could also improve the stream of cash flow and profit from the sale of petroleum of the reserve, thereby making it much more attractive to buy as on the open market.

That is not how government is run. We have never plowed money back into that field. We would like a private entity managing that operation. Again, you begin to look at it more like a business.

The next step would have been to create some quasi-government corporation and come to the Congress and ask permission to now reinvest in the fields, which you would do if you were running an oil field for profit.

That being the case, we are proposing the sale of this asset without having the luxury or the time to make it a more attractive asset. If one would then run out revenue streams, the question asked to me by the Chairman is, why would the American public want to sell this wonderful cash cow?

The answer, I think, would be because if we can develop it properly, it will in the long run be of greater benefit to the public. It

is very difficult for me to prove that today, one of the reasons being that the legislation which commands me under the operation of this asset does not now permit me to go out and do the kind of study needed to understand what I can sell the asset for.

But I know I need to improve the revenue streams. My personal opinion would be to spend the time to carefully develop it. Now, we are all operating under a system which says we are going to find budget savings very quickly. That hobbles us from getting the best price for the product. I lament that. It is a fact of government. I believe as we enter into this debate more fully, we will have dialogue on how this ought to take place.

And I am clear we will have debate on whether it should take place. But if we are seeking as a government to begin to privatize and return to the private sector those things that can best be run by the private sector, clearly this is a candidate.

The business perspective would be how best—I like to go back to Harry Homeowner—how best can you clean up the house so that you can get the best dollar when you put the house on the market.

Mr. MCDADE. How would the number change? It is about \$1.6 billion now.

Secretary O'LEARY. The number could change quite dramatically. My folks have provided a flow chart to me. But investment over a five-year time period might improve the return to the American public by a magnitude of I think—the cash flows would improve by \$5 billion over three years? Give me a round number. Yes, \$5 billion.

And what I would have to do, and I would do if I were still working in Minnesota, is I would have the men and the women from Wall Street come in and examine cash flows and we would put it on the market after having done a careful survey against liabilities and what we thought could get out of the asset.

At the moment, I think it is difficult to sell because we have not yet been able to lay in the investment to prove we can get much better revenue streams by increasing production. We know how to do that. We would like to be able to do it before we sell it.

Mr. MCDADE. Thank you very much.

Mr. DICKS. Would you yield for just a second?

Mr. MCDADE. Sure.

STRATEGIC PETROLEUM RESERVE

Mr. DICKS. Did you answer the question, I didn't hear, do we still need the Strategic Petroleum Reserve?

Secretary O'LEARY. I did. My answer is emphatically we need it. And I want to be definitive this time, I am clear that we don't need to raise to the level of the initial authorization, and that the approximately 600 million barrels in storage today is adequate and must be preserved.

Let me go further. The acquisition cost of that oil, because we bought it at higher prices, averages \$27 a barrel. Today's spot price for oil is \$18.31. No one in his right mind would sell that asset at this price. My grandmother wouldn't do that.

Mr. REGULA. You have to be careful getting your family involved. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Madam Secretary, it is always a delight to see you. You epitomize the very name of your department over there, energy. Never have I seen anybody that can cover a topic and do it as well as you do. We appreciate that.

Secretary O'LEARY. Thank you, sir.

WASTE ISOLATION PROJECT

Mr. SKEEN. But I am not going to let this meeting go without asking you about the Waste Isolation Project. Where are we?

Secretary O'LEARY. I think, sir, we are on course.

Mr. SKEEN. Hopefully. Twenty years on course.

Secretary O'LEARY. I came to this party in January. But let me tell you why I believe we need to remain on course. I tell the story because I learned from Jack O'Leary how to tell a story.

I was in Moscow during our national security and nonproliferation business with the Vice President, and I thought, I am so close to Stockholm, why don't I drop in on our Swedish colleagues and take a look at how they are progressing so well to involve and engage their public as they go forward with their plans for storage of their nuclear waste? What they have done is involve the public. They have been open, they have been inclusive, which is what we have attempted to do.

Let me stay on that before I go to Yucca, as I know we will go there. I am going to move right around the table as I am required.

I believe that the American public needs to understand clearly that the Government, having made the decision to engage in the business of nuclear power, which saved us from World War II, which helped us win the Cold War, have now got to wrestle with this waste and take care of it.

When I arrived at the Department of Energy with its various organizations not talking to each other, someone in Defense Programs took me through his programmatic review and took me right to the end of a beautiful red line on a chart where he was showing flows of nuclear waste. And I said to him, "Excuse me, Dr. So-and-so, but you left the waste right there hanging off into nowhere. Where does it go?" He said "not my problem after that." What I found, because we were not integrated as a department, was that nobody felt that they had responsibility for ending the thing.

We have changed that in a very dramatic way. Everyone might not be satisfied with it, but we have people looking at the disposition of all nuclear materials, especially fissile material.

Coming in, I met the grandfather of WICPP, who in 1961 said, "we will have this thing done in 20 years," He is still around, saying, "gee, I hope we can get it done." I am committed, and have said so publicly, that if the science proves out, we are going to open that project in 1998. We have got to prove to ourselves that we will. We have got to meet every milestone, every concern, every scientific concern and move ahead.

I am pleased to tell you that just last week we concluded negotiation with the Environmental Protection Agency regarding the test, so that we are clear on the things we have to move to in order to satisfy the regulatory requirements of the Federal Government. That was a major milestone that wasn't even being worked on.

Mr. SKEEN. I think you are correct. I know that people will be visiting many Members of the Congress late next month. They feel, and especially near Carlsbad, having made the investment, having from the city and the county's perspective come to grips and worked with this problem, that if we can do it correctly and openly, we want to get this done.

Secretary O'LEARY. We need to prove we can do that so that we can earn the respect as an agency and as a government to deliver on long-standing commitments made to citizens. I know that is more than you want to hear, but I am on it. I go there on a quarterly basis so the people understand I am on it. And I bring everyone to the table who has something to say on it. I will be back there in March, sir.

Mr. SKEEN. One of the sides of the story I wish we could tell, at least be more graphic about, is that for 40 years we have been storing this material on asphalt pads in 55 gallon drums for miles and miles and miles in Idaho and other places. And if the environmentalists and people that are that concerned would take a look at the way we are storing it now as opposed to the way we could store it at a very safe depository, it would change their attitude. We don't put all the pieces together for some reason or other. You have done an outstanding job. I appreciate hearing about the laboratory test because that is another step in the process.

One last question, and that is, I want to commend you on the amount of money you are talking about saving, \$10.6 billion is a pretty good chunk of change out of that department's budget. We appreciate it, because these are tough and tight times.

Secretary O'LEARY. Thank you, sir.

OIL AND GAS RESEARCH PROGRAM

Mr. SKEEN. I want to know what it does to your research programs, particularly in the area of oil and gas production. The only window we have, the only cushion we have against all imports is the small domestic production we have got, and we have to enhance it one way or another.

What is the Department doing? Can the private sector take this on by itself if the Department pulled out of the research? That is a what-if.

Secretary O'LEARY. I need to begin by reminding everybody that I come from, most recently, a diversified utility, where I spent a lot of time struggling, wearing that old hat, with the issue of how you find the funds to invest in what is called risky research.

I know the answer for regulated utilities, and that is that conditions are not anxious to have ratepayers expend money on, "risky research". The issue, especially with respect to small and independent producers, is quite a different matter.

First of all, they have no regulatory requirements. What they have is a pocketbook requirement that says, I have to have earned enough profit to be able to invest in research. Tough piece of business for a ma-and-pa operation, which normally are our small and independent producers, and tough piece of business when the cost for extraction, exploration or production of that oil, if you will, generally is very marginal.

Mr. SKEEN. The market doesn't meet it.

Secretary O'LEARY. You cannot do it.

Mr. SKEEN. Correct.

Secretary O'LEARY. I have seen, and saw very early in my career in this term, small business people in our national laboratories. They were smart enough to understand the big business was in the national labs, using, to advantage some of the technology coming from our national security program to help with energy production, begin to move into that area.

The share that the Government pays is 43 percent on average. The share that this small business pays is 57 percent. I don't believe it can be done without it. Now, the detriment, of course, is to the businessperson and to the jobs created. But in the long run, as the Chairman has indicated, the detriment is to the American economy as we begin to rely more and more on imports, and wait to deal with the next shock or exacerbation.

Finally, the draw is on the cities, the counties, the States that depend on the revenues that come from the royalties from production. And what I have seen in the two years I have been on the job is more wealth closed in, between business closing down, it means revenues lost for States. Most importantly it means normally, if you have closed it in and removed its piping and infrastructure, unless prices spike and spike very high, no one is going to go in to reopen those wells.

So we have lost that supply while we narrowly try to make up the difference through natural gas, which is also at risk and can be.

Mr. SKEEN. It surely is.

Secretary O'LEARY. And making that up through energy efficiency and alternative energy, for which everybody doesn't have a warm spot. Our challenge working together is not to figure out, what is there we can do without. It is, how can we do this more efficiently and how can we remove the redundancy so that the money is targeted in the best places, and we have a high level of comfort about the return we get.

Mr. SKEEN. But the conclusion is you still have a very important part to play in this thing. Can I wipe out these programs from the Department of Energy even though they cost less than what the Department is putting in. It has been a good partnership. Those folks shut those wells in, the market just won't support them pumping out of these marginal wells.

Secretary O'LEARY. And more importantly, they think that the American public doesn't get it, and we don't care about them because somehow the work they do is not valuable.

Mr. SKEEN. Anybody that has a swell part of a dynasty.

Mr. REGULA. Mr. Bunn.

Mr. SKEEN. Thank you very much, Mr. Chairman.

Mr. BUNN. Madam Secretary, you talked about the \$4 billion coming out of environmental management.

Secretary O'LEARY. That is correct, sir.

HANFORD TRI-PARTY AGREEMENT

Mr. BUNN. The Department recently renegotiated the tri-party agreement with the State of Washington and EPA to develop realistic and achievable goals to remove the threat of contamination.

As those cuts are made, how do you stay on track with those goals? Are they going to be set back because we just can't stay on pace now? How are we going to deal with that?

Secretary O'LEARY. I was there when we began to talk about re-opening the tri-party agreement. I wasn't there because I was a happy volunteer, I was there because there was nobody else confirmed into the Department of Energy. There was no one else to get on the plane and go to Washington State, to meet with the Governor and also the citizens of the State of Oregon, who very much care about what happens because the river runs through it.

I cannot say to you that agreements made may not be at risk over the long term. I got personal commitments in both Oregon and Washington State resulting from the serendipitous fact that I was no longer there. I believe what we need to do is look very carefully at the commitments we have made, and ask ourselves, can we identify enough efficiencies in the way in which we are doing our work to accomplish those milestones?

I am pleased to tell you in the time I have been in the job, and Tom Grumbly, who has done an excellent job as Assistant Secretary, we have met milestones. We have also talked about meeting milestones, which you and the citizens know. We are not going to do anything to put at risk, first of all, milestones, nor relationships. So we will move hand-in-hand with you and citizens of both States, and we will look very carefully at what we are planning to do. If we need to recommit to the Congress or the administration on what we will have to do, we will do so.

I clearly understand that we can renegotiate. I also understand there is the spectrum of some legislation that then takes a look at the whole piece. But that can't happen without the buy-in and the assent of the citizens of the States that are affected and most importantly citizens living nearby. That cuts into governors, that cuts into health and safety and environmental managers and regulators in the State.

Mr. BUNN. Thank you.

Mr. REGULA. Mr. Skaggs.

Mr. SKAGGS. Thank you, Mr. Chairman. Good morning.

Secretary O'LEARY. Good morning. How are you?

Mr. SKAGGS. I am well so far.

Secretary O'LEARY. I hope I can say the same.

DISCLOSURE OF RADIOLOGICAL EXPERIMENTATION RECORDS

Mr. SKAGGS. First of all, I wanted to make a comment about a couple of things. First, on matters outside, really, the jurisdiction of this subcommittee, but this is the only opportunity, so I will grab it. I think your leadership and work in opening up the Department, in particular making records, as painful as they are to disclose about, radiological experimentation, back particularly in the 1950s and 1960s, is really a very worthy and difficult step that you have taken, and I think the country owes you a great commendation for that.

STRATEGIC ALIGNMENT INITIATIVE

Another matter outside the subcommittee's jurisdiction is the environmental cleanup of the weapons sites. I am concerned, and I

think several colleagues are, that the number attached to that as part of the President's plan for reducing both fiscal 1995 and out year spending was a top-down number more than a bottom-up number. And we will be following closely to make sure that we can reconcile reality on the ground and the need to keep commitments on the ground and not become the victims of an arbitrarily chosen number.

And if you want to comment on that, I would welcome it. I just wanted to put a little bit of a marker down, if I may.

Secretary O'LEARY. You can, and—I am going to tell another story, because it will give flavor to your comments. You need to understand that we were going through a realignment that was going to take a look both at budget, how we spend it, how to save, how to do a better job, and we had intended to do that, in the luxury of three months.

In fact, during the month of December, there are some days that I think we did it in the luxury of two weekends. And what we did was set very arbitrary targets for ourselves and ask the question, "how could we achieve the savings?" The course of necessity focused on some of our larger budget figures because it is easier to do if one has to do a quicker job.

I wouldn't call it totally top-down. Some place in the upper middle-down might tell it just about correctly. But I am clear from having had lively conversation and exchange and listening a lot from the operational managers, that they would have liked to have been cut in much more definitively.

Mr. SKAGGS. I hope that we will be able to achieve much of what you set out to achieve without doing any damage to meeting real deadlines, without real risks to health and safety.

Secretary O'LEARY. Exactly. But can I make this commitment, because I believe I have to. We now have the luxury of refining those numbers and asking, not "does it pass the ho-ho test, but does it pass some test of reality on the ground?" As we develop that, just as I have indicated to Mr. Bunn, we will engage in dialogue. You will be hearing from Mark Silverman more, because he is the one on the ground. He owns it, he will deliver it. And we will reshape as we must, and I will not take the step alone, because I can't.

FEDERAL RESEARCH AND DEVELOPMENT

Mr. SKAGGS. Thank you. We heard some interesting testimony last week, particularly having to do with zeroing out or severely reducing any of the money spent by the Department on alternative energy, solar energy, R&D, and so forth.

If you are prepared this morning to leap to the defense, I would welcome it. At least I wanted to suggest that before things proceed too far this year, we really will need from the Department a very hard-headed justification for why in particular areas of research and particular technologies there is a need for public monies to get over the hump to marketplace viability. As I understand it, this is the underlying rationale for there being public meddling in this particular area of the market.

If you would like to take a shot at it this morning, you will no doubt have a chance to elaborate further later on.

Secretary O'LEARY. Thank you. Now my goal is to be hard-headed. That means dollars and cents. It means looking toward the future. As we have looked at what is happening to the oil industry in the United States, focusing on independent production, anybody who can go offshore of the United States where it is cheaper. It doesn't help us back at home.

We have looked at how you meet that shortfall and try to reduce our dependence on imports. That was the way we looked at it in the old days.

Then we began to look at it as alternative energy helps the environment. Good point. I turn it even harder than that. Helps public health, which is a very expensive cost factor. And we spent more time last year than a lot of us would have liked to trying to figure out how to cut health care costs, and we know you do that a lot through prevention.

So let's hook the environment to public safety and public health. Finally, let's just talk the economic piece. Look outside of the United States and understand that Japan, Western Europe, and even now some of the smaller countries, and China, and South Korea, all are investing in the next generation of energy supply, heavily in alternatives, because more often than not it is what most of us recognize will fill some gaps.

I don't understand how as an economic piece, leaving the oil industry aside for this hard-headed discussion, leaving the environment aside for this hard-headed discussion, that we would let any other nation beat us to market on this technology, which will help us at home, but when we look at the fact that the growth and the requirement for energy need is both in the United States and abroad, we will miss the marketplace. That is very hard-nosed to me.

I link those three pieces together time and time again to answer the question of why we are doing this. Then I go back and look at hard-headed business people. Enron now tells us, they want to develop a solar farm on a test site in Nevada, and they believe they can do it at market clearing price if we will simply help them develop the technology for the short term. What I know about wind definers, when I left the Government last time, you could not clear a market for wind generation. Those investments coming out of government funding have helped that happen, so that not only is wind a reality, it is being ordered by hard-nosed business people and being sold by hard-nosed business people.

You want to go back further in time? Let's talk fluidized bed. Never would have happened without the Government involvement 20 years ago. The same true for fuel cells.

So here we sit now having developed some of these technologies, taking them from concept through experimentation to bench, and now I am worried about market clearing. Do we leave those investments behind, writing off as business people all of that money expended, and at the same time permit some other nation to fully develop it, to beat us to market, and to clean our clocks?

I don't know if that is quite hard-nosed talk, but I understand it. And the answer is, no, you do not. Further, we need that energy source.

Mr. SKAGGS. That is a great beginning on this, and I think the extent to which you are able to flesh out with numbers and particulars and quantify it as much as possible all three of those lines of argument. I find them intuitively very persuasive, and the harder the numbers are, the more persuasive they will be to my colleagues, particularly looking at the externalities of balance of payment problems, the externalities of public health, as you were pointing to, as well as just our sense of economic well-being.

Secretary O'LEARY. Fair enough. We will develop the executive summary, sir.

Mr. REGULA. Mr. Nethercutt.

HANFORD WASTE REMEDIATION

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Madam Secretary, I want to direct your attention back to Hanford cleanup and a couple of other issues related to it. Newspaper reports, which I presume you may have seen, have come out in past months somewhat critical of the expenditures that have been made at Hanford with no discernible positive results. Would you agree with that, number one?

And number two, are you satisfied with the cleanup efforts and the amount of money being spent? Also, what can we do to be sure that thousands of dollars won't get spent on pizza for employees?

Secretary O'LEARY. I don't think our problem, Mr. Nethercutt, with respect, is the money spent on pizza for employees, it is the money spent on assessment and trying to understand and have the courage to take steps. The good news is I did work this side of the program when I was in the Department of Energy years ago. And I say that is good news because I have tended to look at this in a very contrary way; I don't own it. Certainly unlike the issues involving national security, I get a lot more dispassionate about what I have discovered and what I have come to understand.

This is not a pretty history and I should not spend a lot of time on it. I talked earlier about the fact that for so long, the focus at Hanford and at all our weapons and manufacturing production sites, had been, get it done, there is a war, there is one enemy against whom we have to protect ourselves. I have told the story before about Bill White, our Deputy Secretary, doing contract reform planning, and finding a one-sentence paragraph of a contract at Hanford saying, this contract is to purchase a secret weapon.

In the old days when we were trying to win a Cold War, that was understandable. That is the culture on which this entity called many things over the years, has been built. We have had to grow from a time when we were very sketchy because we needed to be, to get very hard-nosed, understanding what we wanted, articulating what we wanted, because we knew what we wanted, and maybe we had done it before.

The interesting thing in cleanup is more often than not we have not done it. So it is very difficult to articulate exactly what we want, but that is what we are attempting to do in contract reform.

I believe we are better—I know we are better. We have cut cost. We have cut employees. That does not satisfy people in the community, because everyone would like a job. But I don't believe you hire people and keep them on if there is no job for them to do. You

spend some creativity to have alternatives for those jobs in that community, which we tried to do in Hanford.

Finally, you get very clear on what you can deliver and you start to deliver it, which is why we renegotiated those contracts, moving off from what we thought we could do, and dialogue with the citizens to accomplish what we could accomplish and what they thought was worth accomplishing.

We have improved, I know that, both in terms of cost and management. We have improved by meeting milestones, by making milestones public for the first time in 1994, and beating them by over 50 percent, and we are going to do better in this fiscal year.

Now, can we do better than that? You bet we can. That is the challenge that we have. There is a very high number for reducing cost, which makes everybody uncomfortable. It might not be the right number but it is the number that is on the table. And we are going to work hard to figure out how we do that.

And I am understanding that I cannot back off of a commitment I made because I am bound in a legal contract. I will be sued if that happens. If we determine that we need to do something different, and this is to you as well, Mr. Skaggs, we won't do that alone. First of all, you won't let us, but I wouldn't presume that I could.

Are we as lousy as we used to be? No.

Can we get better? Yes.

Are we working toward it? Every day.

I need to say this to you. I used to, in this job, wonder every night when the phone rang after 9:00, what had happened. I am not sanguine about that. I feel we are getting it under control. The safety comes first. The cost and the concern is important. But we are not going to put people at risk, workers and the folks in the community, yours or nearby.

Those things we have to balance out. It is a very difficult job. It takes a lot of minds to get it done.

FAST FLUX TEST FACILITY

Mr. NETHERCUTT. One other quick question. Again, relating to Hanford, I heard you speak a little while ago about health care. There is a fast flux test facility at Hanford.

Secretary O'LEARY. I know it well.

Mr. NETHERCUTT. My understanding is that it can be useful and very helpful in developing isotopes to fight cancer, yet it may be in jeopardy. Is that your sense also at this time? Do you feel you have given enough consideration to that facility to determine that it is expendable? What is your conclusion about it?

Secretary O'LEARY. Mr. Nethercutt, at the beginning of the 103rd Congress, I began to undertake, through my colleagues at the Department of Energy, a very careful examination of what would be the economic use for that facility. When I arrived, the shutdown decision had already been made. I took a step further because I did not believe that the citizens in Washington State who had had an interest in that facility, because of the jobs and the benefits they thought it would bring, would be comfortable simply with that look.

So I got a disinterested panel of three very wise and learned people to take a look at it. And I asked the question, first of all, what

are the uses? Indeed, that might be a source and a supply for isotopes, but at a cost that was far too exorbitant.

I understand that need. I know we have two other facilities that can meet that need at a cost much less to the American public that we are committed to deliver. I have studied that issue. I have studied it twice. I am very comfortable with the decision we made, and it was made on a very businesslike base, I ask the question, are there any uses to which this facility can be put that are cost effective and will not be a draw to the American taxpayer. Answer was no.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Mr. REGULA. Let me again point out to committee members that you can submit all the questions you might choose for the record. I have instructed the staff to advise the agencies to get the answers back in two weeks. And as soon as we get copies we will get them to the members who submit them, so it will be current.

Mrs. Vucanovich.

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman.

Madam Secretary, I am always impressed how well prepared you are when you come to our hearings, because lots of questions, I think, are outside the scope of the hearing, and I wouldn't ask you this if you hadn't mentioned Yucca. I had a few other questions. Honestly.

Mr. KOLBE. You just thought of it.

INTERIM STORAGE FACILITY OF SPENT NUCLEAR FUEL

Mrs. VUCANOVICH. But I am curious to know if you have any thoughts on Senator Bennett Johnston's bill to change the law and place an interim storage facility in Nevada. It has raised a lot of concerns in my State, I might add, and my delegation.

Secretary O'LEARY. I have a thought or two. Yes, I do have some thoughts. Let me cut to the chase and not be coy. I have not completely read Senator Johnston's text. I am well aware of what it contains because my people have briefed me on it. I have read all that was in the press, the Nevada press as well.

I am well aware that others are going to be introducing legislation, as was the case in the 103rd Congress.

Mrs. VUCANOVICH. I introduced one.

Secretary O'LEARY. I am well aware of that, ma'am.

Here is my position, and I know it will not please you, but it is very important for me to articulate it. As I indicated with respect to WIPP, I think we owe the American public an answer which we can only provide when we have finished the scientific work that is required in the characterization of Yucca.

I am well aware, being from a State and a business where there is local concern about absence of Federal capability to live up to the commitment that says this Secretary of Energy will take the spent civilian nuclear fuel in 1998.

I have no facility that permits me to live up to that mandate. As you well know, the Department has been sued on the question of whether I have a legal requirement to take it even if I have no place to store it.

I understand from visits and letters and phone calls from hundreds of people and some very unhappy attorneys general of now

I think some 30 States that I have the obligation to find an interim solution.

Let me say this. I have worked on large projects where whenever you go forward, you have contingencies. Here we are looking forward, looking at ultimate disposal, with no contingency plan. And I don't know, again, speaking as a hard-nosed businessperson, which is the way we are trying to look at it, anyone who would have gone forward with no contingency in hand. We, the Nation, are required to have a contingency.

What I believe will happen in the next two months is there will be 10 or 12 pieces of legislation. At that point I think it is appropriate for the Department of Energy to come forward with its prepared testimony and point of view on the value of all that has been submitted. And that is the way I would like to progress.

The other thing I have offered, and we are working with both the commissioners of the States involved, yours as well, is to try to have some consensus on the legislative packages on the table as to what makes sense in terms of an interim solution as we need one. And the law, some say, requires that I provide it. My hands are tied today. I have no facility.

Mrs. VUCANOVICH. Well, of course, I don't think any State is going to step forward and say I think that is a great idea. So I think you do have a dilemma.

NEVADA OPERATIONS OFFICE

I have lots of questions, but I just was going to mention to you that in the next couple of days a letter will be coming from our Nevada delegation that is concerned about the future of our Nevada operations office in Las Vegas. As you probably know, there are rumors going around that the office would be downgraded and there would be a lot going to New Mexico. I am sure you are going to be in a position to have to answer that. But I won't ask you to comment unless you wish to.

Secretary O'LEARY. I wish to.

Mrs. VUCANOVICH. Great.

Secretary O'LEARY. My sense, you need to know that this alignment work is being done by hundreds of people in the Department of Energy. This will not be a top-down piece. But we are guided by a set of principles that say, first of all, what we need to do is put Department of Energy presence where Department of Energy has facilities, and that presence needs to have all of the authority to discharge its business, so that we then don't have to move the work and the thinking from place to place to get sign off after sign off and review after review.

If I were looking at this from the perspective of someone who had a facility in the Department of Energy, I would think that would mean in the long run you are going to put the agency closer to the customers and strip out all the redundant steps in between.

I would be worried if I were one of these offices that check and review and provide what might be redundant service. My tenet has always been, put the work where the customer is and give the person the authority, with a clear set of goals, to get the job done and get off of that person's back.

That is not going to satisfy everyone because there are some people who think we need to watch these folks because we can't trust them. I am for clearly articulating what people are supposed to do and seeing that they deliver on both a timely fashion and having stuck to their budgets.

Mrs. VUCANOVICH. Quickly, I am sure you are aware that there is an operation and maintenance contract, RFP. My question, it is supposed to be released this year. Do you know if they are on line and what the timing is? There has been talk that it has to be pushed off. Do you know the timing?

Secretary O'LEARY. I know the timetables are to adhere to what has been committed. I just talked to Dan Dreyfus before I left. I had a suspicion you might ask this question. He has indicated to me we will be on target, and it is my intention, with respect to all commitments that we have made, that we simply meet our dates. If we cannot, we will tell you.

My job around there is to drive people to meet their goals and to help them in meeting their goals.

Mrs. VUCANOVICH. I appreciate it, and I have another question about the Pinon Pine project, but I will submit that. Thank you, Mr. Chairman.

Mr. REGULA. Mr. Taylor.

ALASKA NATIONAL WILDLIFE REFUGEE

Mr. TAYLOR. Mr. Chairman, I would like to submit some questions for the record, but I would like a brief dialogue, Madam Secretary. In the five years I have been here, I have witnessed that the depth of dumb cannot be fathomed in Washington, so I am not totally surprised when I see policies in play that make little sense.

But one that has particularly impressed me is our approach toward ANWR. Could you maybe talk with me a little about that? Maybe enlighten me about some things that may be happening there that I have seen?

I have visited, toured, gone up and down the country, talked to the reindeer.

Mr. KOLBE. They are probably more intelligent than anything back here.

Mr. TAYLOR. What I see there is an asset that cost several billions of dollars to put together—the pipeline. They are already shutting down pumping stations. If we continue to move in that direction, the line itself is going to deteriorate, to fall, even if we get the oil out.

We know there are traditional reserves in ANWR, we cannot take it out any other way than pipeline. Should we not be continuing to drill aggressively using known environmental protection that we have now in ANWR?

Could you as Secretary be a proponent? To put it another way, can you, as Energy Secretary, be a proponent of that?

Secretary O'LEARY. I am sorry that Mr. McDade has left, because you have the wrong O'Leary. If Jack were still alive, then he might be the Deputy Secretary of Energy who would want to push that as a matter of personal opinion. The interesting thing about the O'Leary household was that it was diverse enough to have partners who saw things quite differently.

I will tell you where I would like to begin. I have spent the past year trying to focus on the export ban for Alaska, which I believe is an important place to begin. I have been a strong proponent for lifting that ban.

I have not and I cannot on the basis of what I know today be in support of developing ANWR.

Mr. TAYLOR. Why not?

Secretary O'LEARY. Quite frankly, because I have made personally and publicly a series of commitments to say I would solve the problems that I believe can be solved and provide the supply we need in the lower 48 before we address that piece. As you well know, I work for a President for whom I have great respect and admiration who also espouses that position. As long as I am working for him, even without regard to my long-standing personal opinion, I would not change my mind.

To change my mind would mean that I would sever the relationship. But clearly understand, I came to the party opposed to development.

Mr. TAYLOR. I can understand. The President sets the policy, you are the Secretary, and you can't tell him what to do.

Secretary O'LEARY. But understand, I came with that—

Mr. TAYLOR. Let's get into that. Let's talk, as Connie Chung would say, just between the two of us.

Secretary O'LEARY. I am sorry, I am too smart for that.

Mr. TAYLOR. Other than the fact that that is the political correctness of it all and there is enormous financial contribution that comes into this community to keep the—I don't want to use the word lunacy that is being used for environmental policy in place, can we wait, I mean, I see your dedication to the lower 48, but can we wait if we in fact see the pipeline itself deteriorating?

In other words, if we had to go back 10 years, 20 years from now and rebuild the pipeline, think of the billions that it would cost, not to mention the needs of environmentalists? And we are going to lose the pipeline over a period of time. It is a situation that it requires a certain amount of oil, a certain amount of barrels to operate. As that continues to decline—and as I say, I know of two pumping stations that have been dismantled, they have taken down. They will gradually continue to do that until they have to abandon it altogether.

I think the cost, when the oil stops flowing, it has to be returned to a natural state, which may not be that many years hence. Then if we decide we have no further solution in the lower 48, we want to look forward to Alaska, isn't that going to be a very costly and environmentally disturbing problem?

Secretary O'LEARY. On the facts as you present them, you and I would disagree with respect to the fate of the pipeline itself. I would tell you that I have not had responsibility for pipeline safety and maintenance in some years. I can tell you from simply what I have read, both in the press and certainly in the industry press who follows these issues, that the upkeep of the pipeline of course has to be done when it is economic, but I would submit to you that there are ways to make that work more economical.

I cannot engage with you in learned dialogue on these facts as I have not reviewed them in some time. But I will commit this to

you. Happy little work that I used to do, I know how to do this. Will you give me a week or two and let me go in and look at the data and information that you are using and I will be happy to have this dialogue with you. I will today ring your office and set an appointment so that we might do that.

Mr. REGULA. Would you give a more complete answer for the record? I think it is an important point that the gentleman makes, and I would like to have in the record what your response would be, in addition to your comments today.

Secretary O'LEARY. Fair enough. Mr. Chairman, we will meet your two-week deadline.

[The information follows:]

Alaska Oil Development

The Administration remains opposed to opening the Arctic National Wildlife Refuge (ANWR) for oil and gas development. The President made this commitment during his campaign and has reiterated it since his election. The Administration, however, is not opposed to oil and gas development in other areas of the North Slope and encourages this development.

ANWR is just one part of the Alaska North Slope oil exploration and development picture. There are extensive State and Federal lands that can be developed without the need for development in ANWR. For example, companies operating on the North Slope are exploring development plans for the West Sak oil reserve west of Prudhoe Bay. This field is almost as large as Prudhoe Bay, but is technically more difficult and requires improved economics for development to proceed. The North Star offshore field is another example where development is a possibility. This joint Federal-State leased area has a reserve potential of 150-300 million barrels of oil. The State of Alaska is proceeding with Sale 87 that will total about 2 million acres both onshore and offshore. The Federal government also is likely to continue leasing on the North Slope and adjacent Federal offshore areas. It is apparent from these examples that there are large reserves outside of ANWR that can be developed in the future if the economics warrant. The Trans-Alaskan Pipeline System (TAPS) does not depend upon the development of ANWR for its future survival, at least in the near term.

As of January 1, 1994, the Alaska Department of Natural Resources, Oil and Gas Division estimates remaining North Slope reserves as (millions of bbl):

Developed

Endicott	262
Kuparuk River Unit	1,142
Milne Point Unit	81
Lisburne	83
Prudhoe Bay	3,618
Point McIntyre	356
Prudhoe Bay Other	25

Undeveloped

Niakuk	55
Beaufort Sea	180
Pt. Thomson/Flaxman	200
<u>West Sak</u>	149
North Slope Total	6,151

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These figures may be compared with the Department of the Interior's (DOI) estimates of finding oil in ANWR. DOI estimates that there is a 46 percent chance of finding oil in commercial quantities. If that occurs, then the mean estimate of the amount of economically recoverable resources is 3.6 billion bbl, and there is a 5 percent chance of finding at least 8.8 billion bbl. These estimates are based on higher future oil prices than the Energy Information Administration currently projects.

Mr. TAYLOR. I appreciate your taking the time to look into it. May I ask the very quick question, what objection do you personally have to further drilling in ANWR?

Secretary O'LEARY. On a very personal basis and from long years standing when I was very deeply engaged in this business, my sense was that the work to be done, quite frankly, involved what we could do in the lower 48, and the commitment to open and even build that pipeline had a piece with it. I talked earlier about keeping your commitments, that not only suggested but committed that we would not open that preserve to take out what we had agreed to take out. I was at the party.

Mr. TAYLOR. Let me ask maybe another question. What do you object, what is your objection about drilling in ANWR? Forget the lower 48. Assume it didn't exist.

Secretary O'LEARY. I know where we now need to go. We need to examine, as you will well do, what footprint will be left. I have said two years ago and I will say today that that is a debate that people can have. And I am pleased to review and see the information. But I have in the two years I have been in the job seen nothing to dissuade me from the position that I took back in the 1970s and today, and I came to the job with that position.

And nobody has brought to the table in the two years since I have been here anything to dissuade me from—I have not been up to Dead Horse but I have been there and I have done flyovers and I have a standing commitment to get back to Alaska. But I have not done it since I have been in the job this time. I will go.

Mr. TAYLOR. Thank you, Madam Secretary.

Thank you, Mr. Chairman.

Mr. REGULA. Mr. Dicks.

HANFORD ENVIRONMENTAL CLEANUP

Mr. DICKS. Madam Secretary, I want to welcome you. I, too, have a question about Hanford. I want to get a sense from you about how you think the cleanup program is going. We have been into this now for several years. GAO has done a recent study which says we don't have standards for radio nucleotide cleanup. We have to operate under the very restrictive rules of CERCLA, et cetera, et cetera. And we have brought in an ERM to try and improve performance on environmental cleanup.

How would you rate it at this point? There has been a lot of criticism that we have spent a lot of money and not cleaned up very much.

Secretary O'LEARY. As I said earlier, I think we have done a darn better job in the last two years than we have over the previous five or six. And in saying so, I do not intend criticism to the previous administration. Understand, this program got real when a group of FBI agents in parachutes descended on Rocky Flats. That was in 1988.

Mr. SKAGGS. I think the parachutes part is apocryphal.

Secretary O'LEARY. And the Government, working with citizens at these sites, has attempted an art form where the science was meager. Easy to do this work, very difficult to understand how it is to be cleaned up.

I hired Tara O'Toole for the job of environment, safety and health, because I believed she was the biggest critic of the system and understood what was not in place. The interesting thing now is to proceed with the work, to set milestones that are reasonable and achievable and that are cost effective, while we try to lay in an infrastructure to provide the science, to provide the direction, and direction enough to be able to back off and let people run their science and have that direction be site-specific enough so that it addresses the needs of each and every site.

And it has now come to me, as I have been mucking in and out of these buildings, you always need protocols for each and every building. This is tough, dirty, dangerous work.

Mr. DICKS. Some people have suggested that what we ought to do is change the law regarding the Federal Government—this goes in the face of everything we are talking about—and privatize this. In other words, bring in the private sector. You have got these contractors already, but say to them, we want you to go clean it up to a certain standard and give a performance-based contract, rather than this kind of bureaucratic approach that we now have that seems to go on and on and on without very much actual cleanup.

Have we thought about trying to do part of that, or to break off pieces of this?

Secretary O'LEARY. With the greatest respect for the private sector, many of these people I know well and know better now, they in fact in years previous were running it.

I mean, the knock in the head to the Department, was that it was so disengaged in its business that it was being run by the private sector with no direction. What we have attempted to lay on is some performance-based contracting. To presume it can be done better by the private sector I think is worth examining.

My view, and Tom Grumbly's view as well, is rather than rushing to judgment on the various ways to get this done, let's project out some of these models. We are going to do some privatizing at Hanford. And let us measure performance under several ways of managing, and determine where you get the best results, where you get the best safety, because if it is not safe, you will be awake every night, as you probably are right now.

So rather than presuming we have the answer as we try to revolutionize things, let us at least have the discipline to try some things and come back and examine what has been most successful. It is incremental, but I think the system is now poised to do that as we have begun to look at privatization and we have certainly established some standards where the Government is asking and holding people accountable.

I have told this story before, but I had a conversation with a Fortune 10 company CEO and told him what I expected in terms of management of our facilities and he said, excuse me? You want me to run this like a business? And I said, yes, I do. His retort to me was, no other Secretary of Energy has said that to me. Then he said, do you realize what that means? And I said, yes, I do. And it means cutting jobs, it means very strict on what you want, holding to the line. I want to do that.

And I want to strip away the inane regulatory requirement that sets review after review after review while being clear on what is

required for health and safety. We haven't done a good job of that. We are doing better. But I cannot in two years improve 47 years of neglect and absence of directional requirement; neither could the private sector.

Mr. DICKS. Does this revised reform Superfund bill that almost got through Congress this year, would that help expedite this process at all?

Secretary O'LEARY. That would have addressed and helped us greatly. I have every hope that will go back this year and reform Superfund.

VITRIFICATION PLANT

Mr. DICKS. Let me ask you one final thing. There have been some people on privatization who have said we can go out and do this vitrification so we don't have to invest all this money. What do you think of that?

Secretary O'LEARY. I like the idea. Where we fell out with the team is that I could not, in good conscience, let a sole source contract; what I want to do is compete that opportunity.

Mr. DICKS. Are you going to go out with an RFP.

Secretary O'LEARY. Yes, I am. Privatize, privatize where it makes sense.

Mr. REGULA. Mr. Kolbe.

Mr. KOLBE. Thank you, Mr. Chairman.

Secretary O'Leary, I have a problem. I don't have a Yucca Mountain.

Mrs. VUCANOVICH. Oh, darn.

FEDERAL RESEARCH AND DEVELOPMENT

Mr. KOLBE. I don't have oil production. I have some coal way up in the northern part of my district. I just have some very simple national public policy questions.

Secretary O'LEARY. Thank you.

Mr. KOLBE. No fun. You know, I think we have spent about \$90 billion in your department or the predecessor components of it, \$90 billion on energy research in the last several decades. That is at the Government level. Would you say we have gotten good return on our investment, commercially viable energies out of that investment?

Secretary O'LEARY. I certainly would.

Mr. KOLBE. \$90 billion of Government investment, now, has returned a good return to the American taxpayer?

Secretary O'LEARY. I believe that, and I believe it in several ways, and I would like to split this out. I want to first deal with the investment in the basic science that supported national security. Without doubt, as we sit here today, being clear who won World War II and who won the Cold War, we got our investment.

The interesting thing is that when we were making it, no one was asking how much it cost. No one cared.

Mr. KOLBE. That is a huge leap from a so-called national energy policy, what we were doing in energy, to winning the Cold War.

Secretary O'LEARY. I think it is not. I want to come to the fact that the national energy policy and what we have delivered in applied science and applied technology has come principally from

much that we have learned while we have been about the wars, cold and warm. I can tell this story in some of the work done in exploration and looking, seeking for oil and natural gas, taking seismic technology to discover and explore wells and understand how to bring them in cheaper.

I would say our technology in terms of enhanced materials, or if I would look at the fluidized coal bed, all of that work has come from the basic science expended in the predecessor agencies and now under the Department of Energy.

Let me tell you where we have failed. We have failed by not having a requirement to understand what was the economic benefit. I had a quarrel within my administration and with the public that I have said, one of our business lines is industrial competitiveness. And they say, why are you doing that? I said, in the real world you want to know what contribution has been made, and we need to track that.

In a scientific journal just this week, we are being lauded for having hired Al McLaughlin, former President for Research for Dow Chemical, who is now Under Secretary for what we are calling Science Technology and Competitiveness. I want him to be able to put me in the position of answering for you what is the benefit from all of this investment just this year, of the almost 1,100 cooperative research and development programs that we have with the private sector. What have we gotten out of that? And I can give you anecdotes of 400 jobs earned here from a product in energy or natural resources coming out of our national laboratories and coming out of our applied technology centers.

But nobody collected that information because nobody in the Department of Energy or ERDA had a clue that that was important data to have. I will be able to do that. What I can show you today is the list of individual firms, both small and large, universities, who come to the Department of Energy for its technology. I can show you in the clean coal—

Mr. KOLBE. What do you mean, for its technology?

Secretary O'LEARY. They come as partners to invest. They invest 57 percent, the taxpayer efforts have 53 percent, to develop—43 percent, thank you—I failed math 101, I gather—in order to bring new products to market.

I can examine jobs created in the clean coal technology program and energy efficiency. I can, more importantly, look into the 21st Century, in China, in South America, in India, in Central America, and tell you that the jobs will be there and the technology coming out of this work is what will allow us to compete and move jobs into this country. That is where the global market is.

Mr. KOLBE. You have given me a hint, then, for the next question I would ask from your statement there, so you can bat it back out of the ball park again.

I would like you to respond, we had some very provocative hearings, a lot of interesting statements were made.

Secretary O'LEARY. I read about it.

NATIONAL ENERGY POLICY

Mr. KOLBE. One of them was made by the person from CATO Institute. Let me quote what he said. "A national energy policy is no

more necessary than a national sporting goods policy. The free market left alone will produce affordable energy without threatening the environment or depleting natural resources."

Would you respond?

Mr. REGULA. To piggyback on that, I have a press release from Honda, the first to have gasoline engines verified at VLE levels. I think this was all done with private money, if I am not mistaken. They are ahead of the curve on this.

Secretary O'LEARY. I would tell you, Mr. Chairman, to respond to your question first, I know Miti well, and I can tell you that the Japanese as a matter of national policy have always with taxpayer dollars supported the industrial goals of that nation.

The reason they were ahead of us in the 1980s is because they had invested to push their economy where they wanted it to go. We may not be comfortable with a sort of sidestep to industrial policy. But our competitors internationally have done that. That has been Honda's success, but more importantly, that is where we can go in the United States if we stay the course.

You may not want the direct investment. The next thing you look at is you look at the old techniques tried in other administrations, which is, how can you now help industry make the investment to stay more competitive? You have to do it either through a direct investment or you have to do it through a taxing policy. We may want to change course, but I don't think we want to drop away when it is not clear to me yet that we are going to win the economic competition.

Honda is not investing solely its own money. It was born in a country where the state, the government policy has been to support the industrial goals of big business. That is where we have failed. We are trying to catch up.

Mr. KOLBE. That responds to that. So it is your view that we do need a national energy policy?

Secretary O'LEARY. Well—

Mr. KOLBE. And articulate it as a national energy policy?

Secretary O'LEARY. Energy has gone out of fashion. It will come into fashion in the next energy crisis, you can count on that.

Mr. KOLBE. And when will that come?

Secretary O'LEARY. I am not certain. There are lots of people who spend a great deal of money taking a look at that. I will tell you that some of my departments and colleagues have an idea when they think that will occur.

Mr. KOLBE. What is likely? Another oil shock?

Secretary O'LEARY. Clearly there will be, or there is likely to be, some direct confrontations over fundamental issues, religious issues coming out of the Middle East, that could exacerbate the politics there and give us another crisis. But I want to tell you, I am not the soothsayer, I don't get paid to do that. But I want to step away from the words "energy policy". Those who were around here years ago will tell you it got called the Department of Energy by a happenstance, because these agencies were being pulled together and might have been called the Department of Science and Technology, might have been called anything, and where we have made the mistake is to focus, that it is about energy.

Energy is about the economy. And the reason I am so very clear about it is, you don't get to build and drive a thing unless you have the power to do it. So we are kind of stuck on what we are talking about. And I have, to the dismay of my colleagues, talked about economic viability. I have talked about jobs and competition. I have talked about the environment. I have talked about public health. And that is what energy drives. People do not understand the word.

Yes, we need a policy. We need a policy for as long as other nations are supporting these initiatives. Other nations are focused, as I have become focused, on the fact that the national security danger is far more in this decade and going into the 21st Century than bombs and weapons. And it has to do with economic viability. And, I believe, economic dominance.

I don't want to us lose that battle. You and I might quarrel about how we do it. But we do not do it without government involvement. If the guys on the other side of the net for the competition have support and help in terms of policies, be it taxing or direct subsidy to business and industry.

Sorry to be passionate about it, but I am passionate about it.

Mr. KOLBE. Mr. Chairman, I will end with more of a comment. You made the statement that you want to run energy like a business. I would just say you may think that is an impossibility. Imagine if your previous employer, the previous company, had said, Ms. O'Leary, you are expected to run this company and make a profit here, but there is just a few restrictions. You can't get rid of any product line or any services you provide. You can't change any of that.

You cannot change, you can't lay off personnel. You can't move any location where you are providing a service or manufacturing. All the regulations that are in place will continue. But beyond that, we just expect you to turn a profit here.

And I would just say to you that I think unless we fundamentally change the way we do business here, and very few of the departments, I think, lend themselves more to being run like a business than the Energy Department. As long as we are going to have it without changes, then I would say to you that you have set an impossible task for yourself and you are setting yourself up for failure in that regard.

Secretary O'LEARY. I will say this to you. I have never had an easy job. I am happy to have this one. Good news is I won't have it forever. But we can change location, and we have. We can lay off people, and we have. We can—you missed my little deal with the regulation—were you here when I did this? You missed this, I am sorry.

I walked through the door and this is what it took to get a regulation out of the Department of Energy. I said, this is insane. Because we have to regulate doesn't mean we have to do it insanely. It took five years to get a regulation out of the Department. Today it takes 18 months.

I think you take the playing field that you have and you work to change it. We can change business line, and business line has changed. Where that happens is in dialogue between Congress and the executive branch. I am not set up for failure. We are going to

work together, because we have to. We have public missions that somebody has decided need to be performed by government.

Let me finish.

Mr. KOLBE. Yes, ma'am.

Secretary O'LEARY. If we believe that you do not—

Mr. KOLBE. I like what I am hearing.

Secretary O'LEARY. If you believe they do not, let's have that debate and take away what needs to be taken away. But let's not do it without careful thought, and asking ourselves what is the replacement.

I am ready to do this job. I am here to do this job. Before the balance of this table changed so that the Republicans would stay and my colleagues would leave—

Mr. KOLBE. Well, they are still here.

Secretary O'LEARY. No. I had those same impressions and points of view. I am the Secretary of Energy who said, voluntary is not a dirty word. Where the private sector can run, let's let them run.

Mr. KOLBE. I appreciate that comment. We are all ears to hear your suggestions on ways we can fundamentally change the way we do business. That is what we think we are about.

Mr. REGULA. You think that is the mandate?

Mr. KOLBE. I believe so.

NAVAL PETROLEUM RESERVE—ELK HILLS

Mr. REGULA. I have just a couple of questions. Whether Elk Hills is sold or not, is it not true there are significant cost reductions there that can be achieved in the way the facility is operated? And what is the status of your efforts to change the way Elk Hills is currently operated to achieve cost savings, assuming that we don't sell it? We may, but—

Secretary O'LEARY. Understood. The first thing we did was ask for a new management contract, we wanted to turn that over to a real private sector, businesslike approach. We had had one offer from Chevron to take over that field. Once again, we decided it probably didn't make sense to only deal with one person. We put an announcement in Commerce Business Daily, we got a response from nine firms that wanted the opportunity to run it like a business.

We will enter into negotiations with those folks, and we will set it up and run it like a business. We are not set up for failure here. I think we take it not a step at a time, as slowly as we might have four months ago. We do it quickly, and we do it with good, common sense.

DEPLOYMENT OF U.S. TECHNOLOGY

Mr. REGULA. I have some additional questions for the record. Thank you. You have done an excellent job. You will be back, of course. You are going to China; is that correct?

Secretary O'LEARY. I am going to China and I am going to make a stop in India. But I will be back.

Mr. REGULA. I am interested, what is your mission?

Secretary O'LEARY. My mission is deploying some of this technology that we have developed in the Department of Energy to international markets where we can create jobs in America and im-

prove not only our balance of trade, but improve the way we deal with countries simply because we have American businesses there working. We are going to win the competitive war, which is economical.

Mr. REGULA. Let me just pursue that for a second. You are saying that there is an enormous market around the world for U.S. technology that has been developed by a public-private partnership.

Secretary O'LEARY. Exactly.

Mr. REGULA. And I know one of my friends is in one of the cities in Thailand or Indonesia and said they have enormous pollution problems in their big cities, and they are looking for ways to clean it up. Will that be the type of thing you will address?

Secretary O'LEARY. Yes, sir. And they are looking for U.S. technology, and what American businesses want is exactly what businesses from Germany and France and Italy now bring. They bring their government in to do government-to-government consultations to open the way and smooth the way for business sustainability in these countries.

So we are out as representatives of the U.S. Government supporting U.S. business interests, and we are showing up as the technician and the people who understand this arm of the business.

I just talked to our ambassador in Beijing, and he told me that the government of China is very much looking forward to my visit. I believe we are taking with us some 67 high level business people who want to have their business deals moved, but they want to be certain that the transparency and the new privatized regime is absolute, and the rules of the game don't play so that they make investment against which they can make a return, and for which American workers get jobs here in the United States.

Mr. REGULA. That is terrific. Thank you. We will look forward to hearing from you when you get back as to the success of your trip. I think you have done a great job this morning.

Thank you very much.

Secretary O'LEARY. I have enjoyed it. Thank you.

[Questions and answers for the record follows.]

ADDITIONAL COMMITTEE QUESTIONS

Question: Citizens Against Government Waste (CAGW) proposed creating a new Department of Natural Resources which would assume many of the functions currently performed by the Department of Energy such as research on the development of oil, coal and other fossil fuels. What is your reaction to this proposal and would you assume this consolidation would result in any savings?

Answer: The creation of a new Department of Natural Resources to assume many of the functions of the Department of Energy will not, by itself, save any money. Significant savings can only come from cutting programs or privatizing functions. Moreover, in the short term (2-4 years), whatever small administrative savings could be made would be more than offset by the increased costs of relocation, etc., and by a temporary disruption of management control which might well create new waste in the programs that continue. Ultimately, cuts in administrative expenditures, or in programs, can be effected as easily within the Department as in a new Department of Natural Resources, without the unproductive costs of dismantlement. The Department of Energy is currently taking the steps necessary to accomplish its program goals at lower cost, and with better results for the American taxpayer.

For example, the Department has plans underway that will generate more than \$5 billion in savings over the next five years, including \$1.55 billion in a contractor pay freeze. The Department has also committed an additional \$14.1 billion in savings over the next five years.

Question: Citizens for a Sound Economy proposed abolishing the Department of Energy arguing that it was created "in an emotional reaction to the energy problems of the 1970s." How has your mission evolved since the Department's creation and what do you see as the current mission of DOE?

Answer: The DOE was created in 1977 to consolidate administration of all the various energy-related responsibilities that had been conducted separately by the Energy Research and Development Administration and the Federal Energy Administration, together with many of the energy-related responsibilities that had been conducted independently by the Federal Power Commission. All three of these agencies were abolished by the legislation that established DOE.

The DOE was established more than three years after the end of the oil embargo that began in October of 1973. This was not a reflexive or "emotional" reaction, but one based on similar recommendations made both by the Ford Administration and then by the Carter Administration. These recommendations were based on the independent conclusions that the efficiency and effectiveness of the government's energy research and development, policy formation, and regulatory responsibilities required a coherence that could come only from a single organizational structure.

From its outset the Department's core mission has been to advance the national security - both in defense preparedness and strategic economic capability. The particulars of pursuing that mission have evolved. For example, in 1977 the DOE was actively involved in economic regulation of petroleum and natural gas, yet its efforts to establish the Strategic Petroleum Reserve -- first authorized in late 1975 -- were only beginning. By 1979 it had engineered and was applying means to accelerate decontrol of petroleum (necessary to permit the country to deal most effectively with the disruptions caused by the revolution in Iran) that stretched the then-effective legal envelope, and had begun the significant acceleration in nuclear weapons design and production that was prompted by the Soviet invasion of Afghanistan.

By the mid-'80's the DOE had, by additional innovative approaches under the laws it administers, drastically simplified commerce (primarily with Canada) in natural gas, with significant increases in economic efficiency that benefitted both consumers and producers. These actions coincided with a reduced U.S. dependence on natural gas imports from more volatile and potentially unreliable offshore sources, such as North Africa, and presaged the successful initiative in which DOE, using a peculiar legal authority available to it under its organic statute, began the whole Federal Energy Regulatory Commission overhaul of regulation of the domestic natural gas industry that brought huge consumer cost reductions in this strategically important energy source through the most profound restructuring since 1938. It is doubtful that all this could have begun without DOE's ability under its organic statute to have compelled placement of such action on the Commission's regulatory agenda.

In 1985, the DOE successfully carried out a statutory assignment that required the federal government to construct a needed additional high-voltage electric transmission link between the Pacific Northwest and California with no federal money. The task involved reconciling the host of separate interests among the major investor-owned utilities, the major public-power entities, local irrigation districts and electric transmission authorities, and the two major federal power marketing administrations. The task was in fact accomplished, and successfully, through a statutory approach that had the Secretary of Energy both referee and integrate all these competing concerns. Without the integrating responsibilities and capabilities of the Department of Energy this task likely could not have been accomplished, and the regional energy security capability of the additional electric transmission capacity would have been lost.

Now, the DOE no longer regulates oil or gas prices. Rather it maintains the nuclear weapon stockpile without testing, dismantles older weapons, cleans up the sites where they were produced, and continues to drive down the costs of technology for deployment in the energy sector. The Department also maintains the scientific and technical capability to carry out successfully future nuclear and related defense assignments that national policy may require.

All of these missions can only be accomplished through continued science and technology investments. The Department has the human and physical assets to achieve the mission summary that follows, as developed in our comprehensive strategic planning process:

The Department of Energy, in partnership with our customers, is entrusted to contribute to the welfare of the Nation by providing the technical information and the scientific and educational foundation for the technology, policy, and institutional leadership necessary to achieve efficiency in energy use, diversity in energy source, a more productive and competitive economy, improved environmental quality, and a secure national defense.

Naval Petroleum and Oil Shale Reserves

Question: Citizens Against Government Waste and the Heritage Foundation along with prior Administrations and President Clinton have recommended selling the Naval Petroleum Reserves. I understand that proposal is once again being considered by DOE. As you know this subcommittee has had concerns about this proposal because while it makes good sense in the short term and can provide a quick infusion of cash, it has never been shown to make good economic sense over the long haul. What analysis have you done of the cost benefits in the outyears and do those analyses support a sale of this asset?

Answer: The only analysis of sale of the Reserves was prepared by Shearson Lehman Brothers, Inc., for the Department in June 1987, as part of their report on "Divestiture of the Naval Petroleum Reserves." This report, whose purpose was to develop a marketing plan for divesting the Reserves, placed a sale value of \$3.6 billion to \$4.3 billion on the Reserves and concluded that Reserve No. 1 would make an attractive investment opportunity to purchasers. However, the bases of this report, (reserve estimates, production methods, cost estimates, oil price estimates, etc.) are outdated. An analysis of outyear costs and benefits updated to reflect operations since 1987 and based on current data has not been prepared. This is due in part to the passage of Public Law 101-45 in 1989, which precluded the Department from contracting for divestiture studies for Reserves Nos. 1 and 3 and in part to subsequent Administration proposals to lease the Reserves.

The Department proposes to place the Reserves into a government corporation at the end of FY 1995, and operate more as a business enterprise prior to sale in FY 1997.

Question: The Citizens for a Sound Economy testified that "DOE has spent \$50 billion since 1980 developing energy production conservation technologies with little or no progress." Could you respond to this allegation with some examples of DOE success stories?

Answer: DOE's energy efficiency and renewable energy programs offer one of the highest returns on the taxpayer dollar of any in government.

- **Lighting:** U.S. consumers pay almost \$40 billion each year for lighting. In the 1980s, DOE helped develop new high-efficiency electronic ballasts, which led to high-efficiency lighting systems. This seeded a new industry that now has sales of \$200 million a year and is saving consumers at least \$400 million annually.
- **Low-E Windows:** We lose a staggering \$25 billion each year in energy losses through windows, the cash equivalent of all the oil that flows through the Alaska Pipeline in a year. In the late seventies and through the eighties, DOE helped develop new, low-emissivity windows that reduce energy losses by 35%. Today, these windows have captured 35% of the market, with sales of \$600 million each year. As a result, U.S. consumers are saving \$760 million annually on their energy bills.
- **Waste Water Reduction in Ohio:** PPG, Inc. in Ohio reduced the volume of hazardous waste water in a paint manufacturing facility from 400,000 gallons to 20,000 gallons by using a DOE-sponsored advanced filtration and reverse osmosis technology. With an initial equal Federal and industry investment of \$250,000, PPG is saving \$220,000/year in production costs. As part of the commercialization agreement with DOE, PPG is working with the rest of the chemical process industry to transfer the use of this technology. The resulting savings will save tens of millions of dollars in production costs for chemical companies.

These are but three examples of past successes. If you purchase a new double-pane window, drive a new Cummins engine or a Ford Ecostar, use a food or beverage can, turn on almost any major household appliance, or use a modern industrial ceramic part, you are using a technology the Department of Energy has helped invent, standardize or expand in applications or market share. Many more in the residential, commercial, industrial, transportation and utility sectors can be provided upon request.

DOE has many new technologies on the verge of commercialization, ready to produce further substantial benefits. For example:

- The new Sulfur Lamp, developed by a small company in Virginia, was supported by DOE R&D. It produces higher quality light, uses eight times less energy than today's bills, and causes fewer environmental problems than conventional bulbs. Scientists say the S-Lamp will revolutionize lighting in America, making streets and parking lots safer, factories more productive and, a few years down the road, homes and offices cheaper to light.

Wind power, geothermal energy, biomass energy and solar energy all are coming into reach of widespread commercialization because of DOE's laboratory research.

- Since 1980, the cost of photovoltaic electricity has dropped by two-thirds, to well under 20 cents a kilowatt hour. The Enron Corporation has offered to build a solar power plant in Nevada, and to sell PV power at 5.5 cents a kilowatt hour, well below the average national retail rate of 8 cents. Enron credits DOE's R&D programs for this breakthrough.
- Because of technical advances over the last 15 years, wind machines are now providing economical power -- at 5-6 cents a kilowatt hour -- in several U.S. locations.

Clean Coal Technology Program

Question: The argument has been made that the passage of the 1990 Clean Air Act Amendments obviated the need for clean coal technology projects, but it is my view when we were establishing this program that these technologies would be needed to meet the more stringent environmental standards that were anticipated at the time. Will these technologies that DOE is cost-sharing be used to meet the Clean Air Act standards, and without the federal assistance do you believe industry would be able to meet the standards in a timely fashion?

Answer: Yes, clean coal technologies will be used to meet the Clean Air Act standards. Without the development of clean coal technologies, especially the clean, efficient, and economic power systems, the industry would not be able to meet the Clean Air Act standards (particularly in the long term) in a cost-effective and energy efficient manner. It would also not have the capability of dealing with emissions not controlled within the Act, such as CO₂.

The passage of the Clean Air Act Amendments of 1990 makes the Clean Coal Program and the Coal R&D Program even more important than they would otherwise be. This is particularly true when the full scope of that Act, to include controls on sulfur dioxide, the oxides of nitrogen (NO_x), and hazardous air pollutants, is evaluated against what state-of-the-art emissions control systems can attain. Only through the development of advanced technologies will it be possible to achieve the level of emissions reduction anticipated in a cost effective manner.

The emphasis in the early rounds of the CCT program was on technologies that reduce acid rain emissions. Currently six of the 45 projects in the Program have completed their demonstrations. By the end of this fiscal year, 18 projects will be completed. The timing of these successes fits the needs of industry very well. A number of the clean coal technologies have already achieved commercial status even though many companies switched to low sulfur coal to meet the Phase I requirements of the Clean Air Act Amendments (CAAA). Phase 2 of the acid rain program, however, affects a much larger number of companies. Many of the technologies demonstrated in the CCT Program will be commercially replicated as the strategies for Phase 2 compliance become finalized in the next few years.

Our discussions with the electric power industry have shown that they feel that a number of the technologies developed and demonstrated under the Coal R&D CCT Program will be used to meet sulfur dioxide control and nitrogen oxide control requirements for the year 2000 and beyond. Even in Phase I of the acid rain program, technologies demonstrated under the CCT Program are the foundation for practically all NO_x reduction technologies. In those areas exceeding the health standard for ozone, even greater NO_x reductions are required and, again, the technological suite is based on technologies demonstrated under the CCT Program. The demonstration of a range of technologies has allowed these companies to find the most economic solution for their particular circumstances. The CCT Demonstration Program has been key to industry's development of these low cost, technically viable options.

The job, however, is not completed. With caps on emissions of sulfur dioxide, companies will be increasingly turning to the higher efficiency technologies which are currently entering the demonstration phase. Current projections indicate that a new wave of base load capacity will be needed in the early part of the next decade. Those CCT projects which are currently entering the construction and operating phases will provide the power generating industry a similar variety of viable options for meeting these longer term compliance requirements.

Question: Citizens for a Sound Economy seem to perceive that the only rationale for a Department of Energy is during times of crises. Could you comment on this and how does DOE's presence help prevent future energy crises like those experienced in the 1970s?

Answer: While the Federal Energy Administration was created in 1974 by the Nixon Administration as an immediate result of the energy crisis of 1973, the Department of Energy was created in 1977 in part to ensure a longer-term policy and less crisis-oriented approach to energy issues. The Department's work has made major contributions in this regard and will continue to help our country over the years ahead. For example, we now have a 592 million barrel Strategic Petroleum Reserve -- equivalent to more than 70 days of imports -- that will enable us to withstand any short term oil market disturbances and effectively free us from threats of embargoes. That Reserve was used during the Iraq War, and its existence was somewhat helpful in discouraging speculators and calming the oil markets.

The Department of Energy also has worked with scientists, companies, and citizens to promote the development and deployment of new energy resource and efficiency technologies which will have strong beneficial effects on the U.S. economy by helping to reduce oil imports, and lowering the energy costs American industry and other consumers face. For example, investments in three-dimensional seismic technology will lower petroleum exploration and production costs and may increase U.S. production by the equivalent of 450,000 barrels per day. Similarly, advanced energy efficient window coatings that reduce energy losses through windows by 35% have captured one-third of the market, saving more than \$1.6 billion since their introduction by DOE research personnel. Finally, the world's record in photovoltaic energy conversion efficiency has been reached at DOE's National Renewable Laboratory in Colorado, which will help bring down the cost of this promising technology. The upshot is that DOE has worked, and is working, on ways to handle energy crises when they occur, and on ways to make it less likely that the U.S. will have to face one. Some of DOE's work has helped reduce overall energy consumption and increase domestic production; this will help us avoid a crisis in the future.

Of course, the Department has missions other than energy, which accounts for only 12% of its FY 95 budget. About 64% of our budget is spent on ensuring the readiness and safety of the nuclear weapon stockpile, and on cleaning up the sites at which the weapons were produced. Another 15% of our budget is spent on fundamental and applied research in a variety of fields. An additional 6% is spent on energy programs, such as the Power Marketing Administration, the Nuclear Waste Repository, and the Naval Petroleum Reserve, which collect more in fees than they spend. A final 3% of our budget is spent on general support and information services.

In response to world changes and today's new challenges and priorities, we identified in our strategic planning process five "business lines" that most effectively utilize and integrate our unique scientific and technological assets, engineering expertise, and facilities for the benefit of the Nation. These business lines, which directly affect the security and the quality of life of every American, are:

- o **Industrial Competitiveness:** Promote economic growth and the creation of high-wage jobs through research and development partnerships with industry, drive products into the domestic and international marketplace, and help industry become more competitive by cost-effectively shifting from waste management to resource efficiency and pollution prevention;
- o **Energy Resources:** Encourage efficiency and advance alternative and renewable energy technologies; increase energy choices for all consumers; assure adequate supplies of clean, conventional energy; and reduce U.S. vulnerability to external events;
- o **Science and Technology:** Use the unique resources of the Department's laboratories and the country's universities to maintain leadership in basic research, increasingly focus applied research in support of the Department's other business lines, and maintain world technical leadership through long-term, systemic reform of science and mathematics education;
- o **National Security:** Effectively support and maintain a safe, secure, and reliable enduring stockpile without nuclear testing, safely dismantle and dispose of excess weapons, and provide the technical leadership for national and global nonproliferation activities;
- o **Environmental Quality:** Understand and reduce the environmental, safety, and health risks and threats from DOE facilities and decisions, and develop the technologies and institutions required for solving domestic and global environmental problems.

Strategic Petroleum Reserve

Question: Citizens for a Sound Economy claims DOE has lost \$7 billion as a result of depreciation in the price of the stored oil in the Strategic Petroleum Reserve. Is this accurate, and if so, how do we justify continuing to store depreciating oil?

Answer: No, there has been no "depreciation" of the oil. What the Citizens for a Sound Economy described was the change in the current market value of a barrel of oil as compared to the markets during which the oil was purchased. The oil was purchased during high price market conditions. Therefore, the inventory's "face value" today is less than what was originally paid because the price per barrel is less today than during the 1980's when the oil was bought. Based on a market price of \$20 per barrel vs \$30 per barrel, the inventory "value" of 592.7 million barrels could range from \$11.8 billion to \$17.8 billion. This is not an appropriate measure of the value of the inventory as a strategic reserve because it was never intended to be a capital asset designed for liquidation at a profit (or loss) under any and all market conditions. The value of the Strategic Petroleum Reserve inventory is that of an "insurance policy" against catastrophic economic loss to the domestic economy associated with a crude oil supply shortage. It is also a highly effective deterrent to future energy embargoes against the United States. Thus the appropriate measure of the crude oil inventory value is its capability to protect the domestic economy from the devastating consequences of an energy supply emergency such as was experienced during the 1970's.

Question: Could you comment on the allegation that DOE's use of the SPR during the Persian Gulf Crisis "caused unnecessary turmoil in the oil market" and what, if any, lessons were learned from that draw down that would be used in the future.

Answer: The Strategic Petroleum Reserve was used twice during the Persian Gulf Crisis. In September, 1990, the Department offered five million barrels of oil in a test sale, and sold approximately four million barrels for delivery over a 30-day period. At the time of the sale, oil prices were rising and the average refiner acquisition cost of imported crude oil increased from \$29.88 per barrel at the end of September 1990 to \$32.88 per barrel at the end of October 1990. While the sale of that small amount of oil may have helped slow the general rise in prices, its effect was unmeasurable in terms of a change in market prices, and therefore the sale could not be construed as causing "turmoil".

On the first day of the Desert Storm war, January 17, 1991, the Department announced a sale of 33.75 million barrels of oil. That same day the United States and its allies began an overwhelming air attack on Iraqi forces. Many oil market analysts had previously expressed concern that Iraq would successfully invade oil field areas in northern Saudi Arabia. It became apparent on the first day of the war that Saudi oil production would not likely be endangered. These events caused oil prices to drop approximately \$10 per barrel in one day. Views differ on the role of the SPR oil sale in inducing the price drop. While over the course of the Persian Gulf Crisis crude oil prices rose and fell substantially, any assertion that the Strategic Petroleum Reserve caused market turmoil would disregard the many and varied market forces in play during this period. In fact, the existence of the Reserve and the

possibility that the government could begin to sell its oil at any time probably prevented speculators and inventory builders from holding even more oil and driving the price even higher.

The primary lessons learned from the Persian Gulf Crisis are: the sales and delivery process of the Reserve worked efficiently and effectively with only minor administrative streamlining required, the Reserve's continued readiness to sell and draw down crude oil is imperative, the policy of using the Reserve early in a crisis is valid, a market oriented sales strategy works well, and there must be policy flexibility regarding the quantity and timing of Reserve sales in order to be in a position to adjust to changing market conditions during a crisis. The Department also conducted an after action analysis and customer survey that provided very positive feedback from the participants in the sales process on the performance of the Reserve.

Question: You have noted yourself that currently we are importing oil from a much more diverse group of nations, some of whom are strong allies, obviating some of the need for a Strategic Petroleum Reserve. Do you think we could afford, from an energy security standpoint, to eliminate the SPR through sale or other disposal mechanisms?

Answer: No. While more diversified sources of imports make targeted crude oil supply cut offs less feasible, the principal threat to the U.S. in today's market is a spike in the price of oil that damages the U.S. economy. We would suffer from such a world price increase even if our imports were smaller and all came from our closer allies. There is still substantial potential for supply disruptions to the world market caused by political unrest in oil exporting countries, natural disasters and failures in transportation logistics. The Middle East remains a volatile region and the oil exporting countries of the former Soviet Union are suffering political and economic difficulties. Projections are that in at least the near term, oil prices will remain relatively low, allowing use in the United States to increase and dependence on imports to grow. The United States will continue to need a large Strategic Petroleum Reserve as insurance against economic devastation caused by a loss of crude supply anywhere in the world and as a stabilizing mechanism against a price spike.

Question: The Heritage Foundation suggested an approach recommended by CBO in 1981 to privatize SPR by selling shares. Has this option been reexamined and what is your reaction to such a proposal?

Answer: The 1981 Congressional Budget Office option to allow private ownership in the Strategic Petroleum Reserve seemed feasible at that time because of the generally accepted assumption of continuously rising oil prices. However, as noted during Congressional Budget Office testimony at the time, private companies would only want to own equity in the Reserve if price increases were expected to exceed interest rates. Since that time prices of oil have declined, and most projections have oil prices rising at a slower rate than long term interest rates. Therefore, this option is not considered a viable strategy. The Department examined alternative financing for the Reserve in 1990 and concluded that only

oil "leasing" from oil exporting countries with excess capacity had potential for substantially reducing the financial requirements for filling the Strategic Petroleum Reserve. The Department is still considering this option, but also continues to be open to any financing proposals, although only limited inquiries by industry have been received in recent years.

Question: What would be the impact of terminating all fossil and conservation R&D, and would the private sector pick up all or most of this ongoing effort?

Answer: In general, the private sector cannot afford to pursue most of DOE's ongoing R&D efforts without the leverage provided by government cost-shared programs. DOE programs are carefully designed to correct or surmount market barriers that block or delay the development of nationally beneficial technologies. These barriers include lack of information, a grown lack of long-term research and development (R&D) capital in the private sector investment, price signals that do not reflect long-term environmental benefits of enhanced technology, and others.

Because of these barriers, private sector firms cannot substitute private capital for our Federal cost-share. As a result, loss of DOE cost-shared R&D would result in the loss or delay of billions of dollars in economic benefits associated with cutting industrial production costs, increasing competitiveness of U.S. businesses, reducing consumer energy bills, reducing dependence on imported fuels, avoiding the permanent loss of important natural resources and increasing high-technology jobs. These points are discussed further below.

Energy Efficiency and Renewable Programs

In addition to the measured economic benefits accumulated to date from the DOE energy efficiency and renewable energy programs, continuation will provide additional benefits. Program benefits expected include:

- Affordable and comfortable housing for American families. Our programs will contribute to efficiencies that could save \$17 billion in residential energy costs by 2005.
- Higher profits and more available capital for American businesses. Our programs will contribute to efficiencies that could save \$12.5 billion in commercial energy costs by 2005.
- Pollution prevention and greater productivity for American industries. The commercialization by industry of the technologies we have supported could save \$5.8 billion in industrial energy costs by 2005.
- A lower foreign trade deficit and reduced dependence on foreign oil (under current trends, imports will rise to 65% by 2010).
- An increased share of the multi-billion dollar global market for energy and environmental technologies.

- Reduced federal energy costs. Our programs will save Federal taxpayers \$400 million by 2000.
- Federal program cost savings of 10% to 50% and improved product acceptance in the marketplace through costsharing with voluntary partners and cooperative program development with stakeholders.

If these programs were terminated, the majority of these benefits would be lost.

Fossil Energy Programs

With regard to Fossil Energy R&D, industry needs assistance with high risk, high capital cost projects. Industry-driven partnerships with the federal government provide the private sector with the leverage needed to finance critical R&D activities that may result in large future national benefits (e.g., jobs, environment, energy security), although benefits for individual companies may not be large enough to justify the risk. For the power sector, regulatory changes to increase competition are also creating disincentives for industry R&D expenditures. This has increased the importance of Federal partnerships with industry in this area, which can make a significant contribution to national benefits as discussed below.

- The size of the global power generation market is over 320,000 megawatts (between now and 2010). The overall coal market is estimated to be over \$800 billion through 2010. The Coal Program is supporting industry-driven partnerships to develop economically and environmentally attractive advanced technology that should be very appealing to these markets. Industry has not been pursuing these on their own, however, due to the long time horizon and environmental regulatory uncertainty.
- If the Coal Programs meet their cost and performance goals, for approximately every 40 gigawatts of new U.S. capacity deployed using these technologies, over \$1 billion per year would be saved by consumers.
- The Coal Program is already beginning to return dividends. Ten years ago, the United States had very few alternatives for reducing sulfur dioxide and nitrogen oxide pollutants from coal-burning powerplants. Today, the Clean Coal Technology Program has thus far demonstrated more than 20 advanced processes that are ready to be used in this country and worldwide to improve environmental quality while continuing to use abundant coal resources. Projects underway will also form the building blocks for ultra high efficiency technologies that will significantly reduce carbon dioxide emissions.
- Within the last year--the first in which several of the projects began generating operating data--clean coal technology developers made more than half a billion dollars of commercial sales. Today, there are more than 3,400 jobs in this country that are attributed to products that have been demonstrated in the Clean Coal Technology Program.

- More than \$9 billion of ongoing or planned energy projects in the United States private sector and worldwide are benefitting directly from the knowledge gained in the Clean Coal Technology Program and other DOE-sponsored R&D on advanced coal technologies, contributing to the employment of 250,000 people in the U.S..
- The initial coal technology sales supported by continuing technology advances would lead to the establishment of a large, mature U.S. industry with a many times larger number of new U.S. jobs. Without Federal support this effect would be diminished.
- For gas-fueled power systems, the technology export market is also very large. These technologies are particularly sensitive to foreign competition. In the case of fuel cells, for example, withdrawal of federal support will likely result in fuel cell patents being sold to the Japanese and other foreign developers, along with parts or all of U.S. fuel cell companies.

The gas and oil industry also faces disincentives to carrying out R&D. Low energy prices, high U.S. costs (particularly for environmental compliance), and attractive offshore prospects have resulted in domestic companies greatly reducing R&D focused on the domestic resource. Domestic exploration and recovery is being left increasingly to independent producers. As a result, the programs which industry is able to conduct by virtue of Fossil Energy's cost sharing would likely be discontinued and contributions from Federal support to the following projected benefits would be lost:

- Reduced well abandonments and enhanced production that could increase domestic recovery by 4 to 7 billion barrels.
- Increased Federal and State revenues of \$2.5 to \$5 billion through 2010 and reduction in the trade deficit by \$25 to \$50 billion through 2010.
- Reduced industry regulatory compliance costs by over \$2 billion.
- Prevention of a decline in U.S. refining capacity by 75 to 100 thousand barrels per day.
- Savings of up to \$20-30 million per year in gas storage deliverability costs through 2020.
- Potential savings to U.S. industry of \$31.5 billion by 2020 in environmental compliance costs for naturally occurring radioactive material (NORM) treatment and disposal.
- Annual savings of up to \$1.2 billion in upgrading costs and 1-2 Tcf/year of additional new gas production by 2020.
- Increased natural gas production by 3-5 Bcf/day by 2010 (1-2 Tcf/year).

The issue of whether industry would fund ongoing Federal programs becomes increasingly acute as one moves toward earlier stages of research. For example, the advanced research portion of the fossil R&D program is focused on longer-range, high-risk topics that can help establish the basis for the technological solutions needed to meet the needs for future clean and efficient use of fossil fuels. Since the size and timing of expected commercial returns of this research are very uncertain, the private sector incentive to make these investments is not high. In its recent report on the Department's Coal R&D program, the National Research Council findings were that, "In the opinion of the committee, the DOE budget reductions for advanced research are incommensurate with the increasing needs for lower cost, more efficient, and more environmentally acceptable use of coal through the next 50 years and beyond. The decline in DOE activities is all the more serious, given the decreasing private sector investment in long-range research on coal-related technologies."

Question: Is it fair to say that some of the work DOE is supporting is research that is also being funded in other countries by our industrial competitors and could you give us some examples of areas where DOE's assistance is keeping U.S. manufacturers competitive?

Answer: Many of the research areas that DOE supports are of critical economic importance to both developed and emerging economies around the world. It is natural to expect that these opportunities are attracting the R&D interests of many countries and their manufacturers. Symbiotic relationships between government sponsored R&D and private sector technology development are well known in Japan, France, Germany, and many other countries. This is particularly true in the burgeoning global markets for power generation, fuel efficiency and environmental protection technologies.

While the U.S. relies on private industry to commercialize energy and environmental technologies, DOE programs do contribute to the pre-competitive stages of R&D investment needed to bring a new technology from fundamental concept, through basic and applied research, and into exploratory and engineering development. In this respect, DOE's R&D programs create knowledge which enables private companies to compete better against foreign industries, some of which are highly subsidized abroad.

DOE's Office of Industrial Technologies, for example, is working with seven key process industries to identify critical near-, mid-, and long-term R&D needs that could greatly improve industrial productivity and lower energy use. These seven industries -- petroleum, chemicals, glass, forest and paper products, aluminum, steel, and foundries -- are the backbone of the U.S. manufacturing sector and a key to our economic strength. These industries employ nearly 2 million people directly and provide the basic materials essential to the entire U.S. basic manufacturing sector, employing over 18 million workers. They were selected because they account for 88 percent of the energy used in manufacturing in the U.S. and over 90 percent of the wastes generated. Based on identified industry needs, DOE will fund selected R&D projects of a pre-competitive nature on a cooperative basis where technical resources and funding are shared.

In the forest and paper products industry, the U.S. is facing tough challenges from foreign competitors. Because the U.S. pulp and paper industry is among our most energy-intensive industries, improved energy performance and sustainability are high technical priorities. One DOE-supported project is impulse drying technology, which greatly reduces the energy requirements of drying paper by using mechanical rather than thermal energy. The technology is being developed by the Institute of Paper Science and Technology (IPST) with support from DOE, the Electric Power Research Institute, the Container and Kraft Packaging Group of the American Paper Institute, and IPST member companies. One of the most important features of this technology is that it increases product throughput, thereby giving U.S. companies a significant productivity improvement and corresponding competitive edge. DOE involvement has proven critical to lower the risk of developing this technology for U.S. competitive advantage.

In addition to applied R&D programs, DOE's Basic Energy Sciences (BES) program contributes to the Nation's investment in the fundamental sciences needed to enable the Nation to meet its future energy needs. The program provides state-of-the-art basic research facilities to

industry, university and government-sponsored researchers, in addition to conducting basic research relied upon by U.S. industry. One such area is materials science, where research is conducted that is too expensive or too unique to be performed in the private-sector. For example, in support of the U.S. electronics industry the Department has developed a new lead-free solder. This solder will replace current tin-alloys in the demanding avionics and automotive applications. The cost and performance of the new solder will make it a strong candidate to replace current tin-lead solders, eliminating a known environmental toxin.

Likewise, during the 1980's the Department was instrumental in developing a super-strong alloy called Super 9 Chrome, which is now used as a world-wide industry standard for improving the safety and reliability of heat exchanger tubes in utility steam generators. The material has since been incorporated into the American Society of Mechanical Engineers' (ASME) Boiler and Pressure Vessel (B&PV) Code and transferred to industry for commercial application.

The Advanced Turbine Systems program is another example of a government-industry partnership which is advancing technologies necessary to keep U.S. manufactures (Westinghouse, General Electric, Allison Solar, and others) competitive.

Question: The Cato Institute which argued most vociferously for DOE's complete abolition argued that "the privatization of energy decision-making, not DOE's emergency preparedness program, is the nation's "insurance policy" against any future energy challenge." Could you comment on this statement?

Answer: In its market-based approach to energy emergencies, the Department of Energy long has advocated that the best policy is to rely on the private sector for the thousands of decisions needed daily to balance energy demands with emergency supplies. DOE's emergency preparedness programs are not intended to supplant emergency decisions by the private sector but, rather, to complement them; in oil, the Strategic Petroleum Reserve (SPR) itself represents an emergency preparedness measure that, though considered worthwhile by the Congress, the Administration, and the oil industry, would not have been developed by the private sector. Private sector investments generally are based on expected benefits to the firm, rather than an improved overall performance of the entire U.S. economy. For example, it is rational behavior for private firms to buy and hold stocks in the face of a crisis of unknown severity and duration, while the national interest is likely to be in releasing stocks to help stabilize the market. It is this need for a national perspective that Congress sought to address when it enacted the legislation that created the SPR.

Measures considered to be good public policy occasionally differ from decisions a profit-maximizing firm would make when unable to capture the benefits from such investments. Clearly, the benefit to society from the SPR's dampening effect on price spikes would not provide incentive to oil suppliers to carry higher stocks than they otherwise might. An additional and compounding aspect of investments in emergency preparedness is the stark contrast between the certainty of their costs compared to benefits which accrue only if/when an emergency occurs.

It seems obvious that the private energy sectors are best able to judge their own emergency risks and take precautionary steps they see to be in their best interests. Less obvious is the fact that private firms are unlikely to consider national security interests. This latter purpose is the goal of DOE's emergency preparedness program.

Question: Could you respond to the allegation that DOE funding for R&D amounts to corporate welfare?

Answer: DOE funding of R&D is not "corporate welfare." Our R&D programs support high-risk, pre-competitive research. The knowledge produced is publicly available and benefits no one firm, but all of industry. When cost-sharing by industry is sought, it is not done in order to subsidize industry, but to test the technical validity and ensure the market relevance of DOE's R&D initiative, and to leverage Federal dollars.

Moreover, it is not the purpose nor intent of DOE's R&D to displace private sector responsibility for funding its own R&D. Use of public funds for R&D is limited and carefully guided by a long-standing set of economic principles which guard against misuse. Federal support of R&D is provided only if and when serious limitations (see list below) exist in the marketplace, that cause private firms to under-invest in areas of R&D otherwise important to society. In certain areas, such as environmental quality and national security, the R&D benefits to society are not always fully reflected in markets, nor in profit-oriented corporate investment objectives. Without correction, these limitations can distort both the level and type of R&D that society may desire to have performed.

Accordingly, DOE's funding of R&D takes into consideration:

- o The overall significance of the potential benefits of the R&D to society; minor omissions in the marketplace do not warrant Federal support.
- o The nature of the R&D and whether or not an individual firm might recover its research costs by appropriating to itself the benefits of the knowledge (a "public good") it creates.
- o The nature of the industry and whether the fragmented structure of certain industries might work against sufficient levels of R&D spending because firms in these industries are too small to undertake certain kinds of R&D projects.
- o The level of technical difficulty of the task and the overall riskiness of the R&D, where the successful payoff of R&D is not assured in advance and might cause individual risk-averse firms to do less than society as a whole would prefer.
- o The closeness to commercialization, where certain proprietary sensitivities might adversely affect private sector competition.

Within this context, DOE funding of R&D is not "corporate welfare," but rather a well-founded public investment in the advancement of science and technology in areas critically important to our Nation's future. Upon this foundation of pre-competitive research and knowledge, corporate America can build and market its own commercial products, which is the proper and exclusive domain of the private sector.

Question: According to Cato (Cato Institute), "virtually every significant advance in energy technology was made by private sector investment in the private sector -- federal research and development undertakings have had little, if any, real impact on the energy industry." Could you respond?

Answer: Without reading the full report of the Cato Institute it is difficult to appreciate the overall context in which such an assertion is made. The pathway of scientific discovery, from basic research to product development, is often complex and multi-faceted. In many cases, the Department of Energy can show (see below) that its R&D programs, which are properly directed at the pre-competitive stages of research, have had significant real impacts on the energy industry, but without claiming credit for the final development and production of the commercial products now competing in the marketplace.

For example, approximately 20 percent of all electricity produced today in the U.S. is from nuclear power. R&D into nuclear physics and the engineering principles upon which these plants are based was supported almost exclusively by the by the Department of Energy and its predecessor agencies. In this case, private sector investments may have brought the final products to the marketplace, but Federal R&D played a critical and enabling role along much of the way. Similarly, as was foreseen by Congress in 1946 when it considered the first Atomic Energy Act, virtually the entire science and industry of nuclear medicine stems directly from the work of DOE and its predecessors.

Likewise, much of the currently competing solar and renewable energy systems, most notably the increasing competitiveness of advanced wind turbines and the growing markets for photovoltaics, are based on R&D supported by DOE. DOE R&D helped drop the cost of electricity from wind turbines from 40 cents to less than 6 cents per kilowatt hour, paving the way for this environmentally benign renewable energy technology to make a significant impact on the U.S. electric utility market. World markets already amount to over 8 gigawatts and are expanding. Two recently developed wind turbine blades are expected to result in sales of up to \$45 million for U.S. manufacturers during the next decade. DOE R&D has also helped lower the cost of photovoltaic power (\$1.25 cents per kilowatt hour in 1980) to within commercial reach (19 to 25 cents per kilowatt hour today). A recently announced joint venture between Amoco and Enron Solar, valued at \$100 million, will use DOE developed technology to build a 100-megawatt photovoltaic power plant. Its aim is to produce electricity that costs 5.5 cents per kilowatt hour. Global markets for photovoltaics in this cost range are estimated to be in the hundreds of millions of dollars.

In the petroleum sector, DOE-funded research helped develop three-dimensional seismic technology that is increasing finding rates and reducing production costs. This technology alone is expected to increase U.S. oil and gas production by the equivalent of 450,000 barrels of oil per day, worth nearly \$3 billion at today's prices. In addition, DOE scientists have been responsible for the development of a number of tools that are now industry standards, such as the technology to bond diamond cutters to the body of drill bits, reducing cutting costs and boosting the efficiency of world-wide oil and gas extraction operations.

The current atmospheric fluidized-bed combustor (AFBC) technology used in the utility sector, the cleanest and most economical way of using coal to generate electricity, is one of the Department's success stories. As a result of the Department's Clean Coal Program, U.S. boiler manufacturers introduced AFBC technology commercially and have sold at least 61 units, with an installed value of \$700 million.

Countless examples of burgeoning sales of high-efficiency industrial processes are directly linked to DOE funded R&D. Over 55 technologies now in use by U.S. industry were developed with DOE R&D, resulting in over \$1.3 billion in documented energy cost savings, and several times more in savings due to related productivity improvements. Much of the advanced work in commercial power turbines--an enormously important global market exceeding hundreds of billions of dollars over the 10-years--was derived from knowledge created by Federal R&D investments in military aircraft and related aerospace technologies. DOE's advanced turbine systems R&D is continuing to set the pace for future equipment performance standards.

In the area of lighting, DOE R&D helped develop high frequency electronic ballasts, which efficiently power fluorescent lamps. These ballasts, which have now captured 25 percent of market share and generated U.S. sales totalling \$200 million, have already saved U.S. businesses and consumers over \$1 billion in energy costs. Although invisible to the human eye, advanced window coatings developed by DOE R&D increase the thermal efficiency of double-paned windows by one-third. Market share of these products is now 36 percent of all windows sold. DOE R&D on advanced refrigeration and cooling systems helped U.S. manufacturers solve the "CFC problem" when such substances were banned and replacements were sought. Altogether, savings from DOE funded R&D results in these areas of lighting, windows and appliances is expected to exceed \$16 billion annually by the year 2015.

Finally, it should be kept in mind that DOE does not support R&D in areas already well-covered by existing and profitable energy industries. The DOE focuses, instead, on areas that defined by market limitations or high-risk technologies, many of which have not yet come to fruition.

All of these factors may help to reconcile our view of the DOE R&D programs as successes with those of the Cato Institute's report, but do not support the conclusion that DOE R&D has had "little, if any, real impact in the energy industry." Indeed, in the areas where DOE has chosen to invest, the opposite seems more true.

QUESTIONS SUBMITTED BY CONGRESSMAN CHARLES TAYLOR

Overlap in Research

Question: I have heard that the research done at some of the labs is very similar and that costs could be cut dramatically if the research efforts were streamlined. Have you given any thought to making one lab research biomass, another lab look into natural gas research, etc., so the laboratories do not overlap in their research efforts?

Answer: Research at the national laboratories is coordinated with objectives that are appropriate to the missions of the Headquarters. In many cases, all of the research in an area is performed at one laboratory. In other cases, unique facilities and devices located at different laboratories dictate that the research be performed at several labs. In the defense programs area, due to the desire for competition between laboratories in nuclear weapon research and design, a number of laboratories participate in similar research areas. In these cases, the work is not duplicative but complementary to the total effort and takes advantage of the broad range of interdisciplinary systems-based capabilities of the National Laboratory system. All of this research is subject to peer review to help determine the best performer, and to program management to ensure against duplication of effort. We have found that the synergistic and competitive aspects inherent in this distribution of research have contributed greatly to the scientific excellence of the laboratories. We are continually examining the distribution of research projects among laboratories so as to minimize cost and duplication, and to achieve highest quality results. The Department has just received the recommendations of the Task Force on Alternative Futures for the Department of Energy National Laboratories and will use the report to help plan future actions to ensure most effective use of Laboratories.

Partnerships with DOE Labs

Question: One of the complaints about partnerships with DOE national labs is that the labs often decide what they are going to do and then go to industry to get partners and tell them what the research is going to be, rather than having them be involved in the planning. What about instituting competitive bidding at the national laboratories? This might ensure that the work done was actually work a lab wanted to do. It would also make the labs go look for partners in the private sector up front, allowing the industries to be involved in the planning and have a say in what results they are looking for.

Apparently, Agriculture also has labs doing research that runs parallel to research done at some DOE labs - such as biomass. Is there any effort to work together on some of this research?

Answer: While recognizing that the primary customer of the laboratories is the DOE programs, we are increasingly planning our research programs jointly with industries. Examples include the Partnership for a New Generation of Vehicles with the automobile industries, the AMTEX partnership

with the textile industry, collaboration with the Electric Power Research Institute, and many others. To provide the necessary Department-wide leadership in our laboratory/industry partnerships, we have just established and filled a Deputy Under Secretary for Technology Partnerships position. Two of the most important responsibilities of this position are: establishing the criteria for the Department's selection of industrial partnerships; and, managing the prioritization of partnerships vis a vis these criteria and in competition for very limited funding resources.

Among the most significant criteria identified for partnerships is that they be driven by a technology roadmap from industry and that they yield a substantial benefit back to the Department's core missions. A fundamental purpose which has always guided the Department's partnership activities is to leverage the Department's resources to produce benefits to the Department's program missions and at the same time generate economic benefits for the United States' industry sector.

Our partnership projects are selected based on merit review and competitive selection. We also coordinate with other agencies supporting related research. For example many agencies are working together in the Partnership for a New Generation of Vehicles (PNGV) and in biomass we are working in cooperation with the Department of Agriculture and the National Science Foundation.

State Energy Conservation Program
Institutional Conservation Program

Question: What are your thoughts about combining programs like the State Energy Conservation Program and the Institutional Conservation Program, and other programs offering state assistance into a block-grant program? Could this reduce administrative overhead?

Answer: We are in the early stages of exploring whether the current state assistance programs such as the categorical grants you mention should be combined into a block grant. We are also examining the merits of retaining and making further improvements to the individual categorical programs. A number of factors need to be analyzed in looking at these options. They include:

- o The national purposes and clientele to be served.
- o How best to provide flexibility to tailor programs to meet regional and local conditions and customers' needs.
- o How to ensure effective involvement of communities and program participants in program development and administration.
- o How best to facilitate coordination of services and leveraging of non-Federal funds in order to maximize the funds going into service delivery.

Depending on how a block grant for state energy assistance were formulated, both Federal and state administrative overhead could probably be reduced. Although we do not yet know the magnitude of possible savings involved, fewer Federal employees would be needed, after a suitable transition period, to administer a single block grant than to oversee the current categorical programs. At the state level, the single application and other reduced red tape of a block grant would cut overhead costs, although these might be offset by the increased costs to the states of evaluating program effectiveness in order to report results.

Clean Car Program

Question: The Clean Car Program you mention sounds intriguing. How much money is DOE putting into the Program and how much are the Big Three automakers investing?

Answer: The "Clean Car Program," now called the Partnership for a New Generation of Vehicles (PNGV), is a joint program between the Federal government (with seven participating agencies) and the U.S. automotive industry. On September 29, 1993, the Administration and automakers announced that they would work together to achieve three aggressive, interrelated research and development (R&D) goals:

- (1) develop manufacturing techniques to reduce the time and cost of automotive development;
- (2) improve fuel efficiency and emission performance; and
- (3) develop an affordable, 6-passenger vehicle with up to three times the fuel efficiency (80 miles/gallon) of today's comparable vehicle.

From its total FY 1995 appropriation, the Department of Energy (DOE) has \$158.83 million for programs which will help directly to achieve these goals. In accordance with the Partnership agreement, industry's direct investment in PNGV, upon completion of the Partnership work, will be equal to that made by the government.

Actual investments which industry makes to achieve commercial success of jointly developed technologies will greatly exceed the government's contributions. The current R&D investments of the automakers alone total more than \$12 billion per year. The supplier base supporting the automobile industry represents a substantial additional resource. Some of these expenditures will contribute at least indirectly to achieving PNGV goals. Technologies for which development is being jointly funded include hybrid propulsion systems, fuel cells, lightweight materials and structures, energy storage, supercomputer models, vehicle recycling, alternative fuels, and lower-cost manufacturing.

While the relative proportions of government and private funding vary for specific projects, government and industry shares will be close to 50:50 over the course of the ten year technology development and validation phase of PNGV. The proportion of Federal funding will be higher for high-risk projects where the outcome is uncertain, and that of industry funding will be higher for technologies with a near-term market. Beyond the technology development phase of PNGV, the industry has committed to produce, as they become commercially viable, those technologies resulting from the research program that are expected to significantly increase fuel efficiency.

Nuclear Power

Question: You mention the overwhelming use of fossil fuels and the growing dependence we will have on them. What are your thoughts on nuclear? Is it an area where the U.S. seems to have lost interest although other countries are heavily investing in new nuclear power plants?

Answer: Although no U.S. utility has ordered a nuclear plant since 1978, nuclear energy plays an important role in our current energy mix providing about 20 percent of the nation's electricity. An important responsibility of the Department is to help keep the nuclear option available. We are doing this through close cooperation with industry and the Nuclear Regulatory Commission. The Department's nuclear energy program is focusing on advanced light water reactors. Our program has two objectives bearing directly on the future availability of nuclear-generated electricity. First, we are working to assure the availability of standardized designs that could provide economical electricity generating capacity projected to be needed after the year 2000. Second, the Department is working with utilities to enhance the availability of current reactors for as long as they can be operated safely and economically. Both of these efforts are cofunded with industry. However, if nuclear energy is to play a role in the U.S. management in the long term, significant progress must be made in the areas of waste, cost competitiveness with other energy options, and siting of new plants.

WASTE ACCEPTANCE

Question: Along those same lines, there is an issue that is of great importance to many of us, and that is the issue of spent fuel. I understand that this is not under our jurisdiction, but since you're here...realizing that the long-term storage mandate congress gave you will not be met by 1998, let me ask you about interim storage of spent fuel. Will DOE be providing interim storage of spent fuel in 1998? If not, what explanation can you give to excuse the DOE from its responsibility?

Answer: In a Notice of Inquiry issued on May 25, 1994, the Department indicated its preliminary view that it does not have a statutory obligation to accept spent nuclear fuel in 1998 in the absence of an operational repository or other facility constructed under the Nuclear Waste Policy Act, as amended. The Department sought input from the public on this preliminary view. Subsequent to publication of this Notice, this issue of whether the Department has an unconditional obligation to begin waste acceptance in 1998 was challenged in the U.S. Court of Appeals. The matter is still pending and the Court has directed the Department to file argument on the status of our proceedings with respect to the Notice of Inquiry by March 13, 1995.

The Nuclear Waste Policy Amendments Act of 1987 linked the development schedule for a Monitored Retrievable Storage Facility to the schedule for the geologic repository. Monitored Retrievable Storage construction may not be started until a construction authorization for a repository is received from the Nuclear Regulatory Commission. Given these timing restrictions, the Department looked to the negotiated siting process, administered by the Nuclear Waste Negotiator as the appropriate mechanism for meeting the 1998 waste acceptance target. However, neither the efforts of the Department nor any other organization have achieved the level of success needed to locate and develop a site by 1998 and the term of the Office of the Nuclear Waste Negotiator expired effective January 21, 1995.

In an effort to accelerate progress toward waste acceptance, a new program approach has been implemented. A key component of the approach is the development and integration into all program elements of a multi-purpose canister system, which includes storage, transportation, and disposal overpacks, to facilitate pre-disposal storage at any location. The Department is maintaining the readiness to develop a centralized interim storage facility if and when a site and the necessary authority and resources are made available, and we are developing the technical and institutional capability for the acceptance and transportation of spent nuclear fuel from reactors to a storage facility whenever such a facility is available.

The Department recognizes that safe and timely disposal of the Nation's radioactive waste is one of our country's principal environmental challenges. We are committed to do our part in addressing this challenge. As the Congress proceeds with developing legislation to amend the Nuclear Waste Policy Act, we look forward to working with the Congress to ensure that any legislation presents the Department with a feasible approach for resolving this important issue.

QUESTIONS SUBMITTED BY REPRESENTATIVE BARBARA F. VUCANOVICH

Clean Coal Technology Program

Question: I think you are familiar with the Clean Coal Technology Round Four project in my district located about 17 miles east of Reno, Nevada, the Pinon Pine Project. A cooperative agreement for this "coal to gas" power plant was executed in mid 1992 with Sierra Pacific Power Company. The project has now completed Budget Period 1 which includes compliance with NEPA and the obtaining of all permits for construction. The project is ready to be built, thus, can you tell me what the status is with respect to DOE approval of the continuation application for Budget Period 2 which funds construction?

Answer: Yes, I am familiar with this project to demonstrate an innovative integrated coal gasification combined cycle (IGCC) technology for power generation. The continuation application for proceeding into Budget Period 2 (construction) has been approved

Nevada Test Site

Question Since you are with us today Madam Secretary, I want to take this opportunity to ask you about the Nevada Test Site. Briefly, what is the status of the Operations and Maintenance contract RFP the Department will be releasing this year? Is that process on schedule and what is your actual time table for announcing the contract award?

Answer Consistent with the Administration's Reinventing Government Initiative, the Department announced on July 5, 1994, a policy to replace the traditional Management and Operating (M&O) contracts with performance-based management contracts. Last summer the President and Chief Executive Officer of EG&G and its subsidiary REECO informed the Department that it would no longer compete for DOE contracts as the prime contractor. EG&G's and REECO's current contract expires December 31, 1995. Other M&O contractors at the Nevada Test Site include Raytheon Services Nevada and Wackenhut. The Raytheon contract expires December, 1995. The Wackenhut contract expires September, 1997.

The Nevada Operations Office plans to consolidate the work performed under the existing M&O contracts, which expire this year, into a single performance-based management contract. The Nevada Operations Office will be holding a public/stakeholder meeting on February 2, 1995, which will be followed by a mid-February release of the draft Request for Proposal (RFP). A public comment period will follow the release of the draft RFP. The Nevada Operations Office expects to release the final RFP in March 1995. At the present time the process is on schedule. The Department expects to select a new contractor to run the Test Site during the last quarter of 1995.

Nevada Operations Office

Question You will be receiving within the next few days a letter from the Nevada delegation expressing our concerns about the future of the Nevada Operations Office in Las Vegas. There are many rumors floating around claiming that you intend to downgrade the Las Vegas office and move most of it to New Mexico. Can you tell me if this is true or not?

Answer The Department presently has no plans to close the Nevada Operations Office. Although the President recently extended the moratorium on nuclear testing, Presidential guidance still requires us to maintain the capability to resume nuclear testing.

We are also presently engaged in a review of the organization and functions of the entire DOE. On December 20, 1994, the Department announced the beginning of a process--Strategic Alignment--to align the Department more closely to the business lines in the DOE Strategic Plan -- national security, science and technology, weapons site cleanup,

energy resources, and economic productivity. As part of this process a career employee team, with guidance from Deputy Secretary Bill White and two Steering Committees comprised of internal and external stakeholders, is thoroughly reviewing and assessing every function of the Department. This team has begun interviewing Headquarter's as well as Operations Office and Laboratory personnel. It is important to note that no recommendations of any sort have yet been made by the teams. More importantly, no determinations or decisions were made by DOE management prior to undertaking realignment and charging employee teams with cataloguing and analyzing departmental functions.

The tentative schedule for the Strategic Alignment process is as follows:

January 3 - February 24: Program Evaluation
February 27 - April 28: Recommendations
April 29 - ??: Approval and Implementation

The Strategic Alignment effort is consistent with the Department's commitment to save \$14.1 billion over the next five years as part of the Administration's Reinventing Government Initiative.

Clean Coal Technology Program

Question: In contrast with previous CCT rounds, projects for CCT Round IV, including the Pinon Pine Project were selected and then later informed that the total award amount had to be reduced by approximately 20 percent, as DOE had selected more projects than funding was available for. Specifically, using the example of Pinon, the original estimated total cost of construction and operation was \$340 million with a requested federal cost-sharing of \$170 million. That amount was cut by 20 percent. Two years later not all Rounds IV projects remain viable. Do you believe that DOE should be allowed to retain funding flexibility to provide for reasonable contingencies or "overruns" for viable, existing cooperative agreements?

Answer: I believe that DOE should be able to manage the funds in the Clean Coal Program as required to achieve the Program's objectives. This activity includes exercising the flexibility given to the Department by Congress to provide additional funds to deserving projects that have experienced cost growth. These funds generally have been provided in cases where the Department's evaluation has established that the benefits to be derived from the project fully justify the additional expenditures and that the expenditure can be made within the limits imposed by Congress. The criteria for determining the propriety of funding cost overruns includes: design changes that are required as a result of the scaleup of the project to commercial size; changes in equipment requirements due to development of technology, such as improvement of gas turbines; and the availability of funds.

Question: Do you agree that it would be unwise for Congress to rescind funding for viable projects like the Pinon Project in the Clean Coal Technology Program in which private sector partners have executed cooperative agreements with DOE, made substantial investments in good faith, and which are proceeding successfully?

Answer: Yes, I do agree that it would be unwise to rescind such funding. I want to emphasize again the Department intends to continue its support of those Clean Coal projects that are in progress and are proceeding successfully towards accomplishing their developmental goals and the goals of the Clean Coal Program. However, as in any large and diverse program demonstrating high risk, first-of-a-kind technology, not all projects will be successful. In addition, issues of responsible management of federal funds are consistent with program objectives, conditions, and agreements as authorized by Congress. Changing market conditions could put some projects at increased risk and some of our participants may not choose to complete their projects.

QUESTIONS SUBMITTED BY CONGRESSMAN GEORGE R. NETHERCUTT, JR.

Isotope Production

Question: Can the Advanced Test Reactor (ATR) in Idaho, the Missouri University Research Reactor (MURR) and the rebuilt Sandia pulsed reactor in New Mexico in any combination produce the range of isotopes needed to further research as sought by the medical community. If not, is the Department of Energy prepared to forego crucial future cancer research linked to specialty isotopes that can only be produced in a large, fast spectrum reactor?

Answer: According to a recent National Academy of Science Institute of Medicine report, the University of Missouri facility was recommended as a highly useful facility for isotope production. The Department, in conjunction with the operation of University reactors such as the Missouri University Research Reactor, can produce the range of radioisotopes needed for research by the medical community. To accomplish this, the Department produces radioisotopes at: the High Flux Isotope Reactor at the Oak Ridge National Laboratory, the Advanced Test Reactor at the Idaho National Engineering Laboratory, the Brookhaven Linear Accelerator Isotope Producer at the Brookhaven National Laboratory, and the Los Alamos Meson Physics Facility at the Los Alamos National Laboratory. The Annular Core Research Reactor at Sandia National Laboratories is the preferred location for the production of molybdenum-99. An environmental assessment has been prepared for the project. A final decision on the use of the Sandia facilities can be made only after the National Environment Policy Act process is completed.

We are not aware of any specialty radioisotopes needed by the medical community currently which can only be produced in a large, fast spectrum reactor. This is based on our current understanding of customers' needs, as expressed by the National Institute of Health, American Nuclear Society, the American College of Nuclear Physicians, the Society for Nuclear Medicine, the Council on Radionuclides and Radiopharmaceuticals, and the Alliance for American Isotope Production.

Fast Flux Test Facility

Question: It is my understanding that the Department of Energy is opposed to operation of the Fast Flux Test Facility (FFTF). What is the Department's position on having another entity assume ownership and operations responsibility?

Answer: The Department's decision to shut down the Fast Flux Test Facility was not based on opposition to its continued operation. The FFTF was constructed to provide a prototypical test environment in support of the Department's advanced reactor development program, in particular the Clinch River Breeder Reactor Program which was cancelled in 1983. Since 1989, the Department has undertaken several reviews and investigations to try to identify new missions for the facility to help off-set the \$88 million annual operating costs. The Department could identify no combination of missions with a reasonable probability of financial viability over the next ten years.

The latest comprehensive review was conducted in 1994 by an independent review team headed by Mr. John Landis. The composition of and charter for the independent review team was jointly established by the Department and the Washington State Congressional Delegation. Business plans for privatization of the FFTF were prepared by Tulane University and Integrated Resources Group, Inc. for Westinghouse Hanford Company. The independent review team thoroughly reviewed these business plans and concluded that they were extremely optimistic in their forecasts and failed to account for the scheduling conflicts and inefficiencies that would be created by simultaneous operation of a power-generation business and a large diversified radioisotope-production business.

The independent review team concluded that there was no combination of compatible missions for the FFTF that had a reasonable probability of making the facility financially viable over the next ten years. The projected revenues and costs for the FFTF indicated that a total federal subsidy of between \$500 and \$600 million would be required to operate the facility for the next ten years. The review team recommended that the facility be shut down, if the Department's remaining facilities had the capability to carry out required missions. Following a review of the capabilities of the Department's remaining facilities, the Department concluded that the FFTF was not required to support the Department's missions and issued the direction to place the facility in a radiologically and industrially safe shutdown condition. This direction became effective on December 15, 1993.

The Department is willing to evaluate any additional proposal for a non-Department entity to assume ownership and operations responsibility for the FFTF. The Department's evaluation would consider the proposed operator's technical qualifications, financial viability, and the financial risk to the Department.

Advanced Test Reactor

Question: Even if the ATR is not ultimately dedicated to its more appropriate use of tritium production, is it the Department's contention that the ATR operation will be financially self-sufficient? If not, how does that position differ from the position on FFTF, which can also attract significant foreign funding in the absence of Department of Energy control?

Answer: There is no known potential primary tritium mission for the Advanced Test Reactor. The Advanced Test Reactor has been considered for interim production of a relatively small amount of tritium for the Office of Defense Programs pending a Record of Decision on new tritium supply technology. However, this reactor cannot produce sufficient tritium to meet the projected long term needs of the Office of Defense Programs.

The Advanced Test Reactor, however, is essential to accomplish the mission of the U.S. Naval Nuclear Propulsion Program which provides the funding required for the operation and maintenance of the facility. The Advanced Test Reactor produces a neutron flux that simulates long-duration radiation effects on materials and fuels used in the program. This research is expected to continue well into the 21st century. The Advanced Test Reactor is also used for the production of isotopes used in medicine, research and industry. Thus, the Advanced Test Reactor is not and is not expected in the future to be financially self-sufficient.

In contrast to the ATR, the FFTF is not required to support the Department's missions. An independent review team's study of potential missions for the FFTF included an evaluation of missions for foreign organizations. The review team concluded that there was no combination of compatible missions for the FFTF that had a reasonable probability of making the facility financially self-sufficient over the next ten years. The projected revenues and costs for the FFTF indicated that a total subsidy of between \$500 and \$600 million would be required to operate the facility for the next ten years.

Fast Flux Test Facility

Question: The issue of FFTF affects the health, economics and technical competence of the United States. This facility is quickly approaching a point of irreversibility. To avoid passing this point, will the Department agree to limit the progress of shutdown activities for the remainder of this calendar year by preventing any action that would result in permanent damage to components, e.g., sodium drain from any plant system?

Answer: The potential role of the FFTF in supporting the medical, economic, and technical communities of the United States has been at the center of each study conducted since 1989 in support of the continued operation of the FFTF. Based on the results from the various studies, we concluded that the FFTF was not required to support the Department's missions. Without a clear, defined mission and associated funding, the Department decided in December 1993 to shut down the facility, which was costing \$88 million annually to operate.

The Department and Westinghouse Hanford Company have been working closely together to minimize the cost of safely shutting down the FFTF. Based on our current progress, we will begin draining the liquid sodium from the secondary coolant system before November 1995.

Any delay in the FFTF shut down efforts at this time will result in a cost increase of more than \$3 million per month. Given the fact that potential missions were extensively evaluated prior to issuing the shutdown directive, the Department believes that the fiscally responsible approach is to continue the planned shutdown activities.

QUESTIONS SUBMITTED BY CONGRESSMAN SIDNEY R. YATES

Question: It has been suggested to this subcommittee that the Department of Energy should be abolished and its "few worthwhile projects" be transferred to the Departments of Defense and Interior. Do you agree with this proposal?

Answer: No I do not. I believe that such proposals are not likely to provide significant budget savings and that the Department has a better way of meeting budget-cutting goals.

Today's proposals to dismantle the Department of Energy and transfer its functions to other agencies are similar to those made in the early 1980s. At that time, early Reagan Administration estimates (February 1982) suggested that dismantlement of the Department of Energy might save as much as \$1.3 billion annually. This estimate was revised downward several times, and by June 1982 the Administration projected only an \$85 million annual savings through dismantlement of the Department of Energy. Even this figure, however, could not be verified by the General Accounting Office. The Congressional Budget Office, which also attempted to validate cost savings from dismantlement of the Department of Energy, made the following fundamental observation:

"Reorganization, by itself, is unlikely to result in significant budgetary savings... At least \$3 million in annual savings would be achieved solely by the reorganization... (but these) will be offset by additional administrative and logistical costs... As a result, the net impact on the budget will be small."

This assessment is as true today as it was then. Moving organizational boxes around and distributing functions among agencies does not, in itself, yield budget savings. The Clinton Administration reached this conclusion in December 1994, when it gave a hard look at the suggestion of dismantling the Department of Energy, and possibly other Departments and agencies as well. In the end, it concluded that the proper focus of debate should not be on the number of Cabinet agencies in the Executive Branch or on notions of reducing this number to demonstrate a political point. Rather, the focus must be on questions such as: What functions of Executive Branch Departments must continue to be performed to meet public needs? Which functions can be downsized, privatized or eliminated? And how can enduring Government programs and services be performed in a more cost-effective fashion?

Addressing questions such as these is a far better way to meet cost-cutting goals than through the transfer of the Department's functions to other agencies.

The Department of Energy continues to perform vital functions for the nation. For example, more than 60 percent of the Department's FY 1996 budget will be used to maintain the Nation's nuclear weapons stockpile and to clean up weapons production sites. This work is extremely important to the security interests of the Nation, and to the quality of life of Americans living near former weapons production sites. Similarly, the work of the Department and its laboratories--often in collaboration with industry--to develop new energy technologies is

of critical importance to the long-term interests of the nation. The recently completed Galvin Task Force report on the Alternative Futures of the DOE Laboratories strongly urged the Department and its laboratories to maintain and strengthen their focus on the long-term energy needs of our nation and the world. The Galvin Task Force also concluded that the work of the Department of Energy laboratories in fundamental science "is part of an essential, fundamental cornerstone for continuing leadership by the United States."

We believe that the primary functions of the Department serve important public purposes, but that they can be done better for less cost. We also believe that some functions of the Department should be downsized, privatized, or eliminated. This is the philosophy behind our announced plan to reduce the Department's budget by \$10.4 billion over the next five years (\$14.1 billion if one includes the proposed sale of the Power Marketing Administrations, excluding the Bonneville Power Administration).

Our Strategic Alignment initiative will play a major role in securing these savings. If the Department of Energy were dismantled and its functions were transferred to other agencies, we believe that opportunities to implement management efficiencies and to fundamentally improve the operation of these programs could be lost. Political points might be gained through dismantlement and distribution of the Department of Energy, but the goal of deficit reduction would not likely be served. We have a better way, and we urge that you support us in this historic effort to create a new, more effective Department of Energy.

Question: What are the highest priorities within the Department of Energy?

Answer: The Department's highest priorities are: to continue to provide the nation with excellence in science and technology; to manage the change in national defense requirements while maintaining confidence in the existing weapons stockpile in the absence of weapons testing; to reduce the danger of nuclear weapons proliferation; to address the urgent risks of the Cold War's environmental legacy; protect the safety and health of the public and our workers in and around our weapons sites; to bring clean, efficient, and reliable energy technologies to the domestic and global marketplaces; to work to resolve the nation's energy resource concerns in areas including nuclear power plant designs, management of radioactive waste, domestic oil and gas extraction, Strategic Petroleum Reserve, isotopes, and uranium enrichment; and to work with our industrial partners to improve the nation's energy and economic productivity through research and development. An equally high priority is to improve our own business practices, so that the Department will achieve more with less.

Question: Do you believe that the Federal government should continue partnerships with business for research, development and commercialization of efficiency and renewable technologies?

Answer: Yes, partnerships are the defining characteristic of the Department's energy efficiency and renewable energy technology research, development and commercialization programs. All major technology programs are cost-shared with private industry funding. The private share of funding tends to be low in the basic and near basic research phase - since private industry today focuses largely on short term investments - and grows substantially once the technology is proved.

These partnerships are critically important in ensuring market acceptability, leveraging federal dollars and increasing the likelihood of market success and full benefits to the U.S. economy.

An important result of partnerships, in which the Department helps lower international market barriers, is helping U. S. companies capture a larger share of the \$425 billion global market for energy and environmental technologies. This significantly amplifies the domestic economic benefit of jobs and improved balance of trade derived from both current and past research. As an example of the magnitude the potential benefits of helping U.S. industry in the market, an increase of only one third of one percent of market share for U.S. firms due to DOE assistance would equal the entire budget of the Office of Energy Efficiency and Renewable Energy.

State Energy Conservation Program

Question: Please explain where and how the SECP has been a success.

Answer: The State Energy Conservation Program (SECP) has been a success for all 56 states and territories in which it operates. According to the States they have saved approximately 150,000 BBtu per year as a result of this program and the activities supported by this program create approximately 10,000 jobs a year. Through technical assistance and financial support, the program provides state-level capability for both long and short range planning and implementation of energy policies and programs to promote energy efficiency and renewable energy technologies and practices in the marketplace.

Through technical and financial assistance, training, information-sharing opportunities, and peer-to-peer exchanges, SECP works in partnership with state and local organizations and officials to: enhance state-level capabilities to effectively manage program resources and achieve program objectives; increase the extent to which federal, state, and local organizations work effectively with other public and private sector entities to achieve widespread adoption of available energy efficiency and renewable energy technologies and practices; and maximize benefits from the deployment of existing energy efficient and renewable energy technologies and practices in all sectors. The following examples illustrate how states use the SECP to promote energy efficiency and renewable energy as well as providing service and economic benefit to the community.

Commercial fishing is an energy-intensive industry with a low profit margin. In Louisiana it accounts for about 20,000 jobs and \$250 million in annual revenue. Louisiana uses SECP to deliver a money-saving service to this industry by introducing an energy efficient rigging system ("Easy Rig") that uses existing equipment on double-rigged fishing trawlers and by improving diesel engine maintenance. Every fisherman who has adopted these methods reports saving diesel fuel and money immediately.

While planning a number of capital improvements, the City of Albuquerque, New Mexico found that several components required electric service in areas without distribution line service. These included bus shelter lighting, jogging and bikeway trail lighting and street median sprinkler controls. With an SECP grant of \$106,000 to supplement the \$2 million city budget, and technical assistance from the Sandia National Laboratory Design Assistance Center, Albuquerque installed photovoltaic powered lighting systems at 20 locations and 15 sun-powered sprinkler control systems. All systems were cost-effective on a first-cost basis.

Clean Coal Technology Program

Question: It has been estimated by Mr. Thomas A. Schatz, President of Citizens Against Government Waste, that a savings of \$20 million could be reached if we terminate the Clean Coal Program. Do you agree with these estimates? What would be the loss, or impact, on the public at large?

Answer: Although difficult to estimate, more than \$20 million would be returned to the Department of the Treasury if the Clean Coal Technology Program were terminated at this point. However, termination would result in financial losses considerably greater than the \$20 million saved. The impact on the United States would be the following:

- o Loss of U.S. technology leadership and industrial competitiveness in this area, with commensurate losses in global and domestic sales (and U.S. jobs)
- o Loss of international markets for U.S. clean coal technologies, products, and power production equipment being created by the high profile and anticipated results of the clean coal program. The size of the total market is estimated to be in the billions of dollars.
- o Monies to be returned to the Government from the industrial participant through the repayment provisions of each cooperative agreement. The maximum potential of this source of funding is equal to the Government expenditures.
- o The loss of a large portion of the industrial participant's investment of \$4.7 billion for the demonstration of advanced environmental control and power generation systems that will contribute significantly to the generation of electricity at a lower cost while reducing environmental impact.
- o Loss of both private and public sector sunk costs in incomplete projects to date.
- o Loss of confidence of the U.S. industrial sector in jointly participating with the Government in any future cost-shared activity where the Government can withdraw.

The budget proposed by the Department for FY 1996 will include savings from the Program considerably in excess of the \$20 million identified by the Citizens Against Government Waste.

Question: What are the positive contributions to society from the Clean Coal Program?

Answer: Fossil fuels provide over 80% of our energy needs. Coal provides over 50

percent of our electricity needs and over 80 percent of the coal produced in this country is used to produce electricity. All energy projections show that we will remain dependent on coal well into the foreseeable future. The objective of the Clean Coal Program is to demonstrate very clean, efficient, and cost-effective technologies for using coal, our most abundant domestic resource. The positive contributions society is receiving from the Clean Coal Technology Program include:

- Demonstrate technologies that will show the country how to use coal as an essential source of energy with minimum impact on the environment.
 - The Program has been highly successful in reaching this objective. More than 20 clean systems are ready to be used in this country and abroad to improve the environmental quality with which coal is used. More are in the RD&D pipeline driving efficiencies to 60 percent and a ten-fold reduction in emissions (relative to New Source Performance Standards).
 - Numerous advances in technology have been made and are discussed in the attached publication, "Clean Coal Technology: The Investment Pays Off."
- Increased natural gas use in power generation combined cycle systems.
- The Program has stimulated private investment. The private sector has invested two dollars for every one government dollar.
- It has placed U.S. industry in a strong global leadership position, opening the door to the immense potential foreign market for clean coal technologies. During the past year or so, clean coal technology developers made more than half a billion dollars in domestic and global commercial sales. Over \$9 billion of ongoing or planned global clean coal sales are directly attributable to the knowledge gained from the Clean Coal and associated Coal R&D Program. This also translates directly to high quality U.S. jobs:
 - Over 3,400 U.S. jobs attributable to recent sales alone.
 - Over 250,000 U.S. jobs attributable to the ongoing or planned sales benefiting from the Clean Coal and associated R&D technology base.
- It is demonstrating to society advanced technological options that will continue to insure the availability of cheaper power from more efficient generation systems while achieving increasingly stringent environmental goals.
- It resolved a significant international transboundary pollution problem that existed between the U.S. and Canada.
- It demonstrated the effectiveness of forming partnerships between government and

private industry which makes it possible for high payoff solutions to problems to be pursued more rapidly than would otherwise occur if governments or industry pursued them alone.

Question: With the Clean Air Act of 1990, is the Clean Coal Program necessary or does the Act inherently compel industry to comply?

Answer: The passage of the Clean Air Act Amendments of 1990 makes the Clean Coal Program even more important than it would otherwise be. This is particularly true when the full scope of that Act, to include controls on the oxides of nitrogen (NO_x) and hazardous air pollutants, is evaluated within the context of what current day state-of-the-art emissions control systems can achieve. Only through the development of advanced technologies will it be possible to achieve the level of emissions reduction anticipated in a cost effective manner.

In addition, the more advanced power generation technologies, which were selected in the later rounds of the program, hold promise for meeting the longer range impacts of the CAAA. With caps on emissions, companies will be increasingly turning to the higher efficiency technologies which are currently entering the demonstration phase. Current projections indicate that a new wave of base-load capacity will be needed in the early part of the next decade. Those clean coal technology projects which are currently entering the construction and operating phases will demonstrate key technology options for meeting this longer term compliance.

Alternative Fuel Vehicles

Question: What has been the Department's progress with regard to alternative fuel vehicles?

Answer: The Department has numerous programs devoted to promoting the use of domestic alternative fuels and alternative fuel vehicles (AFVs). The increased use of domestic alternative fuels and vehicles will reduce oil imports and the trade deficit, bring diversity and competition to the transportation sector, create jobs, and potentially revitalize agriculture and domestic energy industries. Alternative fuels can also contribute to solving local air pollution problems.

The Department's programs are directed at research and development of fuels and vehicles, demonstration of currently available alternative fuel vehicles, and implementation of Energy Policy Act programs to accelerate the use of alternative fuel vehicles. The programs cover to both light duty and medium/heavy duty vehicles. On the light duty side, research, development, demonstration, and testing performed in partnership with industry have resulted in increased understanding of the performance, cost, and emissions benefits of AFV technologies. Several U.S.-developed AFVs are now the best performing in the world, with some already certified to meet the tough California emission standards years ahead of schedule.

Great progress has also been made in expanding the number of AFVs available for consumers. When the Department's demonstration efforts started in FY 1989, no AFVs were available from the U.S. automakers. As recently as 1993, only five different alternative fuel vehicle model/alternative fuel type combinations were offered. For 1996, however, there will be approximately twelve different model/fuel combinations available for AFV customers.

During that same time frame, the Department has helped fund the incremental cost for thousands of AFVs for the Federal fleet, allowing Federal agencies to exceed the Energy Policy Act requirement for AFV acquisition. In 1994, the Department coordinated the addition of 8,500 new and converted alternative fuel vehicles to the Federal fleet, bringing the total Federal AFV fleet to over 15,000 vehicles. These vehicles operate on natural gas, ethanol, methanol, propane, and electricity. Along the way, Federal fleet operators have learned important lessons on operation and maintenance of AFVs that are being shared with other public and private fleets.

With the passage of the Energy Policy Act in 1992, the Department expanded its efforts and is now working directly with local and State governments, fleet operators, and the alternative fuel industry to encourage AFV use nationwide. Under Section 505 of the Act, the Department is encouraging voluntary commitments from automakers to make more AFVs, from fuel suppliers to provide alternative fuel, and from fleet operators to acquire AFVs. To accelerate voluntary commitments in partnership with State and local governments, the Department established

the Clean Cities program in 1993. The premise of Clean Cities is local initiative. Federal agencies then respond to the commitments made by numerous government and private organizations. By joining with other fleet owners in these communities, for example, the opportunity exists to create orders for larger numbers of similar AFVs. That, in turn, should spawn increased investments by vehicle producers in AFV production, and by fuel providers in developing infrastructure. As of December 1994, DOE has recognized partnerships in 34 communities throughout the country. Clean Cities programs feature approximately 30,000 operational AFVs and comprise over 1,200 stakeholder organizations nationwide committed to significant increases in vehicle acquisitions and infrastructure investment over the next five years. Currently, the program covers over half the country's ozone non-attainment areas and continues to gain momentum. By the year 2000, it is projected that the Clean Cities programs will have displaced six million barrels of oil, and reduced over 1,200 tons of hydrocarbons, 1,500 tons of nitrous oxides, and over 4,600 tons of carbon monoxide.

In coordination with the Clean Cities partnerships, the Department has awarded \$2 million in grants to the States for 19 innovative projects that promote AFV use, including development of alternative fuel infrastructure, public education, training, and more. With these funds, authorized under Section 409 of the Energy Policy Act, the Department is able to support local initiative and create tremendous leverage of public and private resources for the expansion of the alternative fuels market.

Also under the Energy Policy Act, the Department has provided important information on AFVs to fleet operators and the general public, developed a successful program to certify training of technicians that perform conversions and service and repair AFVs, and held a national teleconference that was broadcast live to over 3,500 people in all 50 States and 7 Canadian Provinces.

On the heavy duty vehicle side, one goal of the Department's alternative fuel engine/vehicle program is to provide a bridge to the vehicle users, i.e., the heavy duty vehicle fleet operators. Accordingly, the Department has established partnerships with organizations that represent fleet owners, are themselves fleet owners, or can make the information and lessons of the program available to the Nation's fleet operators.

The American Trucking Associations (ATA) is collecting and making available to the Department data on current and past alternative fuel truck programs. ATA is also establishing demonstration programs such as those to be conducted by the Minnesota Department of Roads, the Nebraska Department of Roads, and the United Parcel Service in the District of Columbia metropolitan area. Commercial fleet owners are operating 470 vehicles in seven States and Canada and reporting data to the Department through the ATA. The California Energy Commission is providing the Department with data developed from heavy duty compressed natural gas (CNG)-fueled trucks in California. The Department has provided some funding for these vehicles.

The Department's program is also co-sponsoring over 300 other alternative fuel trucks, ranging from medium duty delivery trucks to tractor-trailer combinations. The engines used in these vehicles cover a wide range of potential applications and include representation from all major U.S. manufacturers, including Detroit Diesel Corporation, Caterpillar Inc., Cummins Engine Company, Hercules, and Tecogen. Types of fuels used by these vehicles include CNG, ethanol, liquefied petroleum gas, and soydiesel, with the majority of the vehicles using CNG. Some of the body styles used by these vehicles include street sweepers, dump trucks, wreckers, over-the-road tractors, airport shuttles, vans, and jet vac machines. For example, the New York Department of Sanitation will operate four street sweeper trucks powered by Hercules GTA5.6 natural gas engines. In the near future, two ethanol heavy duty vehicles using DDC 6V-92TA engines will be added to the data collection fleet.

In cooperation with several States and municipalities, the Department is participating in an alternative fuel, heavy duty vehicle/school bus program. Most buses are CNG-powered, with a variety of bus/engine manufacturers providing the vehicles. Selected bus manufacturers include Thomas, Carpenter, and Bluebird; participating CNG-powered bus engine manufacturers include Hercules, Tecogen, Caterpillar, DDC, and Navistar. Of the vehicles currently in the program, only two buses are methanol fueled (both in Pennsylvania). The first methanol bus was delivered in May 1994 as part of the Phase 1 grant program. The second bus will be delivered in the near future under a Phase 3 grant. The bus was manufactured by Carpenter and is powered by a DDC 6V-92T engine. Four soydiesel school buses powered by Cummins' powerplants were added to the data collection fleet with Phase 2 grant money. The first soydiesel bus was delivered in January 1994 and the last bus was delivered in May 1994. An ethanol bus powered by a DDC 6V-92TA engine is scheduled to be delivered in the near future.

The Department's progress on alternative fuel vehicles, though notable, is just a first step toward a future in which alternative fuels provide a significant share of this Nation's transportation needs. Investments made now will have their real payoff in the future, when technologies demonstrated with Department support are adopted by the marketplace and begin to significantly reduce air pollution and oil imports. Much additional work needs to be done. Recognizing the need, and consistent with the Energy Policy Act requirements, the Department has directed needed resources and added additional staff to this important area, while recognizing that continued industry commitment and investment are the most critical factors in the future development of alternative fuel vehicles and supporting infrastructure.

Electric and Hybrid Vehicles

Question: Do you believe a privately financed company would continue research on electric and hybrid vehicles without government assistance?

Answer: The Department of Energy is supporting the development of advanced batteries for electric vehicles, as well as propulsion systems and high power energy storage devices for hybrid vehicles, through 50 percent cost-shared programs with industry. The battery is the major barrier to the successful development and widespread commercialization of electric vehicles, and a high power energy storage device (battery, ultracapacitor, or flywheel) is a critical technology for hybrid vehicles. Although the automotive manufacturers are pursuing these systems vigorously, as evidenced by their cost share, these activities are still viewed as very high risk in a free market environment, and would probably not enjoy the same level of industry support if the government terminated its programs.

Naval Petroleum and Oil Shale Reserves

Question: What is the annual income to the Treasury from the Naval Petroleum Reserves?

Answer: Net income for the period from FY 1989 to FY 1993 averaged \$367 million per year (see table below). Net income from the Reserves in FY 1994 was \$170 million, with the decrease attributable mostly to low oil prices and costs incurred for construction of the cogeneration facility. It is estimated that the Reserves will generate net revenue of \$240 million in FY 1995.

Net Income
(dollars in millions)

Fiscal Year	1989	1990	1991	1992	1993	Average
Revenues	632	602	654	473	440	560
Expenditures	175	179	200	202	207	193
Net Income	457	423	454	271	233	367

Question: Is it the Administration's position that the Nation would be better served if Congress privatized the Naval Petroleum Reserves, and all Federal oil shale reserves?

Answer: The Administration has concluded that, compared to the current structure of managing the Reserves corporatization and sale is in the best interest of the Nation.

Strategic Petroleum Reserve

Question: The Strategic Petroleum Reserve (SPR) was created in 1975 to provide the United States with adequate strategic and economic protection against severe oil supply disruptions. Is it your opinion that we should remove this "security blanket" even though the SPR was called on as recently as the Gulf War?

Answer: No. For almost 20 years the very existence of the Strategic Petroleum Reserve has deterred the threat of hostile oil supply interruptions such as the Arab oil embargo of 1972-73. While the development of additional oil reserves outside the Persian Gulf region has led to more diversity in suppliers of oil to the United States, the maintenance of the Strategic Petroleum Reserve inventory still remains critical to ensuring our oil security.

The United States and the other importing countries of the world will cumulatively be importing more of their oil requirements as time passes. In addition, world wide economic growth will be adding substantially to the total demand for oil. A significant amount of the increased demand will be satisfied from the Persian Gulf region and other geographic regions subject to political and religious turmoil. The fact that oil prices are relatively low at this time adds to the potential negative impact that a future oil disruption would have on our economy because we are becoming more dependent on petroleum as an energy source. The Strategic Petroleum Reserve is as justified in 1995 as it was in 1975.

THURSDAY, JANUARY 19, 1995.

U.S. DEPARTMENT OF AGRICULTURE, FOREST SERVICE**WITNESSES****JAMES R. LYONS, UNDER SECRETARY, USDA, NATURAL RESOURCES AND ENVIRONMENT****JACK WARD THOMAS, CHIEF, FOREST SERVICE****GRAY REYNOLDS, DEPUTY CHIEF, NATIONAL FOREST SYSTEM, FOREST SERVICE****JERRY A. SESCO, DEPUTY CHIEF, RESEARCH, FOREST SERVICE****JOAN COMANOR, DEPUTY CHIEF, STATE AND PRIVATE FORESTRY, FOREST SERVICE****CLYDE THOMPSON, ACTING DEPUTY CHIEF, ADMINISTRATION, FOREST SERVICE****MARK A. REIMERS, DEPUTY CHIEF, PROGRAMS AND LEGISLATION, FOREST SERVICE****STEVEN E. SATTERFIELD, DIRECTOR, PROGRAM DEVELOPMENT AND BUDGET STAFF, FOREST SERVICE****APPROPRIATIONS HEARING**

Mr. REGULA. I want to call the committee to order and welcome our witnesses today. Your statement will be made a part of the record.

What I have suggested to others is that we hope, as we work together, to try to meet the challenges of fiscal policy, to take somewhat of a zero-based budgeting look at your department and see how we can do the job and still do it at less cost and serve the people of this Nation well.

With that, we welcome your testimony.

Mr. LYONS. Actually I am going to testify, Mr. Chairman, if that is all right with you.

Mr. REGULA. That is fine.

Mr. LYONS. I want to thank you for the opportunity to appear before the subcommittee today. I want to congratulate you on your new leadership position. We look forward to working with you.

Jack is also joined by the deputy chiefs from the Washington office who will assist us in answering any questions you have.

What I would like to briefly do, if I could, departing from the summary remarks you have, is talk a little bit about what we have tried to do in the Department of Agriculture to effect changes in the size of the department, to reduce the size of government, and also of course focus in particular on the Forest Service and the kinds of changes we are proposing to make in our structure and our culture and the ways we do business. Of course, we would be happy to answer any questions that you have.

I would point out that under the leadership of now former Secretary Espy, the Department of Agriculture got out in front on efforts to restructure and reduce the size of government, in this case the Department of Agriculture. Two weeks before the November 8th election, which sent a very clear message about government, President Clinton signed into law a bill that eliminated one-third of the agencies in the Department of Agriculture, one-third of the agencies with the stroke of a pen.

Mr. REGULA. Does that reduce the budget by that amount?

Mr. LYONS. Unfortunately not. Not yet. But there are savings that I can talk about.

Again, in early December when we announced the proposed closure of 1,200 field offices in the Department of Agriculture, toward a goal simplifying our field structure and improving service to our constituents.

Those changes will result in reduction of staffing of nearly 11,000 FTEs by 1999, and a projected savings of nearly \$3.6 billion in the same time period.

The Forest Service wasn't directly affected by the department's reorganization bill, but that doesn't mean we haven't taken seriously the message of trying to construct a leaner and more efficient agency. As a part of the President's National Performance Review, the Forest Service was designated as a reinvention laboratory, and we assembled a team of Forest Service employees from across the country to look at new approaches to doing business, hopefully to do business better.

That team, with extensive input from employees, from stakeholders, and from the public delivered a report to the Forest Service leadership in August which served as a blueprint for the report on reinvention that was announced and released in December.

The Forest Service has also gone through a number of changes, separate and apart from this reinvention exercise, that have resulted in streamlining and generating significant cost savings. What I would note at the outset is the Forest Service, which still manages 191 million acres of National Forest System lands, still works as a close partner with the State forestry agencies, still is the Nation's leading wildfire fighting organization, and still is the world leader in conservation research, has realized significant reductions in our budget over the past three years. In fact, we have realized about a 15 percent change or decline in real terms since fiscal year 1992.

In addition, we have cut nearly 4,000 permanent positions in our work force during the same time period and we are slated to cut another 3,000 positions by 1999. As we reduce the size of our work force, we have tried to be smart about how we do it. Our overall goal is to reduce supervisory staff and administrative overhead so we can keep as many resources as possible on the ground.

In addition, we have tried to maintain the diversity of our work force, not only from a standpoint of ethnicity but also in terms of the knowledge and skills we are going to need to do the job that we have ahead of us.

For this reason we are trying to be more strategic than simply taking a meat cleaver approach. We have made judicious use of buyouts, the authority that Congress granted us last year. Nearly 3,000 employees availed themselves of buyouts. The savings to the taxpayer of this method of reducing the work force was about \$37 million last year.

In addition, obviously this approach helped us with morale and helped us deal with the diversity goals I just mentioned.

We intend to be strategic about future reductions as well. Jack has a team looking at efforts to reduce the size of the Washington office, as a minimum goal, reducing the size by about 25 percent.

We are also looking at changes in the regional offices. In fact, some regions are ahead of us in that. As an example, the Ogden, Utah office has produced its own plan to reduce to about 80 people over the next three years. Some of those will go into the field, but others will be eliminated.

Back to the reinvention effort, I hope you have previously received a copy of a report we did on reinvention. If you haven't, here is a copy. It was released in December. The overriding objectives are to move resource, people, money and equipment to the field and to continue providing and improving quality service at a lower cost.

Not only are we proposing changes in the staffing of the Forest Service, but also we want to reinvent the agency structure and how we function. As you know, currently we have nine regions, and part of our proposal is to reduce the number of regional offices from nine to seven by moving the administrative functions for what are now Region 1 in Missoula down to Denver, and those currently in the Alaska region to Portland.

This is resulting in a structure that looks like this. Overall, we expect that this change in regional structure will result in about \$15 million in savings. I point out, though, that we can't make these changes without congressional concurrence. Annually the Interior Appropriations bill includes a prohibition against changes in regional boundaries, as well as office closures. We will be sending you a more detailed proposal in March.

REINVENTION

Mr. REGULA. This is not a statutory problem, rather it is an appropriations limitation that presently inhibits you; is that correct?

Mr. LYONS. That is correct. And we will send you a more detailed proposal in March and work with you on that issue.

Our reinvention efforts, though, go well beyond office closures and staff reductions and changes in regional boundaries. We want to propose wholesale changes in how we do business. One measure of efficiency we propose is to reduce overhead and redundant administrative functions by combining staffs between the Forest Service and the National Conservation Service, formerly the Soil Conservation Service.

We are working on a plan to do this at the Washington level and at the regional level. We propose that the National Service be collocated with Forest Service resources so they can share technology and save us some overhead.

This effort is to reduce overhead and administrative costs. It would not combine policy functions or confuse lines of authority. Each agency would continue to carry out its own mission as it has in the past. The Natural Resources Conservation Service is providing service on a voluntary basis to private landowners.

In addition, the plan calls for measures to change the roles of our regional offices. These offices, instead of being led by a single regional forester would be led by teams with representatives from the national forests and State functions. In addition, we hope to have gotten more efficient business practices and promote competition between offices and regions as a means of getting the best service at the least cost.

With the changes we have already made, and those we have proposed, they can result in significant savings. We also realize we need to do better to improve efficiencies and cut costs. The President has directed the Vice President to lead a second phase in the National Performance Review which will involve a fundamental rethinking in what government should do. As part of this effort, we are reviewing every program and asking questions like, are we performing as best as we can, if someone might do it better, or if this program or area of focus represents one we should no longer be involved in.

As Jack reminds me, oftentimes we talk about doing more for less, but we are rapidly getting to the point where we are going to have to do less with less.

We believe the proposals I have talked about are prepared to tackle the tough questions you are going to have to deal with and we are going to have to work on with you. But we will be looking for other ways to eliminate inefficiencies as well. Soon we will initiate a review of regulations. We are also looking at our statutory directions to identify inconsistencies and conflicts in the directions we receive from the Congress. We will as always work with you as we go through this process.

We are working daily with our sister agencies, the Department of Interior, and Commerce, to identify ways to work together and to focus on cooperation rather than confrontation, which was the mark of past efforts. I think we have made great strides in this area, although I will admit it requires steady and concerted and constant effort.

In closing, Mr. Chairman, I would like to simply say that I signed on with the Clinton administration because I believed in conservation and stewardship of the nation's natural resource. Government does have a role to play, but a role in partnership with other agencies, with communities, with tribal nations, with land users, and with landowners. What is unique about the national forest is that every taxpayer owns these lands. The U.S. Forest Service is uniquely qualified to guide their management.

We have been entrusted to be the stewards of these lands and we take that as a very serious directive. But we are anxious to get on with the job and to do it as efficiently and effectively as we might. Certainly we look forward to working with you, Mr. Chairman, in partnership, and other members of this subcommittee to do the best we can in fulfilling this important role. Thank you.

[The information follows:]

STATEMENT OF
JAMES R. LYONS
UNDER SECRETARY
NATURAL RESOURCES AND ENVIRONMENT
UNITED STATES DEPARTMENT OF AGRICULTURE

Before the
House Committee on Appropriations
Subcommittee on Interior and Related Agencies

January 19, 1995

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to appear before this Subcommittee to discuss the FY 1995 Budget and actions to streamline the Forest Service.

I fully share the concerns of the Administration, the Congress, and the public with regard to the size of the Federal deficit. The Forest Service understands its responsibilities for budget reduction and the need to operate as efficiently as possible as part of the deficit reduction effort.

The Forest Service manages the 191 million acre National Forest System for many purposes; carries out a comprehensive forest research program; provides cooperative assistance to States, communities, and private forest landowners; and conducts international forestry activities in cooperation with other countries.

I know the Subcommittee is aware of the downward trend in the Forest Service budget and personnel over the past few years. This downward trend becomes more significant when the real purchasing power of the budget is considered.

The Administration has taken a number of actions to streamline Federal Departments and Agencies. The Forest Service has been very much involved in these efforts. On December 6, 1994, the Forest Service published and disseminated a comprehensive report to "reinvent" the Forest Service, Reinvention of the Forest Service: The Changes Begin. The over-riding objectives are to move resources -- people, money, and equipment -- to the field, and to continue providing and improving quality service at lower cost.

This report includes aggressive proposals for changing the Agency's organizational structure and business processes to enable it to better function in an era of decreasing budgets. These changes include:

- o Reducing the number of regional offices from 9 to 7;
- o Reducing the number of research stations from 8 to 7;
- o Co-locating National Forest System, Research, and State and Private Forestry administrative activities to better integrate all activities;

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- o Aligning regional boundaries for all programs along broad ecosystem boundaries;
- o Emphasizing management primarily by teams;
- o Reducing headquarters and consolidating administrative functions;
- o Reengineering administrative processes;
- o Taking actions to foster effectiveness and efficiency.

We are moving forward with implementation. A team is working on restructuring and reducing the Washington Office and implementing the total reinvention plan. The details of our restructuring proposals will be transmitted to the Congress as soon as possible.

The Forest Service has already made significant reductions in personnel over the past year. The Voluntary Separation Incentive Act has been particularly useful in accomplishing this reduction without undue hardship on employees. Through December 1995, 2,617 employees have accepted "buyouts" under this Act. Since October 1, 1992, overall Agency streamlining actions have resulted in a reduction of over 4,000 permanent positions - 11 percent of the total Forest Service work force.

Further reductions in staffing are planned as part of reinvention. A proposed streamlining plan is currently being reviewed; at the present time we are planning to further reduce the Forest Service by another 3,000 permanent positions by 1999.

As we work with the Congress to implement these significant measures, we are mindful of the urgent need to look beyond these changes in current operations to examine the basic missions of the Forest Service under the second phase of the National Performance Review (REGO2). We view this as an historic opportunity to review the Federal role in providing conservation leadership for forest and natural resource management.

To date, the Agency has faced the budget situation by shifting dollars and people to address the highest priorities. There are many "high priorities." This is not to suggest that no Forest Service programs can be reduced or that additional savings are not possible. However, I hope we can proceed today with the understanding that there will be consequences to reductions.

That completes my testimony. I would be happy to answer your questions.

Mr. REGULA. Thank you. Mr. Dicks.

OPTION 9

Mr. DICKS. Thank you. I appreciate the Chairman yielding to me.

I want to welcome Jim and the Chief. Obviously, we are very pleased that Judge Dwyer has decided that Option 9 meets Federal laws, lifted his injunction, and I guess the most pressing question we have got out there for those of us who represent areas where there are lots of people who in the past have been dependent on Federal Forest Service timber is how long is it going to take us to get to the levels that are authorized under the President's plan.

The Secretary of Interior was here yesterday and confessed that, you know, he had made commitments that he had not been able to keep to the people of the Pacific Northwest in terms of timber harvest levels under Option 9. And I am just curious if you could tell us kind of where we are and when you think we will be at 1.1 billion board feet, and what the problems are. I think it is important for us to try to understand what the problem areas are.

Mr. THOMAS. Last year, when I testified before this committee, I think in response to a question from you, a similar question, I told you in 1994, we would be between 450 and 600 million. We have accomplished 436 million, slightly less.

Mr. DICKS. Is this just the Forest Service or is this the Forest Service and BLM?

Mr. THOMAS. This is strictly the Forest Service and Region 6.

Mr. DICKS. Of the 1.1 billion, that isn't just Forest Service, is it? That is Forest Service and BLM?

Mr. THOMAS. That includes the Forest Service and BLM. The Forest Service function portion of that is about, I believe, about a billion.

Mr. DICKS. Of the 1.1?

Mr. THOMAS. Nine hundred, approximately. I told you last year—

Mr. DICKS. Four hundred thirty-six is what you made last year.

Mr. THOMAS. That is right. And we promised 450 to 600. Of course, we had not anticipated being under full injunction. So that is pretty close.

In 1995, we anticipate we will do 624. And I had predicted to you last year it would be between 575 and 725. And then we anticipate that we should be on-line as promised between 700 and 850 by 1996.

We are on the schedule I gave you last year.

Mr. DICKS. But what has been the problem? Is it because you had to go back—do you have to—when a timber sale has been approved—supposedly Option 9 would allow certain timber sales to proceed. And is the problem that we have got to do timber sale preparation? Do we have to—are there other environmental hurdles that have to be looked at?

I am told now that we are doing consultation on each individual sale. I thought we did that when we got Option 9 through the courts.

Mr. THOMAS. Well, there are two aspects of this. One is that the pipelines were absolutely empty. For example, if we later talk about at some point funding for this year, they are funded to do

a billion board feet. They have got to do 624. That is so we can build the pipeline. It takes time to build that pipeline, and it is empty. That has been one of the problems.

The second of it is, yes, we do have to consult. However, if everything works as it should, on schedule and on time, then we should be able to make the targets that I gave you. But it does require consultation on each sale.

FOREST HEALTH

Mr. DICKS. Let me ask you this. Forest health, these numbers you have here are green sales, isn't that correct? We are not putting salvage in here, are we? These are—salvage would be on top of that?

Mr. THOMAS. That is correct.

Mr. DICKS. What do you think you can do on salvage over the next two or three years? What are you looking at in Region 6?

Mr. THOMAS. In Region 6, in total? This is Gray Reynolds.

Mr. REYNOLDS. On the west side, we don't expect to come up with salvage at all. We have looked at salvage on the west side as a problem.

On the east side, we are expecting about 280 to 380 million coming out in fiscal year 1995.

Mr. DICKS. Two hundred eighty to 380?

Mr. REYNOLDS. Yes.

Mr. DICKS. Is there salvage you could do on the west side but we have got all these restrictions? Is that the reason we can't do it?

Mr. REYNOLDS. The program that is laid out on the west side, we can pick up what—it is not a large amount of salvage on the west side. It is a green program on the west side.

On the east side is where the salvage is.

REINVENTING GOVERNMENT

Mr. DICKS. My other question, as part of the President's plan, one of the things we have been trying to do is watershed restoration, watershed analysis. Now, unfortunately, I mean, I appreciate reinventing government, but reinventing government normally means that you are downsizing. And you have fewer people to do the work.

Now, are we going to be able to get the watershed assessments done? Are we going to be able to do the watershed restoration projects that will put some people back to work throughout Region 6 at the current employment levels?

Or has the downsizing made it more difficult to get that part of the President's plan moving?

Mr. THOMAS. Downsizing has made it more difficult. But we believe in Region 6, for example, we have enough that we can hit the targets that we projected. It will be very, very tight. Last summer, to be frank, another one I didn't mention was the fire season that we had last summer, and we were—by the time we got to the end of that, we were—it was tight. And it is going to be worse when we downsize. But we are going to do our share.

In terms of watershed analysis, we completed 23 of them.

Mr. DICKS. Twenty-three watersheds?

Mr. THOMAS. Yes, in Washington, Oregon, and northern California. We anticipate in 1995, doing 231 watersheds covering about 4 million acres. And by 1996, 2.5 million acres; 1997, 2.2 million acres; total of about 8.7 million acres of watershed analysis. That is our schedule. We think we can make it as projected.

Mr. DICKS. I appreciate your help. Just one final thing. We still hope that we can work out some reasonable restrictions so that we don't have to only do the work in these watersheds, on watershed restoration only a couple of months a year. So I hope we are still working to try to get that straightened out.

And I appreciate your help. I know this has been a very difficult time. We hope now that we can keep this momentum towards meeting the commitments. And I hope we can do as much as possible on the salvage issue, too. I think that is an opportunity. And frankly, I had hoped those numbers might be a little higher.

If you had more money, could you do more salvage? Then I am done.

Mr. THOMAS. I would like to get back to you on that. But I don't think at this point, odd as this may sound, that money is necessarily the problem. I think the problem is how many people that we have got available to do it. And this is going to max us out.

Mr. REGULA. We will come back to you.

Mr. DICKS. I have got to go up to Intelligence. I appreciate it.

Mr. REGULA. Mr. Taylor, who I might add is a registered forester and markets a lot of forest products, so he would be the acknowledged expert on this subcommittee. Mr. Taylor.

Mr. TAYLOR. None of them, Mr. Chairman, from the U.S. Forest Service. I would like to address—I have a few questions I would like to submit for the record, but I will try to get a few in.

Mr. REGULA. Without objection.

REINVENTING FOREST SERVICE

Mr. TAYLOR. The ones that—the reinventing government troubles me. In reinventing the Forest Service, I would hope that reinvention might have something to do with the original policy, the original purpose of the Forest Service, and not just political correctness. You mentioned the Vice President's interest in this. I read his book on the environment. The most I can say is I am sorry we cut down a tree for that.

But—and I am disturbed about Option 9. We have had conversation, Mr. Lyons, I have a great deal of respect for you, we have been in forests together and talked before. And the whole option wasn't put together with anything—about everything that you could think of about except silviculture was considered, as far as I could tell from questions we have had from various people in committee meetings.

I would like to ask the Chief, you know, I believe, what our problems are. I mean, they are not new. The endless appeals, the fact that we have people wearing bumper stickers saying trees have feelings, having as much input in policy as professional people who spend years studying managed silviculture. We have a hundred years of experimentation in our forest that tells us what to do. We have our best universities telling us what to do. Yet anyone who

comes in that happens to think they talked to a tree last week and it told them what to do has about as much impact on forestry.

Are you prepared to offer and work with us on legislation that would get this pipeline you are talking about filled and see that it stays full? And that means there is going to have to be a lot of changes in regulations and changes in the law. I would ask the Chief if he is willing, to just a philosophical sort of thought, and Mr. Lyons can jump in if he would like.

Mr. THOMAS. In a minute I am going to defer to the Secretary in the sense that if the Nation wants to change the law. I think there are things we can do under extant law. For example, we have essentially finished a new set of regulations on planning and appeals and such that should streamline things rather effectively.

In terms of the other, however, we have to comply with the law. And whether or not—however you categorize people that sue us, when they win, it has a rather chilling effect on having to change in order to come into compliance.

Now, certainly if one chooses to change the law, and the Congress does, of course, we would like to provide professional advice in that regard. But whether or not that is—

Mr. TAYLOR. There is going to be an effort to change the law. And as the chief of the Forest Service, representing an attitude toward forests, you are not chief of the environmental organization or anything like that, you are Chief of the Forest Service, we would want your input focused toward managed silviculture as the goal. How can we do this and carry out that particular plan?

Being mindful that you do have multiple obligations, the principal reason for having the Forest Service was to provide a reserve of fiber for the country and to manage it in the best science possible, using the best science possible. And I still think that is the goal. I don't think the people in this country understand that.

NATIONAL FOREST SYSTEM

Mr. THOMAS. Congressman, that would have to be—I respect your opinion. As somebody who has to manage the National Forest System, however, can I tell you that whatever the original purpose was, it is modified each time Congress passes a new act that impinges on the management of the national forests. And one of the things that is very clear is that we will respond to those acts, National Environmental Policy Act, Endangered Species Act, Clean Water Act, and a number of others.

Mr. TAYLOR. You can't disobey the law. I was just hoping we might have your help in trying to change it.

Mr. THOMAS. Could I make one suggestion? If you do look at law, when you do, I think it would be well taken, at least from the standpoint of public lands, if we look at the effect of those laws in concert, not one at a time and separately. We would not have much trouble obeying those laws if we only had to obey them one at a time and separately.

But obviously when they interact, it makes a more difficult playing board.

Mr. TAYLOR. There is some indication, Mr. Chairman, in the Senate that that is the way it is going. I would ask, the 191 million acres of land, 34 million acres of it I believe is wilderness. I see

someone nodding. It comes out of the book, and I think that is pretty close to right. If I put in a bill to transfer that over from the Forest Service to the Park Service, since you are not the wilderness agency, and the Park Service has the science and the knowledge to manage parks, would you have any objection to that?

Mr. THOMAS. Yes, sir, I would. We are the wilderness management agency in the country. We provide expertise to them. We have a longer experience. We have more people experienced with it, a longer track record in dealing with it. It sits in the midst of our national forest where we can coordinate our—we can use personnel across those boundaries. I think that would be a grave, grave mistake, both in terms of expertise and in terms of—

Mr. TAYLOR. Sounds like an excellent place to downsize. Plus it seems so confusing. You have wilderness rangers, now, do you not?

Mr. THOMAS. Yes.

Mr. TAYLOR. And those wilderness rangers go into the public school system and they teach that cutting trees is bad. And I usually don't say these things without backup, and I have the press reports that I will be glad to submit to you. And that seems like it is inconsistent with managed silviculture, to be teaching that cutting trees is a bad act.

And that is why there is sort of a schizophrenic management. That is why I am saying, the Park Service can take that point of view with a straight face. It is hard for me to envision the U.S. Forest Service teaching that cutting trees happens to be bad.

Mr. THOMAS. I have to put this in context. But I would not see it—it might be well that a wilderness ranger to say we don't cut trees in the wilderness, which we don't. That is not the purpose of wilderness. It is set aside for a different purpose by congressional act. But those wildernesses that we manage, we raise livestock, it depends on a particular wilderness. We hunt. It is the hunting grounds of big game.

Mr. TAYLOR. Some you can't hunt on, but some you can.

Mr. SKEEN. Can you have grazing on some of the wilderness?

Mr. THOMAS. All of our wilderness areas.

Mr. REGULA. Mr. Skeen just made a comment, and that is that the forests are intended to be a multipurpose lands, so there are a variety of competing uses. So I think it depends on where the trees are located. I don't know just in what context somebody might have said that, but it certainly would make a great deal of difference as to the location of the particular trees.

Mr. TAYLOR. If the gentleman will yield me time, I will introduce that down the road.

Mr. REGULA. The gentleman from New Mexico.

DOWNSIZING

Mr. SKEEN. I appreciate it, Mr. Chairman. I thank the gentleman.

Mr. Secretary, Mr. Chief, it is a pleasure to be back on this committee again and have a chance to visit with you.

In your mission of downsizing the personnel, the reductions that you have accomplished, you intimated that they came out of the central management office rather than the field offices. I gathered from what you were saying, tell me if I am right or wrong, that

you are emphasizing more the field work rather than the central office administration.

Mr. THOMAS. No, sir. This gets to be a tricky thing. We are going to downsize our administrative offices and functions more than anything else. But my best guess is, the numbers are not precise, but my best guess is that out of the first 4,000 in downsizing, about 3,200 came out of field operations, about 800 out of supervisory operations; of the next 3,000, although the reductions will be significantly more proportionately—

Mr. SKEEN [presiding]. Those by 1999?

Mr. THOMAS. Nineteen ninety-nine, still, out of those 3,000, I don't see how it can be less than 2,200 coming out of field operations. We are reducing overhead costs disproportionately. But the highest number will come out of field operation.

Mr. SKEEN. That concerns me, because I think the process should be the other way around.

Mr. THOMAS. We are missing the point. We are going to talk in percentage, we are going to take administrative offices down twice as much or more than we do the field. But still, in terms of numbers, we only have 2 percent of our work force in the Washington office. If we cut that in half, that still is 400 people. And the point in the regions—

Mr. SKEEN. I understand.

Mr. THOMAS. So where the percentages will be higher in Washington and in the regions, but the numbers of people coming out will be highest at the ground level, just because it is bigger.

Mr. SKEEN. I understand. You have taken a percentage—

Mr. THOMAS. Yes, sir.

Mr. SKEEN. Okay. I wanted to clarify that, because it has been my experience that when we start downsizing, we always downsize field operations more than we do the central administration. I think it all should be the reverse.

Mr. THOMAS. The reverse will be true.

TIMBER DEFICIT

Mr. SKEEN. Let me ask you about your \$2 billion annual deficit. What is that attributed to?

Mr. THOMAS. Would you define deficit for me, please?

Mr. SKEEN. It is my understanding that you operate a \$2 billion annual deficit. As high as \$2 billion, and the losses were the result of the policies awarded to the timber industry.

Mr. THOMAS. I don't know what you are talking about.

Mr. SKEEN. Have you ever run that kind of a deficit, overall operating deficit?

Mr. THOMAS. We are not supposed to make money on recreation, fire protection.

Mr. SKEEN. I understand that. I am talking about the timber.

Mr. THOMAS. In timber, our intake is far in excess of our outgo.

Mr. SKEEN. This came out of some statements we had by some of the folks in the so-called conservative think tank.

Mr. LYONS. We heard those, also.

Mr. SKEEN. This is not to say this is actual fact.

Mr. LYONS. I have to assume what they were referring to were overall timber sale program costs and perhaps operating costs for the agency as a whole. As Jack points out, our mission is expressly stated in the National Forest Management Act, as not to maximize revenue, but to achieve a whole host of other purposes. Nevertheless, we try to develop the most cost efficient program we can in terms of timber sales, and we try to reduce losses where we can.

Overall, the timber sale program does generate net revenue. That is not to say we couldn't increase the revenue. But it would require a significant shift in where we invest in sales. A lot more sales in the south, Mr. Taylor's area, and in the north in these certain areas, the lake States, might be more profitable. But we try to achieve other goals with silviculture, such as trying to improve wildlife habitat, et cetera.

Those sales don't always generate a revenue. So that affects our revenue picture.

Mr. SKEEN. The reason I offered the question is because you hear these statements made, and I want to give you a chance to respond.

Mr. TAYLOR. Will the gentleman yield just one moment? The thought of improving—from the forest standpoint is, we have—we need to cut. We have got all sorts of phoniness about old growth. We can't get salvage wood out when it dies. We aren't doing anything to improve the health in the Forest Service. I would be glad to submit something to you on that. Although it is badly needed, and you may not be aware, because you have a broad spectrum.

I yield back to the gentleman.

Mr. THOMAS. Congressman, for example, in 1991, our net revenues from timber were \$171 million and the total expenditure was \$685 million. You gave me a great opportunity to clear up a point.

Mr. SKEEN. It is your turn at bat.

Mr. THOMAS. We are the lead agency, for example, in fire fighting. We do not go around and give people bills for that.

Mr. SKEEN. I am aware that you don't.

Mr. THOMAS. We provide more big game hunting, over half of it in the United States, for which we charge nothing. We have more recreational use, days of use per year than the National Park Service.

None of that do we charge for, except for developed camp grounds. So by decision of the Congress and others, we have decided that we provide those services at no cost to the American people. So I think when somebody makes those statements, I think what that must be is, that is our total budget less revenue.

GRAZING

Mr. SKEEN. You also have permit grazing on the Forest Service.

Mr. THOMAS. Yes, sir.

Mr. SKEEN. Is this a plus or a minus?

Mr. THOMAS. We lose money in terms of the application of grazing.

Mr. SKEEN. On a fee basis?

Mr. THOMAS. On a fee basis, yes. I think there is a slight deficit involved in running that.

Mr. SKEEN. There has been some talk about the possibility of privatization of forest management. What is your response to that?

Mr. THOMAS. Well, I will give you two responses. One is as the Chief of the Forest Service.

Mr. SKEEN. One is no and one is hell, no?

Mr. THOMAS. You got it. Let me give you the hell, no first. I was born and raised in Texas. I don't think—

Mr. SKEEN. I notice that ring on your finger there. It looks a little familiar to me. What year?

Mr. THOMAS. 1957.

Mr. SKEEN. 1948.

Mr. THOMAS. By God.

Mr. SKEEN. We are on suspension again.

Mr. THOMAS. The point that I did raise there, I did all my hunting and fishing and trapping and riding when I was a kid, by either asking permission or sneaking. When I was 34 years old and went to work for the Forest Service and walked on national forest land for the first time in my life in West Virginia, I thought, my God, what an incredible heritage for the American people. And so I have a personal dedication to that heritage and to maintain it for my kids and my kids' kids and so on. That is a personal opinion.

The other is that I think, given the constraints in which we operate and the directions in which we operate, I think we do a good job. And we can do better, and we are striving to do that. But sometimes, you know, we have to obey all the laws, we have to try to react to congressional direction, but sometimes if it is not totally confusing, sometimes it is a bit contradictory. But all in all, I think this has been a heritage and a thing that belongs to the American people. It should be defended.

Mr. SKEEN. Let me ask you one other question in connection with grazing. Why don't they allow grazing of sheep in the forest anymore?

Mr. THOMAS. We have sheep permits.

Mr. SKEEN. Since when?

Mr. THOMAS. As long as I have worked.

Mr. SKEEN. Not in our part of the country.

Mr. THOMAS. Where I worked—

Mr. SKEEN. The reason I ask you the question is, during my periods in the State legislature, we had the National Forest Service and State Forest Service coming to us, talking about putting delinquent youngsters out in the forest to cut underbrush. The best underbrush clearers were sheep and goats.

Mr. THOMAS. I wouldn't argue. I don't know the details in New Mexico, but we use sheep grazing and do use goats to reduce brush, and are doing it today.

COMBINED MANAGEMENT PRACTICES

Mr. SKEEN. One last shot here and I will quit. Also, the proposal is to combine management practices with the Department of Interior. There are two separate philosophies in the operation of land management. One is drastically different from the other, to some degree, between the Forest Service and Interior.

Is there any attempt to combine those and make the policies more coincidental with one another?

Mr. THOMAS. Yes, we have been working diligently for the last several years, particularly within the last two years, to get considerably more synchronization between particularly BLM lands and Forest Service lands. We are jointly considering regulations. We have developed the President's plan on the Northwest together. We are working together in the Columbia basin on those assessments. They are looking at our regulations, and we at theirs, trying to make them as compatible as possible.

We are cross-reviewing their regulations pursuant to law. There is a considerable amount of effort going on there. There has been a big stimulus for that over the last year in terms of necessity. It also turns out that the Director of Bureau of Land Management is an ex-Forest Service employee and a very close personal friend.

Mr. SKEEN. You are infiltrating them?

Mr. THOMAS. He says it is the other way around.

Mr. SKEEN. Thank you very much.

Thank you, Mr. Chairman.

Mr. REGULA [presiding]. Thank you. Before we go on, I would like to introduce my guests over here. They are with the Congressional Youth Leadership Council. I said to them out in the other room, I said, maybe some day when they build a new house, it will use products that came out of the national forests. I would hope with the good silviculture, there would be a lot for us.

Mr. TAYLOR. We have Mr. Sharkey from North Carolina.

Mr. REGULA. I would urge the subcommittee members, any time you have a guest, particularly the young people, bring them down for the hearings. It has been great to have them observe their government in action, and perhaps some of them will be inspired some day to run for office. I am sure that is a great program you are involved in. We have 350 young people from all over the United States that are participating in this youth leadership program. Thank you for coming.

Mr. SKEEN. Mr. Chairman, as interested as we are in resources, here is our best resource.

Mr. REGULA. That is true. On that great note, you probably want to leave.

Mr. SKEEN. Is that a demand—yes, I do have to leave.

CONGRESSIONAL DIRECTIVES

Mr. REGULA. I want to follow up on a statement you made, Mr. Skeen. The congressional directives are confusing. Would you amplify that a little bit?

Mr. THOMAS. The point being, we are multiple use. It is always a little confusing. But conversely we would come in, and I suppose the confusion is how do we allocate scarce resources.

For example, we come in, and I suspect before the end of this hearing we will be asked why our timber program is not higher in the south than in the Northwest. On the other hand, we also have to take care of our recreation concerns, the wilderness concerns, et cetera. So the point of it is that the budget sometimes doesn't fit the direction and law, particularly as interpreted by the courts.

Mr. LYONS. Mr. Chairman, I will take a little different tack on that, because I worked for seven years on the House Agriculture staff for Chairman de la Garza. I am sure you gentlemen and la-

dies know, it comes as no surprise that the committee has worked long and hard to make sure we don't have our bills going into the jurisdiction of other committees. And one of the unfortunate parts of having committees with jurisdiction over lands coming from different directions is often times those laws just don't fit together.

And it has been quite an education to go down to the department and be responsible for administering some of the laws that I was a part of creating. And they don't fit. They don't work well. And we have worked hard administratively to get the agencies to work together to try and address those inconsistencies. But there are other ways in which we just can't do that.

Mr. REGULA. Thank you. Mr. Bunn.

PRESIDENTS PLAN

Mr. BUNN. Chief, a little while ago you talked just briefly about the President's plan for the Northwest. I visited with some people from Oregon Economic Development who said they think as a result of the President's plan they now have nine different programs to help communities and displaced workers. I don't know how accurate that is. As they have got to go through all the different pieces of the puzzle, is there a realistic way that we can use block grants instead of having to run through a whole maze of programs to deal with the problems created by the timber crisis in the Northwest?

Mr. THOMAS. I don't know the answer, Congressman. I would be happy to staff that. But I do know that some of those programs are coming out of the Department of Labor. Some of them are internal to the Forest Service. Some of them through Interior. We are pretty proud of the part that we have, which is the smaller part. But I have got a copy of the forest—implementing the President's plan, if you haven't seen it.

Mr. BUNN. A follow-up, are you aware or can you think of or can you get back to us with information about particular problems that you see with using a block grant method to give the States more flexibility and allow them to incorporate these?

Mr. LYONS. Let me just make it clear, Mr. Bunn, that the way the community assistance programs are delivered under the President's plan, they are delivered in concert with State Community Economic Revitalization Teams, or SCERTs, and work closely with county officials. Actually, the delivery system pulls these pieces of different programs and agencies together to try to be as sufficient as possible.

I don't doubt there are nine different programs, but I know the delivery system is a lot simpler than having to go to nine different agencies. In fact there is just one place to go. We have tried, again, to work within the existing infrastructure to make sure we can get those services to communities as quickly as possible.

PRIVATIZATION AND MAXIMIZING EFFICIENCY

Mr. BUNN. As we begin hearing discussions of privatization and maximizing efficiency, one thing seems very clear to me from what I have seen, there is a vast difference between the way private or industrial lands are operated in the Northwest and the way Federal lands are treated. At least those lands are being managed for timber production.

What is needed to improve the health of Northwest Forests to actually operate at full efficiency?

Mr. THOMAS. The first thing we would have to decide is if we want to operate the national forests on the same basis that we operate commercial timberland on. And I think the answer is fairly clear, no, it would be modified, that we have—you know, for example, wilderness areas, we have other areas that would be treated differently for different purposes.

In fact, it is fairly clearly stated in the law that we would manage for full multiple use and not necessarily on the same economic basis. However, there are things that we can do, certainly in terms of forest health, that we would do whether we were on commercial timberland or on National Forest System land.

In some of those cases we have to work our way through it, the environmental impact statements, the consultations, and we have to get the funding. The trick for that is, particularly when you are looking at salvage operation, in some cases it is—we don't have much time. The trees don't stand there for very long. So we have to accelerate the systems under which we operate. They do not lend themselves to quick acceleration of being able to get those things through, approved, and underway very fast.

We are trying to work every way we can to be able to speed that up. But the other side of it is that at that point, if we were going to dramatically decrease our salvage and forest health operations, it would probably take some increase in budget to do that, because in many cases those would not necessarily be big money makers. Some would, some wouldn't.

Mr. BUNN. Thank you.

Mr. TAYLOR. Does the gentleman have time left?

Mr. REGULA. Go ahead.

Mr. TAYLOR. I would just say that there is some indication in your statement that the Nation, of course, wants multiple use, and that can't be had on managed lands for forest purposes. I would ask the gentleman to note that in our tree farm, we get a fee for hunting, fishing, horseback riding, and camping, in addition to licenses they have to pay, when they can hunt without paying a fee on forest lands. We have one of the major trails by our consent on the forest areas. Most of the things that have gone on in the forest go on on managed tree farms in many locations and people pay for it.

Mr. REGULA. Yes. I want to see the multiple use side.

Mr. THOMAS. I would agree with that. Every piece of forestland ought to be, if it has some useful aspect of it.

SILVICULTURE

Mr. TAYLOR. If it is managed in the best silvicultural basis, it does not necessarily mean people won't come and enjoy the other uses.

Mr. THOMAS. The best silvicultural base, I assume as a fellow forester you would assume there is all kinds of silviculture that accomplishes all kinds of purposes. What I am saying is we might practice silviculture that has some other attributes besides maximization of economic return.

Mr. REGULA. Mr. Skaggs.

GRAZING

Mr. SKAGGS. Thanks, Mr. Chairman. As a former Latin student, I want to congratulate everyone for getting back to our linguistic roots and talking about silviculture.

Picking up a little bit on some of your other comments about both grazing and recovery of costs in the forests and really looking ahead to our next round of hearings rather than trying to get into detail about this today, you said you are running a slight deficit on grazing, on Forest Service lands.

Both as to the grazing program and the timber sales program, if you could submit for the record your current methodology for making those calculations as to the service overall and as to, in particular, either timbering or grazing permits. By that I mean I would like you to lay out the cost and revenue components, the shares of central office and regional office and district office overhead, and how you go about doing those calculation. I think one of the things we are going to be touching on again this year is, is there room for change or reasonable improvement in the way we price and administer those programs.

And if you could also do us the favor, without turning this into a huge undertaking, of perhaps identifying the couple of most reasonable alternative approaches to this that your critics have tabled as, you know, what cost assumption that is they think you really ought to build in but that you don't think you should, and what the rationale is, so you can be informed about the several accounting approaches that tend to inform this debate.

Is that a doable proposition for you?

Mr. THOMAS. I think we have most of that already prepared.

Mr. SKAGGS. I assumed you do. I didn't want to——

Mr. THOMAS. I do want to assure you of one thing. Well-spoken educated people, no matter whether they were Romans or not, pronounce words the same way Texans do, because that is the way you are supposed to talk.

Mr. SKAGGS. More on that later.

Thank you.

[The information follows:]

GRAZING FEES

The Forest Service, in cooperation with the Bureau of Land Management, released a Final Environmental Impact Statement (FEIS) on December 23, 1994, which included a proposed new fee schedule which would set the fee at \$3.96/Animal Head Month to be phased in over a 3-year period.

Both USDA and DOI have proposed new draft grazing fees as part of the National Range Reform '94 effort. At this time neither department plans to implement new grazing fees from that effort. We will continue with the current formula to establish grazing fees for national forests, grasslands, and BLM public lands in the 16 Western States.

As a result, the Forest Service calculated the grazing fees for the 1995 season based on the current formula authorized by E.O. 12548. The 1995 fees for national forests and BLM are set at \$1.61 per month and \$1.89 per month for national grasslands. This is a decrease of 37 cents and 19 cents respectively from the 1994 grazing fees. The difference in fees for the national forests and national grasslands is due to a difference in historic base values. This \$1.61 fee applies to national forests in the 16 Western States and to national grasslands in California, Idaho, and Oregon. The \$1.89 fee applies to the National Grasslands in the 9 Great Plains States. The 1995 fee decrease for the national forests is a result of an increase in livestock production costs and a decrease in beef cattle prices.

The final Range Reform EIS has just been released. It has a preferred alternative for administration of rangelands. We want to simplify the permit process for ranchers, sustain rangeland ecosystems, improve the condition where monitoring has shown need, and bring both USDA and DOI regulations closer together for better administration of all public lands in the West.

BELOW-COST TIMBER SALE ISSUE

The Forest Service's recently completed study of the timber sale program resulted in a detailed review of optional policy approaches that could be used to address the below-cost timber sale issue. Because the study used an "interagency" approach which involved experts from several different Administration and Congressional agencies, the options presented span a wide range of possible policies that could be used to resolve the issue. All of the recent proposals by the Administration and the Congress are included as well as several new ideas. Within each option, there are varying approaches to the definition of below-cost timber sales (accounting approaches), to the criteria that would be used to judge the sales (e.g. the use of economic versus financial information), and to the way criteria would be applied (e.g. at the individual timber sale or program level). The study also documents the usefulness of various measures of financial and economic performance. The study results have been documented in a publication titled "Timber Program Issues: A Technical Examination of Policy Options" (USDA Forest Service, January, 1995), a copy which has been provided to the Committee under separate cover.

Mr. SKAGGS. Again, getting into this underlying question as well of the underlying uses of the lands you administer, what is the total acreage that the Forest Service has at this point? How many million acres?

Mr. THOMAS. One hundred ninety-one million.

TIMBER SALES

Mr. SKAGGS. And roughly speaking, of that 191 million acres, how many of those are you now able to make profitable timber sales from?

Mr. THOMAS. I don't know, but I will get it for you.

Mr. SKAGGS. Ball park order of magnitude? One hundred million? Fifty million?

Mr. REYNOLDS. It would be less than that. About 60 million, I would say.

Mr. SKAGGS. Then I would infer from that that roughly one-third of your holdings really lend themselves to the kind of traditional management for timbering as its primary objective.

Mr. THOMAS. Well, I would like to make sure my number is correct. That is the basis on which we could practice forestry.

Mr. SKAGGS. And the balance of your holdings then are primarily managed for other public purposes?

Mr. THOMAS. You have to remember a large part of our holdings are at a very high elevation, what is referred to as rocks and ice. Then we have a rather considerable amount of our holdings that don't grow trees.

Mr. SKAGGS. I am not quarreling. I just wanted to get a sense of what the proportions were and what we should infer from that.

Mr. TAYLOR. Will the gentleman yield?

Mr. REGULA. We will get back to you.

Mr. TAYLOR. I was just going to say in asking your question, it would be good, I think, to define profit in a way that would not carry all the costs of the Forest Service in every other way other than timbering. Look at the cost of preparing timber.

Mr. SKAGGS. That is why I asked my first question, so we could get their methodology on the record.

[The information follows:]

The Forest Service's Timber Sale Program Information Reporting System (TSPIRS) calculates timber sale profits and losses using generally accepted accounting principles—the same ones used by the private sector. Our recent publication "Timber Program Issues: A Technical Examination of Policy Options" (USDA Forest Service, January, 1995), includes a "Critical Review of TSPIRS" which details the good and bad points of the system. In addition, the publication takes a close look at other timber sales financial and economic performance measures and comments on their usefulness. This report has been sent to the Subcommittee under separate cover.

CONSTRUCTION AND LAND ACQUISITION

Mr. SKAGGS. Finally, one of the suggestions that has been put before the committee is that we impose a moratorium on any new construction or acquisition of lands. I am just wondering if you have some thoughts about what that would mean—a five-year moratorium was suggested—what that would mean as far as the operations of the Forest Service.

Mr. THOMAS. Our land acquisition—could I answer a question, the last question? In 1993, 47 national forests operated timber commodity components at levels where expenses exceeded revenue. That excludes forests with timber, less than a million board feet. These forests produced 28 percent of the entire timber harvest and it did not include any costs except those associated with the program. No national office, no regional office costs.

Mr. SKAGGS. So you weren't loading the deck?

Mr. TAYLOR. How about investigations or things that might happen?

Mr. THOMAS. I don't know.

Now, back to the other question, in terms of land acquisition—

Mr. SKAGGS. And construction.

Mr. THOMAS. And construction, let's separate those and answer them one at a time. Land acquisition, basically if you are familiar with it, we have defined boundaries by law of the National Forest System within those boundaries, depending on the forests, are more or less amounts of private land.

Some of those are very key components that—for example, some of them are inholdings within wilderness areas, where it would appear to be good business for willing buyers and willing sellers to complete those purchases. Those purchases take a long time to accomplish.

They are not done immediately, particularly if we make the purchase with land trades. And I think it will be perhaps unfortunate if we stopped any of these in process. I think we also need to note Will Roger's notion about land, "they ain't making no more of it." And certainly over the next five to 10 years, particularly those choice pieces of property that reside inside the National Forest System, will, I think, accelerate in price and value far more rapidly than inflation.

So I think if we do that, we—it would obviously have some benefits in terms of the short term. But I think in the longer term it might cost considerably more than it saves.

Now, in terms of—what was the other question?

Mr. SKAGGS. Construction.

Mr. THOMAS. Construction, I think—I would prefer that we not take the meat axe to it and say, no more construction. I think what we would want to do is very carefully consider what construction is being suggested and for what reason, and whether that is a money maker or a money loser.

In some cases, over a reasonable period of time, it makes really quite good sense to go ahead and construct something versus continue to do things, to rent for another 10 years. I think it would make a lot more sense to look at those things individually with a very careful eye and sharp pencil to find out if they made sense.

But one of the things that I am trying to deal with as an agency head is that arbitrary is okay, but arbitrary gets to be a no-brainer, and you begin to think, this is not the way a rational person would accept management. I would suspect we could make this work a whole lot better if we talked about how much money we had to spend, and then consulted with the Congress on what we thought was the most rational way to do that.

I think to go and say, don't do this and do this, is micromanagement that is apt to be considerably more costly than it is saving in the end.

VISITOR CENTERS

Mr. REGULA. To piggyback on that, do you think we have to construct any new visitor centers?

Mr. THOMAS. Visitor centers don't have to be money losers. They only lose money because of the fact that we choose not to charge fees. Some of those are—it depends on what we consider the value. A visitors center, for example, you are looking at Juneau, Alaska, I don't know how many tens of thousands of people are attracted to Juneau, to go there and see that. Then we need to consider, what is that value to that community? What is the value to that State? Is that a reasonable thing?

Mr. REGULA. You are saying it ought to be an economic decision?

Mr. THOMAS. I think nearly all of them are—all of them—

Mr. REGULA. Do you charge these visitors?

Mr. THOMAS. Some we do, and some we do not.

Mr. REGULA. Do you have authority to charge fees at any visitor centers?

Mr. THOMAS. Not across the board.

Mr. KOLBE. Only if it is authorized.

Mr. THOMAS. That is correct.

Mr. REGULA. Mr. Kolbe.

LOW YIELD TIMBER SALES

Mr. KOLBE. Thank you, Mr. Chairman.

Chief, welcome. I wanted to follow up with a couple of questions on the low yield timber sales. What is the—I don't know if you can give me a figure here. I am kind of groping here for some information. What are the losses now that you suffer on these timber sales? Can you give it to us on a per acre basis or magnitude of total loss? How do you measure that?

Mr. THOMAS. Numbers I gave you a while ago were total.

Mr. KOLBE. That was a total?

Mr. THOMAS. Revenue was—and this is what year? 1994. Our revenue was \$807 million and the cost was \$454 million. That is overall.

Mr. KOLBE. Overall? That is all timber sales?

Mr. THOMAS. Yes.

Mr. KOLBE. Where are the losers? Where are the losers here? Where are the ones that cost you more?

Mr. THOMAS. They are all over the country. Some places, it is more than other places. But basically most forests are a mixed bag. Some sales would take in more revenue than they cost. But I want to interject something here. There are several ways to keep up with this, and we can provide you with a very good report which was just developed within the last two weeks, over a year period. If I say so myself, it is an excellent piece of work. It examines all the ramifications of how we ought to account for timber sales and looks at the below cost timber issue.

For example, if we put in a timber sale in the Pacific Northwest, in a disease situation, we have several objectives. One is we want

to recover some wood products, we want to provide some wood to the mill, we want to make some jobs, and we want to reduce fire risk, and reduce the long term fire risk. And it costs me 100 units of money to put that sale up.

And I get back only 80 units in terms of dollars. But I reduced the fire risk to that community—

Mr. KOLBE. So how do you account for that?

Mr. THOMAS. There are mechanisms to do that.

Mr. KOLBE. Do you do that in the reporting? Is it included in those figures?

Mr. THOMAS. No, sir, it is not.

Mr. KOLBE. What is that trend there? You have got roughly twice the revenues as the costs there. What would it have been 20 years ago? Just order of magnitude. Were our revenues relative to cost much higher? Can you just give me some figure?

Mr. REYNOLDS. I was a forester 20 years ago working on sales, and my estimation is that a market value was much lower. Stumpage was very low.

Mr. KOLBE. Market value was lower 20 years ago?

Mr. REYNOLDS. Yes. So the income, what we were selling the timber for was much lower. A lot of the areas had not been roaded at all. In other words, we were making initial entry, particularly in the inter-mountain west, as an example, we were making the initial entry. So you had the cost of the roads. The considerations on clean water, clean air, National Environmental Policy Act, those were not there.

Mr. KOLBE. That would add to the cost, though.

Mr. REYNOLDS. Yes. As I remember, it was about 1957, 1956, in that period, the first year that the Forest Service didn't return more to the Treasury than they spent. And it was right in that early 1950s when we turned.

And since then—

Mr. KOLBE. But you are still returning more in the timber sales.

Mr. REYNOLDS. Yes. I mean overall for our whole program, we were returning more to the Federal Treasury—

Mr. KOLBE. The whole Forest Service.

Mr. REYNOLDS. That is right.

Mr. KOLBE. I guess what I am trying to get at is, are the costs going up more rapidly than the revenues going up, and if so, what is the reason for that? Is it because—do we account differently? Are we putting all the bureaucracy of this huge Washington office here into the timber sales?

Mr. LYONS. Let me answer from a technical standpoint, then I will let Jack answer it as he would. To some degree, this is *deja vu* all over again, as Yogi Berra said. We went through a long debate on low cost timber sales four or five years ago. As a result of that, the Forest Service began producing something called the Timber Sale Program Annual Report. We will provide the subcommittee with copies of last year's report. This provides a forest-by-forest basis, based on different methods and an assessment of the cost and revenues. You could use this information to design a sales program to meet your objectives, to increase revenue or reduce losses or whatever.

[The information follows:]

We are providing the Subcommittee, under separate cover, a copy of the latest National Summary, Timber Sale Program Annual Report, Fiscal Year 1993.

Mr. LYONS. We use this as information in designing the sales program. We don't use this as the sole criterion for determining where we will and will not offer sales. I think this will answer most of your questions.

Mr. KOLBE. I think it is a great myth, low cost timber sales. A retailer may sell something below cost because it brings him into the store and they end up using more resources. This is obviously different. But there are a lot of reasons that a particular thing might be at the low cost.

You cannot tell me on a tree-by-tree basis, because we don't patch overhead on a one acre by one acre based system. You do it on—

Mr. LYONS. I can in Ohio.

GRAZING LEASES

Mr. KOLBE. I just—well, I would like to pursue this, but my time is very limited, I just want to ask one other topic very quickly, on grazing leases. What percentage, what portion of your total acreage that is available for grazing leases goes unallocated? In other words, nobody takes the grazing allocation, allotment on that?

Mr. REYNOLDS. Not too much.

Mr. THOMAS. I don't know. I will get you the number.

Mr. REGULA. We will put it in the record.

Mr. THOMAS. I suspect it is well less than 10 percent.

Mr. REYNOLDS. Let me just say, you talked earlier about the sheep situation. We have a number of allotments that are not stopped today by sheep, but the problem is the whole economic situation with sheep and the herder situation.

Mr. KOLBE. That is okay. In southern Arizona we don't care about sheep.

Mr. REYNOLDS. But we do because we manage it.

[The information follows:]

Data submitted by Forest Service regions for the FY 1994 reporting period, indicates 774 vacant grazing allotments covering approximately 7.75 million acres. This is approximately 8 percent of the total NFS acreage in grazing allotments. Some of these allotments are not being grazed due to conflicts with other resource objectives or because they no longer offer an economically viable opportunity to permittees, particularly on vacant sheep allotments.

INCREASED OVERHEAD

Mr. THOMAS. I think I needed to respond to one of your original questions. One was that, does overhead increase? Yes, it does. National Environmental Policy Act, a number of things, require considerably more evaluation. That is indeed true. But on the other hand, the last couple of years, stumpage has increased rather dramatically, so it is a little harder to—

Mr. KOLBE. I am just curious about the trends.

Mr. THOMAS. We will provide this low cost timber sale study to you. For example, there is a method called net benefit which includes fire protection, a number of other things, multiple use aspects of timber sales. But the one I couldn't let pass was all that Washington office overhead. That was a good line, I liked it. The

Forest Service has less than 2 percent of its staff in Washington. I would like for to you compare that against anybody else's. We win, we are not on the high side.

Mr. KOLBE. It would be interesting to me to know whether or not we do apply all of that as overhead to the timber sales.

Mr. THOMAS. Okay.

GRAZING FEES

Mr. KOLBE. Just to finish on that grazing fee, radical idea, I don't want this misconstrued as an official endorsement of this, but what about the idea of auctioning off allotments and allowing John Q. Citizen, who wants to see no grazing, buy it at a higher price or the Nature Conservancy or something else?

Mr. REGULA. You are talking about the privilege of grazing, not the land itself?

Mr. KOLBE. The grazing rights, not the land. That is another issue. My problem is we hear all the time, it is unfair, they are too low, they are set too low, we are losing money on it. Okay, let the marketplace go to work on this thing and find out.

Mr. THOMAS. Like all these issues, there is nothing simple about it. The Supreme Court held and it is our stated official position that grazing is a privilege, not a right. But basically they transfer with the sale of that property.

Mr. KOLBE. Wait a minute. The court didn't rule that.

Mr. THOMAS. It ruled—

Mr. KOLBE. That is legislation.

Mr. THOMAS. That is not legislation, even. It is simply—

Mr. REGULA. Practice.

Mr. THOMAS. Practice.

Mr. KOLBE. It is not legislation.

Mr. THOMAS. If you want to know what the market price of something is, market it. But the present system that we use doesn't work that way, because it is set under a grazing fee that Congress has put forward.

Mr. KOLBE. I understand.

Mr. THOMAS. The way to get a market price on something is to market it.

Mr. KOLBE. What you would find, I think, I know I have exceeded my time, but what you find is some will go for much more than currently and some will go for less.

Mr. LYONS. I believe that falls in your court, now, Congressman. We look forward to discussing that.

Mr. THOMAS. I would agree. I believe we have some that would go for considerably more. We have got some that I am sure wouldn't go for much of anything.

Mr. KOLBE. Apparently 10 percent wouldn't go for anything at all anyhow.

Mr. REGULA. What percent of your 191 million acres is now under grazing permits?

Mr. REYNOLDS. Eighty-seven million acres.

Mr. LYONS. We have about half in terms of revenue generated.

Mr. THOMAS. Keep in mind that a lot of our forests in the west are mixed, openings, grasslands, trees—

Mr. REGULA. Can you do exchanges with States?

Mr. THOMAS. Yes, sir.

Mr. REGULA. So you have that authority?

Mr. THOMAS. Yes. We do it frequently. Land exchanges, yes, sir.

Mr. KOLBE. What about legislation for interstate exchanges? Is it possible? It is impossible without legislation.

Mr. LYONS. We need the authority each time.

Mr. REGULA. Mrs. Vucanovich.

FOREST SERVICE WILDFIRES

Mrs. VUCANOVICH. Thank you very much, Mr. Chairman. I have some questions that I am going to submit for the record, Chief Thomas, but I have one particular interest I would like to mention.

As I am sure you know, we have had six years of drought out in my State, and large areas of dead and dying trees, and the other accumulated fuels are in Nevada's forestland. Our 1994 wildfire season was the worst in history.

Our Lake Tahoe area has been hurt more than any other area. It has suffered years of insect infestation and many other things.

And so today I reintroduced a bill that I originally sponsored last fall, the Nevada Forest Protection Act. It does require the Forest Service and the Interior Department, working with State officials' to identify high fire risk in Federal forests and lands and to clear the forest fuels in those areas.

It also calls for a long-term fire prevention plan to be designed by the Forest Service and Interior so that this buildup doesn't continue unchecked.

The reason I mention it is that I am hoping that the Forest Service will continue to help us do this. I think we need to have a combined effort to do this. And we had support of groups that I had never expected to have support for it. And I just hope that this is something that you can respond to and that we can make this law.

Mr. THOMAS. I am sure, you know, we diverted \$1 million of additional funds last year to that particular area.

Mrs. VUCANOVICH. Yes.

WESTERN FOREST HEALTH

Mr. THOMAS. I would like to submit for the record, we have developed, under the Secretary's instruction and certainly our willing concurrence, what we call the Western Forest Health Initiative, where we began to move out rather aggressively on salvage and on forest health issues. This is the first year's program that we suggested, to be followed by some additional areas. We are going to move aggressively to try to put that into action.

But we will do the best we can. We don't have much money to go around, but we have tried to address that particular issue. We will try our best to keep it up.

Mr. LYONS. I will just mention, Mrs. Vucanovich, we are in complete agreement. We chartered an interagency task force within the last month, I believe, to focus particularly on issues related to fire policy, fuels buildup, and how we can work more closely.

Nothing could illustrate more the need for those investments than the fire season we had this year. And we have been well aware of the situation in the Tahoe area as well as into northern California. As Jack indicated, we have allocated additional re-

sources to deal specifically with that, especially because of the population buildup there and the high risk to property and people.

Mrs. VUCANOVICH. That makes it more complicated, to try and do that. But the need is just very, very strong there. And I think that if we all work together, we can certainly accomplish something like that. We have been fortunate that we have had snow and some changes this year, in the last month or so. But the need is still there.

Mr. THOMAS. This will not meet the need. For the Forest Service, we are increasing our fuels by 29 percent for 1994 and 1995. That is a pretty significant increase. But it is still not very much. Also, I think that the Sierra assessment that is going on will probably come out with some very definite recommendations on how—

Mrs. VUCANOVICH. We would like to help with legislation, if necessary.

Mr. LYONS. I would make one plea since this issue came up. We have had this discussion before. We had it last year with subcommittee staff. That is, when you look at the fire program, don't only look at fire fighting, but look at the investments in fuels management, in thinning and salvage, which actually falls under our timber sale program.

The budget I guess last year did identify in essence an area that included all those accounts, because we want to ship investments as quickly as we can to the front side to treat fuels, to increase investments in harvesting dead and dying timber.

So we realize the economic benefit as opposed to having to pay the additional cost to fight the fires that result from a lack of investment up front.

Mrs. VUCANOVICH. You know the population there, and it is very difficult to get in, and you have to use helicopters and a lot of things. But fuel is a real concern. In any event, I am sure that you all are aware of our problem. I will submit some questions for the record.

Mr. THOMAS. I would make one point, it is probably not the subject of this hearing, but we probably ought to begin to look with Congress at the entire wildland fire fighting situation.

Mrs. VUCANOVICH. I think there is no question about that.

Mr. THOMAS. Last year was bad.

Mrs. VUCANOVICH. It was a terrible year.

Mr. THOMAS. Not only was it a terrible year, we lost 31 people. It is a dangerous business. But the point that I am making is, we have people that are building private homes out there, and now our policy is to protect those homes and communities first, resources second. Last summer, we were at the ragged edge. We were worn out, the equipment was getting worn out, the people were down.

We had four military battalions. We had every single air tanker available, we had every single helicopter that was available. We really need to think our way through a national wildland fire policy, whether we want to spend that money up front in terms of fuel control and management, to control burning, or whether we want to have summer after summer of what we just had.

Mrs. VUCANOVICH. I really think when you have people moving in who aren't used to the lands, they need an education on what

they do around their property and how they protect their own property, because it is a big expense.

I appreciate that, and I will submit questions for the record.

Mr. REGULA. Mr. Nethercutt.

SALVAGE SALES

Mr. NETHERCUTT. Mr. Thomas, I represent the eastern side of the State of Washington, 5th district. We have a number of timberlands in our north area. I am concerned about wildfires, salvage sales and the fact that timber seems to sit in the forest after it is burned.

What is the policy of the Department regarding allowing salvage sales to occur? I have been through Sherman Pass—perhaps you have too. It was devastated by fire years ago, and the timber sits there and rots in the forest. It seems to me that it makes sense to allow those sales to occur and get that timber out of there and have some good come out of it.

Do you agree?

Mr. THOMAS. I certainly agree. In many cases it makes good sense to salvage where we can and where we should. That is not a universal statement. All acres are not equal. All returns are not equal. All cost benefits are not equal. But in general, I agree with an aggressive salvage program and the movement toward addressing of forest health.

There is not universal agreement, however, among the people in the world that that is what we should do. And we are going—I did give people the forest health initiative, many of those projects are in your State, and we will move out aggressively on it this year, and we will be back with more.

But this will be—we have decided to move aggressively. This is not going to be easy. It is not going to be something which people universally approve. It is going to be contentious, and it is going to be difficult to do right. But I think that we should move ahead aggressively, and we intend to do that.

Mr. NETHERCUTT. Is the focus of the disagreement based on environmental concerns?

Mr. THOMAS. And compliance with the law.

Mr. REGULA. If you will yield, what percent of potential salvage do you think you save, or put to a good use?

Mr. THOMAS. Probably 10 percent.

Mr. REYNOLDS. It depends. I would say right now, with everything in place, the way we look at it today, we are getting 30 percent. But you could get higher if there were some changes.

Mr. REGULA. You need changes in the law to do this? What is the problem? Because it seems like—

Mr. THOMAS. We have several problems, and they are related. One is how many people do we have, how much money do we have to put into it.

Mr. REGULA. To prepare a sale, you mean?

Mr. THOMAS. And how quickly can we comply with the law. The salvage operations in particular are really tricky investments, because once you start the investment chain, if you can't pull it off, it is not like you come back five years later and try again. After two or three years, it has gone.

So we have to carefully select those where we can get them in at minimum cost, maximum benefit, and be able to weigh and measure that.

Mr. REGULA. Go ahead.

Mr. NETHERCUTT. Part of this process, it seems to me, is what you addressed a little earlier about the field process. The field process, in my judgment, seems to be the decision maker.

In other words, the field process can stop the sale because if you wait too long it really will be unsalvagable. What can we do to solve this field process problem? As I see it we need to allow all the necessary concerns to be voiced, while returning commercial viability to the area.

Mr. LYONS. As you probably know, Congressman, although you are new to the Congress, you know this is a long-standing problem, and the appeals issue came to a head, I guess it was the Congress before last, and a statutory direction or new appeals system was added to one of the Interior appropriations bills. We are optimistic that the streamlined approach will expedite salvage.

It doesn't help us necessarily on salvage sales if we get appeals. I don't know if it is going to allow us to move as quickly as we would like. But overall, we anticipate we can speed up the appeals process and deal with these issues.

What it really comes down to is a matter of trust. As Mrs. Vucanovich indicated, in an area like the Tahoe area, the communities come together and say, this is a real problem, we need to deal with this because of threats to property and lives.

In your part of the country, the working relationships that the regional forester has developed, I think, has helped us move in a certain direction, but as we have to address roadless area questions, and perhaps impacts on other resources, the trust level drops quickly and we have a difficult time moving forward.

TIMBER SALE APPEALS

Mr. NETHERCUTT. Am I correct in assuming that appeals can be lodged from essentially any part of country as opposed to the region in which the sale is intended, whether it is salvage sales or other sales?

Mr. THOMAS. Yes, sir.

Mr. NETHERCUTT. Do you see the possibility of a legislative solution that would limit the geographical area from which an appeal could be made? In other words, should somebody in Ohio be able to put a 32-cent stamp on a letter of appeal and mail it to stop a sale that is going to affect an awful lot of working people in my district and other districts? Do you see a legislative solution for this?

Mr. THOMAS. Check me out about—I think what I am going to say is right. This is one of the times I am not certain.

I think in the new appeals regulation, we have the criteria there that one has to have participated in the original planning in order to have standing to appeal. We think that is a better approach than doing it on a geographic basis, because in theory all American citizens own a piece of that.

Mr. NETHERCUTT. In theory, I guess. I worked for Ted Stevens and he would differ as to who owns Alaska. Anyway, I guess what

I am trying to do as I undertake this job is to try to work within reason. I am trying to make some sense out of a policy that says that you can frustrate a sale and then jobs are lost and forest health may be jeopardized. So I would hope we could have further conversation and maybe work together on this issue.

Mr. THOMAS. I would like that, because it is a fine line to tread. There are very clear instructions to us in the National Forest Management Act that these lands belong to the people of the United States, and we should consult with those people as to how we are to manage those lands, and they have some rights to question that.

I don't think we would want to give that up. Conversely, it is a frustrating process, and we need to discuss how we might be able to achieve both of those things.

Mr. NETHERCUTT. Thank you very much.

Thank you, Mr. Chairman.

CLEARCUTTING

Mr. REGULA. I have got a few questions here, and if you like, we can come back.

Clearcutting, I mentioned once I was over flying Norway in a helicopter, I was hanging out the window, figuring we would look at their forest practices. I noticed they did most of their clearcutting on a contour basis, and I talked to the forester, and he said they talked with landscape artists and tried to make it as appealing as possible so that—because they do have a major forestry industry.

Are you taking this approach at all? Because clearcutting normally generates a lot of animosity.

Mr. THOMAS. Yes. During all of our sales, we work with landscape architects. However, as a stated policy, it has been around three or four years now, we have announced we are moving away from clearcutting as our primary regeneration technique. That does not mean we would do—

Mr. REGULA. So you sell selectively from an area?

Mr. THOMAS. There is a whole array, from clearcutting to single tree selection, and there is a spectrum in between. I suspect most of ours are group selection or shelter wood cuts, somewhere along those spectrums, usually not single tree removal.

Mr. REGULA. So what you are trying to do is to make it less offensive visually in the process of harvesting?

Mr. THOMAS. Well, quick story, one time Senator Hatfield asked me, I asked you 10 years ago whether clearcutting was scientifically sound, and you said yes, and I am frustrated because now I asked you the question and you said no, and I said, the question changed in between. You pick your silvicultural system to fit the outcome that you want to achieve. And I think part of that achievement of that policy decision to move away from clear-cuts was largely associated with esthetics, yes, the way it looks.

CONCESSIONS

Mr. REGULA. Another question, we brought up with Secretary Babbitt the question of concessions, and I know you lease a lot of land to ski resorts out in Colorado. Do you get a market value return on those leased lands?

Mr. THOMAS. That is a matter of debate. Right now we are in our second year of a revised study with the General Accounting Office, and our Office of Inspector General and us to come up with a new set of fee schedules. So we are trying to—

Mr. REGULA. Are most of these contracts negotiable at this point, they are not long term, so you could raise the cost?

Mr. LYONS. They are long term by statute. We are in the process of converting to our own—all our ski permits to permits authorized by statute, and I guess they are 40-year permits now. So the old ones we have in place have not converted. The fee is set administratively, and currently we use the rate fee system. Our obligation under the law is to charge fair market value. And the study is intended to generate information on that.

MULTIPLE USE

Mr. REGULA. Your visitor days in the Forest Service are double that of the Park Service. It is something that most people are not aware of. It is perhaps a different type of usage. ORVs in some areas, fishing, camping, hunting, et cetera.

Do you feel you are adequately addressing the needs of the multiple use group in terms of campsites, safety, trail maintenance, et cetera?

Mr. THOMAS. No.

Mr. REGULA. Is there any practical way for you to collect fees, if you were allowed to do so, that could go back into providing those services?

Mr. THOMAS. Yes, sir. I think there are ways that that could be done. I think studies at our research division have indicated that people are willing to pay those fees, provided those fees go back to work on the same piece of ground that they pay the fee on. I think there are ways we can legitimately and efficiently collect fees.

Mr. REGULA. Are you constrained now by statute as to how much you can do in fee charging?

Mr. THOMAS. Yes.

Mr. REGULA. And do you have to return yours to the Treasury?

Mr. THOMAS. Yes.

Mr. REGULA. Similar to what the Park Service does? That would certainly put a chill on much effort to collect fees. It would seem much more logical to allow these fees to go back where they originate and might stimulate the efforts to collect fees.

Mr. THOMAS. For those of you—most of my life I have been a research biologist. And I don't know what I became as time went on. But I will, just for your personal reading, I will show you a paper I prepared in my research role some years ago looking at fee hunting and what it might generate in terms of revenue and competitive products.

Mr. REGULA. So your paper would indicate, it would be substantial?

Mr. THOMAS. Yes, sir. It could be very substantial.

Mr. REGULA. Mr. Taylor.

LAW ENFORCEMENT

Mr. TAYLOR. Chief, would you say if a crime occurs in the U.S. forest in North Carolina, for instance, it may be investigated by the

FBI, the U.S. Marshals, the DEA, the INS, the SBI, county sheriffs, State highway patrol, State drug task force. I could go on. The Forest Service has created its own law enforcement agency. Given the fact that there are about 50 in there competing with them, and times being hard, wouldn't that be a good place to cut and just eliminate that right at the top?

Mr. THOMAS. Yes, sir, if you could tell me how to get those people to come into our forest and do that work.

Mr. TAYLOR. We pay the sheriff's department now, most counties get a percentage, if it is a highway going through the forest, public road going through the forest, they are obligated to do that. And the FBI, if it is a serious crime, is obligated to come in on Federal land and investigate if there is a murder or a body shows up or whatever.

But we could, I think, maybe help you some if we needed to. Most States will allow the State to investigate a murder if the body is dumped in the forest.

Mr. THOMAS. We don't do much murder investigation. But we certainly do timber theft investigation, natural resource destruction, campground disruption.

Mr. TAYLOR. We pay the sheriffs' offices now for that. Maybe we need to talk more about putting effort into the local communities. But I think we could use existing State and local facilities. I mean, that is not an international crime that takes the CIA type person to solve.

Mr. REGULA. If you yield, I was in a national forest and the gangs have gone out from Los Angeles and established turf. They have enormous law enforcement problems, which normally your people are not equipped to deal with, but it is a reality, isn't it?

Mr. THOMAS. I think we need a law enforcement division. I see the point that you make. We do cooperate. In fact, we have a number of investigations now that involve other agencies, that we had requested help from.

We do contract some services from county sheriffs' departments, et cetera. But we have particular concerns of resource damage which counties don't much care about one way or the other.

ROADLESS AREA INVENTORIES IN GEORGIA

Mr. TAYLOR. We have a plethora of Federal agencies we can give it to. I won't pursue it anymore, but that is one of the areas I am going to be looking at. I just wanted to give you a heads up on it.

Public Law states, "Unless expressly authorized by Congress, the Department of Agriculture shall not conduct any further Statewide area reviews and evaluations of National Forest System lands in the State of Georgia for purposes of determining their suitability for inclusion in the National Wilderness Preservation System." However, on March 19, 1995, the deadline has been set for roadless area inventory, for roadless areas in that State, areas that have the potential of becoming wilderness.

Now, that seems to be a violation of the Forest Service, unless the law has changed or there is some other direct question there. I don't expect you to know that right offhand. But I appreciate you looking into that.

Mr. THOMAS. I will do that.

Mr. TAYLOR. That is an area I get in cards and letters. And I am not trying to get you——

Mr. THOMAS. I will be happy to get it for you.

Mr. TAYLOR. If you find out it has been violated, then without using the law enforcement agency of the Forest Service, you can come down on them with a hard hand, I would appreciate it.

[The information follows:]

ROADLESS AREA INVENTORIES IN GEORGIA

The Georgia Wilderness Act of 1984 (Public Law 98-514) under Section 5(b) (2) states:

". . . the Department of Agriculture shall not be required to review the wilderness option prior to the revisions of the plans, but shall review the wilderness option when plans are revised, which revisions will ordinarily occur on a ten-year cycle, or at least every fifteen years, unless prior to such time, the Secretary of Agriculture finds that conditions in a unit have significantly changed."

The Georgia Wilderness Act under Section 5(b) (5) further states:

"Unless expressly authorized by Congress, the Department of Agriculture shall not conduct any further statewide roadless area review and evaluation of National Forest System lands in the State of Georgia for the purpose of determining their suitability for inclusion in the National Wilderness Preservation System."

It is our understanding that concerns have emerged that Section 5(b) (5) is being interpreted to mean that this review of the wilderness option must be limited to the roadless areas identified in RARE II and cannot encompass any other lands, or at least that the Forest Service cannot institute an inventory to identify any additional roadless areas.

Senate Report 98-611 on the Georgia Wilderness Act of 1984 contains the following explanation under "No Further Statewide Wilderness Review":

"With regard to the possibility of the Forest Service undertaking future administrative reviews similar to RARE I and RARE II, since the National Forest Management Act of 1976 planning process is now in place, the Committee wishes to see the development of any future wilderness recommendations by the Forest Service take place only through that planning process, unless Congress expressly asks for additional evaluations through authorizing legislation. Therefore, the bill prohibits the Department of Agriculture from conducting any further statewide roadless area review and evaluation of National Forest System lands in Georgia for the purpose of determining their suitability for inclusion in the National Wilderness Preservation System. This provision does not prohibit the Forest Service from considering the wilderness option during a normal revision when the entire State is covered by a single plan."

The formal revision of the Chattahoochee-Oconee Forest Plan is scheduled to commence on January 1996. Public concern has been expressed over the length of time that will be needed to complete the revision of this and other forest plans. The 10/25/94 letter from Regional Forester Bob Joslin requiring the incorporation of roadless area information into the Chattahoochee-Oconee

Geographic Information System database by March 1995 was intended to ensure a rapid and orderly preparation of the information needed for the revision.

The Chattahoochee-Oconee National Forest is identifying and inventorying any unroaded areas that meet minimum criteria to be considered "roadless". This initial inventory of roadless areas on the Chattahoochee and Oconee National Forest is needed to develop a comprehensive database that can be used to "review the wilderness option" as part of the revision of the Chattahoochee-Oconee Forest Plan. This inventory will identify those lands that are clearly not roadless and will not be subject to any roadless area review and evaluation during the revision. It will also allow the mapping of potential roadless areas on the Forest in a geographic information system for evaluation during the revision. This inventory will merely produce a preliminary list and electronic maps of areas that need to be reviewed and evaluated during the revision of the Chattahoochee-Oconee Forest Plan.

As part of the revision of the Chattahoochee-Oconee Forest Plan, the Forest Supervisor will evaluate potential roadless areas as to their capability, availability, and need as additions to the National Wilderness Preservation System. This information will be used in formulating different recommendations within the alternatives considered for the revisions of the Chattahoochee-Oconee Forest Plan.

LEARNING ABOUT WILDERNESS

Mr. TAYLOR. We mentioned a moment ago about teaching about wilderness, and I have the article here. It came from the U.S. Forest Service, Public Affairs Office. It is from a newspaper. They talk about the wilderness ranger that came in. I wasn't there so I don't know what was said, but they interviewed the listeners, who heard a variety of things. One said that what was taught was what kind of food to take when you are hiking, like nuts, or thin food that is not heavy, that is not too hard to carry. I would like to get some of that thin food myself.

He went on to say, I am quoting from the article, "We learned what an impact is. It is a good or bad thing that happens, like a tree being cut down. That is a bad impact, because it is like destroying a forest."

Mr. REGULA. This is quoting the students?

Mr. TAYLOR. I am quoting the students, what they thought they learned from the lecture. I wasn't there, can't say, but, you know, several of them got the impression that cutting trees is awful.

"That wouldn't be good," he continues. "We probably wouldn't be able to live without trees, because they are air cleaners. We help them by putting out carbon dioxide and they breathe that," he went on.

What I am saying is there is nothing in here that would lead me to believe that they talked about anything concerning forestry. But cutting trees happens to be bad. Now maybe they were very specifically limited to wilderness areas. But they didn't get that idea. They came away with an impact that all across the country cutting trees is bad.

I am going to close with this statement. It is not a criticism. It may be the administration, because I think some of their thoughts are goofy in this area, but that is my subjective opinion.

What I am saying to you as a professional, and as the Nation relies on this, we know that there are folks that—a lot of what comes up here from so-called environmental organizations' is dishonest. It is not anything—it is an absolute lie.

I will be glad to furnish proof of that. A lot of it comes up here from folks that are about, you know, about a brick short of a load, frankly when you get down to looking at the science of it. Some of it is strictly metaphysical debate. One environmental organization, I have here, this just came out, it said, we have to stop thinking like humans. Learning such other ways of thinking is critical to understanding the world. They want us to think like plants.

Now, metaphysically I could get into that. I might, you know, enjoy that debate. But that kind of thing—

Mr. THOMAS. Not with me.

Mr. TAYLOR. I have encountered some folks that I felt thought like plants, trees and such. But what I am saying to you is, this is all very politically correct and wonderful around the world, most environmental organizations, people who join them have \$75,000 incomes and up.

But in Mr. Nethercutt's situation, when we start using that kind of rationale to run our resources, we wind up with tens of thousands of unemployed people, supposedly to protect an owl that we

find nesting in a K-mart site. I have been out and seen them. The spotted owl is no more obsolete out in the far west than many other things that are out there.

But without getting into that, what I am saying to you is, we, as an agency, I think you have got an obligation to stand up and say—and forget the political correctness, and say there is another side to this, that foresters in your organizations and around this country are the real environmentalists, because most of these folks have forgotten, if you don't build this table out of wood, and this chair out of wood, which is a renewable resource, you are going to wind up building out of plastic or metal, both of which are finite resources, and you do the environment a great deal of damage taking it out of the ground.

What I am saying, recycling and manufacturing, they are far more toxic. The people who are trying to manage wood, timber in this area, need to be congratulated for what they are doing, because they are in fact the real environmentalists. Folks that are putting this out are—they are folks who are putting this out.

And we need—the Forest Service needs to be saying that, because you are the ones that are professionally trained to do that, and we expect it, and rely on you. We talk about, for instance, in the fight on esthetics, and I agree with you 100 percent, that is what clearcutting is all about, and it shouldn't be a gospel, it is a tool in silviculture.

Do we stop planting corn because a denuded field looks bad? Do we live with an infected heart because we don't like the image of a scar when it is finished? We, your agency, has an obligation, I feel, to stand up and say, whoa, you know, this sounds good in this particular magazine, but here are the consequences we are going to pay when we attack an area like the Pacific Northwest with an Option 9, which is an absolute farce, and we can go into that in another question time, but we have sent the cost of housing for an average person up between \$7,000 and \$10,000.

And in January we had here in Washington, in the inside fold of the Post, was the model home built out of steel studs and other things, which ain't renewable, and are going to create a lot of problems. I know you are controlled by an administration that may have a different point of view. But the Forest Service, Mr. Lyons, and Chief, I think has that obligation to make that statement clearly, even if you have to salute and go ahead and carry out whatever is going on.

The people expect that from your professional side of the aisle.

Mr. REGULA. He said at the outset it was not a question.

Mr. TAYLOR. It is an admonition to you and your organization, because we rely on you. You are the professionals in this area. And we expect that kind of truth from you, even though it isn't heard or isn't obeyed. And we recognize that we here in Congress are the ones summoned for turning the ship the wrong direction.

Mr. REGULA. If you like, you can submit a statement for the record in response.

Mr. THOMAS. No, I want to make a statement now.

Mr. REGULA. All right.

Mr. THOMAS. This won't take long. One is that, one, I am not responsible for what people write in the environmental press, in the

industry press, or anybody else's press. I am responsible for what this agency does and what I say. The other is that news story, if you will give it to me, I will be happy to check it out, but I suspect from just your reading it out loud that the wilderness ranger went there and talked about wilderness, and perhaps that it would be a good idea when we talk about wilderness to talk about managed forest as well. But I will check it out. But I can't tell from that newsletter.

The other one of it is that I think my agency and I and others talk constantly about our capability of producing forest, and we can do a whole lot of things in terms of silviculture. For example, I think, this is my expression as a professional, I think one would be a damn fool to continue to have clearcutting when the American people are about to have a hemorrhage.

We can describe that to them every way we want to, but if there are other alternative means of silviculture that can produce timber at appropriate cost, and I just saw some research last night that indicated in Washington and elsewhere that we can practice that kind of silviculture without particularly increasing the price of wood much, I think that esthetics are a reasonable by-product of silviculture, and I think we would be foolish not to grab hold of that.

Mr. REGULA. Mr. Nethercutt.

CLEARCUTTING

Mr. TAYLOR. I agree with what you're saying is silviculture. I checked with the school. They never had somebody coming in talking about silviculture or harvesting. The question about clearcutting, you may have to stop, but you have an obligation, I think, to defend the necessity for it, even though you don't do it.

Mr. THOMAS. I will give you one quote and we will let this one go. We will have a professional arm wrestle one of these times. Somebody asked me, I think Wilderness Magazine, said, when did you decide that clearcutting was bad. I said, I never decided that. It is an appropriate silvicultural technique. It is right there in an interview. I said, it can be well used for a number of purposes, even beyond growing trees most effectively and efficiently. But it is only one of a number of approaches. I don't want to abandon that. But I think we would be foolish to keep shoving it at the same rate we were.

Mr. REGULA. Mr. Nethercutt.

ROAD HAUL PERMITS

Mr. NETHERCUTT. Thank you, Mr. Chairman. One or two quick questions, Mr. Thomas. I am informed, and I don't know if this is a policy question that is wider spread than just our area, but it is difficult and time consuming now to obtain permits to travel on Forest Service roads. What used to take a couple of weeks now takes months. That is the report I get. Can you verify that?

And if that is the case, is there a policy to delay the acquisition of travel on Forest Service roads, permits to travel?

Mr. THOMAS. I don't really understand the question. I am going to have to dig into it. I travel Forest Service roads all the time with

nobody's permission. I don't know whether you are talking about hauling or——

Mr. NETHERCUTT. Well, for any use, that a permit would be needed to go onto Forest Service roads.

Mr. THOMAS. The question is too general. I need more specifics. But I would be happy to respond.

Mr. REGULA. Are Forest Service roads, open to the public?

Mr. THOMAS. A number of our roads are open. A number are closed for environmental reasons or to keep them from being torn up during the rainy season or to protect wildlife. So some roads are open, some are closed. Some we call it put to bed, take them apart, and return them——

Mr. REGULA. But it is not for lack of performance?

Mr. THOMAS. That is why I say I don't quite understand. I think we may be discussing a haul permit of hauling timber or access to an inholding. I don't know. If you give me the specifics, I will be happy to respond.

[The information follows:]

HAUL PERMITS

The actual processing and issuing of road haul permits by the Forest Service does take longer now than it used to. Additional coordination with other Departments and Agencies must occur. First, a biological evaluation is necessary to determine if there is any effect on endangered species due to the haul on Forest Service administered roads. If endangered species are involved then we may have to go through consultation with U.S. Fish and Wildlife or National Marine Fisheries Service. This can take a considerable amount of time. Section 106 of the Historic Preservation Act (16 USC 470, P.L. 89-655) also requires consultation with the Advisory Council on Historic Preservation and that can also take additional time.

Coordination requirements are established by laws and regulations that are outside the purview of the Forest Service to change.

Mr. NETHERCUTT. That is all I have, Mr. Chairman. Thank you.

ENVIRONMENTAL EDUCATION

Mr. REGULA. We thank you, Chief. I have to say, there was one phase of my life where I was a teacher, kids do tend to get things distorted at times. I would hate to be responsible for how they interpret what I said in the classroom. Secondly, I would say also that a lot of teachers today are very environmentally aware. It has become almost a standard fare in the classroom.

Mr. TAYLOR. A little knowledge is a dangerous thing.

Mr. REGULA. I am not disputing that all the facts are out, but I suspect the teacher may have asked for a discussion of the wilderness dimension of the Forest Service, because if you talk to school children, you find that they are much more environmentally aware than certainly my generation was. I think it is part of our education attitude today.

Mr. TAYLOR. And I agree, Mr. Chairman. Like H.L. Mencken said, for every difficult question, there is a simple answer, and it is almost always wrong. That is what I am afraid of.

Mr. REGULA. Chief, we thank you very much for coming. The committee is adjourned.

[Questions and answers for the record follow:]

FY 1995 HOUSE HEARING
DEPARTMENT OF THE INTERIOR & RELATED AGENCIES SUBCOMMITTEE
(January 19, 1995)

ADDITIONAL QUESTIONS FROM CHAIRMAN RALPH REGULA

DOWNSIZING, STREAMLINING AND REINVENTION

As you know last week we heard some provocative testimony from a variety of think tanks of ways in which government spending under our jurisdiction could be reduced. While the suggestions were thought provoking, those of us who have been around for a few years would agree that making the changes is not as easy as proposing them. However, they did provide a starting point for discussion and today we want to continue that discussion by hearing your suggestions on downsizing, streamlining and generally reinventing government.

001. Question: As I asked Secretary Babbitt and O'Leary before you if you given a blank piece of paper and told to reinvent the Forest Service how would you recreate your agency?

Answer: A team of Forest Service employees spent the past year answering this question. We are anxious to reinvent the Forest Service, and our plan is described in the report "Reinvention of the Forest Service: The Changes Begin," dated December 6, 1994, and which has been delivered to the Subcommittee for information.

002. Question: What missions and or functions if any would you abolish?

Answer: On December 6, 1994, the Forest Service published and disseminated a comprehensive report to "reinvent" the Forest Service, "Reinvention of the Forest Service: The Changes Begin." The over-riding objectives are to move resources -- people, money, and equipment -- to the field, and to continue providing and improving quality service at lower cost.

The proposed changes of the Forest Service Reinvention Report includes reducing the number of Regional Offices from 9 to 7, and Research Stations from 8 to 7. A Forest Service presence in the affected cities will continue, but in a different capacity consistent with their new roles.

This report includes aggressive proposals for changing the Agency's organizational structure and business processes to enable it to better function in an era of decreasing budgets.

We are moving forward with implementation of these proposals. A team is working on restructuring and reducing the Washington Office and another on implementing the total reinvention plan. Until all of these proposals have been analyzed it is not possible to determine what missions or functions if any that the agency would abolish.

As we work with Congress to implement these significant measures, we are mindful of the urgent need to look beyond these changes in current operations to examine the basic missions of the Forest Service under the second phase of the National Performance Review.

003. Question: The Heritage Foundation proposed creating one single land management agency -- I would add Secretary Babbitt assured us he did not want the Forest Service. Citizens Against Government Waste proposed creating a new Department of Natural Resources. What is your reaction to these proposed consolidations?

Answer: As we work with the Congress in our reinvention effort and implement these significant measures, we are mindful of the urgent need to look beyond these changes in current operations to examine the basic missions of the Forest Service under the second phase of the National Performance Review (REGO2). We view this as an opportunity to review the Federal role in providing conservation leadership for forest and natural resource management.

As part of this effort, we are reviewing every program and asking questions like, are we performing as best as we can, if someone might do it better, or if this program or area of focus represents one we should no longer be involved in.

We are working daily with our sister agencies, the Department of Interior and Commerce, to identify ways to work together and to focus on cooperation rather than confrontation, which was the mark of past efforts. We think that we have made great strides in this area, although we admit it requires steady and concerted and constant effort.

We do not believe that creating a new Department of Natural Resources and the consolidations proposed by the Citizens Against Government Waste would be in the best interest of the agency or the general public.

USER FEES

004. Question: The Heritage Foundation advocated increased user fees, a concept I support. What can and is being done to increase user fees on Forest Service lands?

Answer: The Forest Service is in the process of implementing expanded Land and Water Conservation Fund (L&WCF) authority which enables the Forest Service to include more recreation sites, facilities, and areas in the fee system. This was authorized on August 10, 1993, when the President signed the Omnibus Budget Reconciliation Act of 1993, which included amendments to the Land & Water Conservation Fund Act.

We are also involved in a study of fair market value for ski areas. By law (the National Forest Ski Area Permit Act, Forest Service regulations, and OMB Circular A-25), ski areas must pay the Forest Service a permit fee based on fair market value. The Department has undertaken a study of the fair market value of the use of National Forest System land by ski areas and expects to have a new system in place by the 1996-97 ski season. The purpose of the study is to develop a permit fee system based on fair market value that is simpler and less costly to administer than the current system, that is predictable for ski area budgeting and planning, and that is applied consistently to all ski areas on National Forest System lands.

Under Forest Service regulations and OMB Circular A-25, we are to charge permit fees based on market value for other types of concessions as well. Forest Service outfitter and guide permit fees are three percent of gross revenue. We may in the future explore alternative systems which do not impose as much of an auditing burden as the current system.

Where there is a competitive interest, we have used a competitive process to establish fees for operating Forest Service-owned campgrounds.

005. Question: Both the Forest Service and BLM have many similar functions, timber, grazing, mineral extraction etc. What can and is being done to improve coordination of land management functions between these two agencies?

Answer: The Forest Service and BLM are cooperating whenever possible to reduce costs and coordinate management activities. Some examples include:

- o The President's Forest Plan developed to manage old growth forests in Oregon and Washington crossed jurisdictional boundaries and included all Federal Lands.
- o The Forest Service and BLM are presently developing more consistent grazing regulations to the extent agency statutes permit.
- o Both agencies are cooperating in the area of ecosystem assessments to eliminate the cost of collecting data twice and to ensure data is collected in a format compatible with agency needs.
- o In two locations in Oregon and Colorado the administration of Forest Service and BLM lands are now being handled by one office eliminating administrative and fixed costs.
- o Periodic formal coordination meetings are held at the executive level between the two agencies.
- o The Forest Service and BLM are working closely together in preparing the Columbia Basin Assessment.

006. Question: The Citizens for a sound Economy recommend privatizing the Forest Service to "end many of the obstacles to good management." Could you comment on this proposal?

Answer: The national forests are managed to provide sustainable benefits to the American people and to the world. We do this by protecting ecosystems, restoring deteriorated ecosystems, providing multiple benefits to people within the capabilities of those ecosystems, and by ensuring organizational effectiveness.

This is a complex and challenging mission that requires the agency to strive for a balance between environmental, social, and economic considerations. Few private-sector organizations have such a broad scope of responsibilities, and those that do often find themselves at the center of public debate in much the same way that the agency does.

Privatization of the national forests might be one way to improve the delivery of commodities such as timber or oil and gas, or the provision of services such as developed-site recreation. It would be less effective at protecting ecosystems and at providing the many benefits and values that people derive from national forests.

The Forest Service mission also includes conducting research on natural resource management issues, working with States and private forest land owners to improve the management of their lands, and providing scientific and technical assistance to the international forestry community. These programs provide benefits to society that would not be easily replicated by a privately-owned firm.

BELOW-COST TIMBER SALES

007. Question: We have heard a lot over the year's about so called below-cost timber sales. I have never advocated making a decision on timber sales based on the return to the government, but what can be done to reduce the cost of the timber sales program or can this be done without jeopardizing the environment?

Answer: A recently completed study of the Forest Service timber sale program identifies several options to reduce the costs. The report, titled "Timber Program Issues: A Technical Examination of Policy Options." This report has been sent to the Subcommittee for information under separate cover. The report looks at alternate approaches for managing the national forest timber sales program. Options include: phasing out below-cost timber commodity sales to make the overall program profitable; giving field personnel greater freedom to adjust procedures in response to differing local conditions; focusing on the treatment needs of a particular area rather than on the desire to produce a certain level of timber; considering how current pricing, bidding, and contracting procedures can be changed through contractor incentives; considering management service contracts to allow a single contractor to do an array of work; adopting a nominal schedule of charges for firewood sales; and using marginal economic analysis in examining road reconstruction needs, in identifying all aspects of road design, and in determining road maintenance requirements. The Forest Service is evaluating the economic, organizational and environmental implications of these and other options in the report to propose and implement appropriate policy recommendations later this year. It also should be noted that the recent increases in timber prices will move a number of below-cost forests into the above-cost category.

RECREATION BACKLOG

008. Question: Your construction budget is made up principally of lots of smaller projects. For years we have talked about the recreation backlog but as I look at many of your projects there are plenty of new starts. What progress are we making on the backlog and what would be the impact of rescinding your new starts and focusing all recreation construction on the maintenance backlog?

Answer: The Forest Service is very concerned about the number of new starts while our maintenance backlog increases. Our emphasis in recent years has been on reducing the backlog of maintenance on existing facilities, rather than new starts. In February, 1994, the Chief notified our regional foresters that there would be a 2 year moratorium on the development of all new visitor centers, information centers, and similar facilities on the national forests and grasslands which would exceed \$250,000 in total costs. The purpose of this decision was to orient priorities to existing facilities and programs and finish uncompleted projects within budget constraints. The Forest Service examines each request for new construction to determine economic feasibility, public service and scale of development.

A blanket rescission of all new starts would not be advisable. Some new starts are needed to address the increased visitor use of national forest resource facilities and can be justified because of visitation, economic benefits to dependent communities, and resource damage caused by lack of proper facilities.

Deferred maintenance and repair of recreation facilities is the accumulation of work due to a shortfall of resources in previous years. A 1991 GAO report noted that backlog has accumulated because of inadequate funding. The report showed that approximately 27 percent of national forest recreational facilities are over 40 years old and 51 percent are more than 20 years old. Normal life for most facilities is about 20 years.

The GAO report noted further that at the end of FY 1989, the agency had a deferred facility maintenance backlog of \$449 million. These estimates were based upon the cost to restore sites to established standards. The inventory of deferred maintenance and repair has grown to \$818 million dollars according to Forest Service field inventories in FY 1994.

ADDITIONAL QUESTIONS FROM BARBARA F. VUCANOVICH

GRAZING

It is my understanding that the Forest Service has purchased, over the past four to five years, tens of thousand of acres of privately held lands located within the Toiyabe National Forest (in Alpine County, California). To date, the grazing capacities associated with these lands have not been allocated to qualified permittees.

It is also my understanding that grazing in these newly acquired lands is critical for providing relief in other habitats that support endangered or threatened species, such as the Paiute Cutthroat Trout.

009. Question: On this basis can you tell me why grazing has not been allocated on the acquired public land over this extended period of time?

Answer: An initial forage allocation was proposed for some of the lands acquired by the Toiyabe National Forest, however the allocation decision was appealed. As a stipulation of consultation with the U.S. Fish and Wildlife Service, personnel on the Toiyabe National Forest are currently evaluating resource conditions on the grazing allotment which contains habitat for the Paiute Cutthroat Trout. Once the evaluation is completed, different management scenarios will be explored to mitigate any threats to continued survival of the species. These scenarios could include making alternative forage available from the acquired lands, however, an analysis consistent with provisions of the National Environmental Policy Act (NEPA) is required before any commitment of those resources can occur. The forest plans to do such NEPA analysis, but current efforts remain focused on areas with ongoing resource activities.

010. Question: Can you tell me whether the Forest Service has any legislative direction or policies that require your agency to work cooperatively with grazing permittees to ensure appropriate resource management while maintaining the economic viability of grazing allotments?

Answer: Yes, Section 402 (d) of the Federal Land Policy and Management Act (FLPMA), as modified by Section 8 of the Public Rangelands Improvement Act (PRIA), requires that if the Secretary concerned elects to develop an allotment management plan, he shall do so in careful and considered consultation, cooperation, and coordination with the lessees, permittees and land owners involved. The Forest Service currently requires such allotment planning and stresses the importance of permittee involvement, as well as involvement by other interested parties.

011. Question: What efforts does your agency make to safeguard the economic viability of grazing allotments for future use?

Answer: The agency does conduct economic analyses of individual rangeland projects, including allotment management planning, however, we do not get involved in personal financial matters of permittees. Permittees do have the latitude to apply for non-use for personal convenience which may be based on financial considerations. During allotment planning, any

management requirements that might pose a financial hardship to the permittee are revealed through the consultation process described above. In addition, the formula used to calculate grazing fees includes several financial parameters which are adjusted annually based on market conditions and other economic indicators.

FOREST CONSOLIDATIONS

012. Question: In these times of fiscal austerity, I know you are as concerned about cutting costs as I am. Looking at Nevada, as you know the supervisor of the Toiyabe National Forest has been also supervising the Humboldt National Forest. Is there any cost savings that can be associated with this de facto consolidation of the two forest supervisor positions into one?

Answer: There has been no 'formal' consolidation of the Humboldt and Toiyabe National Forests. The two forests are working administratively toward combining the two work forces to eliminate duplication and improve customer service and efficiency. This is needed due to shrinking budgets. The units can no longer afford to maintain two Supervisor's Offices and perform basic resource jobs in Nevada.

Due to the shared administration on both these units, we have been able to realize some significant reductions in overhead costs. The projected savings over the next two years are over \$277,000 for both forests. These projected savings are attributable to a reduction in upper-level managerial and staff positions. For example, in FY 1993 the Humboldt National Forest had six staff officer positions, grades 12 thru 13; five district ranger positions, grades 12 thru 13; and a forest supervisor, grade 14. Future plans are that there will be no staff officer positions on either forest. We have reduced the district ranger positions on the Humboldt National Forest from five to three. In addition, the potential elimination of the GS-14, forest supervisor position, is in compliance with Executive Order 12839, which requires a reduction in Federal Government positions at Grades 14 and above.

013. Question: In your view, has the management of either the Toiyabe or Humboldt National Forest been affected in any way, either positively or negatively, as a result of combining the supervisor positions?

Answer: The management of the Toiyabe and Humboldt National Forests has not been adversely affected as a result of combining the supervisor positions. It is allowing the two forests to provide quality customer service in our roles of stewards of the land, and service to the American public. The primary focus has been to shift resources from the funding of overhead positions and related costs, to funding necessary programs and positions at the lowest level in the organization. This is imperative in these times of lean budgets, so that we may become as effective and efficient as possible.

014. Question: In the long term, do you intend to eventually appoint another Supervisor or continue with the status quo?

Answer: At this time, the intent is to continue to function with the Forest Supervisor on the Toiyabe National Forest administering both forests. An Assistant Forest Supervisor has been appointed in Elko, Nevada. There will also be Assistant Forest Supervisor positions established at Ely, Nevada; Minden, Nevada; and Las Vegas, Nevada. These positions will be delegated specific authority for forest planning and implementation decisions for the geographical area to which they are assigned.

ECOSYSTEM MANAGEMENT

015. Question: The term 'ecosystem management' seems to be appearing more and more in the Administration's documents relating to public lands management. At this point, however, this term seems vague and undefined. Do you have any plans to inform Members of Congress and staff of exactly what the concept includes and how it is and will affect management of our public lands?

Answer: Ecosystem management is defined to mean, using an ecological approach to achieve the multiple-use management of National Forests and Grasslands by blending the needs of people and environmental values in such a way that National Forests and Grasslands represent diverse, healthy, productive, and sustainable ecosystems. We will be happy to meet with members of Congress at any time to help clarify Forest Service policy on ecosystem management. We are enclosing copies of a publication which outlines a national framework for incorporating ecosystem management principles and concepts into the Forest Service decision making process.

016. Question: Given the apparent importance of ecosystem management to the Administration, would you prefer that the concept be included in any reauthorization of the Endangered Species Act passed by Congress?

Answer: From a biological and efficiency standpoint, we need to look at entire ecosystems and across ecosystem and jurisdictional boundaries to determine management strategies that best blend the needs of people and the need to provide diverse, healthy, productive, and sustainable ecosystems. The Forest Service is actively implementing ecosystem management, so additional authority is not needed.

IDAHO LRMP LITIGATION PACIFIC RIVERS COUNCIL VS. THOMAS

I have recently been made aware of the January 12, 1995 court order in Idaho which enjoins the Forest Service from permitting new, ongoing, or announced timber sales, range activities, mining activities or road building projects in all national forests in Idaho. This sure sounds to me like the spotted owl battle moving one state to the east, with the Snake River salmon substituting for the owl. I would guess that literally thousands of jobs are at stake here.

017. Question: My understanding is that the judge's order provides for case-by-case consideration of stays. Of course, Justice Department and Forest Service agreement in any request for a stay will be critical in persuading the judge. May I have your assurance the Forest Service will respond as quickly as is possible to requests from affected parties for the information deemed necessary by the judge to receive a stay?

Answer: This litigation is still ongoing. The court has recently implemented a stay of its initial decision, effective through March 15, and we are currently evaluating the implications. We are committed to responding as quickly as possible to requests from affected parties and the information needs of the court.

018. Question: Will you assure us the staff and dollars in your budget will be reallocated in a manner that will ensure rapid response, or if that is not possible under the current appropriation that you will seek a reprogramming of funds?

Answer: We have recognized that funds may need to be redirected to respond to requests for information needed by the courts. We have not determined at this time that reprogramming of funds will be necessary.

ADDITIONAL QUESTIONS FROM SIDNEY R. YATES

BELOW-COST TIMBER SALES

019. Question: In recent years, this Committee has been very concerned about the issue of below-cost timber sales. We are aware that the Service has attempted to address this issue. Please provide the Committee with an update on what the Service is currently doing to reduce the amount of below-cost sales.

Answer: As you have stated, the pros and cons of below-cost timber sales have been the subject of substantial debate in both the Congress and the Administration. Solutions have been proposed in the form of Administration policy and legislation introduced in Congress. However, none have ever been formerly adopted. The issue is quite complex because human values and ecosystem management concepts have been considered in addressing the underlying questions about the overall worth of Federal timber sales to society. Costs and benefits of these sales can be measured on more than economic scales alone--social and environmental costs and benefits that cannot be expressed in monetary terms may also be considered.

The Forest Service recently completed a study of the timber sale program and how it fits into ecosystem management. The resulting report, titled "Timber Program Issues: A Technical Examination of Policy Options," discusses timber sale cost efficiency and the below-cost timber sale program issue in detail. Currently, the Forest Service is working hard to reduce timber sale costs through reductions in staff that correspond to recent reductions in the sale of timber. These reductions are beginning to have a positive effect on timber sale profits. However, there are economies of scale that come into play and make it difficult to realize substantial short-term savings. In addition, the recent increases in timber prices have had a positive effect on reducing the number of below-cost programs. We anticipate that the number of forests operating timber commodity program components at below-cost levels will substantially decline when the FY 1994 cost and revenue figures are final. While ecosystem management is adding some cost to timber sales, our current efforts to reorganize the agency should translate into cost savings and improved financial positions in the future. Additionally, sales are being evaluated early in the sale preparation process to eliminate some potential below-cost sales.

TIMBER THEFT

020. Question: Please tell the Committee what is being done to increase the effectiveness of the Service's law enforcement activities, specifically as it relates to the enormous problem of timber theft.

Answer: To increase the effectiveness of the law enforcement program in all resource areas and specifically timber theft, the Agency's law enforcement program has been reorganized into an independent reporting structure. This realignment assures investigative independence for all criminal investigators and avoids any appearance of interference by line managers especially in timber theft cases. The law enforcement program

also includes a special branch called the Timber Theft Investigations Branch, which concentrates its efforts on timber theft. This branch is currently being reviewed and reevaluated for modification based on the implementation of the independent reporting structure. In addition to investigating and prosecuting known timber thief cases, timber theft criminal investigators are providing advice and training to other agency criminal investigators on recognizing, investigating, and prosecuting timber theft cases.

021. Question: There has been some discussion recently that the Service's law enforcement division is unnecessary because other Federal and local law enforcement agencies are able to provide the same functions. I believe this line of reasoning is seriously flawed and would have a major impact on efforts to reduce the problem of timber theft. Can you tell the Committee of the negative ramifications of cutting the law enforcement account by 10 percent?

Answer: Other Federal and local law enforcement agencies do not have the authority to enforce the Secretary's prohibited acts, 36 CFR 261. These regulations form the basis for the protection of the public and their properties, as well as the protection of National Forest System resources. These agencies are involved in carrying out their own primary authorities and have neither the funding, staffing, or specialized training to deal with timber theft or other resource crimes. State and local agencies only have the authority to enforce state and local statutes on National Forest land. Cooperative agreements provide funding to perform only this function. These State agencies do not have the authority to enforce Federal regulations. This is a primary duty of Forest Service law enforcement personnel. The Forest Service has many memorandums of agreements with various Federal agencies. These federal agencies may only enforce federal law (not Secretary's prohibited acts, 36 CFR 261), when their specific jurisdiction provides authority to do so.

The identification and investigation of timber theft is a very specialized skill. Other Federal and local law enforcement agencies do not have the need for this skill since they would only deal with this criminal activity in rare instances. Accordingly, timber theft is not likely to be a priority with these other agencies. Forest Service investigators are trained specifically in investigating resource crimes and timber theft. Therefore having our own investigators is the most effective and efficient way of dealing with resource crimes; specifically timber theft.

The law enforcement program within the agency is currently reorganizing to become more effective by placement of law enforcement officers or special agents into areas where criminal activity has increased. To reduce this program by 10 percent would severely reduce the agency's ability to provide public safety for visitors, employees and the resources. It would mean fewer law enforcement officers in high visitor use areas to enforce the laws and provide public safety, or investigate criminal activities including timber theft. Many areas of the National Forest System would have no protection activities or investigation of criminal activities which would only encourage more criminal acts such as timber theft. Reduced funding would reduce the specialized training and purchase of specialized equipment for Forest Service law enforcement programs. It would also mean less funding available to reimburse cooperative agreements for the assistance of state and local law enforcement agencies.

SCALING METHODS

022. Question: Please inform the Committee if the Service is still using the scaling method in timber sales. If scaling continues, please explain why it is being done and what the Service is doing to eliminate the use of this unacceptable process.

Answer: The Forest Service is still using the scaling method in timber sales in accordance with the guidelines set in the FY 1995 appropriation bill. Scaling has continued on older existing contracts. On new sales the Forest Service direction is to use tree measurement except for certain thinning and salvage sales. These type of sales often have high incidence of defect and accurate volumes are very difficult to obtain by cruising. Scaling is a proven accurate measurement of volume and includes both the scaling and weighing of forest products. The problems in the past of having a third party contracted by industry have been changed on new sales by having the Forest Service contract directly with a scaling company. Scaling or weighing are methods that are cheaper than tree measurement in that a less statistically accurate cruise is needed. Moving to tree measurement does not eliminate the risks of having timber stolen from the government. It shifts the location of the problem from scaling sites to the woods where unmarked timber can be cut and removed without detection. Therefore the cost of sale administration in the woods increases to ensure that theft does not occur.

NEW ROADS IN ROADLESS AREAS

023. Question: I continue to be very concerned about new roads being constructed by the Service in areas that had been previously roadless. The environmental impacts of such construction can be devastating. This type of road construction is even more indefensible in times of tight fiscal constraint. Please tell the Committee if the Service continues to build new roads in roadless areas and if so, why?

Answer: Yes, we do have the need to enter roadless areas and are doing so in FY 1995. Entry is made only after an environmental analysis and public involvement process has been completed and is very limited. The primary reasons for entry into roadless areas are for salvage and disease control. If not properly treated these areas can spread insect and disease infestations to other public lands as well as adjoining private lands. Another reason is to salvage and replant areas denuded by fire, particularly as experienced after the 1994 fire season. All entry into roadless areas is thoroughly analyzed and other methods of management are considered before access.

ROAD OBLITERATION

024. Question: I am very interested in the Service's road obliteration efforts. Please tell the Committee what type of progress the Service has made in obliterating roads?

Answer: The Forest Service first requested authority to use road maintenance funds to obliterate roads in the FY 1991 Budget request. That authority was granted by Congress. Each succeeding year since then we have been authorized in the Appropriations Act to utilize up to \$5,000,000 of road maintenance funding for this purpose. The results of our activity using road maintenance and other funds are as follows:

<u>Fiscal Year</u>	<u>Miles obliterated</u>
FY 1991	4,975.7
FY 1992	12,947.6
FY 1993	2,132.6
FY 1994	<u>2,289.0</u>
TOTAL	22,344.9

These roads, comprising approximately 54,000 acres, have been restored to natural resource production. They also do not have to be maintained. We have authority to continue this program in FY 1995.

The program began in FY 1991 and was new to the Forest Service. During that time environmental analysis was required before the roads could be obliterated. Some roads were closed in FY 1991, but most of the roads and the approval through the EA process, took place in FY 1992, thus the large increase in number of miles obliterated over FY 1991. The level of activity in FY 1993 and 1994 is probably closer to the average that can be expected in the future.

TIMBER ROAD CONSTRUCTION - UNOBLIGATED FUNDS

025. Question: According to documents provided by the Service to the Committee, there is approximately \$50 million in unobligated funds in the Timber Road Construction account. What would be the ramifications if 10 percent of these funds were rescinded?

Answer: There was a balance of over \$50 million as of 12/31/94. That balance includes FY 1994 carryover of only \$4.6 million, a balance of FY 1995 appropriated funds of \$51.8 million, and emergency reprogramming of \$6.5 million.

The FY 1995 Conference Committee language stated; "With respect to the timber sales preparation program, the managers have agreed to an additional \$500,000 in 1995 over the level proposed by the House. The entire mix of the timber sales program for FY 1995 will be determined upon review by the Forest Service of the dollars provided in this account, as well as for road construction." The Forest Service was severely short of road dollars to match the appropriated timber preparation funding. Our analysis showed that we were short \$6.5 million and that amount was reprogrammed into timber road construction to balance the program. Reductions of these dollars would reduce the timber sale program and could result in reduction-in-force (RIF) action. Our analysis indicates the entire amount is necessary to provide survey and design, purchase rights-of-way's, and provide construction inspection on existing contracts. The greatest use of these funds will occur in the spring and summer of 1995.

COOK COUNTY

026. Question: I've heard that there are some problems with a project that is of great importance to me. Last year we included an add-on in the Interior appropriations bill for an ecosystem restoration project in Cook County, Illinois. Please give this Committee a complete progress report on the status of this important project, including a full explanation of why it is being delayed.

Answer: This two-year project encompasses three major tasks: (1) developing a long-range ecosystem plan for all forest preserve district holdings; (2) implementing landscape-scale ecological restoration in a demonstration project; and, (3) the creation of an urban jobs program in ecological restoration work.

Accomplishments in FY 1994 include:

- o A multi-disciplinary planning team from all district departments and members from partner agencies began working together to ensure that ecological management is an integral part of all of the district's plans for its holdings.
- o The ecosystem management plan for the Swallow Cliff Woods demonstration area is nearing completion.
- o A new volunteer restoration group dedicated to Swallow Cliff Woods was formed. A recruiting day was held in October 1994, attracting over one hundred new volunteers. A core group of about forty of these volunteers have worked weekly in restoring the site.
- o Crews of urban youth were assigned to do restoration work at Swallow Cliff Woods through the district's Youth Opportunity Corps. These youths receive training in ecosystem restoration work as well as environmental education while earning wages.
- o Individuals were recruited and hired to participate in work specified by this project. The professional positions represent new directions for the district. These include: the development of a Geographic Information System; multi-disciplinary management planning for District lands; training and education of the Youth Opportunity Corps workers; and, the implementation of a restoration crew.

Planned Activities in FY 1995 include:

- o Develop the ecosystem management plan for the district's holdings.
- o Launch an urban jobs program.
- o Develop and initiate a comprehensive schedule of education and outreach programs.
- o Triple the volunteer stewardship program.
- o Develop and initiate training of district staff in ecological restoration techniques.

- o Establish an ecological monitoring program at Swallow Cliff Woods.
- o Produce publications documenting the project's accomplishments and educating the public.
- o Greatly expand restoration work in the demonstration area.

Regarding concerns for continuing the project in FY 1995, our Northeastern Area office in Radnor, Pennsylvania is in receipt of the grant application from Cook County. The grant application should be approved in the coming weeks.

JOLIET ARSENAL

027. Question: As you are probably aware, Congress came very close last year to passing legislation to authorize the Midewin National Tallgrass Prairie in Joliet, Illinois. I am optimistic that the authorization will quickly be passed into law during this session. This committee provided funds during FY 1995 to develop a plan for preserving and managing the former Joliet Arsenal. Would you please tell the Committee the status of this planning process and let us know what the Service's next steps will be to protect this valuable site.

Answer: The Shawnee National Forest received \$350,000 this fiscal year "...to develop a plan for preserving and managing the former Joliet Arsenal property as a potential national grassland." The Forest is laying the groundwork for the environmental analysis and land management planning activities required by the National Environmental Planning Act and the National Forest Management Act should the proposal be enacted. These activities include continuing efforts to: inventory resources and facilities on the site; analyze recreation use opportunities; and coordinate and cooperate with the governmental and private entities involved in the proposal. In order to accomplish this, the Shawnee National Forest has dedicated one-full time position as project coordinator and has hired a recreation forester in a temporary 1-year position.

URBAN RESOURCES PARTNERSHIP PROGRAM

028. Question: I want to commend the Service for its success with the Urban Resources Partnership program. This program is truly one of the great success stories within the Service. By providing urban residents with the opportunity to solve local environmental problems and improve the quality of urban life, the Service is helping millions of Americans. Please tell the Committee if you think this program has been successful and why?

Answer: The principle success of this demonstration pilot project (including Atlanta, New York, Seattle and Chicago) has been to enable Federal agencies to combine existing resources and deliver natural resource management programs in more effective ways. Denver, Los Angeles, East Saint Louis and Philadelphia will join the partnership in FY 1995.

The Urban Resource Partnerships member communities are intended as demonstrations of the way Federal government, in partnership with State and local governments and the public, can bring synergy to improvements in the natural environments of cities and towns. The "essense" of this successful pilot project is its foundation in historically successful programs, such as the Urban and Community Forestry program. Continued public support for efforts in Urban and Community Forestry is symptomatic of efficient government that serves to address critical human needs. Urban and Community Forestry program goals are focused on building capacity within communities and empowering the public to create and define their natural, sociological and economic environment.

029. Question: In addition, please tell us what steps you are taking to continue and expand this program?

Answer: Denver, Los Angeles, East Saint Louis and Philadelphia will join the partnership in FY 1995. Any expansion in urban and community forestry programs would be focused on involving a greater number of the 52,000 eligible communities nationwide in citizen based resource management.

ADDITIONAL QUESTIONS FROM CHARLES H. TAYLOR

TIMBER SALE PROGRAM

030. Question: As you know, since the 1980s, the quantity of sawtimber from the national forests has dropped dramatically. We have seen a virtual shutoff, of course, in terms of timber volume from the 17 National Forests in the northwest, but, there have been dramatic reductions in all of the other Forest Service regions, including Region 8 (the south). We don't seem to be turning this situation around, and the problems aren't just tied to the funding. Can you give me your assessment of this situation?

Answer: There has been a decline in the timber volumes from all regions. Region 8, the Southern Region, and Region 9, the Eastern Region have declined the least and have fairly stable programs. Both regions are funded near their current capability. The declines in Region 8 are primarily due to the shifting away from clear cutting and changes in stand prescriptions necessary to meet habitat needs for the Red Cockaded Woodpecker and other threatened and endangered species.

The western regions' volume has declined for a number of reasons. As you are aware, Endangered Species Act requirements for the spotted owl and court restraining orders held up much of the Pacific Northwest supplies. The President's Plan for the Pacific Northwest has brought some relief to this situation. However, it will take a couple more years to complete watershed and other required assessments in order for the region to realize the total billion board foot program as laid out in the plan. While this is a lower level than in the past, it represents the best compromise that will both produce timber and protect the spotted owl. Other regions in the west are also dealing with listed species which have required changes in our management practices and modifications of existing sales. Additionally, focus on shifting away from clearcutting when appropriate has reduced volumes and increased costs. There are many factors involved and taken together we can understand the impacts. As consultations are completed and management plans are revised, we can expect that the capabilities of the western regions will increase some but not back to earlier levels. We also anticipate that the timber program can contribute significantly to improvement of the forest health situation.

031. Question: I am concerned that your current budget is inadequate for FY 1995, especially regarding National Forest System accounts. As you look at both this year and next year, please articulate on which aspects of your current budget are proving to be problematic.

Answer: The Forest Service budget is declining in nominal and real terms. Between FY 1992 and FY 1995, the Forest Service budget declined by 4 percent in nominal terms and 12 percent when the effects of inflation are considered. All programs are experiencing a loss of buying power due to the impact of inflation and the "hidden costs" of expanded responsibilities.

There is increasing pressure on the budget to do more. Some examples of program areas experiencing pressure: 1) Forest health, especially the need to reduce fuels over the large areas of the West; 2) the construction program where there is a large (more than \$1 billion) infrastructure backlog; FA&O facilities construction and reconstruction, roads and bridges, and research facilities; 3) the recreation use account, where recreation use continues to trend upward while funding for administrative and management is flat; and 4) timber sales at level of completion.

The Forest Service is facing this situation primarily by shifting dollars and people to address the highest priorities.

032. Question: Can you please explain for me the connection between your current budget for ecosystem management monitoring and planning, and your budget for timber sale preparation, as well as road maintenance and construction?

Answer: There are two components of funding: one component covers broad planning and sets the standard for implementation of projects on the ground and the other component the actual implementation of projects on the ground.

The current level of funding for the Ecosystem Planning, Inventory and Monitoring Budget Line Item provides funds for the level covering broad planning. It provides for a specific level of land management planning, integrated resource inventories, watershed assessments and forest plan monitoring work. This above-project work sets the stage (i.e., develops information) that will assist in determining what can be done in future years through plans and assessments or, in the case of monitoring, addresses the results of project work recently completed.

The budgets for timber sale preparation, road maintenance and construction reflect levels of project work. For example, road maintenance and construction involves actual blading of roads, installing culverts, replacing surfacing, building new bridges, etc. Timber sales preparation involves the sale design, the NEPA disclosure, field preparation, contract preparation, sale award and harvest administration.

033. Question: Can you actually perform ecosystem management without sufficient road maintenance and construction funds?

Answer: Much of the agency's project-level work is designed to restore, maintain or enhance ecosystems by focusing on specific resource needs at site-specific locations. Road maintenance and construction funds are needed to accomplish some of these projects. Without these types of funds, some projects which will benefit ecosystems may not be possible to implement.

TIMBER MANAGEMENT AND HARVESTING

The budget process in the recent past has contained very significant budget shifts of close to \$200 million from timber programs to ecosystem management, which resulted in proportional declines in harvest levels. Yet the Forest Service has made no connection between ecosystem management and timber management and harvesting. Ecosystem management dollars cannot even be spent to collect data for project level decisions. Many professional land managers continue to view the concept of ecosystem management with skepticism.

034. Question: Why has the Forest Service divorced ecosystem management and timber harvesting?

Answer: The FY 1995 Congressionally approved budget reform effort of the Forest Service resulted in approval for a consolidated budget structure, implementation of the "benefiting function pays" concept, and revised reprogramming requirements. A budget line item for Ecosystem Planning, Inventory and Monitoring was created in NFS as part of the new budget structure. The purpose of this line item is to fund planning, inventory, monitoring and assessment work that is not project-related. This includes, but is not limited to, land management planning activities (e.g., revisions, amendments, etc.), integrated resource inventory work, watershed assessments and the collection, evaluation and reporting of forest plan level monitoring information.

Approximately \$150 million was proposed, and appropriated, as the funding level for these activities in FY 1995. This level of funding was proposed because it represented a reasonable program of work for the agency based on historical expenditure levels for these activities and estimates of future needs. In the past, this level and type of work would have been funded from a variety of sources. The new Budget Line Item was created to consolidate the funding source and assist in planning and scheduling these types of activities. Since most ecosystem planning, inventory and monitoring activity is not new work, the \$150 million was moved from the line items that used to fund this work. The agency used the best information it had at the time to determine the programs and specific dollar amounts that would contribute to this new account. Because of this, the agency is confident that the dollars removed from other programs in our FY 1995 proposal would not have gone towards funding project-level work in timber or any other program.

035. Question: Why can't ecosystem dollars be used at the project level?

Answer: The funds in the ecosystem planning, inventory and monitoring budget line item can not be used for project level planning because this would violate the intent of Congress (i.e., appropriation use language). Another important element of the agency's budget reform effort is the "benefiting function pays" concept. Under this concept, all of the funding needed to carry out specific types of projects is included in the same account. For example, all of the coordination needed with wildlife biologists, land surveyors, landscape architects, archaeologists, etc. in the planning, inventory and design of a timber sale would be paid for out of the timber account. Funds were shifted between line items to ensure that an adequate level was available in each account to accomplish a specific level of project work.

NEPA REQUIREMENTS

It is obvious to anyone who works within the Forest Service management process of plan development, public input, the appeals process, NEPA requirements, ESA requirements, etc., that the financial burden of the required paperwork for such a process has become abused, overburdensome, inefficient, and unaffordable. More and more money is being spent in the bureaucracy and the courts and proportionally less on timber management and on-the-ground actions.

036. Question: What actions is the Forest Service taking to streamline the process? Some suggestions include exempting forest management activities that implement approved forest plans from NEPA; eliminating the appeals process (especially for salvage sales); and insulating National Forest management from judicial review.

Answer: We have taken every opportunity to streamline our regulations, policies, and procedures under existing statutes. Some examples include:

- o Publishing new appeal regulations to expedite and streamline the appeal process at the project level. We are currently implementing these new regulations at the field level.
- o We have been working for several years to streamline our planning regulations so forest plans will be more dynamic thus, allowing the Agency to respond more rapidly to new information and the needs of our society.
- o We are establishing new partnerships with the public, state and local government, universities, conservation organizations, and Indian Tribes; and improving coordination with federal agencies to share information and to arrive at practical solutions to resource issues.
- o Conducting assessments and analysis at larger geographic scales which can feed into amendment or revision of multiple forest plans, and which can be used for multiple projects at the ground level.

We will continue to take every opportunity to improve our policies and processes and to improve our information base to support resource decisions and public policy.

TIMBER HARVEST LEVELS

In the 1994 budget process, the release of the President's initial budget advice and the distribution allocations to regions was withheld until after the House had approved, and the Senate had released from Committee, the Interior Appropriations Bill. As a result, those communities dependent upon Federal lands for economic stability found themselves with few channels to remedy the shortfalls of timber allocations, and the reputation of the Forest Service was severely maligned in these communities as a result.

037. Question: The Chief needs to ensure the initial budget advice and the distribution allocations should be made in a timely fashion so local communities have ample time to understand the ramifications of such funding cuts to their area and to participate in Congressional hearings before the final decision is made.

Answer: Each year, the Forest Service makes a concerted effort to develop and issue an initial budget advice to the regions and stations prior to the House markup of the Interior and Related Agencies Appropriation bill.

The initial budget advice for Fiscal Year 1995 was issued to the regions and stations in May of 1994.

The final budget advice for Fiscal Year 1995, based on the Appropriation Act for the Department of Interior and Related Agencies, signed on September 30, 1994, was released to the regions and stations on December 22, 1994.

However, a draft of the final budget advice for Fiscal Year 1995 was released to the regions and stations on November 2, 1994, 33 days following the signing of the Department of Interior and Related Agencies Appropriation Act. The final advice did not change significantly from the draft final advice.

Actual allocation of funds to the regions by the Forest Service Budget Officer are usually not made until after the final budget advice is released. However, we have consistently advised the regional budget staff that it is not necessary to wait for this allocation document to begin obligation of funds. The signing of the final budget advice by the Chief of the Forest Service is their formal authority for obligation of funds.

TIMBER ALLOCATION DECISIONS

In the past, the national forest regions were assigned timber harvest levels that they were to achieve. Currently, there are no targets or goals, which exemplifies current administrative de-emphasis of timber harvesting on these lands. I would recommend these target levels be renewed.

038. Question: Are the effects on local economies, forest health issues, forest age and maturation, and other pertinent information examined when making allocation decisions? Why or why not?

Answer: Local economies, forest health issues, forest age and maturation, and other information are used in making timber allocations and decisions. The timber data presented to Congress in the President's Budget request is built from the ground up. Regions submit a budget request based on the individual forest plans and other issues in that region. These regional requests are usually developed at the forest level. Forest plans considered local needs, age class, species composition, and stand structure. However, many of the allowable sale quantities developed through the forest planning process have been modified, in particular for the listing of threatened and endangered species. Allocation decisions are based on regional requests and Congressional direction contained in the Appropriations Act.

It is important to consider these factors with input from the field as they are the ones expected to implement the assigned program. This information helps us develop a more balanced program that can meet the priority needs.

039. Question: Last year, the Forest Service expressed concerns before this panel and other panels about the lack of advanced timber sale volume preparation -- the so-called "Timber Sale Pipeline." It can take several years to prepare and administer a timber sale. How bad is this situation, and what kind of funding levels are needed to turn this situation around?

Answer: It takes several field seasons to prepare a timber sale for offer. Therefore, funding is used to prepare timber sales for the current fiscal year as well as future years. Under ideal circumstances 70 percent to 75 percent of the timber sale offer program should be prepared, NEPA completed and field work substantially completed, at the beginning of the fiscal year. The 25 percent to 30 percent that is not completed results from permits, small sales, and a portion of the salvage sale program. In each of these cases, the actual trees selected for harvest are determined through events that occur during the fiscal year. For example, a forest can predict some trees will be damaged over the winter but will not know which ones to salvage until after storms occur.

Most of the advanced sale preparation work is completed during the last quarter of the preceding fiscal year, the field season. At the beginning of FY 1993, 40 percent of the timber sale volume had completed NEPA documents and 20 percent was also field prepared; in FY 1994 50 percent was through NEPA and 23 percent field prepared; and in FY 1995 42 percent was through NEPA and 16 percent field prepared. Regions 1, 4, and 5 started FY 1995 with less than 40 percent of the timber program through NEPA. Region 4 is down because of the large portion of fire salvage in their FY 1995 program. At the present 56 percent of Region 4's FY 1995 timber program is fire salvage from this summer's fires and is in the final stages of NEPA. As of January 1, 1995, Region 1 is at 40 percent; Region 5 is still facing uncertainty in the program. Regions 8 and 9 started fiscal year 1995 with about two thirds of their timber program through NEPA.

The annual funding of the timber sale program is used to finalize sales for the current fiscal year and to initiate, conduct NEPA analysis and prepare future timber sales.

040. Question: What assurances can you give the Subcommittee regarding your attention to this situation?

Answer: Maintaining the timber sale pipeline is very important to the Forest Service. Advanced sale preparation allows us to schedule our timber preparation efforts in an efficient manner and provides adequate time to meet unforeseen situations. However, some regions have very little pipeline volume. These regions have gone through several years of instability in the program. Listing of additional threatened and endangered species, changes in consultation requirements, appeals and lawsuits have eroded the pipeline in two ways. First, forests have moved

already prepared future timber sales to the current year to replace timber sales that were delayed. Second, work on future timber sales is stopped when personnel are required to redo current year sales, or work on appeals and litigation. Efforts are being made to restore the timber sale pipeline but we cannot assure what actions other agencies, individuals, or organizations will take. We can assure you that it remains a high priority for the Forest Service and we will give it the attention necessary to move the program ahead.

041. Question: Timber volume under contract, held by timber mills, is at its lowest point in 40 years. How do we get stability back into the mission of the national forest?

Answer: We do not anticipate that timber sale levels will return to the peak sale levels of around 12 billion board feet of the 80s. We do expect that timber sale levels will stabilize somewhere around 4 to 5 billion board feet. That level represents our best estimates that will accommodate such needs as the Endangered Species Act requirements, shifts from clearcutting to other systems, a more land sensitive ecological approach, and a level that more accurately reflects the true capabilities of the individual forests. We are hopeful that stability will return following Endangered Species Act consultation on the major species that are at issue and any litigation that may result from those decisions. In the Pacific Northwest the region is completing watershed assessments and other requirements with the expectation that they will be up to a target level of around one billion board feet by FY 1997 (not including BLM sales). While we hope that more program stability will be attained as we adjust our forest plans we know there will always be some on-going appeals and litigation that may affect various portions of the country. We also know that budgets will affect that stability and that needs such as forest health at times may have a major role in determining the level of our program.

042. Question: I see a tremendous imbalance in recent years between the amount of National Forest timber sold and the amount harvested. Do you have any current national, or regional figures, on this situation?

Answer: Shown below are the sold volumes, harvest volumes, and values for the past fiscal year by region. There is also a summary of the national volumes and values for the past five years. Volumes are shown in thousand board feet (MBF). Harvest volumes are greater than the timber sold volumes in most instances, because there is normally a lag between the time a timber sale is sold and the time it is harvested. Timber sale contracts normally have a contract period of one to five years. Because the timber volumes sold have declined over the last several years, we can expect the harvest volumes to lag behind by two to three years also.

Timber Sold on the National Forests Under Sale 1/
and Land Exchanges by Regions

REG	Timber Sold Fourth Quarter			Timber Sold Total to date FY 1994		
	July - September 1994			October 1993 - September 1994		
	Volume MBF	Dollar Value <u>2/</u>	Dollars /MBF <u>2/</u>	Volume MBF	Dollar Value <u>2/</u>	Dollars /MBF <u>2/</u>
(Volume is displayed in thousand board feet)						
1	37,561	6,853,270	182.46	194,643	49,833,480	256.03
2	62,581	13,990,235	223.55	214,894	42,452,380	197.55
3	50,727	5,643,676	111.26	118,994	9,822,744	82.55
4	62,372	14,775,213	236.89	189,894	43,700,935	230.13
5	91,075	6,820,734	74.89	444,270	90,444,790	203.58
6	73,946	18,836,095	254.73	433,850	108,432,330	249.93
8	256,265	30,903,226	120.59	767,029	92,655,934	120.80
9	231,011	25,259,818	109.34	638,241	64,523,951	101.10
10	18,040	\$2,258,119	125.17	54,533	7,037,115	129.04
TOTAL	883,578	125,340,386	141.86	3,056,348	508,903,659	166.51

FY	Timber Sold Fourth Quarter			Timber Sold Total to date		
	July - September			October - September		
	Volume MBF	Dollar Value <u>2/</u>	Dollars /MBF <u>2/</u>	Volume MBF	Dollar Value <u>2/</u>	Dollars /MBF <u>2/</u>
(Volume is displayed in thousand board feet)						
1993	1,248,013	192,942,739	154.60	4,515,324	774,887,927	171.61
1992	1,518,149	191,616,358	126.22	4,458,452	575,921,207	129.18
1991	993,799	162,764,968	163.78	6,394,452	801,238,190	125.30
1990	3,631,109	602,647,581	165.97	9,249,649	1,609,925,538	174.05
1989	2,663,292	307,302,525	115.28	8,414,582	1,077,534,474	128.06

1/ Sawtimber and other Roundwood Products.

2/ Statistical high bid value includes KV and Salvage Sale funds, does not include road purchaser credits, brush disposal deposits, or CWFS-other.

Timber Harvest on the National Forests Under Sale ^{1/}
and Land Exchanges by Regions

REG	Timber Harvest Fourth Quarter			Timber Harvest Total to date FY 1994		
	July - September 1994			October 1993 - September 1994		
	Volume MBF	Dollar Value ^{2/}	Dollars /MBF ^{2/}	Volume MBF	Dollar Value ^{2/}	Dollars /MBF ^{2/}
(Volume is displayed in thousand board feet)						
1	184,997	32,505,439	175.71	561,164	101,281,263	180.48
2	89,656	6,473,366	72.20	260,496	24,276,665	93.19
3	31,953	3,142,701	98.35	115,647	13,012,931	112.52
4	96,189	11,772,787	122.39	295,360	45,946,743	155.56
5	197,940	48,657,752	245.82	613,097	138,080,508	225.22
6	203,891	57,161,220	280.35	1,126,867	316,398,138	280.78
8	281,100	31,681,748	112.71	864,276	87,607,180	101.36
9	169,251	10,894,689	64.37	696,036	45,617,799	65.54
10	74,472	3,364,272	45.18	282,386	10,817,029	38.31
TOTAL	1,329,449	205,653,974	154.69	4,815,329	783,038,256	162.61

FY	Timber Harvest Fourth Quarter			Timber Harvest Total to Date		
	July - September			October - September		
	Volume MBF	Dollar Value ^{2/}	Dollars /MBF ^{2/}	Volume MBF	Dollar Value ^{2/}	Dollars /MBF ^{2/}
(Volume is displayed in thousand board feet)						
1993	2,042,225	321,114,157	157.24	5,916,938	914,646,053	154.58
1992	2,177,520	261,335,928	120.02	7,298,632	934,504,178	128.20
1991	3,036,175	369,002,749	121.54	8,474,919	1,008,585,867	119.01
1990	3,209,023	349,460,540	108.90	10,500,278	1,187,617,528	113.10
1989	3,883,154	417,787,410	107.59	11,950,937	1,309,731,077	109.59

^{1/} Sawtimber and other Roundwood Products.

^{2/} Statistical high bid value includes KV and Salvage Sale funds, however, does not include road purchaser credits, brush disposal deposits, or CWFS-other.

TIMBER REVENUE

The latest figures available from the Forest Service demonstrate that the timber sale is profitable. It returned \$300 million in net revenues in FY 1993, which is after returning \$288 million to the States. It seems to me that we ought to be supporting revenue-raising programs as much as we can.

043. Question: Can you please explain the various factors which affect timber program profitability, and how you assess that?

Answer: First, we currently use TSPIRS to assess timber program profitability. A report recently completed by the Forest Service titled "Timber Sale Program Issues: A Technical Examination of Policy Options" addresses numerous factors that affect timber sale profitability. These factors include such items as environmental assessment and protection, infrastructure development, operating under ecosystem management principles, staffing levels, overhead, use of trust funds, timber pricing policies, and more. All of these factors affect the amount of money spent to prepare timber sales or receipts from those sales. The Forest Service is currently examining options to effect reductions in costs and increases in revenues, related to the factors, to the extent practical.

044. Question: As costs go higher as we move further toward ecosystem management on the National Forests, how should we be evaluating the merits of a timber sales?

Answer: Timber sales under ecosystem management can be evaluated on more than just a financial or economic basis. Often, these sales are designed to manage vegetation to produce desired future ecological conditions or benefit non-timber forest resources. Along with achieving these objectives, benefits are produced that cannot be measured on a profit and loss scale. Judgement must be applied by managers to evaluate the overall costs and benefits of sales, including both monetary and nonmonetary effects.

045. Question: Should all timber sales, or timber programs, always make money?

Answer: Under NFMA, the Forest Service is required to sell timber at appraised values that estimate fair market value. In certain situations the revenue does not cover the cost to conduct the sale; however, there may be other overall benefits to society in the timber sale. As an example, vegetative treatment through the use of timber sales are used to create favorable habitat conditions for the red cockaded woodpecker--an endangered species that inhabits pine stands in the Southeastern U.S. Over time, hardwoods will invade the pine stands and, when they are large enough, interfere with the birds feeding habits. Eventually, the woodpeckers will leave the sites if the hardwoods are not removed. Timber sales are often used to achieve this objective. While these sales may be "below-cost," they are a cost efficient means of achieving the habitat improvement. Other treatment methods, such as controlled burning, do not produce revenue to partially offset the cost and, as a result, the net costs are normally higher.

TIMBER SALES

046. Question: Aren't more and more timber sales accomplished for multiple objectives, including forest health?

Answer: Yes, under ecosystem management, more and more sales are being used to achieve non-timber objectives, improve forest health, and produce desired future ecological conditions. Twenty-six percent of lands suitable for timber production allow some level of timber harvest. The remaining 74 percent may or may not have vegetative treatments through timber sales to meet the prescribed management direction. Many scientists are warning us that, unless tools like timber sales, are applied and used to improve forest health conditions, people and the environment will suffer substantial impacts from eminent catastrophic events including insect and disease epidemics and wild fires. In FY 1993, the Forest Service TSPIRS report indicated that about one quarter of the agencies timber sales were harvested to achieve "forest stewardship" objectives. We expect that proportion to increase in the future as more and more ecosystem management sales are harvested.

FOREST SERVICE REORGANIZATION

047. Question: Please outline the basic components of your reorganization plan.

Answer: A team of Forest Service employees has spent the past year looking at the Forest Service reorganization plan. We are anxious to reinvent the Forest Service, and our plan is described in a comprehensive report to "Reinvent" the Forest Service, "Reinvention of the Forest Service: The Changes Begin." The over-riding objectives are to move resources -- people, money, and equipment -- to the field, and to continue providing and improving quality service at lower cost.

The proposed structure of the Forest Service will change to operate within five, rather than the current six, broad program areas--National Forest Systems, Operations, Research and Development, State and Private Forestry, and International Forestry--and in the framework of a National office and seven regional offices. This is a reduction from the former organization of nine National Forest System regions, eight Research stations, and one State and Private Forestry area.

This report includes aggressive proposals for changing the Agency's organizational structure and business processes to enable it to better function in an era of decreasing budgets.

As we work with Congress to implement these significant measures, we are aware of the urgent need to look beyond these changes in current operations to examine the basic missions of the Forest Service under the second phase of the National Performance Review.

048. Question: In terms of overall personnel reductions, I am most concerned about retirements affecting the number of foresters, forestry technicians, and engineers. How will staff reductions affect your program objectives for the National Forest over the next several years?

Answer: Our reorganization plan is summarized in the executive summary, "Forest Service Reinvention," dated December 6, 1994. As we have done during the past year, we plan to achieve the needed reductions in our workforce through buyouts and attrition. Our 1995 planned buyout will be very limited (about 200 employees), so we do not expect any serious effect on program delivery. As retirements occur, we will continue to fulfill our needs for specialists through transfers, training, and limited hiring.

049. Question: One of the other concerns I have heard expressed by National Forests throughout the country is that because of the reinvention process, your Forest Service is becoming an agency of "ologists," and soon there will be few left who even have a degree in forestry, much less the ability or experience to plan a timber sale. What are your plans to address this increasingly urgent situation?

Answer: To successfully promote the sustainability of ecosystems by ensuring their health, diversity, and productivity the Forest Service needs and will maintain a professional workforce of foresters as well as many other kinds of scientists and managers. As our workforce changes because of retirements, we are managing our hiring and other available resources to maintain and achieve the needed mix of specialists.

050. Question: The Forest reorganization would put the NFS, S&PF, and R&D heads in the same location, resulting in some people in Asheville being relocated to Atlanta. Should the reinvention be approved, how many people would be moved to Asheville? What would be the function of the Asheville office after the move occurs? What would be the effect of moving the regional head away from the day-to-day oversight of the R&D operations? What is your estimate of the dollars saved by such a move?

Answer: We are currently assembling the detailed information that will better describe the effects of the regional boundary changes and the headquarters changes. This information will be prepared during February and delivered to the Congress at the end of March as required in the USDA Reorganization Legislation.

FOREST HEALTH INITIATIVE

051. Question: I wanted to ask you about the budget aspects of you Western Forest Health Initiative. As you know, the agency spent, all told I believe, over \$800 million for suppression of wildfires and rehabilitation work in the western states last summer. Are we doing everything we can, in your estimation, to address forest health problems, if you will, on the front end? I am talking about presuppression, thinnings, etc.

Answer: The 1994 fire season was the most costly in the history of the Forest Service and the estimate of \$800 million spent is close to the mark. Although there are many factors that contributed to this large cost, deteriorating forest health and the buildup of forest fuels was one of the major factors. The reduction of forest fuels is a high priority for the Forest Service. This includes increasing the number of acres treated annually, as well as completing and approving the plans needed to accomplishing the work. More can be done. This continuing need is reflected in the annual increases in the fuels budget and accomplishment

In addition, we are putting increased emphasis on thinnings and salvage sales to reduce fuel loads, prevent devastating insect and disease epidemics which would worsen the already dangerous situation.

We are placing priority on improving the health of forests in the western States through our Western Forest Health Initiative.

052. Question: Millions of acres of timber stands in the western states are suffering extensive mortality and are highly susceptible to disease and epidemics. Will this situation on the ground improve much over the next several years?

Answer: The situation on the ground has developed over many years and will continue to be a problem for many more years. The buildup of fuels will contribute to greater fire intensities and rates of spread which results in higher suppression costs. The funding for fuels management increased by almost 30 percent between FY 1994 and FY 1995, and we expect this demand to continue. Similarly, our attention to the needs for timber salvage sales, thinnings, and other measures to reduce fuel loads and reduce the risk of insect and disease epidemics will increase; not only in the area covered by the forest health initiative, but nationwide.

053. Question: What are your funding needs for FY 1996? Do you have sufficient funds, as part of your Western Forest Health Initiative, to make substantial improvement in this area over the next year?

Answer: We believe appropriate levels of funding are proposed considering other budget priorities and the need to reduce overall government spending and the budget deficit.

Innovative and extraordinary measures are needed to restore forest health in stressed forests. The first priority is to reduce fuels where there is a high risk of fire, to prevent possible resource impairment. Other important preventative measures are thinning dense stands and planning and implementing timber sales. These land and vegetation management tools will be the principal methods used to attack this urgent and widespread problem.

FOREST PLANS

You have many forest plans being amended and revised to incorporate new information and changing circumstances. At the same time, the forests are directed to implement "ecosystem management."

054. Question: What can the forests do now under the current plans, to carry out the ecosystem management policy?

Answer: The current rule does not prevent the agency from carrying out the ecosystem management policy. More emphasis on monitoring and evaluation, conducting ecosystem assessments at multiple scales, coordinating planning across jurisdictional boundaries, use of the best science, increased involvement by state and local governments are integral components of the ecosystem management policy and can occur under the existing rule.

055. Question: How does the Forest Service define ecosystem management?

Answer: Ecosystem management means using an ecological approach to achieve the multiple-use management of National Forests and Grasslands by blending the needs of people and environmental values in such a way that National Forests and Grasslands represent diverse, healthy, productive, and sustainable ecosystems.

056. Question: What changes are needed through plan amendment or revision to improve their ability to do ecosystem management?

Answer: The information gathered through ecosystem management practices is being used in the planning process. Forest planning is a dynamic process whereby new information on resources generated through such things as ecosystem assessments can be used by individual forests to amend and or revise forest plans as needed.

057. Question: Are there any additional procedural changes needed?

Answer: Yes, if the Proposed Regulations revising the National Forest System Land and Resource Management Planning Regulations, 36 CFR, Part 219, are adopted, it will streamline procedures to incorporate ecosystem management principles, and increase efficiency.

NFMA REGULATIONS

I understand the agency has been working on changes to the land management planning regulations (NFMA Regulations) for several years now to incorporate new direction for ecosystem management.

058. Question: How does ecosystem management affect the Forest Service's costs for doing land management?

Answer: The costs associated with ecosystem management will be greater in the short run. The process incorporates more information at several scales over larger areas and requires additional analysis. There are new components in the ecosystem management process that the Forest Service must learn about and incorporate in our normal agency processes. These changes are going to add costs relative to past procedures. However, after several years of dealing with ecosystem management, a "library" of information, particularly at larger geographic scales will exist. This information can be used by many organizations and agencies and will not have to be re-created for each new project or issue. Once this information is in place and widely available, additional costs associated with ecosystem management processes should decrease.

059. Question: Please detail this by category: Timber management, wildlife habitat improvement, etc.

Answer: Ecosystem management efforts will increase the costs associated with preparing NEPA documents for all resource activities, including timber management, wildlife habitat improvement, etc. However, it is unclear as to the amount and timing of costs. Because ecosystem management addresses much larger areas, more potential resource areas may be examined by the process. Additional costs associated with preparing NEPA documents would therefore be spread over a number of resource activities.

The NFMA regulations affect forest management in a number of ways. They provide detailed direction on how to write a forest plan, but they lack sufficient guidance on how to implement the plans. In addition, many of the procedures do not mesh well with requirements of other laws like NEPA, ESA, Clean Water Act, etc..

060. Question: What is the status of the NFMA regulation changes?

Answer: Proposed NFMA regulations are under internal review within the administration.

061. Question: How soon will they be available for public review and comment?

Answer: A specific release date has not been approved.

062. Question: As long as the current regulations remain in effect, have you issued guidance to ensure the current procedures are being followed?

Answer: Yes, agency procedural guidance is in the current Forest Service directives system. The agency intends to review that direction if the current rule making effort is not completed in a timely manner.

063. Question: What is the cost of revising a forest plan today, and how long will the process take?

Answer: The average cost of revising a forest plan under the current rule is over two million dollars and it will take approximately 8 to 12 months, depending on the complexity of each plan.

064. Question: What is the average cost of processing a forest plan appeal?

Answer: We estimate that it costs approximately \$40,000 (this does not include court costs) to process a forest plan appeal decision. Estimate is based on FY 1991 data from Forest Service Report: Draft Cost of Administrative Appeals and Litigation. These costs include: filing the appeal; regional forester developing the plan appeal record; Washington Office drafting the decision; USDA Office of General Counsel review of decision; and Washington Office issuing the final forest plan appeal decision.

065. Question: How many forest plan appeals are currently pending, and how long has it taken to issue decisions -- longest, shortest, and average, in years? Please submit this information for the record.

Answer: As of January 25, 1995, we have 190 forest plan appeal decisions pending. On the average it takes 6 months to a year for processing a forest plan appeal decision. This time-frame starts from filing the appeal in the regional office to issuing a decision by the Chief's reviewing officer in the Washington Office.

It has taken as short as two months to process an appeal decision to as long as nine years. The nine year case was an exception which involved the Caribbean National Forest due to Hurricane Hugo and litigation.

Completion of the an appeal decision is dependent on several factors, including the availability of personnel to write appeal decisions full time and the complexity and length of the appeal. The Forest Service has recently established a special Appeals Task Force to address the backlog of forest plan appeals.

FOREST RESEARCH

066. Question: What are the Forest Service's plans for the research program?

Answer: The Forest Service plans to continue research as a discrete program within the agency. Research has served the Forest Service and the Nation well in the past and the scientific and technological information it provides is important for managing and sustaining our forest and rangeland resources.

067. Question: Will you be focusing on applied research or will all of your efforts be focused on ecosystem management?

Answer: The mission of Forest Service Research is to serve society by developing and communicating the scientific information and technology needed to protect, manage, use and sustain the natural resources of the Nation's 1.6 billion acres of forest and rangelands. Approximately 80 percent of the program will continue to address applied research needs of a wide variety of public and private landowners and managers. The balance of the program will be directed to basic research. Both applied and basic research provide scientific and technical support to the Forest Service's commitment to implementation of ecosystem management.

068. Question: It is my understanding that the Forest Service is moving to do timber inventory analyses (TIA) every ten years instead of every five years. A number of people within the timber industry rely on the TIA's and feel that 10-year intervals are too long. Are you moving toward 10-year TIA'S and can you address their concerns?

Answer: We believe that you are referring to the Forest Inventory and Analysis (FIA) program within the Research branch of the Forest Service. The overall, national period between inventories is currently 11 years. Some regions have a shorter cycle and some a longer one, depending on customer demands and accompanying budget support. The goal of the FIA program is to produce the highest quality resource information in a timely manner that meets our customer's needs, such as the timber industry. We

have been working closely with our timber data users in several ongoing efforts to shorten the inventory cycle. For example, research is underway on an annual forest inventory system that would produce fresh timber information much more frequently than is now possible. We have also committed to publishing national timber resource information every five years in our RPA (Resources Planning Act) assessments, using the most current data available. We have never been on a five year cycle, but it is our intent to keep our cycles as short as possible while meeting the needs of our diverse clients in terms of information content and quality consistent with funding levels.

NORTHWEST TIMBER SITUATION

069. Question: It's my understanding that you recently sent letters to the Pacific Northwest asking when they would meet their timber sale targets under the Option 9 Plan. I believe that some forests told you they wouldn't be able to meet the targets until 1998, largely because of reduced funding and staff. Will you comment on your budget and shifting needs for the timber sale program as a whole and for Option 9. Do we need to divert money away from other programs back to timber sales?

Answer: We are aware of some national forests that cannot meet the President's Plan schedule, in FY 1995. The Forest Service is working to restore the timber sale pipeline on the owl forests to meet the President's Plan level in fiscal year 1997. Some adjustments may be required at the individual forest level in each fiscal year. However, these adjustments are within the capabilities of the Agency based on anticipated funding.

070. Question: Is the Forest Service assisting the people of the Northwest to alleviate the burden of losing the portion of timber receipts that were a large part of their school budgets?

Answer: Under current law most of these communities receive over 80 percent of the revenue they received during the five-year period of highest production. In addition the Forest Service is doing a considerable amount to help communities in the Northwest adjust to a new economic regime. Assistance includes: issuance of hundreds of "Jobs in the Woods" contracts which directly employ displaced timber workers; providing communities seed money needed to tap into larger sources of community funding; providing grants in cooperation with state governments which directly result in increased private industry capital investments in the communities; and, technical assistance to communities. We have worked closely with both communities and other agencies to coordinate our efforts for maximum effectiveness.

071. Question: Is there more that the Service can provide?

Answer: Considering other budget priorities and the need to reduce overall government spending and the budget deficit, we believe the proposed budgets adequately address this issue.

072. Question: The spotted owl has now been found to be in little danger. How can we revive the communities that were devastated by the listing of this bird?

Answer: We can help the communities diversify their economies so they are not subject to the economic movements that are possible when a local economy is heavily concentrated in one industry. The Forest Service is working with communities to help them plan for their own diversification and we are helping them carry out their plans. We believe that in order for these efforts to succeed in the long-term, they need to be community-based rather than government-program driven.

073. Question: Where will the country obtain the lumber and other timber products the northwest has historically provided?

Answer: Lumber will be produced from private lands in the Pacific Northwest and Southern United States as well as an increase in imports from Canada and other countries. Also, with increasing prices lumber substitute materials have become more competitive such as steel studs for construction which have been used more frequently in the past several years.

074. Question: What is your agency's plan to protect our forests from imported vectors resulting from log imports to supplement whole log requirements of the northwest timber industry?

Answer: The Forest Service will continue to work closely with the Animal and Plant Health Inspection Service (APHIS) which has the lead on prevention of introduction of exotics. To that end, the Forest Service has prepared pest risk assessments for logs imported from Siberia, New Zealand, and Chile. Based on this information, APHIS designed pest mitigation requirements for log imports from these countries. The Forest Service also supports APHIS' proposed general regulations for all imported, unprocessed wood. These regulations would require importers to heat logs and perform other treatments in order to prevent introductions of forest pests.

HARVEST LEVELS

The timber plan approved did not seem to consider the basic infrastructure needs of the timber industry in the northwest. Harvests are now at a trickle of what they once were. Even if harvests are increased, much of the basic infrastructure will be gone, and the increase will be of little comfort to those who have lost their livelihoods.

075. Question: Can you tell me how you arrived at the harvest levels set in the northwest timber plan?

Answer: The decision on the President's Forest Plan For the Pacific Northwest (which applies to lands managed by the Forest Service and the BLM within the range of the northern spotted owl) was signed by the Secretaries of Agriculture and Interior on April 13, 1994. The decision responded to both the need for forest habitat and the need for forest

products. The Secretaries did consider the need for a sustainable supply of timber and other forest products to help maintain the stability of local and regional economies on a predictable and long-term basis. The ten alternatives analyzed in detail had a range of probable sale quantities from 0.1 to 1.8 billion board feet per year. The effects of reduced timber harvest to communities and the timber industry were considered.

The Secretaries adopted the alternative that they determined would provide the highest sustainable timber levels while satisfying the requirements of existing statutes and policies. They concluded that the alternatives with higher harvest levels would not provide adequate assurance that old-growth forest ecosystems and riparian habitats essential for many species would be maintained and restored. The selected alternative (Alternative 9) will provide sustainable timber harvests as well as healthy old-growth ecosystems and riparian habitat and adequate populations of fish, wildlife, and plants. It is a balanced alternative. The decision was challenged in federal court by both those desiring lower harvest levels and those wanting higher harvest levels, but Judge Dwyer dismissed all challenges in a ruling issued December 21, 1994, and we are proceeding with implementation.

PISGAH/NANTAHALA NATIONAL FORESTS

According to the 1987 Forest Service survey, the Pisgah/Nantahala National Forests are only harvesting approximately 20 percent of their annual growth; the natural mortality rate in the last five years has increased to 65 MMBF annually (an increase of over 100 percent in the last five years); approximately 33 percent of the Pisgah/Nantahala is affected by "oak-wilt" and approximately 28 percent shows damage from "oak decline." Surveys indicate that these infestations are more serious on national forests than when compared to private lands.

076. Question: What can the Forest Service do to address this situation?

Answer: Current data indicates that average annual mortality for the Nantahala/Pisgah National Forests is about 63 million board feet on the entire area and growth is approximately 190 million on the same acreage. The March, 1994 Amendment to the Land and Resource Management Plan for these Forests emphasizes sustained timber production on lands identified as suitable for timber production on percent of the total area. For these areas suitable for timber production, mortality is estimated to be about 19 million board feet and growth would be about 60 million board feet.

Because of public, Congressional and agency interest in the economics of timber sales, the forest is continuing to emphasize timber harvest activities on these more productive "suitable" areas - not on the entire forest.

Regarding forest health, all of the Pisgah and Nantahala NFs are within the biological range of oak wilt. However, this disease occurs at a very low level of incidence (almost imperceptible) and is not a management concern in these National Forests.

Oak decline is a serious and widespread disease on the Pisgah and Nantahala NF's. This disease is changing the ecosystem, especially in hardwood areas. Oaks are dying and the growing space is being filled by other species such as red maple, black gum, and mountain laurel, resulting in a change in the ecosystem from a predominantly oak forest to one with a smaller, less diverse, oak component - affecting wildlife habitat in addition to the timber resource.

A 1987 survey of a ranger district did indicate about 33 percent of the hardwood forest area was affected by oak decline, which is about 28 percent of the forest area.

National Forest System lands have higher oak decline incidence than other ownerships. This is due to NFS lands having older forests, with a greater oak component, and growing on sites that are not as productive as forests on other ownerships.

The Forest Service is addressing oak decline in upland oak forests primarily through survey, monitoring, and analysis. Some applied technology development has been done but more research is needed, especially into the effects of management practices on disease progress.

077. Question: Do you have sufficient funds to make substantial improvement in this area?

Answer: Direct activities to reducing oak decline susceptibility on the landscape entails introducing age class diversity. This is accomplished through appropriate timber harvest and regeneration on lands available for sustained timber production. Current year appropriations will allow us to proceed with timber harvesting activities at levels compatible with forest land and resource management plan direction. As we proceed, we will further assess our needs.

HARVEST LEVELS

Harvest levels on the Pisgah/Nantahala have decreased dramatically in the last five years with the real condition on the ground being more serious when you consider half of the volumes being harvested now are pulpwood. Ten to twelve years ago, pulpwood was not sold and all volumes purchased were saw logs.

078. Question: What is the reason for this decline in harvest levels?

Answer: Implementation of the Forest Land and Resource Management Plan, in accordance with the National Forest Management Act, has defined harvest levels that are both environmentally and economically sustainable - but at a lower level than in the past.

Pulpwood has historically been a component of the timber harvest from these forests. Pulpwood is in demand from major manufacturers in the area, including Champion, Mead Corporation, Bowaters and several local pallet manufacturing firms. Ten to twelve years ago, the pulpwood harvest comprised 48.1 percent of the harvest. During the past two years, pulpwood was 49.5 percent of the harvest.

Continued interest in timber sale economics, long term sustainability, implementation of ecosystem management and the provision of biological diversity, the reduction in clearcutting, along with a decrease in providing road access to timber areas will likely result in harvest levels being maintained at this lower, but sustainable, level.

079. Question: Is there anything this Committee could provide to reverse this trend?

Answer: We believe that considering all the factors involved, additional action by the Committee is not necessary.

SNOWBIRD CREEK

There is a tract of land in the Nantahala National Forest, located in Graham County, known as Snowbird Creek. It has been under consideration to become classified as a wild and scenic river for approximately 14 years. If the 8,600 plus acre tract is declared wild/scenic, there would be a 1/4 mile strip on either side of the stream that would be designated scenic as well as the land below an old railroad junction. The land above the junction would be designated wild and all the land would be tied up to protect the watershed. In 1987, I understand the Forest Service made the recommendation to release the land from study and not designate the area wild and scenic.

080. Question: Would you support legislation that would follow this recommendation?

Answer: Snowbird Creek is presently being evaluated by the agency to determine its suitability for inclusion in the National Wild and Scenic System. We would like to continue this process.

We are not aware of a 1987 Wild and Scenic River recommendation for Snowbird Creek. However, there was a Wilderness Study Area recommendation in the forest plan for the Snowbird Roadless Area. That recommendation was to release the area to multiple use management as outlined in the forest plan.

LAW ENFORCEMENT

081. Question: Why have we then added a special law enforcement section to the Forest Service?

Answer: The law enforcement program is not a new program but has been accomplished by the Agency since its creation in the early 1900s. When the Forest Service was established and the first rangers were given their work assignments, a major part of their work included law enforcement. These ranger's duties were defined as follows: "patrol to prevent fire and trespass; surveying, estimating, and marking timber; and the supervision of cuttings. They issue minor permits, built cabins and trails, enforce grazing regulations, investigate claims and when necessary, arrest for violation of forest laws." Many of the above duties were law enforcement

for the protection of individuals and the resources. As the agency became more focused and specialized in different resource areas, the same applied to the law enforcement program. The recent reorganization of the law enforcement program appears to make it look like a new program. The program is not new, but was funded and managed by other National Forest System resource areas. The reorganization was undertaken to guarantee investigative independence and ensure that the program is free from allegations of interference. This also brings this program in line with the President's Council on Integrity and Efficiency (PCIE) as recommended by oversight reviews by the Office of Management and Budget (OMB), the USDA Office of Inspector General (OIG), the General Accounting Office (GAO), and past Congressional direction.

The beginning of this reorganization effort removed all the funding and the positions for law enforcement from other resource areas and brought the information to one central point. With finalization of this reorganization, the program will be more efficient, effective, and accountable to the public it serves.

Although a few of the federal agencies listed above might be involved in the investigation of a federal crime, none of them have the primary duty of enforcing federal laws or investigating criminal activity on National Forest System lands. Their involvement is usually at the special request of Agency law enforcement officials or because the criminal activity crosses into their jurisdictions. Also, these other agencies have their own areas of authority and do not have the staffing or funding to enforce or investigate the needs of the Forest Service.

082. Question: In this time of reducing government, is this not a good candidate?

Answer: No, law enforcement is an integral part of this agency's management responsibilities. We must enforce the Federal rules and regulations and investigate criminal activities if we are to protect the resources and provide a safe visitor environment. Our law enforcement personnel are specially trained in resource law enforcement and investigations. Having our own program is more efficient and effective than relying on other agencies that have no authority, interest, funding or staffing to provide law enforcement to this Agency. Other agencies do not give Forest Service resource investigations priority due to the length of time involved, complexity, and the fact that they have their own primary duties to fulfill.

ADDITIONAL QUESTIONS FROM GEORGE NETHERCUTT

ROAD PERMITS

As follow-up on an earlier question, the process of obtaining a permit to haul cut timber over U.S. Forest Service maintained roads has recently become more difficult and time consuming.

083. Question: Why has the time involved in obtaining such a permit been lengthened from weeks to months?

Answer: The actual processing and issuing of road haul permits by the Forest Service does take longer now than it used to. Additional coordination with other Departments and Agencies must occur. First, a biological evaluation is necessary to determine if there is any effect on endangered species due to the haul on Forest Service administered roads. If endangered species are involved then we may have to go through consultation with U.S. Fish and Wildlife or National Marine Fisheries Service. This can take a considerable amount of time. Section 106 of the Historic Preservation Act (16 USC 470, P.L.89-655) also requires consultation with the Advisory Council on Historic Preservation and that can also take additional time.

084. Question: What can be done to simplify this process?

Answer: Coordination requirements are established by laws and regulations that are outside the purview of the Forest Service to change.

TESTIMONY OF MEMBERS OF CONGRESS AND OTHER
INTERESTED INDIVIDUALS AND ORGANIZATIONS

TUESDAY, JANUARY 24, 1995.

NATIONAL ENDOWMENT FOR THE HUMANITIES

NATIONAL ENDOWMENT FOR THE ARTS

WITNESSES

LYNNE V. CHENEY, DISTINGUISHED FELLOW, AMERICAN ENTERPRISE
INSTITUTE FOR PUBLIC POLICY RESEARCH
EDWIN J. DELATTRE, DEAN AND PROFESSOR OF EDUCATION, SCHOOL
OF EDUCATION, BOSTON UNIVERSITY
WILLIAM J. BENNETT, CO-DIRECTOR, EMPOWER AMERICA
CHARLTON HESTON, ACTOR
FRANK HODSOLL, FORMER DIRECTOR, NEA

Mr. REGULA. Call to order the meeting of the Subcommittee on Interior Appropriations and related agencies.

We have a distinguished panel this afternoon. We want to get moving. I just have a few opening comments.

Two weeks ago we heard some thought-provoking testimony from witnesses with respect to how we could significantly reduce spending in this subcommittee's jurisdiction.

Virtually all of the groups appearing before this subcommittee recommended terminating Federal support for cultural activities, most especially the endowments. The Democratic Leadership Council Progressive Policy Institute's "Mandate for Change" holds that no Federal role is justified in arts and humanities.

Some of the witnesses to appear before us today will also make these recommendations. A publication by the Family Research Council, "The National Endowment: It Is Time to Free the Arts," concludes that "after years of debate and attempted reform, it has become clear that the National Endowment for the Arts is beyond reclamation and should be zero budgeted by the 104th Congress."

While I am not prepared today to take any position on the fate and the future of the endowments, I do think it is an appropriate forum to debate the role of the Federal Government in supporting the arts and humanities. Congress must ultimately address the policy issues of what if any is the appropriate Federal role.

What is the impact of the arts on the culture of this country and the impact of eliminating all Federal support? If in fact there is an appropriate role, what is that role and how should the endowments be restructured to better embody that function?

I think all of these are important questions for debate and discussion. Ultimately, however, the appropriate forum for the resolution of this debate is the authorizing committee.

Authorization for the NEA, NEH and IMS expired on September 30, 1993, and funding for these activities has been provided in both fiscal years 1994-95 without benefit of new authorizing legislation. And I would quote Rule XXI, subsection 2(a) of the House rules: "no appropriation shall be reported in any general appropriation bill or shall be in order as an amendment thereto for any expendi-

ture not previously authorized by law except to continue appropriations for public works and objects which are already in progress.”

I cite that rule of the House to make it clear that it is necessary to get an authorization for NEA, NEH, and also IMS in order for us to appropriate any funds. We have other functions that are also in the same category, such as the Bureau of Land Management, portions of the Endangered Species Act, the Pennsylvania Avenue Development Corporation, and a number of others.

We are happy to welcome our guests. I would yield to the Chairman of the full committee for an opening statement.

Mr. LIVINGSTON. Thank you very much, Mr. Chairman, and I share your remarks and appreciate your comments.

I want to welcome all of the witnesses. We are delighted that you could be here today. This hearing is in keeping with other hearings of this subcommittees, and other subcommittees, that this committee has held which have kind of put a new slant on things. Not so much are these hearings intended to simply look to new programs to spend money or more money to spend on existing programs, but more importantly we are looking for areas that will allow us to scale back the role of the Federal Government to whatever degree possible and to eliminate programs when they might become wasteful, inefficient, redundant, or unnecessary.

I am not saying that those adjectives necessarily apply to the functions of government that are the subject of this hearing, but I will say that two key questions apply. First, can we afford these functions of government? Can we afford the NEA, the NEH and the others that will be discussed here? And secondly, do we want to afford them?

On the first score, the fact is that funding the National Endowment of the Arts spans roughly \$170 million of taxpayers' money on functions that could easily be included in the some \$9 billion in private funds that are spent on arts throughout America in a single year. In fact, that was the figure, I think, for arts and humanities in 1993.

Secondly, I would suggest that there are reasons why the NEA has called into question the visibility or the wisdom of some of their own expenditures. In 1990 the NEA paid \$70,000 to fund a show featuring Sean Michel's alchemy cabinet which displayed a jar from the fetal remains from the artist's own abortion, according to Cal Thomas in an article that he has written recently. There is a litany of other similarly unwise expenditures. I think that it at least gives cause for the American taxpayer to question whether or not these taxpayers' funds should be taken from the average American citizen and given to people in the name of, quote, "art," unquote.

There are a number of issues that we could discuss here that follow that line. I will not go into those but I ask the witnesses to discuss them. I would ask that excerpts from two articles that I have brought with me be included for the record.

Mr. REGULA. Without objection.

[The information follows:]

[Excerpt provided by Mr. Livingston from editorial in the Washington Times, 7/21/94]

Mr. Athey begins his account of his work "4 Scenes in a Harsh Life" thus: "To open the show, I break out of the 'modern primitive' mystique by playing a factory worker in a baseball cap, having a drink at a strip club. Enter the fabulous black drag queen Divinity Fudge in a custom made bikini, a balloon dress, a black-and-blond beehive, and red Spandex gloves, her feet struggling in a new pair of high heels. Bump and grind. As Steakhouse M----r, I pop all the balloons and put the cigar out on Div's butt (she asked me to before the show). Then I smooch her on the legs, elsewhere, tummy, elsewhere and throat, then throw her to the ground. Julie and Pigpen come out and strip Div down to a man. They strap him in the cutting chair—the human printing press.

"I stand on a riser over Darryl Carlton, who plays Divinity Fudge—ed. and scrub his back with a Betadine solution. I recut existing scars (we cut and heal them up to three times). There are 12 cuts, each about one and a half inches long. That's three sets of three parallel lines, in a sort of perpendicular stair-step formation, a traditional African tribal pattern, and a triangle, the symbol of queerness. The bleeding is always heavy at first, but it slows down. Paper towels are pressed against the wound, making an imprint, then they are alternately passed to the two assistants, who clip prints to the line and send them out over the audience. The prints are not touching any heads. They only come close to a couple of people, mostly over the aisles or completely stage right. This act has been performed in L.A. for at least 2,000 people: three nights at Highways, one night at Los Angeles Theater Center, three club nights.

"When the lines are full, the factory workers and one of three trained tech people strike the lines, keeping them taut so they don't droop and brush anyone (although this happened once the first night at Highways). Plastic bags are taped underneath the pulleys, and the prints are bagged right there."

[Washington Post 1-23-95 Column by Jonathan Yardley]

We kept the arts out of the hands of government from the beginning. To be sure, the arts were almost nonexistent in the early years of the Republic, but as it grew and matured, and the arts did likewise, we left them to flourish or to falter on their own, that being, for better or worse, "the American way." Until the 1960s only one "arts program" of note had been initiated by the federal government, i.e., the various small agencies that offered jobs to artists and writers during the New Deal. The purpose of these agencies was not to establish a federal presence in the arts but to provide temporary employment for Americans who happened to have artistic or literary skills, and when the need for the agencies expired, so did they.

Still, early in its brief existence it achieved the status of entitlement for those who found themselves for the first time beneficiaries of federal largess, or, in most of their cases, smallness. The dollar amounts may be minuscule by comparison with others flung hither and yon by Uncle Sam—but the amount of indignation that can be mustered by those liable to lose these nickels and dimes is truly spectacular.

Mr. LIVINGSTON. I would like to make reference to and thank Ms. Lynne Cheney for her efforts as the former Director of the National Endowment of Humanities. She has since written a couple of articles, one of which appears in the Wall Street Journal today, but I am not going to steal her thunder, so I will not elaborate on what she has to say, except to thank her for her comments. I will thank her for her testimony along with Mr. Bennett, but there is something that she pointed out that I do think is worth noting.

President Clinton relied heavily on David Osborne in his Progressive Policy Institute and Democratic Leadership Council publication called "Mandate for Change" in his effort to reinvent government. And the book was called by the President, quote, "a bold new course for reviving progressive government in America."

In it, as Ms. Cheney points out, Mr. Osborne divides government programs into a number of categories, including one called, quote, "no Federal role is justified," end quote. And she points out that Mr. Osborne comes to the conclusion that that is exactly where he would put the arts and humanities.

Now, if the private sector can adequately support arts and humanities, then perhaps it should. My concern in this hearing and in the ones that have preceded on other subjects, is that when we see the nation of Mexico collapse and the savings of the average citizen in Mexico eroded or eradicated or reduced by 40 percent overnight, it would be unwise for us to believe that what happened in Mexico could not happen here.

Year after year we see ourselves compounding a debt of roughly \$250 billion every year on top of the debt accumulated in the previous year, so that the interest on that debt amounts to roughly 15 percent of the total amount the Federal Government spends on all functions of government. And the accumulated debt of some \$5 trillion can be broken down to roughly \$20,000 for every man, woman, and child in America, or \$80,000 for an average family of four.

I think it is the height of folly, Mr. Chairman, to think that debt can continue to accumulate without some disastrous consequence down the line, some potential for the same sort of disaster that has eroded the lifesavings of every Mexican citizen by the rapid and incredible—well incredibly disastrous reduction in the value of peso. Sooner or later Americans will have to pay the piper, and I think it is up to us as Members of Congress to avoid that catastrophe if at all possible.

So, again, I would urge that as we discuss these issues, there will be strong arguments on both sides, I have no doubt, but we should ask ourselves: Are these functions of government those which we can afford? And secondly, do in fact we want to?

Thank you very much, Mr. Chairman.

Mr. REGULA. Thank you, Mr. Chairman. I know you have a lot of subcommittees to cover.

For the benefit of the Members, the procedure that I anticipate today is to hear from our panel after I yield to the Ranking Minority Member for an opening statement, and once we have heard the panel we will go around the room on the five-minute rule with questions. At 3:00 o'clock, give or take, Mr. Charlton Heston and Mr. Frank Hodsoll will be here as witnesses and we will repeat the procedure. So we hope to give the witnesses plenty of time and also ensure that the Members have an opportunity to question them.

We are pleased to have Mrs. Cheney. If I went through her resume, we would be here the rest of the day. She was the Chairman of the National Endowment for the Humanities under President Bush and has been involved in a lot of other activities.

Mr. Delattre, who is a Professor of Education and also the Dean of the School of Education at Boston University.

And, of course, Mr. Bennett, who was the Chairman of the National Endowment for the Humanities under President Reagan, Secretary of Education under Mr. Bush, and also the drug czar.

So I think they bring to this hearing a lot of background, experience, and understanding of what we are discussing today.

With that, I will yield to my good friend, Mr. Yates.

Mr. YATES. Well, thank you, Mr. Chairman.

Your last statement lays the foundation for my very keen disappointment for the 180-degree flip-flop in the views of Mr. Bennett and Mrs. Cheney from the time only a few years ago when they were such ardent champions of the National Endowment for

the Humanities. I don't remember that they expressed any opinion for the record on what they thought of NEA and I just assumed they were supportive. But on NEH the hearings before our subcommittee are replete with their glowing statements of the achievements of NEH.

It is difficult for me to understand why they didn't make their complaints earlier, when one reads their statements and sees the nature of the complaints. It is the same NEH with the same functions; only the chairman is different. Is that the reason that their objections come up at the present time?

When Mrs. Cheney testified previously before this committee, she praised then Presidents Bush and Reagan time and again for recommending that the National Endowment for the Humanities receive an increased appropriation.

During the recession of 1992, Mrs. Cheney appeared before this subcommittee and said, "The budget we have presented reaffirms the administration's convictions that even during this time of fiscal constraints, added support for the humanities is an effective way for the Federal Government to help advance the educational and cultural health of the Nation."

On April 8th, 1987, she said, "Because of endowment, citizens in rural areas where there are few cultural institutions have programs that allow them to learn more about this Nation's history because the endowment gives high school teachers the chance to renew themselves intellectually in summer seminars because the endowment's superb scholarly works on the Constitution are adding meaning and depth to the celebration of the bicentennial of that document. NEH is a constructive presence in the intellectual life of the Nation. It is respected by the humanities community and the general public alike, as it should be."

In 1992, Mrs. Cheney thought the NEH was a worthy investment for America to make.

Even though the budget deficit was higher that year than it is today and yet despite our growing economy, Mrs. Cheney and her colleagues now ask us to abolish the NEH. How can a person advocate that an agency should receive \$187 million in funds in one year and then, less than three years later, believe that same agency should receive nothing?

The reasons she advances in her statement are, in my opinion, terribly weak at best. NEH is being politicized, she said. Well, I think that is same criticism that may be addressed to Mrs. Cheney's administration time and again. I would receive protests from humanities organizations and humanists that she was partial to conservatives in her grants. Certainly she is conservative in her philosophy and that has shown in her administration, as for example in the appointments of her Jefferson scholars.

Mr. Bennett, he also seems to have reversed himself on the issue of whether the endowment should exist. At a hearing before this committee on April 13th, 1983, Mr. Bennett stated his belief that the Federal Government should support the arts and the humanities. But now Mr. Bennett comes before us and tells us he has had a change in heart and says the government shouldn't be in the business of fostering the arts and humanities.

In 1983, this is what Mr. Bennett said, quoting from page 363.

"Mr. Bennett: I am often asked, Why is taxpayers' money being used to support a bunch of well-heeled scholars? That is kind of a typical question but it doesn't occur too often on academic campuses."

And Mr. Yates asked: "Well, how did you answer?"

"Mr. Bennett: Would you like to hear me on that side? I was hoping you would give me that opportunity."

"Mr. Yates: You will have that opportunity now."

And Mr. Bennett then goes on to say this: "I would say the same Founding Fathers, although they did not have or sponsor a National Endowment for the Humanities, would support the notion of a modest endowment that truly recognized the importance of the humanities to national life. James Madison says that he sees the vision of the future as that of learning and liberty leaning on each other. Learning institutions are the favored objects of free people, says Madison. That is the justification I want to go back to an endowment that really does help its citizenry appreciate the intellectual roots of this country, that fosters creativity, imagination, critical thinking about issues that matter, that brings them to an appreciation of art, literature, philosophy, that does have a place in Federal Government and a modest role. It has to do its job. It can't be sloppy. But if it takes its responsibilities seriously, it is well worth supporting because that is one of the sources of our strength as a Nation and a source of great pride."

To which Mr. Yates said, "Well, I think that is a pretty good statement."

Mr. Bennett says, "Thank you."

Now—

Mr. BENNETT. Thanks again.

Mr. DICKS. Isn't remembering history wonderful?

Mr. YATES. It is, yes. I think that that statement answers the part of his statement today I think that says that there was no basis for, in the Constitution and among the Founding Fathers, for the national endowments.

The endowments met those high goals for the Nation when Mr. Bennett and Mrs. Cheney chaired the NEH, and they continue to be a great source of pride today and they give value to the taxpayers for the funds they expend.

The fact is, the NEA and the NEH combined constitute less than 4/10,000s of 1 percent of the Federal budget. Every dollar the NEA and NEH give is matched by private contributions, as is pointed out so well in Mr. Bennett's statement. Often these matches are up to \$11 in private money for every \$1 the endowments contribute.

I think it is important for our witnesses today to be reminded of a few of NEA's many accomplishments. Before the creation of NEA and NEH in 1965, there were only 37 professional dance companies in America. Today, mostly because of NEA, there are nearly 300.

Prior to the NEA, there were only 27 opera companies. Today there are 110.

In 1965, there were 58 orchestras. Today there are more than a thousand.

And as the facts prove, the arts and the humanities are not just enjoyed by the cultural elites, to use the phrase as used by the witnesses in their statements. Each year 24 million people from all

walks of life go to symphony performances and 18 million people attend the opera. Sixteen million see dance programs.

Perhaps most dramatic of all is the increase in the number of theater-goers. Before the NEA, only one million each year attended the theater. These were truly the cultural elite. Thanks in part to NEA, over 55 million people now go to the theater each year. These 55 million include construction workers, homemakers, bus drivers, farmers, and janitors. And far from being a play thing for the wealthy, as some have accused, the NEA is actually bringing the arts to people who had been previously denied access to them.

I hope that this committee and the Congress as a whole will have the courage and the wisdom to protect America's cultural heritage and maintain funding for the NEA and NEH.

Thank you, Mr. Chairman.

STATEMENT OF LYNNE V. CHENEY

Mr. REGULA. Thank you.

Okay. Mrs. Cheney, you are up to bat.

Mrs. CHENEY. Thank you very much. It is a pleasure to be here with you, Mr. Chairman, and your lovely words for me to be able to say, and the other Members of the committee as well.

I do agree entirely with Congressman Dicks that historical memory is a good thing. But it is a good thing to have the whole of historical memory and not just half of it.

Mr. YATES. I have all the hearing here.

Mrs. CHENEY. I did regularly come before this committee and testify about the good works that the National Endowment for the Humanities has done. I was very proud to be Chairman of the agency and very proud to report on the many, many good things this endowment had accomplished.

But, Mr. Yates, I also reported regularly on problems in the humanities. I issued a series of reports that got me in a great deal of hot water with the cultural elite, with the establishment of academics on our campuses. So I was not just talking about the good things. I was talking very much at length about problems as well.

As you will remember in that last hearing, one of the issues was a grant that I had turned down. It was a grant to produce a multi-part series on the world at the time of Columbus's expedition. In this series, the European explorers, Columbus in particular, was condemned as a genocidal maniac, while on the other hand the Aztecs—this was a little ahistorical here, but not entirely—the Aztecs who practiced human sacrifice on a massive scale were said to be a gentle and peace-loving people. I turned this grant down.

The historical establishment rose up and roundly denounced me, though I had done exactly what the taxpayers had paid me to do and that was to keep the endowment from becoming politicized.

So I reported regularly on problems. I made public statements about problems. There are many problems you need to be aware about. I know that you will hear endless testimony about the good things these endowments have done, but honesty compels to tell you that it is not all good news.

When I first arrived at the endowment in 1986 I was faced with a multi-part television series entitled "The Africans" that had been funded by one of my predecessors. This project had been rightfully

funded. It had received excellent ratings from the panels. It promised to present a multiplicity of views on Africa. It promised to give us a range of opinions about the history, the art, the politics of Africa. But between the time the grantees were given a million dollars and they produced a series, something very odd happened. The series became totally the opinion of one man, presented only the idiosyncratic opinions of professor Ali Mazuri, who proceeded to blame everything that had ever gone wrong in Africa, every moral, economic, and political problem, on the West.

There was one particularly bizarre scene in the series in which Sergeant Doe, Samuel Doe, blew away his competitors on the beach in Liberia, and this scene blamed that murderous event on the West because it was said we had invented the weapon.

So this was the first intellectual shell game I encountered at the endowment and I wrote op-ed pieces and I denounced this piece and I spoke out very forcefully about this problem.

I recently had the dreadful experience of seeing what happened to my grant to produce national history standards. Instead of producing standards that are well balanced, instead of producing standards that tell us about the triumphs of this Nation, about our accomplishments as well as being very honest about where we had failed, the national history standards give us a grim and gloomy picture of the American experience. It is not what you and I would want to have our children learn in school.

I was gratified that 99 Members of the United States Senate recently condemned the national history standards, and I would point out to you that 99 Members of the United States Senate includes Senator Ted Kennedy, it includes Senator Paul Wellstone, it includes people who are not of notably conservative bent. So there are indeed problems in the humanities.

I will focus for just one minute on one of the problems with history standards because it something I haven't had a chance to talk about before. There is this remarkable passage in the world history standards where fifth and sixth graders are told about the end of World War II. They know about it from reading one thing. They are instructed to read one book, a book by Eleanor Core called "Sad Ako."

There is nothing inherently wrong about this book. It is a very touching book about a little girl, the same age as the fifth and sixth graders who are reading it, who dies a slow and painful death from leukemia as a result of the radiation from the bomb dropped on Hiroshima. There is nothing wrong with this book or having children read it, but it is the only thing that fifth and sixth graders know about the end of the war.

They have no notion that there were Japanese atrocities committed. They know nothing about the Bataan death march. They know nothing about the rape of Nanking. They know nothing about Pearl Harbor. They know nothing about casualty estimates if we had had to invade Japan. They only know that they are guilty of a horrendous act of violence against innocence.

This is not the kind of history we should be teaching in our schools. This is what the grant from the National Endowment for the Humanities produced.

As I say, I always tried very hard to be honest about our problems. We looked down the hall at NEA with great puzzlement because it did not seem to us that they were discussing fully and frankly with the American people why the NEA and NEH were in difficulty, not discussing the effect that most modernism has had: the attack on objectivity; the attack on standards. This accounts for much of what we see in our museums, which is horrendous.

I would recommend that anybody who didn't have a chance to see the 1993 biennial at Whitney Museum get the catalog and look and get something of the idea of the effect of post-modernism on the arts. This was an exhibit that was full of artworks that were deliberately scrawled, deliberately distasteful as a way of indicating that the standards were tools of the white male establishment.

There is great difficulty in the arts and humanities, and one of my concerns is that the funding that the government puts into it helps perpetuate these tendencies, these trends, these fads for much longer than they would otherwise be around if they simply were allowed to play themselves out in a private and in a free enterprise system.

I found myself and my senior staff much enlightened about what was going on at the National Endowment for the Arts, trying to understand the culture of an agency that never talked about its problems unless they erupted into public consciousness.

When we read a book by Michael Straight, a biography of Nancy Hanks that came out about that time, and in the biography Michael Straight recounts his having been shocked once when he was asked to sign off on NEA grants. And they were for such purposes as one artist wanted to drip ink in a continuous line between Hayley, Idaho, and Cody, Wyoming. Another wanted to gather his pet pig and several other wild animals around him and live in a little house and imitate The Peaceable Kingdom.

Mr. Straight would not sign these grants. Ms. Hanks got out of her sick bed, came to the endowment, and then changed the procedure to the one that I believe still prevails at the arts endowment, whereby artists are not asked what they are going to do. And my opinion, it is because the arts endowment doesn't want to know.

So I had a problem similar to yours, Mr. Yates, the one you suggested was true of me. I felt the arts endowment was not as honest and open about what it was doing as it should be and as the American people deserve for it to be.

There are many things that are going on that shouldn't be going on with taxpayers' money. There are many good things that do go on.

Let me focus on the positive for a minute. There are good things. I cite them in my testimony. The Benjamin Franklin papers, the Frederick Douglass papers, the Jane Addams papers. The Dante database at Princeton is a fine project that is important to scholarship.

We do need to find ways to provide private support for these efforts. We need to encourage them through private funding.

I mention in my testimony that I recently have become chairman of a group called the National Alumni Forum that will have as one of its purposes trying to appoint alumni who are really quite dis-

tressed with what is going on in campuses, often to the really good things they can help colleges and universities to help perpetuate.

The endowments have done many good things, they have done some bad things, but I do have to agree with Mr. Osborne there is no ultimate justification for them. And let me assure you I think this is so important. I have never seen a lobbying effort like the one that has been built up to make sure that the public funding continues for these endowments. I have never seen anything like it. And I have been around politics a long time.

I spent a lot of time roaming Internet and I recently came across just a few days ago a 900 number that you can call. You call the 900 number and you tell them I want to be sure there is public support for that. They get the letter typed up and they get it to the right Congressmen and you pay through your phone call. That is quite artful. Maybe those of you who are on this committee know more than I. I found that amazing. If we could channel that energy into securing private funding for the arts and humanities, we would have a renaissance of art and culture in this Nation.

Let me just end by asking you to look around this room, because this is so interesting to me. Look around this room. Look at the posters on the walls, wonderful posters. There is Degas and Man Ray and Ryder and Gaugin and Matisse. None of these works of art were produced with public funding.

Mr. YATES. I put them there.

Mr. REGULA. There are going to be some changes.

Mrs. CHENEY. I hope not because they are very, very beautiful. The point is, they did not need public funds to be produced.

Thank you very much.

[The prepared statement and biography of Mrs. Cheney follow:]

Testimony of Lynne V. Cheney, W.H. Brady, Jr. Distinguished Fellow, American Enterprise Institute; Chairman, National Endowment for the Humanities, 1986-1993, before the Interior Appropriations Subcommittee on January 24, 1995.

The National Endowment for the Humanities (NEH) has sponsored some fine projects over the years, as I am confident that the various cultural interest groups coming before this committee will emphasize. But honesty requires me to say that the National Endowment for the Humanities has also sponsored projects unworthy of taxpayers' funds. And in a time when we are looking at general cutbacks in funding to many groups, including to welfare mothers and farmers, it is time to cut funding for cultural elites.

But it is not just the state of our national budget that leads me to this conclusion; it is also the state of the humanities. The humanities--like the arts--have become highly politicized. Many academics and artists now see their purpose not as revealing truth or beauty, but as achieving social and political transformation. Government should not be funding those whose main interest is promoting an agenda; and, as Chairman of the NEH, I was often able to keep this from happening. I remember one film project that used a most decided double standard to judge Western civilization. It

declared Christopher Columbus guilty of "genocide," while portraying the Aztecs, who practiced human sacrifice on a massive scale, as a gentle, peace-loving people. When I vetoed this project, the historical establishment rose up to denounce me roundly for, ironically enough, "politicizing the NEH"--but, in fact, I had done what the taxpayers had hired me to do--kept their money from being used to promote a political viewpoint. It is impossible, however, given the current state of the arts and humanities, always to be successful at this effort. People will come along and declare their allegiance to objectivity and to providing projects that are balanced; but once they get the money, they will use it in ways quite different from what they promised. Two such instances stand as bookends, of a sort, to my career at the NEH.

When I first arrived at the NEH in 1986, I found myself faced with a nine-part television series called "The Africans." It had been funded by one of my predecessors, as well it should have been. The application promised to present a wide spectrum of views on Africa, an abundance of opinions about her history, art, and politics. The panelists who evaluated the project gave it uniformly excellent grades. But between the time the funds were granted, a million dollars I believe, and the film was in final form, a sea change occurred. Instead of a variety of opinions, we had the

idiosyncratic opinions of one man--Professor Ali Mazrui--who blamed every economic, moral, and political failure that had ever occurred in Africa on the West. I remember one particularly bizarre point in the film which showed Sergeant Doe of Liberia murdering his rivals on a beach. The voiceover blamed the murders on the West--because the West had invented the guns that Sergeant Doe and his goons were using in the killings.

That was one of the first NEH projects I had to deal with. One of the last--the National Standards for History--involved the same kind of intellectual shell-game. The application promised to build standards on the basis of a previously published document, Lessons From History, that presented the story of the U.S. and Western civilization fully and frankly. It was multicultural, including figures like Sojourner Truth, who were overlooked in the past; but it also paid attention to our traditional heroes: George Washington, Daniel Webster, Robert E. Lee. It dealt with our failures, but also with our triumphs, describing the American Revolution, for example, as part of "the long human struggle for liberty, equality, justice, and dignity." The standards that were produced bore little relation to the promises made about them. In the interests of inclusion--of discussing Harriet Tubman, a worker on the underground railroad, six times--a new kind of exclusion was introduced. Two of Tubman's white

male contemporaries, Ulysses S. Grant and Robert E. Lee, were discussed one and zero times, respectively. The Indian warrior Tecumseh was discussed five times, while World War II general Douglas MacArthur appeared once. Some of America's most dazzling achievements--in science for example--were paid almost no attention. Alexander Graham Bell, the Wright Brothers, Thomas Edison, Albert Einstein, Jonas Salk, Neil Armstrong--none of these figures appears in the standards. Senator Joseph McCarthy, by contrast, comes up 19 times.

Let me just focus for a minute on what may be the single most irresponsible part of the National Standards. It comes in the World History Standards, in the section for 5th and 6th graders about the end of World War II. Students are encouraged to read a book about a Japanese girl of their age who died a painful death as a result of radiation from the atomic weapon that the United States dropped on Hiroshima in 1945. And this is **all** that they are encouraged to learn about how the war was ended. No mention is made of why American leaders decided to drop atomic bombs, about the casualties that they believed would have been suffered in an invasion of Japan, for example. No mention is made of the death and destruction that the Japanese inflicted on others. The rape of Nanking is not discussed, nor is Pearl Harbor, nor is the Bataan death march. What

fifth and sixth graders would be likely to carry away from the world history standards is that their country was guilty of a horrible--and apparently unjustified--act of cruelty against innocents.

When it comes to the Cold War, the standards make it seem as though it was a struggle between two equally culpable superpowers, each bent on world domination. The single most salient fact--that it was a struggle between totalitarianism, as represented by the Soviet Union, and liberty, as represented by the United States--gets little attention. One might almost conclude from the World History Standards that it would have made very little difference how the Cold War ended. This is not what we should be teaching in our schools; and I must say, I was extremely gratified a few days ago when 99 members of the U.S. Senate made exactly that point.

So these are the bookends to my chairmanship, and they are related in another way as well. One of the recommended resources for the World History Standards is the film "The Africans." Mistakes in the humanities have a very long half-life.

When things went wrong at the NEH, my response as Chairman--and as former Chairman--was to talk about the problem, even to write op-ed

explaining the issues at hand. The American people deserve an honest accounting, not only about how their dollars are being spent, but about why the NEA and the NEH are in the trouble that they are. I think it is very important that the public understand, for example, the disastrous effects that a prolonged period of postmodernism has had. It is easy enough for grant recipients to toss objectivity to the winds since the postmodern view is that objectivity is an illusion--one that the white male power structure uses to advance its interests. In a world where there is no objectivity, there are no standards outside ourselves by which to judge our work, not scholarly ones and not aesthetic ones. Anything that has been designated as a standard becomes an object of mockery; and so major art museum shows exhibit works that are contemptuous of ideas like originality and formal coherence, works whose subjects chosen to be as disgusting as possible: puddles of vomit, piles of excrement, photographs of corpses.

The American people deserve to understand this--to understand why their money supports artists who submerge a crucifix in urine and hang out in morgues. I must say, however, that in the years I spent down the hall from the Arts Endowment, I had no impression that they were interested in providing this enlightenment. The idea, or so it seemed to this close observer, was never to admit to a problem--indeed, to try very hard not

even to know when there was one. This seemed to have been ingrained in the culture of the NEA from its earliest days. In his biography of NEA's first chairman, Nancy Hanks, Michael Straight tells about a time in the 1970s when Hanks was ill and he was asked to award grants to artists who wanted to do such things as "make a loop tour of the Western U.S., dripping ink as I go, from Hayley, Idaho, to Cody, Wyoming." When Straight refused to make the awards, Hanks came from her sick bed to sign the letters, and she subsequently made a change in the program. According to Straight: "From that time on, artists were not required or even asked to tell us what they would do with the thousands of dollars which we might give to them." Straight adds: "Plainly, Nancy felt it was better not to know." When those of us working at the NEH read this story, it seemed to explain much of what we saw going on down the hall. Denial was NEA policy until something outrageous that the NEA had funded erupted into public consciousness. Even then, most of the denial stayed firmly in place, allowing the arts endowment to claim, "Yes, but that's our **only** problem. 99.9% of our grants are great." A notable exception to this pattern was provided by Chairman Anne Radice, who was, in my experience, the arts endowment's most courageous leader.

So, you are going to hear a lot from cultural lobbyists about the good

these two endowments have done, but you must keep in mind that much they do is not good: that their activities even act against the interests they are supposed to serve. The cause of the humanities is not advanced by the hundreds of thousands of dollars that were spent on the National History Standards. The cause of the arts has not been served by funding artists who have crucified themselves to Volkswagens or smeared chocolate and bean sprouts on their bodies. Government funding in such instances is, in fact, counterproductive--encouraging fads and trends that without taxpayer support would soon run themselves out.

But let me return for a minute to some of the good things that government funding has made possible and consider how they can be supported by the private sector. In the case of the NEH, some of the most valuable projects are those that preserve our national heritage and the heritage of Western civilization. The papers of Benjamin Franklin, for example, and those of Jane Addams and Frederick Douglass. The Dante database at Princeton, supported by the NEH, is an invaluable scholarly tool. How can we make sure that such projects continue? One way is to direct private support to them. I have recently become chairman of a charitable organization called the National Alumni Forum. The organization has several purposes, but one is to point alums, who are tired

of having their gifts used to perpetuate the radical revisionism that is becoming common on our campuses, toward the sound and serious scholarship that is also being undertaken and encourage them especially to support those projects that help preserve the fullest memory of our nation. Let me suggest, as well, that if all the arts and culture lobbyists in this room were to turn their energies to securing private funds instead of increasing public subsidies, the good projects of the NEH and NEA would be in no danger at all.

Through such private efforts, the serious work of scholarship and art can continue and the federal government can remove itself from an area where it has no justified role. And let me, in conclusion, be clear, that the idea that the federal government does not belong in the arts and humanities is not just a Republican opinion. In 1993, the Progressive Policy Institute, an offspring of the Democratic Leadership Council, published a document called Mandate for Change, a book that President Clinton called "a bold new course for reviving progressive government in America." In it, author David Osborne divides government programs into a number of categories, including one called "no federal role is justified." It is exactly there that he puts the arts and humanities, and he is exactly right.

American Enterprise Institute for Public Policy Research**LYNNE V. CHENEY**

Lynne V. Cheney is currently the W.H. Brady, Jr., Distinguished Fellow at the American Enterprise Institute for Public Policy Research (AEI), an independent, nonpartisan organization sponsoring original research on domestic and international economic policy, foreign and defense policy, and social and political issues.

Prior to becoming a fellow at AEI, Mrs. Cheney was Chairman of the National Endowment for the Humanities from 1986 through 1992.

Mrs. Cheney's articles on education and culture have appeared in The New York Times, Newsweek, The Wall Street Journal, The Washington Post, The Christian Science Monitor, and many other publications. In addition, she has been a featured guest on TV news programs such as "The Today Show," "This Week with David Brinkley," "The MacNeil-Lehrer News Hour," and "Firing Line."

Mrs. Cheney, who holds a Ph.D. in English, has taught at several colleges and universities and was a senior editor at Washingtonian magazine. She is the author of two books; co-author of two others, including Kings of the Hill which she wrote with her husband, former Secretary of Defense, Richard Cheney.

Mrs. Cheney serves on a number of corporate and philanthropic boards. She is writing a book on the social impact of current cultural trends in the United States.

Mr. REGULA. Thank you, Lynne.

I think you overlooked Ken Burns and the Civil War series. The NEA is only a little envious of the great success NEH enjoyed from this series and the credit they received.

And I yield to my friend.

Mr. YATES. More than that, Mr. Chairman, this is called a digitalized book. You and I and the rest of our committee started a humanities project. This is to stop, to the best that we can, what is going on in this country in the way of the destruction of books. A third of the books in this country are slowly disintegrating. And we put money in the humanities and we started the humanities in a consortium with some of the great universities of the country to put books into restore.

Now, this is the same book that has been restored. This book is just almost completely destroyed. The pages are going to disintegrate, but this is the new book. That is the same book that has been printed from this book as a result of the funds that this committee put into the National Endowment for the Humanities.

The point I am making is NEH has a lot of good works that it undertakes. And its staff is superb. The staff that you put together, Mrs. Cheney, I must say—I don't remember Mr. Bennett's staff—but your staff was a very good staff. And that is one of the great programs that NEH does.

Mr. KOLBE. Mr. Chairman, are we going to hear from the other witness?

Mr. TAYLOR. We do that through the Legislative Branch, also, so it may be duplicative.

Mr. YATES. Mr. Taylor, you do it for the Library of Congress.

Mr. REGULA. Mr. Delattre.

STATEMENT OF EDWIN J. DELATTRE

Mr. DELATTRE. Thank you, Mr. Chairman.

Ladies and gentlemen, since 1969 I have worked for institutions that were from time to time awarded grants by the National Endowment for the Humanities, as in the case of St. Johns College in Annapolis, Maryland and Santa Fe, New Mexico, where I served as President from 1980 to 1986, and also for institutions which have enjoyed grants from the National Endowment for the Arts.

I have served as a peer reviewer for NEH, as a member of the advisory boards of the State Humanities Councils in Maryland and New Mexico.

From 1988 until 1994, I was a member of the National Council of the National Endowment for the Humanities, and in 1993 and 1994 served as its vice chairman. Some of my closest and most respected friends work at NEH, and I concur with Mr. Yates: They are wonderful people.

Despite these close personal and professional ties, I have reached the conclusion that the public interest would best be served by an end to the two endowments, and even more certainly by an end to the Department of Education, with which I have likewise worked closely with many years.

My conclusion that we should eliminate the two endowments is one that I have reached with sadness and with great appreciation for their real and undeniable achievements, but as has been noted,

the conclusion puts me partly in agreement with "Mandate for Change" and with the view that no Federal role is justified in the arts and humanities. I do not share that view in its entirety, as I will make clear before I am finished.

Arguments against the continuation of two endowments are far different from arguing that the humanities and the arts are inconsequential in the life of a nation and of a people. My work with education, cultural and law enforcement leaders, including the leading figures in drug enforcement in the Soviet Union and the Eastern Bloc and now Russia, confirms the grim effects for the public interest when tyranny undermines the humanities and the arts as well as intellectually honest teaching and scholarship.

But the well-being of the humanities and the arts in the United States is not in fact dependent upon the two endowments and in many instances Federal funding by the endowments has militated against both intellectual quality and the public interest.

As "Mandate for Change" rightly notes, grantsmanship has become a recognized profession. Many private consultants make a living at it. Highly skilled proposal writers have succeeded in securing funding for arts and humanities projects that are not ineluctably responsible and merely advance the various ideological agendas of self-interested groups, and no matter how conscientious the staff of an agency is, it is not always possible for them to prevent this kind of thing from happening.

In my judgment, this condition is inescapable, especially in the National Endowment for the Arts, whose patterns of funding frequently show organizational decisions to be based on allegiance to a constituency within the arts rather than to the public. This self-appointed constituency has been transparently self-serving in its view of Federal funding as a virtual entitlement and in its preposterous and corrupting insistence that denying funds to any proposal in the arts amounts to censorship and abridgement of freedom of expression.

Despite specific and acclaimed successes, the pathetic and sometimes catastrophic record of public programming supported by the endowments has resulted in part from the fact that once a proposal is funded, oversight and intervention by endowment staff are likewise condemned and may actually from time to time be censorship.

I believe that this wrongful sense of entitlement, and some of the problems of the endowments have been compounded by the Congressional declaration of purpose for the endowments in Chapter 26 of Title XX on education.

There the Congress said within a statement of support for preservation of our, quote, "multicultural artistic heritage," the Congress said, "The arts and the humanities reflect a high place accorded by the American people to the Nation's rich cultural heritage and to the fostering of mutual respect for the diverse beliefs and values of all persons and groups."

If you work the streets with police as I do, where the homicide and drug trafficking rates in this country are worse, you would not suppose that the values and beliefs of all people and groups such as urban gangs and organized criminal conspiracies deserve the respect of anyone in America.

Unfortunately, the declaration announces that we should give our respect indiscriminately as though we should respect the values of those who would use Federal funding to support the artistically banal, the politically biased, the tasteless, and the offensive. We should no more respect and practice the beliefs of those who would teach the young the false lesson that the history of the United States is nothing but a record of bigotry, rapaciousness and contempt for human dignity than we should respect the beliefs of those who teach them that our country deserves a reputation for unblemished decency and virtue.

The truth matters. Despite the good intentions of the Congress, respect is too precious a thing to be accorded so loosely, and in the arts and humanities, considerations of merit, considerations of truth, respect must always prevail over entitlement.

The problem of quality in public programs is particularly bad with respect to NEH in the State Humanities Councils. There, accountability is particularly weak. Jealous protection of the current prerogatives of councils has stood in the way of their becoming State agencies accountable locally for responsible decisions and actions. They are better positioned to lobby for both funding and influence than other decisions of the endowment, and they have succeeded in increasing their budgets without elevating their programs or becoming as accountable as the other divisions of the endowment are.

Were the Congress to decide that NEH should be continued, in my judgment it should nonetheless have a careful look at the conditions of the State-based program.

In addition, both endowments in practice encourage a cycle of cultural dependency as surely as seductive government benefits yield a cycle of welfare dependency, despite the fact that both culture and scholarship were alive and well in America before the establishment of the endowments. We are now told by some that the arts and humanities would decline or collapse without the endowments. That claim is belied by the many cultural and educational institutions that flourish without endowment funding and by the extended unfunded work of scholars and artists throughout the country.

My experience shows, I think conclusively, that many truly splendid proposals to the endowments fall victim to biased judgments by ill-chosen peer reviewers and to foolish priorities advanced by political appointees. But the scholars and artists who, often dedicated as they are, sometimes manage through personal sacrifice and the support of their home institutions to accomplish the work they rightly set out to do all the same.

Furthermore, the existence of the endowments has generated a bad and unintended consequence that private foundations have dramatically reduced support of scholarly fellowships. Scholarly fellowships are indeed central to the academic and intellectual enterprise of this country, but private foundations have reduced their funding in favor of public policy grants, and other kinds of awards, I think in part because of the availability of endowment funding.

Given the inevitable political turnings of government institutions, the ups and downs of leadership by political appointment, and the temptation felt by practitioners in any field to pursue whatever government funds happen to be available, and to be available for, I think this condition cannot adequately promote vitality, individuality, and diversity of scholarship in the United States.

But let me conclude by saying, reminding you that I said at the outset that I agreed only in part—only in part—with “Mandate for Change.” I do not believe that the claim there is no proper role for the Federal Government in the arts and in the humanities is entirely true. I believe that the Federal Government does have responsibilities in the humanities and the arts but that these are largely separate from the question of the future of the two endowments.

In my judgment, the Federal Government has inescapable obligations to provide adequate funding for the Library of Congress, the National Archives, the Federal museums that belong to the American people, the preservation of the historic sites, and, as you have quite rightly pointed out, Mr. Yates, the intellectual print heritage of the country and the Federal Government is also responsible for the quality, the highest possible quality, of instruction in our military academies and such crucial educational institutions as the FBI Academy and the Federal Law Enforcement Training Center at Quantico.

The fulfillment of these obligations depends on commitment to the highest and best intellectual standards in the humanities and the arts as well as the sciences and the mathematics, but it does not depend or it should not depend on the contingency of grant funding from the endowments.

I also believe that the Congress should ask the governors of the States how best to enable the flourishing of the opera, symphonies, dance companies and theaters that enrich the lives of the public and also how best to help the States encourage partnerships with schools, colleges, and universities where dedication to the arts, the humanities, the sciences and mathematics would be genuine and serious, and where partnerships between the schools, colleges, and universities with the schools would elevate educational opportunity for children as well as for youths and adults.

But in spite of the deeply honorable and intellectually admirable work of my colleagues and friends at the National Endowment for the Humanities, I believe that the obligations of the Federal Government to the public and to the public interest can best be advanced without the perpetuation of the two endowments.

Thanks very much.

[The prepared statement of Mr. Delattre follows:]

HOUSE APPROPRIATIONS SUBCOMMITTEE
ON INTERIOR AND RELATED AGENCIESSTATEMENT
Edwin J. Delattre
January 24, 1995

Since 1969, I have worked for institutions that were from time to time awarded grants by the National Endowment for the Humanities and the National Endowment for the Arts. I have served as a peer reviewer for NEH and as a member of the advisory boards of the State Humanities Councils in Maryland and New Mexico. From 1988 until 1994, I served as a member of NEH's National Council on the Humanities, and in 1993 and 1994 as vice chairman of the Council. Some of my closest and most respected friends work at NEH.

Despite these close personal and professional ties, I have reached the conclusion that the public interest would be best served by an end to the two Endowments and, even more certainly, by an end to the United States Department of Education, with which I have likewise worked closely for many years. My conclusion that we should eliminate the two Endowments, which I have reached with sadness and with great appreciation for their real and undeniable achievements, puts me partly in agreement with *Mandate for Change*, a 1993 publication of the Democratic Leadership Council's Progressive Policy Institute. Endorsed by President Clinton as "a bold new course for reviving progressive government in America," *Mandate for Change* holds that "no federal role is justified" in "Arts and Humanities."¹

Arguing against the continuation of the two Endowments is far different from arguing that the humanities and the arts are inconsequential in the life of a nation and a people. My work with education, cultural, and law enforcement leaders from Eastern Europe and Russia confirms the grim effects for the public interest when tyranny undermines the humanities and the arts as well as intellectually honest scholarship and teaching.

But the well-being of the humanities and the arts in the United States is not dependent on the two Endowments, and in many instances federal funding by the Endowments has militated against both intellectual quality and the public interest. As *Mandate for Change* rightly notes, "Grantmanship has

¹ David Osborne, "A New Federal Compact: Sorting Out Washington's Proper Role," in *Mandate for Change*, edited by Will Marshall and Martin Schram (Washington, DC: The Progressive Policy Institute, 1993), p. 251.

become a recognized profession. Many private consultants make a living at it."² Highly skilled proposal writers have succeeded in securing funding for arts and humanities projects that are not intellectually responsible and that merely advance the various ideological agendas of self-interested groups. It is not always possible for even the most conscientious staff members to keep this from happening.

This condition is inescapable, especially in the National Endowment for the Arts, where patterns of funding frequently show organizational decisions to be based on allegiance to a constituency within the arts, rather than to the public. This self-appointed constituency has been transparently self-serving in its view of federal funding as a virtual entitlement and in its preposterous and corrupting insistence that denying public funds to *any* proposal in the arts amounts to censorship and abridgment of freedom of expression. Despite specific and acclaimed successes, the pathetic and sometimes catastrophic record of public programming supported by the Endowments has resulted in part from the fact that once a proposal is funded, oversight and intervention by Endowment staff are likewise condemned as, and might sometimes actually be, censorship.

The wrongful sense of entitlement to federal funding through the Endowments has been compounded by the "Congressional *Declaration of Purpose*" for the Endowments in Chapter 26 of Title 20 on Education. Within a general statement of support for preservation of our "multicultural artistic heritage," the legislation says:

The arts and the humanities reflect the high place accorded by the American people to the nation's rich cultural heritage and to the fostering of mutual respect for the diverse beliefs and values of all persons and groups.³

Unfortunately, this declaration announces that we should give our respect indiscriminately, as though we should respect the values of those who would use federal funding to support the artistically banal, politically biased, tasteless, and offensive. We should no more respect the beliefs of those who would teach the young the false lesson that the history of the United States is nothing but a record of bigotry,

² *Ibid.*, p. 238.

³ U.S. Code Title 20 - Education; Chapter 26 - Support and Scholarship in Humanities and Arts; Museum Services; Subchapter 1 - National Foundation on the Arts and the Humanities; Sec. 951 (Sec. 2), Congressional Declaration of Purpose.

rapaciousness, and contempt for human dignity than we should respect the beliefs of those who would teach them that our country deserves a reputation for unblemished decency and virtue. Despite the good intentions of the Congress, respect is too precious a thing to be accorded so loosely, and in the arts and the humanities considerations of merit must always prevail over entitlement.

The problem of quality in public programs is particularly bad in the State Humanities Councils. There, accountability is especially weak. Jealous protection of the current prerogatives of the Councils has stood in the way of their becoming state agencies accountable locally for responsible decisions and actions. Better positioned to lobby for funds and influence than other divisions of the Endowment, the State Humanities Councils have succeeded in increasing their budgets without elevating their programs or becoming duly accountable. Were the Congress to decide that NEH should be continued, it should, nonetheless, take steps to remedy the specific problems of the state-based programs.

In addition, both Endowments encourage a cycle of cultural dependency, as surely as seductive government benefits yield a cycle of welfare dependency. Despite the fact that both culture and scholarship were alive and well in America before the establishment of the Endowments, we are now told that the arts and the humanities would decline or collapse without the Endowments. That claim is belied by the many cultural and educational institutions that flourish without Endowment funding, and by the extended, unfunded work of scholars and artists throughout the country. Many truly splendid proposals to the Endowments fall victim to biased judgments by ill-chosen peer reviewers and to foolish priorities advanced by political appointees—but the scholars and artists who author them sometimes manage through personal sacrifice and the support of their home institutions to accomplish the work all the same.

Furthermore, the existence of the Endowments has generated the bad and unintended consequence that private foundations have dramatically reduced support of scholarly fellowships—in favor of public policy grants and other funding—because of the availability of Endowment funding. Given the inevitable political turnings of governmental institutions, the ups and downs of leadership by political appointment, and the temptation felt by practitioners in any field to pursue whatever government funds happen to be available, this condition cannot adequately promote vitality, individuality, and diversity of scholarship in the United States.

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STATEMENT
Edwin J. Delattre
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Let me conclude by repeating my observation that I am *partly* in agreement with the view expressed in *Mandate for Change* that "no federal role is justified" in the arts and the humanities. I believe that the federal government does have responsibilities in the humanities and the arts, but that these are distinct from questions about the future of the two Endowments. In my judgment, the federal government has inescapable obligations to provide adequate funding for the Library of Congress, the National Archives, the federal museums that belong to the American people, the preservation of historic sites and the intellectual print heritage of the nation, and for the highest quality of instruction in our military academies and such educational institutions as the FBI Academy and the Federal Law Enforcement Training Center. The fulfillment of these obligations depends on commitment to the highest intellectual standards in the humanities and the arts, but does not and should not depend on the contingency of grant funding from the Endowments.

I also believe that the Congress should ask the governors of the states how best to enable the flourishing of the operas, symphonies, dance companies, and theatres that enrich the lives of the public, and how best to help the states encourage partnerships of schools, colleges, and universities that would elevate educational opportunity for children, youths, and adults. But, in spite of the deeply honorable and intellectually admirable work of my colleagues in the National Endowment for the Humanities, I believe that the obligations of the federal government to the public, and the public interest, can best be advanced without the perpetuation of the two Endowments.

Thank you.

Edwin J. Delattre
Dean and Professor of Education
School of Education
Boston University

Professor of Philosophy
College of Liberal Arts

STATEMENT OF WILLIAM J. BENNETT

Mr. REGULA. Thank you.

Mr. Bennett.

Mr. BENNETT. Thank you, Mr. Chairman. Nice to see you again.

Mr. Yates.

Mr. YATES. Glad to see you, Mr. Bennett.

Mr. BENNETT. Long time since 1983.

Mr. DICKS. All those years of deficits.

Mr. BENNETT. A lot of deficits, Mr. Dicks, and a lot of learning for me, too.

Through the 1970s, I remember I thought the single life was the good life. I learned that wasn't true. I was probably more sympathetic to this kind of project than I am now. I was even a Democrat back then. So one can live and learn and develop one's views.

Mr. YATES. Yes, you learned to read.

Mr. BENNETT. But as Mr. Yates will remember, our frequent tussles in here were about the size of endowments or whether we really needed endowments, the kinds of arguments one might make in their support. But I would urge you to add to the record the endless number of interviews by the press during that time of me about whether I thought the Nation needed these endowments, to which I said, No, we don't need them but we have got them. As long as we have got them, we ought to make the best of them. We ought to try to do the best possible job we can.

This is a different time. It is now I think possible, with this Republican majority, it is now possible given the temper of the people to set this thing right.

Also, in 1983 we were into these endowments for about 18 years. We have now had 12 more years of a track record. I tried my best to run an honest and responsible, balanced endowment, as did Chairman Cheney, and I give us good grades for effort. I tell you I found there was very little at the endowments that you could keep from being corrupted, very little you could keep from being politicized.

The summer seminar program for school teachers which I established, when I got to NEH there was a summer seminar for journalists, for God's sake. Not that they don't need it. They need it, but this was a little too cozy, I thought, and I think the government shouldn't be providing subsidies for journalists to go to Aspen and sit around with professors and talk about how corrupt the country is. I thought it would be better if we had high school teachers and elementary teachers to sit around with scholars and learn about a great book.

The first year it worked well. The second year one began to see inroads of political correctness. So many seminars had been Marxist-ized, feminized, minimized, deconstructive-ized, corrupted in the current manner of the academy, that it really wasn't worth it.

Yes, you could make a defense in all sorts of ways for learned institutions and the support of the learned institutions, and if the support of learned institutions depended in America, depended on the economies of the NEA and the NEH, I would be all for it, but this is a great, big, wealthy country and the people in this country are very smart and very able to make their own choices, and I be-

lieve that their choice for a smaller Government is a choice in effect that said, We will decide, we will make these decisions. If you want to support this art gallery or this program, we shall do so.

If the NEH and the NEA were given the opportunity as for the next 10 years that they have been given the last 10, 15, 30, I believe the exact same things would happen. I do not believe it is possible for you to keep these agencies without this kind of massive corruption taking place.

They have been on notice for a long time because of the inquiries, the scrutiny of the public and of some interested people in the press. Sunlight is the best disinfectant, Justice Brandeis said. And despite that sunlight, continue to have the kind of examples which make their way into the papers and make their way into the news.

The real difficulty here is that the government becomes the accrediting agency of these activities. The government puts its imprimatur, its seal of approval.

One last point. I will submit all my testimony for the record.

Mr. REGULA. All the testimony will be in the record.

Mr. BENNETT. Yes, sir, thank you. That is, people say, If it is important, shouldn't we support it? The answer to that is not an automatic question. There are all sorts of things which are important which the government should not support through fiscal entitlement or fiscal subvention.

Hardly anything in our tradition is more important than a free and unregulated press, but if newspapers are going out of business, the government should not come in and support them. Religion and the free exercise of religion is very important, but I don't think we should have a national endowment for religion deciding which churches should get grants.

I take the arts and the work of the arts and humanities very, very seriously. We have been conducting an experiment for 30 years to see whether the government could support the arts and humanities without getting itself into trouble, without ratifying the wrong kinds of things, without corrupting or shifting the balance of the arts and humanities in ways that are unhelpful to the arts and humanities.

I have to tell you, Mr. Chairman, I think in the 30 years since the endowments, I can speak, I think, with somewhat more authority on the humanities than the arts, the condition of the humanities is not better. It is worse. It is a more corrupt enterprise. It is a more politically tendentious enterprise.

The standards of scholarship themselves are open to question. There are a lot of people who don't even think we should talk about standards of scholarship. You can go to prestigious universities in this country and find full professors talking about Batman and the Simpsons being as important to read as Henry James and Shakespeare. It has gotten pretty cruddy, frankly, and it hasn't been good, I think, for America.

But that is the final point I want to make. If you really support the cause of the arts and humanities in America, you could do without these two endowments I think quite readily, because if you could encourage through the bully pulpit and through the encouragement to your constituents that they tell the people in the colleges and universities and elementary and high schools to do their

jobs, to teach the right subjects, to teach kids math and history and science and English and geography, honestly, not that politically tendentious curriculum in the universities, it will do a whole lot more good than the efforts of these two agencies.

I tried my best to do things. Of course we did some things which are fine. Some of the projects were fine. Some of the things have not been corrupted, but it was very hard to seal off the work of the endowment from corruption, from political corruption, and this is not something which the government should be involved in. We have run the test now for 30 years and I think the public has said, Enough.

Thank you.

[The prepared statement of Mr. Bennett follows:]

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear before you today to offer my thoughts on the future of the National Endowment for the Humanities (NEH) and the National Endowment for the Arts (NEA). Let me state my conclusion right at the outset: I hope that the 104th Congress abolishes the Endowments because I believe that the federal government should not be in the business of subsidizing the humanities and the arts. That is not a proper sphere for government involvement. But even if I didn't have philosophical objections to the federal government subsidizing the Endowments, it seems to me that a disinterested analysis of our present fiscal situation -- the debt, the budget deficit and all of the rest -- would lead one to conclude that these agencies haven't met the fiscal burden of proof. Moreover, I don't believe that the NEA and the NEH merit public support. The two Endowments have done at least as much harm as they have done good in terms of the cultural life of our nation.

1. *The Proper Role of Government* I believe it is useful to try and put this debate in its larger context. I will repeat here what I said this morning in my testimony to the Senate Budget Committee: it seems to me that the central question the 104th Congress needs to address is one which Representatives and Senators almost never ask anymore; namely, is this enterprise one in which the federal government *ought* to be involved? One of the most important contributions the new Republican majority can make is to challenge a core assumption of this city, which is that anything in life which is worth doing or having demands the involvement and financial support of the federal government. This was decidedly not the view of the founders, and it shouldn't be our view, either. This is particularly the case when it comes to funding the arts and humanities in a free society. The federal government's involvement in these areas is unnecessary, imprudent and inappropriate.

Let me briefly explain why I believe that even a modest role on the part of the government is counterproductive.

It is often said that the egregious examples cited in criticism of the NEA amount to very little in terms of expenditure and therefore should not be taken too seriously. But the actual sums are irrelevant. *The fundamental problem with the Endowments is that by their official actions, the government becomes the accrediting agency for the arts and humanities.* The smallest sum provided by the Endowment enables a project to get funding from other sources. Often it is the letter approving the grant, not the grant itself, that is the coveted prize.

Defenders of the Endowment take this to be an argument in their favor. The chairman of the NEA, Jane Alexander, recently proclaimed: "The Federal role is small but very vital. We are a stimulus for leveraging state, local and private money. We are a linchpin for the puzzle of arts funding, a remarkably efficient way of stimulating private money." The *New York Times*, quoting Ms. Alexander's statement, went on to report: "Officials at the endowment say their grants serve as imprimatur, a seal of approval, making it easier for artists and art groups to raise money from other sources. Thus, they say, the grants foster the type of public-private partnership that Republicans say they want."

Robert Brustein, the theater director and drama critic, echoes this argument. Seeking some means of appeasing critics of the Endowment, he asks: "How could the NEA be 'privatized' and still retain its purpose as a funding agency functioning as a stamp of approval for deserving art?"

But this is precisely the problem. Do we want a government agency to have that

function? Do we want to invest it with the power of putting its official "stamp of approval," its "imprimatur" upon any particular work of art or scholarship? Do we want the government to have the authority of determining what is "deserving" and what is not? Do we want it to validate -- as the NEA has, in effect, done -- any kind of "performing art" or "innovative" project as "art"? The government's "seal of approval" reaches far beyond raising funds; its validation can stultify and alter artistic and scholarly debate, shift the priorities of artists and professors, and give official blessing -- the blessing of the people of the United States -- to things both worthy and horrible. By underwriting various projects the federal government *by definition* plays the role of arbiter. Artists and academics, to say nothing of civil libertarians, should all be made profoundly uneasy by this. Mr. Chairman and Members of the Committee, I do not think that this is a hard call.

2. *The Negative Contributions of the Endowments* One of the strategies employed by representatives and allies of the arts and humanities community is to paint apocalyptic scenarios of what a non-NEA and non-NEH world would look like. And that strategy, in turn, depends on convincing the public of the Endowment's indispensable contributions to improving the quality of American life. But how could the two Endowments hope to serve a larger civic role when they have not even improved the quality of the arts and humanities since 1965? There is no question in my mind that things have gotten much worse in these realms during the last three decades. Some of the dominant movements that have swept through the arts and humanities world include the radical nihilism of post-modern art; homosexual and lesbian self-celebration; Marxism; Neo-Marxism; radical feminism and multiculturalism; deconstructionism; and various manifestations of political correctness.

When I was chairman of the National Endowment for the Humanities, at my direction the NEH staff, in order to counteract some of the modish projects that were swamping the NEH, devised a summer program where high-school teachers would devote themselves to the study of a single great work of philosophy, literature, or history. The program worked admirably the first year, less well the second, and by the third it was obvious that this program was going the way of all the others. The books were being Marxized, feminized, deconstructed, and politicized. High school teachers, far from being exposed to "the best which has been thought and said in the world" (in Matthew Arnold's phrase), were being indoctrinated in the prevailing dogmas of academia.

George Orwell once said that the first duty of a responsible man is the restatement of the obvious. And the obvious point here is that the arts and humanities in America were flourishing long before there was a National Endowment for the Arts and a National Endowment for the Humanities. There is an attempt by some to make support for the Endowments a litmus test for one's appreciation for high culture. But in fact, one can make the case for abolishing the Endowments *and* be in favor of a civilized, cultivated society. One can even make a plausible case that the Endowments have had a deleterious effect on our culture.

3. *Odi Profanum vulgus* No discussion of the two Endowments would be complete without some comment on the controversial projects which they have subsidized. Despite what the apologists say, the list is not insignificant. The list -- and this is important -- grows with each passing year. The list currently includes: Robert Mapplethorpe's "Self-Portrait," which is a photograph of him with a bullwhip in his rectum; Andres Serrano's "Piss Christ,"

a photograph of a crucifix in a jar of urine; Karen Finley, the New York "performance artist" who is best known for smearing chocolate on her semi-nude body; the Walker Art Center in Minneapolis, which last spring sponsored Ron Athey, an HIV-positive performance artist whose work, according to *Newsweek* magazine, "involved cutting himself and carving a ritualistic design into the back of an HIV-negative assistant. Towels blotted with the assistant's blood were hung over the audience." These things -- we should not flinch from saying it -- are obscene, pornographic and blasphemous. They also reveal a particular mindset and attitude which characterizes some who inhabit the world of the arts and humanities. Often they seem less interested in creating art or fostering knowledge and more interested in ridiculing, provoking and antagonizing mainstream American values. There is also evidence of a deep animus toward Western civilization itself.

Jerry Muller, who teaches modern European history at the Catholic University of America here in Washington, has written that:

"The level to which our public culture has dropped might be charted by the fact that our dominant cultural elites were unable or unwilling to explain why the exhibition of photographs of a man with a bull whip in his anus should not be subsidized by the national government. Indeed, those who insisted that this was not an achievement worthy of collective support were angrily and contemptuously characterized by most of the cultural establishment as intellectual Neanderthals, too primitive to comprehend the nature of culture, which we were told must necessarily be committed to the exploration of ever-new areas of experience. This reveals a deficit of moral resources far deeper and more troubling than our more noted budget and trade deficits."

The National Endowment for the Humanities, while less pornographic than the NEA, is politically tendentious. The NEH contributes to the politicization and balkanization of the academy by funding scholars who subscribe to these intellectual trends. For example, the NEH provides funding for the Modern Language Association (MLA). The 32,000 members

of the MLA make it the largest and most influential scholarly organization in this country. Their annual convention attracts over 10,000 professors and students and reveals the type of agenda that NEH grants make possible. Past panels include such topics as "Lesbian Tongues Untied;" "Henry James and Queer Performativity;" "Status of Gender and Feminism in Queer Theory;" and "Strategies for Feminist Team Teaching of Hispanic Women Writers," among others.

4. Grant Recipients and Hypocrisy One of the things which most offends the public -- and rightfully so -- is that some recipients of Endowment grants insist that the government must fund their projects; the grantees produce deeply offensive and shoddy work; and when the public expresses outrage at how their tax dollars are being spent, they are ridiculed.

The arts community cannot have it both ways. They cannot take the public's money and expect the public to remain quiet when its moral sensibilities and religious beliefs are offended. With public dollars comes public accountability. The author Tom Wolfe has described the ridiculous scene of thousands of artists *screaming* for taxpayer money, but with no strings attached, all in order to shock, abuse, and ridicule taxpayers' most deeply held convictions and values. And what makes it even more absurd is that these artists believe they have a constitutional right to be subsidized.

This is a free country. Artists and scholars are free to offend whomever they want. But it is a bit much when they expect us to pay for the weapons used to assault us. Again, if the arts and humanities community truly cherishes freedom -- the *sine qua non* of their very existence -- then they should paint, perform and think freely without any help from, and thus no obligation to, the government.

Mr. Chairman, there is an easy solution. Return the arts and humanities to the private world where they belong -- free from government support, intrusion, imprimatur, approval and disapproval. The arts community tells us that this simply cannot be done. They tell us that since time immemorial, governments have patronized the arts. The *New York Times* editorialized that "subsidies by governments and wealthy patrons are an ancient and necessary tradition." What they and others neglect to mention is that they are using illiberal, aristocratic regimes as their model. In the past it was the aristocracy and the Church that sponsored artists. For example, in the 16th Century the Medicis, a powerful family in Florence, then a city-state, commissioned art for private, not public purposes. There was no conception of the state, much less art for the common good. Art patrons back then decided what the artist would create; the artist had to please his patron. For example, the Church -- the biggest patron of the arts in the Middle Ages -- often provided guidance.

The Endowments were created only thirty years ago. The arts and humanities were in a flourishing condition well before then. New York became the art center of the world in the 1940s, American novelists had long been the envy of the English, local symphony orchestras were thriving, universities were expanding and attracting students from all over the world -- all of this *without* the benefit of the Endowments. The arts and humanities will not only survive the elimination of the Endowments; they will be in a sounder, less acrimonious state without the Big Brotherhood of government hovering over them.

If you truly want to improve the condition of arts and humanities in America, then urge the improvement of their teaching and nurture at our schools, colleges and universities. It is there that they have been debased and there -- and perhaps only there -- that they can be

revived. A healthier arts and humanities instruction in our \$400 billion educational enterprise would dwarf the efforts of all Endowments -- and do so within a proper jurisdiction. Not least of all, it would serve our country and our children well.

Mr. REGULA. Thank you, Mr. Bennett.

Questions in the order of arrival. I will defer mine to the end in the interests of time of the other Members.

Mr. Dicks.

Mr. DICKS. When you say "corruption," Mr. Bennett, what do you mean? As I recall, we have got a panel system of highly dedicated professionals who review these applications as they come in, and these are people that are highly regarded.

I take some umbrage—Mr. Gingrich uses the word "corruption" a lot and I think maybe it is a little loosely used and I am kind of surprised you would use that word so repeatedly.

Mr. BENNETT. I will tell you what I mean by corruption, either by solo or panel. Robert Mapplethorpe's "Self-Portrait," which is a photograph of him with a bullwhip in his rectum; Andres Serrano's "Piss Christ," a photograph of a crucifix in a jar of urine; Karen Finley, the New York performance artist who is best known for smearing chocolate on her semi-nude body; et cetera. There are more examples than that. That is corruption whether it is an individual or a committee. That is corruption.

Mr. DICKS. Let me ask you, Lynne. You know I had the highest respect and regard for you when you were chairman—still do—but it somewhat disturbed me to look back at the record here of what you said at the time and what you are saying at this point.

Everybody has a right to change their mind. But in your first statement to the committee, you said, "Since coming to the endowment in May of 1986, I have looked long and hard at the program and the results of what we do. I have been most impressed. Because of the endowment, citizens in the rural areas where there are few cultural institutions have programs that allowed them to learn more about the Nation's history. Because of the endowment, high school teachers"—I would say that that is hardly a cultural elite—"have had the chance to renew themselves intellectually in seminars. Because of the endowment, superb scholarly works on the Constitution are adding meaning and depth to the celebration of the bicentennial of that document. NEH is a constructive presence in the intellectual life of the Nation. It is respected by the humanities community and the general public alike. As it should be. The staff is knowledgeable, dedicated, and professional, and the National Council on the Humanities gives free leave of their valuable time to advise on the humanities, on the quality of grant applications, on the wisdom of our policies. I have also been heartened by the exemplary singlemindedness of the private citizens who serve the endowment as panelists and special reviewers in our review system. They consistently render fair, objective, and thorough judgments of their peers' grant applications."

So I don't get this.

Mrs. CHENEY. What year is this?

Mr. DICKS. This is 1986, your first statement to the committee.

Mrs. CHENEY. I said to Mr. Yates that I was always happy to come before this committee and talk about the good things that the National Endowment for the Humanities had done. I think subsequently, not long after this, I issued a report called "The Humanities in America," which was mandated by this committee, which caused me to be hissed and booed at the University of North Caro-

lina at a conference because it began to talk about troubles in the humanities.

If you were to make a trajectory of when the troubles of the humanities began to peak, it would be about 1988—I have been writing a book on this subject and so I am very well aware of this—about 1988 that scholars began to talk in ways that no longer even tried to couch over what they were doing, that the idea of politicizing the humanities became so frankly stated that I felt it necessary time and again to write about this, to talk about it in various speeches I have made, and to be roundly denounced as a result.

Mr. DICKS. But isn't it true—and I say this to Bill, too—the arts and humanities have always been controversial.

Mrs. CHENEY. No, there is something new going on, Mr. Dicks.

Mr. DICKS. There are certain standards that offend me. Some of the things that Mr. Bennett mentioned offend me.

Mrs. CHENEY. And national history standards I would assume offends.

Mr. DICKS. I would not have funded it, I would have said “no,” as I expected you to do when you were chairman and Mr. Bennett was chairman of the endowments. You have a right to say no to panel recommendations. That is what you are there for as the President's appointee.

Mrs. CHENEY. You can't say no when people are going to do one thing and do another, and you can't—it is so difficult to understand the——

Mr. DICKS. But what are we afraid of controversy for? That I don't understand.

Mrs. CHENEY. It is not controversy.

Mr. DICKS. Is it because some things are——

Mr. TAYLOR. Could the gentleman give the lady a chance to answer?

Mr. DICKS. I would be happy to answer the question.

Mrs. CHENEY. You already are.

Oh, my gosh, I don't know what the question is.

Mr. DICKS. Controversy—is it something to be fearful of?

Mrs. CHENEY. Controversy is not the problem. The problem is throwing out notions like objectivity when it comes into scholarship. The problem is throwing out aesthetic standards when it comes to art. So you produce works of scholarship and works of art that are aimed at making political statements rather than revealing truth or revealing beauty. This is what has happened in the arts and in the humanities.

I think the endowments have not only been guilty of funding a few projects that meet those characteristics, that these in fact helped perpetuate this when otherwise it would have gone away on its own.

Mr. REGULA. Time of the gentleman has expired.

Mr. DICKS. I would like to ask unanimous consent to put in the record three other examples of Lynne Cheney's statements to this committee during her tenure as Chairman of the NEH.

[The excerpts from Mrs. Cheney's previous testimonies follow:]

[From statement by Lynne V. Cheney April 21, 1988, to House Interior Appropriations Subcommittee]

Federal support for the humanities is, as it should be, only a fraction of the total national spending on the humanities from all sources.

But funding provided to the Endowment allows us to make important contributions—through the grants we support—to the nation's cultural life. We are important to school teachers who want to increase their knowledge of the humanities and to revitalize their teaching. We are important to scholars and institutions who need funding for research projects that add to our understanding of the past. We are important to museums, historical organizations, public libraries, television and radio stations, and state humanities councils that are trying to reach general audiences with mature, thoughtful humanities programming. We are important to individuals, organizations, and institutions that are working to build third-party support for their humanities activities. And we are important to the countless students and out-of-school citizens who, through contact with NEH projects and programs, are put in touch with the great works, ideas, and events crucial to our cultural heritage.

[From Statement by Lynne V. Cheney February 26, 1991, to House Appropriations Subcommittee on Interior and Related Agencies]

We at the Endowment are pleased that the President is requesting a significant increase in our budget for the coming fiscal year. We believe that there is great value to the nation in the projects we support, such as last fall's extraordinary television program, *The Civil War*, a series that captivated the nation and rekindled our historical memory of the tragic and momentous event; such as the authoritative editions of the writings and papers of such important historical figures as George Washington, Charles Darwin, Marcel Proust, Jane Addams, and Martin Luther King, Jr. These and other NEH projects are sound investments for the federal government to make, even during this era of fiscal constraints, for they enable all of us to learn more about the nation's past and the history and thought of other cultures.

[From Statement by Lynne V. Cheney May 12, 1992, to House Appropriations Subcommittee on Interior and Related Agencies]

The Endowment is requesting an appropriation of \$187.059 million for fiscal year 1993. We are honored that the Administration is recommending an increase of about \$11.1 million over the amount currently appropriated to the agency. The budget we have presented for Congressional consideration reaffirms the Administration's conviction that even during this time of fiscal constraints added support for the humanities is an effective way for the federal government to help advance the educational and cultural health of the nation. The funds we are requesting are needed to enhance our efforts to improve humanities education, both through the classroom setting and through public humanities programs, including the activities of the state humanities councils; to support significant works of research and scholarship in the humanities; to preserve the intellectual content of endangered humanities documents and objects; and to restore the NEH Challenge Grant program to a realistic funding level after the reduced appropriation it received for FY 1992.

Mr. SKAGGS. Mr. Chairman, I would like to yield to Mr. Yates on my time.

Mr. YATES. Let's go back to Ms. Cheney.

I think the names of Mapplethorpe and Serrano will live forever because of the hostility of opponents to NEA and NEH. They are the ones whose names are constantly being brought up. The fact remains, and I am sure you will agree, that the NEA has produced grants or given grants to approximately 100,000 persons or institutions since it was organized in 1965.

Of those, perhaps, 30 or 40 are what would be termed corrupt. Mapplethorpe, Serrano, the fellow up in Minneapolis, two or three or four others. By standards of government agencies, that is not too bad. Take a look at the Department of Defense and how your famous B-2 bomber started out at \$100 million a crack, and wound up at a cost of, what is it, Norm, \$2 billion?

Mr. DICKS. It is going down, Mr. Chairman.

Mr. YATES. To what? It is coming down? That will be the day.

At any rate, the point that I am trying to make is that I don't hear you talking about the good things that the endowments do. That NEA does. The fact that there are in existence today symphony orchestras that would not have been in existence, bringing joy to people of smaller communities. Ballet.

As a matter of fact, Newt Gingrich, himself, said that he likes the Atlanta Ballet and the Metropolitan Museum. He doesn't like the corrupt elite around it. I don't know who the corrupt elite are. Was it corrupt elite or cultural elite?

Mr. BENNETT. That is the second time I have been asked to answer for Newt Gingrich. I am glad that he has passed into such circulation. I am glad the Democrats are reading him.

Mr. YATES. The point I am making is that both NEA and NEH are so much better than the few relatively bad things that you have quoted. And as the basis of your testimony, Ms. Cheney, the few things that he quoted.

Mrs. CHENEY. I have more. Would you like more?

Mr. YATES. Sure, put them in the record, because we are looking for them.

Mrs. CHENEY. But I think they are interesting to talk about. The NEA sponsored an expedition of Chris Burden, the artist who crucified himself to a Volkswagen. Joel Peter Whitkin, who is a photographer who produced the Feast of Fools. It features—it is tableau of an old-fashioned still life. You know the thing where you used to have the dead pheasant in the middle, surrounded by fruit and vegetables. Except in the middle of Mr. Whitkin's tableau, there is a dead baby surrounded by human limbs that have been cut off. Now, I do think this fits the example that Bill Bennett—

Mr. YATES. But the NEH has also supported—I don't mean to interrupt her, but I only have five minutes.

Mr. BENNETT. I think you put the finger on the problem, to make equivalent the Defense Department and the National Endowment for the Arts and Humanities. The Defense Department is a unique function of government. If we don't have a Defense Department, we are all speaking Japanese or German. This is what governments are for.

Governments are not for crediting the arts and humanities. If you don't have a Defense Department, you don't have the defense of the United States. But if you don't have the National Endowment for the Arts and Humanities, it does not follow that you don't have the arts and humanities. Before 1965, there was a flourishing artistic and scholarly community in this country that was a good deal less corrupted than we have now.

Mr. DICKS. I don't get this corrupt thing.

Mr. BENNETT. I will send you some stories about political correctness. I will send you some stories from Time and Newsweek, from the New York Times, about corruption in the academy and the marketplace.

Mr. YATES. My time is almost up.

You spoke about truth and beauty and you have beauty in the eyes of the beholder. Your impressionists didn't adhere to the standards. They were called Les Fauves, as you know so well. The

mad dogs. They didn't adhere to the standards and yet, their paintings are among the most beautiful that you and I have seen and the most beautiful in the world. They didn't adhere to the standards.

Mr. BENNETT. They made it without panel reviews.

Mrs. CHENEY. And there is a big difference between Matisse and Joel Peter Whitkin.

Mr. REGULA. Mrs. Vucanovich.

Mrs. VUCANOVICH. Thank you, Mr. Chairman.

I am not sure I want to comment on the questions about what is corrupt, because if you don't know—it is difficult. In my State, there is a great deal of interest in the arts and humanities. And one of the things we have, and I am sure you are all familiar with, the Chautauquas that are put on in different parts of our country.

And we have a very interesting group who put on—one man who when you watch him, he actually is Thomas Jefferson. And I think my question is, I think these are very good things that we are doing. And they are supported by the National Endowment for the Humanities.

So my question is, there has been a lot of discussion recently about providing funding directly to the States and allowing the States to set their own priorities. And you know, we are currently giving some money through NEA and NEH, through those—for those programs. I guess I am questioning, do you think that those programs could be supported by states or do you think they should be supported by states? I guess I would ask all of you to just respond to that, if you can, because then we wouldn't be dictating from Washington on how money should be spent.

Mrs. CHENEY. Could I just—the National Endowment for the Humanities and the National Endowment for the Arts do it slightly different. We give the money straight to a set of humanities councils. If the Congress should decide that they want to give the money to the humanities, it should go to the government and not the humanities council. There are some problems. One of the single most contentious conferences I ever attended was sponsored by the New Jersey Humanities Council. There are difficulties in the State programs as well as the national programs.

Mr. DELATTRE. It is interesting that you should mention the Chautauquas in this context of controversy. William James said he thought that Chautauquas would be one of the greatest places to be, but after he was there a while, he could not tolerate it, because there was no friction. So he departed.

In any case, nobody here is disagreeing about the question of whether Chautauquas, operas, symphonies, opportunities for children to learn fine books, to have the kinds of primary experience in the humanities and the arts that Dewey wrote of, nobody is talking about whether those are good or bad things. We are all of one mind about that.

The question is whether those are contingent on the Endowment, and whether there are ways of seeing that those opportunities are made genuinely possible to the American people without the endowments and without the disadvantages of the Endowment at the Federal level.

My view is that the answer is yes. But I don't think that is simply a matter of government. I don't think it is simply a matter of the State governments having more funding than they presently have.

My own view is we have a \$400 billion education establishment in this country. My own view is that it is a matter of the educational and cultural institutions of this country which are not simply dependent on public largesse or government funding, except in the responsibility for the public good that they were chartered by the States in the first place to accept. That is the kind of pressure that ought to be put on the institutions that serve the public interest and the kinds of questions that ought to be raised with the government.

Mrs. VUCANOVICH. Thank you.

Mr. BENNETT. I just think that the thought ought to occur to one, if you say, here is Federal funding and maybe we should send the money to States and let them make their decisions. A third thought is possible; let them do it if they want to do it.

There is a new thought in Washington that the money does not belong to the Congress. The money is the American people's. And let's give them the money back.

Mrs. VUCANOVICH. I am inclined to agree about you. There are, obviously, some good things, and we know that there are the ones that are corrupt, and immoral, and improper, and are very offensive to many people in my district.

Mr. BENNETT. I think the odds of seeing those are less if we give people the money. But the assumption is that people are such Neanderthals in Nevada and Washington State that left to their own, they would not see the benefits of a "Piss Christ" or some such things, and we need this peer review to insulate and raise the public's standards so they will appreciate what quality this is. This is the really puzzling and bizarre aspect of all of this.

Mr. DELATTRE. This conversation is also not about the elimination of the tasteless, the banal, the offensive, the pornographic, the intellectually dishonest, the poor quality in the humanities or anything else. We are not going to eliminate those any more than we are going to eliminate the more elevated dimensions of the humanities and the arts in the United States.

The argument about the endowments is not an argument about this is a way to end anything that does not deserve respect in the arts and humanities. This is a question about Federal funding for the Arts Endowment and the Humanities Endowment in relation to the track record in the interest of the public. If the endowments go away, a lot of good things still get done. And if the endowments go away, a very many bad things still get done. That is not what this conversation is about.

Mrs. VUCANOVICH. I agree. Thank you very much.

Thank you, Mr. Chairman.

Mr. REGULA. Mr. Taylor.

Mr. TAYLOR. In our part of the world, we know that the Federal Government would mess up a one-car funeral, and why we wouldn't think that it would do any better with the arts has always been a mystery. And I have seen, Ms. Cheney, some works of art that I think should be crucified to a Volkswagen.

I would challenge one of the statements made earlier about many new symphonies have been created with Federal money, and I don't doubt Mr. Yates' statistics. I have been involved with two orchestras and we didn't get a dime of Federal money, and feel happier about it, and both have been successful.

Mr. DICKS. Which two?

Mr. TAYLOR. The Brevard Chamber Orchestra.

Mr. REGULA. Let the gentleman finish.

Mr. TAYLOR. That is the appropriate thing to do.

Mr. DICKS. Would you yield?

Mr. REGULA. Would you yield to the—

Mr. TAYLOR. Yes, I will yield.

Mr. DICKS. Which two symphonies?

Mr. TAYLOR. The Brevard Chamber Orchestra is thriving. Check it out. And it was successful because the community backed it. They wanted it. They got behind it. If we had tried to fund it with Federal or State dollars, I doubt that it would have been that successful.

Another thing that—it is really not the question, as Mr. Bennett said a moment ago, whether or not we are going to have arts. It comes down to you can argue on the side, as Mr. Bennett did, that we may actually be liberating the arts by taking away Federal dollars and some of the corrupting influence he was talking about.

The real question is if we arrange a set of priorities to bring the budget somewhere near balance, is this a priority that ought to be at the top or are there alternatives for this particular funding that would allow us to continue to have successful arts while we are funding other things that cannot exist without Federal dollars that are most needed?

And I would make one other comment and then ask you a question, Ms. Cheney and Mr. Bennett. The question of art and success of art is its enduring quality. What I might paint today, whether or not it is quality art, will have a lot to do with its rejection or acceptance over a long period of time, and that decision won't be made by the government, it will be made by the public as they recognize it and accept it, if it lasts or has some enduring quality.

If the government funds the program, and the two endowments supposedly represent the U.S. Government, is not the government then endorsing that art? And, in fact, trying to supplement—or supplant its position instead of the public? And I would ask that to both of you or ask you to comment about that.

Mr. BENNETT. Yes, Ms. Alexander loves to talk about the best thing that the endowments do, is the seal of approval, and The New York Times gets excited about that. It is imprimatur. And I think one has to pause and say, is this what we want governments doing, give imprimatur to the works of artists and thinkers? Then it is also not giving its seal of approval to a whole lot of others.

I think this is an awkward and risky situation for governments to be in. And I don't think they have to be in that position, and I think history shows that they don't have to be. There was a lot of American literature and art without the endowments. This is not a great period of humanistic activity or artistic activity, despite the arts and humanities endowments. I don't think this is the Shakespearean period for America.

Mrs. CHENEY. And to take up your other point. I think one of the reasons that people have cited a mandate for change, the David Osborn's book, "At the Table," is that he sets out rational criteria for deciding whether a program or agency should be funded by the Federal Government. Is there an interstate interest here, in which case, it would become a Federal issue?

Is there a necessity here to redistribute wealth, in which case, it would become a Federal issue? Is this a situation in which there would be destructive competition if the Federal Government were not involved?

He sets out rational criteria for them, I believe. And by those criteria, judged by those criteria, the arts and humanities are not a matter of Federal interest.

Mr. TAYLOR. And even though the government is not directing stroke by stroke what is being painted, neither are we giving block grants to, say, the North Carolina Arts Council to promote the arts. We are micromanaging this, are we not, a considerable amount through these agencies in setting forth what is politically correct or what the direction is we want to see it go. Would you say?

Mrs. CHENEY. Well, you end up trying to do that because of the problems that the endowments have. But if there is micromanaging going on, it is not very successful.

Mr. BENNETT. No, there is strong-arming. It is even worse than Mr. Yates described it. I not only ran the National Endowment for the Humanities, I ran the National Humanities Center. I was asking for money. I was in charge of the Humanities Center. I was the chief humanist.

We were the gorillas and this was the banana patch. And I was asking for all the bananas I could get, and we got muscled by the endowments. And they said that is all right, but we would be a little more sympathetic if we had a little more tilt in this direction.

You wanted the money, and so you would take a look at it. Sometimes we just said no, on principle, we just can't do it. Sometimes we would argue them down and sometimes we would lose the grant. But it is inevitable, we get bureaucrats, even people who are first-rate people outside of the office get a little bit of power and then they start—

Mr. YATES. Will the gentleman yield?

Mr. REGULA. We are going to have to vote.

Will you yield to the gentleman?

Mr. YATES. I just wondered, if I understand the gentleman's question correctly, 27 percent of the NEA budget go to the States' arts councils. And they are on their own, pretty much. And some of them, I just know about the Minnesota, for example, in the humanities in Texas, I think they are superb. I think they are in Texas, and they have their own agendas.

Mr. TAYLOR. The other 73, of course, to the Federal. There is a quite a bit more independence if we were making block grants to save the "X" Arts Council, as opposed to pushing through humanities.

Mr. BENNETT. But even the 27 percent, even if that is well spent, there is the implicit notion that if you don't get the 27 percent without restrictions, everybody in North Carolina would spend it

on barbecue. Music wouldn't occur to them without the money from the National Endowment for the Arts.

Mr. REGULA. A barbecue with bananas for desert.

We are going to recess and go vote. We will be right back here.
[Recess.]

Mr. REGULA. Mr. Nethercutt.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Welcome to the witnesses today. It is pleasure to have you here. Your testimony has been compelling.

Mr. YATES. Not to me.

Mr. NETHERCUTT. Perceptions differ, just like in the arts.

Mrs. Cheney, you talked about the National History Standards. Do you agree with National History Standards? Do you think they have a proper role?

Mrs. CHENEY. No. At one point, I thought it would work. The standard movement is very interesting, because it was an effort to raise the standards of education in this country in the way they do in other countries, Japan, Germany, and France all have standards in subjects like history.

As a result of what happened with our effort to set history standards, I am convinced that we are at a time in our national life when we simply cannot have national standards in history. That the state of the study of history in higher education is in such a way that scholars are simply not at this point in our national life able to promulgate a set of standards that most Members of this committee, I think, would want their children to learn history by.

Mr. NETHERCUTT. That is troubling to me, speaking as a father of a 14-year-old daughter and a 10-year-old boy. Not that we don't have national history standards, but that there seems to be this breakdown as to what is and is not a commonly accepted standard for history and study and perspective on our national life.

Mrs. CHENEY. Let me say, there are some good things out there. And let me recommend to you Joy Hacken's new series, called, "The History of U.S., the History of 'Us.'" It is published by Oxford University Press. It is wonderful, and tells about the things that have gone wrong and the things that have gone right, and it is multicultural and uplifting. It is wonderful.

Mr. DELATRE. Let me, if I may, add a word. With respect to standards, that will have enormous national consequence. It may be of interest for to you know that I have just resigned our school of education from the National Council for the Accreditation of Teacher Education, because the standards that are proposed to hold for the preparation of teachers nationwide are so intellectually low as to be indefensible.

And the accreditation movement will squander opportunities to elevate the standards for teachers and their students, if we allow those standards to prevail.

Mr. NETHERCUTT. That bodes ill for our country. How do we solve the problem of trying to establish what we can all collectively determine as sensible history, sensible reference to historical figures, and so on? How do we solve that problem?

Mrs. CHENEY. I am convinced that we could do it at the State and local level. I have been spending a great deal of my time trying to point people at the State and local level to good resources they

can look to as they try to develop their own standards. Resources such as Joy Hacken's work, "Lessons from History," a very fine document. So there are some good resources that I think people at the State and local level turn to as they try to develop standards in subjects like history.

Mr. NETHERCUTT. Mr. Bennett, I admire your work in government and your philosophy. We are talking about, roughly, 170 million dollars in Federal funding for the National Arts and Humanities. What are the consequences for the arts and the humanities, if any, of Federal defunding?

Mr. BENNETT. Well, I think if and when the Federal Government steps away, I think it frees up many others to fill in. And to fill in without the heavy hand of the Federal Government. And I am confident that the American people, if this is how they decide they want to spend their money, will spend their money this way.

I have lived in 12 different States. I have seen every one of those States' citizens who are interested in the support of arts and humanities, I think they will go on as before. Except, they will not be in this kind of slavish obeisance to the Federal Government.

Trying to jockey, get up there and get appointments and get a grant, make a phone call and take somebody out to lunch. They can do that with foundations. They can do that with corporations. But they don't have to do it with the Federal Government. That will be progress.

I guarantee you—I guarantee you we will not see the demise of the arts and humanities in America. I guarantee you we will not see a less healthy arts and humanities enterprise. I think the last thing the endowments would want to do is a tough, empirical, vigorous assessment.

With all the education programs to help the teaching of history, our kids know less history today than they did before the endowments existed, 1963 to 1990. Go on and make those comparisons.

So there are other ways to do this. And this is not a shot in the dark. As a matter of fact, we have actually had experience in this country without the National Endowments for the Arts and Humanities, and children were born, they grew up and were educated. They participated in the arts. They learned history. It is entirely possible to do so.

And I would say to you, Mr. Nethercutt, the American people sent you all here on a mission, and there are some hard questions, some much harder questions about the Federal Government and its involvement than this one. If you can't do this one, it is going to be tougher to do some of the ones that are much harder.

Mr. NETHERCUTT. I assume you are excluding farm subsidies.

Mr. BENNETT. No, you know my feelings on those. If you are going to do one, you have got to do them all. If this is just about cutting welfare—we have got to do them all.

Mr. KOLBE. Thank you, Mr. Chairman.

I have a bad habit and that is not asking questions which happen to support my point of view, however, you are scholars and used to being challenged. Frankly I do find myself in basic agreement with the things that you are saying about the questions that we need to be asking ourselves.

I want to follow up on Mr. Nethercutt's questions. Dr. Bennett, you have addressed the issues but perhaps the others might want to as well. That has to do with the funding issue.

You talked about this being the imprimatur by the Federal Government, and I have a fundamental question, as you do, as to whether that is an appropriate role for the Federal Government.

I understand the role of the NEA and that it funds in very large part some mainstream humanities or arts programs, grants to the symphony and the opera, and that this support is leveraged into other funding. Do you have any concerns at all about whether the private sector, foundations and corporations in the private sector, and private individuals will be able to step up to the plate and fill the need for additional funding should the Federal Government withdraw its support?

I ask that, in light of a Price Waterhouse study a few years ago, which suggested that as the marginal rate of taxation goes up, individual funding to deductible organizations goes up as well. Utilizing this premise, if we are going to be moving in the area of trying to reduce taxes, capital gains and other kinds of taxes, the level of private sector support may diminish. Do you have any concerns about the funding being available?

Mr. BENNETT. Not really. Not in the large sense. In the sense of the large picture. I couldn't guarantee you.

I don't think anyone could guarantee you that if it is removed, would everything that was funded up to that time continue to be funded?

No. You will have a marketplace of decisions in the private sector. Some will get funded. Some will not get funded that were funded before. But other things will get funded that weren't funded before.

In all cases, it will be without the imprimatur of the Federal Government or jockeying the Federal Government, or petitioning the Federal Government about this. I know there is a lot on the table for this Congress and you are talking about changing tax rates and flat taxes and all of those things, all of this is connected. But I think, frankly, support of the arts and humanities, the single best thing that can happen is regeneration that comes from within.

There needs to be some people in the arts and humanities who say we have let this get out of control. We have lost our standards, and we are being made fun of on the front of Time and Newsweek for absurdity and contentiousness. That is what is hurting the arts and humanities.

Mrs. CHENEY. I feel a sense of personal responsibility to try to make sure that private funders do know about the good projects that the National Endowment for the Humanities has funded. And projects which will continue to be supported and, as I mentioned in my opening statement, that I think that there is a large role to be played, for example, by givers to college campuses who don't know about some of the wonderful things that are going on on campus.

The story of Mr. Bass and his grant to Yale is really extraordinary. He gave millions of dollars to Yale for a Western civilization program that has never happened because no one wanted to teach Western civilization, seems to be the bottom line. That kind

of wealth directed to some of the projects in preservation of some of the scholarly editions, directed to some of the papers that I mentioned.

The Frederick Douglas papers happen to be at Yale. The Benjamin Franklin papers are there. This would keep these projects going well into the next century. I believe if all the energy that is directed to getting public funding were directed to private funding, that we would see a new renaissance of arts in America.

Mr. DELATTRE. This is not the matter of acquisition of additional funds from other sources. Part of this is a question about college and university leadership. It is a question about whether the presidents and chief academic officers of colleges and universities are serious enough about the missions of their institutions to support the scholarly fellowships that their faculty need and deserve. In practice, the answer to the question of how many of them are, is not all that many. But you won't rescue the universities from themselves by external funding.

Mr. KOLBE. Thank you.

I think at least a couple of you in your testimony said, that some national institutions like the Smithsonian and the National Gallery of Art deserve support. My concern is that continued support doesn't mean that we'll avoid any of the controversies. Those such as we have had, as you know, with the Enola Gay exhibit, suggested that even in those kinds of institutions, we will have controversy about what should or should not be shown in those institutions.

Would you not agree that we still don't completely get rid of the problem that we have concerned ourselves with?

Mrs. CHENEY. I am so troubled by what is going on at the Smithsonian. I cannot believe that we have exhibit after exhibit, after exhibit that is politically tendentious. What we see is what I have been talking about, the state that the humanities have devolved into by the early 1990s.

A total reflection of the state of historical scholarship on our college campuses insofar as the NEH have helped perpetuate that kind of scholarship. The Smithsonian will be well-served by putting the NEH out of business.

Mr. BENNETT. There are some that are upset that we are shooting at the NEH and NEA. That you should bring up the Smithsonian, raises a good question. Maybe this dispute takes place anywhere in America today but there is something about the Washington environment that is going to exacerbate it.

I mentioned the other night to a group of academics, there is a problem in people writing this stuff. They don't think they can be objective historians and take a side in World War II. And some of these people were emphatic, well, why should we take a side in World War II? Well, they just don't get it.

This is the problem. And to think that you have an exhibit that you have to have, on the one hand, the forces of democracy and, on the other hand, the axis powers and be careful what you say about the forces of democracy, this is bad.

Mr. YATES. I would agree with that.

Mr. KOLBE. I have a lot of other questions, but I will pass.

Mr. REGULA. The record will be open.

Mr. Skaggs.

Mr. SKAGGS. Thank you, Mr. Chairman.

Good afternoon again. In any setting like this, words and their precise usage are important, but it seems to me, given the point of your testimony, and the thrust of your concern for intellectual honesty, the precise use of words in this discussion this afternoon is particularly important. So I want to understand better what you mean by some of our words.

Mrs. Cheney, you referred in your remarks, I believe, to the cultural elites. Which is a phrase—

Mrs. CHENEY. I think I just used it singularly.

Mr. SKAGGS. What do you mean by that and what are its operative significances in your testimony?

Mrs. CHENEY. In general, I think of the cultural elite not just as the academic establishment of this Nation, but as a group that adheres to a single political ideology. And the ideology of this group is formed in part by feminism. It is formed in part by post-modernism.

The one exception, I would say, to this is that there is a dissident group of us—I am afraid to confess that we are the cultural elite as well, but we are a dissident group that argues with the idea that any educational enterprise ought to impose an orthodoxy, that true scholarship with compatible, with a strongly tendentious viewpoint. I hope that is helpful.

Mr. SKAGGS. It is helpful. And it would take probably another half-hour of dialogue to go into the various terms that you used to define cultural elites and get down to the nub of the issue.

But Mr. Bennett, as well, several times you used corruption, massive corruption, and variants on that notion in characterizing at least the current practice and product of the Endowment for the Humanities. And similarly, I would like to understand more precisely what corruption means in this context. I assume it has to do with both means and ends. But I don't want to put words in your mouth.

Mr. BENNETT. Corruption, means to deteriorate or decline from accepted standards. It means to no longer adhere to those standards but to act in a way that is so that you are governed by something other than objective fair standards.

Corruption, I think, is both intellectual and moral, and the word I used in addition to corruption is decadent, and decadent means decayed, rotten, it means to reduce or to sink to the level of brutishness, beastliness from the human. And I think these are good examples of that. I can be more graphic if you like.

Mr. SKAGGS. No, that is a good start. You then said massive corruption, I believe, characterizes the recent history of the endowment, that it demonstrated it was the victim of massive corruption. I assume that would mean that the definitions that you just gave apply more often than not to what is going on at the Endowment.

Mr. BENNETT. Applies often enough, Mr. Skaggs. I don't know that it applies more often than not, but it applies more often enough. The Endowment is both the victim of corruption and a perpetrator of corruption. It does both.

When the panels become corrupt. Then it is a perpetrator. I will give you an example: When I was at NEH, there was a panel on

religion and they were focusing on individual fellowship grants for people in religious studies and a proposal was submitted by a Baptist minister, a professor at a university, and the panel who reviewed the notes rejected the application on the grounds that the person was a believer and that this—that the proposal should, therefore, be set aside. And one member of the panel objected vociferously. The panel said if you are a believer, you can't be objective.

That is corruption. Because it doesn't follow if you are a believer that you can't be objective. The panel ruled out anybody who was a believer, so the only people who were left were anthropologists. That is a standard that is impossible to live with. That is not the urine jar kind of corruption, but the more prosaic kind.

Mr. YATES. Your definition of corruption does not include financial dishonesty, then?

Mr. BENNETT. Sure, if you decline or fail to adhere to accepted standards of accounting, yes, that would be corrupt.

Mr. YATES. But as we discuss the Endowment, that is not involved; is it?

Mr. BENNETT. Well, sometimes. We all had our incidents with challenge grants and phony—

Mr. YATES. It is interesting, our committee never heard of those.

Mr. BENNETT. There are always some because people couldn't come up with the money and there are all sorts of things. I would not single out the Endowments on that charge.

Mr. SKAGGS. Ms. Cheney, there is one other thing I wanted to inquire. We can all have fun throwing our prior inconsistent statements at each other, but I was intrigued by some fairly fulsome comments you made some years ago about, as I think you put it today, your grant to produce the National History Standards.

And some nice comments about Ms. Crabtree, anyway, and after you mentioned in your comments the Sadaka book, I went and tried to find where that appears in the standards. And please don't interpret my question to you as implying any kind of total embrace of the standards myself, I haven't read them all. But it is interesting to me that what we are dealing with is not a standard at all, where the Sadaka book is mentioned. In fact, the standard that is discussed is that students should "understand the causes and global consequences of World War II". Certainly, an unassailable proposition. This is a standard as it pertains to Era Eight in the world history standards.

And then we go to Substandard 4-B, "Demonstrating understanding of the global scope and human costs of the war". And then under Grades 5 and 6, examples of student achievement of standard 4-B include—and then we go down to the sixth example in which it says: "Draw on books such as Elenore Sadaka to discuss the costs of dropping nuclear bombs in Japan."

Mrs. CHENEY. You left out one part. Students were also then to make origami cranes and make peace messages on them.

Mr. SKAGGS. I didn't leave it out. It comes after what I just read. Don't you think that somewhat distorts what may be a perfectly valid argument that you may have with the standards; to suggest namely that this subexample put, as it is, in books is undermining the validity of a standard which to study the causes and global consequences of World War II?

Mrs. CHENEY. The examples were one of the things that helps make the standards tendentious. Examples that recommend that fifth and sixth graders would learn about the horrendous devastation of Hiroshima on children of their age, without ever recommending books that would tell them about why it might well have been a rational decision to use atomic weapons in the war.

Mr. SKAGGS. But you said in your testimony, this would be the only thing known regarding World War II and Japan, that is not the only thing that the standards suggest being known about World War II and Japan.

Mrs. CHENEY. If I said that, I certainly misspoke. But I suspect you misheard. I said it was the only thing that fifth and sixth graders would be told about the end of the war.

Mr. SKAGGS. Well, after just a quick reading of the standards, and substandards, they suggest a much broader breadth of understanding of the war and the end of the war that would be involved, if these were adhered to.

Mrs. CHENEY. Maybe I read them too quickly, but perhaps you could find something in there about the Bataan Death March or the Rape of Nanking or about the casualty estimates that President Truman expected would follow from the invasion of Japan.

Mr. SKAGGS. It says, "explaining the nature of turning points in the war and describing the principal theaters of conflict in Western Europe, Eastern Europe, the Soviet Union, North Africa, Asia and the Pacific." That pretty much covers it; doesn't it?

Mrs. CHENEY. Can you find me a single example that would direct anyone to Japanese atrocities, for example, or to President Truman's worries about casualties upon an invasion of Japan or about what people were worried about after Okinawa?

Mr. SKAGGS. By picking out this single example as the undoing of any validity, leaves an odd impression. That is all.

Mrs. CHENEY. I have spoken and written about this subject so much, would you like to hear my other statistics that Joseph McCarthy is mentioned 19 times, while Robert E. Lee is not mentioned at all. Would you like to know about the fact that George Washington is never described as our first President. That the only House Member, the only Member of Congress that I recall quoted in the Endowment is Tip O'Neill, calling Ronald Reagan a cheerleader for selfishness.

I would be glad to supply to you the lengthy statements I have made on this issue. I only talked about one in my testimony today, thinking this committee was probably familiar with the difficulties with the standards.

Mr. REGULA. If the gentleman would yield?

We will have the Smithsonian on the issue of the Enola Gay and also the Chairman of the NEH to, I think, pursue this, but we do have another panel and I would like to move on. I want to thank the members of the panel.

Mr. YATES. May I ask one final question?

Mr. REGULA. Very short.

Mr. YATES. Very short question.

I guess—I am sorry. He waived his question?

Mr. REGULA. Yes. He waived.

Mr. YATES. Isn't this really what we are talking about, a culture war? For example, none of this happened while it was on your watch. While you were the head of humanities. None of this happened except the so-called corrupting grants happened on your watch, except I wouldn't put the history grant in that category.

I just want to make one question and then I am through. Wouldn't you say that—I would say, wouldn't you say that the humanities themselves, the NEH, can exist as a good force, depending on who the administrator is?

Mr. BENNETT. No. No. No, it cannot. You cannot. I mean, we tried this but I think the corruption is too endemic. Look. I ran into stuff when I was there.

Lynne Cheney wrote an article for the Wall Street Journal. She referred to the show called "The Africans." She referred to one of her predecessors as having funded it in good faith. That was me. What we got is not what I funded. And this happened time after time, and they say we will be fair and they come in with a tendentious thing. I am afraid it is endemic to the organization.

Mrs. CHENEY. I would define it less than cultural warfare than a political revolution. On November 8th the voters of this country gave us the task of conducting a serious conversation about every single function that the Federal Government is fulfilling and looking seriously at which endowments should exist. And my best judgment is that there is no reason for them to exist at the Federal level and no justification for Federal support.

Mr. REGULA. I want to thank the members of the panel. This has been a thought-provoking discussion. And we appreciate it very much, your coming and taking time to share with us. And you may have another opportunity in the authorizing committees since they have primary jurisdiction at this juncture.

[Questions for the record from Mr. Kolbe for Lynne V. Cheney follow:]

Questions for the Record from Mr. Kolbe for Lynne V. Cheney

Ms. Cheney, in your prepared statement and in various articles you have authored you mention the National Standards for History Project. For the record, I'd like to know:

1. How did those involved in developing the standards get so far off base?

When I wrote about this in the *Wall Street Journal* (20 October 1994), I said:

"One member of the National Council for History Standards (the group that oversaw the drafting of the standards) says that the 1992 Presidential election unleashed the forces of political correctness. According to this person, who wishes not to be named, those who were "pursuing the revisionist agenda" no longer bothered to conceal their "great hatred for traditional history." Various political groups, such as the African-American organizations and Native American groups, also complained about what they saw as omissions and distortions. As a result, says the council member, "Nobody dared to cut the inclusive part," and what got left out was traditional history By all accounts, the sessions leading to the development of [the World History Standards] were even more contentious than those that produced U.S. standards. The main battle was over the emphasis that would be given to Western civilization, says a second council member. After the 1992 election, this member reports, the American Historical Association, an academic organization, became particularly aggressive in its opposition to "privileging" the west. The AHA threatened to boycott the proceedings if Western civilization was given any emphasis. From that point on, says the second council member, "the AHA hijacked the standards-setting." Several council members fervently protested the diminution of the West, "but," says the second council member, "we were all iced-out."

2. What criteria were used in determining the standards?

I don't know what criteria were used in determining the standards since I was not involved in the standards-setting process.

3. What can be done to prevent these types of situations?

We should not pursue the development of national standards with federal funds. We should not establish any certifying body.

Mr. REGULA. I would like to invite our other panel members and we will take about a two-minute break. In the spirit of openness, the Speaker has defined, the press would like to come in for a couple of photo ops.

[Recess.]

TUESDAY, JANUARY 24, 1995.

NATIONAL ENDOWMENT FOR THE ARTS

WITNESS

CHARLTON HESTON, ACTOR

Mr. REGULA. Well, we are happy to welcome two additional members of this panel to the discussion today. Mr. Heston, he doesn't need an introduction.

Ladies and gentlemen—tonight, they will say ladies and gentlemen, Mr. President—and so I can just say, Mr. Heston.

And, of course, Mr. Hodsoll, who was at one time Chairman of the NEA, and also the "M", I discover, in OMB, meaning management in the Office of Management and Budget. You were management. You have come into your own time. Management is the watchword these days.

Mr. HODSOLL. A big fan of David Osborn's for a different reason.

Mr. REGULA. We thank both of you for coming. And your statements will be part of the record. Mr. Heston.

Mr. HESTON. Thank you, Mr. Chairman and Honorable Members. I am very grateful for your invitation to testify on behalf of the Endowments for the Arts and the Humanities and the Institute for Museum Services.

May I congratulate you on the revolution. I am proud to have been a foot soldier in the battalions.

Mr. REGULA. I would say you are probably a general.

Mr. HESTON. I am also glad to see here Congressman Nethercutt and Congresswoman Vucanovich. We were involved in those campaigns, and of course it is a delight to see Chairman Yates.

Mr. YATES. It is a pleasure to see you.

Mr. HESTON. We have been down this road before, have we not? Allow me, if I may, to submit my credentials.

In the play "Henry the Fifth," Shakespeare has a scene where the French knights, the night before the battle where they are fully expecting to beat the English, are already celebrating the victory they expect. Only the Constable of France is a realist. When the messenger comes in running and panting and falls to his knees and says, we are 12,000 paces from the English camp. And the constable says, who has measured the ground?

Honorable Members, I have measured this ground. I have made my living as an actor and a director since I came home from World War II.

I belong to four unions in the performing arts. I was President of one of those longer than anyone else. I helped form the fifth union, now defunct.

I served a term on the Council of the Arts Advisory to the NEA. I was President of two client agencies of the NEA. I cochaired the

Presidential Task Force on the Arts and Humanities. I truly believe I know the territory.

You face very difficult—a very difficult problem in carrying out the mandate that the electorate gave you in November. Certainly, in terms of considering the appropriations for the Endowment, and the IMS, cultural funding, of course, has never been free or easy. Never free of the fires of controversy.

The issues Bill Bennett and Lynne Cheney raised are serious ones. They must be taken seriously. Both of them have demonstrated to me, and many others, many times, their use of principal intelligence and their abiding commitment to cultural excellence. They have done this in their writings and in their stewardship of the humanities.

Both the Endowments have made mistakes. Often grievous mistakes. Some of the claims that politics and the humanities and lack of quality in the arts have been, I think, well-taken. Some of the grants, as Congressman Yates suggests, perhaps only a few, have been simply indefensible. The crucifix in a pot of piss, the self-portrait of a photographer with a bull whip up his butt, almost toppled the NEA all by themselves.

The Smithsonian's original plans for the Enola Gay were equally appalling. It is crucial to prevent such blunders in the future.

I met with Chairman Alexander of the NEA, and I expect to meet later with Chairman Hayman of the Smithsonian. Both, I am convinced, recognize these realities. But this does not, in my view, lead to the conclusion that the Endowments should be defunded. I join with many other conservatives in supporting their continuation.

Similar issues were in the forefront of discussion in 1981 when President Ronald Reagan asked me to cochair along with Ana Gray, who was then President of the University of Chicago, a Task Force on the Arts and Humanities exploring these issues.

The task force found there to be a clear public purpose in supporting the arts and humanities, preservation and advancement of America's pluralistic cultural and intellectual heritage, the encouragement of creativity, stimulation of quality in American education, and the enhancement of our general well-being.

We also found that these public purposes are well-served by a diversity of sources of support from private, voluntary and Federal sectors. We found that the Endowment has helped stimulate private support, set standards and spur innovation, both in large and small institutions and in aiding individual scholars and artists.

As a result, we recommended that the structure of the Endowment be maintained. President Reagan concurred in our findings and report.

I am, of course, more comfortable in the arts than in the humanities. I would like to make some observations from my own experience about the changes that the Endowment for the Arts have made.

The theater for which I was educated and in which I began to make a living at the end of World War II, in those days existed entirely in about 40 square blocks of New York real estate. That is literally true. There was no theater outside of that.

Companies were hired, plays were written, cast, rehearsed, played in New York, then went on the road with the same cast or possibly with a replacement casts, also cast in New York City. It was a very bizarre situation. You had the entire American theater centered in the middle of Manhattan.

When I first went out to Hollywood to do a film, my wife came out shortly thereafter to do a play. She was touring in a play from New York. They played the Biltmore Theater—it was the only theater in Los Angeles then. The only legitimate theater.

They played five weeks, which was a staggering run in those days. It was an uncanny success. "Phantom of the Opera" played two-and-a-half years in Los Angeles. "Saigon" is just opening and that will play at least a year and a half.

There are small theaters all over the country. The Regional Theater is one of the spectacular successes of the National Endowment for the Arts. Theater in Louisville, the Guthrie Theater in Minneapolis, Atlanta, here in Washington, in Dallas, in Houston, San Diego. Extraordinary companies, partly achieved through the National Endowment for the Arts.

Mr. HESTON. Remember, after all, film is the American art form, invented here, prospers here more than anywhere in the world. The American art form and the art form of the 20th century is to a certain extent served by the American Film Institute, a client agency of the NEA. I was Chairman of that for several years.

One of its most significant functions, and this really goes over into humanities, is preservation of old films. In the long perspective of history, that may prove to be the most significant thing the American Film Institute and possibly even the NEA accomplished, if we succeed in doing that. These are fruits of the NEA.

It has made our cultural heritage more for the lives of ordinary people in small towns, little theaters, little orchestras, little museums. This is a result that wouldn't happen by itself or even in the marketplace. By definition, it couldn't happen in the marketplace. The arts development efforts seeded by Federal tax dollars, taxpayers' money helped stimulate a vast opening of the American heritage to its people. I think conservatives generally agree that such a result is a public good. Certainly this one does.

When we wrote that report on the task force in 1981, we had serious economic problems as a Nation and major budgetary constraints. While the policies of those years essentially licked the high inflation of the 1970s, I recognize that we now have an even more serious problem in the Federal budget deficit and a more pressing mandate in the plans of the new Congress to fulfill its Contract with the country to reduce the size of government, its influence, its indeed control over the private lives of its citizens. Indeed, I endorse that.

I sympathize with you, Mr. Chairman, particularly, and the hard choices you will have to make in this committee. I go further. I fully understand that the endowments will have to share in budget cuts, serious budget cuts accompanying those made in other areas. Having said that, I also believe that the Federal presence in supporting the arts and humanities is critical to helping make our cultural heritage a part of the lives of our people, and help with edu-

cating our young people in art, history, literature and the social sciences.

Just as the National Science Foundation helps with education in math and sciences, the arts and humanities are surely no less important than math and science. The national investment in my view must not be abandoned. To do so would be to declare that these things so essential to our understanding of who we are as Americans don't really count.

I know Bill Bennett and Lynne don't believe that, really. They are correct to criticize endowment mistakes. They must be acknowledged. They must be addressed. But it would be hurtful, I feel, to the American tradition and sharply out of our national character to repudiate the arts and the humanities. The United States would then be the only industrialized democracy which does not provide support for its culture.

This I submit is not what the American people want. A great democracy like ours must neither abandon nor retreat from the world of ideas and culture. We urge the Congress of the United States not to do this. The arts, the humanities, the libraries, and museums are fundamental to the fabric of American life.

It has been said that creation of the United States was the single most important political act in the history of mankind. I believe that. But for 40 years, we have been wandering in the wilderness in search of the promised land as the Israelites followed Moses. I remember it well.

Now, even as they did, we have built a golden cow of entitlements in every area of our society. I know it is a large part of your job to dismantle this creature. I applaud your undertaking. I beg you, though, at the same time not to sweep away the immense good that is being done at very small cost by these endowments. The humanities enrich the lives of the American people, the American mind. Art is the bread of the soul.

I make my living with the words of wiser men than I. Let me leave you here with some of Shakespeare, who understood the human condition better than anyone whoever lived. In the *Tempest*, he says, this is slightly redacted: "Be cheerful sirs, our task here now is ended. These are actors as I foretold you were. We are all sprites and can now melt into air, shoo, into thin air and like the gleaming fabric of this shining city, the gorgeous palaces, its solemn temples, the great globe itself, yea, all which it inherits shall dissolve like this insubstantial pageant fated, leave not a scrap behind.

Yet man's the stuff that dreams are made of, though our little life is rounded with sleep. Now my charms are all o'erthrown and what strength I have is mine own, which is most faint. Now I lack spirits to enforce, art to enchant, and our ending is despair unless we be relieved by prayer. As youth from crimes would pardon be, let your indulgence leave us free."

[Applause.]

Mr. YATES. Mr. Chairman, I just want to make one comment before you start. I just want you to know that you have continued a great tradition of this subcommittee. Yo-Yo Ma appeared to testify in favor of the arts and he brought his cello and he played. You have performed for us and we thank you.

Mr. HESTON. It is like the little juggler with his juggling act. You do the best you can.

TUESDAY, JANUARY 24, 1995.

**ARTS AND HUMANITIES ENDOWMENTS AND THE
INSTITUTE OF MUSEUM SERVICES**

WITNESS

FRANK HODSOLL

Mr. REGULA. Mr. Hodsoll.

Mr. HODSOLL. Thank you very much, Mr. Chairman. That is truly a hard act to follow. I probably would get a cheer if I just said let's open it to questions.

Thank you very much, Mr. Chairman. Mr. Yates, Members of the committee, it is a great pleasure for me to be here. I think it has been about six or seven years since I sat around this table.

I have, Mr. Chairman, a statement, which I think has been distributed, if that could be submitted for the record.

Mr. REGULA. Without objection.

Mr. HODSOLL. Thank you very much. I have seven points based on some of the things I have heard today. Some of it is in here and then I will only use little bits and pieces of my prepared testimony if that is all right, sir.

Let me begin, though, by saying obviously for the record, as well as personally, what a great privilege it is to be in your company, Chuck, and to be associated with you again in these battles. We have done them before.

No. 2, I would also like to say, that I was a deputy assistant to President Reagan when I got started down this path. I would also like to say, and I wish they were here, though I greeted them, that I remember with great warmth working down and around the hall from first Bill Bennett and then Lynne Cheney when they were chairmen of the humanities endowment.

I concur fully in what Chuck has said about their principal leadership. I have enormous respect for both of them. And I was particularly grateful to Bill Bennett when he was Secretary of Education for helping make the arts more basic in education along with English, history, math, and science. I might say Bill Bennett was more supportive of that effort as Secretary of Education than any other Secretary of Education, at least in the Reagan and Bush administrations. And that makes it particularly difficult for me to testify in a different vein than they have.

I have come to a different conclusion. While I agree with some of their criticisms, I, like Chuck Heston and I might say Bill Buckley, Len Garment, and others, favor continued Federal support. Now, if I could talk about my seven points.

Mr. YATES. Did you say Bill Buckley favors it?

Mr. HODSOLL. Yes.

Mr. HESTON. And I talked to him on the phone yesterday.

Mr. YATES. Really. Good for you.

Mr. REGULA. Go ahead.

Mr. HESTON. That is what I do.

Mr. HODSOLL. Much better than I can. Mr. Regula, I am delighted to see you in the Chair. I mentioned my last job in the Bush administration was as the first Deputy Director for Management. I was President Bush's staff for overseeing the management of Federal Government.

And having worked at OMB for four years, let me say I really agree with Mr. Livingston, you, Mr. Chairman, and others that every program needs to be looked at. I think that that is what the voters have said as well, that they don't know quite what looking at means.

Mr. REGULA. You would be interested, we are approaching it as a zero-based budgeting in this committee.

Mr. HODSOLL. Good. I remember being in such an exercise, totally other administration. I am glad. I think that makes sense.

We have to reduce the deficit. I used to say in speeches when I was at OMB and there was increasing debt, not just there, combined, that this is the first generation outside of war and depression which has basically, obviously metaphorically, placed a mortgage on their children's houses to finance their consumption. That is just plain immoral and that has got to stop. So I am totally with the leadership of this committee on that.

Second, I would like to make a point. Bill Bennett, Lynne Cheney, and Dr. Delattre talked a lot about problems in campuses and arts institutions. They also talked about the problem of the Washington environment, and corruption was used as a part of that discussion.

Let me say that my perspective on that is that there are problems in arts institutions and in universities and other such institutions. But those problems are in those institutions not the endowments. It is the institutions themselves that have these tensions. There are lots of books on this from Marty Anderson's *Imposters in the Temple*, to Michael Straight's book and so on and so forth. I am not sure that Washington compounds it.

In fact, one could argue if one looks at funding records of the Ford and Rockefeller Foundations—I will never get another grant from them—that one would find that there are different coteries of different people in a variety of institutions that provide corporate funding, foundation funding, individuals as well, that have different points of view. The political system on the other hand, unlike foundation boards, brings it all out in the sunshine and we are debating it here and it has been debated before this meeting and so on.

While I am not using this as an argument precisely for the continuation of two endowments, I am using it as an argument to say that the problem is not primarily in Washington. The problem is outside of Washington and the peer panels reflect those outside problems.

Third, micromanagement and block grants were talked about by some folks in the course of this. One of the problems, you could argue, at the arts endowment was that we may not have been sufficiently attentive. If that is micromanagement, it is micromanagement, but we may not have been sufficiently attentive.

And I would note that the 27 percent—I agree with you, Mr. Yates—the 27 percent of the grants to the States, they are essen-

tially block grants for the arts. They are not broad block grants, but there is no interference whatsoever with the States on that.

And I might say that the operating support grants to major institutions, whether they be theaters or orchestras and museums—that is the Institute for Museum Services does it for museums—there is no micromanagement there. It goes to the season. If one judged the previous season as a good one or the record of a museum is a good one, it is a block grant for whatever they want to do with the taxpayers' dollars. That provides on the one hand freedom for them and on the other hand potential embarrassment for the funder.

Fourthly, I would like to say that when I came to the NEA, this was sort of to establish credentials, I went back and looked through some of my files and the first newspaper article I had when I came to the NEA was that I was the James Watt of the arts. For those of you who don't remember Jim, who is a friend of mine, he is out there in Wyoming, but we see each other occasionally. He had a very limited view of government and his principle, but that was his view.

When I came to the Endowment my first year—we will set up some of the more general items—I reviewed every single grant for a year, 4500 of them or some such number. My staff couldn't believe it. They were outraged. I sat in a room with piles of boxes. I thought that was my only way of getting a sense of what was going on. I overturned 19 theater grants. I overturned a whole bunch of—not performance arts but presenting grants, some literature grants, et cetera.

I do remember the 19 theater grants because that was the single biggest amount, and when I did that on artistic quality—and I will come back to this because the panel reports which are transcribed had no evidence in my judgment on the record, not my judgment of their quality, but I didn't know who they were, but they didn't say they were good, either. That is, the panel didn't say that. I did that. And let me say I was applauded in the theater community and they didn't call me the Jim Watt of the arts at least in that community, though others did at a later time.

I think that it is fair to say that there were still problems. I won't say—I made all sorts of mistakes in my seven years, but they are a very small percentage. On the record, less than half of 1 percent, and let's say there is—let's double that to say there are things that nobody knows about to 1 percent. That is a very small percentage.

I have been in government, until I left at the end of the Bush administration, for a long time. I worked in a lot of different programs all over the government as well as at OMB. And there are not too many programs with that kind of a record. I now am on the board of two companies. I don't think my two companies have necessarily that kind of a record, either, based on my tendency to get into detail.

Fifthly, that does not mean that things aren't going to slip through. There is no way to guarantee that any agency, any institute, any foundation, any corporation, any individual can never make a mistake. You can't do it. If one of you can do it, you should

be in charge of the whole thing. I can't do it. I don't know how to do it. So there are going to be mistakes.

The key thing when there are mistakes is that they—when they are really clear that they are mistakes, they be articulated, that the people who made them say they are sorry. If they make too many of them, they should get fired. I made mistakes. I didn't get fired. I hope it was because I didn't make too many, but I can't be sure exactly.

Sixthly, I would like to talk a little bit about David Osborne. When I was in management, I circulated his book on Reinventing Government among the Inspector Generals and the Assistant Secretaries for Management and the Deputy Secretaries. I also sent it to President Bush.

When Clinton came out with his Reinventing Government, the Gore report, Bob Dole asked me to take a look at it and see what I thought of it. I told Senator Dole that I thought it was an excellent report. It had things they had articulated at a higher level than I had when I was with the Bush administration, that was to their credit, but the real question was whether or not it would get implemented.

Now, why am I saying this? It is to show respect for Osborne who was involved with that as well as reinventing government, but it is also to make the case that David Osborne is an expert on total quality management, an expert on systems invention and implementation. He is not an expert on the cultural life of this country. And that is not to say that he is necessarily wrong, it is to say that he is not necessarily the expert on this subject.

And having said that, I would note to move from the Democratic leadership committee to the Republican platform, I doubt a few of those were around just to see what was going on these days, that basically the Republican platform, in my day, they used to applaud the arts and humanities endowments. Today they deplore the terrible grants and so they should. I deplore them. But at the same time they say that public funding for them, sort of like your report, Chuck, does good things in the process.

And finally, in my sort of heading around the bailiwick here, I know, Mrs. Vucanovich, you are from Nevada. I have been to Brevard, incidentally, years ago when I was Chairman. But here is an example of something that surely isn't culturally elite. I live in cowboy country now. I don't live in a resort. I live in a poor town of ranchers with a great view.

Mr. YATES. Where is it?

Mr. HODSOLL. Ridgeway.

Mr. REGULA. Ridgeway?

Mr. HODSOLL. Colorado.

Mrs. VUCANOVICH. I know what you are going to talk about. It is going on this weekend.

Mr. HODSOLL. The Elk. Cowboy Poets Conference. We didn't start it, they started it, but we helped get it started with some money. It is a great thing. We have at least one cowboy coming down. So I just wanted to say that, just as an example, there are some good things.

Let me turn on a more philosophical basis and less sort of quarreling with what has been said. It is almost unfair. They should be here to come and quarrel with me now, so I apologize for that.

Chuck has really stated—and I am going to really abbreviate this. Chuck has really stated the reasons why the arts and humanities are worthy of Federal funding so I am not going to repeat that. But I would like to add to what he said that while the endowments have made egregious mistakes, I really don't think that means that they represent exclusively or even generally funding for cultural elites in addition to Elk. and other things.

I tried to take things since my time. The funding of chamber music ensembles in Trifton and Moultrie, Georgia; Jessup and Mt. Vernon, Iowa; Garden City and Liberal, Kansas; and King City, California. That is the only chamber music they will have. In my little town, we have a chamber music occurrence once a year.

Take the funding in Canton, Ohio, youth ensembles in education, funding of humanities scholarships throughout the heartland and south. I mean, I am going to talk about the National Science Foundation in a minute because there are three great branches of learning: Art, humanities, and science. You can reverse the order if you like, but that is the way universities are set up, those are the three great branches.

So we need to talk a little bit about science here, but what I am saying is, that in scholarship there are cultural centers that have accreted great press to my knowledge and rightly so and great resources over time. But they are in the older places, and there is a huge need in this country for these places to be in other areas that are less blessed so that the people in those areas can have a chance to enter into some of these scholarly and artistic debates and issues.

Somebody mentioned earlier The Civil War, the television series. Burns was a little guy up in New Hampshire. He didn't have access to any major funding until he got \$2 million from the humanities endowment. I have talked—I believe they want to be anonymous—with some people of my administrations about this and they agree that is something that couldn't have happened. I don't know whether Baseball could have happened or not, but those are extraordinary programs.

Take the arts endowment's support of the design of the Vietnam Memorial. That was—I came in just about that time.

Mr. YATES. Did you?

Mr. HODSOLL. That was controversial. But today talk to a Vietnam veteran, all you have got to do is talk to them and you will find they think it is great. They weep in front of that wall. And that was something that the endowment did.

We also—my first, almost my first grant I made—it was in the first 10, I can't remember. We supported the design competition for the Holocaust Museum, which is an architecturally very moving and well done building, I think most people would say.

We help dance. Chuck, you mentioned theaters. Dance in America, the first time people knew about dance, an important art form.

And I will now toot my own horn. I think we made some progress on putting the arts in schools because the kids don't understand. They will come out culturally literate and bloom. Conservatives

talk about this. They want people to—I want people, I think everybody wants people to be culturally literate, but you need to help that because it is not always part of the schools. One could argue that is a problem in schools.

Mix of funding. People have asked if you did away with the arts endowment and the humanities endowment, would everything disappear. I agree with Bill and Lynne on this. Of course not. Everything wouldn't disappear. Most of it would continue. What is it that would be lost?

If I were to quarrel with my colleagues and the art colleagues, I would say they documented extremely well the problems, but they haven't talked about what would be lost in all of this. I would argue very strenuously from my experience. I went into all 50 States, just like Jane. I have been to Moultrie, Georgia. I have been in towns where they tell me, well, we really don't want the arts and we sat at a hamburger joint—

Mr. REGULA. I think you have been in Canton.

Mr. HODSOLL. I am talking about really little places. And while there is a danger in the imprimatur of a peer panel, let's talk a little bit about those peer panel lists.

When a symphony—I am going to talk about the noncontroversial side—when a symphony orchestra learns that it has been ranked at a certain level by a panel—I am talking cities like Canton, maybe some other place—by a panel that has on it a representative of the New York Philharmonic, the Chicago Symphony, the Boston Symphony, and so on, it means something.

And I have been with trustees—I don't know the artists now. I have been with the trustees, not just in music either but a lot of other places. I like to help people in fundraising, and it was like, you know, you just won a football scholarship or something and you were able to get other people in the community that had not contributed before to contribute, and I helped people raise tens of thousands of dollars that way.

It is true there is a danger that you know government comes in. I worried about that, I always said when I was there and I got criticized by some of the arts community, I have no arts policy. It is not appropriate in this country to have an arts policy. That may be all right in kingdoms or something but it is not appropriate here.

And I worried that when I went out because I represent to some degree a panel that had all these very expert people on it that, you know, I would overdo it and people would treat me as some sort of God, which they shouldn't. Every now and then they did. But that may well be a danger but everything is a balance. Everything is a trade-off and all I am saying is that we are a tiny percentage.

Mr. Livingston is absolutely right, \$9 billion in private. We are \$170 million. There is no way we are going to dominate all this stuff. Humanities and arts together are about \$340 million.

So I would finish with—on this piece with a point coming back to theater. Bob Brustein told me early on, and I have never forgotten, of the Athenian democracy of ancient Greece and they funded their arts, and that means Euripides and Aeschylus were provided a combination.

The choruses of ancient Greece in those plays were the citizens. They came and contributed money and the Athenian government also contributed money. Incidentally, we don't know what happened to the failures. Historically, my guess is the endowments' failures will also be forgotten but their successes, I think, might be remembered, not because of the endowment, they are relatively unimportant, but because of what they left.

Let me talk briefly about controversial grants. I am not an expert in humanities. I was hoping you would have a humanities person here, but I read a lot over the last few days. For everything I hear "The Africans" television series, the history standards before UCLA withdrew, all those examples, I think they were bad efforts, bad stuff.

Let me say—and I will come back to this in a minute—I signed the grant to the Pennsylvania Institute for Contemporary Art for Mapplethorpe and the Southeastern Center for Contemporary Art, the "Piss Christ" one, okay. And then I left the Endowment before I knew what had happened. I am going to come back to those. They were huge mistakes. Had I still been at the Endowment when they came out, I would, as I did do, and I would have publicly repudiated them and I would have asked for the money back. And I will come back to that in a minute, if I may.

Just a little aside and I will go on here. But I think in my prepared text, I am a big fan of Hilton Kramer and Sam Lipman who just died, sadly.

Mr. YATES. That is sad.

Mr. HODSOLL. He had cancer, leukemia, but I am reminded of Sam Lipman who was one of most—he was a Reagan appointee and one of the most conservative council members. I am reminded of his lamenting the lack of money in the Endowment's music program because he felt that the music program had a better chance of influencing better music than many of our symphonies' trustees. He was terribly worried that there were too many trustees that didn't know a thing about music, they were on their boards and they were doing sort of the popular hits of classical music and he was a true conservative.

I will let you read my testimony on politics.

Let me now, if I could, turn to—we will get into the Mapplethorpe quickly. When I was—I am going to make some recommendations, if I may, Mr. Chairman. I will very quickly summarize them as to things this committee and the authorizing committee might consider in legislation or instruction. I don't know what the form those should be in.

But let me say what I did. Most of the discussion has been about the terrible grants. There isn't a single grant that has been mentioned here that I think was an appropriate grant. Every one of them was absolutely inappropriate for public funding and I turned down lots of those grants, but, again, no one is perfect. You don't do everything right all the time.

When I was there, I told you about my 19 theater grants. I basically had three reasons for overturning grants. And I articulated these within six months of when I was there. I figured it out first and then I did it. Number one, there was no substantial evidence

of quality in the record, not my view of quality, not their view. You know, they didn't have it in their proposal.

Number two, actual evidence of improper panel process—I intervened several times—that is, undue influence. One panelist said all this extraneous stuff and I would never have that panelist again on that once I found out. Irrelevant rationale, unexplainable discrepancies in grants, about which Mr. Yates and I had a tussle when I was in the Endowment.

And, finally, inappropriateness for public funding.

Well, the first two are fairly easy. The record is a mess, you know. There is not much leg to stand on to make much of a fuss, but people occasionally did.

Let's talk a minute about inappropriateness for public funding. Let me do this in the context of Mapplethorpe. The system worked. I had an instruction that my program directors and I had a long session with them again about in my first year somewhere that I was the political guy, they were the arts guys, and the reason I was appointed by the President, confirmed by the Senate, both of whom were elected was it was my job to think of what the folks who elect you, and you try to understand it, what kinds of pressures they are going to bring on and that is appropriate not only for you, but also for the guy who is the political guy.

I did not want my panels to get into that and, in some of the previous administrations before my time, the panels were asked to kind of, you know, go around it and I figured that was my job. I had to take that heat and I did regularly.

Let's talk about Mapplethorpe. The grant was surfaced to me. This is just an example, but it is so famous—infamous, let's just talk about it as a good example.

My museum director brought the grant up to me. It was the Institute of Contemporary Art which is part of the University of Pennsylvania, incidentally. I asked, well, I know Mapplethorpe does some of these dreadful things but he also does things that are not particularly offensive to anybody and I would call him a B-plus photographer. I am not sure even the stuff that wouldn't offend everybody, I am not sure that he is the greatest photographer but, within the endowment's support range, he was excellent. Excellent, you could argue an issue here, but more excellent than others.

I was given what had come in with the grant application which was the catalog of the Whitney Museum show and I looked at the pictures in that and said it was nothing wrong with this. This was no "XYZ" series. It so happened, after that happened, at some point when I went over to OMB, Mapplethorpe died of AIDS in New York and the director of the Institute for Contemporary Art decided that she was going to add the "XYZ" series as a tribute to him.

I was gone. I was also in the Bush White House and it was not appropriate for me to get into all these things, but let me say what would have—what I would have done had I still been in the chair. And I have said this to the arts crowd and they don't overly like what I am saying. Those that are here from the arts crowd will hear me again on the subject.

I would have stood up. I would have called up—I have forgotten her name. Janet Cardin. Maybe I would have called up Sheldon Hackney, but he had nothing to do with this. I would have said,

look, you added something. It was inappropriate. I am withdrawing the money. And you know, we have draws so I could have stopped the next payment.

I am going to make a speech. If you want to yell and scream at me, you are entitled to, but I am the guardian for this purpose of the taxpayers' dollars and that is the way it should be. I did that on occasion. And I think that that is what you have to do. There are some constitutional lawyers who quarrel about that, but I don't think you can run Democratic institutions if you don't do that. So it is a political judgment question.

Let me talk a minute about science.

Mr. Chairman, do you want—I am getting close.

Mr. REGULA. Why don't you finish.

Mr. HODSOLL. I would argue that the need for Federal national involvement is as great in the arts and humanities as it is in the sciences. And we spend billions on science. I would note that our science agencies also make egregious mistakes, sometimes due to unbalanced panel processes and that these mistakes in some cases cost hundreds of millions of dollars. The Orion Project of the 1950s. Imagine the idea of spending \$250 million in 1950's dollars on a rocket ship that would be powered by controlled nuclear explosions going up. It almost boggles the imagination.

And I call to your attention Dave Goodstein's piece, Vice Provost of Cal Tech, on cold fusion in *The American Scholar* about the problems. But no one would suggest we abolish the National Science Foundation or the National Institutes of Health. No one would suggest that. Of course there are going to be mistakes and they shouldn't happen. That is another issue.

Let me make quickly a summary of my suggestions. I was very impressed with the 1990 Commission on the Arts endowment report by John Brademas and Leonard Garment. I would urge this committee to find out exactly where that all stands and how far they have gone. But I think maybe it is a good idea for the chairs of the endowments to be explicitly empowered. They are already but may be more empowered and will be held responsible for ensuring grants were in accordance with Presidential and congressional expectations, reflecting the people.

Secondly, I think that maybe consideration should be given to arts endowment panels becoming more like those of the humanities endowment where recommendations on grant amounts are not made at the panel level or at least there is serious review of that. This was the tussle I had with Mr. Yates. I still believe—well, I don't know whether it is still a problem but it sure was a problem.

Mr. YATES. You won't have a tussle with me today on that.

Mr. HODSOLL. Thirdly, I think that the proposition that arts and humanities funding is first to aid American civilization and educated access to it might be made more clear. The initial authorizing legislation which I cite, the National Heritage Foundation report says is terrific, but I think that may need to be reaffirmed. The Endowment is not an entitlement program for artists and arts institutions for scholars and for universities. It is about improving the cultural capacity of this country, including the ability of all of its citizens to participate.

Mr. HESTON. Hear, hear.

Mr. DICKS. Hear, hear.

Mr. HODSOLL. Fourthly, and substantively and very important, I am more or less with Bill Bennett and Lynne Cheney. The endowments have, as national institutions, a duty to explain and showcase what I would call the "unum" in the "pluribus." There is too much "pluribus" and not enough "unum" at the national level. We should be concerned about that amalgam and a better balance I think is needed.

And this gets into such things as post-modern history. I think there is a problem. The problem, as I say, is not so much the endowments, the panel also may reflect that. The problem is in our institutions and there are lots of books about that outside of government.

Fifthly, equally substantively, and I know this was being considered when I was in the Bush administration when all the troubles were happening with my successor, I was in charge of block grants, among other things. And I am for block grants in general.

There are a number of functions of governments, not the arts endowment, where I would like to see this happen but let me say that I don't think the endowments can be block granted to the States as a whole. We have already talked about the 27 percent. And I don't have a view as to whether that percentage is exactly right or not.

I don't know that they can be block granted to States as a whole and achieve their national purpose. States are very important as a part of a partnership and substantial portions of the endowments' budgets are effectively block granted now, but the States are not, in my view, in a position to commission national review and stimulate both substantive improvements and the kind of increased private support that the Endowment here is. And the argument here is exactly the same as the National Institutes of Health and the National Science Foundation.

There have been other fundamental changes that have surfaced in my conversations. I mean, there are more people thinking about this than I ever imagined when I came out of Colorado, but I think we have to.

Mr. REGULA. To the Members here, after we have voted, we will come back. If you have questions, you will have the opportunity then.

Go ahead and finish, Mr. Hodsoll.

Mr. HODSOLL. I am really almost there. I think one has to be careful about changes. If they are necessary, politically, that may be necessary. But as I mentioned, the endowments haven't done too badly. I agree with Chuck Heston, that there may have to be cuts.

And in conclusion, I would simply say they are important. I am for them because I think there is a genuine value added in relation to the Federal investment that is competitive with other Federal programs.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hodsoll follows:]

STATEMENT OF
FRANK HODSOLL
IN SUPPORT OF THE ARTS AND HUMANITIES ENDOWMENTS
APPROPRIATIONS SUBCOMMITTEE INTERIOR AND RELATED AGENCIES
U.S. HOUSE OF REPRESENTATIVES
JANUARY 24, 1995

Thank you, Mr. Chairman, for inviting me to testify on behalf of the Arts and Humanities Endowments and the Institute for Museum Services. It is a pleasure to be back before this Committee. It's been a long time since I chaired the National Endowment for the Arts in the Reagan Administration.

It is also a privilege to be in the company of Charlton Heston. He was an enormous help to President Reagan in these matters -- in co-chairing the President's Task Force on the Arts and Humanities, and generally. I can remember when the issue of arts and humanities funding first came up in 1981. I was then a Deputy Assistant to President Reagan. We had some in the White House and at OMB who wanted the endowments phased out. There were also, in addition to those in the arts community, a number of people like the Heritage Foundation who wanted them continued but strengthened. The sorting out of these opposing views was the object of the President's Task Force.

I also remember working down and around the hall from first Bill Bennett and then Lynne Cheney when they chaired the Humanities Endowment. Their principled leadership of that Endowment showed a deep caring for, and understanding of, the issues at stake. I think it is fair to say they made the place a better one during their tenures. I have enormous respect for both of them, and remain particularly grateful for their help in one of my initiatives at the Arts Endowment -- making the arts a basic in education, along with English, history, math and science. Bill Bennett was more supportive of that effort as Secretary of Education than any other Secretary of Education in the Reagan and Bush years.

It is because of this respect, admiration and gratitude that my presence here today on the other side is not easy for me. I agree with most of Bill Bennett's and Lynne Cheney's observations on both Endowments. And yet, I come to a different conclusion. I -- like Chuck Heston, Bill Buckley, Len Garment and others -- favor continued Federal support.

Let me state (1) why I think the arts and humanities are appropriate for, and worthy of, Federal funding, (2) where I agree with the endowments' critics, (3) what I did as Arts Endowment chairman to guard the taxpayers' dollars, and (4) my suggestions for the future.

Federal Funding of the Arts and Humanities

As the Heritage Foundation's Mandate for Leadership chapter on the endowments found in 1980, "the legislated mandate for the National Endowment for the Humanities and the National Endowment for the Arts rests on noble ideals which both Endowments, at their best, should uphold." There is, in my view, a "public good," appropriate for public funding in the objectives of both endowments. That "public good" lies in preservation, and educated access to, our cultural heritage. There is little disagreement on the appropriateness of these objectives, and most agree that public funding might be part of the mix. That was also the conclusion of President Reagan's task force.

There is somewhat less agreement on the funding of new work in the arts, although new analysis of humanistic events and trends and new art have always been part of the activities of both endowments. Certainly, in science (the other great branch of intellectual inquiry) no one has suggested that government funding should be confined to old science. Indeed, most science funding of the National Science Foundation, National Institutes of Health and the Defense Department is focussed on new science. Again, President Reagan's task force thought new work should be part of the mix.

Most thoughtful critics confirm the importance of the arts and humanities to American civilization and further agree that the endowments have both done good work. They, however, point out that the endowments have made egregious mistakes. They have. But that doesn't mean they represent exclusively, or even generally, "funding for cultural elites." Much of what the endowments do is to make the arts and humanities available to people everywhere.

- Take the funding of chamber music ensembles in Tifton and Moultrie, Georgia; Jessup and Mt. Vernon, Iowa; Garden City and Liberal, Kansas; and King City, California.
- Take the funding of the Canton, Ohio, symphony's ensemble programs in schools.
- Take the funding of humanities scholarship in universities and colleges throughout the heartland and South where access to the more established centers of learning is less easy.
- Take the Humanities Endowment's extraordinary investment, under Lynne Cheney's leadership, in the Civil War series on television.
- Take the Arts Endowment's support of the design of the Vietnam Memorial and Holocaust Museum and of programs that have brought the best in dance to all parts of America (live and on television).
- Take the Arts Endowment's effort to make the arts more basic in schools.

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To sum up, the best in the arts and humanities are of the highest importance to American civilization. They need to be nurtured but not dominated by any one party, particularly government. There is a "public good," not inappropriate for government funding, in preserving and providing educated access to the best of the arts and humanities.

The mix of funding we have in this country -- primarily private (supported by tax deductibility) coupled in many instances with a mixture of local, State and Federal government funding -- assures no dominance and a degree of complementarity. I am told our system bears some similarity to the system of theater support in the Athenian democracy of ancient Greece: where citizens and government joined together to produce the plays of Aeschylus and Euripides. Parenthetically, we don't know what happened to the failures. Historically, my guess is the endowments' failures will also be forgotten. But their successes will be remembered -- not because of the endowments but because of what they helped.

The Controversial Grants

I defer to those more experienced in the humanities on the "Africans" television series and the history standards. From what I have seen and read, however, I concur with Lynne Cheney's view that unacceptable bias crept in. These projects should then be rejected by the Humanities Endowment as such, unless amended to

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reflect objective truth. I have read a number of pieces by Gertrude Himmelfarb, who I gather could not be here today, on post-modern history, and I certainly concur that history should reflect on the times as they were, not on some advocate's view of what was wrong with the times.

Let me turn to what I know more about -- the Arts Endowment. The Arts Endowment has, without doubt, made a number of grants over the years that were inappropriate for government funding. We did in my tenure; these were mistakes. Where these grants came to light, we overruled panels and/or cancelled funding. But the total of these grants probably comes to less than one half of one percent of all grants made. Even doubling that percentage to account for other unknown wrong-headed grants, we are talking about one percent. That's a fairly small error rate. At the same time, these small percentages don't mean the Arts Endowment shouldn't "fess up" to those errors.

I'll come to what I did in a moment. But let me state here, as a matter of principle, that it is not censorship to deny government funding to activities that don't meet criteria that reflect the general tenor of the American people's expectations, as enunciated, formally or informally, through their elected representatives in Congress. The governance of public institutions is in those elected representatives and, at the Federal level, the President. While some lawyers may dispute whether the Constitution

permits partial or complete cutoffs in categories of funding, reasonable outcomes in a democratic society require some balance in these regards.

Hilton Kramer, the respected editor of the New Criterion, has said he was enthusiastic about the Arts Endowment at the beginning. But he is now reported to believe that the Endowment's process has become bureaucratized, and perhaps even corrupt, in its panels. I should note, however, that the late Sam Lipman -- one of our most concerned and articulate National Council members when I was Chairman and publisher of the New Criterion -- lamented the lack of money in the Endowment's Music Program and the lack of musical commitment on the part of symphony trustees.

One last point on the humanities. I was struck by a remark made by Hilton Kramer in a February 1989 article on "Studying the Arts and Humanities." He wrote: "...I am not suggesting that this problem of political discourse masquerading as serious criticism will be solved by substituting our politics for those of our enemies on the Left. Our task, wherever it may be possible, is to try to expel the politicization of the arts and the humanities in order to allow them enough free intellectual air to breath and grow.... Politics is the problem, but it is only in part the solution."

The bottom line on controversial grants is that they reflect the current state of the arts and humanities. UCLA was picked

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reasonably by Lynne Cheney as a reputable university to undertake history standards. It went astray in the university. I picked the Institute of Contemporary Art at the University of Pennsylvania to do an exhibit of Mapplethorpe; that also went astray contrary to what was presented in the grant application. But the fact that some things go astray does not mean, in my view, that you abolish the effort -- to help keep our cultural heritage alive from yesterday and today in the hearts and minds of the people.

What I did at the Arts Endowment when I was Chairman

I viewed myself as the Endowment person responsible and accountable for ensuring that the public purposes of the Endowment, as set forth by the President and Congress formally and informally, were met. That responsibility began with our authorizing legislation and included the sense of direction obtained from Presidential instructions and during Congressional hearings. Since there is virtually always more than one view of these things, the head of a Federal agency -- any Federal agency -- has to be a fairly astute interpreter of where the consensus more or less might lie. Needless to say, I also had the duty to set a sensible direction, consonant with the general thrust of my Administration, and sell that direction to all those concerned.

In that frame, and with specific reference to controversial grants, I implemented the power the Chair has in the Endowment's authorizing legislation actively to oversee the Endowment's panel process. I stated more or less at the outset that I would reverse panel or National Council on the Arts decisions for three reasons (with the burden of proof being on me and my staff): (i) no substantial evidence of quality in the record; (ii) evidence of improper panel process (e.g., undue influence reflected in the tapes of the panel discussion, irrelevant rationale, unexplainable discrepancies in grant amounts, etc.); and/or (iii) inappropriateness for public funding.

The first two of these reasons are fairly straightforward. The third is more difficult and requires a fair amount of political judgment. Mapplethorpe is fairly easy; most in Congress don't want public funding to go to fund exhibit of Mapplethorpe's "XYZ" series (the homoerotic photos), although most would have no problem with Mapplethorpe's other work. Since there is no way to distinguish the two kinds of photos on artistic grounds, inappropriateness must be the criterion.

But I should note that inappropriateness is an inexact criterion. I was faced with National Council reluctance on one occasion to fund a reading of Ezra Pound poetry. Pound is a fine (and dead) poet who had, among other things, written anti-Semitic poems and sympathized with Mussolini. I would have rejected funding a

reading of his anti-Semitic poems (inappropriate), but his other poetry is part of our cultural heritage.

One last point on process. The Chair and staff can't catch all the wrongheaded grants. Sometimes, arts institutions add on things (not necessarily funded by the Endowment) that are inappropriate or bad quality (or both). When this happens, it is the duty of the Chair, after due deliberation, to recall the grant (or a portion of it). I did this on occasion; other chairs (and acting chairs) have also done this. Had I still been at the Endowment at the time the Mapplethorpe exhibit came to light, I would have done this in that case.

In sum, the Arts Endowment is a human institution. It is by no means perfect. The issue is: whether in competition for public funds, its priority in serving the national interest measures up to other competing claims. I think so, which brings me to the last part of my testimony.

The Future

There is essentially no disagreement that the arts and humanities are important. There is also no disagreement that there is a public interest in their creation, preservation, and educated dissemination. The question, however, arises as to whether they are too difficult to fund at the national level and whether that

difficulty makes the likely value added of so funding them a less competitive Federal investment than other competing needs.

I would argue that the need of Federal/national involvement is as great as in the sciences (on which the government spends billions). I would note in this connection that our science agencies also make egregious mistakes, sometimes due to unbalanced panel processes, and that these mistakes in some cases cost hundreds of millions. As in the arts and humanities, many of these mistakes are due to the imperfections of the funded institutions (even when they have big names) and the relative power of competing groups. (See David Goodstein's piece (Vice Provost of Cal Tech) on cold fusion in the Autumn 1994 The American Scholar.)

What the Endowments bring at the national level (like the National Science Foundation and the National Institutes of Health) is a national perspective as to competing needs and quality in the field, and some funding to help the institutions who do the work to get it done. The percentage of government funding of science is much larger than for the arts and humanities; the magnitude of equipment and other costs in many cases of basic research defies any likely combination of private funding, and the likely popular appeal of participating in a fusion project is, to say the least, limited.

On the other hand, the arts and humanities need help in engaging in national dialogue made more real by the parcelling out of Federal funds. And, there are many parts of the country (outside the cultural centers) that need help in participating in, and understanding, the best of our civilization. The presence of local arts and humanities institutions of quality is much encouraged by endowment funding; the imprimatur of national panels spurs private fundraising at the local level; in many communities it's like having a winning football team. In addition, the education programs of the two endowments may well be as important as those of NSF in math and science.

Do the imperfections of some of the institutions, of some Endowment decisions, negate this? I think not. A small investment (a little over \$300 million a year) -- that produces the Civil War series, supports scholarly research all around the country, gives encouragement to small symphonies and theaters, helps exhibits of paintings go to smaller communities, helps teachers in elementary and secondary schools teach our young people about the arts and humanities -- is money well spent. Could it be better spent? Sure. The endowments should work on that. But my belief in this doesn't negate my earlier conclusion. Nor do I think the contrary case has been well documented in terms of the good that would be lost as well as the bad that would be avoided.

How does one make improvements? I largely concur with the excellent report of the 1990 Commission on the Arts Endowment chaired by John Brademas and Leonard Garment. But let me summarize, on a preliminary basis, a few ideas that draw and build on that report.

- (1) The chairs of the endowments need to be explicitly empowered and held responsible for assuring grants in accordance with Presidential and Congressional expectations. This includes, in the case of the Arts Endowment, taking into account considerations that go beyond artistic excellence.
- (2) Arts Endowment panels, more like those of the Humanities Endowment, should make recommendations on grant amounts that are advisory in fact as well as in theory.
- (3) The proposition that arts and humanities funding is, first, to aid American civilization and educated access to it for all Americans, should be made more clear. The initial authorizing legislation did this but it needs to be reaffirmed. The endowment programs should not be primarily designed as aid to artists and scholars, but rather aid to the country as a result of the encouragement of artists and scholars and their institutions.
- (4) Substantively, and very important, the endowments have, as national institutions, the duty to explain and showcase the "unum" in the "pluribus," as well as individual contributions. A better balance is needed in this regard.

(5) Equally substantively, the endowments can't be block granted to the States and achieve their national purposes. The States are important as a part of a partnership, and substantial portions of the endowments' budgets are effectively block granted now. But the States are not in a position to commission national review and stimulate both substantive improvements and the kind of increased private support that the Endowment is. The argument here is similar to that undergirding the National Science Foundation.

More fundamental changes have been surfaced in a variety of quarters. Some of them may well have merit. However, if the bottom line is arts and humanities endowments that serve the purposes that most agree on, it is the humans who run those institutions who are critical, not micro-management through detailed Congressional instructions about imagined hypotheticals. The problem of increasing central direction of all imagined cases was rejected by the American people in the last election, and it's contrary to all the principles of good management (such as those set forth by Ed Demming and David Osborne, among many others).

One last point: the Democratic Leadership Council's Mandate for Change, and President Clinton's endorsement of it overall, seems to be in vogue as an authority for no federal role being justified in the arts and humanities. I would note that Republican Platforms have not taken that tack, although they have condemned subsidy of

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obscenity and blasphemy masquerading as art. So do I. Our 1992 Platform explicitly stated that the "fine arts, including those with public support, can certainly enrich our society," and previous Platforms have endorsed the endowments.

In conclusion, I believe that there is a national role in the arts and humanities, and that the endowments have done a reasonable job in this role and should be continued. Their worthwhile efforts substantially outweigh their errors. As President Bush's overseer at the Office of Management & Budget of Federal management generally, I can testify to the fact that the Arts and Humanities endowments stack up fairly well in comparison with other programs.

I fully understand this Committee's need to make budget cuts, but would urge that the priority for the arts and humanities be maintained proportionally. The endowments have already been reduced, in real terms, more than 50 percent since the expansion during the Nixon Administration, while science investments have increased substantially in real terms. Within the caps, I would hope that the endowments would be considered on a par with other important programs involving the Interior Department and others.

Finally, the media and Congressional attention to these two small Federal agencies underscores their importance. What the Congress does in these areas will have wide ramifications. A great many, not just cultural elites, would agree:

- (1) The Federal role is essential to encourage the highest standards of excellence, assist institutions and individuals of national importance, and uphold the Federal-State public private partnership that affords access by the greatest number of Americans to the finest art and scholarship.
- (2) Federal support helps make possible education in the arts and humanities for our children and helps preserve the cultural traditions and rich heritage of the American people.
- (3) It would be hurtful, and sharply out of character, if we were to repudiate the policy of Federal support for the arts and humanities.

Mr. REGULA. Thank you both. Can you stay for a minute? It will take us about 15 minutes for a quorum plus a vote.

Mr. YATES. Mr. Chairman, if you will permit it, you go vote, I just want to say for the record how impressed with the views I am. I just want to say that I want to commend these gentlemen for the excellent statements at this time because I just thought I wish you had made a statement like that when you were Chairman before this committee.

Mr. HODSOLL. I would have been run out of town on a rail.

Mr. YATES. Chuck, I want to go back. You were there way back at the beginning of the Endowment. You were there in 1935 and we want to go into that a little bit.

Mr. REGULA. My question when we come back is, if you were testifying before the authorizing committee, and I hope you will if they have a hearing, would you want to limit NEA grants only to institutions? It is my perception that most of the problems have developed with the individual grants.

They are about 9 percent of the money and 90 percent of the problems and I know that could be something to consider.

Mr. HESTON. Something to think about.

Mr. REGULA. And we will get into that when we get back.

[Recess.]

Mr. REGULA. Okay. Whichever of you want to answer the question of institutional versus individual grants.

Mr. YATES. What is the question?

Mr. REGULA. Well, the question is, if you were testifying at the authorizing committee, how would you feel about language that limited grants to institutions only, as opposed to individuals, because that seems to be where the evidence points most of the trouble is.

Mr. HESTON. Well, I think Frank is more informed on that than I, but it does seem that much of the problems come from individual grants, too. You know, it is possible to prevent that by more strict and more careful oversight and there is something to be said for the thought that the only way you can fund a painter or a poet is through an individual grant.

Actors you can fund by giving a grant to the theater and then there are more jobs for them and all that stuff. And besides, individual work by actors could tend to be Holly What's-her-name smearing Hershey's chocolate on her breasts.

But what do you think, Frank?

Mr. HODSOLL. I agree with that. It is a mixed bag. I think, if I could add, Mr. Chairman, because the two grants at the end that I am tagged with, that had I known I wouldn't have done, were both institutional grants. However, the performance artist category, which I believe has been abolished—I don't know that for sure.

Mr. YATES. Yes, I think it has been.

Mr. HODSOLL. And probably should be—I may have been guilty way back when. One of the—but anyway, yes, you have those kinds of problems. Just a sentence on that. When I came to the Endowment, I thought that we ought to have a piece of that. It was like the National Science Foundation doing the experimental, and my—had I to do it all over again, I wouldn't have done it quite that way.

Basically what happens in the experimental in the arts, and this doesn't happen in science so much, one of my jobs at OMB was with the research establishment, with the researchers with the university. I was heavily involved with them.

The experimental in the arts, the panels tend to become the captive of one little group and I was dumb enough not to realize that for about a year.

Mr. YATES. Are you thinking of something like The Kitchen?

Mr. HODSOLL. Not so much The Kitchen, but The Kitchen was a little bit better than the average, but some of the performance artists that were funded. The panels—there was a little group of both audience and performers that were all together on the panels and I didn't know enough that this was happening and it became incestuous, to be honest.

Mr. HESTON. To that same question, I had a couple of added points. One, in the question which obviously interested several of the Congressmen, what was meant by corruption aside from crap like the Mapplethorpe, I think—although he never quite said—what Bill also implied was that one of the problems with what they used to call the peer panels—and I understand that is being eliminated now—is that often there will be people, artists on the peer panels who have friends that submit grants and they okay them and then next year you be on the peer panel and I will have a grant. And that falls under the general heading of corruption.

I would also say I am interested to hear that the performance art category has been—performance art grant has been eliminated because I had always thought it essentially is one performer performing usually fairly simple stuff in terms of production. Really, all you have got to do is hire a hall and sell tickets. I mean, the classic, why should somebody pay—just try it and see if it works. If it doesn't work, nobody wants to see it then.

Mr. REGULA. Mr. Yates.

Mr. YATES. I have a question for both of you. Cheney, Delattre, and Bennett say that if the endowments are ended, the arts were in existence before the endowments were created, they will be afterward.

What is your impression? Will the arts fall? Will they diminish as a result of the ending of the endowments? Will they go back to what they were when your wife came in for five weeks and so forth?

Mr. HESTON. I think the quality of the art itself will not necessarily diminish. The opportunity to undertake it may diminish. I think art that eventually becomes permanently valuable in any culture—you spoke of the Impressionists, they didn't sell. Many of them didn't sell anything in their lives, actually, but eventually its quality was recognized.

And that historically very little—one hesitates to use the word great art because it is so rare, and properly so of course. It is rare, you are not going to find a Mozart or a Shakespeare in every century, but the idea of—that is why the function of the marketplace is crucial. That is why I have been always—I was President of the Center Theater Group, the Los Angeles Center Theater Group that includes the Mark Taber and the Doolittle and the Amnenson which has been magnificently restructured. It is a marvelous job.

Mr. YATES. I was unaware that the panels had been abandoned.

Mr. HESTON. Didn't someone just say it now when we were talking about the panels for performance art?

Mr. YATES. Oh, yes.

Mr. HESTON. Now, the Amnenson was an ill-designed theater in the first place. It is now very well redesigned. It was built entirely with public money before the endowments so that is not a factor here. The Mark Taber, on the other hand, is probably the finest small theater in the country, if not in the world.

One of the problems with funding production is, and if it is not a problem—I am in favor of plays that aren't likely to get staged because theater is becoming increasingly expensive to do, but I would be opposed to any play being totally funded by either private donations or public donations because you have to see if anybody wants to come see it.

If they don't want to come see it, there has got to be something wrong there and they say, no, no, this is cutting edge theater. Well, maybe so, but it is okay to give donations for that, but to have such a production totally funded either by private charities or the Federal Government, I am against.

Mr. YATES. Frank, what is your impression? Suppose the arts were ended, what would happen?

Mr. HODSOLL. Well, I think the major institutions would go on with a minor hiccup. They couldn't do some things, perhaps that they do now, but I think that the touring programs, the arts programming on television, the national kinds of things, I am not saying they would all go away but they would have more difficulties.

Mr. YATES. What about the States arts councils, they would lose their councils.

Mr. HODSOLL. That is true. If the endowment were abolished, there would be no more money to the States arts councils. I don't know what that would do in some States. I just don't know.

Mr. YATES. Well, I have one more question, Mr. Chairman. The Bennett statement points out, and of course, it is taken as a given that the money distributed by the arts will produce as much as 10 or 11 times the original amount of money because of the imprima-tur that Bennett spoke about. That will be lost, won't it?

Mr. HODSOLL. Yes.

Mr. YATES. And as a result, the funding that is available for the arts will be diminished very seriously if my impression is correct. Do you have the same impression?

Mr. HODSOLL. It certainly worked that way on the upside in the sense when grants were made to the smaller places, it encouraged trustees to go out and get more. Now, the nature of things is that once they are out and getting more, they tend to more or less stay pat, so I don't know what would happen on the downside. I just don't know.

Mr. YATES. If I could, one more question.

Mr. REGULA. Yes.

Mr. YATES. Suppose when you were Chairman, and you remember your budgets, suppose you had had a budget cut. Is this a level which your budget could have been cut that would permit you to operate efficiently or is this something—

Mr. HODSOLL. I remember you asking me that question in 1982. I think I remember that.

Mr. YATES. Well, it is perfectly appropriate today because I think my friends on the right have that in mind.

Mr. HODSOLL. I don't know. That requires some more thought on my part.

Mr. YATES. Let it go at that.

Mr. HESTON. I think it would, Mr. Chairman—it would be possible to function and do good things, as the national council did when I was on it in 1967. I mean—

Mr. YATES. Do you remember what your budget was at that time?

Mr. HESTON. Fourteen million.

Mr. REGULA. The budgets escalated dramatically under President Nixon.

Mr. HODSOLL. It has been climbing ever since Nancy Hanks left office.

Mr. YATES. In her testimony, Mrs. Cheney talked about Michael Straight's book. Have you ever heard that story?

Mr. HODSOLL. Yes, I read his book too. Not recently.

Mr. YATES. Coming out of her sick bed to approve those grants.

Mr. HODSOLL. That is in the book. I don't know whether that specifically happened or not. I heard the story of Nancy Hanks' not being there for whatever reason, and Michael.

Mr. DICKS. She was sick. She had cancer.

Mr. HODSOLL. I just don't know that part. But I have heard that story from enough places so I assume that is true.

Mr. REGULA. Mr. Dicks.

Mr. DICKS. Mr. Yates mentioned, but I wanted to say it one more time, in 1965, in the country, we had 58 orchestras, 22 professional theaters, 27 dance companies and 27 opera companies; and it was estimated at the time we spent in the private sector, State and private, \$250 million per year, including corporate support of 40 million annually, and only seven States had arts councils.

Now, since that time, the Endowment has invested since 1966 in 83,000 grants—this is out of the 1990 report, so it is not right up to date—and we have had the annual spending on the Endowment, and now we have 120 opera companies, we have 230 orchestras, 420 theaters and 250 dance companies, and the amount that is spent by the private sector is \$6 billion a year investing in the arts.

Now, those of you who have been supporters of the Endowment have felt that this small amount of investment each year created a tremendous amount of investment from the private sector, and we think it has been an enormous success.

You compare it. I think Mr. Yates is quite correct. You compare it to the Defense Department—and I serve on the Defense Appropriations Subcommittee, all the problems we have over there on various things we try to do, and they are all very important and I support almost every one of them. But I can tell you, we have wasted more money there than we have ever wasted on the Endowment, by far.

Now, let me also say we put language in this bill, we have changed the way business is done. You quite properly said the problem is—and this is what Bennett and Cheney were saying—

is that an individual artist gets a grant and then he goes out and does something with it other than he said he was going to do and it gets you in trouble and it embarrasses the Endowment and the Congress.

We required them to put in some new language. The Endowment has informed the committee that its guidelines will be amended to require grantees to submit written interim reports before the final one-third grant award may be drawn down.

In addition, in cases where a grantee proposes to use funds in a manner different than proposed on the grant application, the Endowment will require grantees to send a written request with justification for review by the NEA. Now it seems to me that that is a very powerful reform that should help us get at these few grants that have been controversial. And we are talking about 20 to 25 to 30 grants.

Mr. HESTON. Their significance—if there were only three, or four even, their significance is irresistible.

Mr. DICKS. But in this country people never pay attention to the positive things. They only pay attention to the negative things, and then those things are completely blown out of proportion; and then you set people off and they come to the Congress and say, get rid of all the funding. We wouldn't have a Department of Defense if that were the case because there would be plenty of examples of where we wasted money before. All I am saying, I appreciated what you said here today. Both of your statements were good.

Mr. YATES. Excellent.

Mr. DICKS. I will say this as someone who did not participate in the revolution, I witnessed the revolution, Mr. Heston. There was an old adage by Senator Huey Long. And he said, Don't cut me, don't cut thee, cut the guy behind the tree.

And I want you to know, there isn't anybody behind the tree. We in this Congress between 1985 and 1995 have cut defense spending by 38 percent in real terms. We have cut discretionary domestic spending by 30 percent in real terms. We have downsized this government. And the problem is, people think, well, we can do all of these things, we can have a balanced budget amendment without any pain.

This is the kind of specific cut that is going to be painful and, I think, do some very serious damage to the country. And that is why some of us think that what we did in support of these programs over these years has been justified and meritorious, and are still defending the programs. And I am glad that even though you participated in the revolution that you see the wisdom of trying to participate in this. And we are glad you are here.

Mr. HESTON. I was a foot soldier.

Mr. REGULA. Mr. Nethercutt.

Mr. NETHERCUTT. Thank you, Mr. Chairman.

Mr. Dicks, I was part of the revolution and proud to be part of it. I come here from a district that says, "Why are we paying for all of these things?" We have priorities to establish in this country, whether it is public television or public radio or NEA or NEH or defense.

I was at a public TV station and asked me, "Are you going to cut our budget?" I said, I may have to look at the welfare mother and

say we are going to cut you off after two years, and I may have to cut funding for farmers in my district who are very important and provide a great service to this country. It is a question of priorities. It is a partnership.

I hear you, gentlemen, and I respect both of you very much, and I appreciate your testimony today.

I hear you both saying that cuts have to be made, changes have to be made. I think we all collectively support the arts and humanities and want to have an educated country that appreciates art. I know we strive for this, as evidenced by the \$6 billion that Mr. Dicks talks about in terms of private sector contributions.

In this era of zero-based budgeting, how do we structure a new NEH or NEA? What is a reasonable level? And I don't mean necessarily a percentage of the budget. I mean, what is an actual number that would be enough?

Mr. HESTON. I was on the NEA Council of the Arts in 1967, which was about the second generation of the Council. I think we had six-year terms. And the annual budget of the NEA then was \$14 million.

Mr. YATES. It was \$5 million before that.

Mr. HODSOLL. It started at \$2.5.

Mr. DICKS. It is \$2.5 billion over the history.

Mr. NETHERCUTT. What is a reasonable level as we start from zero this year? Is it \$20 million? Can we do enough with that? Or is it \$50 million?

Mr. HODSOLL. If you really want a serious answer from me on that, I am going to have to sit down with a pencil.

Mr. REGULA. Submit an answer for the record.

[The information follows:]

STATEMENT FOR THE RECORD

FRANK HODSOLL

The current NEA and NEH budgets represent very small Federal investments in support of the arts and humanities, less than five percent of total support. Actual expenditures in FY 1994 were \$170 million for NEA, of which 35 percent of program monies went to the States, and \$177 million for NEH, of which 20 percent of program monies went to the States. The FY 1995 budgets were not materially different.

While major institutions would not fold as a result of major reductions in NEA and NEH budgets, many major projects might not come to pass. Among these would be the future equivalents of NEH's Civil War series and NEA's chamber music touring project in rural areas. It is also important to remember that the matching nature of the Endowments' institutional grants, in particular their challenge and advancement grants, generate multiples in private and State and local government support.

Further, the loss of the stamp of approval by national peer panels organized by the Arts Endowment would adversely impact the fundraising ability of regional and local arts groups (e.g., smaller orchestras, museums, opera and dance companies) that bring live performances and exhibitions to towns and cities outside the established cultural centers. Fellowships for scholars and artists help them buy time to pursue work that would not be supported in the marketplace but is nonetheless of national value.

State Arts and Humanities Councils would also be impacted. In smaller States, it is often the matching characteristic of endowment grants that helps spur State legislatures to help in these areas. This is particularly true in small and rural States where access to cultural fare is more difficult and distances make such access expensive. Better quality arts and humanities education in the schools is also stimulated by the endowments, drawing on the best that is available nationally. Again, this is of enormous help in smaller and more rural areas.

In the first years of the endowments' existence they had less than \$10 million each. Their grants then went primarily to the major cultural institutions in the most established metropolitan centers. It was the Nixon Administration which secured major funding -- in large part to help those outside the traditional centers of excellence

and stimulate national television programming in the arts and humanities. The NEA and NEH budgets, which grew in real terms during the Nixon Administration, have declined ever since (unlike the budget of the National Science Foundation which has increased substantially in real terms).

All of which brings me to your question: What would be the minimum budget that the endowments could make do with, on a zero base? Here, it seems to me, one must distinguish between the other institutions within the Committee's jurisdiction and the endowments. For example, most of the Interior Department's programs are Federal operating programs; they are not grants to non-Federal institutions to help them achieve public purposes. In a sense, Federal arts and humanities programs are already privatized.

The value added of endowment programs is in assisting the private sector (1) to preserve, produce, present and study those things that are already, or could become, a part of our cultural heritage; and (2) to bring those things to Americans everywhere (either directly or through the media). There has always been, and always will be, a private sector for these purposes. But with smaller endowments, or no endowments, this private sector will do less, and much less will be available to people throughout the country.

The bottom line then is: there is no magic number for the endowments. For every Dollar cut in subsidy, the private sector will cut those things that are less important to it. These include preservation, access outside the current cultural centers, education, challenging new work (not including anything that would be unacceptable for public funding), large scale projects (e.g., television, large scale theater, opera and dance productions), etc. These are the things that conservatives would agree are essential to Americans' understanding of who and what we are.

When I was Chairman of the Arts Endowment, I used to say the NEA could usefully spend double what it had or it could usefully spend half. It is simply a question of priorities.

Is closing a lower priority BLM picnic area more detrimental to the public good than forcing a small local orchestra to fire two of its six full time musicians, eliminating live performances of Beethoven and Brahms (which include the amateur performances of the town's citizens)? Is continuing to let inefficiencies in the Bureau of Indian Affairs run unchecked (see all the GAO and OMB reports on this subject) more important than getting the next Civil War series funded and on the air? On a zero base, the Committee will have to

add these things up for all the programs in its jurisdiction.

In sum, the private sector arts and humanities institutions take care of the popular culture and those things that appeal most to the cultural elites in the major metropolitan areas or at major institutions of higher education. They do not as generally take care of those things that are less important to them (but very important to most Americans). Cutting the Endowments cuts those things.

Mr. REGULA. And if you would yield, I would like to piggyback on that. We have calculated administrative costs at 17 percent for the Endowment.

Mr. YATES. And it is actually \$25 million.

Mr. REGULA. Whatever. It is around 17 percent. And in your answer to Mr. Nethercutt's question, I wonder if you would also add whether or not you think that could be reduced so that more of whatever we appropriate, if we do, gets out in the field. That is a management question.

Mr. DICKS. Would you yield for a moment?

I take offense at this notion that the arts and humanities are only for the cultural elites. We are talking about schoolchildren. We are talking about teachers. We are talking about the people who work for these institutions, many of which are just ordinary, middle-class individuals in our country who make their living, you know, working for a symphony or a ballet, et cetera, et cetera.

And so I think that the audience today is much broader than it was back when Mr. Yates said—you know, in 1965, maybe it was a cultural elite. I don't think that is true today.

Mr. HESTON. You know, Congressman, I am so glad you brought that up because it was discussed when Bill and Lynne Cheney were on. In my judgment and in my experience, the cultural elite is really someone who expresses an opinion you don't agree with. That is kind of a catchall.

Mr. REGULA. Back to you, Mr. Nethercutt.

Mr. NETHERCUTT. I understand that. Though my sense is that the production arts have to stand the test of the market.

Mr. HESTON. Which doesn't mean they don't get any money.

Mr. NETHERCUTT. I understand, but we don't seem to do that in terms of art. Would Mr. Mappelthorpe have done, with all respect to you under your watch, more harm to poison the public mind against the NEA and the NEH?

Mr. HODSOLL. I don't disagree.

Mr. NETHERCUTT. How do we, as Congress allocating money, make determinations to assure that this doesn't happen? That the quality of the art, quality managing and so on is collectively determined to be of high quality and not corrupt. Can more steps be taken to stop this poisoning of the public mind that puts the entire institution and document in jeopardy?

Mr. HESTON. I will take a crack—I think it finally depends on the Chairman of each.

Mr. DICKS. Exactly right.

Mr. HESTON. And there was a lot of slack cut in the 1960s and 1970s, as I am sure you will agree, Chairman Yates—

Mr. YATES. Yes.

Mr. HESTON [continuing]. By the Chairman to the peer panels. They were given a great deal of discretion and kind of a loose rein. Look, this is art; let's not worry too much if it isn't so good. And as you said, and Frank said and everybody concedes, one grant like the Mappelthorpe or Polly what's-her-name, the only thing people say is, what are you doing? And it makes us all look bad.

And it makes the Congress look bad, and it devalues, and I would suspect it even spreads outside the specific disciplines we

are talking about into other fields of public funding by the Congress.

Mr. NETHERCUTT. My point is that without the test of a market by an artist, we are gambling. We are taking chances on people who perhaps couldn't make it in the real world but have to come to the government and obtain notoriety. That seems wrong.

Mr. HESTON. That certainly happened with Mappelthorpe. He is dead now.

Mr. HODSOLL. Just an addition to that. One, I fully agree that you can't really legislate it. When I was at OMB, I can't tell you all the presidential or congressional directives for us that are out there that are essentially ignored. I don't want to insult anybody, but it is true. So it is the leadership.

And let me say something about the revolution, because with all due deference to my friends on the Democratic side, I am 100 percent for a change, not because of the Arts Endowment but for a variety of reasons. I think that the climate has truly changed now.

When I was Chairman, again, with due deference, it was a different kind of climate. It was much more difficult. I mean, I was the Jim Watt of the arts and people would demonstrate and tell me how awful I was. And we gradually got over that, but it was much more difficult.

The testimony I made today, I would have been shouted out on in the 1980s—I mean, literally shouted out on. They would have brought pressure on you when you were Chairman, Mr. Yates, and other people who were around this table and say we have to get this Hodsoll and thrash him a couple of times publicly.

I think that you have the opportunity—"you," being the committee, the Congress as a whole—and I don't know that it is legislation, but you certainly have—and I don't know yet how to craft it, but I certainly think this committee and other committees, the authorizing committees and so on, have the opportunity today in this climate.

Things shift. To do an historical aside, the Regency period was profligate. Victoria changed that and it became what we know about Victorianism.

And similarly, this country has changed since the 1960s, and so politically there is the opportunity on behalf of the ordinary citizen, the silent majority, to take stands on this. And I don't know that you can—maybe there is something you can do in legislation, but certainly make it clear on the record so that whoever the politically accountable people are, they are in jeopardy themselves if they make the wrong decisions.

Mr. NETHERCUTT. You talk about examples of times past; there were no NEAs and NEHs then.

Mr. HODSOLL. Oh, yes, not in the form but there was government support. It was there. I mean, it was done—the Corgard in ancient Greece, the government support of Pericles and people like that, the philosopher kings that were replaced by dictators. That was the problem with philosopher kings, but that was then.

I am not an expert on this, but—

Mr. NETHERCUTT. But they didn't have a \$5 trillion debt and deficit spending.

Mr. HODSOLL. I have no idea where they were fiscally after the Trojan Wars.

Mr. REGULA. I might add, under the leadership of Chairman Yates in 1989, we included quite a bit of language here, which was the sense of the Congress to try to address the very problems that you are—

Mr. DICKS. Read that great paragraph.

Mr. REGULA. It said, "The National Endowment must find a better method to seek out those works that have artistic excellence and to exclude those works which are without any redeeming literary, scholarly, cultural, or artistic value." And as a whole—

Mr. DICKS. Would you yield on that point?

Mr. NETHERCUTT. I don't dispute that there have been attempts. My frustration is that they have not worked. Should we now continue in the same mode even though we have put in safeguards?

Mr. REGULA. I think it is better than it was.

Mr. YATES. And let me just say that part of it is the fact that the Endowment, the National Endowment office here doesn't have control. It didn't have control of the Mappelthorpe expedition.

Mr. HODSOLL. Or the Serrano.

Mr. YATES. Or the Serrano, which was a subgrant and we tried to cure that by requiring the subgrants to come back to the main office for approval so that everything was approved by the main office.

Mr. DICKS. Would you yield for just one second?

Mr. REGULA. Let Mr. Yates finish.

Mr. YATES. And the point that I am trying to make is, I remember just pounding away at Frank and pounding away at the others. You have got to have excellence; you have got to have excellence in your tests.

Now, I don't know what you do with peer panels, you know, and what you do with a council.

Mr. HODSOLL. If I could say a word on that, you have—I think, two points, one to Mr. Nethercutt and then one to the point that you raise, Mr. Yates.

On the—in addition to the language that you have got there, I think—and it is nothing against Jane Alexander, if I were there you could do it to me—you have got to have, whoever the Chairman is, and make a list of the things that you want to make sure happen in addition to what is there, and get a commitment on the record—

Mr. HESTON. And the things that don't happen.

Mr. HODSOLL. And there are going to be mistakes and there is no way that that is going to be perfect. It can't be done, in my view. But when there is a mistake, there ought to be a commitment—I did and got—not always, but I mostly did—commitment from the Chairman that they will stand up and take the damn thing back and make a statement that this is inappropriate.

Mr. REGULA. Mr. Dicks, you have one minute.

Mr. DICKS. I would say that the most important thing is when you sit down with the Chair of the Endowment, whether it is the President or Members of the Congress or Members of this committee, you have got to make it clear to them that they have a respon-

sibility to make certain that these grants are appropriate and that the standard is excellence that we want.

Not every application gets funded, so judgments are being made all the time about what should and should not be funded. And I think we have a complete right to ask for excellence to be the standard; and when you have things of this low quality that get approved, they should be—the money should be taken back.

Mr. HESTON. You know, there is a curious—to that very point, and it is almost the only thing that hasn't been mentioned in this context this afternoon—the defense that is always used, the banner with which they wrap themselves in the First Amendment. They say, freedom of expression.

Mr. DICKS. Artistic freedom.

Mr. HESTON. The granting process has nothing to do with the First Amendment. It is not involved. There is no right such that any artist has to have the taxpayer give him some money. And every Chairman has to make that clear.

Mr. REGULA. Thank you very much. We appreciate your testimony, very much.

THURSDAY, FEBRUARY 16, 1995.

**NATIONAL FOUNDATION ON THE ARTS AND
HUMANITIES**

WITNESSES

**HON. AMO HOUGHTON, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF NEW YORK**

**RICHARD FRANKE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
JOHN NUVEEN & COMPANY, INCORPORATED**

DAVID McCULLOUGH, HISTORIAN

KEN BURNS, DOCUMENTARY PRODUCER

**CLAY JENKINSON, THOMAS JEFFERSON SCHOLAR, UNIVERSITY OF
NEVADA AT RENO**

Mr. REGULA [presiding]. We'll begin our hearing on the NEA and the NEH.

I'm going to forego an opening statement because we're on a 20-minute vote schedule and it's going to be tough enough to get through the hearing with the interruptions that we'll have today.

I would point out that there is this problem that neither the NEA nor the NEH have current authorizations. Of course, normally, under those kinds of circumstances, under the Rules of the House, we cannot appropriate until there is an authorization.

Mr. Yates, would you like to make an opening statement?

Mr. YATES. Well, I'd like to make a short one, Mr. Chairman.

Mr. REGULA. Okay, that's fine.

Mr. YATES. Today it's our turn, the good guys' turn, to present our witnesses.

Mr. REGULA. Right.

Mr. YATES. A few weeks ago this subcommittee heard from those who oppose funds for the Endowments. It was strange, I thought, for Bill Bennett and Lynne Cheney to reverse themselves and take a position entirely different from those they espoused and fostered and urged us to foster for the National Endowments several years before that when they were the heads of the National Endowments for the Humanities.

We've been graced before this committee by some of the most wonderful, active people in the country. I remember—and I'm sure you do, too, Mr. Chairman—when Itzhak Perlman came in to testify, Yo Yo Ma came in to play his cello for unaccompanied Bach here. We had Risa Stevens, a great opera singer, and Sherill Milnes, the great opera singer. We're lucky that we had Jessica Tandy testify before us just before she died. We had so many others that it's almost impossible to name all of them, and perhaps I will subsequently put their names in the record as a testament to their good wishes and their high hopes for the culture of this country, for the well-being of the people of this country.

Today we have witnesses who are in that same class. We have, beginning our testimony, Mr. Chairman, our good friend and Member of Congress, Amo Houghton. We have David McCullough, the historian who has written this marvelous book about Harry Truman to whom I have a special devotion because he was the one who launched my congressional career. I was tagging along with him when he was running for re-election in 1948—the tail and the

dog. He was there and Adlai Stevenson was running for governor and Paul Douglas for Senator.

Mr. REGULA. I read the book, but I didn't remember his mentioning you. [Laughter.]

Mr. YATES. That's absolutely true. I was as unknown then as I am now. [Laughter.]

At any rate, Amo will go first.

Then we have Mr. Richard Franke, who is chairman and chief executive officer of John Nuveen and Company. Beyond that successful business position that he holds, he is one of Chicago's most distinguished public—I was going to say "servants," and I guess I would use that name. We tend to think of political people as being public servants, but the term "public servant" goes far beyond that, and he's really a top-notch public servant with all the good things that he does for the people of Chicago.

Then we have David McCullough. I don't know how he got lost on the way through this, Mr. Chairman, but David McCullough, of course, is a unique person. He's not only an historian, he's a very distinguished author, and his book, Truman, which I see on the table here—are we selling copies? [Laughter.]

Mr. REGULA. There will be a table in the lobby. [Laughter.]

Mr. YATES. Okay. Then we have Ken Burns, who did the Civil War program that really revolutionized the way documentaries are made with his use of the materials that were available. He dug up materials that had never been seen before and put them all together into a magnificent documentary which placed him among the great producers of our time in films.

Then we have Mr. Clay Jenkinson, who performs at Chautauquas and other places in various roles as a scholar and as the personification of some of the country's greatest historical figures. I remember seeing him in his rendition of Thomas Jefferson, and he was very, very good. I don't know who he is today; I suspect he's Clay Jenkinson today and he will perform for us in that role.

And so, Mr. Chairman, with that introduction, I'd like to say, first, I want to express my thanks to you for your eminent fairness in permitting us to tell our story after having permitted the other side to go first, which is all right, you know [laughter], but I'm sure—

Mr. REGULA. It's always nice to be the cleanup hitter. [Laughter.]

Mr. YATES. That's true, and I'm sure that when these witnesses are through, the testimony of those who preceded them will be forgotten. [Laughter.]

At any rate, we're delighted to start to start our proceedings with Amo.

Mr. REGULA. First of all, let me say I'm pleased to have these witnesses and I'm a big fan of Amo's, and, of course, Mr. McCullough, your book on Truman is terrific. I think it's great writing and one of those that you can't put down. I'm also a fan of Ken Burns and his work, and especially to the Civil War program. And, Mr. Franke, I don't know you, but if you're what my former chairman says, public-spirited citizens are a wonderful addition to our society and make a great deal of difference in communities. Like the stone dropped in the pool, you ripple out a great distance.

And I'd like to yield—

Mr. YATES. I like that, Mr. Chairman. [Laughter.]

I like that metaphor. That's pretty good. I'll take it over and I won't give you credit.

Mr. REGULA. And I'd like to yield to the gentlelady from Nevada to make a brief remark about our other guest.

Mrs. VUCANOVICH. Thank you. I appreciate it, Mr. Chairman.

We have a very distinguished panel today, and I welcome all of you. I think we're all aware of Mr. Burns and Mr. McCullough and, of course our colleague, Mr. Houghton. I, again, have not met Mr. Franke. My friend from Nevada, Mr. Jenkinson, is known in Nevada as Thomas Jefferson. He has a very serious look today, but I think he's probably making notes and he's going to do a wonderful job for us.

I'm going to be chairing a panel this afternoon, and I may not hear your testimony, but I appreciate all of you coming today. I think we have some great challenges in front of us, but I particularly want to thank Mr. Jenkinson for coming. His appearance here is very special for us from Nevada.

Thank you.

Mr. REGULA. Thank you.

We'll put all of your statements in the record—unanimous consent that they be made a part of the record. I hope you will summarize because we are going to be under tough time constraints today.

What I'd like to do is have all the panel members speak and then we'll go to questions, and we'll lead off with Mr. Houghton.

STATEMENT OF MR. HOUGHTON

Mr. HOUGHTON. Thank you, Mr. Chairman, Mr. Yates, Ms. Vucanovich. I'm delighted to be considered one of the good guys, particularly since the American Bar Association president has called all Members of Congress "reptilian bastards." [Laughter.]

And Garrison Keller has just indicated that the Republican majority are "cheese merchants, cat stranglers, corporate shields, Bible beaters, and swamp developers." [Laughter.]

Mr. REGULA. I won't tell my wife. [Laughter.]

Mr. HOUGHTON. I will try to be brief because you've got many distinguished people here to talk. I've got four parts to my testimony. I think I indicate this in terms of the testimony which I submit: an overall conclusion, my personal recommendations, background, and then I'm going to wind up.

The conclusion I come to is this: the National Endowment for the Arts is under attack from four different groups: one, people that don't think Government should be in this business at all; another, that they don't think art is germane to a good life and, therefore, is not important; a third, that doesn't agree with any of the works of art that have been presented and sponsored by the NEA, particularly those which had sort of pornographic overtones; and the others just feel that there's such a massive emphasis on cutting cost, that we've just got to do away with programs like the NEA.

My conclusion is that all of those things are valid reasons, but they are wrong in totality because the NEA produces a fulcrum ef-

fect on the Nation and communities, and particularly in rural areas such as the one I live in.

My personal recommendations are threefold. First of all, there is a budget crunch. We must be able to pull the deficit down, and if cuts have to be made, cuts have to be made, here as in any other area. The only thing I plead is that you don't zero it out; phase it out or else—but don't gut it to the point where it is ineffective.

Another suggestion, the second suggestion, is to really challenge the arts and the theater community to come up with some recommendation: where do the arts fit? Where does the Federal Government, where do State governments fit as we look out over the next hill and see some of the challenges that are going to be in front of us as a society in the next few years.

And the third thing I would suggest is that there be some sort of an oversight committee such as we have in the Office of Technology Assessment. We have sort of a bipartisan, bicameral committee that looks at these things. I mean, no museum, no orchestral board, no arts organization lets the chief executive officer operate this thing on his or her own. They always have an advisory committee. It makes sense; we ought to have it, and I think that it will be a source of strength to the person who's running this operation.

Now let me just go into a little bit of the background, and let me be autobiographical for a moment. I was born and brought up in a little town of upstate New York, Corning. You've me refer to it a few times, and I hope you have lots of Corningware and Pyrex in your homes. [Laughter.]

The education I got in public school in Corning was okay, but it's nothing compared to what my children received. The only arts exposure I had—and I had a wonderful family and the teachers were great in school—was listening to Walter Damarache and the NBC Symphony Orchestra—you probably don't remember this, David—once a week. That was it. When my children 25, 30, 35 years later went to school, there was a whole panoply of experiences in art and sculpture and painting and music and dance and theater. And, as a result, I think that they're far better educated than I am—just the way they look out on life, the way they glue things together which are sort of unglueable at first perception. It's an extraordinary difference.

And I feel that the arts organization, particularly the NEA and the New York State Council of the Arts, are very important in the rural areas. We don't have the Metropolitan Museum or Lincoln Center or things like that to go to. They just aren't there.

Now, on the other hand, I live in a town and worked for a company that was very cognizant of the importance of art. As a matter of fact, for our 100th anniversary in 1951 we started a museum. Now we have two museums, one which is all glass and Indian relics and a variety of different things, and then the primary Corning museum. We bring in to our town between forty and fifty times the number of residents in that town every single year to go to that museum, and it's very, very expensive. As a matter of fact, I remember in the middle seventies, when our economy was bad as a result of the oil cascade pricing, that we still kept on with that mu-

seum, and we got up to this unconscionable rate of pre-tax profits because we thought it was important.

Now in the process all the company's money goes into things like this. So, therefore, private money has to go into particular areas of bringing various dance or art groups in. We are very generous I think in terms of our own personal contributions, but it's not enough. And many times the multiplication impact of a New York Council of the Arts or an NEA grant is such that it never would have been possible without that. We went through various disasters in 1972, particularly with the flood, and people were very loathe to spend money in artistic expression. Yet, all of a sudden, the New York State Council or the NEA would come in and do something and then everybody would say, "Why not? It's the right thing to do," and we did it. The outside grants were very, very important.

Let me give you another example. There's an area that I know quite well up in Dover, Massachusetts. There's a Charles River School and it has a creative arts program. Twenty-five years ago nobody would invest in this creative arts program. It was too risky. They didn't see any value in it. It was money down a rat hole. There were a lot of other programs like this that started. But the NEA came in and committed \$5,000 a year over a period of 5 years, and what it did is give that organization authenticity.

That organization has several wonderful features. First of all, it's multiplied so that these types of creative arts camps are established in forty communities all over this country. Furthermore, they make money. It all started because the authenticity given by the NEA was there to provide that extra push.

And there are other examples that I can talk about, but I'll just try to cut it down. I think there are three areas you don't want to cut. One is research. I remember all during the thirties, all during the difficult seventies, in our community we never touched research. We touched a lot of other problems. You just don't do that.

Secondly, you don't cut programs where you've got obligations. You said you'd do something; you've got to follow through.

The third thing is where a particular program makes money, and that's where the NEA fits into this thing. The NEA produces a fulcrum or a multiplier effect which is extraordinary. We talk about partnerships down here now. This is a partnership. When the NEA puts a dollar in and gives authenticity to a program, I think it's the equivalent of \$11 coming in; sometimes it's a little less, sometimes a little more, but that's about average.

And, frankly, I have always been a big fan of a man called Ian Forester, and he wrote in *Two Cheers for Democracy*: these types of citizens that are benefitted by the arts exposure represent—and this is a quote—"the true human condition, the one permanent victory of our race over cruelty and chaos." And then David Broder, who we all know, said, "A nation that can't afford to finance its art is a nation that has lost its perspective, its self-confidence, and probably its soul." And I don't find it difficult to agree with that.

Thank you very much, Mr. Chairman.

Mr. REGULA. Thank you, Amo.

[The prepared statement of Mr. Houghton follows:]

National Endowment for the Arts

Testimony of Rep. Amo Houghton
Feb. 16, 1995
Appropriations Committee
Subcommittee on Interior

Good Morning, Mr. Chairman. Thank you for the opportunity to testify before your subcommittee today. I'll be brief.

My testimony is in four parts:

- 1.) An overall conclusion
- 2.) My personal recommendations
- 3.) Background and supporting information
- 4.) Wind up.

Overall Conclusion

The National Endowment for the Arts is under attack from four groups: (a) those who think the Federal Government should not be involved in the of funding arts programs at all; (b) those who feel "down deep" that the arts is peripheral at best to education and a full life; (c) those who are offended by the pornographic nature of several of the works that have received support, and ; (d) those who are searching for cuts in federal programs to balance the budget.

Despite the above, my conclusion is that the NEA has a fulcrum position in the arts world, which if removed would have a damaging impact on the nation as a whole and the communities scattered throughout the country that depend on NEA support.

My Personal Recommendations.

a.) Times are difficult, the budget must be balanced, expenses are out of control -- so cut NEA funding in proportion to other similar groups, but do not eliminate or phase out.

b.) Challenge the arts and theatrical communities to tell Congress

what the Federal role should be as we look out at a new century, new pressures, new opportunities for the arts to stimulate and enrich -- not debase -- the lives of our citizens.

c.) Establish Congressional oversight, an Advisory Committee to monitor the NEA, similar to the bipartisan, bicameral board of the Office of Technology Assessment. The Interior Appropriations Committee would form the foundation of this group.

Background

Now why do I come to these conclusions; why do I make these suggestions?

The recognition of "arts" as part of our lives is as important as the recognition many years ago that "liberal arts" was the best nonscience packaging of broad educational principles. When I was a boy going to public school in the 30's in Corning, NY, the only exposure to arts was a weekly program by the NBC Symphony Orchestra under the direction of Walter Damrosch -- this all by radio in the classroom.

In the 60's and 70's, when my children were attending school, everything was changed. The arts flourished -- singing, orchestra, sculpture, dance, painting, theater. As a result, moving right on through college and later life, each of my four children not only have been directly or indirectly involved in the arts, but they all have had a richer, more creative education than I. I'm happy for them. One is a businessman, one a teacher in Boston, one an actress, and one works at the Getty Museum in Los Angeles.

Their education was enriched by programs partially sponsored either by the NEA or the New York State Council on the Arts.

What is the point? Without question the missing element in my education and the positive element in theirs is arts education.

One might say -- "Fine, but why the government's involvement?" Two stories -- in my community the principal employer, Corning Inc., supports arts programs, two museums, as well as teacher and student enrichment programs. The museums represent the third-largest attractions in the state. Every year we attract between 40 to 50 times the size of our city of 12,500 in tourists -- all focused on the museums. Private funding of arts is substantial -- possibly the greatest of any company.

Community arts programs such as theater, music, dance, painting are also sponsored privately, but with a critical sprinkling of Federal and State funding. Many times a program simply does not start, particularly for children, unless there is seed money which then can be multiplied privately. With the heavy emphasis of Corning in two museums, that seed money must come from other sources -- not unimportantly from Federal and State funds.

Another example is the small town of Dover, Mass. There, a summer arts program called the Charles River Creative Arts Program has become self-supporting and extraordinarily popular. It has served thousands of young people in more than 40 different communities throughout the country. This single program started 25 years ago with a five-year grant for \$5,000 each year from the NEA. The \$25,000 grant gave the Charles River program its authenticity, when no one would support it. Too new -- too risky -- too experimental, but not for the NEA. It took a chance -- and what a result!

Ralph Alan Cohen, a fellow who lives in rural Virginia and teaches English at James Madison University, tells of two teenage workers at a fast food outlet discussing Shakespeare -- having a friendly argument in Timberville, VA., over whether "*The Taming of the Shrew*" or "*Midsummer*

Night's Dream is the superior work.

The Shenandoah Shakespeare Express, which has brought great plays to more than 100 schools in more than 30 states -- including Timberville, VA -- receives a whopping \$5,000 per season to underwrite its costs.

Does anyone seriously believe that conversation between the teenagers would have taken place without the NEA bringing Shakespeare to our rural areas?

You see, the NEA doesn't kow-tow to the cultural elite. It is not about smut. It is not a crutch for lazy citizens who don't come to the table.

Are there problems? No question. But that's so with any area of life. When you recognize problems you fix them -- if, of course, people want to make something basically good and fine and worthwhile work. You don't zero out theatre because you dislike Madonna, or cut back music after being exposed to Sister Souljah or Iced T.

I won't go into the numbers. You know them. They are modest compared to what they accomplish. Also they represent a real multiplication factor. In other words, arts dollars for the NEA produce a huge economic as well as cultural impact on our society.

Having been in business most of my life and a cost-cutter just to survive, I always felt that there were three things one should not touch:

1. Science -- the search for new knowledge.
2. Obligations -- where you promised to do something irrespective of the cost.
3. Where the programs made money.

The NEA fits two of these three categories -- significantly, the last one.

Wind Up

In conclusion, Mr. Chairman, my sense is that in our zeal to cut costs that we may be eliminating a subtle yet one of the strongest of educational programs. There is so much around us that tends to pull us down to the lowest possible common denominator as human beings.

The arts, spearheaded by the Federal and State non-commercial interests, counters that pressure and encourages all citizens to reach beyond themselves for a better life, a better nation.

These citizens, in E.M. Forster's words, "represent the true human condition, the one permanent victory of our queer race over cruelty and chaos."

Closer to home, I quote columnist David Broder: "A nation that cannot afford to finance its arts ... is a nation that has lost its perspective, its self-confidence and probably its soul."

It's hard to disagree.

Thank you.

Mr. REGULA. And our next witness is Mr. Franke.

STATEMENT OF MR. FRANKE

Mr. FRANKE. Well, thank you, Mr. Chairman, Members of the committee.

I'm here to support three organizations. I'll add one to the NEA and the NEH, and that's the Institute for Museum Services. They're interrelated. Many of the grants go back and forth between museums and art and humanities projects.

I come to you as a businessman, and I've worked in Chicago for 37 years with my company. I've only had one job with John Nuveen and Company, and I've been the chief executive of that company for 21 years.

We finance projects for cities: schools, highways, hospitals, things like that. That's been our full organization for all our years.

I also am involved in education. I am on the Yale board, the senior fellow of that organization. I'm on the University of Chicago board, and I serve on many boards in Chicago, the opera board, the symphony board, the Illinois Humanities Council. I was chairman of that for 2 years. I served a full term there. I founded and now still serve as the leader of the Chicago Humanities Festival, and we've been in operation for 6 years, putting on a humanities program. All of this was generated by our activities and our thoughts in Chicago as to how to bring the humanities to the citizens of Chicago.

Now I think it's extremely important to identify business leaders not as privileged individuals who are looking for privileged, elite type of art programs, but for people who are vitally interested in the well-being of our communities. We make our living in Chicago. We get our employees in Chicago. We get our customers throughout the country. It's important for us to be identified with the cultural heritage of this country, and I've seen that our company, and certainly all my Members of my company agree because they have now been exposed to involvements in the arts and the humanities so long, that this is a very good investment for a firm like Nuveen.

So we come to this, I'd say, without any hesitation and we believe it's the right thing to do. We take civic pride in our heritage. You take a city like Chicago, the heritage is plural. We have many ethnic groups in Chicago, many which need to explain one another to the rest of the population. We are trying to do that. I think we are making good headway on that.

The awakening I guess that I would talk about, as far as I'm concerned, is that I grew up in Springfield, Illinois, a second-generation American. So I wasn't born to the corporation. I came to it later in life. I remember, the early exposures I had to art and humanities: Saturday afternoon my mother would listen to the opera. That was my exposure to the Metropolitan and Texaco's. I would rake leaves, come in and get a Coke, and sit down and rest a bit and listen to the opera. That's how I started listening to it.

From the viewpoint of being sensitive to things historical, Abe Lincoln was the most important individual in any school boy's or school girl's life in Springfield, Illinois. I can remember going to the Lincoln home as a young person and looking at those objects that linked me back to a prior period and feeling that something very

special was going on. And, ironically, the piece that I remember most was a shawl that was hanging on a coat rack that Lincoln used to keep warm in those Springfield windy houses during winter. So that those are important things for us to remember, I think, that we should do for our children and our children's children.

Museums are places where, as Amo has just said, thousands and thousands of people—as a matter of fact, I was talking with our museum people in Chicago before I came here. Six hundred million visits to museums take place every year. Now if you have Lincoln's Gettysburg Address or you have a shawl that you're going to try to preserve, there's a great difference in being able to preserve one than the other. There are millions of objects that are supported and kept curated, kept in good condition, that need to be listed. These are things that it's very hard to raise money for. So it's important that we think in terms of who is going to give us the lead dollars in order to accomplish this.

The responsibility, I think, of Government—and, certainly, of those of us who see where we want to go with this project—is to say Government has a proper place in presenting the lead gift. The lead gift certifies that the project is viable, and it's important—I know I'm on the side of both getting and giving when I sit in Chicago. Being able to give, I might have a thousand opportunities come across my desk in Chicago for us to contribute to a program. Well, that's very hard to decide which ones are proper. If you have the Endowments make the lead gift—it doesn't have to be much—it certainly makes a certification that you're going to do the right thing. So it helps you sort out what it is you should be doing and what you shouldn't.

I think dollar for dollar Federal money is so well spent in these Endowments that it would be a shame, just a terrible shame, to cut it back. We're in a period where there is substantial cutbacks in business and also in the Federal Government. No one questions that. I think what we really would like to see happen is that you do this carefully; you do not do it in any Draconian fashion. If we had our way, we would say you need to put more money into these projects rather than less. So from the standpoint of the business community—and I know I speak for many other businessmen in Chicago—we see that there is very good use of Federal money in this area and would never criticize you for doing that.

Thank you.

[The prepared statement of Mr. Franke follows:]

Testimony Presented to the Interior Subcommittee of the
Appropriations Committee of the U.S. House of Representatives
by Richard J. Franke (February 16, 1995)

Mr. Chairman and members of the Committee, I am Richard J. Franke, chairman of The John Nuveen Company. I pose the question: Is it the proper place of the federal government to provide funding for the nation's cultural activities, as embodied in the work of three agencies, the National Endowment for the Humanities (the NEH), the National Endowment for the Arts (the NEA) and the Institute for Museum Services (the IMS)? I think it is and I appreciate this opportunity to be heard.

I come to you as a businessman -- I have worked for one company in Chicago for thirty-seven years and I have been CEO of that company for the past 21 years. I have guided a corporation whose core business is, simply put, the financing of America's cities and states through municipal bonds. I also have a very strong commitment to the cultural organizations that make our localities strong. I am the Senior Fellow of the Board of Yale University, a member of the Board of Trustees at the University of Chicago, and I have served for decades on volunteer boards for Chicago's opera, its symphony orchestra and a research library that is a national treasure. I am also founder and chairman of the Chicago Humanities Festival, now in its 6th year, and I am a past Chairman of the Illinois Humanities Council.

I give my time and energy to these arts, humanities and educational organizations in part because I know it's good business for corporate America to be involved in cultural America. I speak as one of many business leaders who, like me, contribute corporate and personal money back into the communities where we work as a civic duty and out of civic pride in our heritage.

I have strong ties to Chicago's business and arts communities, yet my origins were middle America -- a second generation American raised in the

world of Springfield, Illinois. I credit my personal growth and my business success almost entirely to the awakening I experienced through an education which opened me to the worlds of art, music, history and literature -- to the treasures of our culture. Appreciation for our country's cultural heritage and great artistic and musical achievements have been central to me as a businessman and community leader. Based on my experience in Chicago, I can attest that a vibrant cultural life contributes to a strong city and a strong economy in ways that are difficult to measure. Strong, successful educational programs link the city's cultural institutions with schools and the children of the metropolitan area.

Take away Chicago's symphony orchestra, its opera, its lively theater, art and music community and you would find a much diminished city -- a city diminished in stature and vitality, and with a far less compelling claim to the loyalty and energy of its citizens. I suggest that severing the link of federal support for organizations like these would have serious repercussions for many cities, towns and villages throughout the nation.

Where I grew up in Springfield Abraham Lincoln was the model for civic accomplishment. As a schoolchild, I learned about Abe from visits to his home where I saw everyday objects from his life. I remember in particular my fascination when I saw the shawl he wore to keep warm during Springfield's winters. Those simple objects brought me close to this great man and linked a young boy to a great life sadly past yet remarkably present.

The museum in Springfield brought the past alive for me. But my boyhood captivation with Abraham Lincoln was just the beginning of a lifetime devoted to learning about our heritage through the arts and humanities. I cannot believe my experience was unique. Museums today mount hundreds of programs that attract many millions of children and adults each year. Museums are stewards of objects, such as Lincoln's shawl

or the Gettysburg address, which belong to all of us. Preserving, storing and cataloging, however, are low-profile tasks which don't attract much private support. Federal support for museums is crucial. It is the key to attracting additional moneys to assure the financial health of museums and, more important, to assure the preservation of our heritage.

Culture and cultural programs in this country are dependent on a fragile chain of relationships, an interdependency. Government involvement and financial support are often the first and most important link to the continued viability of our cultural heritage. To eliminate government support for the arts, humanities and museums at this time is more than a financial decision. In a world in which many countries support the arts and humanities far more significantly than we do, the withdrawal of government participation would be signal that the people of this country have a diminished sense of culture and an impoverished view of their national identity. I do not believe this is so.

The three agencies whose funding is under consideration are crucial in fostering the nation's cultural heritage even though the dollars spent are small compared to what is spent to support other government programs. Federal dollars are also small in comparison to the money raised for the arts from other sources. Federal seed money goes a long way dollar for dollar. As someone involved in arts and humanities programs for over 30 years, I can assure you that federal support is essential, providing important seed money and triggering matching funds from localities, corporations or private donors. Often, federal money is the first dollar and the most important dollar because it gives legitimacy to a program or an organization.

My point is that even a modest federal award serves to validate an organization or program, with the result that a small nod from the NEH or the NEA can open doors to carry a dream towards realization. Federal money does not discourage grass roots and local initiatives. Rather, it

positively encourages private citizens, foundations and corporate benefactors to contribute much needed matching funds.

It would be hard to find programs which go farther or have more positive impact dollar per dollar than government-sponsored arts and cultural initiatives. You are all no doubt familiar with the statistic that federal funds for the arts generate \$30 billion dollars per year in related economic activity. All this for an investment of 85 cents per person in this country.

There are literally thousands of programs in towns across the map, in both rural areas and metropolitan regions that benefit from these agencies. In many rural areas there are precious few cultural programs each year. This is where seed money and government encouragement is needed most, bringing light to an otherwise cultural darkness. The vast majority of these programs deliver a positive, formative message, often to schoolchildren in small towns who, just as I did so long ago, first come into contact with a historical object or the image of a great leader or the work of a famous artist as part of a school field trip. You are all familiar with the vision of a sea of school buses parked in front of the museums of your cities. The children of rural and small town America also benefit from federally funded programs and exhibits.

Each day, if everyone from child to senior citizen, could hear a little song, read a good poem, and see a fine picture, this would go a long way toward raising their spirits, lightening their step and alleviating the terror, fear and isolation that stalk so many of our citizens. This is what the humanities and the arts are all about.

It is important and timely to be concerned with costs and to consider how these agencies, like so many other federal agencies under study, might economize. An appropriate goal might be to cut back on administrative costs in order to retain as much funding for projects as possible. Even if in the end

there are fewer dollars to go around, literally millions of people would continue to benefit from federal support and we as a nation would announce to the world that we take pride in our culture.

I close by urging you to protect the principle of national support for the arts and humanities, to recognize the enormous good accomplished by relatively few federal dollars, and to acknowledge the symbolic importance of this wise public investment.

Mr. REGULA. Thank you, Mr. Franke.
Mr. McCullough.

STATEMENT OF MR. MCCULLOUGH

Mr. MCCULLOUGH. Good morning, Mr. Chairman. I'm honored and very pleased to be able to address your committee, and I do so as a citizen who is greatly concerned about the decline of our library facilities in our schools, the decline—even worst of all, the elimination—of art, music, and dramatic instruction in our schools, the reduction of services at our public libraries, and in some cases the closing of our public libraries, and the current, to my mind, ill-reasoned and very ill-informed assaults on public television. But as one who works in public television and with schools and universities, museums and libraries, I also know the marvelous possibilities there are, how much more can be done, and done better, and that, to me, is what's so exciting.

In the year 1814, Mr. Chairman, the invading British Army burned the Congressional Library. And Thomas Jefferson offered to sell to Congress his own library as a replacement. A heated debate ensued. The issue, much like today, was drawn mainly on party lines with those in opposition to the purchase arguing that the cost was too much or that, since the books belonged to Mr. Jefferson, a known free-thinker, some might not be at all suitable. [Laughter.]

Critics attacked the very idea of wasting Federal money on philosophical nonsense. A large number of the books were described by one Member of Congress as "worthless, in languages which many cannot read and most ought not." [Laughter.]

But Congress voted \$23,950 for 6,500 volumes. It may be seen as the beginning of Federal involvement in the arts and humanities, and to the everlasting benefit of the country. Today the Library of Congress is the largest, finest repository of knowledge in the world, a crown jewel in our whole way of life.

And for those of you who have never seen the original Jefferson volumes, I urge you to do so. I was over to look at them yesterday, and Mr. Larry Sullivan, who is the head of the Rare Books Division, would be very happy to give each and any of you a tour to see them, hold them in your hands yourself.

And, incidentally, that \$23,950 was very well invested from a financial point of view. There are two books, each of which are worth well over a million dollars.

The Lincoln Memorial, completed in 1922, is a great work of public art. Its colossal statue of Lincoln is an effort of 13 years by the sculptor Daniel Chester French, and it is, indeed, the greatest public sculpture in America and stunning testimony to the virtue of public support, public money for the arts. It was costly to create and it is costly still, more than a million dollars a year for upkeep and guide personnel—and worth every Lincoln penny of that.

In the 1930s, during the hard times of the Great Depression, came the Federal Writers' Project, the Federal Arts Projects, the Federal Theater Project, providing work opportunity for writers and artists as never before. The Federal Writers' Project alone employed 12,000 people, among whom were Richard Wright, Ralph Ellison, Eudora Welte, and Saul Bellow. The paintings, post office

murals, the incomparable series of State guidebooks that resulted are among our national treasures.

In World War II, hundreds of artists, photographers, filmmakers were assigned to record the experience of American service men and women on both fronts, and, again, at Government expense. And thank God they did. We have just had a film that was made completely from footage shot by filmmakers during the time of D-Day be nominated for an Academy Award. These films are works that live on.

"The programs and projects of the National Endowment for the Humanities are sound investments for the Federal Government to make even during this era of fiscal constraints," said the Chairman of the Endowment, Lynne Cheney, before a House committee in 1991. "The American people," she said the following year, "value the humanities and understand the importance of things historical and cultural. Projects supported by the Endowment," she continued, "help to make available a rich variety of opportunities for people to learn more about the Nation's heritage and the history and thought of other cultures." What she said was right then and it is right today.

It's argued that, because a few of the hundreds of programs sponsored by the Endowments have proven unworthy or ill-conceived or, worst of all, flagrantly offensive, that, therefore, the National Endowment for the Arts and the National Endowment for the Humanities should be done away with. That, Mr. Chairman, is absurd. It would be like saying that because of the Tailhook Scandal, we should get rid of the Navy.

When I think of what the National Endowment for the Humanities has done for gifted young documentary filmmakers like Ken Burns, when I count up the programs in the American Experience Series that have benefitted from Endowment funding, 38 films thus far, when I see the magnificent Library of America Series filling volumes, filling shelf after shelf, when I see in my own research in libraries and archives the priceless books and historic documents that have been preserved—all this, the films, the books, the conservation efforts, because of Endowment grants, I know absolutely the lasting value of such Government support.

Last night's broadcast of the American Experience, a program called "One Woman, One Vote," marking the 75th anniversary of the 19th Amendment, was called by The Wall Street Journal first rate and praised for intellectual mettle and moral character of the protagonist portrayed in the long fight for women's suffrage. The broadcast, funded in part by the National Endowment for the Humanities, was seen by about 5 million people, and that's only the beginning.

As the executive producer of our series, Judy Cryton, likes to stress, this is not disposable television. Every program is rerun and with audiences for the second and third broadcasts often larger even than the first. Further, the programs are used in schools throughout the country, and more so all the time. And anyone who claims that commercial television could as well do the same thing simply doesn't know what he's talking about.

The Library of America, these wonderful volumes—this is a recent one, The Autobiographies of Frederick Douglas—has been

called by Newsweek "the most important book publishing project in the Nation's history." It's a collection of the riches of our literature and political philosophy, cloth-bound on acid-free paper, and reasonably priced. There are now 73 titles in print, 2.5 million of these books in circulation. Were it not for the National Endowment for the Humanities, the Library of America would not exist.

Mr. Chairman, I can tell you about the rare documents in the collection of the Philadelphia Athenaeum, including original architectural drawings of the Capitol that are being properly maintained with the help of NEH grants. I can tell you about a 20-year program, starting in 1989 with congressional support, the goal being to preserve on microfilm the content of some 3 million books. Grants already made, when completed, will have saved the contents of 660,000 volumes. This is unprecedented. Seventy libraries are taking part nationwide.

I brought with me, Mr. Chairman, what is called a brittle book. This is an example. This is a publication of a 1910 speech by Theodore Roosevelt. It is coming apart. The pages fall out. If you bend the page once, it cracks apart. It's happening everywhere. This is only one example. And if you talk about saving and encouraging and passing on to the next generation our values, that's what this is and that is what a National Endowment grant saves.

I can tell you about the humanities program at one of the oldest and best small colleges in the country, Union College in Schenectady, which next week celebrates its 200th anniversary. Long known for its strength in science and technology, it is greatly expanding its activities in the humanities, and largely because of a grant, is vastly expanding the humanities section of the public library—of its library.

Mr. REGULA. Excuse me. I think what we'll do is vote and then come back. We're into the second bell here.

Mr. MCCULLOUGH. Okay.

Mr. REGULA. We'll be back as quickly as possible.

Mr. YATES. Very good, David. Very good, all of you.

[Recess.]

Mr. REGULA. Okay, Mr. McCullough?

Mr. MCCULLOUGH. Mr. Chairman, for the last five years, I have been involved in the effort to create a major new history museum in the city of Pittsburgh. It's to be called the Senator John Heinz Pittsburgh Regional History Center. It's a \$25 million project and we're very near to our goal, and if all continues as seems to be the case, we'll be opening next year.

We have had grants of \$1,500,000 from the National Endowment for the Humanities. And, as a consequence of those grants which came in three portions, we have been able to raise at least twice to three to four times that amount from private givers, foundations, and corporations.

There's been a good deal of talk, Mr. Chairman, about these grants going for elitist purposes. This new museum, 160,000 square feet of floor space, when it opens, which is to a large degree a museum about the rise of industrial America, is going to have an annual audience of at least 400,000 to 500,000 people a year, and 100,000 of those will be school children. And while the NEH grants represent a fraction of the total, the project would not be where it

is today had it not been for those NEH grants, because everyone knows the kind of scrutiny, the kind of professional care that's gone into those grants historically, and it is an imprimatur that opens up private money in a way nothing else does.

One of the glories of our American life, Mr. Chairman, is our nationwide system of public libraries, free public libraries, the large majority of which, 80-some percent, are in towns or cities of less than 25,000 people. When you cross the threshold into an American library, you enter a world absolutely equal. All are welcome. All have the same access to the riches within. We hear much talk about the Information Highway, but information isn't learning, isn't education, and there's no education without books. In our wonderful public libraries, the books are free. Everyone has open access to ideas. The computer hookups, too, are free. At the public library, a youngster in a town on the Nebraska plains or in Ohio or Illinois can tie into the same resources now as the student at one of great universities. Isn't that marvelous? Isn't that very American?

E. L. Doctrow, the novelist, has said that the three most important pieces of paper in an American's life are his birth certificate, the passport, and the library card. Newspapers, magazines, books in bookstores, cable television—all cost money. They're all fine if you can afford them. Our National Parks now charge admission. There's even talk of charging here for a tour of the Capitol, but the public libraries remain free to the people, and I don't know of Federal dollars better spent than those that, through the National Endowments, go to support our public libraries.

Mr. Chairman, we now have 6 million children living below the poverty level in this country, here in the United States of America. What an outrage that is and what a terrible cost it will mean unless something is done. What kind of education will those children get? What kind of education will any of our children get if the cutbacks continue in the teaching of art and music in our public schools and the reductions of school libraries? What can we expect when school libraries have no books or when school libraries shut down altogether?

Mr. Chairman, as good as the work of the National Endowments has been, it is hardly a scratch on what could be done and what needs to be done. We have, for example, the two great existing national institutions of public television and the public library system that could and should join forces. They're both going concerns, each with its own immense power and reach. Join that power, those resources, and the effect could mean new breakthroughs in education at all levels. I feel very strongly about this. I want to see television audiences brought into the libraries and the libraries brought home to television audiences, and I'm working on a new project to that end.

Instead of arguing over cutting the life out of existing Endowment programs or ditching them altogether, we ought to be joining force in an effort to make them better, more effective, of even greater benefit to the country. We ought to be using our imaginations to do more, not less. In my view, appropriations for the Endowments shouldn't be cut; they should be doubled.

Mr. Chairman, more than 200 years ago a member of another congress, the Continental Congress, wrote privately of his fear that

the future might be in the hands of members who would hold sway by noise, not sense; by meanness, not greatness; by ignorance, not learning; by contracted hearts, not large souls. As events would prove, and to the everlasting benefit of our Nation, he, John Adams, and others of the Founders were Americans of abundant sense, learning, and soul who knew education to be the foundation upon which depended the whole daring American experiment. "If a nation expects to be ignorant and free," said Thomas Jefferson, "it expects what never was and never will be."

It was the example of America that so mattered for the future of mankind. They were politicians. They could be inconsistent, contradictory, mistaken, human, but they were great lovers of books, of language, of art, of history. They were architects, musicians, philosophers, and poets, if not in practice, then certainly at heart.

John Adams, let us also not forget, was a farmer who worked with his hands, his own hands on his own land, whose homestead comprised all of four rooms. You could fit it in this room. In your deliberations, Mr. Chairman, you and your fellow Members of Congress, you who have so much of the future of the country in your hands, might well take heart these wonderful lines from a letter John Adams wrote to his wife, Abigail:

"I must study politics and war, that my sons may have liberty to study mathematics and philosophy. My sons ought to study mathematics and philosophy, geography, natural history, naval architecture, navigation, commerce, and agriculture in order to give their children a right to study painting, poetry, music, architecture, statuary, tapestry, and porcelain."

Mr. Chairman, a great nation puts the highest value on its art and its literature, its cultural and intellectual heritage. A great nation takes its measure by the quality of the life of its citizens. A great nation takes care of its children, provides schools second to none, schools where painting and music are never dismissed as frills, never ever considered expendable. A great nation prizes its poets no less than the best of its politicians.

Thank you, Mr. Chairman.

[The prepared statement of Mr. McCullough follows:]

**Testimony of David McCullough, before the Interior Appropriations Subcommittee,
February 16, 1995**

Good morning Mr. Chairman. My name is David McCullough. I am an author, historian, and biographer of Presidents Theodore Roosevelt and Harry Truman. I am also the host of the public television series The American Experience, a trustee of the National Trust for Historic Preservation, the Carnegie Museums and Library, an adviser for the Library of America series, and for the past five years I have been actively involved in the creation of a major new history museum and library complex, the Senator John Heinz Pittsburgh Regional History Center.

From these programs and projects I know firsthand the value, the immense importance, of the part played by the National Endowment for the Arts and the National Endowment for the Humanities, and it is for this reason that I welcome the chance to appear before your Committee and thank you for the honor.

As a citizen I am increasingly concerned about the decline of library facilities in our schools, the decline, even the elimination of art, music, and dramatic instruction in the schools, the reduction of services at our public libraries, and the ill-reasoned, ill-informed assaults on public television. But as one who works in public television and with schools and universities, museums, libraries, I also know what marvelous possibilities there are, how much more can be done and done better and that to me is what is so exciting.

Mr. Chairman, a great nation places the highest value on the heritage of its art and literature, its own story. A great nation takes its measure by the quality of life of its citizens. A great nation takes care of its children, provides schools second to none, schools where painting and music are never dismissed as frills, never ever considered expendable. A great nation prizes its poets no less than the best of its politicians.

History is about time. Art transcends time. History teaches us who we were. Art expresses who we are. The arts and humanities can, at times, offer the best there is in life. They help define, they give validity and substance to the whole ideal of the "pursuit of happiness," far beyond material abundance or power. "When power leads man towards arrogance," said John F. Kennedy, "poetry reminds him of his limitations. When power narrows the areas of man's concern, poetry reminds him of the richness and diversity of his existence. When power corrupts, poetry cleanses. For art establishes the basic human truth which must serve as the touchstone of our judgment."

It is the judgment of some today that the National Endowments are needless. Further, they argue that the Federal government has no business being involved in the arts and humanities, that this was a mistaken turn taken with the creation of the Endowments in 1965. Historically, they are wrong. Such involvement is an old story, as old as their argument.

In the year 1814, after British troops burned the congressional library, and Thomas Jefferson offered to sell to Congress his own library of some 6500 volumes as a replacement, a great debate ensued over whether this should be done. The issue divided mainly on party lines, with those in opposition to the purchase arguing that the cost was too much or that since the books belonged to Mr. Jefferson, a known libertarian, some might not be at all suitable. Critics decried the waste of federal money on "philosophical nonsense." A good number of the books were described by one member of congress as "worthless, in languages which many can not read, and most ought not."

But Congress voted the purchase, \$23,950 for 6500 volumes. It may be seen as the beginning of federal involvement in the arts and humanities and today the Library of Congress is the largest, finest repository of knowledge in the world, a crown jewel in our national life.

The Lincoln Memorial, completed in 1922, is a great work of public art. Its colossal statue of Lincoln, an effort of 13 years by the American sculptor Daniel Chester French, is indeed the greatest work of public sculpture in America and stunning testimony to the virtue of

public support -- public money -- for the arts. It is costly, still -- more than a million dollars a year for upkeep and guide personnel -- and worth every Lincoln penny of that.

In the 1930's, during the hard times of the Great Depression, came the Federal Writers Project, the Federal Arts Projects, the Federal Theater Project, providing opportunity for writers and artists as never before. The Federal Writers Project alone employed 12,000 people, among whom were young Richard Wright, Ralph Ellison, Eudora Welty, and Saul Bellow. The paintings, post office murals, and incomparable series of state guidebooks that resulted are among our national treasures.

In World War II, hundreds of artists, photographers, film-makers, were assigned to record the experience of American service men and women on both fronts, and again at government expense.

The programs and projects of the National Endowment for the Humanities "are sound investments for the federal government to make, even during this era of fiscal constraints," said the Chairman of the NEH, Lynne Cheney, before a House committee in 1991. The American people, she said the following year, "value the humanities and understand the importance of things historical and cultural." Projects supported by the Endowment, she went on, "help to make available a rich variety of opportunities for people to learn more about the nation's heritage and the history and thought of other cultures." What she said was right then and it is right today, make no mistake.

It is argued that because a few of the hundreds of programs sponsored by the Endowments have proven unworthy, or ill-conceived, or worst of all, flagrantly offensive, that therefore both the National Endowment for the Arts and the National Endowment for the Humanities should be done away with. That's absurd. It would be like saying that because of the Tailhook Scandal we must get rid of the Navy.

When I think of what the National Endowment for the Humanities has done to support gifted young documentary film makers like Ken Burns, when I count up the programs in The

American Experience series that have benefited from Endowment funding – 38 films thus far, including biographical portraits of such American figures as Eisenhower, FDR, Lindbergh, Duke Ellington, Thurgood Marshall – when I see the magnificent Library of America volumes filling shelf after shelf, when I see in my own research in libraries and archives the priceless historic documents that have been preserved, all this, the films, the books, the conservation efforts – because of Endowment grants, I know absolutely the value of the returns for such government investment.

Last night's broadcast of The American Experience, a program called "One Woman, One Vote," marking the 75th anniversary of the 19th Amendment, was called "first rate" by The Wallstreet Journal, which also praised the "intellectual mettle and moral character" of the women portrayed in the long fight for women's suffrage. The broadcast, funded in part by the National Endowment for the Humanities, was seen by about 5,000,000 people. And that's only the beginning. As the executive producer of the series, Judy Crichton says, this is not "disposable television." Every program is rerun and with the audiences for the second or third broadcasts often larger than the first. The programs are used in schools throughout the country, and more so all the time.

And anyone who claims that commercial television could as well do the same thing, doesn't know what he's talking about.

The Library of America has been called by Newsweek, "the most important book publishing project in the nation's history." It is a collection of the riches of our American literature and political philosophy, cloth-bound, on acid-free paper, and reasonably priced. There are now 73 titles in print, two and a half million of these books in circulation. Were it not for the National Endowment for the Humanities, the Library of America would not exist.

Mr. Chairman, I can tell you about the rare documents in the collection of the library of the Philadelphia Athenaeum, including original architectural drawings of the Capitol, that are being properly maintained with the help of NEH grants. I can tell you about the 20 year

program, starting in 1989, with congressional support, the goal being to preserve the intellectual content of some 3,000,000 books by microfilm. Grants already made will, when completed, have conserved 660,000 volumes. This is unprecedented. And 70 libraries are taking part nationwide. I can tell you about the humanities program at one of our oldest and best small colleges, Union College in Schenectady, New York, which next week celebrates its 200th birthday. Long known for the strengths of its science and technology departments, Union, motivated by two NEH grants, is greatly enlarging its library and thus its whole humanities curriculum. Because of three NEH grants for the new John Heinz Pittsburgh Regional History Center, grants totaling \$1,500,000, we have been able to raise at least twice, if not three times that amount, from private, corporate, and foundation sources. Critics of the Endowments carp about money spent for elitists interests. Mr. Chairman, attendance for this one new museum is expected to be somewhere between 400,000 and 500,000 people a year, including at least 100,000 school children. And while the NEH grants represent only a fraction of the total cost, perhaps 6 percent, I assure you the project would not be where it is today had there been no National Endowment endorsement.

Surely one of the glories of our American way of life, Mr. Chairman, is our nation-wide system of public libraries, free public libraries, the large majority of which, let me emphasize, in small towns and cities of less than 25,000 people.

When you cross the threshold into an American public library you enter a world of absolute equality. All are welcome, all have the same access to the treasures within. We hear much talk about the information highway. But information isn't learning, isn't education, and there is no education without books. In our wonderful public libraries the books are free. Everyone has open access to ideas. The computer hookups, too, are free. At the public library, a youngster in a town on the Nebraska plains or a mill town in Ohio, can tie in to the same resources now as a student at one of the great universities. Isn't that marvelous? Isn't that American?

Newspapers, magazines, books in bookstores, cable television, they all cost money. They're all fine if you can afford them. Our national parks now charge an admission. Why there's even talk here of charging for a tour of the Capitol! But the public libraries remain free to the people, thank God, and I don't know of federal dollars better spent than those that through the National Endowments go to support our public libraries.

Mr. Chairman, we now have 6,000,000 children living below the poverty level — in this country, here in the United States of America. What an outrage that is. And what a terrible cost it will exact in time to come, unless something is done. What kind of education will those children get? What kind of education will all of our children get if the disgraceful cutbacks continue in the teaching of art and music in our public schools? What can we expect when school libraries have no books, or when school libraries shut down altogether.

Mr. Chairman, as good as the great majority of the services performed by the National Endowments has been, it is hardly a scratch on what could be done, and what needs to be done. We have, for example, the two great existing national institutions of public television and the public library system that could and should join forces. They're both going concerns, each with its own immense power. Join that power, those resources, and the effect could mean new breakthroughs in education at all levels. I feel very strongly about this. I want to see television audiences brought into the libraries and the libraries brought home to television audiences, and I am working on a new project to that end.

Instead of arguing over cutting the life out of the existing programs of the Endowments, or ditching them altogether, we all ought to be joining forces in an effort to make them better, more effective, of still greater benefit to the country. If you ask me, we ought to be using our imaginations to do more not less. Appropriations for the Endowments shouldn't be cut, they should be doubled.

Mr. Chairman, more than two hundred years ago, a member of another congress, the Continental Congress, wrote privately of his fear that the future might be in the hands of

members who would hold sway by "noise not sense, be meanness not greatness, by ignorance not learning, by contracted hearts not large souls."

As events would prove and to the everlasting benefit of our nation, he, John Adams, and others of the founders were Americans of abundant sense, learning, and soul, who not only valued education but knew it to be the foundation upon which depended the whole daring American experiment.

"If a nation expects to be ignorant and free, it expects what never was and never will be," warned Thomas Jefferson. It was the example of America that so mattered for the future of mankind.

They were politicians, to be sure. They could be inconsistent, contradictory, mistaken, human. But they were great lovers of books, of language, of art, of history. They were architects, musicians, and poets, if not in practice then certainly at heart.

John Adams, let us also not forget, was a farmer who worked his land with his own hands, whose homestead comprised all of four rooms.

In your deliberations, Mr. Chairman, you and your fellow members of Congress -- you who have so much of the future of the country in your hands -- might well take to heart these wonderful lines written by John Adams in a letter to his wife Abigail:

I must study politics and war that my sons may have liberty to study mathematics and philosophy. My sons ought to study mathematics and philosophy, geography, natural history, naval architecture, navigation, commerce, and agriculture, in order to give their children a right to study painting, poetry, music, architecture, statuary, tapestry, and porcelain.

Thank you, Mr. Chairman.

Mr. REGULA. Thank you.
Mr. Burns?

STATEMENT OF MR. BURNS

Mr. BURNS. Thank you, Mr. Chairman, members of the committee. It is an honor for me to appear before you today, and I'm grateful that you have given me this opportunity to express my thoughts on the activities and existence of the National Endowment for the Arts and the National Endowment for the Humanities.

Let me say, Mr. Chairman, from the outset that I am a passionate supporter of the Endowments and their unique role in helping to stitch our exquisite, diverse, and often fragile culture together. Few institutions provide such a direct grassroots way for our citizens to participate in the shared glories of their common past, in the power of the priceless ideals that have animated our remarkable Republic and our national life for more than 200 years, and in the inspirational life of the mind and the heart that an engagement with the arts always provides. It is my wholehearted belief that anything which threatens these institutions weakens our country. It is as simple as that.

For more than 15 years I have been producing historical documentary films celebrating the special messages American history continually directs our way. The subjects of these films range from the construction of the Brooklyn Bridge and the Statue of Liberty to the life of the turbulent southern demagogue, Huey Long; from the graceful architecture of the Shakers to the early founders of radio; from the sublime pleasures and unexpected lessons of our national pastime to the searing, transcended experience of our Civil War. I even made a film on the history of our magnificent Capitol and the much maligned institution that is charged with conducting the people's business.

In nearly every instance, these films have been produced with the support and encouragement of the National Endowment for the Humanities, either at the State or national level, or both. In every instance, I have produced these films for national public television broadcast, not the lucrative commercial networks or cable. For each film project we have worked on we have willingly submitted to the Endowment's unique and rigorous proposal process, sometimes producing documents running to several hundred pages of detailed scholarly interpretation, budgetary analysis, and scrupulous preplanning. The months' long application process includes, among many difficult requirements, the engagement of nationally-recognized scholars who advise at every juncture of the production, insuring balance, adjudicating differences of historical interpretation, offering a variety of perspectives and modes of inquiry.

On the two occasions in my career when I did not—only two—when I did not enjoy Endowment support, I tried with decidedly mixed results to duplicate the arduous, but honorable discipline the NEH imposes on every project that comes its way because I thought it would make my films better. Without a doubt, my series on the Civil War could not have been made without the National Endowment for the Humanities. The Endowment not only provided one of the project's largest grants, thereby attracting other funders, and oversaw nearly every aspect of the production, but also,

through unrelated grants to other institutions, helped restore the very archival photographs that we would use to tell our story. Much of the seminal research our scholars provided came from NEH-supported projects, and their interest in the progress insured at critical junctures that we did not stray into myth or hagiography. I am extremely grateful for all of those things.

As I produced my own documentaries over the 15 years, I have watched the Endowments fund literally thousands of other projects that have touched Americans, that have engaged Americans, that have made a difference in American lives, that belie the relatively small outlay of public funds necessary to sustain these fundamentally good works. I have watched the Endowments save critical archival documents from decay and destruction, bring great art to the high plains of South Dakota, send professors from Nebraska and Georgia on important research trips their own universities could not underwrite, and I have watched Mr. Jenkinson here bring Thomas Jefferson to life in the little towns of my own conservative State of New Hampshire, to the delight and inspiration of all.

But now, and, sadly, not for the first time, I hear critics saying that these remarkably efficient Endowments must be scrapped, that our Government has no business in the arts and humanities, that we must let the marketplace alone determine everything in our cultural life, that these huge, broad-based institutions are essentially elitist, that a few controversial projects prove the leftist political bias of not only the Endowments, but the entire artist and academic communities. I feel very strongly that I must respond to these charges.

Since the beginning of this country, our Government has been involved in supporting the arts and the diffusion of knowledge, which was deemed as critical to our future as the roads and dams and bridges of our magnificent country. Early on, Thomas Jefferson and the other Founding Fathers knew that the pursuit of happiness did not mean a hedonistic search for pleasure in the marketplace, but an active involvement of the mind in the higher aspects of human endeavor; namely, education, music, the arts, and history.

Congress supported the journey of Lewis and Clark, as much to explore the natural, biological, ethnographic, and cultural landscape of our expanding Nation as to open up a new trading route to the Pacific. Congress supported numerous geographical, artistic, photographic, and biological expeditions to nearly every corner of the developing West. Congress funded, through the Farm Securities Administration, the work of Walker Evans and Dorothea Lang, and other great photographers who captured for posterity the terrible human cost of the Depression. At the same time, Congress funded some of the most enduring writing ever produced about this country's people, its monuments, its buildings, and back roads, and the still much used and universally admired WPA guys. Some of our greatest symphonic work, our most treasured dramatic plays, and early documentary films came from an earlier Congress' support.

With Congress' great insight, the Endowments were born and grew to their startlingly effective maturity, echoing the same time-honored sense that our Government has an interest in helping to sponsor art and education just as it sponsors commerce. We are not talking about a 100 percent sponsorship, a free ride, but a priming

of the pump, a way to get the juices flowing, in the spirit of President Reagan's notion of a partnership between the Government and the private sector.

The NEH grant I got for the Civil War Series attracted even more funds from General Motors and several private foundations, money that would not have been there had not the Endowment blessed the project with their rigorously-earned imprimatur.

When I was working on a film 10 years ago on the history of the Statue of Liberty, its powerful symbolism, I had the great good fortune to meet and interview Vartan Gregorian, who was then the president of the New York Public Library and who is now the president of Brown University. After an extremely interesting and passionate interview on the meaning behind the Statue for an immigrant like him from Tabriz, Iran, Vartan took me on a long and fascinating tour of the miles of stacks of the New York Public Library. Finally, after galloping down one claustrophobic corridor, he stopped and gestured expansively, "This," he said, surveying the library, his library, from its guts, "This is the DNA of our civilization." He was saying that that library—indeed, all libraries, archives, and historical societies—are the DNA of our society, leaving an imprint of excellence and intention for generations to come.

It occurs to me as we debate the very existence of the Endowments that they, as well as public television, for it surely must be included in our concerns, are also part, a critical part, of the great genetic legacy of our Nation. They are in the best sense modern, educational institutions first and foremost. But there are those who are sure that without the Endowments the so-called marketplace would take care of everything, that what won't survive in the marketplace doesn't deserve to survive. Nothing could be further from the truth, because we are not just talking about the commerce of a nation; we are not just economic beings, but spiritual and intellectual beings as well, and so we are talking about the creativity of a nation.

Now some forms of creativity thrive in the marketplace, and that is a wonderful thing, reflected in our glorious Hollywood movies and in our globally popular music. But let me say that the marketplace could not have made, and to this day could not make, my series on the Civil War—indeed, any of the films I have worked on. That series was shown on public television outside the marketplace without commercial interruption—by far the single most important factor for our insuring PBS's and the Endowments' continuing existence, and for understanding that series' overwhelming success. All real meaning in our world accrues in duration. That is to say, that which we value the most—our families, our work, our art—has the stamp of our focused attention. Without that attention, we do not learn; we do not remember; we do not care; we are not responsible citizens.

The public programs and media that the Endowments have sponsored on public television, especially those in history, offer the rarest treat amidst the cacophony of our television marketplace. They give us back our attention, and by so doing, insure that we as a people have a future. That marketplace does not produce, Mr. Chairman, by the way, the most respected news program on television. That marketplace does not produce the most respected chil-

dren's history and science programs on television, either. These are but a small part of the legacy of the Endowments and PBS, institutions supported by 70 percent of Republicans, 80 percent of Independents, and 90 percent of Democrats across the country. The marketplace does not save the old papers of a Founding Father. It doesn't fund research into that which enriches our heritage, not necessarily our pocketbooks or what is fashionable at the moment. And it does not fund the local poetry reading or dance recital or symphony group or lecture on great books that take place daily from Maine to California.

The Endowments are like posterity spies, moles penetrating farther and deeper into our political and social landscape than any agent of the so-called marketplace. No, that marketplace will not produce the good works of the Endowments, just as the marketplace does not, and will not, produce a B-2 bomber, something we are told that is essential to the defense of our country. It has taken Government involvement, Government sponsorship, Government money, and Government encouragement to build a B-2 bomber. Interestingly, the total cost of both Endowments, plus the Corporation for Public Broadcasting, does not equal the cost of one B-2 bomber. It is obvious, too, that the National Endowment for the Humanities, the National Endowment for the Arts, and the Corporation for Public Broadcasting have nothing to do with the actual defense of our country. They just make our country worth defending.

Do not be persuaded by the feeble argument that this is all elitist, that we are funding the superfluous, opera for the rich. The meat and potatoes of the Endowments' works reach out to every corner of the country and touches people in positive ways the Federal Government rarely does. Indeed, it would be elitist itself to abolish the Endowments, to trust to that marketplace and the national aristocracy that many have promised over the last 200 years would rise up to benevolently protect us all and hasn't.

But still many persist with the notion that these grassroots agencies are somehow only for the privileged or, heaven help us, New Yorkers. [Laughter.] But I say, tell that to the rural areas that lose their art exhibit, the regional or small town symphony that closes for lack of funding, the researcher that might—just might—discover the unpublished manuscript of great writer or the unfinished sonata of a great composer, but can't because there's no endowment. Who will keep the record, the true record, of our country? Surely not the Madison Avenue sanitized, abbreviated version of our country's history that the marketplace's purveyors have constantly produced.

With regard to my own films, I have been quite lucky. The Civil War Series was public television's highest rated program, and it has been described as one of the best programs in the history of the medium. As I stated before, it could not have been made without the support of the Endowment and could not have been made for any other broadcast institution except PBS. If the Endowments are abolished or significantly cut back, I suppose I will find work, but not the kind that insures good television or speaks to my overarching interest, that which we Americans all hold in common.

But more to the point, where will the next generation of filmmakers be trained? By the difficult process of the Endowments or by the "Hard Copies" of the world? I hope it will be the former.

The Speaker of the House of Representatives has spoken eloquently of an American people poised for the 21st century, endowed with a shared heritage of sacrifice and honor and the highest ideals mankind has yet advanced, but also armed with new technologies that would enable us to go forward as one people. I say to the Speaker and all of those who would listen that we have in the Endowments and public television exactly what he envisions. Together, these institutions are perfectly prepared to insure that glorious future, and in a television environment of relentless channel surfing, it is heartening to remember we still have an outlet for these good works free of commercial interruption. If the Endowments are left alone to do this work, they might not just survive, but actually thrive in the coming Brave New World.

Many have recently criticized the Endowments for certain controversial or political projects. Many believe the Endowments and public television are hotbeds of radical thinking. I wonder, though, have they ever been to the Endowments, applied for a grant, worked with their staffs, or been at a PBS general meeting. I doubt it. These are essentially conservative institutions filled with people who share the concerns of most Americans. One need only remember that the Endowments are criticized just as vigorously from the far left to realize at once what a tough job they have and what a good job they are doing.

And in a free society, the rare examples of controversial scholarship that may run counter to our accepted canon need not be the occasion for a new reactionary Puritanism, but ought to be seen as a healthy sign that we are a Nation tolerant of ideas, confident—as the recent tide of geopolitical history has shown—confident that the best ideas will always prevail.

One hundred and fifty-seven years ago, in 1838, well before the Civil War, Abraham Lincoln challenged us to consider the real threat to our country, to consider forever the real cost of our inattention. "Whence shall we expect the approach of danger?" he wrote. "Shall some trans-Atlantic giant step the earth and crush us at a blow? Never. All the armies of Europe and Asia could not take a drink from the Ohio River or make a track in the Blue-ridge in the trial of a thousand years. No, if destruction be our lot, we must ourselves be its author and finisher." As usual, Mr. Lincoln speaks to us today with the same force he spoke to his own times.

Mr. Chairman, most of us here, whether we know it or not, are in the business of words, and we hope, with some reasonable expectation, that those words will last. But, alas, especially today, those words often evaporate, their precision blunted by neglect, their insight diminished by the sheer volume of their ever-increasing brethren, their force diluted by ancient animosities that seem to set each group against the other.

The historian, Arthur Schlesinger, Jr., has said that we suffer today from too much pluribus and not enough unum. Few things survive in these cynical days to remind us of the union—the union—from which so many of our personal and collective blessings flow. And it is hard not to wonder in an age where the present mo-

ment consumes and overshadows all else, our bright past and our dim, unknown future, what finally does endure; what encodes and stores the genetic material of our civilization, passing down to the next generation the best of us, or at least what we hope will mutate into betterness for our children and our posterity.

These Endowments provide one clear answer. Please do not be the author of their destruction, the finisher of their important good works. They are the best things we have to remind us why we still all agree to cohere as a people, and that is a very, very good thing.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Burns follows:]

Testimony of Ken Burns

Washington, D.C.

February 16, 1995

Mr. Chairman and Members of the Committee: It is an honor for me to appear before you today, and I am grateful that you have given me this opportunity to express my thoughts on the activities and existence of the National Endowment for the Arts and the National Endowment for the Humanities. Let me say from the outset that I am a passionate supporter of the Endowments and their unique role in helping to stitch our exquisite, diverse, and often fragile culture together.

Few institutions provide such a direct, grassroots way for our citizens to participate in the shared glories of their common past, in the power of the priceless ideals that have animated our remarkable republic and our national life for more than two hundred years, and in the inspirational life of the mind and the heart that an engagement with the arts always provides. It is my wholehearted belief that anything which threatens these institutions weakens our country. It is as simple as that.

For more than fifteen years I have been producing historical documentary films, celebrating the special messages American history continually directs our way. The subjects of these films range from the construction of the Brooklyn Bridge and the Statue of Liberty to the life of the turbulent Southern demagogue Huey Long; from the graceful architecture of the Shakers to the early founders of radio; from the sublime pleasures and unexpected lessons of our national pastime to the searing transcendent experience of our Civil War. I even made a film on the history of this magnificent building and the much maligned institution that is charged with conducting the people's business.

In nearly every instance, these films have been produced with the support and encouragement of the National Endowment for the Humanities, either at the state or national level. In every instance, I have produced these films for national public television broadcast, not the lucrative commercial networks or cable. For each film project we have worked on, we have willingly submitted to the Endowment's rigorous proposal process, sometimes producing documents running to several hundred pages of detailed scholarly interpretation, budgetary analysis, and scrupulous pre-planning. The months-long application process includes, among many difficult requirements, the engagement of nationally recognized scholars who advise at every juncture of the production, insuring balance, adjudicating differences in historical interpretation, offering a variety of perspectives and modes of inquiry. On the two occasions in my career when I did not enjoy Endowment support, I tried—with

decidedly mixed results—to duplicate the arduous but honorable discipline the NEH imposes on every project that comes its way, because I thought it would make my films better.

Without a doubt, my series on the Civil War could not have been made without the National Endowment for the Humanities. The Endowment not only provided one of the project's largest grants, thereby attracting other funders, and oversaw nearly every aspect of the production, but also, through unrelated grants to other institutions, helped restore the archival photographs we would use to tell our story. Much of the seminal research our scholars provided came from NEH supported projects. And their interest in our progress insured at critical junctures that we did not stray into myth or hagiography. I am extremely grateful for all of those things.

As I produced my own documentaries over the years, I have watched the Endowments fund literally thousands of other projects that have touched Americans, that have engaged Americans, that have made a difference in American lives that belie the relatively small outlay of public funds necessary to sustain these fundamentally good works. I have watched the Endowments save critical archival documents from decay and destruction, bring great art to the high plains of South Dakota, send professors from Nebraska and Georgia on important research trips their own universities could not underwrite, and I have watched a man bring Thomas Jefferson to life in the little towns of my own conservative State of New Hampshire to the delight and inspiration of all.

But now, and sadly not for the first time, I hear critics saying that these remarkably efficient Endowments must be scrapped, that our government has no business in the arts and humanities, that we must let the marketplace alone determine everything in our cultural life, that these huge broad based institutions are essentially elitist, that a few controversial projects prove the leftist political bias of not only the Endowments but the entire artistic and academic communities. I feel strongly that I must respond to these charges.

Since the beginning of this country, our government has been involved in supporting the arts and the diffusion of knowledge, which was deemed as critical to our future as roads and dams and bridges. Early on, Thomas Jefferson and the other founding fathers knew that the pursuit of happiness did not mean a hedonistic search for pleasure in the marketplace but an active involvement of the mind in the higher aspects of human endeavor—namely education, music, the arts, and history. Congress supported the journey of Lewis and Clark as much to explore the natural, biological, ethnographic, and cultural landscape of our expanding nation as to open up a new trading route to the Pacific. Congress supported numerous geographical, artistic, photographic, and biological expeditions to nearly every corner of the developing West. Congress funded, through the Farm Securities Administration, the work of Walker Evans and Dorothea Lange and other great photographers who captured for posterity the terrible human cost of the Depression. At the same time, Congress funded some of the most enduring writing

ever produced about this country's people, its monuments, buildings, and backroads in the still much used and admired WPA guides. Some of our greatest symphonic work, our most treasured dramatic plays, and early documentary film classics came from an earlier Congress' support.

With Congress' great insight the Endowments were born and grew to their startlingly effective maturity echoing the same time-honored sense that our Government has an interest in helping to sponsor Art and Education just as it sponsors Commerce. We are not talking about a 100% sponsorship, a free ride, but a priming of the pump, a way to get the juices flowing, in the spirit of President Reagan's notion of a partnership between the government and the private sector. The NEH grant I got for the Civil War series attracted even more funds from General Motors and several private foundations; money that would not have been there had not the Endowment blessed this project with their rigorously earned imprimatur.

When I was working more than ten years ago on my film about the Statue of Liberty, its history and powerful symbolism, I had the great good fortune to meet and interview Vartan Gregorian, who was then the president of the New York Public Library, and who is now the president of Brown University. After an extremely interesting and passionate interview on the meaning behind the statue for an immigrant like him—from Tabriz, Iran—Vartan took me on a long and fascinating tour of the miles of stacks of the New York Public Library. Finally, after galloping down one claustrophobic corridor, he

stopped and gestured expansively. "This," he said, surveying his library from its guts, "this is the DNA of our civilization." He was saying that that library, indeed, all libraries, archives, and historical societies are the DNA of our society, leaving an imprint of excellence and intention for generations to come. It occurs to me, as we debate the very existence of the Endowments, that they, as well as public television—for it surely must be included in our concerns—are also part, a critical part, of the great genetic legacy of our nation.

But there are those who are sure that without the Endowments, the so-called "marketplace" would take care of everything; that what won't survive in the marketplace, doesn't deserve to survive. Nothing could be further from the truth, because we are not just talking about the commerce of a nation, we are not just economic beings, but spiritual and intellectual beings as well, and so we are talking about the creativity of a nation. Now some forms of creativity thrive in the marketplace and that is a wonderful thing, reflected in our glorious Hollywood movies and our universally popular music. But let me say that the marketplace could not have made and to this day could not make my Civil War series, indeed any of the films I have made.

That series was shown on public television, outside the marketplace, without commercial interruption, by far the single most important factor for our insuring PBS's continuing existence and for understanding the Civil War series' overwhelming success. All real meaning in our world accrues in duration; that is to say, that which

we value the most—our families, our work, our art— has the stamp of our focused attention. Without that attention, we do not learn, we do not remember, we do not care. We are not responsible citizens. The public programs in media that the Endowments have sponsored on public television, especially those in history, offer the rarest treat amidst the outrageous cacophony of our television marketplace— they give us back our attention. And by so doing, insure that we have a future.

That marketplace does not produce, by the way, the most respected news program on television; that marketplace does not produce the most respected children's, history, and science programs on television either. These are but a small part of the legacy of the Endowments and PBS, institutions supported by 70% of Republicans, 80% of Independents, and 90% of Democrats across the country.

The marketplace does not save the old papers of a founding father, it doesn't fund research into that which enriches our heritage—not necessarily our pocketbooks or what is fashionable at the moment, and it does not fund the local poetry reading, or dance recital, or symphony group, or lecture on great books that take place daily from Maine to California. The Endowments are like posterity's spies—moles penetrating farther and deeper into our political and social landscape than any agent of the so-called marketplace.

No, the marketplace will not produce the good works of the Endowments. Just as the marketplace does not and will not produce a B-1 Bomber, something essential to the defense of our country. It has taken government involvement, government sponsorship, government money, and government encouragement to build a B-1 Bomber. Interestingly, the total cost of both endowments plus the Corporation for Public Broadcasting does not equal the cost of one B-1 Bomber. It is obvious, too, that the National Endowment for the Arts, the National Endowment for the Humanities, and the Corporation for Public Broadcasting have nothing to do with the actual defense of our country, I know that—they just make our country worth defending.

Do not be persuaded by the feeble argument that this is all elitist, that we are funding the superfluous; "opera for the rich." The meat and potatoes of the Endowment's work reaches out to every corner of the country and touches people in positive ways the Federal Government rarely does. Indeed, it would be elitist itself to abolish the Endowments, to trust to the marketplace and the "natural aristocracy" that many have promised over the last two hundred years would rise up to protect us all—and hasn't.

But still many persist with the notion that these grass roots agencies are somehow only for the privileged or, heaven help us, New Yorkers. But I say, tell that to the rural areas that lose their art exhibit, the regional or small town symphony that closes for lack of

funding, the researcher that might, just might, discover the unpublished manuscript of a great writer or the unfinished sonata of a great composer, but can't because there is no endowment. Who will keep the record, the true record, of our country? Surely not the Madison Avenue, sanitized, abbreviated version of our country's history that the marketplaces' purveyors have continually produced.

With regard to my own films, I have been quite lucky. The Civil War series was public television's highest rated program and has been described as one of the best programs in the history of the medium. As I stated before, it could not have been made without the support of the Endowment and could not have been made for any other broadcast institution except PBS. If the Endowments are abolished, I suppose I will find work, but not the kind that insures good television or speaks to my overarching theme—that which we all hold in common. But more to the point, where will the next generation of flickers be trained? By the difficult process of the Endowments or by the Hard Copy's of the world? I hope it will be the former.

The Speaker of the House of Representatives has spoken eloquently of an American people poised for the twenty-first century, endowed with a shared heritage of sacrifice and honor and the highest ideals mankind has yet advanced, but also armed with new technologies that would enable us to go forward as one people. I say to the Speaker and to all who would listen that we have in the Endowments and public television exactly what he envisions.

Together these institutions are perfectly prepared to insure that glorious future, and in a television environment of relentless channel surfing, it is heartening to remember we still have an outlet for these good works free of commercial interruption. If the Endowments are left alone to do this work, they might not just survive, but thrive in the coming brave new world.

Many have recently criticized the Endowments for certain controversial or political projects; many believe the Endowments and public television are hot-beds of radical thinking. I wonder, though, have they ever been to the Endowments, applied for a grant, worked with their staffs or been to a PBS meeting? I doubt it. These are essentially conservative institutions, filled with people who share the concerns of most Americans. And in a free society, the rare examples of controversial scholarship that may run counter to our accepted cannon, need not be the occasion for a new reactionary Puritanism, but ought to be seen as a healthy sign that we are a nation tolerant of ideas, confident—as the recent tide of geo-political history has shown—confident that the best ideas will always prevail.

One hundred and fifty seven years ago, in 1838, well before the Civil War, Abraham Lincoln challenged us to consider the real threat to the country, to consider forever the real cost of our inattention: "Whence shall we expect the approach of danger?" he wrote. "Shall some transatlantic giant step the earth and crush us at a blow? Never. All the armies of Europe and Asia could not by force take a drink from the Ohio River or make a track in the Blue Ridge in the

trial of a thousand years. No, if destruction be our lot, we must ourselves be its author and finisher." As usual, Mr. Lincoln speaks to us today with the same force he spoke to his own times.

Mr. Chairman, most of us here, whether we know it or not, are in the business of words, and we hope, with some reasonable expectation, that those words will last.

But alas, especially today, those words often evaporate, their precision blunted by neglect, their insight diminished by the sheer volume of their ever-increasing brethren, their force diluted by ancient animosities that seem to set each group against the other.

The historian Arthur Schlesinger, Jr. has said that we suffer today from "too much pluribus and not enough unum." Few things survive in these cynical days to remind us of the Union from which so many of our personal and collective blessings flow. And it is hard not to wonder, in an age when the present moment consumes and overshadows all else—our bright past and our dim unknown future—what finally does endure? What encodes and stores the genetic material of our civilization, passing down to the next generation—the best of us—what we hope will mutate into betterness for our children and our posterity? These Endowments provide one clear answer. Please do not be the author of their destruction, the finisher of their important good works. They are the best thing we have to remind us why we all still agree to cohere as a people. And that is a good thing.

Mr. DICKS. Hear, hear.

[Applause.]

Mr. REGULA. Thank you.

Mr. Jenkinson?

STATEMENT OF MR. JENKINSON

Mr. JENKINSON. Thank you very much. It's a great honor to be invited to come and testify today.

As you know, one of the things that I do in the humanities is impersonate Thomas Jefferson as a scholar, and I thought of suiting up today and coming as Jefferson, but then I remembered that Jefferson believed that no Congressman should ever serve more than two terms and I was afraid of clearing the committee table. [Laughter.]

I'm going to talk about the National Endowment for the Humanities because it's what I know best, but, by implication, of course, I mean the NEA and the other cultural agencies. I want to make four brief points.

One, the National Endowment for the Humanities is not a taxpayer subsidy for the elite. It is a populist organization.

Two, the National Endowment for the Humanities is one of the most Jeffersonian institutions in American life.

Three, the NEH's encouragement of a dialog between humanities scholars and the American people is not a one-way communication. It's an exchange that improves both scholarship and citizenship amongst those who participate.

And, four, the NEH accomplishes much more than its limited budget would suggest. Its programs are much better known than the agency is.

I grew up in western North Dakota. I have degrees from the University of Minnesota and, thanks to Rhodes and Danforth scholarships, from Oxford University in England. I have taught at several institutions in this country, most recently the University of Nevada at Reno. Since 1976, I have participated in humanities programs in more than 40 States on more than 1,000 occasions. In 1989, Dr. Lynne Cheney presented me with the NEH's Charles Frankel Prize. And, in 1988, I was named Kansas Humanities Scholar of the Year. I currently serve on the Nevada Committee for the Humanities.

On behalf of the NEH and its State affiliates, I have presented straightforward lectures, commentaries on films, and first-person historical monologs, impersonations chiefly of Thomas Jefferson. I have moderated public discussions on public issues and led book discussions on the great texts from Homer to Wendell Barry.

I have conducted humanities programs in church basements and open-air tents, in palatial hotel ballrooms, and in prefabricated senior citizen centers on the Prairie. I have explored humanities scenes before the President of the United States and the president of the Rotary Club of El Centro, California.

About half of my work in the humanities has been conducted in the guise or in the shadow of Thomas Jefferson. At the urging of my friend, Everett Albers, of the North Dakota Humanities Council, I reluctantly undertook to impersonate the third President from a scholarly, rather than a theatrical, perspective. My skepticism

about the form was soon dispelled. I have come to believe that historical impersonation by scholars, as long as it is rigorous, is one of the most successful humanities models in America. Together with Mr. Albers, I created the Great Plains Chautauqua, a traveling humanities tent show which recreates the tent Chautauquas of the turn of the century, but with a steadier focus on the humanities, particularly history. Chautauqua features children's programs, workshops, book discussions, and first-person historical characterizations—all under an open-air tent. The modern Chautauqua is one of the most remarkable humanities programs in the United States. It has, thanks to the NEH, achieved a 15-year longevity and it is only beginning.

One of the problems the NEH must always face is that the terms "humanism," "humanist," even "humanities" and "humanities scholar" are not well understood sometimes even amongst practitioners. One of the world's first humanists, Petrarch, provided what I consider to be the greatest definition of the humanities ever written. He said the humanities explore "man's nature, the purposes for which we are born, and where onto we travel"—"man's nature, the purposes for which we are born, and were onto we travel."

The humanities explore with discipline and curiosity the mystery of being human, our relations with the Divine, our paradoxical middle state, partly in and partly out of Nature, and the ways in which we relate to each other in friendship, in love, in family, in community, and in culture.

When the State Programs Division of the NEH formed, I was, frankly skeptical, but my skepticism was soon overcome by experience, particularly after one of my humanities mentors, Dr. Bernard O'Kelly, said of the American people, "You will do well if you never underestimate their intelligence or overestimate their information." And hundreds of times since then I have seen the magic of the humanities in the faces of the people I meet, in the comments they make during and after humanities programs, in the letters they write to me sometimes years after the event, and in the ways they change their lives after encountering great texts.

The historical problem of the humanities has been that they have been available to only a tiny segment of most civilizations. The British historian, Allen Bullock, suggests that at the height of the Renaissance there were probably no more than 1,000 humanists in Europe and they were chiefly writing to each other, while the mass of people lurched through their lives without the benefit of the humanities. The genius of the American experiment, and, in particular, the existence of our cultural agencies, is that they have extended access to the humanities more widely than at any previous moment in human history. It is true that not everyone wants to encounter the humanities, certainly not when they are talked about as an abstraction or a Federal agency. But it is also true that most people like actual humanities programs.

The NEH has been charged with being elitist, but exactly the opposite is true. The NEH and its State affiliates exist to spread the good news of the humanities to every American, not just to the wealthy and the cultural elite. The public humanities in America take seriously the idea of culture equality and culture responsibility, that to be a complete citizen, each of us needs to know some-

thing about the founding principles and the documents of American life, that we need to examine our history dispassionately and know both our triumphs and our failures as a people.

The humanities are not a taxpayer-subsidized luxury for the wealthy and the elite. Under the unobtrusive leadership of the NEH and its State affiliates, the humanities have been made available to every American who owns a television set, a radio, or lives near a public library, a museum, a community college, or even a public school. Programs that no single community can afford to create or support are disseminated throughout the United States by the network supported by the NEH and its affiliates. For example, I have seen 450 people turn up for a humanities program in Epping, North Dakota, the population of which is 125. The people who file into the Chautauqua tents in Kansas and Nevada, California and Oregon are not the sort most comfortable in black ties and country clubs. They come in all the Whitmanesque costumes of America.

Thomas Jefferson believed that democracy is an exceedingly risky form of government and that it can only succeed if certain conditions are met, the chief of which is that the citizenry must be enlightened. Mr. Jefferson had a rather exacting notion of an enlightened citizenry. He envisioned a nation of sturdy family farmers who worked hard by day and read Homer in the original Greek at night. So far as I know, this is only true in North Dakota. [Laughter.]

He, himself, knew seven languages, played several musical instruments, read about eight hours a day, at least as a young man, and distinguished himself in such fields as architecture, ethnology, paleontology, viticulture, scientific agriculture, and library classification.

He wrote, "Enlighten the people generally and every form of tyranny, both of mind and body, will disappear like the fog when the sun rises in the morning." He considered his bill for the more general diffusion of knowledge to be the capstone of his legal reforms in Virginia. It strikes me that something which Professor McCullough said is very interesting. He said John Adams talked about his generation doing politics so their children could do science, so their children's children could do the arts and the humanities. Jefferson did it all himself. [Laughter.]

The public humanities are a delightful monument to the vision of Jefferson. If Chautauqua is, as Theodore Roosevelt claimed, the most American place in America, the NEH and its affiliates are the most Jeffersonian activity of the Government of the United States. For Jefferson the life of the mind is not culture frosting on the mundane cake of American life, but the very basis of good citizenship.

We are in 1995 a thoroughly Hamiltonian Nation with a thin Jeffersonian veneer. We spend our time getting and spending rather than reading and engaging in community. At a time when our most urgent national concerns are crime, violence, drug abuse, the failure of individual responsibility, and the erosion of our common identity as Americans, it makes no sense to disassemble one of the few truly Jeffersonian agencies of our national life. We urgently

need to reinvigorate the arts of civilization, especially the humanities.

The humanities are not obvious or palpable like bridges or battle-ships, but they are, by Mr. Jefferson's calculation, critical to American civilization. And I wish we funded them at 10 times their present level, even in an era of dangerous deficits. This may seem unrealistic, but, surely, it is a mistake to reduce their modest appropriation at a time when we seem to be coming apart at the seams and nobody knows quite how to put us back together again.

It is not that the humanities alone can restore civility to American life, but they play an important role in that process and they have an impact that extends far beyond their meager funding and institutional base. It is not that the humanities can save us from our fragmentation, violence, and despair, but they play an important role in that process, too, and like a barometer, they measure the mental health of our civilization. If more of us gave some of our energy to an examination of man's nature, the purposes for which we are born, and where onto we travel, we would surely be a more peaceful, more civil, and more happy Nation.

Humanities events are not scholars talking at the American people. There's no trickle-down theory of the humanities. They're honest exchanges, and I want to tell just two very brief stories to illustrate this.

The first one involves a Chautauqua that we did in Saratoga, Wyoming. This is a small town in southeastern Wyoming. And a woman came to the first evening of a five-night Chautauqua tent program. She was so taken by it that she went home—she was the wife and mother of three—and she made two bread loaf stacks of sandwiches, put them in neat piles in the refrigerator, and attached with a magnet a note to the refrigerator door saying, "You're on your own. I'm going to Chautauqua. See you next week." [Laughter.]

And she came to every program that we did in the course of that week. So far as I know, this is the only way in which the NEH has been corrosive of family values in this country—and her marriage survived. [Laughter.]

And she came to other programs thereafter.

But one program in North Dakota I remember with great fondness. I was leading a public discussion of an award-winning film called "Northern Lights" on the Canadian border in a little town called Wild Rose. The film was funded in part by the North Dakota Humanities Council. "Northern Lights" is a film about the struggle of pioneer North Dakota farmers to control their economic destiny in the period before World War I. The discussion took place in the senior citizen center in Wild Rose. It was a cold and clear night. About 100 of us viewed the black-and-white feature film and ate dinner together, hot dishes, shredded beef, scalloped potatoes, a variety of jello salads, green beans, cookies, bars—all followed by sharp black coffee and rich chocolate cake with a quarter inch of pink frosting. [Laughter.]

When we shared afterwards one of the most satisfying public humanities discussions I have ever witnessed, I was not surprised. We talked about pioneer life, about Jefferson's agrarian dream, about the economics of farming before and after mechanization,

about the character of Norwegian pioneers, the strengths and weaknesses of the film itself, the uses and abuses of drink in North Dakota history, the balance of love and politics in a complete life, and the future of American agriculture.

Men and women who had seen all or most of North Dakota history talked about ideas in heavy Norwegian accents. There were many laughs and some tears. It was the kind of discussion that can only come about in response to a cultural artifact, a text—in this case, a film. We were coming to terms with our common history in a disciplined and life-affirming way. When it was all over, we were a bit embarrassed and ready to go home.

It was a town so small that it did not have a motel. I was so exhilarated by our discussion that before I drove away to a warm bed some 40 miles distant I walked alone the whole length of the main street of Wild Rose. In fact, I walked straight out of town to the top of a hill. The night was crisp and now very cold. When I looked back, I could see the yellow lights of the main street, a few cars clustered around the bar, houses with windows still illuminated. In the other direction was the vast prairie extending toward Canada with a farm here and there in the distance, and above me were a thousand million stars glittering in the firmament.

It was one of the best nights I ever spent. The film had insinuated its way into the souls of the prosperous farmers of North Dakota in the 1970s. The discussion had penetrated beneath the veneer of cautious politeness that is the North Dakota style. The people of Wild Rose taught me a new way of thinking about the heritage of my State. The words "pioneer" and "farmer" meant something richer and more significant to me now.

Although an observer would have said that it was the citizens of that modest town who were grateful for my presence and the existence of the public humanities that night, I was, in fact, the primary beneficiary. I'll not forget that discussion or that chocolate cake.

The program cost the American taxpayer \$250. That much we can afford. It is only a beginning. In fact, rather than send fewer scholars out to towns like Wild Rose, I think we should join Chairman Mao in sending them all out and we would all be improved.

Many Americans do not know or support the mission of the NEH, but have, nevertheless, been enlightened by humanities programs. They have been moved to exhilaration and tears by Ken Burns' Civil War film series. They have purchased or borrowed volumes from the Library of America Project or from the University of Nebraska's definitive edition of the Journals of Lewis and Clark, or they have participated in book discussions at their local libraries, or enjoyed NEH-funded exhibits at national, State, or local museums, or listened to cowboy poetry gatherings in Elko, Nevada or Medora, North Dakota. The NEH's presence in American life has been understated, just what one would expect in the humanities. But the fact is that, in one form or another, the work of the NEH has become virtually a household presence, if not a household name, in America, and most Americans would be sorry to see disappear the NEH-funded programs that have appealed to their intellect and imaginations.

The humanities will not go away if the NEH declines, but they will be less coordinated, less efficient, less interesting, less widely

available, and I think less excellent. If the NEH ceases to exist, the humanities would be impoverished spiritually throughout the country and bankrupted financially in many districts, particularly in rural America where citizens have more interest in than access to cultural events.

It is very important to remember that some of the best humanities programs have occurred far from the centers of power and population. People who live in densely-populated areas will always have some access to the humanities, but in rural America—in Minden, Nebraska, in Salida, Colorado, in Sharon Springs, Kansas, or in Post Falls, Idaho—the publicly-funded humanities are often the only show in town. Every American would feel a loss of NEH programming, but the real victim of diminished support for the humanities would be the heartland, rural America. If the work of the NEH disappears and the humanities are forced to pay their own way in the open market, a condition that has never occurred in the history of Western Civilization, the humanities and the arts will cease to be the birthright of all Americans and will become again the luxury of the privileged. Without public funding, the humanities will go the way of Aspen and Santa Fe, beautiful but essentially off limits to the average American.

In the middle of the century, C. P. Snow decried the gulf between the sciences and the humanities, but the danger in our time is that, in the absence of national encouragement, the humanities will retreat to the groves of the academy and the great mass of our citizens will have no choice but to settle for MTV rather than NPR, the Simpsons rather than Joseph Campbell, mini-series by John Jakes rather than the brilliant documentaries of Ken Burns, and Hollywood's simplistic slave-raping caricature of Thomas Jefferson rather than the more complex and elusive Jefferson of actual history.

In their present form, the NEH and its affiliates are a kind of pilot lamp for the humanities in America. They are not themselves the humanities, but they have in 30 years created a modest flame that is poised to flare up into illumination whenever earnest citizens focus their curiosity on the mysteries of the human heart and the perplexities of our common past. Not everyone at any given moment wishes to turn up the heat on our cultural heritage, but so long as you—meaning we—continue to provide modest funding for the humanities in both their State and national arenas, we need not flail blindly in the dark.

I want to close by pointing to just one humanities text. When the aging King Lear is challenged by his daughters to explain why he needs even one bodyguard in his regal retirement, he cries out:

“Oh Reason not the need. Our basest beggars are in the poorest thing superfluous. Allow not nature more than nature needs. Man's life is cheap as beasts.”

In other words, need is not the measure of human dignity. Surely, we can get by with fewer cars, fewer television sets, football teams, lobster dinners, books, vacations to Florida, and, indeed, fewer arts and humanities programs. All we truly need is a few hundred calories per day and some minimal shelter, but the measure of humankind, says the Renaissance Lear, is to be found in its celebration of the “superfluous,” the extravagance of spirit that lifts

us above the reach of mere animals. It is what we do, what we create, and what we accumulate beyond mere need that makes humankind what Shakespeare calls "the beauty of the earth, the paragon of animals."

Those energies which transcend the merely utilitarian are what define us as fully human, a civilization. We do not need public support for the humanities any more than we need a Lincoln Memorial or a National Art Gallery or a Library of Congress, but the wealthiest nation in the history of the world, a nation in which we spend \$5,000 per capita every year on our cars, \$7.50 every time we attend a movie, and \$140 every time we purchase a new pair of tennis shoes, can afford, if it believes in the Jeffersonian imperative, 68 cents per person per annum for the humanities.

I urge you not to cut, but greatly to increase taxpayer spending on the humanities. Why? O reason not the need; we are only beginning.

Thank you very much.

[The prepared statement of Mr. Jenkinson follows:]

Testimony of Clay S. Jenkinson, Visiting Scholar at the University at Nevada-Reno, before the House Appropriations Subcommittee on Interior and Related Agencies on February 16, 1996

Thank you very much for inviting me to testify today. I want to make four simple points this morning:

- 1) The National Endowment for the Humanities is not a taxpayer subsidy for the elite. It is a populist organization.
- 2) The National Endowment for the Humanities is one of the most Jeffersonian institutions in American life.
- 3) One of the missions of the NEH—the encouragement of a dialogue between humanities scholars and the American people—is an exciting and thought-provoking exchange which improves both scholarship and citizenship among those who participate.
- 4) The NEH accomplishes much more than its limited budget would suggest. Its programs are much better known than the agency itself.

My name is Clay Jenkinson. I grew up in western North Dakota. I have degrees from the University of Minnesota and, thanks to Rhodes and Danforth Scholarships, from Oxford University in Great Britain. I have taught at several universities and colleges, most recently at the University of Nevada at Reno. Since 1976 I have participated in humanities programs in more than forty states on more than 1000 occasions. In 1989 Dr. Lynne Cheney presented me with the NEH's Charles Frankel Prize. In 1988 I was named Kansas Humanities Scholar of the Year. I currently serve as a member of the Nevada Humanities Committee. My father C.E. Jenkinson recently retired from his position as a member of the North Dakota Humanities Council. Please accept my apology for speaking about myself. I do so only to illustrate the activities of the National Endowment for the Humanities by way of my experience.

On behalf of the NEH and its affiliates, I have presented straightforward lectures, commentaries on films, and first-person historical monologues, in particular scholarly

impersonations of Thomas Jefferson. I have moderated discussions of public issues, such as coal development on the northern plains, and the future of agriculture in America, and led book discussions on great texts from Homer to Wendell Berry.

I have conducted humanities programs in church basements and open air tents, in palatial hotel ballrooms and in prefabricated senior citizens' centers on the windswept prairie. I have explored humanities themes before the President of the United States and the president of the Rotary Club of El Centro, California. I have discussed American history with Supreme Court justices and auto mechanics, with celebrated Americans and those who merely celebrate America. I have led public discussions of the paradoxes of the human condition in suburban malls and university libraries. I have discussed such issues as race and gender discrimination in inner city shelters and at the summer camps of white supremacists. I have spoken within the ashen walls of maximum security prisons and the glittering auditoriums of Aspen.

About half of my public work in the humanities has been conducted in the guise or in the shadow of Thomas Jefferson. At the urging of my friend Everett Albers of North Dakota, I reluctantly undertook to impersonate the Third President from a scholarly rather than a theatrical perspective. My skepticism about the form was soon dispelled. I have come to believe that historical impersonation by scholars, so long as it is rigorous, is one of the most remarkable humanities models in America. Together with Mr. Albers I created the Great Plains Chautauqua, a traveling humanities tent show, which recreates the tent Chautauquas of the turn of the century, but with a steadier focus on the humanities, particularly history. Chautauqua features children's programs, workshops, book discussions, and first-person historical interpretation—all in an open-air tent. The modern Chautauqua is widely considered one of the most remarkable humanities programs in the United States. It has achieved a fifteen-year longevity thanks to grants from the NEH, from participating state humanities councils, and from foundation and corporate donors.

I want to begin with a definition of the humanities. One of the problems the NEH must always face is that the terms humanism, humanist, even humanities and humanities scholar are not well understood, sometimes even among practitioners. One of the world's first humanists, Petrarch, provided what I consider the finest definition of the humanities ever written. He said the

humanities explore “man’s nature, the purposes for which we are born and whereunto we travel.” The humanities explore with discipline, fair-mindedness, curiosity, and generosity of spirit the mystery of being human: our relations with the divine, our paradoxical middle state partly in and partly out of nature, the ways in which we relate to each other in friendship, in love, in family, in community, and in culture.

When the state programs division of the NEH was formed I was skeptical of the idea that the world of Erasmus and Thomas More could be shared with average Americans who might not even have college degrees. My initial skepticism was soon overcome by experience, particularly after one of my humanities mentors, Dr. Bernard O’Kelly, said, of the America people, “Never underestimate their intelligence or overestimate their information, and you’ll do well.” And hundreds of times since then, I have seen the magic of the humanities in the faces of the people I meet, in the comments they make during and after humanities programs, in the letters they write to me sometimes years after the event, and in the ways they change their lives after encountering great texts. A young woman came up after one of my programs recently and told me that she had cut the cord off of her television set after hearing something I had said five years before. I blushed and asked to borrow her wire cutters!

Perhaps the most memorable reminder of the power of the humanities came in a program I did in a rural California town. I was impersonating Jefferson. As usual the audience suspended its disbelief and let itself pretend that it was encountering not a limited midwestern humanities scholar of the twentieth century, but the most remarkable man ever to hold the office of the Presidency of the United States, Thomas Jefferson. As I was discussing deism and natural law I made eye contact with a man in the second row of the audience, and I saw his eyes suddenly light up as he realized that he was not seeing a one-man show or even a historical re-enactment, but was in fact encountering timeless ideas about how humans organize their spirits and their laws in a form that was partly historical and partly spontaneous. He was suddenly bursting with things to say and ask. In the next half hour we conducted a dialogue that was as serious as any I have ever seen. The text of Jefferson had inspired a conversation that was at once deeply serious and marvelously playful. This stranger’s questions and comments made me think more clearly about Jefferson’s ideas. My characterization of Jefferson’s ideas helped this citizen realize that history is not an antiquarian artifact but an invitation for reflection. He made me a better scholar—I hope

I made him a better citizen. He sent me back to my books to learn more about Jefferson's mind. I hope I inspired him to read one of the books I listed on the bibliography that was circulated at the program. We have never communicated since, but he improved my life, and I think I improved his.

ONE:

The historical problem of the humanities has been that they have been available to only a tiny segment of most civilizations. The British historian Alan Bullock suggests that at the height of the Renaissance there were probably no more than 1000 humanists in Europe, and they were chiefly writing to each other, while the mass of people lurched through their lives without the benefit of one of the most clarifying and ennobling of human tools—the humanities. The genius of the American experiment, and in particular the existence of our cultural agencies, the National Endowment for the Arts, the Corporation for Public Broadcasting, the National Archives, the Smithsonian Institution, and particularly the National Endowment for the Humanities is that they have extended access to the humanities more widely than at any previous moment in human history. It is true that not everyone wants to encounter the humanities—certainly not when they are talked about as an abstraction or a federal agency— but it is also true that most people like actual humanities programs. And it is indisputable that all people, all Americans, face issues in their lives, public and private, that are the province of the humanities, that are made more understandable and less frightening by the humanities, issues that bind us together as human beings, across the boundaries of gender, race, ethnicity, profession, class, creed, and locality.

The NEH has been charged, among other things, with being elitist, but exactly the opposite is true. The NEH and its state affiliates exist to spread the good news of the humanities to every American, not just to the cultural elite, the academy, the wealthy, or those who live in urban places. The public humanities in America take seriously the idea of cultural equality and cultural responsibility: that to be complete citizens each of us needs to know something about the founding principles and documents of American life, that we need to examine our history dispassionately, know both our triumphs and failures as a people, explore the glorious achievement of America and also the costs of the success of America.

The humanities are not a taxpayer-subsidized luxury for the wealthy and the cultural elite. Under the unobtrusive leadership of the NEH and its state affiliates, the humanities have been

made available to every American who owns a television set, a radio, lives near a public library or museum, a community college or a even a public school. Programs that no single community can afford to create or support are disseminated throughout the United States by the network supported by the NEH and its affiliates.

I have seen 450 people turn up for a humanities program in Epping, North Dakota, the population of which is only 125. The people who file into the Chautauqua tents in Kansas and Nevada, California and Oregon are not the sort most comfortable in black ties and country clubs. They come in all the Whitmanesque costumes of America: overalls and business suits, summer dresses and sweat pants, starched shirts and shirts with embroidered name tags.

Once we took our humanities Chautauqua tent to Saratoga, Wyoming, for five days. It was a Chautauqua which examined the opening of the American West to European/American settlement. A thirty-five year old woman, wife, and mother of three children, after seeing the first day's activities, made a two-loaf stack of sandwiches, placed them in neat piles in her refrigerator, and stuck a note to her family on the refrigerator door, saying, "You're on your own. I'm going to Chautauqua. See you at the end of the week." She attended every lecture, every workshop, every informal discussion, every field trip, and every historical impersonation. This, so far as I know, is the only way in which the public humanities have been corrosive of family values. Her children and husband in fact endured, and she became a steady friend to humanities programs in Wyoming.

TWO:

Thomas Jefferson believed that democracy is an exceedingly risky form of government and that it can succeed only if certain conditions are met, the most important of which is that the citizenry must be enlightened. Mr. Jefferson had a rather exacting idea of an enlightened citizenry. He envisioned a nation of sturdy family farmers who worked hard by day and read Homer in the original Greek by night. He himself knew seven languages, played several musical instruments, read, at least as a young man, approximately eight hours per day, and distinguished himself in the fields of architecture, ethnology, paleontology, viticulture, scientific agriculture, library classification, and many others. He was also a not inconsiderable inventor. The reading regimen he outlined for young men who sought his educational supervision was daunting even by

eighteenth century standards. Jefferson wrote, "If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be."

The public humanities are a delightful monument to the vision of Thomas Jefferson. If Chautauqua is, as Theodore Roosevelt said, the most American place in America, the NEH and its affiliates are the most Jeffersonian activity of the government of the United States. For Jefferson the life of the mind is not cultural frosting on the mundane cake of American life, but the very basis for good citizenship, the maintenance of liberty, and the pursuit of happiness. That marvelously idealistic and elusive phrase—the pursuit of happiness—is alone proof that Jefferson wanted us to be a civilization and not merely an economy, what he called an "empire for liberty" and a "republic of letters," not merely another nation-state. Jefferson's vision for America is unambiguous—the statesman who sought to reduce our military establishment to what he called "a militia only til actual invasion," counted as one of his three greatest achievements not the Presidency, but the founding of a publicly-supported university in Virginia.

We are in 1995 a thoroughly Hamiltonian nation with a thin Jeffersonian veneer. We spend our time getting and spending rather than reading, reflecting, and engaging in community. At a time when our most urgent national concerns are crime, violence, abuse, drugs, the failure of individual responsibility, and the erosion of our common identity as Americans, it makes no sense to disassemble one of the few truly Jeffersonian agencies of our national life. We urgently need to reinvigorate the arts of civilization—especially the humanities—in our schools, colleges, sporting events, recreations, prisons, work spaces, churches, media, and our public life.

The humanities not obvious or palpable like bridges and space stations and battle ships, but they are, by Mr. Jefferson's calculation, critical to American civilization, and I wish we funded them at ten times their present level, even in a time of dangerous deficits. This may be unrealistic, but surely it is a mistake to reduce their modest appropriation at a time when we seem to be coming apart at the seams and nobody—from either party—seems to know quite how to put us back together again.

It is not that the humanities can alone restore civility to American life, but they play an important role in that process and they have an impact that extends far beyond their meager

funding and institutional base. It is not that the humanities can save us from our fragmentation, violence, and despair, but they play an important role in that process and like a barometer they measure the mental health of our civilization. If more of us gave some of our energy to books, careful discussion, reflection, and the examination of “man’s nature, the purposes for which we are born, and whereunto we travel,” we would surely be a more peaceful, more civil, and more happy nation.

THREE:

Critics of the NEH are under two misapprehensions about the nature of the intellectual exchange that occurs in a public humanities program. It is sometimes said that the humanities have to be watered down into a thin gruel to be palatable to the American people. And it is sometimes argued that the existence of the NEH and its affiliates puts the United States government in the role of sponsoring an official American culture. My experience teaches me that both of these perceptions are erroneous. The American people are intelligent, sensible, and hungry for the humanities. More than 200,000 citizens of the Great Plains have seen the humanities Chautauqua. I recently lectured about Jefferson before an audience of 3200 Californians. Humanities scholars do not simplify their ideas when they meet the American public, but they are continuously challenged to eliminate jargon from their lectures, to speak as clearly and concisely as possible, and to explain difficult ideas in ways that citizens untrained in the professional humanities disciplines can understand. In other words, humanities programs challenge scholars to be lucid, respectful, and clear-headed—the historic values of humanism. Public humanities programs clarify and distill scholarly research. Indeed, humanities programs have the ability to reclaim many humanities scholars from the verbal excesses that have come to characterize some of the post-structuralist humanities disciplines. Scholars do not water down their ideas in public programs. They rise to new levels of clarity and communication. This is especially important in a democratic culture.

Nor does the NEH control cultural discourse in America. With its modest budget and its unobtrusive presence in American intellectual life, the NEH serves as an invitation to public discussion of the humanities on a breathtaking range of ideas and issues. The only control that the NEH exerts on this dialogue is that it be even-handed, non-partisan, open-minded, and that it keep a steady focus on the humanities. To demand less would be irresponsible use of taxpayers’ money. To demand more would be to violate the sacred code of the humanities, that our odysseys

of the mind should be as free as possible within the broad boundaries of respect and good sense. In all of the hundreds of humanities programs I have conducted, no officer of the NEH, no staff member of a state humanities council has ever told me what to say or what not to say. The NEH and its state affiliates merely set the table: the feast of the humanities belongs to the people and the humanities scholars who come to break bread with them.

One of my favorite moments with the humanities occurred up on the Canadian border in North Dakota when I led a discussion of the award-winning film *Northern Lights*, funded by the North Dakota Humanities Council. *Northern Lights* is a film about the struggle of pioneer Dakota farmers to control their own economic destiny in the period before World War I. The discussion took place in the senior citizens center in a little village called Wild Rose, North Dakota. It was a cold clear night. About one hundred of us viewed the black and white feature film and ate dinner together: hot dishes, shredded beef, scalloped potatoes, a variety of jello salads, green beans, cookies, bars, followed by sharp black coffee from a huge aluminum urn and rich chocolate cake with a quarter inch of smooth pink frosting. Then we shared one of the most satisfying public discussions I have ever witnessed. We talked about pioneer life, Thomas Jefferson's agrarian dream, the economics of farming before and after mechanization, the pastoral myth of American life, the character of Norwegian pioneers, the strengths and weaknesses of the film, the uses and abuses of drink in Dakota history, the balance of love and politics in a complete life, and the future of agriculture. Men and women who had seen all or most of North Dakota history talked about ideas in heavy Norwegian accents. There were many laughs and some tears. It was the kind of discussion that can only come about in response to a cultural artifact, a text, in this case a film. We were coming to terms with our common history in a disciplined and life-affirming way. When it was over we were all a little embarrassed and ready to go home. It was a town so small that it did not have a motel. Before I drove away to a warm bed forty miles away I walked alone the whole length of the main street of Wild Rose. In fact, I walked out north of town and up a prairie hill. The night was crisp and very cold. When I looked back I could see the yellow lights of the main street, a few cars clustered around the bar, and houses with windows still illuminated. In the other direction was the vast prairie extending north towards Canada—with a farm here and there in the distance. Above me were a thousand million stars glittering in the firmament. It was one of the best nights I ever spent. The film had insinuated its way into the souls of the prosperous farmers of the 1970s in North Dakota. The discussion had penetrated beneath the veneer of

cautious politeness that is the North Dakota style. The people of Wild Rose taught me a new way to think about the heritage of my state—the words pioneer and farmer meant something richer and more significant to me thereafter. Although an observer would have said that it was the citizens of that modest town who were grateful for my presence and the existence of the public humanities that night, I was the primary beneficiary. I'll not forget that discussion—or that chocolate cake. The program cost about \$250 of taxpayer money. This much we can afford.

FOUR:

Many Americans who do not know or support the mission of the NEH have been enlightened by humanities programs: they have been moved to exhilaration and tears by Ken Burns' *Civil War* film series; they have purchased or borrowed volumes from the *Library of America* project (Benjamin Franklin, Willa Cather, Herman Melville) or from the University of Nebraska's definitive edition of the journals of Lewis and Clark; or they have participated in book discussions at their local libraries, or enjoyed NEH-funded exhibits at national, state, or local museums, or listened to cowboy poetry gatherings in Elko, Nevada, or Medora, North Dakota. The NEH's presence in American life has been understated—just what one would expect of the humanities—but the fact is that in one form or another the work of the NEH has become virtually a household presence if not a household name in America, and most Americans would be sorry to see disappear the NEH-funded programs that have appealed to their intellect and imaginations.

The humanities will not go away if the NEH declines, but they will be less well coordinated, less efficient, less interesting, and I think less excellent. If the NEH ceased to exist the humanities would be impoverished spiritually throughout the United States and bankrupted financially in many districts, particularly in rural America where citizens have more interest in than access to cultural events. It is very important to remember that some of the best humanities programs have occurred far from centers of population and power. People who live in densely populated areas will always have some access to the humanities, but in rural America—in Minden, Nebraska, in Salida, Colorado, in Post Falls, Idaho, or Fallon, Nevada (all places that have changed my life), the publicly-funded humanities are often the only show in town. Every American would feel the loss of NEH programming, but the real victim of diminished support for the humanities would be the heartland, rural America.

If the network of the NEH disappears and the humanities are forced to pay their own way in the open market—a condition that has never occurred in the history of western civilization—not in Pericles' Athens, not in Papal Rome, not in the Florence of the Medicis, not in Shakespeare's London, not in Emerson's Boston or Concord or in Sandberg's Chicago, and certainly not in Ely, Nevada; Marmarth, North Dakota; or Sharon Springs, Kansas; or Logan, West Virginia—the humanities and the arts will cease to be the birthright of all Americans and will become again the luxury of the privileged. Without public funding they will go the way of Aspen and Telluride and Santa Fe— beautiful but essentially off limits to average Americans. C.P. Snow decried the gulf between the sciences and the humanities—that problem continues to plague the West and it is a continued focus of the humanities. But the danger in our time is that in the absence of national encouragement the humanities will retreat to the groves of the academy and the great mass of our citizens will have no choice but to settle for MTV rather than NPR, the Simpsons rather than Joseph Campbell, miniseries written by John Jakes rather than the brilliant documentaries of Ken Burns, and Hollywood's simplistic slave-raping caricature of Thomas Jefferson rather than the more complex and elusive Jefferson of actual history.

In their present form the NEH and its affiliates are a kind of pilot lamp for the humanities in American life. They are not themselves the humanities, but they have in thirty years created a modest flame that is poised to flare up into illumination whenever earnest citizens breathe forth their curiosity and enthusiasm at the mysteries of the human heart and the perplexities of our common past. Not everyone at any given moment wishes to turn up the heat on our cultural heritage, but so long as you (meaning we) continue to provide modest funding for the humanities in both their national and state arenas, we need not flail blindly in the dark.

I want to close by pointing to just one humanities text. When the aging King Lear is challenged by his evil daughters to explain why he needs even one bodyguard in his regal retirement, he cries out:

Oh Reason not the need. Our basest beggars
 Are in the poorest thing superfluous.
 Allow not nature more than nature needs,
 Man's life is cheap as beasts.

In other words, need is not the measure of human dignity. Surely we can “get by” with fewer cars, television sets, football teams, lobster dinners, books, vacations to Florida, and fewer arts and humanities programs. All we need is a few hundred calories per day and some minimal shelter to survive. But the measure of humankind, says the Renaissance Lear, is to be found in its celebration of the “superfluous,” the extravagance of spirit that lifts us above the reach of mere animals. It is what we do, what we create, and what we accumulate beyond mere need that makes humankind what Shakespeare calls “the beauty of the earth, the paragon of animals.” Those energies which transcend the merely utilitarian are what define us as fully human—a civilization. We do not need public support for the humanities any more than we need a Lincoln memorial or a national art gallery or a Library of Congress. But the wealthiest nation in the history of the world, a nation in which we spend \$5000 per capita every year on automobiles, \$7.50 every time we attend a movie, and \$140 every time we purchase a new pair of tennis shoes, can afford, if it believes in the Jeffersonian imperative, 68 cents per person per year on the humanities. I urge you not to cut but greatly to increase taxpayer spending on the humanities. Why? O reason not the need!

Thank you for your time.

Mr. REGULA. Thank you.

I want to say all of you have been very powerful advocates. I regret that the entire membership of the House has not been privy to this panel this morning.

I also want to thank you for some super quotes that I'm going to put in my speech file. [Laughter.]

What comes across to me is that the education dimension of these programs is very vital, that the support for institutions—i.e., opera, symphony, libraries—is very important, that partnership is an effective impact of the Endowments in that it generates the local support. Perhaps it could be structured on a matching fund basis, because we've had a trend in that direction in Government. You also point out the importance of outreach to the small communities across the Nation, both from a personal standpoint, as has been described, as well as from the impact of the media such as television and radio.

Mr. Yates, I yield to you for questions.

Mr. YATES. Thank you very much.

I must tell you, Mr. Chairman, that's one of the few times upon hearing witnesses I am moved to applaud and I'm going to applaud them right now. [Laughter and applause.]

I just felt like applauding at the end of each of your testimonies. It was just wonderful, and I congratulate myself for anything I had to do with bringing you here. [Laughter.]

Mr. YATES.

I just want to say that I have two witnesses, Mr. Chairman. I have two or three additional witnesses that I wanted to put into the record. One of them is the Commission on the Humanities that recommended the creation of the National Endowment of the Humanities. This is what they said in their report:

"Democracy demands wisdom of the average man. Without the exercise of wisdom, free institutions and personal liberty are inevitably imperiled. To know the best that has been thought and said in former times can make us wiser than we otherwise would be, and in this respect the humanities are not merely our, but the world's best hope. World leadership of the kind which has come to the United States cannot rest solely upon superior force, vast wealth, or predominant technology. Only the elevation of its goals and the excellence of its conduct entitle one nation to ask others to follow its lead. Upon the humanities depend the national ethic and morality; the national aesthetic and beauty, or lack of it; the national use of our environment, and our material accomplishments."

The goals sound as appropriate—that's the end of the quote. The goals sound as appropriate for the 1990's as they did when they were first written 25 years ago. I wanted that to go into the record.

And now this is a conversation with Lynne Cheney which took place in January/February 1990, which was a milestone, the 25th anniversary of the Endowments, and this was a question that was asked of Mrs. Cheney, and I will read her answers.

"You have been asked this question before, but an anniversary may be time to ask again. Why should there be an NEH? What difference, if any, can and should public funding of the humanities make in the next decade or in the next century?"

And Mrs. Cheney answered, "Public funding of the humanities is symbolically important, first of all. It represents a commitment to what Edith Hamilton called the imponderables—beauty, thought, imagination—qualities that add grace and dignity to our national life. I'm convinced that public funding of the humanities has helped bring about a burgeoning interest in them on the part of the public as a whole. That interest has blossomed during the time that NEH and the State councils have been in existence, and I believe that projects we have made possible are part of the reason."

That's a very good statement.

I have one other witness, and the older ones among us will remember him, General James Gavin. Remember General Gavin, one of the heroes of World War II. He came before our committee to testify on behalf of the humanities. This is how he began:

"I am James M. Gavin, soldier, retired, former Ambassador to France, and until recently, chairman of the board of Arthur H. Little, Incorporated. Perhaps I should add background to why I am here.

"I grew up as an orphan in a foster family in Pennsylvania in a small town. My father was a coal miner. As early as I can remember, I worked before school and after school. We had no library in the town. The only way I could get books was to take them out of the bookstore and get them back before they caught me once in a while, which I did. I read every book I could get my hands on. When I got through the eighth grade, I was put on full-time work and that was the end of my education.

"I decided to leave. I wanted to get an education. I joined the Army and there I went to a post where they had a library. I read books continuously. After about six months there, they gave me an opportunity to go to West Point if I could pass the entrance examinations. I passed. I have been reading books and going to libraries every since and writing books as well."

The reason I cited General Gavin was that I had remembered of the difficulties of his childhood and his overwhelming dedication to books as a source of making him the kind of a person that he wanted to be. He was one of the great people, I believe, not only of the war, but, subsequently, of our community.

What questions do I have? I think they've answered everything.

I am moved again to remember the name that was given to our Olympic team in—basketball team in the last Olympics. It was called the "Dream Team." And I want to say that the people who are here today testifying are a Dream Team. Their testimony in total is one of the jewels of testimony that has occurred. As the chairman said, I only wish that our Members all could have heard this testimony on the importance just these two agencies can give to our country, have given and can give to our country.

There is a threat that the agencies will be abolished. I think that even those who are the most ardent advocates of their abolition would come away from this testimony with a changed mind. I think the testimony was that impressive.

Thank you, Mr. Chairman.

Mr. REGULA. Thank you.

I couldn't help but be reminded, when you were mentioning the libraries, I am not in the class with General Gavin, but I grew up

on a farm out in a very rural community, and my window to the world was the traveling library. I always loved to see it come once a week to our little school.

Mr. YATES. If you'll yield—

Mr. REGULA. Yes.

Mr. YATES. One of the glories of our committee was mentioned by Mr. McCullough, and that was when we took the initiative to try to quench the slow fires—the slow fires, the name given to this plague that is consuming a third of all the books in this country because of the bad paper used in the books, paper that was made out of the pulp of trees and just published because it was the least cost. And those books are now in the process of deteriorating.

That was called to our attention on this committee. We initiated an appropriation for the humanities. We called together representatives of the humanities and I forget how many of the libraries in the country—from Harvard, from the University of Chicago, from Yale, from Brown, from so many of the universities, and we formed—and there was formed, not we, but there was formed a union of effort that proposed to save over the course of 20 years as many of the so-called great books as could be saved. That is still going on. That is the result of something—and I think you and I and the remainder of our subcommittee, Ralph, can be very proud of what we did in that respect.

Mr. REGULA. Thank you.

Mr. Taylor?

Mr. TAYLOR. Well, I'm impressed by this panel also. We have here significant business leadership, as well as historians and geniuses. Mr. Houghton is not only a successful business person, he's a knowledgeable member of this Congress, as well as a contributor to the arts and a patron of the arts, and I respect what he had to say.

I would say to Mr. McCullough, as I did outside, the British didn't burn the entire Library. They took a few volumes with them. Two years ago the Queen returned those to the Library of Congress. We're still computing the overdue charges. [Laughter.]

And the comment about charging for the Capitol, as a member of the Oversight Committee on the Legislative Branch, I would never vote for that. The public pays a high premium already, and I think it's certainly the People's House: it should never have a greater cost than it already has had.

And if we begin to bring our respect for poets to the same level of our respect for our leading politicians, I'm not certain that poetry could withstand the fall. [Laughter.]

Mr. SKEEN. They don't even want to be compared. [Laughter.]

Mr. TAYLOR. No. Even today, as a Member of Congress, I'm desperately trying to write poetry, even with the hope that it might raise my esteem even among my loved ones, if no one else. [Laughter.]

I think Mr. Burns' work on the Civil War was brilliant and, of course, his work on baseball, if this season remains as vacant as it looks, it be may be the last favorable history the Nation has of that sport. [Laughter.]

I would put two questions to you. We are doing much for the arts inside the budget, even without funding or speaking to the funding

for NEA or NEH. We have a Department of Education that we pour hundreds of millions into. We support the Library of Congress through another subcommittee on which I sit, and its budget is being challenged also. We have in this committee the National Gallery, the Kennedy Center, many other areas in arts and the humanities that we support, not just the two areas of the NEA and NEH. So I would not want to give the misconception that, whatever happens to these two programs, would totally end congressional interest and support in the arts or in the humanities.

The questions I would put, one would be—and I'll give all three and then, Mr. Chairman, during my time if anyone chooses to respond—there was a suggestion made by Mr. Houghton, and I think it's a good suggestion. I think to boil his comments down on the frustrations of the public about the arts, for instance, there are people who are looking for cuts because we have that challenge. We are several hundreds of billions of dollars out of balance each year, and we cannot continue that or we will have—it will be devastating for this country, which is a leader in the world.

And the second is, of course—and I think there are people who feel that perhaps this is a lower priority that the Federal Government should take, but whatever they're thinking, they're looking genuinely for ways to reduce the budget. Also, there are people who have been offended by the pornographic nature, as he points out. They feel that those funds have been misused, and in a time of austere measures it's where we attack.

So if the arts or the NEA has a chance of survival, those two areas need to be addressed. Cutting, of course, is a matter of how much can be cut without destroying it.

The second, of course, is his suggestion about an overview group. Establish a committee to monitor the NEA, and I'd like to ask, would that, do you think, be useful or would it be suffocating?

A second question would be in selecting priorities. We think of it in our situation. We have to determine a variety of priorities. For instance, the question of additional hospital beds in an Indian hospital will cost a certain amount of money. Do we consider funding that and dropping the arts or dropping that and funding the arts?

And the third question would be, we seem to do well in block fundings or we seem to do well in going after major projects, whether Congress does it or it's done privately. It's when we get into the bureaucracy that we run into problems.

Could we, for instance, without having the organization structure of the NEH and the NEA, still continue to support with particular appropriations from this committee in block form?

I would put out those three questions, Mr. Chairman, and just invite any sort of comment during my time.

Mr. REGULA. Why don't each of you take one of the three, because of our time constraints? Amo, would you like to take one?

Mr. HOUGHTON. Sure. Well, very quickly—I mean, if you're going to cut, you go where the big money is. This is not the big money.

Also, when you take a look at arts, just from strictly an economic standpoint, the return on investment in terms of the totality is greater than anything I know in which the Government is involved.

As far as block grants, I think it's a lousy idea, and the reason I think it's a lousy idea is because it's been tried before. What hap-

pens is the NEA will block it out, let's say, to New York State, and then New York State will be very appreciative, and then they will cut off that portion of the New York State Council of the Arts, use it for something else, cut it out, and then nothing in addition has been added. All has been detracted.

Mr. REGULA. Anyone else want to comment—Mr. McCullough?

Mr. MCCULLOUGH. Well, I was just going to say that I've never been the recipient of an NEA or NEH grant. I've never applied for an NEH or an NEA grant. I've been a recipient indirectly as somebody working on television productions which have been in part funded by the NEH. Ken Burns would be a much more better person to answer your question about an overview board.

I think one of the misunderstandings has been often that the National Endowment controls the content of the productions it funds, which of course it doesn't control the content.

I cannot overemphasize the importance of NEH grants for raising public/private money. I have never been involved in raising money until the last five years, and if somebody had said to me, "Would you like to do that," I would have said, no, I don't think that's my line. It's wonderful work, and we've raised millions of dollars in the city of Pittsburgh without ever asking for money, but by projecting what it is we want to do, by letting people understand what this project will mean to the city of Pittsburgh, both financially and in its own sense of identity and culture.

To take away the mettle that the NEH pins on a project by its endorsement is to take away a key to far greater money than is ever given by the NEH. You are going to cut back on private, corporate, and foundation funding of projects because they won't have that sense that this has been approved by the NEH and there they submit all proposals, all projects, to an extremely rigorous examination. For anyone who's raising money, the elimination of this kind of endorsement is bad, bad news.

Mr. REGULA. I'd like to hear from the rest of you on the questions of Mr. Taylor, but, in fairness, I'd like to give Mr. Skeen a chance to ask his questions and then we'll come back to the earlier questions.

Mr. SKEEN. Thank you, Mr. Chairman, and thanks to you all for a great presentation. I don't think I've ever heard one done any better or by a better group of people that should know.

Isn't it ironic that we're sitting here today discussing whether or not we should put any money in NEA or NEH when what brought it into focus was one piece of work by Mr. Maplethorpe, because prior to that time I don't think that one out of ten persons could have told you what NEH or NEA does or did? I didn't know. We got into this argument and, thanks to my mentor down there, Mr. Yates, I came to appreciate the arts, and then I got to thinking about my own life.

Where do I live? I live in New Mexico. How much money is spent taking care of petroglyphs, artifacts? Where are they? Where do they go, the pots of the members' groups? They are worth millions of dollars to individuals who will buy them. There is an established black market in those kinds of artifacts because people love to collect them. It's who we are, the art that we leave behind, the drawings that we left behind. We go to all lengths, public/private fund-

ing, whatever, to gather them, to collect them, to hold them. We have an institution in the United States that says we'll gather them, collect them, hold them, and you come and look at them, because it's who we are. It's what you are.

What has that uncouth State done and produced in the way of arts and artists? A hell of a bunch. Georgia O'Keefe, Pete Herd, many, many more, but I think that since we have some of their work hung in the committee room over there, it always reminds me. They're my neighbors. Pete Herd lived right down the river from me. Of course, it was about 20 miles, but that's about as close as we want neighbors. [Laughter.]

But I have to tell you this: we have a job here to say what we are doing with public funding because public funding is crucial. But I say that, on the other hand, what have we done with public funding? What was the purpose, what was the function of what we used it for?

It's fun to come in here and say we can cut that out because I don't give a damn about it. It doesn't have any bearing on me. "I'm defense-oriented. I'm going to put it all in defense" or I'm going to put it all in this or put it all in public health and welfare, and so forth. But any civilization that loses its touch with its culture and the things that you leave behind—because we ain't here forever—but those things which you leave behind are the arts, the sciences, and some of these things that have proved that we are above what is known as just an animal base. We have the right to select and to reason, and knowledge, and we do it, and we do it doggoned well.

Mr. YATES. Well said, Joe.

Mr. SKEEN. Well, this really kind of comes from the heart because, after all, you get to thinking about, well, what is it we're doing? What is it that marks us as a great nation? What I think make us a great nation is the fact we take some of the most humble, sketchy drawings, acts, writings, and now we've got a great technology, films, CDs—we're going to leave for posterity some of the finest pieces of work ever imagined, such as yours, Mr. Burns, without any doubt.

So I just want to say, yes, we'll watch the exchequer, but let's not forget that it does have a way, a place in funding some of these works because, after all, that's what we're doing, is we're leaving this to somebody else. We love our kids. We love our grandkids. I think the greatest thing you could leave is some of the culture, and I'd like to think that that's the one common denominator that we can all agree on. We disagree enough up here, but we ought to take a look once in a while just what do we agree on? Put a little money in the arts.

I don't agree with Mr. Maplethorpe's art. I didn't like it, but I'd say one thing about it: he sure has brought a focus on what's happening at NEH and NEA. [Laughter.]

Mr. MCCULLOUGH. Well, if I may, Mr. Congressman, I'd like to say that I think this whole examination has been good for all of us who are in the arts and publishing and history, the humanities, because we're being asked to stand inspection, and that's healthy. I think the Government's backing of these programs is also a reflection on what kind of Government we have, and you will set an

example by how you spend the money that we have. Do we want to be a country that rushes to appropriate \$10 billion for prisons and gets down to the minute appropriation that this represents and say, "Oh, no, here we've got to cut this out; what good does this do?"

One of my great heroes is Theodore Roosevelt, and Roosevelt loved the poetry of Edwin Arlington Robinson. When Theodore Roosevelt was President, he heard that Robinson was on hard times, that he could hardly feed himself, pay his bills. So he arranged for him to have a job in the Treasury, and after Mr. Robinson was employed at the Treasury, the President of the United States sent him a note which said, "Think poetry first; Treasury second." [Laughter.]

That's Government support of the arts. [Laughter.]

And that's the kind of person Theodore Roosevelt was and the kind of outlook and attitude and sense of values that he wanted to project to the country as he best could in his time as President. And the Congress does the same thing. We're going to take our signals from all of you. What matters to you?

Mr. SKEEN. Correct. Let me make one more statement and then I'll get out of your way, Mr. Chairman.

I have to remember about public funding for the arts. I grew up in the Depression. And one of my first jobs was hauling water to people who were building rock fences, which was make-do work around some of our cities. Mine was my birth place, Rosswell, New Mexico. They were right across the street, and it was a heck of a deal there. I could take a little water over and I'd get a quarter or something for a bucket—private enterprise.

That same group—that same organization that was funding rock fences was at the same time funding some work for Peter Herd and some cartoons that he did on a mural-sized wall. He later became one of the world's most renowned artists. And I said that it was money well spent, and I think it proves once again we here do have a role because if we don't develop those kinds of people or give them an opportunity or help them out, who else is going to do it? The private sector doesn't know them. The private sector wants you after you've arrived. Then we'll buy it and we'll pay any amount to get it.

I've got a friend who's passed on now, served in the legislature with me in New Mexico. He could draw horses better than anybody I ever saw. We encouraged him to paint and he supported himself, and he said, "You know, I would have been just a bum cowboy if somebody hadn't give me an opportunity to develop my talent." He was making a heck of a lot more than he would as a cowboy, I can tell you.

I'm through. Thank you all.

Mr. REGULA. Safer, too.

Mr. Franke.

Mr. FRANKE. I would like to put in perspective another view of this. We have been talking about the support of the arts and the humanities, and, in effect, being a supplicant and saying, "Would you please see that some money is given to them?" But let's see what the arts do. Think about this for a while.

The number that I hear is that the arts and humanities projects throughout the country probably generate something like \$30 billion of activity that takes place in this country because they are there. The arts provide employment, carpenters, actors, ticket companies, lighting companies, to see that arts and projects get off the ground.

If the two Endowments—and just putting this into some kind of economic perspective—are being funded in the amount of—what?—\$170 million apiece, something like that, and the museums amount to what, \$25 million—

Mr. REGULA. About thirty.

Mr. FRANKE. Yes. So this is less than \$500 million. We can't balance the budget on this amount. And I think, as I listen to you talk, there's no intention to do these—to do away with these. But this is such high leverage investment. We're really investing in the country and we're investing in the best aspects of what this country is about. The amount of money being invested is not very much at all for the leverage we get out of that investment in just the economic aspect of what takes place, creating jobs. You create people who have income, who pay income taxes, who buy food, who do all the other things that are necessary to make the cycle of economic activity much better in this country.

So I just encourage you, again, to put this in a proper perspective, which is this is money well spent.

Mr. YATES. Mr. Chairman?

Mr. REGULA. Yes?

Mr. YATES. One of our former witnesses years ago, 1982, was Mr. Howard Johnson who is the president of MIT. And in that connection Mr. Franke just talked about, I remember having read his testimony and he said this. It was in 1975.

"It can be demonstrated over and over in many institutions across the country. The principle is demonstrated by the recent building program of the Boston Museum of Fine Arts. It was begun in 1975 and was initiated only after a \$2 million challenge grant, in this case from NEA. This NEA award was crucial to the success of the museum's drive. Out of that initial \$2 million challenge grant, in fact, that drive has now raised \$21.5 million for the project. The arts museum function in New England, as a result, has been greatly strengthened for the next generation. All of this activity, quite naturally, has further beneficial economic impact. In New England, which is the region I know best, there are nearly 3,000 cultural organizations and 20,000 artists. This aggregation of cultural activity, according to the latest available data, provides 43,000 full- and part-time jobs to New England residents and generates in salaries, purchases, and related expenditures well over half a billion dollars for New England's economy as a whole.

Mr. REGULA. Mr. Burns, would you like to comment on Mr. Taylor's questions—

Mr. BURNS. Yes.

Mr. REGULA [continuing]. Or any of the statements here?

Mr. BURNS. It is unfortunate that a single incident like the Maplethorpe or some of the other examples have come to define not only the public's awareness of the humanities, but how we structure it. These are, in fact, instances that are so rare in terms of

the progress of these Endowments. I have been involved since, I think, 1977 making applications with the National Endowment for the Humanities and Arts. The process is so rigorous, the oversight that exists right now so complete, that I'm not sure what else we could do, what kind of window dressing this would be.

I think, inevitably, in any large process we will see this. As Mr. McCullough said, the Tailhook Scandal is not a cause to throw out the entire United States Navy. When we discover a contractor's charging \$750 for a hammer, we do not question the very existence of the Defense Department; we look for ways to end that.

I think that, inevitably, we will find bits and pieces of art and humanities scholarship that seems to run counter to what is acceptable. As you said, we may not like the work. But, particularly in a free society, we can't even react in a knee-jerk fashion to that. We want to have an explosion of ideas in our Republic. We want to be sponsoring lots of things, and, quite often, these are uncomfortable things. You remember Stravinsky's Rite of Spring, the armory show.

The history of art in the world has always been that art is in the vanguard and ahead. I think the processes and the oversights of the Endowment are really just fine. In fact, they're so rigorous, and one of the reasons I get the support from the few charitable trusts, the Arthur Vining Davis Foundations, the John D. and Kathryn T. McArthur Foundation, and, indeed, General Motors and the other corporate sponsors, is that they know the hoops that I have jumped through for the National Endowment for the Humanities. They can read the 400-page proposal that I wrote for the baseball film project. This is after the success of the Civil War, when one might have thought that I might be able to walk in there and get whatever I wanted. No, I needed to prove my case time-in and time-out. And we attempt to do that.

It is absolutely a fact that we try to design the same sort of external pressures when we don't have the Endowments to fund because they make our projects better, and that's a wonderful thing.

And as to priorities, I hope that it would not be a "Sophie's Choice," that it would come down to, as the Congressman from New York said, choosing between a hospital bed and the National Endowment for the Arts. I think there are many other big ticket items where we can do the kind of shaving. I believe this is money so efficiently and well spent, generating, as has been said, so many hundreds of thousand times their value in the community and appealing, as you said, Mr. Skeen, to the spirit of the Nation. You are mostly in the business, unfortunately, in this day and age of saying no. That's what it's come down to. And I think what we see in the Endowments and the humanities is an opportunity to say, with a resounding voice, yes to something.

Mr. REGULA. Mr. Jenkinson?

Mr. JENKINSON. I just want to talk for a moment about the block grant idea or the cost-sharing idea. I would be really concerned about this for one very important reason. I think, historically, there's a lot of talk now about the Tenth Amendment, and so on, but, historically, the country has been strongest when there is a really interesting balance between national and State and local sovereignties. I think block grants given to the States with or with-

out conditions would destroy something that's really interesting about the structure of the National Endowment for the Humanities, and I know the Arts, too.

I'll take Chautauqua as an example because I know it very well. When Chautauqua began in the States and the National Endowment for the Humanities was deeply skeptical of this as a humanities idea, and because of that, it insisted again and again on more scholarship, more background, more rigorous application processes to prove that this was a legitimate use of the humanities.

The NEH would probably never have created something like Chautauqua, and so the States took the lead there by applying the general principles of the National Endowment for the Humanities at a State and local level. So each entity improves the other. The States improve the NEH, and the NEH improves that States. So you get something better than would be the case if you had a purely national agency or purely decentralized system.

And, furthermore, there are some projects which are truly national in scope: the Civil War Series, the Library of America. It's hard to imagine a State or even a consortium of States producing something so expensive and so extraordinary. And so it seems to me that the Federal balance has been perfectly met in the NEH. I'm sure the States would like a slightly larger piece of the pie, but I think at the moment it's very well done.

And, finally, it seems to me that the problem of decentralization in block grants would be that the rural States would be the big losers. Connecticut would probably do quite well under such a system; New Mexico, less well; North Dakota, less well still.

I think that there are many States where the same budget constraints apply, and there would be a temptation to forego the humanities without that wonderful modest encouragement of the national initiative under the NEA and NEH. So I think block grants are an idea to think about, but, on the whole, a dangerous one for the strength of the humanities.

Mr. REGULA. Well, I want to thank all the panel members. You've done a superb job, and I have to reiterate that I wish every Member could have heard your testimony this morning. I think you put it all in focus as to what the potential is.

Mr. YATES. Mr. Chairman, one thing came out. I wonder whether Mr. Taylor is going to apply for a grant from NEA for poetry. [Laughter.]

Mr. TAYLOR. You shouldn't criticize things you do not understand. [Laughter.]

Mr. REGULA. We've certainly had some marvelous quotes here this morning. [Laughter.]

But I think David Osborne in the recent article in *The Post* with advice to the President said that what he thought was that people voted not to abolish Government, but to make it more effective and more efficient. I think probably that might summarize much of what you're saying this morning. Let's not abolish it, but let's make it more responsive to the people and recognize their interests and concerns and the value this has as part of our Nation's cultural heritage.

Mr. HOUGHTON. Could I just say something?

Mr. REGULA. You've got the last word, Amo.

Mr. HOUGHTON. I want to thank you, Mr. Chairman, and my friend, Charlie Taylor, and Sid Yates. You've been good to listen to us.

I mean, forgetting about me, you've heard the soul of this country this morning and it's very encouraging. Thank you.

Mr. REGULA. Well, thank you all again.

[Applause.]

The hearing is adjourned.

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