

NOMINATION OF LAURA D'ANDREA TYSON

Y 4. B 22/3: S. HRG. 103-62

Nomination of Laura D'Andrea Tyson, ...

ARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

NOMINATION OF LAURA D'ANDREA TYSON, CHAIRPERSON, COUNCIL OF ECONOMIC ADVISERS

JANUARY 21, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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NOMINATION OF LAURA D'ANDREA TYSON, CHAIRPERSON, COUNCIL OF ECONOMIC AD- VISERS

THURSDAY, JANUARY 21, 1993

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 9:55 a.m., in room 562 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

The CHAIRMAN. Let me call on Mr. Bennett, who has asked because of a very pressing matter that he is called on to attend, if he might make an initial comment. And I call on him for that purpose.

OPENING COMMENTS OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman. I appreciate your indulgence and your kindness.

Ms. Tyson, I have to leave immediately for another confirmation elsewhere, as I'm sure do some of the other Senators. I simply wanted to make a statement at the outset about how impressed I was with our conversation in my office and tell you my best wishes, unless some bombshell arises in this hearing that is called to my attention later, of my intention to support your confirmation and work closely with you, and wish you the very best.

Thank you, Mr. Chairman.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. Thank you, Senator Bennett.

I think today the practice I would like to follow is to make an opening comment with respect to our nominee and ask Senator D'Amato as Ranking Member to do likewise, and then proceed to the nominee and allow each member in their first period of recognition to have extra time should they need it to make additional opening comments that they wish to make at that time, in the interest of trying to move forward today. If there's no objection to that, that's the practice we'll follow this morning.

We are meeting, of course, to consider the nomination of Laura Tyson to chair the Council of Economic Advisers. I welcome her today warmly. This is a very important position in our Government.

In fact, no issue is more important to the future of our Nation than the careful and wise design and implementation of our na-

tional economic policies. It affects every person in our country. The Council has a critical job of providing the analysis that has to be the foundation for that economic strategy.

This nominee brings excellent qualifications, and I strongly support her nomination. In fact, I believe you will bring strong and fresh leadership at a critical time in our national history, and I am very encouraged by your appointment.

The seriousness of our current economic weakness, I think, is very clear. This nominee inherits problems not of her making and she must help guide our way as we undertake to improve our situation.

We have now gone 4 years without any per capita economic growth. Unemployment remains at 7.3 percent, which is $\frac{1}{2}$ a percentage point higher than where it was when the National Bureau of Economic Research told us that the recession had ended. And the number of Americans with jobs is still below the level it was before the recession began some $2\frac{1}{2}$ years ago. So in a job sense this is not a recovery, it's a long-term stagnation, and I think a sign of failed economic strategies.

Recent economic indicators have shown some slight improvement, but nothing that would indicate that the underlying trend lines are really now headed in the right way. Consumer debt is high and consumer savings rates are extremely low, so we can't expect to see a consumer led growth spurt here.

Debt levels of our corporations also remain very high. Commercial real estate markets remain dangerously overbuilt, as is well known by this committee. Weakening foreign economies are depressing U.S. exports. And, of course, defense spending is continuing to decline and jobs are vanishing in that sector. Real interest rates remain high, especially on long-term debt, and money growth has consistently fallen short of even the Fed's own low growth target.

Many of the major layoffs and plant closings announced by companies across the country have not yet actually taken place. And when that happens, the future unemployment rate is going to be driven up.

I would say over the longer term, the outlook is just as troubling. We are not adequately investing in the future. Net business investment over the past 4 years has fallen to about $1\frac{1}{2}$ percent of net domestic product, down by half from the levels that we saw in the 1960's and 1970's. What investment we have had is dependent heavily on foreign capital coming into this country. That has transformed us from the world's largest creditor to the world's largest debtor Nation. That has meant that many of the benefits of that foreign investment will now be sent overseas to its foreign owners.

We have also cut back sharply on public investment in infrastructure, and as a result our cities are in very serious difficulty, as are other areas of the country. And the condition of our schools where we develop human capital has also deteriorated markedly. On top of that, over the last 20 years, we have lost many of our high tech industries essential to our future growth and prosperity. So clearly, powerful new economic strategies are needed.

We need at the base 8 million new jobs in the private sector over the next 4 years. That's 2 million jobs a year, 165,000 roughly a

month on a linear basis, and that's an enormous job surge that has to be set in motion by our country.

I think our nominee understands this need and recognizes the vital importance of our strategic industries to our job base and to our national well-being. She has been willing to argue for tough positions on critical trade issues to ensure the survival of key industries in this country. Because she understands that our trade policy must be part of a coordinated and integrated national economic strategy, she also supports innovative and responsible fair trade policies to spur U.S. investment and growth here in this economy and job growth associated with it.

She brings superb credentials for the job. She graduated *summa cum laude* from Smith, received her Ph.D. from MIT, has taught at Princeton and at the Harvard Business School. She is now full professor at the University of California in Berkeley. She has written three books, edited five others, and authored more than 40 articles.

I have a number of letters of support for Professor Tyson from leading economists, including Nobel Prize winners Lawrence Klein of the University of Pennsylvania and Robert Solow of MIT, among others. And I would ask without objection that they be made part of the record.

We are delighted to have her here with us today. She is no stranger to this committee, having testified just last June before the Committee on Foreign Investment. And we look forward to hearing from her shortly.

Senator D'Amato.

OPENING COMMENTS OF SENATOR ALFONSE M. D'AMATO

Senator D'AMATO. Thank you very much, Mr. Chairman. I am going to ask that my statement be placed in the record so we can spend our time listening to the nominee.

The CHAIRMAN. Without objection, so ordered.

Senator D'AMATO. And have an opportunity to pose our questions.

The CHAIRMAN. Very good.

Ms. Tyson, it is our standard practice to ask you if you will stand now. I want to administer the oath, and then we will call on you for your comments.

We are delighted to have you. If I may now, let me invite you to present any members of your family that may be present and make your opening comment. Then we will go to additional comments from members of the committee.

TESTIMONY OF LAURA D'ANDREA TYSON, NOMINATED AS CHAIRPERSON OF THE COUNCIL OF ECONOMIC ADVISERS

Ms. TYSON. Thank you very much. I am honored to be here today before you, Chairman Riegle, Senator D'Amato, and the members of the committee.

I would like to thank Senator Dianne Feinstein for her opening introductory statement, which I have been handed.

The CHAIRMAN. We will make that a part of the record.

Let me invite you to pull that microphone just a little closer so you can be heard in the back of the room.

Ms. TYSON. I do have some family members here with me. I have my husband, Erik Tarloff, who is a gifted writer, and as many of you might know from reading the New York Times, also a very funny writer. My 9-year-old son was supposed to be here, but somehow or other I haven't succeeded in making economics quite interesting enough for him.

[Laughter.]

Ms. TYSON. He preferred actually to do his homework this morning, so he is doing his homework.

I did, however, bring my sister, Susan Lee, who came to spend the week with me during the inaugural activities.

Let me begin by thanking the members of the committee that I was able to meet with over the past 2 weeks. There were some very provocative and probing questions, very helpful comments, and I really look forward to working with all members of the committee in the coming years.

As I think the members of this committee will understand, the short term technical problems and the long term competitiveness problems that face our economic future are not simply theoretical or mathematical constructs. They are real world facts, and their impact on the lives of ordinary Americans is real and potentially devastating.

I have been studying the problems of the American economy carefully for over a decade, since I first worked with John Young, who was then the CEO of Hewlett Packard. John Young was the head of President Reagan's Commission on Industrial Competitiveness, and it was a bipartisan effort. John Young did turn to some academics at Stanford and Berkeley to help him define the problem of competitiveness.

What was the issue or issues confronting the Nation in the long term? We actually came up with a definition of competitiveness, which has become fairly standard in discussions. And that is the ability of a Nation to produce goods and services that meet the test of international competition, at the same time generating rising living standards for the citizens.

Since that time, since the 1982 commission, the competitiveness of the American economy has exhibited continuing and disturbing signs of erosion. During the last decade, our trade imbalances have totalled over a trillion dollars, our producers have lost huge market shares in several key international industries: computers, automobiles, commercial aircraft, telecommunications products, machine tools to name a few.

At the same time, our gross domestic product per capita, which is one of the broadest gauges of standard of living, has grown more slowly than that of the other advanced market economies, our major competitors. Our real wages have fallen or stagnated for most American workers for more than two decades. Our investment rate has persistently lagged behind that of our competitors in plant and equipment and research and development for civilian purposes, and worker training.

We can tell the story of the competitiveness difficulties of the American economy with many statistics. Perhaps to me the most disturbing is the fact that since 1980, the portion of American families, full-time workers with annual incomes below the poverty rate

for a family of four, has increased from 12 percent to nearly 18 percent. What that means is that full-time work in the United States no longer secures a bright future for our children.

As an academic who has chosen to study real world problems rather than abstract mathematical models, I hope that I can bring to the Council an ability to bear an informed and intuitive sense of how economic policy affects people's lives. I also believe that this practical, pragmatic approach is shared by the other members of President Clinton's economic team.

I am deeply honored to be working with such distinguished individuals as your former congressional colleagues, Lloyd Bentsen and Congressman Leon Panetta, also from the great State of California, and with Robert Rubin, the chair of the new Economic Council. We have already established a very good, firm working relationship and I can assure you that, if I am confirmed as chair of the Council of Economic Advisers that the council will indeed play an integral part of President Clinton's economic team.

To me, all the questions confronting this Nation's economy, questions of recession, of competitiveness, of national solvency, all of these questions must finally be understood in terms of the quality of American life. All must be understood in terms of a simple, concrete question, are the lives of our citizens improving? That question, I believe, is at the heart of President Clinton's plan, putting people first.

Putting people first is precisely what my economic philosophy seeks to do. I look forward to working with you, both political parties, and with the American people to strengthen the economy, not only for ourselves in our generation, but for future generations as well.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Feinstein has arrived and is, I think coming around. Oh, I beg your pardon.

Welcome. Please come on up to the table. We have, of course, received your statement, but we are delighted to have you here.

Let me invite you to pull that microphone over so you can be heard. And we would welcome any comments you have at this time.

STATEMENT OF SENATOR DIANNE FEINSTEIN, U.S. SENATOR, STATE OF CALIFORNIA

Senator FEINSTEIN. Thank you very much, Senator Riegle and members of the committee. It is a pleasure for me to be before you to say a few words on behalf of Laura Tyson, because Laura Tyson is a native Californian, and she was also one of my economic advisers in my Senate campaign. So I have an opportunity to know her.

There is one quote I would like to read, which I believe is descriptive and appropriate. It is a quote by Mr. Robert Kuttner, in an article he wrote, an op ed piece for the Washington Post, entitled "Real World Economist." And if I might quote:

The Nation's leading economists who gathered this past week for the annual meeting of the American Economic Association are upset that Bill Clinton did not draw from the old boy network to select his chief economist. Instead, he picked Laura Tyson of the University of California at Berkeley, an unconventional econo-

mist with a dazzling intellect, who chooses to work in English rather than in algebra, and to study the real economy rather than build sand castles.

I think this is very descriptive and I would like to speak from the perspective of a Californian who has recently become your colleague. What I found during the last two years in California were economic predictions that did not in any way, shape, or form match the reality of the California economy. California is the largest State. It is not out of the recession. It is approaching double-digit unemployment.

Laura Tyson is knowledgeable on the real world. She is a respected economics professor at the University of California at Berkeley. She has earned a reputation of being a pragmatic yet unconventional expert in the field of economics. Her focus has been on technology, trade, and competitiveness in the international economy, and it gives her invaluable perspective as our Nation competes in a rapidly changing global marketplace.

In her recently published book, *Who's Bashing Whom?*, Professor Tyson outlines a progressive trade policy to assist American companies now disadvantaged in selling products abroad. This is only one example of the type of program Laura Tyson will explore as we attempt to jump start our economy.

The nominee's extensive writing also shows her detailed knowledge of foreign policy, economic competitiveness, and the economic systems of the eastern European countries.

She was born in New Jersey. She earned her doctorate in economics from MIT in 1974. But it was in California at one of the leading think tanks for progressive economic policymaking that Professor Tyson has earned her outstanding reputation.

She is the director of the Berkeley Institute of International Studies, as well as the research director for the Berkeley Round Table on the International Economy. Her advice has been sought by a wide range of groups.

She is a member of the Cuomo Commission on Trade and Competitiveness, the Economic Policy Institute Research Council, the Council on Foreign Relations, the subcommittee on a Global Economic Strategy for the United States, and the Los Angeles Times Board of Economists.

Laura Tyson has described herself as a "cautious activist." To me, that I believe will be the single most important characteristic she will bring to the Council of Economic Advisers. She will build a consensus among her colleagues as she promotes innovative economic programs.

I might say I took her advice in my campaign. And based on that advice, was able to beat an incumbent U.S. Senator. It was good advice, and it was responded to by the people of California.

It is my very strong feeling that she is an excellent choice, and will distinguish herself and the Council of Economic Advisers. Thank you very much.

The CHAIRMAN. Senator, thank you very much. That is a very important statement. We welcome it and we welcome you today. I know you have other things to do today, so let me excuse you if you need to go, and we will proceed in order now.

Senator FEINSTEIN. Thank you very much, Senator. I appreciate it.

The CHAIRMAN. Ms. Tyson, I want to start on an issue that relates to the jobs situation in the country right now, and I want to refer to a chart here that President Clinton has made reference to as well.

What it shows is that when we started this recession and have come down through time, out now some 21 months since its inception, we have gone into a situation where we have had an enormous job loss. If we look at what has happened on average in seven previous recessions, by this time since the start of a recession, we would be way up here in terms of job recovery and job growth. In fact, at the present time, we are way down here; there is an enormous gap. This is fundamentally different than what we have seen in our past experience.

So you have this odd situation where there is a recovery in the GNP growth, modest I would say, but we're not seeing the jobs come back. In fact, we're seeing, if anything, a disappearance of jobs, a lot of the best jobs in manufacturing. We see them in the defense industries, but we see them also in other areas of manufacturing. We are seeing a lot of them disappear even in financial services, where there is a lot of consolidation going on.

I deduce from this, and in listening to what President Clinton has had to say, he has set a goal, as I understand it, of shooting for the creation of some eight million new private sector jobs out over the next 4 years. Is that the essential bottom line goal in terms of the economic strategy that is being developed now?

Ms. TYSON. That was definitely a stated goal during the campaign and it certainly remains a priority issue. There is very firm understanding of the special features of this recovery, as you suggested, both a modest recovery—that is, we haven't had any period of time during which the growth rate really has gotten up into the 5 or 6 percent range that you sometimes see, often see in a strong recovery. This is a modest recovery, and jobs are not recovering. That is recognized as a major priority issue.

The CHAIRMAN. I want to now, in the time that I have, look at the trade situation particularly, because you've written about that issue. I want to have you respond in this area.

This chart shows what our merchandise trade deficit has been with the rest of the world since 1980 on a cumulative basis. And it really is a stunning portrayal of national economic difficulty. This chart is notched in \$100 billion segments. We don't often have charts that try to count that high. But, as you can see, out through the end of 1992, we now have had over \$1 trillion cumulative merchandise trade deficit with the rest of the world. Unfortunately, it's continuing to grow. We had a very sharp trade deficit last year.

If you look at some of our bilateral trade performance with selected countries, you will see here that with respect to Japan particularly, we have had deficits every year in our trading with Japan starting out at \$12 billion in 1980, getting up by 1987 to nearly \$60 billion. It has come down somewhat into the \$40 billion a year range, but it has started to go back up again, which is a dangerous sign I think for our economy.

But a total over a period since 1980 of \$½ trillion that the Japanese and their trading practices have extracted from our country,

I think weakening our country, damaging our job base. And the problem isn't getting any better; it's getting worse.

If I could have the one on Mainland China. We talk about Communist China, probably one of the most repressive governments on Earth. We are seeing now the same pattern developing here that we saw with Japan. In other words, these huge bilateral trade deficits getting much larger each year. In fact, we can't keep this chart revised, because the numbers for 1992 have grown so rapidly. It's now said that the deficit for 1992 is going to be, when the final numbers are in, somewhere between \$15-\$17 billion. That means, that much additional money has left the United States and gone to Communist China, creating jobs there as jobs continue to dwindle in this country.

As you look at this situation—I realize this is just one dimension of the problem. I don't mean to suggest it's the whole problem—it's only part of it. But when you look at the job loss related to these huge trade deficits and the element in which trade cheating or unfair trade practices may be part of it, how serious are these trade deficits as a contributor to the unemployment problem in this country?

Ms. TYSON. Let me start by noting that the trade imbalance problem is a problem that, as you know, I have worried about a lot in my own work. It has been a very disturbing decade in terms of the cumulative trade imbalance. We did have, of course, some improvement between 1987 and the present time. However, what is disturbing about the situation is that even with the improvement, we ended up with trade imbalances in the \$70 billion range.

What that means, of course, is that if, for example, in the next few years, the next year, say, the U.S. economy does end up growing faster than some of our major trading partners, it's very likely that that trade imbalance will start to deteriorate again.

The CHAIRMAN. In other words, it will get worse for us?

Ms. TYSON. It will get worse for us.

What's disturbing is that during a period of time when we are really trying to make some progress to get rid of it, we ended up with an imbalance which is in the \$70 billion range, and likely as I said, if we grow more rapidly than our trading partners, to reverse and turn up again.

The second thing I want to say is you talked a bit about Japan and China. As you also know, in my work, an important focus of my work has been to think about the trade problem as an export issue. It certainly is true that we have gained jobs in the United States from exports and we have lost jobs from imports.

We want to try to increase the gains by increasing our exports and that, of course, is made difficult for us when we confront access barriers with major trading partners. Such barriers have certainly been documented in the case of Japan in particular industries. And they have been documented in the case of China in particular industries.

So I think it is very important for us as we worry about trade in the United States, as we worry about job creation in the United States, to be very active in making sure that we identify and respond to trade barriers that really adversely affect our producers at home, and therefore our job base at home.

The CHAIRMAN. We'll come back to that just a little later.

Senator D'Amato.

Senator D'AMATO. Thank you very much, Mr. Chairman.

Professor Tyson, I am very much concerned about the question of deficit reduction and the need that has been expressed by some, and it would seem yourself as well, to raise taxes. In one article, you speak to the issue of raising energy taxes, and you indicate that \$30-\$40 billion might be raised. Then you suggest in another article that \$400-\$500 billion could be raised, miraculously it says. That's in the Los Angeles Times, June 21, 1992.

How would you raise that \$400-\$500 billion? You seem to indicate when the economy gets into stride, that's when you would recommend undertaking that action. Where would you get this \$400-\$500 billion? Is that something you're advocating?

Ms. TYSON. No, let me first explain that particular comment and then I will talk generally about deficit reduction.

That article, I was really raising the point—it was motivated by a chart in *The Economist*, the British financial magazine. They produce charts on economies around the world showing different features of them. And there was a particular chart which showed if you rank countries by taxes as a percentage of GDP, and you looked at where the U.S. stood in this ranking out of I think 25 countries, the U.S. was really at the bottom, that our tax share, our tax take as a percentage of GDP is actually not, compared to other major industrial countries, some of which do better than us and some of which do worse than us, but there's no sort of pattern here, other than that they have much higher and rising tax burdens.

What that statement about the \$400-\$500 billion was not a policy proposal as much as an observation that if we had the average tax burden of the other OECD countries, that is the other major industrial countries of the market system, that we could raise revenue in that range if we simply had that rate. It was an observation rather than an advocacy position.

Now, let me get to the issues of deficit reduction, and what I think we will all have to consider.

Senator D'AMATO. Could I just interrupt for a moment? I have a little trouble following this. I read this article and it says, once the recession is over—this is June 21, 1992, Los Angeles Times—if we increase our overall tax rate to the average rate paid by the other advanced industrial countries, we could raise an additional \$400-\$500 billion in Government revenue and miraculously cure our deficit problem. I mean, aren't you advocating this?

Ms. TYSON. Let me tell you what I do think is my advocacy position. First of all, what I would say is the following. I think that all of us would agree, as certainly the members of the Clinton economic team agree, and I believe from talking to you all that you would agree that the deficit is a problem we must all address.

In reducing the deficit or addressing that problem, there have been a series of studies, bipartisan studies, partisan studies, academic studies, studies by business interest groups, and all of them have reached basically a similar conclusion. The conclusion is there is no simple, easy, silver bullet way out of our deficit problem. That a serious approach is probably going to require that all items be

on the table. Those items will include some revenue issues and some spending issues.

As to the composition of those, I think it's important to evaluate a series of spending cuts or tax measures in terms of other goals then reducing the deficit as well. So you would have to look at a series of things, and that is my position.

I think that again, another thing that you pointed out in that statement there was to do something about deficit reduction when the economy recovers. The reason I made that statement is because as we find ourselves in a difficult situation, we have an economy which is not a robust economy. We have an economy which is, because of the jobs recession and because of the high unemployment rate, we have an economy with a lot of excess capacity in it. One estimate, sort of a conservative estimate, is we have four percent excess capacity. We are not fully utilizing our resources. And we also know that if we look to the out years, particularly 1996, 1997, and beyond, that the deficit is moving up rapidly.

So we have a problem here. We want to both restore the economy to a more robust state and deal with the deficit in the long run.

Senator D'AMATO. I understand that, and I hear the buzzer and I am going to try to adhere to not going beyond that. But if we are talking about raising \$400-\$500 billion, and it certainly seems that this is advocated—

Ms. TYSON. Let me say that that is not advocacy.

Senator D'AMATO. My point is, where do you get these taxes? You're not going to get them from taxing only people making over \$200,000.

Ms. TYSON. Let me emphasize for the record that that was an observation that if we behaved the way the other advanced industrial countries behaved in terms of tax burden as a percentage of GDP—

Senator D'AMATO. Are you advocating that we follow their examples?

Ms. TYSON. I am not advocating it.

Senator D'AMATO. Because I have to tell you I reject that as a manner by which to move this country forward.

Ms. TYSON. I simply made the observation that some of these countries, take Germany for example, which are doing—have done over the past decade quite well compared to us in terms of GDP per capita growth—

Senator D'AMATO. So we take one country and we say over a decade that it's been doing well. Now we're going to adopt their taxation methodologies?

Ms. TYSON. As I said, Senator D'Amato—

Senator D'AMATO. You see, this becomes important because people begin to set up, as I say, straw men like this and we get industrial countries and say, look there, they're doing well, and we should follow. And our tax rate isn't as high, et cetera. That doesn't cover the entire spectrum.

Ms. TYSON. Of course not.

Senator D'AMATO. It may take a year, 2 years, or even a decade.

Ms. TYSON. Of course not. Let me just state my position on looking at other countries. I was trained as a comparative economist. I started work looking at other systems and then I began to look

at our own. I believe there are things we can learn from other systems.

We should not in any way think, or you should not think I advocate in any way simply part and parcel copying another system. One can learn from the experiences of other economies. But I really want to emphasize that that was not an advocacy position. And what I tried to state in my answer was what my position is. We need to look at all options, because we have a very serious deficit reduction plan, a program we must develop.

Senator D'AMATO. Thank you.

The CHAIRMAN. We will now proceed in a fashion where I am going to invite each member to make an opening comment if they wish to. I am not going to start the time clock until you move to a question, so that everybody has a chance to make an initial comment if they should wish to do so as we go on down the order in which people have arrived.

Senator Murray.

OPENING COMMENTS OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman. I appreciate the opportunity to make an opening comment.

I just wanted to say, Dr. Tyson, that I really enjoyed our conversation. Your understanding of the issues affecting Washington State from aerospace to high tech to trade was very impressive, and I look forward to working with you.

I was also very pleased to hear Senator Feinstein talk about the fact that you were going to talk in down-to-earth language that everyday people understand, because my feeling throughout this last year, throughout the campaign was that the economy is the most critical issue affecting all of us, and even for those people who are working today their concern is that they may not have a job a year from now, or 2 years from now, 5 years from now.

And they want to know what is our economy going to be for the future and how—what kind of job do I train my children for, what kind of education do they need, and what is the big picture going to be. And they want to hear it in realistic terms.

So I look forward to hearing that from you and to hearing from you throughout this hearing about what you see as the short term solutions. Is it a middle income tax break? Do we need to deal with helping people buy homes? How do we deal with the health care issues? And in the longer term, what is our economy going to be based on 10, 15, to 20 years from now.

Thank you.

The CHAIRMAN. Thank you, Senator Murray.

Senator Faircloth.

OPENING COMMENTS OF SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you.

Ms. Tyson, in his inaugural address, President Clinton talked about sacrifice. I assume by sacrifice, he means additional taxes. The American people are paying a third of their income now for taxes. I have been through hearing after hearing, or several here. I have heard talk of tax increases. I have heard talk of sacrifice. And I haven't ever heard one word mentioned about reduced spend-

ing in the Federal Government, which is one of the causes of the problem, the major cause.

I hope that we will consider reducing the deficit by reducing Federal spending, which is the only way we're going to reduce it. It has never been proven we could reduce it by increased taxes. If they have, I would like for you to tell me later on how we did it and when.

Thank you.

The CHAIRMAN. Thank you very much.

Senator Boxer.

OPENING COMMENTS OF SENATOR BARBARA BOXER

Senator BOXER. Thank you, Mr. Chairman. Forgive me, because I made a mistake and made an appointment to give a speech this morning and I miscalculated and I am very happy that Senator Feinstein was here.

I ask unanimous consent, Mr. Chairman, that my statement and introduction be placed in the record.

The CHAIRMAN. Without objection, we're delighted to have it.

Senator BOXER. I would just say that I am very impressed with the individual who sits before us. I think Bill Clinton made a very wise choice.

I think there are Senators sitting here, some would think it is relevant to discuss what other countries do and others don't. I respect both views. When I get to the questions, I am going to ask you what other countries do, vis-a-vis their industries. Because we are in a global economy and it seems to me that America can't sit back and not pay attention to what other countries do. Or we have to look at what they're doing vis-a-vis our own trading posture and how it's affecting our economy. I'll get to those questions later. I welcome you.

The CHAIRMAN. Senator Boxer, I indicated just before you arrived that we're going to modify the approach just a little bit this morning. I was going to invite each member to make a brief opening comment and we wouldn't start the time lights first, which you've just done and Mr. Faircloth has just done. And then proceed into your initial questions through the 5 minute period and then we will rotate on that basis.

Senator GRAMM. Since everybody started, why don't we let everybody do a little opening statement.

The CHAIRMAN. I am open either way. Kit, I know you have a problem, do you not, where you have to go to the Appropriations Committee?

Senator BOND. I think four of us are going to have to leave at 11:00 o'clock. We'll come right back. I intend to be around.

The CHAIRMAN. I am happy to do it either way. I think the view is that we get to the questions. So, Senator Boxer, why don't you go ahead with your initial round of questions, and then we will go next to Senator Bond.

Senator BOXER. Thank you very much.

As I said just seconds ago, as I look around the world today, I see there are many countries whose policy it is to work with major industries to help develop those major industries. And frankly, at

a great cost to America, subsidize those industries. We see Airbus, we see computer areas, we see other high tech areas.

I come from a State, for example, that's very big in aerospace. And it is very difficult for me to talk to workers and management and try to explain why America does nothing by way of a policy here. And other countries, who we compete with, are very, very involved.

Could you give us an overview, more general than specific? You don't have to pick a particular industry if you don't want to. Of your view as to whether or not it is important for America to look at what these other countries do and perhaps when you feel that what they do puts us in a very uncompetitive situation, step in with some kind of industrial policy or, for want of that term, an economic strategy if you will.

Ms. TYSON. I think that the kinds of issues that Senator Boxer is raising are issues that really motivated this piece of research, called *Who's Bashing Whom?* Incidentally, the title comes from my writer husband, a lovely title.

The way I see the situation is, in many industries we have a series of trading partners who have done a variety of things to really promote and build their own industrial capacity. Sometimes they have done that within the international rules, and sometimes they have done it outside the international rules. There are a series of cases that I've looked at in very detailed fashion which really show that these policies have had the effect of being beneficial to the producers in foreign countries and often harmful to our producers.

These kinds of policies can run from market access barriers, for example, that confronted Motorola and Cray Supercomputer in their attempts to sell outstanding products in the Japanese market, to the problems confronted by McDonnell Douglas and Boeing because of the heavy subsidies the Europeans have given to their aircraft, to sort of spillover effects on the United States, for example, that come from European policy to encourage Japanese producers to produce in Europe and then to sell to the United States or to sell in other markets where U.S. companies are competing.

The variety of policies that other countries use, and they do have and have had and continue to have detrimental effects on the United States. So first I think you need to understand what other countries are doing, just because what they're doing has bad effects on us. And if we're going to make policy in an informed kind of fashion, we at least need to know the game that's being played.

Now, what do we do about this? My ideal really would be to have a better set of rules, multilateral rules, and a stronger multilateral system so that certain kinds of activities by foreign governments were really precluded.

If we had a set of rules that concerned restrictive business practices, or concerned foreign government subsidies, then certainly the trade conflicts that we've been involved in, certainly the things that our foreign trading partners have done, would simply have been disallowed.

That's why we should be absolutely committed at all times to try to foster the GATT system, to try to get a strong Uruguay Round solution, to try to go even further than that and deal with issues

that are already on the table in the current round of discussion. So I am first and foremost in favor of a strong multilateral system.

What I try to argue again, if I may go back to my opening statement of emphasizing my pragmatism rather than my sort of underlying ideologies, my pragmatic approach would suggest that it takes a long time to get international agreements. As you can see, the Uruguay Round has dragged on for six years. We negotiated with the Europeans for a decade on an agreement on controlling subsidies to Airbus, a decade. And during that decade, Airbus became the second major producer in the world, displacing McDonnell Douglas, and is now in a position of serious competition for Boeing.

So the question for the United States, frankly, becomes interim question, what to do in the meantime in the absence of multilateral rules. And I think there we have to consider policies that make the United States a more attractive place to do business for American companies.

These are general policies about promoting lower cost of capital, promoting investment in the United States, giving us a better skilled and flexible work force. They are also policies that have to do with civilian research and development support because in many industries that I have looked at, we have American companies without much research and development support facing companies with a substantial amount of support coming through their governments.

We have to be very active in using American trade law that we have effectively, and we have to recognize the nature of the competition and negotiate actively and effectively with our trading partners to deal with their practices. And I think that's what we have to do.

We need also to learn from other countries about what works and what doesn't work. That is, again, to go back to Senator D'Amato's question, I do not advocate that we copy other countries. On the other hand, I do suggest that certain things other countries have tried have worked very well for them.

For example, in the German case, there is a widespread view based on a lot of research that their apprentice system is very fine and they are able to have a more flexible and skilled work force because of the way that business works with educational institutions to train people. I think that's important and should be part of our policy that we learn from other countries.

That certainly doesn't mean that we adopt a full-fledged planning approach to our industrial sector, which I do not advocate. So I just want to make clear what I think the nature of the problem is, what I think we can learn from other nations, and the kind of things which we in our own system can consider doing better.

The CHAIRMAN. Thank you.

Senator Bond.

OPENING COMMENTS OF SENATOR CHRISTOPHER S. BOND

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

Ms. Tyson, as I understand the past role of the CEA, it has been to act as an advocate having the President's ear for basic economic principles, principles that are important, some of us believe, to the success of our country.

The CEA has been a strong voice for free market, broad economic interests. It has advocated protecting entrepreneurship and the opportunities for small business to grow. This has been the underlying theology.

Based on that theology in the past, I think the CEA has played a role in killing the proposal to invest billions of dollars in the supersonic transport. More recently, the Department of Commerce came forward with an idea to promote analog HD TV. It turned out that was killed. And fortunately so, because as a result our industries have gone forward with digital HD TV.

Frankly, I think there is no shortage of pragmatists who will be in the Cabinet and in Congress who will come up with ideas for specific Government actions that have significant economic impact.

I would like to know what is your underlying economic philosophy? What viewpoint do you believe you should be representing and advocating to the President and to this body?

Ms. TYSON. Let me start by agreeing with you that my understanding of the role of the Council of Economic Advisers, which I would commit myself to maintain, is that the Council of Economic Advisers advises the President. It also, in advising the President, does speak to general economic issues and to, of course, the basic underpinning of our system, which is a free market economy.

I am trained as an economist in the United States. I am totally committed to a market system. I am totally committed and I understand the strengths of our system.

I want to, by working with my colleagues in the Clinton administration, deal with making that market system stronger, not with making it weaker.

On the issue of entrepreneurship, just let me say that certainly having looked at high technology industries as I have, I certainly recognize the importance of entrepreneurial activities to the development of whole new industries in the United States. I recognize the importance of the small sector of this economy to the creation of jobs in the United States.

And so I think that I am a great advocate of those policies which would promote investment by entrepreneurial companies, promote the formation of new companies that provide us both with new technologies and new jobs. So I think you can rest assured that I will support the broad economic interests, support the market system, defend against interventions in the market system, and promote entrepreneurship and small business.

Now, having said that, let me just talk a little bit about a phrase that's been used about me in the press, which I adopted for myself, so I feel free to use it. And that is "cautious activism." I think what I really am getting at here again relates very much to how I answered Senator Boxer's question.

We need to recognize that the kind of international competition that we are engaged in is not simply a market phenomenon. That there are companies involved, there are markets involved, and there are governments involved shaping those markets.

I think if you look at the history of a number of major industries in the United States, what you will hear the CEO's say, and I have heard many CEO's of American companies say, we are not competing simply against private foreign companies; we are competing

against foreign governments. And we are competing against foreign governments in the sense that we can access foreign markets, or we find that we are competing against a highly subsidized credit arrangement in a foreign sale, or we find that we are competing against a sort of targeted industrial policy, which is to say a foreign nation says we want to get a certain share of this market that the United States has by a certain period of time.

My position at that point is again to say, let's understand what foreign companies are doing and let's think about what we can do consistent with our own system. I am not advocating that we undermine our own system as much as to think about what can we do with our tax policy, what can we do with our organization of civilian research and development support? What can we do with our training system? What can we do with our own trade laws? What can we do with international leadership of the trading system to address those very real problems?

I would argue that my long term objective is to make the market more perfect. But understanding at any moment in time that the choices we face in international competition are not simply market choices; they are market choices affected by what foreign governments do.

Senator BOND. I guess I am a little bit confused, though, because you talk about the strategic industries. Are you saying that the Council of Economic Advisers should help us identify strategic industries that need support?

Ms. TYSON. No. I do not think that the Council of Economic Advisers—actually, I don't think that the Council of Economic Advisers should do that. And it will not do it.

I actually argue that, in fact, what we need to do is to understand what other countries are doing. And so when I talked about the need to have a forward-looking strategy of following what's happening in global competition in major industries, it really was to say there are a number of industries in which we have a lot of international trade with a lot of foreign intervention.

We should have a knowledge base on which we base our own policies. It is definitely not an active policy of setting up lists of these are the industries we should promote and these are the industries that we should not promote. That's not something that I should advocate. I haven't advocated that in any place.

On the other hand, let me say that it's important—again, I will just end by saying it's important that other countries do that.

Senator BOND. I thought I read in some of your writings that if some industries are strategic, what should policymakers do? One answer is that they should do as little as possible to inflict competitive harm or extra burdens on the strategic industries. A second answer is that they should go even further and promote them.

Is that an accurate reflection? This is Harvard Business Review of 1988. Do you still agree with that?

Ms. TYSON. I would say that the notion of promotion there would be a general notion of using—my preference, and it is stated in many of my writings, is to use as broadly based policies as possible.

I would like to see us use policies that encourage investment by all industries. And to use training policies that improve the skills of workers for all industries, and to use research and development

programs such as making the R&D tax credit permanent, which help all industries.

As far as civilian technology programs, which is another area where I think we can help a large variety of industries, we can organize our civilian technology programs in such a way that they are market driven. That is, if you look at the way the advanced technology program of MIST works at the Department of Commerce, that program is very much market driven in the sense that American companies come forward with proposals for various research programs. There is an evaluation as to their commercial and research merit. So it is a market system. It is not the Government choosing which things to promote and which not to promote.

It is the Government in general coming forward to switch our very substantial support for technology through the military to more support for technology through the civilian sector. But then to use our own strengths of the market system to have those choices be driven by the market and not by the Government.

The CHAIRMAN. Thank you Senator Bond.

Senator Kerry.

OPENING STATEMENT OF SENATOR JOHN F. KERRY

Senator KERRY. Thank you, Mr. Chairman.

Ms. Tyson, welcome. I appreciated the opportunity that we struggled to have to try to spend a little time together. I apologize again about the craziness of that day.

I know a couple of my colleagues on the other side have spent some time laying down the tax marker which proves that despite the fact that administrations change around here, politics doesn't. And I guess that's the beginning of the definition of the lines that will be drawn.

But I suppose it would be equally fair to point out that over the last 12 years we never had a balanced budget proposed to us up here. Congress spent less money almost every year than the administration proposed. I don't know an economist worth their salt in this country who suggests you can keep the economy moving and deal with the deficit that we have been left while not looking somewhere for revenue as Presidents Bush and Reagan did in every single year they were president, notwithstanding the phony rhetoric.

So I certainly hope that with this new administration will come a little more candor around here about the reality of the choices we now face.

One of the problems we face in New England as well as in other parts of the country is a very significant credit crunch. In fact, industrial commercial lending declined by 5 percent last year from \$690 billion in 1990 to \$594 billion in 1991.

I would like to ask you if you would share with us your perceptions of how serious a problem this credit crunch is and how you view the relationship. Is it simply that people look at the economic indicators and at the downturn and the overhang in real estate and the decline in spending, the cuts in defense spending, and mistakes within the computer industry and other kinds of things, all of which add up to a fairly bleak economic outlook and little job growth? Or is it much more significantly related to regulatory policy, that there's money available, that there are going concerns that

are seeking it, but there is a major fear among the lending institutions to lend? I just would like to hear you share your thoughts with us on that problem.

Ms. TYSON. Let me first say that there is general agreement I would say that over the past 2 years the financial institutions, banks and thrifts, have been lending considerably less. And interestingly, as the economy even has begun to recover, that that has remained a problem. There is also consensus that this is a constraint on our ability to grow. But there is a lot less consensus as to why this has occurred.

So the consensus is that there is a problem. President Clinton talked about the problem in the campaign and is sensitive to the problem. There seems to be less consensus about the reasons for the shortfall, slow growth in lending.

Several—in fact I think the problem here is that several factors are playing in it with the same general result. Therefore, it is hard to assess their relative weight.

For example, we do have, as you suggested, because of problems in particular industries, say the real estate industry or because problems are worse in certain parts of the country than others, in Massachusetts and in California, where there are very high unemployment rates and where it really is hard to argue that the recession is over when you look at the state of those economies, well if you have special industry problems and special regional problems, then of course you would expect that lenders in those areas might say this is a slow economy, the risk of lending is very high, it's particularly high to small and medium-size business. Do I really want to make that loan? Particularly, do I really want to make that loan when on the other side you have something else going on which is very high interest rates on long term securities?

We have a term structure of interest rates right now which is quite remarkable in terms of the gap between short term rates and long term rates. A lender looking at a recessionary market with risk and looking at a high interest rate, long term Government security, might be naturally attracted to the long term Government security. That is certainly going on to some extent.

We also obviously have had new financial standards imposed as a result of some major legislation over the last 2 years, FIRREA and FIDICIA, to really deal with some long term safety and soundness issues in the American financial system. Those are long term problems which needed to be addressed. And we have worked long and hard to try to address them with regulation. In addition to which we have, of course, had the new Basle Agreements to try to deal with the solvency of the international financial system by having all major financial institutions involved in international finance deal with an adequate capital base.

Finally, we have had, certainly anecdotally, and I think there is a widespread view that the anecdotes add up in this case to some real evidence, that there has been a pendulum problem that we have gone from regulators that were possibly not zealous enough in the applications of regulations to regulators who are possibly overzealous or overeager or overcommitted to regulation. So that the problem may not be the regulations themselves, but the way in which they are actually implemented.

So we have all of these factors playing into the situation. That then says what do we do about it? I would suggest that we try to do a number of things. First and foremost I would like to see us work on a package to get the economy into a serious recovery to get a credible long run deficit reduction program. What that would do for us would be to reduce the risk to lenders, give them better loan opportunities out there, it would shift the term structure of interest rates making Government securities less attractive as an alternative. So that's the first thing, the fundamental thing.

I think we should look very carefully at the issue of the securitization of small business loans. Because I think that small business loans in this economy, and once again in economies around the world, capital markets no matter how sophisticated often have a hard time dealing with the special needs of small and medium sized businesses, particularly small businesses. We need to try to deal with that on a long term basis, regardless of the cyclical state of the economy. So we need to explore actively issues of securitization of small business loans.

Finally, President Clinton is committed to looking at the whole issue of whether or not within existing regulations there is some way to move with caution and prudence to improve how the regulations themselves are implemented, to deal with whether or not—he has a series of new appointments to make in the regulatory area. To really see whether we cannot move that pendulum a little bit back toward balance in terms of the new regulations we have by implementing them in the least burdensome way possible. And President Clinton believes that there is probably some room to do that.

So we will be working—I believe we will be working on trying to put together a team very quickly to look into how we might ease the regulatory burden without undermining the regulations.

Senator KERRY. My time is up. I might just add I know we've given you a copy of the letter that I and others sent to President Clinton suggesting some of those administrative steps he might take. And I hope that you would move on those.

Ms. TYSON. Yes. I would look forward to working with this committee in particular on these issues where many people here have very detailed understanding of the history of the regulations and then the history of what has been happening in their regions as a result. So I look forward to working with you on that issue.

Senator KERRY. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Professor Tyson, President Clinton has said that he would reduce the deficit in half in 4 years. You have said this means revenue and spending issues must be on the table.

Based upon your study, how would you propose that we reduce the deficit by half? Or how are we going to do it? And what specific taxes would you increase? And, more specifically, where would you reduce spending in the Federal Government?

Ms. TYSON. Let me begin by saying—repeating what I said before. It is striking if you look at the studies that have been done on the issue of deficit reduction, and these studies have been done

by a wide variety of groups and individuals including there have been some distinguished studies such as the Nunn-Domenici study that Senators Nunn and Domenici were involved in.

All of these studies come to an important set of conclusions. One is there is no simple answer to the deficit. There is no single thing that we can look to to resolve this problem.

The second conclusion is, therefore it follows, it's a derivative that to do this right we really need to put everything on the table. That is, we cannot tie one hand behind our back and say we're going to solve what is a major problem for the country by ruling out certain kinds of actions. I think that we need to have political courage to say that all things must be considered. I think that's the sacrifice that President Clinton was talking about.

It was not one-handed. It was not to say that we're going to deal with this by no spending cuts and only by tax increases. That's simply not a correct reading.

As far as looking at, then, what needs to be done, one thing we know certainly, or two things we know certainly. One thing we know certainly is that our problem in the out years is a health cost problem primarily. And so one of the things we must all do, and obviously this is a first priority for President Clinton, is to come up with a credible health care program, one that both contains the runaway costs of the programs we currently have, but at the same time really does deal with the very urgent fact that we have 39 million—37, 39 million people who are not currently insured by our system.

We have the most expensive system in the world and we have a system which lets large numbers of working Americans—these are not non-working Americans—working Americans fall through the cracks. So health care is first and foremost the priority issue.

As far as taxes are concerned, let me reiterate some of the points that were made during the campaign that I think, again, most of these studies would emphasize. Sure.

Senator FAIRCLOTH. Ms. Tyson, what taxes are you proposing to increase and where do you propose to make the spending cuts?

Ms. TYSON. Let me say that we are at this point in time, the whole group of economic advisers to President Clinton is discussing various possible components of a package. We have made no decisions on this package, and therefore it would be inappropriate for me to make specific statements since there have been no specific decisions made.

I can give you some general guidelines. One guideline would be that we are very committed to promoting investment. That is the cornerstone of the campaign. If you look to the campaign, you will see that there has been great emphasis put on using tax incentives to promote investment.

So I would suggest that a basic principle would suggest that we are not going to raise taxes on investment issues. We want to encourage investment, not discourage investment.

The important thing in thinking about taxes is that taxes not only raise revenues, they also encourage things or discourage things, depending upon how you set them.

Senator FAIRCLOTH. I am well aware of that.

Ms. TYSON. So we are going to try, working with you, working with Congress, to come up with a package which encourages things we need to encourage, like savings and investment, while at the same time raising some revenues for our deficit reduction program.

Senator FAIRCLOTH. You have, in a number of your writings, said that we need additional deficit spending, that we aren't spending enough. The deficit isn't big enough in other words, we need to get it bigger. Would you give me a hint as to how much money we need to borrow and how big the deficit needs to be before we become rich?

[Laughter.]

Ms. TYSON. All right. Those statements reflect what I started to get into before but didn't get a chance to finish. We have a very complicated situation on our hands, and it is complicated for the following reason. We have an economy which is underemployed. We have 7.3 percent of our population unemployed and other people who are not even on the roles of the unemployed because they gave up trying to find a job.

We are under what we could produce. Because we are four percent under what we could produce, we are losing \$50 billion a year in investment and we are losing something like \$60 billion in tax revenue just because we are not at capacity. All right.

Now, in a situation like that, some tax relief, for example, investment tax credits or some sort of capital gains tax cut for small businesses, the kind of thing that was discussed in the Clinton campaign, those kinds of things would be very helpful in stimulating the economy and getting private investors who are worried about the current situation to say, I'm going to make that investment. That would help us very much get closer to capacity.

It would also, in the short run, increase the deficit. If you give an investment tax credit, you increase the deficit. Therefore, what I think we are all working toward is to look at a multiuse package over several years which in the first year, in this year, when we have excess capacity may not be a net deficit reduction package. But over a longer time horizon would weigh in enough revenues or enough spending cuts in later years to offset the tax cuts of this year.

Senator FAIRCLOTH. A quick question. Would you give me some ways you're going to cut spending in the Federal Government? We went through the Medicare. Skipping Medicare is a way to reduce Federal spending. We've been hiring 20,000 new bureaucrats a year. Would you tell me in just a word where we start from Medicaid, number two, on down?

Ms. TYSON. Again, if you look, the big items that you can look to for some cuts besides health care is defense, and we've all talked about those and some of those are on the table.

Senator FAIRCLOTH. What, now? Defense?

Ms. TYSON. Those are already being planned now. They were being planned under the Bush administration and will be continued.

Senator FAIRCLOTH. All right. Number three?

Ms. TYSON. Again, as far as other cuts, because we haven't reached any conclusions, it would be I think irresponsible for me to make statements that are not based on decisions that have been

made. I would want to emphasize that one needs to look broadly at everything.

As you know, on the bureaucracy issue, President Clinton is very committed to trying to cut the size of the White House staff and will work to realizing that goal. He realizes that we must control the cost of Government. We must, by trying to reinvent the way Government works, economize on the cost.

Senator FAIRCLOTH. He said he was going to cut it by 25 percent. I assume he is going to keep his promise?

Ms. TYSON. I assume that he will work toward that goal.

Senator FAIRCLOTH. It wasn't a multiple choice. He says he's going to cut it.

[Laughter.]

Ms. TYSON. We all work toward goals in our life. Sometimes, speaking personally, sometimes I realize my goals and sometimes I don't. That is a goal that we will work toward.

The CHAIRMAN. Let me just say, President Clinton has been President now just over 23 hours and there are three cabinet officers that have been confirmed. This administration is just getting its hands on the machinery of Government. But we do expect you to move in due course and we know that you will.

Let me now call on Senator Sarbanes, who is the former chairman of the Joint Economic Committee and now serves as vice chairman of the Joint Economic Committee as well as a member of this committee.

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

I take it we are making our opening statements as we reach the questioning; is that correct?

The CHAIRMAN. Yes.

OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. I am very pleased to welcome Professor Tyson to the committee this morning in order to review her nomination to be the chair of the Council of Economic Advisers. Professor Tyson brings outstanding academic credentials and experience to the position for which she's been nominated, a Ph.D. in economics at MIT. She's served as assistant professor of economics at Princeton. I went there; that has particular meaning for me. A visiting professor at MIT, and the Harvard Business School, and is currently a tenured professor of economics and business administration at the University of California at Berkeley.

The CHAIRMAN. Would you pause and emphasize the Harvard Business School again?

[Laughter.]

Senator SARBANES. I don't want to get into these old school ties here.

She serves as a director of the Institute of International Studies at Berkeley, director of research for the Berkeley Round Table on the International Economy, and has been a visiting scholar at the Brookings Institute. She is an author of three books, the editor of five books, has written numerous scholarly articles. She has testified on a number of occasions on economic issues before the Congress. And I have been privileged to be at at least some of those

sessions where she was at the witness table and had the opportunity to question her at some length.

In those hearings, Professor Tyson consistently impressed me with her careful analytic approach to economic issues which reflected both a strong grasp of economic theory and an understanding of the limitations of that theory in describing the real world.

She has written extensively. I have had the opportunity to read a number of her articles and columns and I think they have invariably reflected a wide ranging, perceptive, and explorative mind. She may, in a sense, be called to account here, I guess, this morning for being so intellectually curious and probing in her writings.

She has consistently thrown out a number of challenging ideas which I think in her role as a thinker was a very important contribution to the public dialog. And, of course, in her role as a policy-maker, she is going to reconcile those ideas with others that are being put forward in the administration from other quarters as they try to arrive at an administrative position.

I want to be very clear this morning. I consider it a positive asset in the record that Professor Tyson brings to the table that she has been engaged in this intellectual inquiry over the years trying to work through these difficult economic issues. I commend her for that.

The Council of Economic Advisers was established by the Employment Act of 1946 to provide professional economic analysis and advice to the President. There have been 14 chairs of the Council since its establishment. I had the privilege of serving as administrative assistant to one of them, Walter Heller, who headed the Council under President Kennedy. And I therefore have a particular regard for the role played by the Council of Economic Advisers in assisting the president in the formulation of economic policy.

Walter Heller is regarded by many as perhaps the most influential chairman ever to head the Council. He combined a fine grasp of economic theory with a pragmatic understanding of the functioning of the real economy and an ability to communicate his views to the President, to the Congress, and to the country in an understandable and even on occasion enjoyable way, if one can envision economics being enjoyable.

I think in fairness, there is only one Walter Heller. But I think the skills that Walter had, it appears to me, are skills that Professor Tyson shares, and I look forward to her serving well in her new role.

In addition, I might point out that the section of the Employment Act of 1946 which established the Council of Economic Advisers is immediately followed in the legislation by the section which established the Joint Economic Committee of the Congress.

The Council of Economic Advisers and the Joint Economic Committee were created out of a concern that both the executive branch and the legislative branch of the Federal Government should have the capacity for professional economic analysis of public policy.

Having served as the chairman of the Joint Economic Committee in the last Congress and as vice chairman in this Congress, since the chairmanship alternates Congress to Congress, and will be chaired by a House member, Congressman David Obey, in this Congress, I obviously have an additional institutional reason to

take particular interest in the work of the Council. And I look forward to a continuing close working relationship between the Council of Economic Advisers and the Joint Economic Committee.

In a recent article in the *New York Times*, Nobel laureates James Tobin and Robert Solow described the role of the Council in the following terms: Every President must establish his administration's themes and goals, but translating that vision into legislation requires careful professional economics, committed to his goals, but calling the analytical shots as objectively as trained people possibly can. The character of that advice can significantly affect the substance and quality of decisions. End of quote.

Seldom since the establishment of the Council of Economic Advisers in 1946 have economic issues loomed as large as at the beginning of this administration. Professor Tyson brings an exceptional set of skills and experience to that challenge. I have every confidence she will meet that challenge, and I very much look forward to working with her in that effort.

The CHAIRMAN. Thank you, Senator Sarbanes.

Senator SARBANES. Having said that, Mr. Chairman, I am disturbed by one press report. I very much enjoyed—and I really mean that—this column written by your husband about *bye Chez Panisse*, hello *Maison Blanche*.

The one thing that troubled me in it was apparently the disruption in your home life created by this appointment has led your son, Eliot, at this point only 9, to grasp the significance of the appointment with wisdom beyond his years. His immediate reaction, "I'm going to become a Republican"—

[Laughter.]

Senator SARBANES.—was disturbing to me, obviously.

[Laughter.]

Ms. TYSON. We changed his mind.

Senator SARBANES. Your husband went on to say, he says, I persuaded him that the cure he proposes is worse than the disease. I hope that continues to be the state of play in the Tyson household.

Ms. TYSON. I can assure you that is the case.

Senator SARBANES. Thank you very much, Mr. Chairman. I don't have any questions at this point.

[Laughter.]

The CHAIRMAN. We will finish on down to give everybody who hasn't spoken yet a chance to do so. We have a number of Republicans returning here I think shortly from the Appropriations Committee, and I want to give everybody a first round here.

So the next person in order on that basis is Senator Sasser, who is of course Chairman of the Senate Budget Committee and of course a member of this committee.

OPENING STATEMENT OF SENATOR JIM SASSER

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

I want to extend to Dr. Tyson this morning a very warm welcome to the committee. I must say that I am elated that the President chose Dr. Tyson to be the chairman of the Council of Economic Advisers. There's a lot that can be said, Mr. Chairman, in favor of this nominee's nomination.

She is an important, credential economist. That is beyond debate. But the most important thing about Dr. Tyson is that she lives in the real world of economics in my view. I have had the occasion to become acquainted with some of her writings after her nomination and have been most impressed.

In reading what Dr. Tyson has written, it is clear that she understands that we live in a world of imperfect competition, that she does not worship at the altar of the free market as many do, although she supports a free market approach where possible.

She has had the courage, I think, to disagree and suggest alternatives when the old policies have not been working. And I have been struck, Mr. Chairman, by the predictions of macroeconomists, beginning really I suppose in 1980 and perhaps even before that, struck by the fact that they are wrong at least 50 percent of the time and some even more than that. And these are learned, highly accomplished individuals.

I think Dr. Tyson has, in doing her writing, has asked some very critical questions. And I think she is to be commended for having the courage to do that. She has stated that we need to formulate effective programs and policies to assist American companies to compete overseas. She knows that exports have been a key component of growth and job creation in this country for the last few years.

This is an area that we have simply got to foster if this economy is to produce jobs and to grow. Perhaps a free market and free trade would be an ideal solution, but that ideal world simply does not exist today, and Senator Boxer alluded to it a moment ago when she was talking about Airbus. Go out and tell Boeing and McDonnell Douglas that there is a totally free market out there when they are competing against Airbus. I think they'd disagree with you most vigorously.

Other governments do intervene extensively to promote economic development of their key sectors. It's time the United States recognized that it's a tough world out there. That our companies and our workers need all the help they can get to prosper. And I think Dr. Tyson knows that we need to encourage private and public investment in infrastructure, education, job training, a whole host of technologies, to help build this country.

So I am pleased to have her before the committee, Mr. Chairman. Frankly, I look forward to a speedy confirmation.

Now, there were some questions here this morning about the budget deficit and what this administration intended to do about the deficit. Senator Kerry is right, some have laid down the marker here of taxes. But the situation we face today with the budget deficit and the need for action, I think, is very reminiscent of the time in 1990 when many of us in Congress and the Bush administration labored for months over an agreement that was to supposedly eliminate the deficit by 1995.

There is an interesting article that I would commend to all my colleagues in the Washington Post today, written by a reporter named Steve Mufson, a terrific article. He has finally understood what many have not for a long time. That is, one of the real problems as to why that budget agreement in 1990 did not work as well as we'd anticipated is because the revenues that it was supposed

to produce simply did not materialize. In 1991, in the early spring, Dick Darman came before the Budget Committee and said the Treasury had misestimated and that we'd lost \$160 billion worth of revenues that we were supposed to pick up over the next 5 years. And that situation has gotten worse and worse and worse since then.

All of the so-called tax savings were wiped out by technical reestimates on the part of Treasury with regard to revenues. This article traces it primarily to lack of business revenues.

Now, coming to my question at long last, Dr. Tyson, when we entered into that summit agreement we were saying that the Congress and the administration are relinquishing the fiscal tools to do something about the economy if it starts falling off in a recession. Implicit was the understanding that the Fed would move in and fill the gap and that there would be an easier monetary policy in an effort to move the economy along.

The Fed did not come forward and start easing until many, many months after the summit agreement. And then they eased at a very slow and modest rate, always too little too late.

We may very well be entering into a period in which this new Clinton administration is going to have to move to a tighter fiscal policy. In the event that occurs, I want to ask you what do you think the role should be of the Fed with regard to monetary policy if we do get into a tighter fiscal policy with this new administration?

Ms. TYSON. First, let me make the observation that I was reading, although I cannot claim to have read every page, the most recent economic report of the President, which just came out last week. That was written under the supervision of the CEA chair, Michael Boskin.

He noted in there something which supports your statement. He argues that in retrospect, with the benefit of hindsight, more rapid reduction in interest rates would have been helpful, would have been useful, to keeping the economy out of recession.

It is always easy with the benefit of hindsight to recognize that something could have been done as we try to move to reduce the deficit and as the economy got weaker for a number of reasons, slowdowns in the rest of the world, defense cutbacks, real estate problems around the country, corporate and individual restructuring of asset balance sheets, all of those things slowed the economy down.

There was a need for something to really be the source of support for some growth. And it does seem in retrospect that we could have had more support from the Federal Reserve, and even Michael Boskin is now making that point.

Senator SARBANES. If I could just interject there, because this is an issue that this committee and Senator Riegle and Senator Sasser and I consistently sought to pursue with the Federal Reserve, throughout this period the Fed has been very strongly criticized by a range of economists across the whole political spectrum. Milton Friedman, McCracken, Paul Samuelson, Jim Tobin, that's a pretty broad spectrum.

The CHAIRMAN. Michael Boskin.

Senator SARBANES. For being too slow, too little, and too late consistently. And this chart shows the growth of real M2 during the first 19 months of recovery in the various postwar recession periods. And what it shows, it is just a staggering contrast.

While there was some growth in varying percentages from 5½ up to 14.8 percent in real M2 during that time period in previous postwar recessions, during this time period it's actually shrunk by 1.6 percent. That's the real growth in M2. And of course, the Fed has almost consistently failed to meet their target range. Last year they were at the very bottom of it, and this year they are well below it.

Now, despite that, the open market community met in November and they are talking now about tightening up, which I think is an absolute outrage. If they were to do so, it would have the effect of just cutting the recovery off at its knees. And the contrast between their actions in previous recessions and in this one couldn't be more marked.

The CHAIRMAN. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman. I want to associate myself with the statement made here by Senator Sarbanes. I think it is very clear when you look at what the Fed has done with regard to the growth of the money supply, you see that they, in my view, bear a large responsibility for the recession. And the tepid recovery that the country has gone through during the past 1½ to 2 years.

Mr. Chairman, will my time be charged to Senator Sarbanes' question?

[Laughter.]

The CHAIRMAN. Why don't you ask another question.

Senator SASSER. One of the bright spots in our economy over the past several years has been the growth in exports. And I think we in the United States are now learning the hard lesson that if we are going to prosper, if the economy is going to grow, if we're going to produce well paying jobs, that we have got to increase our exports, we've got to be more competitive in the world market.

Now as we are coming to realize that, we are faced with what appears to be a recession in many of the modern industrialized countries. President Bush himself, very accurately during the campaign referred to the problem that we had with a worldwide recession. Japan, for example, has been characterized by some observers as having "the most serious recession in 20 years."

France has also been characterized as in a "severe recession." Germany has very significant economic problems in trying to absorb the old Peoples Republic of East Germany. There just doesn't appear to be much excess demand in these developed economies to which we can ship American exports.

My question to you is how do we keep the world economy moving so that we can have overseas markets for our products? In particular, how do we coordinate policies to get the Germans to bring down their interest rates and allow some economic expansion in Europe? Because the Germans have now become essentially the bankers of Europe, it appears to me. They are the ones that control the currency of Europe. When their interest rates are high, everybody's interest rates are high. Therein, you have little eco-

conomic growth. And often that affects our exports. What can we do about it?

Ms. TYSON. Well, I think we have to—I guess I would answer the question in two ways.

On the issue of what we can do with our partners, it is important I think to note that the United States in coming to G3 or G7 discussions has really been at a disadvantage because our partners in this activity have constantly looked to us for a sign that we were getting our own fiscal house in order. They constantly looked for a sign that we had a credible long run deficit reduction program and that we had effective leadership to get that program going.

I don't think we really have been able to negotiate with them from a perceived position of strength. They don't perceive us as really having such a program or us being committed to it.

So the first thing I would say is that I would hope that if we come up with a package that is credible and which deals with both the short run cyclical problems in the United States and also the long run problems that we would have a better opportunity to get our trading partners, our G7 partners in particular, to agree that this will ease some pressures on the international financial markets in the future and therefore should allay some of the concerns which the Bundesbank and others have about long run inflationary pressure allowing them to adjust their own policies.

I would say the main thing we can do is to continue to emphasize the importance of global cooperation. I mean, we must. We have too interdependent a world to get around it. But we can come to the table with a more effective negotiating position. So that's my first point.

My second point is that regardless of the vagaries of cyclical slowdowns and pickups, there are some very important export issues which we can always address. These are issues of market access barriers and of the way we promote our own exports, of our export financing system, of the use of our trade laws, and of the use of our negotiations with our foreign partners who give us in any market around the world the best opportunities we can possibly have. That would be my strategy.

Senator SASSER. Thank you very much.

The CHAIRMAN. Thank you, Senator Sasser.

Senator Moseley-Braun.

OPENING STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

First I would like to make my statement and then I have some questions for Ms. Tyson.

In some circles, Ms. Tyson is considered to be an unconventional choice. In my view, however, an unconventional choice is precisely what is needed. This election was about change. It was about ending business as usual. Making change happen requires innovative, creative, and unconventional approaches.

Ms. Tyson is a microeconomist. As I understand it, her expertise is concentrated in the areas of trade and international economics, competitiveness, and industrial policy. In reading some small part of her books and articles, I was struck by the fact that Ms. Tyson

has always looked behind the conventional assumption of macro-economic analysis.

Challenging old assumptions is something we must continually do if we are to make the right policy choices as we attempt to solve problems and deal with the process of change.

I don't want to take a lot of time with this statement, but I want to take particular note of a comment that you made on education. In an article entitled "The Dynamics of Trade and Employment," you said a high tech America requires a work force that has the skills and training that are needed to use the new technologies. The U.S. educational system from kindergarten through college must be modified to meet these new requirements if American workers are to be able to compete in the world economy with rising rather than falling wages.

I couldn't agree more. Ms. Tyson has put her finger on a serious problem and her analysis is right on the money.

I agree that education must be among our top priorities and that education has a direct relationship to the success of our economy in general and to the prosperity of American workers in particular.

However you define industrial policy, it seems to me that education is a critical part of it. Our principal economic competitors, Germany and Japan, clearly understand how important education is. Japan has a longer school day than we do, a longer school year than we do, an extremely rigorous academic curricula. Germany works closely and cooperatively with its businesses to ensure jobs for German school graduates.

Education is an investment in our children and an investment in our future. Given what our international competition is doing, we cannot afford not to make a larger and better investment. We cannot afford not to make the investments in education and job training that are so critically necessary to respond to the challenges from abroad.

Laura Tyson has said that a country's people may be its most precious resource. I share that view. And I think we must all dedicate ourselves to giving every American the opportunity to fully utilize their talents and not just because it is the right thing to do, but also because it is the best thing to do for our economy and the future of our country.

This is the Banking Committee, and we do not have jurisdiction over Federal education programs. This nomination however is a reminder that education is directly related to our future economic prosperity. To state it another way, our ability to compete in the international marketplace depends in the final analysis on how well we educate all of our people.

I strongly support this nominee. I think Laura Tyson is precisely the kind of person needed to advise the President in these difficult times. Her approach to trade, employment, and international competitiveness issues is a sophisticated one. It is not blinded by the ideology of a particular economic theory. Instead, its underpinning is a tough-minded look at the evidence and her policy prescriptions are based on the way the world is.

I look forward to working with you, Ms. Tyson and with the administration on education, trade, competitiveness, industrial policy,

and a whole range of issues where reform is so greatly needed and so long overdue.

Now, I had a couple of questions. Specific questions. And I beg your forgiveness. I was in the Judiciary Committee this morning. This is our day to take up lady nominees.

But I have not seen any discussion, Ms. Tyson, of your position on the NAFTA. If you could talk about that for a minute.

Ms. TYSON. My position on NAFTA is really absolutely in accordance with President Clinton's position. During the campaign, indeed, he made a speech which I felt captured the pros, the strengths, and some of the issues that needed to be dealt with additionally in NAFTA perfectly. And what the speech really indicated was a number of things.

First of all, I think it starts with the premise that any trade agreement, no matter how good, cannot be a substitute for a series of domestic policies. So one of the things about the Bush administration was they had some very good trade initiatives, and I think the NAFTA was a very good trade initiative. But they didn't really have a set of very supportive policies for the domestic economy, education policies, pro-investment policies, research and development policies, a whole host of policies.

So the first thing to say is that the trade agreement should be viewed as a complement to a very strong set of domestic policies, not as a substitute for them. President Clinton made that point.

As far as NAFTA in particular, he made the point correctly that there are some real benefits to the United States from this agreement in terms of breaking down barriers to American products in Mexico, tariff barriers, barriers to direct foreign investment by American companies, barriers that have to do with preferential procurement. Mexican state-owned enterprises were preferentially procuring Mexican products, but now they will be much more open to buying American products, not Mexican products. So it really creates a series of market opportunities for American exports. And indeed we have already seen a boost, a rather significant boost, in American exports to Mexico, simply as a result of Mexico moving unilaterally to break down some of its own barriers. This would take the process further.

On the other hand, we cannot overlook the fact that there will be certain regions, certain workers, certain communities, certain industries that will, as a consequence of increased competition with Mexico, suffer some dislocation costs.

Significantly, I think it is important to note that in many cases, the workers affected or the communities affected may in fact be the workers and communities who have fared the least well during the last decade. That is, you have a situation where imports from Mexico may have a very adverse affect on low-skilled, low-paid workers in the United States who have already suffered quite a lot in the decade of the 1980's. This is a serious issue of dislocation.

What President Clinton has proposed to do about it, what the USTR designee Micky Kantor said in his testimony, is really to try to complement the NAFTA agreement as it now stands with some supplemental agreements with Mexico and with some supporting domestic legislation at home to try to deal with some of these dislocation effects, to try to deal with some of the environmental is-

sues that are also not adequately addressed in the agreement, and to try to deal with worker adjustment assistance as a domestic program to support, really, the movement of workers who are displaced by imports into new jobs.

So I think we need to take the opportunities posed by the NAFTA agreement and come up with other policies to mitigate some of the costs which are there. And I think if we recognize the costs, we can try to do something about them.

Senator MOSELEY-BRAUN. The Chairman actually just brought to my attention your opening statement, because I was out of the room. You say in this statement, and I was taken frankly by the fact that you mentioned it in the context of a short statement—I think it's a very important issue. Since 1980 the proportion of full-time workers with annual incomes below the poverty rate for a family of four increased from 12 percent to nearly 20 percent. It is precisely that kind of dislocation, that's the group that is most impacted. And I am encouraged to hear that in consideration of the agreements, the side agreements to NAFTA, that this will be taken into account.

I would ask one other question, and it may be a function of the fact that I don't have the clout of Chairman Riegle, but previously I was attempting to get specific data regarding the impact of the NAFTA with regard to specific industries in my State, Illinois. That information was not forthcoming. I don't know that it wasn't available, but it was very difficult to try to access that information.

I think it would be very helpful for us as legislators to be able to pinpoint at a given point in time where the impacts are predicted to be. That's not to say that they will necessarily be there, but certainly where those impacts are predicted to be.

Ms. TYSON. I can assure you that the Council will definitely be studying and keeping an ongoing analysis of the agreement as it develops and where the dislocation is occurring, how severe it is. I think that this will be a major area of research and advice that the Council will be involved in throughout this period.

There have been a series of studies that have attempted to do this either by industry or they've tended to do it roughly in regions of the country. So I intend to bring to you some of those. But we will be doing our own research as well.

Senator MOSELEY-BRAUN. Excellent. Thank you.

The CHAIRMAN. Let me say, Senator Moseley-Braun, that I feel just as strongly about that as you do. We are going to get that information one way or another.

Senator MOSELEY-BRAUN. I wasn't alone.

The CHAIRMAN. I say that in a cooperative sense. This goes right to the heart of the issue. There will be a lot of contention over that question.

Senator MOSELEY-BRAUN. One further question. My time's up, isn't it.

The CHAIRMAN. It is. Because I think we still have people who haven't asked we probably ought to move ahead. But maybe you could give it to Ms. Tyson for the record, or do you want to wait for a second round? We're going to have a second round.

Senator MOSELEY-BRAUN. We'll have a second round? All right. Then I'll wait for the second round.

The CHAIRMAN. All right. Thank you.
Senator Gramm.

OPENING STATEMENT OF SENATOR PHIL GRAMM

Senator GRAMM. Thank you, Mr. Chairman.

Dr. Tyson, I take a fairly straightforward view of presidential nominees. I believe we hold elections, people make decisions, people know or should know the kind of person the candidate is going to appoint. So I take the view that within the constraints of competency and credibility, that we owe it to the voter to confirm the President's nominees. And based on everything I see, you have competence and credibility, and it is my intention as of this moment to vote to confirm you.

I would like to touch a little bit on what Kit Bond said, and then I would just like to throw out a few questions.

I have been in Congress now for 14 years, and especially in the last 12 years, I have been involved in a lot of discussions in setting public policy, since my party has had the White House. I have never found a shortage in those discussions of pragmatism, of real-world concerns, of political reality checks. What I have found a shortage of in almost every case is economic reality checks. And I think it is fair to say, going back to President Kennedy, that the Council of Economic Advisers has been primarily an advocate for free markets and free trade. Not a blind advocate, but nonetheless, as fundamental principles that built the American economy, that won the Cold War, that tore down the Berlin Wall. Recognizing that the President has cabinet members whose job it is to deal with individual areas, the Chairman of the Council of Economic Advisers has been a spokesman for the American economy and the principles that built it.

I think that this is especially important given that there is no vocal, organized constituency for economic freedom. I am sure you are aware from your involvement in the campaign, but if you're not already then you will soon discover in Washington, that every industry thinks free enterprise is a great and wonderful idea for everybody but themselves. Every interest wants fair and free competition for everybody but themselves. Of a thousand people who talk to me about opening the Japanese market, 995 of them really want to close our market.

So I do hope that as you prepare yourself for this position one of the things you will do is to go back and look at the history of the Council of Economic Advisers, of the historic role that it's played, and look at taking on that role yourself. I think it is very, very important.

I would like to touch on a couple more things. I would like first of all to ask you as an economist if you favor the North American Free Trade Agreement?

Ms. TYSON. OK. Can I just say parenthetically before I answer that question that I have been exploring the history of the Council and I am talking to as many of the previous chairmen as I can find and will talk to all of them. And I do take as its role the traditional role, which is to analyze things economically, not politically, but economically, what are the economic pros and cons of a particular policy.

And I daresay that I do understand, as you suggest, and it is suggested quite clearly in my work, that oftentimes when an industry is asking for something, it is asking for something that really is of a protectionist nature, and that is not really what I think we should be about. We should be about trying to have free and open markets but recognizing that we don't always have that choice.

I just want to say that I sort of concur with your opening statement.

On the issue of NAFTA, as an economist I do support NAFTA. I think most economists support NAFTA. I think I recognize some of the shortcomings of NAFTA. I have, again to go back to my comparative work for a minute, if you look at the history of free trade arrangements, say in the European Community, which really has had the most far-reaching, most effective free trade agreement, when they started in 1957, they started with where we're starting now with NAFTA, really with just a breaking down of trade barriers. They really didn't go much further. They did that gradually over several years, over a decade, just as we are proposing to do in the agreement with Mexico.

So you phase in the breaking down of barriers to give communities, industries, and workers time to adjust. And that's what we are doing and I think that's correct.

What the Europeans have done, though, very effectively, and I think this is where we need to worry about the supplemental agreements and the complementary legislation, is they have recognized that you need to deal with issues of different standards of worker safety, you need to deal with environmental issues, you need to deal with regional disparities, you need to deal with worker training issues so that the individuals or communities or industries who are adversely impacted by a free trade agreement do have some ability to make that adjustment gradually and with some support. And that's really the only issue, because free trade as any proponent of it understands, creates net benefits for the country. But often when you look at the allocation of those benefits, there are some people who are being hurt and some who are being helped.

There are ways policy can be used to spread the net benefits more evenly, and that's really what I think.

Senator GRAMM. I hope when you do that that you'll take a good look at the old Trade Adjustment Assistance Act that we started under the Kennedy administration. I think by the time that we eliminated it, that there was pretty broad consensus that it had not worked out as we had hoped it would. The problem as it turned out was that you ended up with differential benefits to people who lost their jobs due to foreign trade and people who lost their jobs due to technological change or the failings of their management. So needless to say, almost everybody wanted to claim that they had lost their jobs due to foreign trade.

Ms. TYSON. I understand that.

Senator GRAMM. I want to try to ask you sort of a hypothetical question. Let's say we get into a dispute with one of our trading partners, say Japan. And let's say that it becomes very difficult to determine what is fair trade. One of the difficulties I have is almost always I want to be sympathetic with the people who say that

they suffered from it. Someone brought up Airbus and the European subsidy. I don't know how you'd go about measuring the American subsidy to our aircraft industry that's come from defense. I just don't know how you'd measure it.

But let's say we have great difficulties, that we're on the verge of a trade war, and let's say that we had an idea that was proposed that says there really isn't an effective way to measure fair trade, other than to eliminate all barriers. And let's say we had a proposal to have a free trade agreement with Japan. What would be your reaction to that?

Ms. TYSON. I guess consistent with what I said at the beginning, which I do believe, if we had a multilateral—in this case you're talking about a bilateral arrangement where we had a credible set of rules which really broke down all barriers and enforced that breakdown.

Senator GRAMM. Let's say hypothetically you could, no barriers, no tariffs, no licensing fees.

Ms. TYSON. But you see, you have to go further. That's not enough, in the case with some of the dealings that we have with Japan. Because, for example, we'd have to go much further. We would have to harmonize our regulatory institutions.

Let's take the area of telecommunications. We tried to do a little of that in the Moss talks in mid-1986. But the truth is that we made some progress but not complete progress. A company, therefore, like Motorola, with no quota, there was no quota, there was no tariff, there was no licensing problem, there was an issue here of sort of how the regulations in Japan in the telecommunications market worked and who could decide which agency in Japan could decide which company could compete.

So you'd actually have to have a very far-ranging agreement, which really harmonized a series of policies which are primarily motivated by domestic considerations but have very significant international ramifications. That's why you see in Europe, for example, they're moving so much further, even though there has been some slowing down of the European integration process with the problems in the European monetary system. Nonetheless, if you look at what's happened between 1986 and 1992, you will see a tremendous number of areas. They are harmonizing tax policy, regulatory policy, business practices policy, antitrust policy, standards, practices, how you test a product for whether it meets consumer safety standards or not.

I mean, we would have to engage, with a country like Japan, where the nature of the barriers are not tariffs, quotas, or anything overt, we would have to have a very far-ranging agreement. Now if we could pursue such an agreement, I would suggest we give it a try. That is, I want to say that a hypothetical of that significance is one that we might want to consider. I don't see that as an option for the foreseeable future.

Therefore, I see us much more involved in particular negotiations on particular sectors. How are we going to deal with Japan in the financial services area? Well, we've been doing it during the 1980's on a sort of case-by-case basis. This regulation, that regulation, what kinds of American companies should be allowed to participate

in what markets? I think that will be our modus vivendi for a while.

The CHAIRMAN. Thank you, Senator Gramm.
Senator Mack.

OPENING STATEMENT OF SENATOR CONNIE MACK

Senator MACK. Thank you, Mr. Chairman. Let me express my welcome to you to the committee. I am going to pursue some of the issues that I think Senator D'Amato raised about the tax thing because I, too, read the same article. And maybe if I put in a couple of other comments that were in that article you might understand why we kind of focus on that. Again, it is the Los Angeles Times article that I refer to.

One particular paragraph says, anyone who bothered to look at the evidence in 1988, and apparently precious few did—I'll agree with that—would say that significant cuts in spending and increases in taxes were required to restore fiscal sanity.

The next paragraph goes on to say, to avoid being hoodwinked again, Americans should demand facts rather than fairy tales. You set up a context there in which a demand for action—so I think it's natural for people to conclude as they get into the balance of the article, two additional paragraphs that I would read, one of which has already been indicated, there is no relationship between the level of taxes a nation pays and its economic performance. American voters should be suspicious of any politician who promises not to increase taxes on the grounds that higher taxes would hurt the economy.

Next paragraph, once the recession is over, if we increase our overall tax rate to the average rate paid by other advanced industrial countries, we could raise an additional \$400 billion to \$500 billion in Government revenues and miraculously cure our deficit problem.

In that context, I think people who read that article, especially during the campaign season, it was natural for people to conclude that since tough decisions are going to have to be made and people were hoodwinked in the past, what you are laying out is that in essence clearly if other nations can bear the burden of the tax rates which you were referring to, clearly our Nation could as well. And miraculously take care of the deficit problem. I think that's the context.

So, again, you've already responded to it. But I think it's fair to say that many of us do conclude that your advice to President Clinton would in fact be to place quite an emphasis on raising taxes.

There's one additional question I guess I would ask. Again, the implication is that increased taxes really have no economic impact. But yet you go on to say that once the recession is over, you would suggest that these taxes could be increased. And if there is no economic impact, why wait until the recession is over? And if there is an economic impact on the recession, I would argue then that raising taxes will have economic impact on the Nation as well.

Ms. TYSON. First of all, the relationship between the level of taxes and economic performance, I said there was no simple relationship between the level of taxes a nation pays and its economic performance. That actually is a correct statement if you sort of look

into the literature and you look at countries over long periods of time, not taking into account their cyclical position, but just sort of looking at it over long periods of time.

Senator MACK. Let me ask you the question. Maybe this is something that cannot be answered from a mathematical model. Do you think that tax rates and the types of taxes that we choose can have an impact on a nation's economic performance?

Ms. TYSON. Absolutely. This was actually a statement that was fairly specific. The level of taxes as a percentage of GNP, the level of taxes as a percentage of GNP, look at the rates of growth of economies. If you're trying to establish a simple relationship between the rate of growth of an economy and taxes over GNP, you couldn't do it.

But the composition of taxes is critically important. I think there that I would say that I am in broad agreement with the notion that we have a system which really discourages investment.

Senator MACK. Would you be for a lower capital gains tax?

Ms. TYSON. I would be for a series of tax initiatives that would encourage investments.

Senator MACK. If I could ask you to be a little bit more specific, would you support a lower capital gains tax?

Ms. TYSON. Ones that we are discussing, as you know from the campaign, are investment tax credit and targeted capital gains tax relief for the formation of new businesses held for at least 5 years.

Senator MACK. I might add I applaud that. I think that is a good initiative.

Ms. TYSON. Taxes do a number of things. They collect revenues, but they also, as I said earlier, I don't think you were here, really have incentive and disincentive effects. We have to think about what we want to encourage and what we want to discourage. We want to encourage investment. We have some sense of how to do that. That is, we have a history of the ITC, we have a history that tells us if we have an investment tax credit and we formulate it correctly, we can get more investment. We unfortunately—and here I mean we as economists and we as policymakers—do not have a very good sense of what to do with taxes to encourage savings.

The evidence on the use of taxes to encourage savings, say through IRA, is very sketchy and inconclusive. That doesn't mean we shouldn't try to continue to find ways to use tax policy to encourage savings, because we need in this country to increase savings and increase investment.

We might want to consider using taxes to discourage certain things, to discourage pollutants. That's a way of discouraging activity.

So I do want to absolutely concur with your statement that the composition of taxes that a society chooses, if you put a tax on labor, if you make labor very expensive to hire, you discourage people hiring workers.

Senator MACK. Because of the limited amount of time, unfortunately I have to go off to another meeting, and maybe I will come back if I could.

You're not suggesting in this article in any way that you believe—or let me rephrase it. Do you believe that we can impose

\$400–\$500 billion in taxes on the American economy without any significant impact to our growth rate?

Ms. TYSON. No, I do not believe we can do that, particularly because this economy—remember, I was making a kind of long run comparative statement. This economy is with substantial excess capacity. It is a very weak economy, a weak growth rate. And we do not want to impose a significant tax burden on it.

Senator MACK. Suppose for a moment—I assume you believe the recession is over by economic terms at any rate.

Ms. TYSON. The recession is technically over. But the problem with that, that's what I would emphasize, being a real world economist, as opposed to one that simply looks at a statistic.

The recession is over. Maybe that is good news, but you might interpret it as bad news, since basically we have a 7.3 percent unemployment rate, we have 9.9 percent in the State of California, we have 7.3 percent in the State of Michigan. We have a recession which is technically over, but the recovery differs dramatically from other recoveries. So we may want to pay attention to that fact more than the fact that the recession is technically over.

Senator MACK. You're saying that there really has to be a lot more strength in the economy before you start imposing additional burdens on the economy through taxes?

Ms. TYSON. Yes, absolutely. The economy should be stronger before we do that.

Moreover, I want to emphasize that we want to employ tax policy not simply as a revenue device, but also as a device to encourage things which we need, like savings and investment. Therefore, whatever tax policies we as a society take, we should be very clear about what our goals are.

Senator MACK. You mentioned in the same article about making touchy decisions of raising taxes on the upper income Social Security recipient. Now I might be particularly sensitive to that, since I represent the State of Florida, but we will let that go by. Why would you put the emphasis on the tax side as opposed to, say, doing something with the benefits?

Ms. TYSON. Let me emphasize again that what we need to do is to look at everything, and I think we have to look at everything in terms of their economic effects and their political feasibility.

And what I hope is that that article, that is one possible thing to look at. It may not, in fact, be the thing that ultimately emerges from our discussions together, both as the Clinton economic team and our discussions with the Congress.

But it would be foolhardy to not consider that along with a whole series of options that we must go through in order to handle the deficit problem in the long run. So it is not an espousal of that position as opposed to that and not something else. It is one possibility among really a very wide range of possibilities which we all must consider, and that really is what President Clinton was, I think, suggesting when he talked about sacrifice.

Senator MACK. I'll just make a followup—

Ms. TYSON. Could I say one other thing?

Senator MACK. Sure.

Ms. TYSON. One of the things I think is important is to really I think come to terms with the fact—I have been arguing we have

a problem because we have a weak economy and we have a big deficit problem. There is a third thing we have, which is we really have had a decade of worsening equality. I think we must come to terms with that. We have to deal with the deficit, deal with the weak economy, noticing that the disadvantaged have become relatively more disadvantaged, and the very rich have become relatively more advantaged. So that we have equity concerns, we have deficit reduction concerns, and we have growth concerns. And we have to deal with them all at once, it seems to me.

Senator MACK. Since you've mentioned that—

The CHAIRMAN. Please go ahead.

Senator MACK. My concept of—and I agree with you.

I travel around my State and around the country. It is clear to me that there is a widening gap, the impression clearly of a widening gap. The question is, how do you deal with it? And I don't think you deal with it by the old concept of redistributing income through the tax system.

I think when you look at what's going on in our country today, those who are not doing well, you referred to the fact that we can create jobs and people can be at work but they don't have sufficient income. That is most likely related to the fact that they have not been well educated and well trained, that they don't have the capabilities of being able to compete for a job in a highly technical position.

And so if we focus on the tax code as a means to trying to narrow the gap, then I think we are heading in the wrong direction. The direction ought to be to help the individual help themselves in the long run, not through the tax codes.

Ms. TYSON. I certainly agree. I don't want to give the impression that I suggest we use the tax code as the sole or even the main mechanism for dealing with the growing gaps in U.S. society.

But it is the case that the way we engineered tax decisions and spending decisions in the past decade, we have actually not done enough to reverse some of that gap. But it is certainly not the only mechanism for doing it. In fact, I think one of the important parts about the Clinton program is the notion of trying to use education policy, use training policies, to really create a more highly skilled work force that can take advantage of opportunities. And that's a much more important long run mechanism, much more important than simply moving everyone around on the taxes.

Senator MACK. I guess the point I would make, Mr. Chairman and then I will quit, if our objective is focused totally on the idea of narrowing the gap—

Ms. TYSON. But it isn't. That's only one.

Senator MACK. Let me just make my point. You may very well agree with me, and that will be fine.

If our objective is to narrow the gap and yet everybody is worse off after narrowing the gap, that's not the process we want to follow. If, on the other hand, the gap grows but yet everybody is better off as a result of it, we should not focus on the gap, we should focus on how well people are doing. My concern again is that if we focus on the tax code to do that, it's a mistake.

Ms. TYSON. I certainly agree with you. What we really want to do most is get our overall GDP per capita growth rate up so every-

one, wherever they are in the distribution, is doing better. That's our primary goal. And I think we should handle that really by a whole host of policies which are really primarily about getting the right public investment in education and training and all the rest, the right health care system and the right amount of private investment, which we will probably, I would argue, on the private investment side will be using tax incentives to try to do that.

Senator MACK. Thank you.

The CHAIRMAN. We will start a fresh round here now.

I think this is a very important discussion that you and Senator Mack were just having and I want to follow on in part with that.

When you and I spoke earlier this morning we talked about the goal of fostering the creation of 8 million jobs here in the United States in the private sector over the next 4 years as being a sort of benchmark goal that is at the center of the economic strategy formulation. If you think of that as a linear path of equal parts over 4 years, that's 2 million jobs a year, about 165,000 jobs net each month.

The administration is just hours into being. If you take January, for example, of 1993, which we are finishing, that's 165,000 jobs net this month if we're going to climb that 8 million job growth curve over 4 years. It is an extraordinary challenge. I mean, it is sort of a breathtaking challenge.

But when you strip away all the rhetoric, what went wrong in the 1980's, underlying trend lines in my mind, clearly that's the bottom line. We have got to achieve that goal. We can't do much about changing the disparity of incomes, the social disruption and disorder that we are experiencing in the country, or anything else. If we don't get more high skilled, high-wage jobs created, the entire policy as I see it has to be focused to drive that goal. In fact, I think every single policy decision that's put on the table has to be measured by what its impact will be on job growth. You mentioned a number today. Government regulation, credit policies, investment policies, how do we structure and perhaps change the tax code to drive job creation? How do we offset some of the trade cheating that other countries are doing in a variety of different ways, and so forth?

I think every cabinet department ought to be asked on every policy recommendation they make, what does this mean in terms of whether or not it helps foster private sector job growth in this country? I think it's a desperate problem.

We talked about Japan. Japan today, despite all the crocodile tears that I hear from some about the problems in Japan, has an unemployment rate of 2½ percent. They just decided to invest \$80 billion in infrastructure investment to give their economy a lift. And we are trying to decide whether we can come up with an amount one quarter as large as what they're spending.

You are just sort of left wondering how we think we're going to move ahead in this very tough global economy if we are not prepared to drive the issues that relate to job growth here in the United States. I want to submit to you that that directly relates to NAFTA. I have agreed with virtually everything you have said today, except I still detect a level of unreality in the administration on the NAFTA agreement.

Senator D'AMATO. Which administration, Mr. Chairman?

The CHAIRMAN. This one, the one that's just taken power. It's even worse than the previous one. And that's one of the reasons they're out the door.

It was very interesting, if you listen to what Ross Perot was saying in the campaign, as a Texas businessman, he was very tough on the issue of the international trading system where the cheating occurs, and the revolving door problems, but also on NAFTA. I daresay that if the editorial writers in the country, and the professional economists—and I don't aim this at you personally—were facing direct competition from a \$1.50 hour economists and editorial writers in Mexico, I'd have a long line at my door as a member of the Finance Committee to do something about this unfair competition. Economists would be the first ones here. I mean, they might be second to the editorial writers—

[Laughter.]

The CHAIRMAN.—who think it's a wonderful idea. But let me tell you, they'd be tearing the door off its hinges here to say this was unfair and they didn't want to lose their livelihood. And they would be thrust into this swirling pool of underemployed and unemployed people because they couldn't face off the \$1.50 wages down in Mexico. That is a huge problem. And if it gets clothed in enough gossamer language so that we think it's not a problem, we're going to find it very hard to climb this 8 million job track over the next 4 years.

Having said that, I want to come back to this chart I talked about a little bit earlier, because this is a stunning portrayal of the problem in America today. If you look at the duration of this recession, we are now out of it 28 months. If you look at the dotted line, which is the average of the last seven recessions since the end of World War II, as we came out in months, by the time we were out 12 to 16 months, we hit the trough of the recession in terms of job loss, and then we started to climb out of it. We regained the lost jobs below this zero line that represents a loss in jobs, and then we got up into positive territory and we were adding jobs. And on average, we would have added over 2 million jobs by this point in terms of when it is said that this recession started.

I think you quite accurately today responded to the question that someone asked as to whether the recession is over, that's not an easy question to answer because some might argue that in a technical GNP growth sense it's over, but it certainly is not over in a job sense. We're down here. We have not recovered the jobs lost in this recession, let alone gained the jobs that we need on the margin. So our loss here is the difference between this point and this point.

Now, this administration hits the deck today having to take and drive this job curve 8 million jobs over 4 years. This is what's being handed off to you. This is where we are; this is reality. And I say to all the economists in the country that have all kinds of models and so forth, if the model talk and the policy talk doesn't start from this reality, then we're off base and we're not going to get the answers that we need.

I want to show you one other chart here, and I am going to ask you to react to it. If you look at the issue of manufacturing jobs,

all kinds of manufacturing jobs—not just in the automobile industry which is important in my State, but across the board, supercomputers, things of that kind—if you look up here at the percentage of manufacturing jobs that the Germans have managed to maintain in their work-force since the 1960's up to the present time, they have a percentage nearly twice ours in terms of the percentage of their work force in the higher-skilled, higher-wage manufacturing jobs.

Japan, which represents the green line, is also higher than we are. And they have managed over these decades to sustain that, partly with their trading practices, partly with other supportive practices for their industries and so forth.

The United States is in a state of long running decline here. We are losing these jobs. I am not saying the whole economy is based on manufacturing jobs, but if we want to consume manufactured products in large numbers and large volume, we'd better produce some of them because we don't have a way to pay our bills. That's why we're the number one debtor Nation. We're consuming all these foreign-made goods and we're borrowing the money from other countries to buy these goods and going deeper in debt. It's the same thing you see in the Federal budget you see in the international trading accounts. And it's a disaster.

When I look at this line coming down and I see this dwindling in manufacturing base as a percentage of our total employment, I think we have crossed a strategic line where we're now seeing a progressive unwinding part of our manufacturing base. Yes, that can be hidden by profit improvement if they're out sourcing the jobs, taking them to Taiwan, taking them to Hong Kong, taking them to Communist China and, yes, taking them to Mexico. We have over 70 American automobile plants, Ford, Chrysler, and GM that have gone to Mexico to take advantage of \$1.50 an hour wages. I guarantee you that almost every single one of those jobs that's gone to Mexico has left the United States.

Smith Corona is in Senator D'Amato's State who took the floor and argued many hours on this issue. They have been forced to close, as a result of trade cheating which is well documented, and go down to Mexico to take advantage of low income wages. And in Cortland, New York, the people up there that have lost their jobs are not finding replacement jobs. The same is true in Michigan and the same is true in all 50 States. There is not a State that's immune from this, including your home State; California is caught in this tumble.

I have got to assure myself that I've got a commitment from the economic thinkers of this administration to see to it that the jobs we need are going to come on line. And I am not just talking about jobs for editorial writers and economists and others that are off in the part of the economy that is quite sheltered, and are not really directly confronted by the ruthlessness of international global competition right now.

I have got to have some understanding that the new administration is going to put a premium on high-skilled, high-wage manufacturing jobs in this country throughout the 50 States, and that we are going to commit ourselves absolutely to drive up this curve of 8 million jobs over the next 4 years.

That's going to jolt some people because we are not used to thinking that way. We are used to cashing in other people's opportunities if we are a holder of capital and maybe making a nice gain on that. If some other person in society loses their job, well, that's just tough luck. That has to change.

And I took what the President said yesterday to be an absolute commitment to the American people in terms of our economic future that there are going to be enough good jobs to go around in this country. Am I right in making that assumption?

Ms. TYSON. I think that jobs are a priority issue, have been a priority issue during the campaign, and will be a priority issue for the administration.

Let me just say something to respond to your manufacturing chart here. Some people look at that chart and they say, well, look, this reflects that we have had a tremendous growth in manufacturing productivity in the United States. Output has been growing and employment has been declining, but this is good news because of productivity.

But another way to look at that, and this was actually brought up by someone from the National Association of Manufacturers at the economic conference in Little Rock in response to a direct question from the then President-elect Clinton, can we have more manufacturing jobs in the United States, or is it just that we are so productive that we are going to have fewer and fewer and fewer?

And what this man from NAM said was, we can certainly have more manufacturing jobs in the United States if our producers were able to capture larger shares of global markets. That is, if we were a larger provider of manufacturing products, even though we had very productive manufacturing workers, we could employ more of those workers.

The first thing is to say that we needn't think that there is a tradeoff between improving productivity in manufacturing and jobs in manufacturing. That we should be thinking that improving productivity in manufacturing with a bunch of other policies may actually allow us to get greater shares of world markets and therefore more manufacturing employment.

Now, what are some of the other policies? I think the first thing it's important to recognize is that in many of the industries behind this chart, we're back to what I was talking about earlier. That is, the U.S. companies are facing competition which is not simply or solely a free market competition. There are issues of promotion abroad and there are issues of market barriers abroad. And we have to fight very hard against those.

For example, in the auto parts case, I don't think we have set aside again as a result of the Moss talks coming out of the mid-1980's, we were supposed to be exploring with Japan the possibility of increasing our share of their auto parts market.

The CHAIRMAN. We haven't done very well, have we?

Ms. TYSON. We have not done very well. We have 1 percent of the market and the whole entire foreign share of their market is about three. This is an area where we should be able to do better.

We have not done well in terms of providing financing for exports of small- and medium-size manufacturing companies in the United States, and so if you look at their export performance compared to

similar companies in other parts of the world, we're under exporting. We should be able to help these companies gain access to market information and to lines of credit, really, so that they can export more to the rest of the world. If we did that, we would be able to have more manufacturing jobs, even though they are productive.

So I think we should have as a goal to try to increase the number of these jobs. If we have that goal, then we can make policies to achieve it.

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Dr. Tyson, let me say I have listened to the questions being put to you. I must say that there were some tough ones, some probing ones, and some soft balls. But that's the nature of this. Whether they were tough, or whether they were soft balls, you certainly demonstrate a commanding knowledge of this area and of our economy and our problems that we face.

We may not all agree on all of the solutions that you put forth, and certainly as it relates to taxes, maybe we'll have an opportunity to discuss this in the future, not necessarily in the public arena, maybe unfortunately in the public arena, but as it relates to taxes and how you view the overall economy. I understand that in a limited period of time you've attempted to do the best you could to explain what you were writing to as it related to the possibility of increasing taxes at the levels suggested in the article that both myself and Senator Mack alluded to. I find that somewhat disturbing.

But I have to tell you I have found disturbing a policy of blindness, of outright manipulation of the law, that has existed for more than this past decade, where great corporations will send letters suggesting that the Commerce Department and the Congress allow the law to be broken because they are dealing with another foreign corporation, and they don't care that at other levels and at other companies workers will lose their jobs because the law is allowed to be broken.

I am talking about IBM, who sent this Senator and others letters that said, look, don't worry about the circumvention of laws and third parties participating to get around the antidumping provisions. They did that. And I have to tell you something, I read this article, December 12 in the Washington Post, that if there is anything to commend your appointment to this position it is that the old boy network is disturbed with you. They are disturbed because you are looking at some of the practicalities of what has gone on, you and your associates, in terms of permitting the kind of abuse that has taken place. And we are afraid to stand up and say to other countries, hey, wait a minute, we're not going to permit you to continue this.

I have had members suggest to me that if we insisted on fairness and that the law be adhered to as it relates to those who are dumping, those who are circumventing, those who are cheating on the process, that this might create a bad situation, that they might withhold credit from us, that they might not come in and buy our bonds at our Treasury sales. Can you imagine? And it's not going to get better unless we stand up and do what's right.

I am not suggesting a trade war. I can see it now, oh, here it is, D'Amato wants a trade war. But at some point in time you have

to say, if we have a law and this is what it says, tell me why we shouldn't enforce this law? I mean, this one is a big superpower, or that one is a country that we can't afford to alienate? And so consequently you're going to look the other way? I mean, that's what's happened.

I don't know whether it happens because of high-priced lobbyists who come in, or former colleagues who come in, the fact that they can go and speak to presidents and secretaries, et cetera on behalf of their foreign clients. Now look, we want fair trade and free trade. I think that's where you're coming from.

And I have read your articles as they relate to that, and I have to tell you, you're going to have one tough job, Laura D'Andrea Tyson. They'll be after you, they will hit you. Forget the taxing. Let them all talk about tax incentives. That's good. Investment tax credits? Absolutely terrific.

I liked your talk about securitization, and I hope at some point in time, Mr. Chairman, we'll be able to do that as it relates to making credit available to small businesses. Because certainly that's the engine that's going to pull us out. And, yes, we had better come to the realization that unless we begin to see to it that there is fairness in the marketplace, we'll be in real trouble. The ball bearing industry destroyed deliberately. We have a Treasury Department that's got a case against the Japanese. They've been goofing around with that thing. They applied the \$600 million fine. They will never push that case, never. Because the big boys are in there trying to stop it from taking place.

So if you persist in the kind of overall theme that you have developed and that you know to be the case and stand up, you will be doing yourself and this Nation a great service. And I just wish you good luck.

Ms. TYSON. Thank you.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I will be very brief, because I take it that we're going to be bringing this hearing to a close. I just want to pick up on something that Senator D'Amato just said. I want to quote one paragraph from a column by Robert Kuttner, a columnist for whom I have great regard, entitled "Real World Economist."

The Nation's leading economists who gathered this past week at the annual meeting of the American Economic Association are upset that Bill Clinton did not draw from the old boy network to select his chief economist. Instead, he picked Laura D'Andrea Tyson of the University of California at Berkeley, an unconventional economist with a dazzling intellect, who chooses to work in English rather than algebra, and to study the real economy rather than build sand castles.

I agree with that paragraph, although I think it's overstated. My understanding from the AEA is that they had a few malcontents who were expressing their view and the rest of them were all very supportive.

I understand that the letter from Bob Solow has been put in the record. But I just want to quote from it. The Nobel Prize laureate at MIT: I have known Dr. Tyson since she was a first-year graduate student at MIT about 20 years ago, and I have followed her

work ever since. We are proud of running a tough, highly competitive Ph.D. program at MIT. I can tell you that Dr. Tyson got an A from me in the course in macroeconomic theory, by the way, and came through as one of the A list graduate students of her cohort. She has had first rate training and has profited from it.

He then goes on: Dr. Tyson is an excellent economist. And he discusses some of the specifics of that. And he closes by saying: My summary of you is that Dr. Tyson will be an able, knowledgeable, and effective chairman of the Council. She will be able to bring the best economic knowledge of the country to the service of President Clinton. It is an excellent nomination and should be confirmed with enthusiasm.

And Mr. Chairman, I simply want to register that I am prepared to confirm this nomination with enthusiasm.

Thank you very much.

The CHAIRMAN. Thank you, Senator Sarbanes.

Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Professor Tyson, you and I both are slowly learning some of the rules of the Congress, and I have many of them to learn having been an old hand of maybe 2 weeks. One of them is I am discovering that you make a speech before you start talking.

[Laughter.]

Senator FAIRCLOTH. So I would like to say that from what I have read and from what I have seen I certainly plan to support you. I am not totally negative.

[Laughter.]

Senator FAIRCLOTH. I have done considerable study on the University of California, going back to Clark Kerr and Mario Savio, and the promulgation of the multiversity. I did not myself attend college, which is perfectly evident. I don't have to announce it. But I think a number of things we kind of fluffed over and I will be quick with my questions and statements.

One of them is that Congress ended the Marshall Plan sometime about 1953, but they forgot to tell the economic bureaucracy here. And they have continued to go on with the Marshall Plan and the mindset and the concept of the Marshall Plan, and I think it's time it ended in reality.

Another thing is Senator Sasser said—and I was delighted to hear—that you were absolutely from the real world of economics. Did he imply that you had been involved in making a profit and meeting a payroll? Is that what he was talking about?

Ms. TYSON. No, I think he was not talking about it that way. He was talking about the fact that rather than construct elegant theories on the basis of rather rarefied assumptions, my work has been to look at specific industries and specific trade conflicts and specific policies and try to assess their effects.

It hasn't been to construct what I think their effects should be by assumption and then go to find evidence to support my assumptions. It's been to try to figure out what really is there by looking at it.

Senator FAIRCLOTH. In the last 6 years or 8 years or whatever, we've been picking up 20,000 new Federal employees a year while the private sector has been getting rid of employees. In a word,

what can we do to turn that around? Stop hiring the 20,000 a year would be a good start.

Ms. TYSON. That point was actually made in the campaign, that we in fact have reached a state where manufacturing employment in the United States is less than public sector employment. And this is a serious problem.

What you have to do is not simply try to limit Federal employment, which as I said earlier President Clinton is committed to trying to reduce the staff size of the White House, and anticipates that Congress is working in the same direction itself for congressional staff. But the issue is not just cutting jobs in some parts of the economy, but creating jobs in other parts of the economy.

Part of the problem is the lack of job opportunities in the rest of the economy. So if we can work on helping the small business community and the entrepreneurial community and we can help some of our bigger companies have better access to foreign markets, then we will be creating job opportunities in the private sector, and then the imbalance between creating public sector jobs and not creating private sector jobs will be addressed.

Senator FAIRCLOTH. I am excited by what you say about the trade constraints and what you say we've got to do about them to level the balance of trade. I will go on with that. But in the hearings I've been in, not one person has come up with an announced plan or any thought given to reducing Federal spending and employment. That hasn't been touched.

I want to ask one question and I will stop. I am sure this is heresy, but is there any thought—I am a child of the 1930's, 1940's, and 1950's. Has any thought been given to the fact that by borrowing on various Government policies over the last 20 or 30 years, that we have established and led people to believe that they were entitled to and could have a standard of living that the economy of this country simply, in the long range, can't afford?

Ms. TYSON. I would like to suggest that what we should all be trying to do—

Senator FAIRCLOTH. Is it possible that that has come upon us? That we have established in the minds of the American public and in the reality by borrowing money and public policy, a standard of living that in the long term we can't afford? Is that a possibility that we're going to have to, as a Nation, lower our standard of living?

Ms. TYSON. The problem with my saying "yes" to that question or "no" is, what standard of living can we afford? We have some control over the standard of living. The problem for the country is that our standard of living, our productive capability, our productivity, what underlies and what is the foundation of our standard of living has been eroding.

So what we want to try to do is to use policies to improve what prospects for our standard of living are. Then Americans when they expect that their children will be better off than they are will have a correct expectation. But we have got to provide the society with investment, skilled people, public programs that will allow us to achieve a higher rate of growth of the standard of living than we have managed to achieve in the past couple of decades.

Senator FAIRCLOTH. Thank you.

The CHAIRMAN. Thank you.

Senator Kerry and then Senator Bond.

Senator SARBANES. Could you yield to me for just a second?

Senator KERRY. Can I do it without using my 5 minutes?

Senator SARBANES. Mr. Chairman, I just want to clear up one factual matter that Senator Faircloth has asserted two or three times this morning, and that is about the increase in Federal employment.

In fact, there has been a decrease in the number of employees on the Federal Government payroll since 1989, 1987 really. There has been an increase in the number of employees on State and local government payrolls over that period, and I think that's largely the result of an increased number of school teachers to handle school populations and increased safety, police officers and fire officers in some communities across the country.

But it has been put out there a couple of times this morning. And I just want to say that at least according to the economic indicators contained in the latest economic report of the President, the number of Federal employees in December are 2,944,000 versus—of course the 20,000 a year figure is tiny in comparison to that, but nevertheless is less than the number of Federal employees when we go back to 1987.

Senator D'AMATO. Is that civilian employment or all inclusive? If it includes the military, that might account for the difference. And I think that the Senator would be alluding to the civilian population.

Senator SARBANES. That's a good question. That's employees on nonagricultural payrolls by major industry. I think it's civilian, but I'm not absolutely certain of that.

Senator D'AMATO. I think it is of note that President Clinton, and I'm not carrying his water here, because we're going to ask him if he does not do it, has called for a reduction in that civilian sector.

Ms. TYSON. He calls for basically 100,000 reduction in the Federal work force through attrition in the overall Federal work force.

Senator D'AMATO. There's an old story, if I might, Mr. Chairman because I have not used all my time on other occasions, and I did waive basically my opening statement, if I might have the indulgence of my friends on the committee.

When Ronald Reagan was first elected and walked into the Agriculture Department, a huge, huge room there, thousands of people, they were all applauding him and one gentleman was bent over at his desk crying. Did you hear this story?

[Laughter.]

Senator D'AMATO. He walked over to him and he said, what are you crying for? He said, it may be good for you, but my farmer died.

[Laughter.]

Ms. TYSON. I think it's important to emphasize that President Clinton recognizes this problem, both in saying that he wants to try to cut the Federal work force by 100,000 and talking about cuts in White House staff and talking about 3 percent cuts in the administrative cost of Government. He recognizes the problem.

On the other hand, it's important to say that part of this change in the structure of our work force is we haven't been creating enough private sector jobs. So you look at the percentage of the work force employed by the Government sector and it's partly because we have not been successful enough in private sector employment.

Finally, just to reiterate what Senator Sarbanes said, a lot of this is at the State and local level, and there was at least 1 year in which the fastest growing category of employment in the United States was prison guards employed by State and local government.

So we have other problems in our society which are feeding into the creation of these kinds of jobs. And I think we have to address those other problems as well.

The CHAIRMAN. If I may, Senator Faircloth, you wanted to make a point, and I think we need to terminate this discussion. I want to go to Senator Kerry and Senator Bond and the hour is late.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Senator Sarbanes, if I am wrong, the civilian Federal bureaucracy has not been growing constantly over the last several years. And I hope you are right that it hasn't. Then I think more of it than I thought I did.

Senator SARBANES. Fair enough. That's a good response.

The CHAIRMAN. Very good.

Senator Kerry.

Senator KERRY. Thank you very much.

I am increasingly concerned, as others are, about the disproportionate playing field that we are playing on. I know you have a good understanding of it. You've been to our State. Massachusetts has a great dependency on that rapid creation of jobs in high tech and the threat to our economy if they are lost to foreign competition.

What bothers me is that there seems to be a very obvious disproportionate competitive capacity in our relationship structurally and we seem to ignore it. We have corporate entities that have basically been left on their own because that's the way we like to do business in America, laissez faire and so forth, free market. But we are competing in something that is not a free market, not laissez faire. And so these corporate entities are left to try to compete on their own against nation states.

You look at the airline industry today. It's in great trouble. You look at the top rankings of airlines in the world. I think every single one of them are Asian airlines. And other airlines that we compete against are state owned or greatly state subsidized.

I just had officers from a major electronics company come in to visit with me. They have a base in Massachusetts. They own a company, but their home base is in Europe. They are significantly state owned, I think it's almost 70 percent state subsidy again. And we are now having contracts going from our American-based companies to that company for our military on a straight competitive basis, low cost, low bid, et cetera. We obviously can't go on like this it seems to me.

But we've been operating in this sort of hazy world, particularly the last few years. We don't want to touch that. That's industrial policy. No, you can't have the Government involve itself. And we

are just losing. I mean, we've got 16 percent of our base in manufacturing today versus Germany and Japan. More than 30 percent of their people are in manufacturing. We all know what the manufacturing statistics are.

It seems to me that there has got to be a dramatic change in our approach and a major shift in our thinking. And I would like to have your thoughts on it.

You've pointed to some of these problems in certain regards with respect to the computer chips in Korea and so forth.

Could you give me a sense of how clearly you think the Clinton administration intends to attack this and are there any specifics at this point in time as to how to address this imbalance?

Ms. TYSON. Let me say that this imbalance, you have to recognize and what I try to do in the work that I've done is to recognize that there are a number of reasons why a U.S. industry in international competition might face some problems.

We have to make sure from the beginning that we take care of the underlying foundations. We have to make sure it's not a problem of high cost of capital and inappropriate investment incentives. We have had that problem. We have had in the United States a situation in which American companies were unable to or had a disincentive or no encouragement to invest because of the high cost of capital and because of tax laws which were not particularly promotional of investments.

We have to handle a general problem like that. We have to handle a general problem like the skills and flexibility of the American work force. So that a German firm with a higher investment rate and better skilled work force is going to have an advantage.

Senator KERRY. Let me say I accept there are a whole lot of givens about other things. We have a habit of shooting ourselves in the foot on many different levels, and I accept all of that.

Ms. TYSON. Now, what do we do? Assume hypothetically we get all of the rest of the policy right. Then, we will still have problems which have to do with either access barriers to foreign markets or promotional policies in foreign markets which really are disallowed or should be disallowed by international or multilateral rules. And we have some national remedies that we can try to use in those circumstances.

So what should we do? It seems to me we need to try to have a dual track. Actually that's sort of the argument in this book, a dual track. On the one hand, we should be trying to work as hard as we can with our trading partners to get very transparent, precise, enforceable rules about what can and cannot be done. This takes a long time. That is what we did.

We actually did come up this past summer with an agreement with the Europeans on aircraft subsidies. We started to negotiate this agreement basically in 1979, we got it in 1992. The agreement is it does have much more precise rules than we've ever had before. It limits the subsidies. It's very transparent about how you measure them, it's transparent about how the subsidies have to be paid back. It has regular monitoring and enforcement capabilities. So that is something that we want to do as a long run goal.

But it took a long time for us to get there. So in the meantime, it seems to me, we must fall back on essentially a series of sectoral

negotiations where we emphasize in our own negotiations with our trading partners issues of reciprocity where we emphasize here is a problem in a particular industry. How can we negotiate a bilateral or a plurilateral agreement which tries to break down this barrier?

We have done this approach in semiconductors, we have done that with Japan in telecommunications and in supercomputers. We have to, it seems to me, deal with recognizing the problem which has been part of our own problem. Part of our own problem has been not to recognize the problem. Now I think we recognize the problem. So the first thing is this administration recognizes the problem and therefore will start its policies from recognition of the problem.

And then, second, we will try to use the trade laws we have, we will try to use an active USTR, an active Commerce Department, the laws that we have to make sure that we are being treated appropriately in foreign markets or that we can take actions at home to offset or compensate for policies being promoted abroad that adversely affect us.

Senator KERRY. Would you approve of a policy where, for instance, we prefer an American based company with comparable technology, to a foreign competitor where we are thinking of spending Federal dollars for procurement, even if the foreign competitor can do work a bit more cheaply? Do we say that our subsidy-counter concept will be that as a result of their capacity to have the low bid only as a consequence of the subsidy we're going to address differently how we spend our dollars? Should a factor be the fact that once you turn the technology over to them and start procuring from them with our U.S. taxpayers' dollars, the particular companies that lose out may now be in such crisis that they no longer can continue to exist and we lose jobs and then we lose the technology altogether? That's the cycle that's going on.

In your book, you point to an insidious aspect of this, which is the following. This is from page 275 of your book. You say there is some evidence that the availability of investment capital in certain product areas such as displays is limited in the United States by lender perceptions that once the Japanese have targeted a market the prospects for American competitors are not auspicious.

So you have a secondary impact which is just the fact that the Nation state has decided to compete against the corporate entity is sufficient, according to you, to diminish the willingness of our people to take risks and even enter the market at all. And so we are double losers.

Ms. TYSON. That second point is actually quite a serious problem. I have been involved in many conversations where the lenders or potential lenders will say, well, there's really no profit to be made in this industry because it is an industry which it's not just Japan, but another nation may have targeted.

This is even the case in the aircraft industry which, of course, has become because of cyclical problems, but also because of the subsidies of the Europeans, a less profitable industry. And therefore, the lender perception is there is reduced incentive to lend. So that is a very important issue.

Senator KERRY. As I terminate my round here I would just like to say to you that I think increasingly you are looking at members of Congress who are very frustrated by having to go home and meet with our CEO's and meet with people who have lost jobs as a consequence of these things with the feeling that we are not doing anything about it. And I am increasingly frustrated, because as you've said we understand the problem.

I am very tired and frustrated with going back to people and saying, gosh, I understand the problem but nobody is doing anything about it. We have somehow got to be willing to take some risks here and perhaps upset the equilibrium a little bit to send a signal that we are not going to be everybody's patsy.

The CHAIRMAN. Thank you.

Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

I have a strong sense that the train is about to leave the station. I have about 2½ hours worth of questions.

[Laughter.]

Senator BOND. And statements at least that long that I will try to forgo.

But I was delighted to hear your strong support for exports. I would be interested first in knowing if it's still your view—I've heard it attributed to you—recommendations that the President should disallow proposals by United States and Japanese officials to reinstate a formal quota on Japanese exports of autos and auto parts to the United States for the reason that limiting imports of foreign investments from Japan is a sure-fire way to reduce living standards without making our companies more competitive. Does that reflect your viewpoint?

Ms. TYSON. My view on this issue is the following:

This is about a very particular form of restraint which I think the record shows has often had—this is basically—the voluntary restraint agreements are agreements which really are binding. I think what Japan has announced recently as their target, they're selling under that. So it's not a binding constraint on them.

Senator BOND. Do you think those are bad ideas?

Ms. TYSON. The evidence on those suggest in general that the consequence is normally if the foreign supplier is restricting supply to the U.S. and the constraint is binding, that that allows them to charge higher prices, earn higher profits, and use the profits for investment in future product lines. And this is not exactly what we want to be the consequence of our policy. So those are my reservations.

Senator BOND. I would suggest that you may have an opportunity to express those.

You also say, equally compelling, the evidence that our national savings deficit, not Japan's market barriers, is a major factor behind our trade imbalance.

Ms. TYSON. Yes. I think that's right.

I want to make a distinction here between overall trade imbalances, which I believe to be determined primarily by macroeconomic considerations such as how fast are we growing versus how fast the rest of the world is growing, and problems in particular industries where market access barriers might be important.

For example, in the auto industry, I mentioned before the auto parts case. I think there is very important evidence that we need to look at carefully about why it's the case that we have such a small opportunity to sell in that very big market. That's a structural problem, it's not a macroeconomic problem.

Senator BOND. Last year you testified before this committee and the Joint Economic Committee in opposition to the McDonnell Douglas proposal to enter into an arrangement with Taiwanese groups to produce the MD12. Obviously, you and I were not in agreement in that by any stretch of the imagination.

Now I understand that Boeing and two members of Airbus are planning a venture, Deutsche Aerospace, being heavily subsidized. What's your view of that deal?

Ms. TYSON. Let me say that I think you have—this is really where I think you have to emphasize the practical pragmatic views. This is where my real world attitude comes into play.

The McDonnell Douglas Taiwan Aerospace deal, my concern about that was basically the specifics of the deal. This was a deal in which the Taiwanese government was heavily involved as an investor and in which the Taiwanese government had taken the overt position that basically, as part of this deal, for their money, they wanted 65 percent of the subcontracting jobs of McDonnell Douglas on all of its aircraft. It struck me that this was an arrangement in which, since a foreign nation was trying to buy at a substantial fraction of good American jobs for not that much money, we should actually be negotiating on the other side of the table.

The deal between Boeing—the proposed deal; it's not a deal yet, is a deal which I would want to look at to see.

I think one should examine these things. But this is not—this is a cooperative venture between three airline companies. Boeing is going into it voluntarily as a research effort. I would—it's not the same.

As I said, what I saw as the problem in the other deal was essentially the jobs that were in play in terms of this deal. And that doesn't seem to be the case in this. But let me say that I know much less about this deal right now, and it is a deal therefore that I would want to examine carefully before I took a position on it. It is important to examine the specifics.

Senator BOND. If they get into it, should we then require that first of all Deutsche Aerospace which has been heavily subsidized get out of the deal? Should we require that there be limits on any transfer of work, of subcontracts across to Deutsche Aerospace? I think we're treading on some very shaky ground and I believe that the concerns you expressed about the McDonnell Douglas deal, as I understand that deal, would apply in this one. Do you have any concerns that the Government should get in and negotiate for Boeing in this?

Ms. TYSON. No. I was making a fairly specific point in our discussions last spring. And actually I think it's now been recognized in some of the revisions in the Exxon Florio process which is that when a foreign government is involved as a major player in purchasing an American company, that that deal must be looked at simply because the foreign government is a purchaser. This is a foreign direct investment issue and narrowly defined. A foreign

government involved in the purchase of an American company, that one might want to look at that.

That is not to say that one wouldn't necessarily conclude that it should not happen, but that should be looked at as an element. After all, we in general as a system do not propose, do not promote, do not foster the idea that state ownership of American companies by the American Government is useful. In fact, we argue that state ownership is not useful.

Therefore, if a foreign government is coming in to buy an American company, I think we have to look at that very carefully. Since we presuppose, correctly I think, that state ownership is not a good thing, why should foreign state ownership be a good thing if American ownership is not?

The Boeing deal is not a foreign direct investment deal. It is a cooperative arrangement to do some research. And that kind of cooperative arrangement raises not the same issues at all, it seems to me, as the foreign government buying an American company or buying a substantial fraction of an American company.

Senator BOND. Mr. Chairman, I see my time is up. I want to reserve my right to submit further questions.

The CHAIRMAN. We can do it either way. If you want to take a little more time, you've been very patient.

Senator BOND. Let me just ask then what do you think about the proposed British Air investment in USAir?

Ms. TYSON. I would have to say that I haven't really had a chance to look at that close enough to give a balanced answer. I think, again, to emphasize where I tend to come from on these issues, I tend to believe that it's very important to understand in detail what the deal is. Therefore, rather than take a position right now, I would rather have the opportunity to look at it carefully and then talk to you about it.

Senator BOND. I think we probably ought to pursue that at some later opportunity. But let me just touch on a couple of things quickly so people can get out of here.

You talked about the relationship of taxation and expenditure to GNP. I guess now we're calling it GDP.

What do you have as a view as to the proper level of taxation as a percentage of gross domestic product? Do you have a view? In 1944 it was 21.7 percent. It has been down as low as 17.1 percent. Or do you think it ought to be as high as 25 percent?

Ms. TYSON. I guess I would say I know of nothing in the field of economics which would suggest—there is no number that comes out of either economic theory or economic practice. That is, looking around the world which would tell you what that number should be. That number is a political judgment and the most important thing about that is not the number per se, but the composition.

I wouldn't want to come up with a number because I don't think there's any basis on which one would formulate such a number.

Senator BOND. On the basis of your study of comparative systems, do you give any weight to the fact that other countries which seem to be competing with us and are having significant growth have very low or no capital gains imposed on long term investments?

Ms. TYSON. What I would say is that there is substantial evidence that other countries have had a lower cost of capital than ours for long periods of time. And there are many factors which have played into that, including interest rate differences, and a variety of differences in the taxation of returns to capital, of which the capital gains tax is one.

The evidence on capital gains taxation on its own in the United States is basically it leads to conflicting results. There are some studies which show it has a powerful impact on investment and also on revenues for the U.S. Government. And some studies show that it does not.

I would have to say that we know for sure that U.S. investment rates have been adversely affected by differences in the costs of capital over time, but we know with much less certainty what a particular tax like that, what role that particular difference has had.

Senator BOND. I disagree with you. I think President Kennedy was right and I think that the capital gains cut did produce investment.

Ms. TYSON. But there was also the investment tax credit, which was primarily and by many studies the major source of the additional investment.

Investment tax credits, the economic evidence on investment tax credits and their effect on investment spending in the economy is much stronger in its conclusions than studies of the effect of capital gains taxation on productive investment.

Senator BOND. Would you make those available across the board, or would you say that they should go to high technology companies?

Ms. TYSON. I think we should definitely try to have as broad based an investment credit as possible. We are trying to encourage investment throughout the productive part of our economy. What we want to do is target it in such a way as we target plant and equipment, so that we can get an investment boost around the economy. I would not want to target it.

Senator BOND. What if you are buying a car for use in your business?

Ms. TYSON. I don't know if I want to get into the specifics of this legislation at this point. This will be something I am sure we will be talking about in detail.

Senator BOND. Let me just ask you, when the time comes, and there's considerations, there are practical reasons from other areas that there are proposals for these following things. What do you see in your role as chairman of the CEA, what questions would you raise for example about increasing the minimum wage, raising CAFE standards on automobiles, a mandatory 1½ percent payroll tax on businesses to pay for education and training, pay or play health care? Those seemingly attractive proposals, what kind of economic impact would you assess to them?

Ms. TYSON. I think each of those we'll have to evaluate. The standard way of doing that is to basically try to figure out by the benefits, the alleged benefits to be achieved by each of those versus what are the costs of achieving them.

Senator BOND. As an economist, what would you say in terms of cost? Would you weigh in?

Ms. TYSON. Of course. The CEA will always weigh in on costs and benefits. So we would weigh in on issues—I think I have made it clear that my own view is that the entrepreneurial small business part of the U.S. economy is critical to its future creation of wealth and jobs. Therefore, we will always be looking at issues of regulatory burden on small businesses. That would be an important issue. Clearly if you go to finance a training program through a tax credit policy, that has a different effect than doing it through a tax policy. And we would look at that.

I can assure you that in each of those cases, the CEA will be called upon and will play an active role in making as careful and as precise and as objective a determination as possible of both the benefits, why are we thinking of such a policy, why is one thinking of such a policy, but also of the costs.

Senator BOND. There are always strong views on why the policy is good. Would you, in each of those instances, say that one like the economic impact is to cost jobs for each of those things I mentioned?

Ms. TYSON. Each of them, depending upon how they are structured when they are introduced, could cost jobs, I think. For example, on minimum wage, this is another part of economic evidence that is mixed. You have a series of minimum wage studies, the effects of minimum wages on job creation. Some of the studies suggest there is almost no effect. Some of the studies suggest there is an effect. I am afraid economics is going to remain an imprecise science.

Nonetheless, we would bring to such a discussion all of that evidence and try to assess that evidence in advising the President and all his economic staff about the costs and benefits of the policy, and we would do that with all the other ones that you listed.

Senator BOND. Thank you very much, Mr. Chairman. I apologize for imposing on your time. But I will have further questions to submit.

The CHAIRMAN. Thank you.

I have two or three things I want to cover with you, and if Senator D'Amato does, then we'll finish. You've been very patient, but there are a couple of key things that we need to cover here.

First, let me say that Senator Moseley-Braun had to go to the Judiciary Committee. Let me just note that for the record.

When we talk about the economics profession, I look back at what I had a chance to learn, not to get into any great personal discussion here. But I had the opportunity to study in that field at the University of Michigan with some very good economists and earn a degree in that field and the field of business and then go on for an MBA at Michigan State, and had professors like Andrew Brimmer and Walter Adams, who I was fortunate enough to study from, and later on made my way over to the Harvard Business School and had a chance to hear and learn from some of the best economists there and across the Charles River over in the Kennedy School as well.

I am struck, however, in representing Michigan and serving in this capacity on the Banking Committee and also on the Finance

and Budget Committees that so much of what I learned in an economic model sense not all that long ago has almost no relevance to what I see happening in the economy. And these anomalies I've tried to demonstrate on some of the charts today where the old rules of the game are not giving us the kind of real world results today that we need to have or that one might expect.

The system is not working the way that many of us were taught that it should work. And there are still a lot of classical economists, I think, sort of the flat earth economists, who are still walking around clutching those models in those old textbooks. And they really aren't very useful to where we are at the present time. That's very troubling, because you could get a very bad read on a situation and, therefore, go from that to policy prescriptions that don't solve our problems.

Interestingly, someone no less than Alan Greenspan recently at a meeting in Europe, as you may have seen from the newspapers, acknowledged in a very frank statement for him, because he's quite careful in choosing his language and quite cryptic normally, in a sense confessed that things were not behaving in a way that fit the old analysis and the old models. I'm paraphrasing, obviously. But in essence that we were not quite sure what was going on. But it was different than what we had experienced before. In fact, we couldn't really guide by the old market and the old policy prescriptions.

Significantly, with respect to the earlier discussion on the anemic growth of M2 and the Fed policies, the Federal Reserve has adjusted monetary policy during this recession 23 times. Now, when you think about it, they obviously thought each time they were making the policy adjustment they were getting ahead of the curve.

And if you imagine that you've got a car that's not running right, you've got to take it in for adjustment. And you take it down to a service garage. They adjust your car, you pay the bill, and you bring it back and it still doesn't run right. You take it back 23 times for adjustment, and it's still not running right. You start to wonder if you're taking it to the right service garage.

I think that question can fairly be asked in many policy areas, Fed policy areas. And I think quite frankly that Alan Greenspan himself is posing that question, because things just aren't working the way they used to work and we've gotten into some of that here today.

Out where I come from in Michigan where we still have a very substantial manufacturing based economy, we have a phrase we often use about where the rubber hits the road. It's where reality is. What's happening in real people's lives today?

I got a letter the other day, not from Michigan. I get many from there, but one from a man in Texas with a college degree who's been in three different job retraining programs. He was writing to say that he could still not find a job in this economy.

We've got people coming out of the aerospace and defense industry in California right now, the home State where you're coming from, with advanced degrees in virtually all fields, many times finding it very difficult to get slotted back into the work system, circulating resumes, trying to make house payments and feed their

families and so forth. And this is true all over the place. We've got a very, very serious jobs problem in this country.

I want to just come now to the NAFTA issue. We touched on it a little bit before. If you look at this North American Free Trade Agreement, this effort to go into a sort of common market with Mexico with some adjustments over time, it's actually a three-way deal. It's the United States, Canada, and Mexico, a three-way combination. One of the things that's most significant to me, if you look at the differences between these economies and you take the gross domestic product in the United States on a per capita basis, it's a figure of about, what, \$21,500, almost precisely the figure in Canada. You see here two economies that are roughly on an equal footing, at least by this very important measure.

But if you look at Mexico, you see a profile of a third world economy, not a modern economy such as you see in the United States or Canada, but a third world economy. The nearest thing that I see to that is when the common market in Europe was trying to decide whether they would bring Turkey into the common market over there. They decided they would not do so because they were just too much out of sync. They were a more primitive economy and, therefore, could not be integrated on the same basis with the more modern economies of Europe, a very practical real world where the rubber hits the road kind of a judgment.

We're starting down a track here that we have never been down before in terms of trying to reconcile these enormously different economies. And I want to just make it as plain as I know how to put it in the English language. I think our number one export to Mexico is going to be jobs. That has been our number one export, as I have seen it happen over the years. I cited the 70 automobile plants that Ford, Chrysler, and GM have already located in Mexico. And they are planning, as are many other firms, to locate many more down there, particularly if there is a free trade agreement which makes capital investments in Mexico even more attractive than they are at the present time.

But with this kind of gross domestic product earnings per capita, the amount of disposable income that a Mexican individual or family has on the average—I'm not talking about the wealthy people, the super rich in that economy who will benefit enormously from that, just as the super rich in this economy, the holders of large amounts of capital, will benefit enormously in this economy. They play this game as many have and will.

But in terms of the buying power of a Mexican worker, a Mexican family to really buy any significant amount of goods from the United States anytime soon, the numbers just don't support that proposition. I realize there is a whole sort of full court press in the economics profession, the editorial writers love it, although they are quite immune from the competition as I said earlier and so forth and so on.

I want to take that point now and lay it against what we were talking about earlier, the requirement of this administration to bring into being, foster, the creation of 8 million new private sector jobs in the United States over the next 4 years, which on average would mean 165,000 jobs this month, although the administration is just fully 24 hours into being in effect.

I don't see, quite frankly, and I have listened to every single economist, I have attended all the hearings in the Finance Committee where I serve, I have listened to all the people. I have listened to the private sector people who are wheeling and dealing and planning to make a lot of money off this, Boone Pickens and others who came in to testify. I have yet to hear a shred of convincing argument that shows that we're going to be able to do this, swallow this NAFTA, when we've got a major job based problem in this country.

We've got to climb this job growth curve, when every basic financial and other incentive, the legal system, other things involved, are going to provide a brand new incentive to take jobs to Mexico, which has already been very substantial up until now.

There's a piece in the Wall Street Journal today about this and I will just make this part of the record.

I don't think these two things can be reconciled. I think they can in a classroom, they can be up on a blackboard when we're sort of modeling things out. I think, you know, when a group of classical economists sit down in a room together, this may sound like the greatest thing since sliced bread.

But I absolutely guarantee you, because I've seen it a hundred different times, that if the profession that was being targeted by \$1.50 an hour wages and the absence of things that would be equivalent environmental standards and so forth threatening their livelihood, I would have a lot of economists outside my office door that would stretch for a block. I am tired of that, quite frankly. I am tired of the double standard. I am tired of the elitism that I hear out of much of the profession.

I am not saying this to you because I don't hear that from you. But I am tired of it, because it is selling the country short.

We just had a political revolt in this country. We just had an administration cashiered and sent home. And we had a new administration brought into being, essentially on the jobs issue. That and health care, more than anything else.

So I would urge you in the strongest possible way to think very carefully as to how this gets integrated into this task of climbing this job track going out into the future. And I would say that precisely the logic that I heard you expressing so skillfully here today about how you deal with unfair international trade rules when you have rules of the game that are sort of stacked and you can't work with, that a real adherence to free market activity means that you've got to somehow deal with those inequities. You've either got to balance them off or you've got to convince the other person to take them down and not over a 10- to 15-year period but more rapidly. The same kind of practical analysis, I think, has to be applied here. It has not been.

I have listened to that testimony in the Finance Committee and it is shot full of holes. So we are not going to be able to have the jobs we need unless something is done here.

Finally, just this. I appreciate your indulgence, and then I will give Senator D'Amato whatever time he wants to take.

I want to just share with you a personal minute, because I was very moved and inspired yesterday at the inaugural ceremonies, as I think anyone was who was paying attention to it. I want to tell

you about a campaign rally that we had over the course of this campaign out in Saginaw, Michigan, where I had an opportunity to be present. Saginaw is a working class town, struggling right now with a lot of the job erosion and the grinding down of the middle class and so forth.

Bill Clinton came there one morning on a beautiful fall day, in a backdrop where the autumn colored leaves were on the trees and so forth. And he gave the best speech that I've heard him give any time. He was inspired. And he reached for the people there and they reached for him and the crowd was out there, a very large crowd of people in an inner-city location. We had every age group, every racial group. You had all the ethnic groups. It was a wonderful composite of the community.

And as he talked about the economy and the need to create jobs, there was this tremendous sense of energy and hopefulness that you could see coming from the people in that audience. And they were reaching for him and he was reaching for them. And I felt that so powerfully that I was literally moved right to the point of tears, because you can be in politics a long time and not see those moments where suddenly people who have seen hope drifting away from them suddenly see the chance to make something happen that's going to improve their lives, which is what you precisely said in your statement. Improving people's lives today and the prospects for their children.

And afterward, as he went down the rope line to meet people and people were surging forward, old people, ethnic Americans, blacks, Hispanics, everybody under the sun, thrusting their children forward, there was this wonderful moment of hopefulness and the chance that maybe we could break these patterns and get on a different track.

Those expectations in Saginaw and communities like that are now way up here because people now see a chance for something to happen that's really going to make things better. And so every single one of these policies has to be reconciled, I think, to a jobs bottom line. If a person can't work and have value in the work they do and earn enough to feed themselves and their family and live decently in America and have health care and the other kinds of things that we all want, then it's just not going to work and the cynicism will come back and the expectations will start to fall apart. We just cannot afford that.

So my appeal to you is, is you cannot yield on this issue of job growth. It is not enough for you to have a job or me to have a job or my family or your husband or any of us here, anybody outside this room, if other people are locked out of the system and we are not forcing a change that brings them back in. We need their help. The country needs it.

There is no way in the world we can close this deficit—I have heard a lot about deficit reduction today. If we don't get more economic growth, we're not going to bring that deficit down in any material way. It's too late for that. Too much time has been squandered, and the cards sit in too adverse a way.

We have got to grow our way out of this problem by investing and creating private sector jobs in every possible way we can. I just ask you for your commitment to that. You're going to feel lots of

counter pressures. Ignore them. The mandate is to put this country to work.

Ms. TYSON. I accept that mandate. I think that is very important. And I do believe that jobs will, indeed, be our first priority.

The CHAIRMAN. Thank you.

Senator D'Amato?

Senator D'AMATO. I just want to wish you good luck.

[Laughter.]

Ms. TYSON. Thank you very much. I appreciate that.

Thank you.

The CHAIRMAN. We'll have questions for you for the record.

You've been very patient and very forthcoming. We will report you out just as quickly as we can.

The committee stands in recess.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

[Prepared statements, biographical sketch, response to written questions and additional material supplied for the record follow:]

PREPARED STATEMENT SENATOR DONALD W. RIEGLE, JR.

The Committee meets this morning to consider the nomination of Laura Tyson to chair the Council of Economic Advisers, and I welcome her warmly. This is an extremely important position. No issue is more important to the future of our nation than the design and implementation of our national economic policies. The Council has the critical job of providing the analysis underlying that process. This nominee brings excellent qualifications, and I strongly support your nomination. I believe you will bring fresh, strong leadership at a critical time in our national history.

The seriousness of our current economic weakness is clear. We've now gone 4 years without any per capita economic growth. Unemployment remains at 7.3 percent, half a percentage point higher where it was when the National Bureau of Economic Research told us the recession ended. And the number of Americans with jobs is still below the level it was before the recession began 2½ years ago. That's not a recovery, that's long-term stagnation and a sign of failed economic strategies.

Recent economic indicators have shown slight improvement, but the underlying trend lines are headed the wrong way. Consumer debt is high and consumer saving rates are extremely low, so we can't expect to see consumer led growth. Debt levels of our corporations remain very high. Commercial real estate markets remain overbuilt. Weakening foreign economies are depressing U.S. exports. Defense spending will continue to decline and jobs vanish. Real interest rates remain high, especially on long-term debt, and money growth has persistently fallen short of the Fed's targets. Many of the major layoffs and plant closings announced by companies have not yet actually taken place. When these announced layoffs occur it will add to the future unemployment rate.

Over the longer term, the outlook is even more worrisome. We're not investing in the future adequately. Net business investment over the past 4 years has fallen to about 1½ percent of net domestic product, down by half from the levels of the 1960's and 1970's. What investment we have had has depended heavily on foreign capital inflows. That has transformed us from the world's largest creditor to the world's largest debtor. That meant that many of the benefits of that meager investment will be sent overseas to its foreign owners.

We've also cut back sharply on public investment in infrastructure and as a result our cities continue to decline. And the condition of our schools, where we develop human capital, has deteriorated markedly. On top of all that, over the last 20 years we've lost many of our high-tech industries, essential to America's future growth and prosperity, to foreign competitors. So clearly powerful new economic strategies are needed.

We need 8 million new private sector jobs in the next 4 years. I believe our nominee understands this need and recognizes the vital importance of our strategic industries to our national well being and the growth of the U.S. job base. She has argued for tough positions on critical trade issues to help ensure the survival of such industries. She understands that our trade policy must be part of a coordinated and integrated national economic strategy, and supports innovative—and responsible—fair trade policies to spur investment and growth in our economy.

She comes with superb credentials for the job. She graduated summa cum laude from Smith, received her Ph.D. from MIT, has taught at Princeton, and at the Harvard Business School. She is now a full professor at the University of California at Berkeley. She has written 3 books, edited 5 others, and authored more than 40 articles. I have a number of letters of support for Professor Tyson from leading economists, including Nobel Prize winners Lawrence Klein of the University of Pennsylvania and Robert Solow of MIT, and if there is no objection I will place them in the record. We are delighted to have Dr. Tyson with us today. She is no stranger to the Committee having appeared here last June during a hearing we had on foreign investment. I look forward to hearing her testimony this morning and reporting her nomination out to the full Senate expeditiously.

PREPARED STATEMENT OF SENATOR BARBARA BOXER

Mr. Chairman, Ladies and Gentlemen, it is my sincere pleasure to introduce Laura D'Andrea Tyson, of my home State of California, as President Clinton's choice to chair the Council of Economic Advisors.

Ms. Tyson's distinguished academic and professional career, including her most recent experience as professor of Economics and Business Administration at the University of California, Director of the Institute of International Studies, and Research Director for the Roundtable on the International Economy, all at Berkeley, combine to recommend her highly for this position.

The Council of Economic Advisors plays an integral role in informing and advising the President on the Nation's economic health and the effects of Federal Govern-

ment actions and policies on the economy. Certainly Ms. Tyson's stature as an economist and experience on the Cuomo Commission on Trade and Competitiveness, as a consultant on the President's Commission on Industrial Competitiveness, and as a consultant on the Japanese Trade and Industrial Policies Committee, for example, prepare her for the enormous task before her.

Clearly, improving the Nation's economy will be one of the most important challenges facing this administration and the Congress in the coming years. In governing, we must endeavor to promote and implement policies which move this Nation, its citizens and its employers in a growing, prosperous and competitive direction.

With the guidance and urging of people like Laura D'Andrea Tyson we need to begin the process of reinvesting in America. For too long, the Cold War drained our resources and distracted us as we focused on a common enemy rather than the needs of our people.

Fortunately, a new day has dawned on America and I am very hopeful that, with Bill Clinton's leadership and that of qualified and concerned people like Laura D'Andrea Tyson, we will be able to turn this recession around and get people back to work.

In California, for instance, people are concerned about the combination of a 9.3 percent unemployment rate—a full 1.4 million people out of work—the State budget crisis, and the loss of jobs to foreign markets with cheaper labor.

That is one of the reasons I am pleased that Laura D'Andrea Tyson's scholarly work has been primarily in the area of technology, trade, and competitiveness. This area is of particular interest to Senator Feinstein and me. It is estimated that 1.2 million Californians owe their employment to the export of manufactured goods and that 58.4 billion dollars of California products were exported to some 196 foreign markets in 1990 alone.

The ushering in of a new administration creates a wonderful opportunity for the Congress, the Executive and the American people. I was happy to learn that Ms. D'Andrea Tyson works less with numbers and more in real life terms. If we are to aid President Clinton in his quest to reinvigorate America spiritually and economically, then we need to focus more on people and less on faceless facts and figures.

With the guidance of people like Laura D'Andrea Tyson, I am confident that President Clinton will have the information he needs to move us in a positive and economically expansive direction.

INTRODUCTION OF LAURA D'ANDREA TYSON BY SENATOR DIANNE FEINSTEIN

Mr. Chairman, I am pleased to introduce to this committee Laura D'Andrea Tyson for confirmation as Chair of the Council of Economic Advisors.

A respected economics professor at the University of California at Berkeley, Laura Tyson has earned a reputation for being a pragmatic—yet unconventional—expert in the field of economics. Her focus on technology, trade, and competitiveness in the international economy gives her an invaluable perspective as our Nation competes in a rapidly changing global marketplace.

In her recently published book, *Who's Bashing Whom*, Professor Tyson outlines a progressive trade policy to assist American companies now disadvantaged in selling products abroad. This is only one example of the type of program Laura Tyson will explore as we attempt to jump start our economy.

The nominee's extensive writing shows her detailed knowledge of foreign policy, economic competitiveness, and the economic systems of Eastern European countries. Born in Bayonne, New Jersey, Laura Tyson earned her doctorate in Economics from the Massachusetts Institute of Technology in 1974.

But it was in California—at one of the leading think tanks for progressive economic policy making—that Professor Tyson has earned her outstanding reputation.

She is the director of the Berkeley Institute of International Studies, as well as the research director for the Berkeley Roundtable on the International Economy.

Her advice has been sought by a wide range of groups. She is a member of the Cuomo Commission on Trade and Competitiveness, the Economic Policy Institute Research Council, the Council on Foreign Relations, the subcommittee on a Global Economic Strategy for the United States, and the Los Angeles Times Board of Economists.

Laura Tyson has described herself as a "cautious activist." To me, that may be the single most important characteristic she will bring to the Council of Economic Advisors. She will build a consensus among her colleagues as she promotes innovative economic programs.

I have the utmost confidence that Laura Tyson will succeed in her challenging mission.

PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, I want to join you in welcoming Dr. Tyson to our committee as we consider her nomination to be Chairperson of the Council of Economic Advisers.

Harry Truman used to complain that he could never find a one-handed economist. All of his economic advisers would give advice that started with "on the one hand . . . and on the other hand." But I understand why economists need two good hands—they're always feeling around a complex economy, often in the dark.

President Clinton shouldn't worry about choosing economists with two hands—what he needs are economists with two good eyes. 20/20 vision would be helpful, but x-ray vision would be even better. Too often economists remain in their ivory towers and do not see the real world. Long before it showed up in the economic statistics our constituents knew there was a recession. The evidence, was available by looking into the stores, factories, and living rooms of America.

Instead, it took months for the Fed and others to acknowledge the recession and to begin lowering interest rates. The Fed was soundly asleep at the switch.

Ms. Tyson as, the nominee for Chairperson of the CEA, I hope you can explain why economist's do not have their eyesight examined more often.

Just 3 weeks ago we were told by the economists at the National Bureau of Economic Research that the recession ended in March of 1991—almost 2 years ago. I don't know what these economists are looking at—but I am sure that they have not been to New York.

As reported in a recent New York Times article, since February 1989 the New York metropolitan region has lost 806,000 private-sector jobs. And New Yorkers have experienced equal opportunity unemployment. People have been thrown out of work in every economic sector—manufacturing, construction, finance, retail, and wholesale trades. In New York, we have the same number of jobs in 1992 as we had in 1976.

Ms. Tyson, I come to a very different conclusion about the recession than the National Bureau of Economic Research—It is not over yet.

- The recession is *not over* for the 3,500 workers who are getting pink slips at IBM plants in Armonk, Peekskill, Kingston, and Poughkeepsie.
- The recession is *not over* for the 3,400 employees who will be thrown out of work when General Motors closes its assembly plant in North Tarrytown.
- The recession is *not over* for the 5,400 workers who discovered that their jobs were eliminated in the merger of Chemical Bank and Manufacturers Hanover.
- Or for the thousands of people who will lose their jobs in the defense industry. For them, the peace dividend looks more like an unemployment check.
- And the recession is not over for real estate developers and construction workers in New York who must contend with the highest commercial vacancy rates in the Nation.
- And the recession is certainly not over for thousands of small businesses who have had banks slam doors in their faces and deny them the credit desperately needed to stay in business.

Mr. Chairman, those two-handed economists may feel a faint pulse in the economy, but if they opened their eyes they will see that for far too many people, the economy is still in a coma.

I hope that Dr. Tyson can see that we must take steps to improve the health of our economy. As the President's chief economic adviser, she must take off the rose-colored glasses and find the right prescription.

PREPARED STATEMENT SENATOR PETE V. DOMENICI

We meet today to confirm an important appointment—the President's chief economist. This is the person who provides guidance on such issues as economic growth, jobs, productivity, unemployment, and ultimately, prospects for improving our national economic well being.

This appointment has a relatively long history of distinguished economists who have ably served past Presidents.

Dr. Tyson, trained in economics at one of our Nation's finest schools—MIT, has a long and varied career as a professor and adviser to industry and Government. She first studied the economics of Eastern Europe and later has delved into the difficult issues of trade and U.S. competitiveness, among other topics.

From my position here on the committee as some one who knows budgets, I want to question you today about the relationship between fiscal policy set at the Federal levels, and our long-term future.

I feel the path to improved long-term economic growth is straight-forward but a difficult one. As a Nation, our income depends on ever-rising productivity and that

is related to investments in human and physical capital as well as to advancements in technology.

Our low national savings rate has inhibited those investments and the surest way to improve national saving is to lower the Federal deficit.

Not only is deficit reduction not incompatible with economic growth, it is the first and best step toward raising long-term economic growth.

I know that you have recently published a book dealing with the issues of trade and high-tech industries. I also have been involved in a study of technology industries as co-chair of the CSIS Strengthening America Commission.

While in your book you write about barriers to competition that foreign nations create, I have been learning about the barriers that are created right here in the form of unnecessary regulation, mandates, litigation, and overhead costs that stifle entrepreneurial spirit and job creation. I hope you will address these issues today.

While these issues are important, unquestionably among the most important jobs you will face as head of the CEA is addressing the macroeconomic issues of deficits and fiscal policy for the long-term. I will be interested in hearing your views in this area.

PREPARED STATEMENT OF CHAIR OF THE COUNCIL OF ECONOMIC ADVISERS DESIGNATE LAURA D'ANDREA TYSON

I am honored to be here today before Chairman Riegle, Senator D'Amato and the members of this committee. I would like to thank the two distinguished Senators from my home State—Senator Barbara Boxer and Senator Dianne Feinstein—for their gracious introduction. Both are outstanding public servants, who will be a source of inspiration to me during my sometimes difficult days ahead.

I would also like to introduce my husband, Erik Tarloff who is a gifted writer, and as many of you know from reading his recent piece in the *New York Times*, also a very funny one, and my 9 year old son Elliot Tarloff, who is visiting the Nation's Capitol this week for the first time.

Let me begin by thanking those members of the committee with whom I have met over the past 2 weeks. Your provocative and probing questions, as well as your comments and suggestions, have been invaluable. I look forward to a lively and productive relationship with all of you in the coming years.

The economic challenges facing our country are real, *not theoretical*. As the members of this committee know well, both the short-term cyclical problems and the long-term competitiveness problems threatening our economic future are not mathematical constructs; they are real-world facts, and their impact on the lives of ordinary Americans is real and potentially devastating.

I have been studying these problems for over a decade since I first worked with John Young, then the CEO of Hewlett Packard, one of the Nation's finest companies, on the Commission for Industrial Competitiveness established by President Ronald Reagan. Several of my colleagues and I have developed the definition of national competitiveness—the ability of a Nation to produce goods and services that meet the test of international markets and to generate rising living standards for its citizens at the same time.

Since that time, the competitiveness of the American economy has exhibited continuing and disturbing signs of erosion—during the last decade our trade imbalances have totaled over a trillion dollars, our producers have lost market shares in several key international markets, like computers, commercial aircraft, telecommunications products, and machine tools. At the same time, our gross domestic product per capita has grown more slowly than that of any other advanced market economy, real wages have stagnated for most American workers for more than two decades, and our investment rate has persistently lagged behind that of our competitors in plant and equipment, in worker training, and in civilian technology. Many statistics can be used to tell the story of our eroding competitiveness, but perhaps most disturbing is the fact that since 1980, the proportion of full-time workers with annual incomes below the poverty rate for a family of four increased from 12 percent to nearly 20 percent. In short, full-time work in the United States no longer secures a bright future for our children.

As an academic who has chosen to study the real-world determinants of national competitiveness rather than abstract mathematical models, I hope that I might be able to bring to bear an informed and intuitive sense of how economic policy actually affects people's lives.

This practical approach is shared by all of the members of President Clinton's economic team. I am deeply honored to be working with such distinguished individuals, including your former congressional colleagues, Senator Lloyd Bentsen and Congressman Leon Panetta, also from the great State of California, and with Robert

Rubin, the Chair of the new National Economic Council. We have already established a strong working relationship, and I can assure you that if I am confirmed as Chair of the Council of Economic Advisors, the Council will be an integral part of President Clinton's economic team.

To me, all of the economic questions confronting this Nation—questions of recession, of competitiveness, of national solvency—all must finally be understood in terms of the quality of American life. All must be understood in terms of the concrete question: are the lives of our citizens improving? That question, I believe, is at the heart of President Clinton's plan, *Putting People First*. Putting people first is precisely what my economic philosophy seeks to do.

I look forward to working with you, with both political parties and with the American people to strengthen our economy not only for our generations but for future generation as well.

Opening Statement of
Chair of the Council of Economic Advisers Designate
Laura D'Andrea Tyson
before the
Committee on Banking, Housing, and Urban Affairs
of the
United States Senate

January 21, 1993

I am honored to be here today before Chairman Riegle, Senator D'Amato and the members of this committee. I would like to thank the two distinguished Senators from my home state--Senator Barbara Boxer and Senator Diane Feinstein--for their gracious introduction. Both are outstanding public servants, who will be a source of inspiration to me during my sometimes difficult days ahead.

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Laura D'Andrea Tyson
Opening Statement
 page 2

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I look forward to working with you, with both political parties and with the American people to strengthen our economy not only for our generations but for future generations as well.

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Office of the President-Elect
and Vice President-Elect

Statement of President-Elect Bill Clinton
December 11, 1992

I have said from the outset that the number one priority in my administration would be to chart a new economic direction that would lead us on a long-term path to a more prosperous and sound America. Because of the primacy of the economy, the Council of Economic Advisers will be more central to my administration than in any since the administration of President Kennedy.

In looking for the best person to chair the council, I looked for someone who possesses not only an exceptional analytical reputation, but someone with a capacity to understand the underlying political and global realities that affect our ability as Americans to compete. Laura Tyson's path-breaking work on international competitiveness and trade, on manufacturing and technology issues has improved our understanding of what it will take for America to prosper in the new global economy. As chair of the Council of Economic Advisers, she will bring the same integrity to economic analysis as Leon Panetta and Alice Rivlin bring to the budget process, and a very impressive record of work in specific areas of the economy which I think are terribly important. I learned a lot more about her in her writings and her work during the course of the last campaign, and I feel very confident in her ability to serve with real distinction in this important position.

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**Office of the President-Elect
and Vice President-Elect**

Biography of Laura D'Andrea Tyson

Laura D'Andrea Tyson recently served as Professor of Economics and Business Administration, Director of the Institute of International Studies, and Research Director for the Berkeley Roundtable on the International Economy at the University of California at Berkeley. During the period 1990-1992, she was as a visiting scholar at the Institute for International Economics.

Professor Tyson is one of the nation's leading experts on competitiveness, trade and technology. Her latest book, Who's Bashing Whom? Trade Conflict in High Technology Industries, helped to focus a national dialogue about the trade decisions facing our country in the new global economy. Tyson's rigorous analysis has earned her praise from a diverse group of academics, business people, and labor leaders, many of whom hold widely divergent views on the sometimes contentious and emotional trade issue.

Professor Tyson supplements her thorough knowledge and understanding of the American economy with considerable expertise on the workings of the Japanese economy and the economies of Eastern Europe. She has written a number of articles and books in this area, including, The Dynamics of Trade and Politics and Productivity: The Real Story of How Japan Works (co-edited with Chalmers Johnson and John Zysman), Ballinger 1989 and Power, Purpose and Collective Choice: Economic Strategy in Socialist States (Co-edited with Ellen Comisso), Cornell University Press, 1986.

From her research, Professor Tyson knows very well what America will have to do to compete effectively in a changing and increasingly globalized world economy. In naming her to chair the Council of Economic Advisers, President-elect Clinton said: "Laura Tyson's path-breaking work on international competitiveness and trade, on manufacturing and technology issues has improved our understanding of what it will take for America to prosper in the new global economy."

Trained at MIT, and respected for her dazzling intellect, Professor Tyson looks at industries and government action from a decidedly real world perspective, analyzing companies and economies fully aware of the complexity inherent in dealing with an "imperfect" world that does not always fit the tidy assumptions of economic modelling .

Tyson served as an economic adviser to both the Clinton/Gore campaign and the presidential transition. She is a member of the Cuomo Commission on Trade and Competitiveness, the advisory board of the Economic Policy Institute Research Council, the Council on Foreign Relations, and the subcommittee on a Global Economic Strategy for the United States. She is a member of the Los Angeles Times Board of Economists.

Professor Tyson earned a B.A. from Smith College and a Ph.D. from Massachusetts Institute of Technology. She was born in Bayonne, New Jersey in 1947, and now resides in Berkeley with her husband Erik Tarloff and their son Elliot.

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P. O. Box 8086, Little Rock, AR 72203-8086 501-374-3322
1120 Vermont Avenue, N.W., Washington, DC 20270 202-973-2600

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: TYSON LAURA D'ANDREA

Position to which nominated: CHAIRPERSON - Council of Economic Advisors Date of nomination: 11 Dec 92

Date of birth: 28 June 1947 Place of birth: Bayonne, NJ

Marital status: married Full name of spouse: Erik S. Tarloff

Name and ages of children: Elliot Tarloff (9)

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	Holy Trinity High School	9/61-6/65	H.S. Diploma	June 1965
	Smith College	9/65-6/69	B.A.	June 1969
	Mass. Inst. of Technology	6/69-12/73	Ph.D.	11 Sept 1974

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

Smith College prize for distinguished work in economics;

Phi Beta Kappa; NDEA Title IV Fellowship; Fulbright Fell

IREX Fellowship; Grants from American Council of Learned

Societies; National Fellow-Hoover Institution; Grant from

Sloan Foundation; Distinguished Teaching Award-UC Berke

Elected Member-Council on Foreign Relations

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations

**please see also the attached sheet

Organization	Office held (if any)	Dates
American Economics Assoc.		1975-present
Council on Foreign Relations		1987-present
IPEX-Selection Committee		1979-1981
Soc. for Comparative Economic Studies	Exec. Cmte. 1979-80	1976-present
International Council for Soviet & East European Research	Member-Trustees	1980-83
Board of Editors-Journal of Comparative Economics		1980-85
Omicron Delta Epsilon	Vice President	1982-86

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1/91-12/92: Professor-Economics & Business Administration:
University of California at Berkeley, California

1/87-7/89;7/79-12/86;7/77-7/78: Assistant and Associate
Professor of Economics; University of California at Berkeley

1/83-present: Self-employed: consulting, speeches, journalism
2015 Los Angeles St. Berkeley CA

7/90-12/90: Visiting Scholar, Institute for International
Economics; Washington, D.C.

7/89-7/90: Henry Carroll Thomas Ford Visiting Professor
Harvard Business School, Cambridge, MA

7/86-12/86: Visiting Professor, Department of Economics
Massachusetts Institute of Technology, Cambridge, MA

7/78-7/79: National Fellow: Hoover Institution

9/73-7/77: Assistant Professor: Department of Economics
Princeton University, New Jersey

Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.
 **please see also the attached sheet
Consultant: Western Governors' Association (1986); Consultant
President's Commission on Industrial Competitiveness
Testimony at Hearings of Senate Foreign Relations Committee '10
Joint Economic Committee (1990); Joint Economic Committee (10
Subcommittee on International Finance of Senate Banking,
Housing & Urban Affairs Subcommittee (1992); Senate Judiciary
Committee (1992); House Committee on Banking, Finance & Urban
Affairs (1983)

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

SEE ATTACHED LIST

Political
affiliations
and activities:

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

Panel Member, Democratic Policy Forum on Human Resources,
Education & Competitiveness, July 1988; Advisor, Dukakis
Presidential Campaign, 1988; Advisor, Diane Feinstein
Senatorial Campaign (1992); Advisor, Clinton-Gore Campaign
(1992)

MEMBERSHIPS (continued)	DATES
Board of Editors, East European Politics & Society	1986-90
IREX-Program Committee	1986-88
Board of Advisors-Economic Policy Institute	1986-92
Advisory Board-Economic Strategy Institute	1990-92
Prytanean Society	1991-present
Board of Advisors, Subcommittee on a Global Strategy for the US, Committee for Economic Development	1992
Advisory Committee, Gateway Japan Project National Planning Association	1992
Trade, Technology and Investment Advisory Committee, Council on Competitiveness	1992

GOVERNMENT EXPERIENCE (continued)	DATES
Consultant on Japanese Trade & Industrial Policies US-Japan Advisory Committee	1984
Member, Cuomo Commission on Trade & Constituencies	1986-92
Member, Advisory Panel of Department of Defense on US Competitiveness and the Manufacturing Base	1987
Member, Technology Assessment Advisory Council Office of Technology Assessment	1990
Member, Manufacturing Subcouncil of the Competitiveness Policy Council	1992

Political

contributions: Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

NONE

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

I will be on official leave from the University of California at Berkeley. I will sever all other connections with other employers, associations and organizations with which I have had

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization. cont.

It is quite likely that I will resume my professorship at the University of California at Berkeley

3. Has anybody made you a commitment to a job after you leave government?

My leave from the University of California at Berkeley allows me to resume my professorship if I so choose.

4. Do you expect to serve the full term for which you have been appointed?

Yes

Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

NONE

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None to my knowledge

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None to my knowledge

- 4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

NONE

- 5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

I will do whatever I need to do to resolve such conflicts
 but I do not believe that any exist.

Civil, criminal and
 investigatory
 actions:

- 1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

NONE

- 2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

NONE

I received a Doctorate in Economics from the Massachusetts Institute of Technology in 1974. Since that time, I have held academic appointments at Princeton University, the University of California at Berkeley, the Massachusetts Institute of Technology (as a visiting professor) and Harvard Business School (as a visiting professor). In 1989, I was awarded tenure at the University of California at Berkeley where I hold a joint position in the Economics Department and the Business School. At the time of my nomination to the Chair of the Council of Economic Advisors, I had an outstanding offer of a tenured position at the Harvard Business School.

I have written a number of articles on the competitiveness of the American economy which have appeared both in academic journals and in newspapers. I have also co-edited and contributed to several books on topics ranging from trade to domestic employment and productivity to the Japanese economy. Most recently, I completed a book for the Institute for International Economics addressing the global challenges facing American trade policy with respect to high-technology industries. My published work has been favorably reviewed in academic and policy circles and as a result of this work, I have been invited to participate in numerous panels and colloquia addressing economic competitiveness.

During the first ten years of my career, I wrote extensively on the economies of Eastern Europe and was widely recognized as an expert in this area.

Finally, in addition to my academic experience, I also have administrative experience. I have served on several university committees and I am the Director of the Institute of International Studies at U.C. Berkeley and the Research Director for the Berkeley Roundtable on the International Economy.

CURRICULUM VITAE

October 1992

Name	Laura D'Andrea Tyson
Office Address	Department of Economics University of California Berkeley, California, 94720
Office Telephone	(510) 642-3067
Home Address	2015 Los Angeles Avenue Berkeley, California 94707
Citizenship	USA
Undergraduate Studies	Smith College, Northampton, Massachusetts. Major: Economics; B. A. summa cum laude, 1969
Graduate Studies	Massachusetts Institute of Technology, Cambridge, Massachusetts; Economics, Ph.D., 1974.
Fields of Concentration. Macroeconomics.	Comparative Economic Systems, Economic Development and Planning, International Trade,
Thesis Topic:	An Empirical Analysis of the Yugoslav Inflation, 1962-1972
Current Employment:	Professor, Department of Economics and Business Administration, University of California, Berkeley Director, Institute of International Studies, University of California, Berkeley Director of Research, Berkeley Roundtable on the International Economy, University of California, Berkeley Visiting Scholar, Brookings Institution

Board of Economists, Los Angeles Times.

Conference Board Economics Colloquium

Past
Employment:

Henry Carol Thomas Ford Visiting
Professor, Harvard Business School, 1989-90.

Consultant for the Council on Competitiveness, 1986-1989

Consultant for Electronics Industry Association, 1989.

Consultant for Motorola, 1989-1990

Visiting Professor, Department of Economics, Massachusetts
Institute of Technology, fall semester, 1986.

Consultant for PlanEcon. Research on East European
Economics, 1984-1986.

Consultant, Hambrecht and Quist, June 1984-1986.

Consultant for International Bank for Reconstruction and
Development, August 1980 to June 1986. Empirical analysis
of structural change in the Yugoslav economy. Evaluation of
1985 Hungarian Economic Reform.

Consultant for Western Governors' Association. Analysis of
U.S. Competitiveness Difficulties, 1986.

Consultant, Presidents Commission on Industrial
Competitiveness, 1983-84.

Assistant Professor, Department of Economics, Princeton
University, 1974-1977.

Visiting Scholar, Institute of International Economics, 1990-
1992.

Honors
Scholarships,
Fellowships:

Smith College: Phi Beta Kappa; Smith College
Prize for distinguished work in Economics.

Massachusetts Institute of Technology, NDEA TITLE IV Fellowship, Fulbright Fellowship, International Research and Exchanges Board Study Grant

Sloan Foundation Grant, Summer 1976
American Council of Learned Societies Grant, Spring Term 1977, 1978-1979

National Fellows Program Fellowship, Hoover Institution 1978-79

University of California at Berkeley, Distinguished Teaching Award, Spring, 1982.

Elected member of Council on Foreign Relations, 1987

Books

The Yugoslav Economic System and Its Performance in the 1970's, Institute for International Studies, University of California, Berkeley, Research Series No. 44, October 1980.

Economic Adjustment in Eastern Europe, The Rand Corporation, 1984

Who's Bashing Whom: Trade Conflicts in High-Technology Industries, (Washington, D.C.: Institute for International Economics, 1992)

Books Edited

Egon Neuberger and Laura D'Andrea Tyson, eds., The Impact of External Economic Disturbances on the Soviet Union and Eastern Europe, Pergamon Press, 1980.

John Zysman and Laura D'Andrea Tyson, eds., American Industry in International Competition: Political and Economic Perspectives, (Ithaca, N.Y.: Cornell University Press, 1983).

Ellen Comisso and Laura D'Andrea Tyson, eds., Power, Purpose and Collective Choice: Economic Strategy in Socialist States, Special Issue of International Organization, Vol. 40, No. 2, Spring 1986 and Cornell University Press, 1986.

Laura D'Andrea Tyson, William T. Dickens and John Zysman eds., The Dynamics of Trade and Employment (Cambridge, MA: Ballinger Publishing Co., 1988)

Chalmers Johnson, Laura D'Andrea Tyson, and John Zysman eds. The Politics of Productivity: The Real Story of Why Japan Works (Cambridge, MA: Ballinger Publishing Co., 1989)

Published
Papers

"Socialjne Raslike i Inflacija," with S. Ostojic, Gledista (Belgrade), Vol. XIV, 1972.

"Performance Incentives and Planning Under Uncertainty," with G. Hildebrandt, Econometrics Research Program, Research Memorandum, Princeton University, August 1976, revised version published in Journal of Comparative Economics, Vol. 3, No. 3, September 1979

"Liquidity Crises in the Yugoslav Economy: An Alternative to Bankruptcy," Soviet Studies, Vol. XXIX, No. 2, April 1977.

"The Yugoslav Inflation, Some Competing Hypotheses," Journal of Comparative Economics, Vol. 1, No. 2, 1977.

"East European Reactions to International Commodity Inflation," with Z. Fallenbuchl and E. Neuberger, Joint Economic Committee volume, East European Economics Post-Helsinki, Government Printing Office, August 1977.

"The Yugoslav Economy in the 1970's: A Survey of Recent Developments and Future Prospects," Joint Economic Committee volume, East European Economics Post Helsinki, Government Printing Office, August 1977.

"The Impact of International Commodity Price Inflation on Yugoslavia," with E. Neuberger, in Stephen Rosefield, editor, World Communism at the Crossroads, (Martinus Nijhoff, 1980)

"A Permanent Income Hypothesis for the Yugoslav Firm," Economica, November 1977, Vol. 44, pp. 393-408.

"Enterprise Demand for Money and Illiquidity Crisis in Yugoslavia," European Economic Review, Vol. XII, No. 1, 1979, pp.53-71.

Equilibrium Analysis, (Cambridge: Cambridge University Press, 1984)

"Investment Allocation: A Comparison of Reform Experiences in Hungary and Yugoslavia," Journal of Comparative Economics, Vol. 7, No. 3, pp. 288-303, 1983.

"Foreign Trade, Resource Allocation and Structural Adjustment in Yugoslavia, 1976-1980," with Sherman Robinson, DRD Discussion Paper No. DRD 57, September 1983, The World Bank; Journal of Comparative Economics, Vol. 9, No. 1, 1985

"Policy Responses to External Shocks in Hungary and Yugoslavia 1974-1976 and 1979-1981," with Bela Balassa, in Joint Economic Committee Report, East European Economics: Slow Growth in the 1980's, Vol. III, March 1986.

"Yugoslav Economic Performance in the 1980's: Alternative Scenarios," with Sherman Robinson and Mathias Dewatripont, in Joint Economic Committee, East European Economics: Slow Growth in the 1980's, Vol. III March 1986.

Yugoslavia: Adjustment Policies and Development Perspectives, with Suman Berry et al., the World Bank, 1986.

"American Industry in International Competition. Government Policies and Corporate Strategies," with John Zysman in California Management Review, Vol XXV, Spring 1983, No. 3, pp. 27-52

"The Debt Crisis and Adjustment Responses in Eastern Europe: A Comparative Perspective," International Organization, Vol. 40, No. 2, Spring 1986

"Can Titoism Survive Tito. Economic Problems and Policy Choices Confronting Tito's Successors," with Chris Martin, in Pedro Ramet, ed., Yugoslavia in the 1980's (Westview Press, 1985).

"Creating Advantage: How Government Policies Shape High Technology Trade," with Michael Borus and John Zysman, in Paul Krugman, editor, Strategic Trade Policy and the New International Economics, (MIT Press, 1986)

"The New Hungarian Economic Reforms and Their Effect on Enterprise Behavior" with Stephen Popper, paper completed for the World Bank, February 1986, revised version published in Advances in the Economic Analysis of Participatory and Labor-Managed Firms, Vol. 3, 1987.

"Creating Advantage: An Industrial Policy Perspective," in Richard Lipsey and Wendy Dobson, eds., Shaping Comparative Advantage, Policy Study No. 2, C. D. D. Howe Institut, Prentice-Hall: Toronto, 1987

"The Economic Black Hole," with Lester Thurow, Foreign Policy, June, 1987

"Competitiveness: An Analysis of the Problem and a Perspective on Future Policy," in Martin K. Starr, ed., Global Competitiveness: Getting the U.S. Back on Track, (New York: Norton, 1988).

"Making Policy for National Competitiveness in a Changing World," in Antonio Funno, ed., Cooperation and Competition in the Global Economy: Issues and Evidence, (Ballinger Press, 1988).

"High Technology Choices Ahead: Restructuring Interdependence," with Manuel Castells in John W. Sewell and Stewart K. Tucker, eds., Growth, Exports and Jobs in a Changing World Economy, (New Brunswick: Transaction Books, 1988)

"Business, Economics and the Oval Office: Advice to the New President and other CEOs," Harvard Business Review, November-December 1988

"Conditionality and Adjustment in Hungary and Yugoslavia," with Sherman Robinson and Leyla Woods in Josef C. Brada, Ed A. Hewett and Thomas Wolf, editors, Economic Adjustment and Reform in Eastern Europe and the Soviet Union (Duke University Press, 1988)

"High Technology and the Changing International Division of Production: Implications for the U.S. Economy," with Manuel Castells in Randall B. Purcell, ed., The Newly Industrializing Countries in the World Economy: Challenges for U.S. Policy (Boulder and London: Lynne Rienner Publishers, 1989)

"Strategic Thinking, About the Economy Do We Need More than A Macro Perspective?" Business Economics, February 1989

"Why a National Competitiveness Policy is Needed " Siemens Review, March-April 1989 Reprinted in International Journal of Technology Management, Vol. 5, No 3, 1990.

"Responding to the Challenge of HDTV," with Jeffrey Hart California Management Review, Summer 1989

Participation, Productivity and the Firm's Environment," with David Levine, in Paying for Productivity: A Look at the Evidence, edited by Alan Blinder, Brookings Institution, 1989.

"Failing Our Youth: America's K-12 Education," New Perspectives Quarterly, Vol 7, No. 4, Fall 1990

"Managed Trade: Making the Best of the Second Best," in An American Trade Strategy: Options for the 1990's, Lawrence and Schultze editors, the Brookings Institution, 1990.

"They Are Not Us: Why American Ownership Still Matters," The American Prospect, Winter 1991

"Managing Trade by Rules and Outcomes," California Management Review, Fall 1991.

"McDonnell Douglas and Taiwan Aerospace: A Strategic Perspective on the National Interest in the Commercial Aircraft Industry," with Pei-Hsiung Chin, Journal of Policy Analysis and Management, Vol. 11, No. 4, Fall 1992.

"Managing Trade Conflict in High-Technology Industries," in Linking Technology and Trade Policy: An International Comparison, National Academy of Engineering, Washington, D C , 1992.

Editorial
Pieces:

"Yugoslavia: A Harsh Dose of Austerity to Fight Inflation With," with Donald Green, Business Week, April 27, 1981

"Yugoslavia: Stalling Growth to Curb Inflation," Business Week, May 24, 1982

"Rethink Trade Policy," with John Zysman, editorial, The New York Times, August 29, 1983

"U.S. Competitiveness and New TVs," Board of Economists, Los Angeles Times, February 5, 1989

"Trade Deficit Has Lethal Fallout," Board of Economists, Los Angeles Times, April 2, 1989

"On Participation and Productivity," Board of Economists, Los Angeles Times, May 28, 1989

"Managing Our High-Tech Trade," Board of Economists, Los Angeles Times, September 17, 1989.

"Tackling Japanese Trade Barriers" Board of Economists, Los Angeles Times, November 12, 1989

"Investing in the East Bloc Is a High-Risk Enterprise," Board of Economists, Los Angeles Times, April 29, 1990

"Poor Schools Are a Treat to Our Standard of Living," Board of Economists, Los Angeles Times, June 24, 1990.

"We Already Lack Will; Soon We'll Lack Means," Board of Economists, Los Angeles Times, August 19, 1990

"Ultimately, Ostrich Voting Gave Us the Budget Crisis," Board of Economists, Los Angeles Times, October 14, 1990.

"Strong U.S. Firms Key to Healthy World Economy," Board of Economists, Los Angeles Times, December 9, 1990.

"Belt Tightening Would Do More Harm Than Good," Board of Economists, Los Angeles Times, February 3, 1991.

"Japan Must Take on the Burden of a Global Power," Board of Economists, Los Angeles Times, March 31, 1991

"Free-Trade Pact Must Give U.S. Firms, Workers Edge," Board of Economists, Los Angeles Times, May 26, 1991.

"U.S. Must Avoid Trade Errors of 1980s," Board of Economists, Los Angeles Times, July 28, 1991.

"Soviets Need Market Linchpins to Thrive," Board of Economists, Los Angeles Times, September 15, 1991

"U.S. Needs New Spending Priorities," Board of Economists, Los Angeles Times, November 17, 1991.

"Getting Japan on the U.S. Bandwagon," Board of Economists, Los Angeles Times, January 5, 1992

"If Bush Aims to Bash Japan, He Should Do it Wisely," The Economy, San Francisco Chronicle, January 7, 1992

"McDonnell-Taiwan Deal Presents a Pandora's Box," Board of Economists, Los Angeles Times, March 1, 1992

"Let's Use the 'Peace Dividend' to Rejuvenate U.S. Science and Technology," Board of Economists, Los Angeles Times, April 26, 1992

"Some Simple Rules to Judge What Candidates Say About the Economy," Board of Economists, Los Angeles Times, June 21, 1992.

Book Reviews

Edward M. Graham, "Foreign Direct Investment: Does It Threaten the United States?" reviewed for Science, September 25, 1991

"Comment" on, Masahiro Okuno-Fujiwara, "Industrial Policy in Japan: A Political Economy View," in Trade With Japan: Has the Door Opened Wider?, Paul Krugman, ed., (Chicago, Illinois: University of Chicago Press, 1991).

Working Papers

A General Equilibrium Model of the Yugoslav Economy, with S. Robinson, paper completed for the International Bank for Reconstruction and Development, July 1981.

"Basic Features Yugoslavia's Economic System and Performance at the Beginning of the 1981-85 Plan Period", in Yugoslavia After Tito, Occasional Paper No. 157, Kennan Institute for Advanced Russian Studies, 1982

Adjustment to External Shocks in Socialist and Private Market Economies, with Bela Balassa, DRD Discussion Paper, No DRDb1, The World Bank, 1983

Competitiveness (Volume III of the Report of the President's Commission on Industrial Competitiveness), with Cohen, Teece and Zysman, BRIE Working Paper # 8, University of California, Berkeley, November 1984

Computable General Equilibrium (CGE) Models for Socialist Economies, with Peter Kis and Sherman Robinson, paper presented at the Annual Meeting of the American Economic Association, December 1985

The U.S. and the World Economy in Transition, paper presented at Western Economics Association meetings, BRIE Working Paper #22, University of California, Berkeley, July, 1986

The Trade Deficit, Global Capital Flows and the Exchange Rate, paper presented at the Western Governors' Association Annual Meeting, July 1986

Creating Advantage: Strategic Policy for National Competitiveness, BRIE Working Paper 23, University of California, Berkeley, January, 1987

"Semiconductors: From Manipulated to Managed Trade," with David B. Yoffie, BRIE Working Paper 47, University of California, Berkeley, August 1991.

Work In
Progress

"Semiconductors: From Manipulated to Managed Trade," with David B. Yoffie, in Beyond Free Trade: Firms, Governments and Global Competition, Harvard Business School Press, Boston, MA, 1992

"Reprivatization in Eastern Europe: Roundtable Report," with Andrew Schwartz, for the World Bank Publications, 1992

"Promoting Entrepreneurship in Eastern Europe," with Tea Petrin, to be published in Eastern Europe, 1993

"Trade Policy, Industrial Policy, and the Peace Dividend," in The End of the American Century, Cambridge University Press, 1993

Congressional
Testimony

Testimony at Hearings on "U.S. Economic Growth and the Third World Debt," Senate Foreign Relations Subcommittee, Washington, D.C., October 1985

Congressional Joint Economic Committee testimony on "The U.S. and Global Industry," Washington, D.C., September 13, 1990

Congressional Joint Economic Committee testimony on the "McDonnell Douglas-Taiwan Aerospace Deal," Washington, D.C., February 27, 1992

Senate Committee on Banking, Housing and Urban Affairs Subcommittee on International Finance and Monetary Policy testimony on "The Exon-Florio Provision of the 1988 Trade Bill," Washington, D.C., June 4, 1992

Senate Judiciary Committee testimony on "National Economic Strategies for a Global Economy," Washington, D.C., September 23, 1992

Seminars,
Conferences

(This is a representative list of events from 1984 to present)

Participant in Harvard Business School, 75th Anniversary Colloquium on U.S. Competitiveness, February 1984.

Co-organizer and Participant in a Conference on the Politics and Economics of Adjustment in Eastern Europe, University of California, Berkeley, February 1985. Conference papers in a special issue of International Organization on Eastern Europe, co-edited with Ellen Comisso

Moderator of Panel on "Sustaining and Augmenting Technical Advantage in Emerging Industries," National Science Foundation Conference on Industrial Science and Technological Innovation, April 27-29, 1986, San Antonio, Texas

Social Science Research Council, Annual Workshop on Soviet and East European Economics, University of Illinois, Champaign-Urbana, July, 1986

Speaker, Twelfth SRI-MEMO Symposium on the U.S. and Soviet Economies, sponsored by the American Council of Learned Societies and The Soviet Academy of Science, July 1987.

Speaker, Rebuild America Conference, "Investment Economics-Invest in America," February 26, 1988

Speaker, The Carter Center, "Common Sense on Competitiveness" April 25-26, 1988.

Speaker, Economic Policy Institute, "First 100 Days," Washington D.C. June 23, 1988.

Panel member, Democratic National Committee, Democratic Policy Forum on Human Resources, Education and Competitiveness, July 18-19, 1988

Speaker, 4th Annual Workshop on Soviet and East European Economics, Social Science Research Council, July 28, 1988

Speaker, UCLA Business Forecasting Project, Graduate School of Management, September 15, 1988

Speaker, National Association of Business Economists, Annual Meeting, September 27, 1988

Speaker, Leadership America Conference, San Francisco, October 1988

Speaker, Centre D'Etudes Prospectives et D'Informations Internationales, Paris, October 11, 1988.

Speaker, Council on Competitiveness Annual Meeting, Nov. 2-3, 1988, Washington D C

Speaker, Hoover Conference, Stanford, November 14-16, 1988.

Speaker, National Association of Business Economists, San Francisco, November 16, 1988

Speaker, BRIE "1992" Conference, January 8-10, 1989

Speaker, The Brookings Institution Conference for Government Executives on Understanding Business Policy and Operations, January 26, 1989

Speaker, California Alumni Association, Los Angeles, March 4, 1989

Speaker, California Alumni Association, UC Berkeley, April 22, 1989

Speaker, Institute for International Economics, May 22, 1989

Speaker, Smick Medley International, "Democrats in 1992 Themes for a Presidential Majority," Washington D.C., September 11, 1989

Keynote Address, National Machine Tool Builders Association, October 1989

White House Symposium for Non-Profit Organizations on Assistance in Eastern Europe, Washington, D.C., January 24, 1990

Electronics Industries Association Board of Governors General Session, Palm Springs, January 26, 1990.

Speaker and Facilitator, "Developments in Eastern Europe" Motorola University, April 1990.

Keynote Speaker, The President's Manufacturing Forum, National Academy of Science, Washington, D.C. June 1990

Panelist, The Future Course of American Trade Policy, The Brookings Institution, Washington, DC, January 29, 1991.

Keynote Speaker, Revenue Shortfalls and Long-Term Visions: Budgeting for the 1990s, Ninth Annual Senate and Fiscal Review Committee Retreat, Berkeley, February 1, 1991

Laura Tyson, Francois Bar, and Michael Borrus, BRIE/Motorola University Telecommunications Ministers Conference, "Telecommunications: Leadership in a Free Market Economy," Schaumburg, IL, August 12-14, 1991.

University of Toronto - Claude T. Bissell Lecture Series (Visiting Chair in Canadian and American Relations): "Free Trade, Managed Trade, and Regional Trading Blocs," Toronto, Canada, November 13, 1991.

Eastern Europe & Entrepreneurship 4th Annual EFER Forum, "Promoting Entrepreneurship in Eastern Europe", Domhotel, Berlin, Germany, December 8-10, 1991.

Pacific Basin Economic Council, "North American Free Trade: Implications for International Businesses," San Francisco, Calif., January 23-24, 1992.

Digital Equipment Corporation/The Nightly Business Report, Special Industry Leader Luncheon, Los Angeles, Calif., February 13, 1992.

University of Toronto - Claude T. Bissell Lecture Series (Visiting Chair in Canadian and American Relations): "Restructuring Europe," Toronto, Canada, March 25, 1992.

Speech for Congressional Candidate Diane Feinstein's supporters, Claremont Hotel, Berkeley, Calif., "The Geopolitics of Trade," March 30, 1992.

Speaker, Harvard University Center for Business and Government conference on "Globalization of Business and the American Community," Cambridge, Mass., April 12-14, 1992.

Competitiveness Policy Council Manufacturing Subcouncil meeting, Washington, D.C., June 3, 1992.

The Asia Foundation, America's Role in Asia Working Group, San Francisco, Calif., June 10-11, 1992.

Haas School of Business Alumni Weekend "European Integration or Disintegration?" Berkeley, Calif., October 30, 1992.

Editorial
Boards and
Service to
Academic
Organizations.

Editor, Eastern European Economies (Journal of Translations, published by M E Sharpie, Inc), 1979 through 1985

International Research and Exchanges Board, East European Selection Committee, 1979 to 1981

Executive Committee, Association for Comparative Economic Studies, 1979-80

National Council for Soviet and East European Research, Board of Trustees, 1980-83

Board of Editors, Journal of Comparative Economics, 1980-1984

Vice President, Omicron Delta Epsilon, National Honor Society in Economics, 1982 to 1986

Board of Editors, International Organization, 1982 to 1987

Executive Committee, Center for Slavic and East European Studies, 1983-1986

Vice-Chairman, Economics Department, 1983-1986

Special Scholarship Committee, UC Berkeley, 1983-1986.

Chancellor's Committee on Economics on Campus, UC Berkeley, 1984

Faculty Advisory Committee, Political Economy of Industrial Societies, 1982 to present

Board of Editors, East European Politics and Society 1986 to present

International Research and Exchanges Board, Program Committee, 1986 to 1988

Personnel Committee, Department of Economics, 1988-89 (Chair)

Advisory Committee, Center for German and Western European Studies, 1990-present

Advisory Committee, Berkeley-Stanford Program in Soviet Studies, 1990-present

Colloquium for Global Environmental Change Seminars, 1991-92 (Co Chair)

Institute Directors and Center Chairs, International and Area Studies

Cuomo Commission on Trade and Competitiveness, appointed by Governor Mario Cuomo, 1986-present.

Advisory Panel to Department of Defense on U.S. Competitiveness and the Manufacturing Base, June, 1987.

Board of Advisors, Economic Policy Institute, 1986-present.

Committee on the Skills of the American Workforce, Carnegie Center on Education and the Economy, 1989-90.

Member of the OTA Technology Assessment Advisory Council (TAAC), 1990.

Member of the Advisory Board of the Economic Strategy Institute, 1990-91.

Board of Advisors, Subcommittee on a Global Economic Strategy for the United States, "The United States in the New Global Economy A Rallier of Nations," A Statement by the Research and Policy Committee of the Committee for Economic Development, 1992.

Advisory Committee for National Planning Association's "Gateway Japan," 1991-present.

Member of the Competitiveness Policy Council Manufacturing Subcouncil, 1992-93

Member of the Social Science Research Council Economic Initiative Planning Group, 1992-93.

**QUESTIONS FROM THE SENATE BANKING COMMITTEE FOR
DR. LAURA D'ANDREA TYSON**

FEBRUARY 1, 1993

QUESTIONS FROM SENATOR DONALD W. RIEGLE, JR.

Q.1. What Government decision-making structure can we put in place to ensure that strategic industries are identified on merit, not politics? What makes an industry strategic in your view?

A.1. Previous administrations of both parties and all ideological persuasions have frequently employed a variety of policies, including trade policies, tax policies, and Government procurement policies, that have supported or promoted individual sectors. The United States Government needs the institutional capacity to assess competitive and technological trends in global industries on an ongoing and timely basis and to monitor the activities of foreign governments and firms in particular industries to provide "early warning" of competitive problems that might be on the horizon. The governments of most of America's trading partners have this capacity and regularly provide objective assessments of competitive trends in global industries to both private and public actors.

Without such a capacity, the United States Government will not be able to respond objectively and effectively to proposals for assistance from specific industries and will not be able to fashion and pursue a coherent competitiveness strategy.

Although all industries contribute to the Nation's economy, they differ in terms of their effects on job creation, wages, productivity, trade, research and development, and national security, all of which are major determinants of our long-term economic health.

Q.2. You describe yourself as a "cautious activist" in trade policy. How does that differ from the approach we've been taking? Can you give examples there you feel we have taken the wrong course or missed opportunities to increase our gains from trade?

A.2. In my book *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, I describe the trade policy agenda of a cautious activist as a defensive one. I recommend that the Nation's trade laws be used to deter or compensate for foreign practices and structural impediments that are not adequately regulated by existing multilateral rules. My previous empirical research indicates that such practices can inflict substantial injury on American producers. In pursuit of this defensive objective, I recommend that U.S. policy makers be guided by the principle of selective reciprocity and motivated by the goal of opening foreign markets. Both 301 and Super 301 embody this approach and have been successfully used to improve access for American companies to important foreign markets.

Finally, I believe that the Nation's trade policies should be employed and fashioned in ways that strengthen rather than weaken the multilateral trading system. Cautious activism at the national level should be viewed as an interim response while the United States continues to work with its global trading partners to develop more precise and enforceable multilateral rules that restrict unfair foreign trading practices and reduce barriers to foreign markets.

In response to mounting Congressional pressure during the 1980's, first the Reagan Administration and later the Bush Administration began to pursue a more activist trade policy designed to address structural impediments to foreign markets. Recent studies conclude that the use of 301 and Super 301 since the mid-1980's have been successfully applied to reduce such impediments and to increase competition in most cases.

During the past decade, the United States has sometimes been slow to respond to the damage caused to American producers by access barriers to key foreign markets. For example, it took the United States Government several years to mount a serious effort to reduce barriers to Japan's semiconductor market. By the time credible action was taken, American producers had lost most of the global market for DRAM's to their Japanese competitors.

There has also been little progress to date in increasing the share of American producers in Japan's auto parts market. Even the comparative study of sourcing by Japanese and American auto producers promised in the MOSS talks is yet to be completed, and while the U.S. deficit in auto parts with Japan has increased sharply, the share of American producers in Japan's auto parts market remains less than one percent.

Q.3. Have you looked at the financial services section of the current draft GATT agreement? Some have charged that we would be locking in open access to foreign firms in our markets while doing nothing to enhance our firm's access to some highly restricted foreign markets. Do you agree?

A.3. I have not had an opportunity to examine carefully the financial services section of the agreement. However, I fully intend to do so. I certainly understand the importance of obtaining a strong services agreement, particularly one that will give full and fair reciprocity to U.S. financial firms. There is clear evidence that many foreign markets are not open to American financial services firms and we must work much harder to open those markets. The Treasury Department's 1990 national treatment study, for example, identified Japan, Korea, Taiwan and Brazil as among those countries denying U.S. financial firms national treatment. American financial services firms are among the most competitive and creative in the world, and it is imperative that we get an agreement which gives them a real opportunity to compete in foreign markets.

Q.4. Should we continue the Structural Impediments Initiatives talks with Japan? How successful do you think they have been?

A.4. The SII approach was designed to reduce general structural impediments affecting trade between the United States and Japan in all industries. Some important economy-wide structural impediments to the Japanese market—including the organization of the distribution system, exclusionary business practices, and keiretsu relationships—have made it to the negotiating table during the SII discussions. Negotiating with the Japanese to add personnel to their Fair Trade Commission or to increase their antitrust penalties, as they have agreed to do as part of their SII commitments, may have payoffs for the United States and Japan's other trading partners in the long run. In the short run, however, industry-specific talks and precise sectoral commitments are likely to prove

more effective at enhancing access to Japan than the economy-wide SII approach.

The best approach to our trading problems with Japan is a multi-track approach: sectoral talks should be complemented by ongoing negotiations to address economy-wide structural impediments and to coordinate macroeconomic policies.

Q.5. The RTC has gone 10 months without funding to close dead thrifts. In the 1980's, failure to provide funds for such closures put serious strains on healthy institutions and raised a question in the minds of some about our commitment to stand behind our deposit insurance guarantee. Do you agree that immediate action is necessary to provide adequate funding [for the RTC]?

A.5. Yes. While the estimates vary on just how much delay costs, it is clear that every day of delay in funding the Resolution Trust Corporation adds significantly to the overall cost of the Savings & Loan cleanup. It is important that adequate funds be sought and obtained as soon as possible and that reforms be instituted at the RTC to ensure that RTC funds are spent as effectively and efficiently as possible.

Q.6. On page 275 of your book *Who's Bashing Whom?*, you note that there is some evidence that private American investors will not put money into industries targeted by the Japanese. You further note that because of that there was no credible challenge to Japanese dominance of memory chips until the Korean producers, backed by their government, entered the competition. Do you think the U.S. Government should also back critical industries, and, if so, why?

A.6. As I argue in my book, most of the problems confronting American industries are homegrown and require homegrown solutions. Flawed domestic choices, not unfair foreign trading practices, are the main cause of the Nation's long-run economic slowdown and competitiveness difficulties. We must adopt national policies to encourage more saving, investment, and research and development, improve the education and training of our workforce, and address our health care crisis if we are to improve the competitiveness of our producers in international markets. This will require changes in our taxation system, changes in the composition of Government expenditures, and changes in our health care delivery system. Such changes will benefit all industries and economic activities.

We also need complementary policies to support the development and diffusion of critical technologies throughout our economy. In particular, we need to shift Federal R&D spending from military to dual-use and commercial objectives. As a recent study by the National Academy of Sciences concluded, the Federal Government needs new approaches that are at once better coordinated and more insulated from political influence to finance research on precompetitive generic technologies that are likely to be underfunded by private companies but are likely to have significant spill-over benefits for the Nation as a whole.

Q.7. We regularly hear about the inadequacies of our economic data and proposals to upgrade them, but funding for data collection seems to get cut in the appropriations process. Do you think our

economic data needs improvement and do we need to spend more money to achieve that?

A.7. My predecessor as Chair of the Council of Economic Advisers, Michael Boskin, has pointed out the problems of inadequate economic data collection. He began a series of efforts to improve and upgrade our systems for collecting and analyzing our economic data. I certainly support those efforts and hope to continue working to improve and upgrade our economic data collection efforts. For both the Government and the private sector, it is very important to have the data necessary to determine what is going on in the economy and what impact various policy changes are having on our overall economic performance. The only way to determine those results is with accurate and complete data.

Q.8. Are you concerned that American financial firms are denied opportunities to compete in many countries whose own financial firms are free to compete in our markets? To give our negotiators new leverage to open foreign financial markets, would you favor enactment of the Fair Trade in Financial Services Act, a bill that Senator Garn and I authored? It would give the Executive Branch discretionary authority to deny some or all applications for expansion of their U.S. operations from foreign firms whose governments discriminate against U.S. financial firms.

A.8. I am very concerned about the lack of access by American financial firms to foreign markets, particularly in those countries whose financial firms are participating freely in our markets. Certainly the latest report by the Department of the Treasury regarding financial services access in foreign countries indicates continuing problems for American firms in gaining fair access to certain foreign markets. We do need to take further steps to open up foreign markets to all U.S. service firms who wish to compete in those markets. We should be working for this market access through a variety of forums, including a strong services agreement as part of the GATT. The Fair Trade in Financial Services Act is one option that deserves serious consideration by the administration as we work toward a goal of fair and free access for U.S. financial firms. We will need to use a variety of tools to open a number of foreign markets.

QUESTIONS FROM SENATOR PATTY MURRAY

Q.1. One of the messages of this past election was that Americans want the economy put back on track. They want the economy on the frontburner of our Nation's agenda. Americans want jobs—good paying jobs. They want affordable health care, and they want their children to have the type of education that will enable them to find good-paying jobs in the future. As the President's chief economic adviser, what will be your formula for putting the economy back on track?

A.1. The basic outlines of President Clinton's strategy for putting the U.S. economy back on track are laid out in his campaign documents, including *Putting People First*, and his position papers on policies for manufacturing, technology, and small business. His economic advisors, including myself, are now working together to design specific policy proposals that incorporate this strategy. In par-

ticular, we are working on ways to stimulate the economy, to increase national saving and investment, to reduce the Federal budget deficit, to improve the skills and training of our workforce, to address our health-care crisis, to restore greater equity in our taxation system, and to increase Federal support for the development and diffusion of new civilian and dual-use technologies.

Q.2. Boeing is the largest single employer in my State of Washington. As you know, one of the most protracted trade problems for the United States has been the dispute over European subsidies for Airbus. Would you please give us your views on the agreement reached last year between the United States and European Community on aircraft? In the absence of an agreement establishing a level playing field in aircraft manufacturing, would you consider any type of Federal assistance for Boeing or other U.S. aircraft manufacturers specifically to counter foreign government subsidies?

A.2. My recent book, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, has an extensive discussion of the 1992 agreement between the United States and Europe on subsidies in the commercial aircraft industry. I have attached the relevant pages of this discussion. (Please read pages 207-210 attached as Exhibit A.) In summary, I conclude that despite some loopholes, the agreement is a noteworthy accomplishment for both sides and a major improvement over the 1979 GATT agreement on civil aircraft. The 1992 agreement proscribes certain kinds of beggar-thy-neighbor and efficiency-reducing subsidies, such as inducements and production subsidies, while strictly limiting development subsidies through specific rules and enforcement mechanisms.

Because of the obvious importance of the military and civilian aircraft industries to both national and economic security, I believe that the United States must adopt policies that ensure that American producers have the technological and financial wherewithal to compete with subsidized foreign producers.

Q.3. During the negotiations between McDonnell Douglas and Taiwan over the production of aircraft, which would have given Taiwan some 60 percent of the manufacturing benefits of production, the previous administration took a hands-off approach. Do you believe the Federal Government should take a hands-off approach to such negotiations that transfer U.S. jobs and technology to foreign governments?

A.3. I believe that when a foreign government is involved in a direct investment in the United States, some review by our Government is appropriate. Indeed, just last year, Congress amended the so-called Exxon-Florio provisions to require an extended investigation whenever a foreign corporation that is controlled by or acting on behalf of a foreign government seeks to take over a U.S. company. The changes in the law also expanded the factors that the President must consider when making a decision about whether an acquisition by a foreign company or foreign government would threaten U.S. technological leadership. When a foreign government has a substantial stake in a foreign direct investment, the transaction may not be one in which simple market forces are at work. In such instances, it is important for the transaction to be reviewed by the Government to ensure that America's economic and techno-

logical base is not adversely affected. In addition, I think a variety of concerns are raised by any direct investment by a foreign government that has as an explicit objective of moving jobs from the United States to facilities abroad.

QUESTIONS FROM SENATOR CHRISTOPHER S. BOND REGARDING FOREIGN DIRECT INVESTMENT IN U.S. AEROSPACE INDUSTRY

Q.1. In testimony before this committee last year, you testified in opposition to the proposed McDonnell Douglas-Taiwan Aerospace deal to produce the MD-12. Specifically, you raised concerns because the Taiwanese government is a major investor in Taiwan Aerospace and has targeted the aerospace industry for investment. You also raised a concern that such a deal would threaten production, employment and exports by McDonnell's American subcontractors. Finally, you expressed concern that the major loser in the deal would be Boeing and that therefore the deal was not in overall U.S. interest. We are now faced with the possibility of a joint venture between Boeing and Deutsche Aerospace to study the possibility of building a 600-seat aircraft. Given the fact that Deutsche Aerospace has received significant subsidies from the German government for its participation in the Airbus consortium which has harmed the U.S. commercial aerospace industry; and given the fact that the German government has clearly targeted the aerospace industry for investment, please provide detailed answers to the following questions. Does the proposed deal cause you concerns similar to those you expressed about the MD-12 deal? If not, why?

A.1. To date there has been very little information made public about a possible deal between Boeing and Deutsche Aerospace to cooperate on the development of a 600-seat aircraft. Without detailed information about what such a deal would entail, it is impossible for me to answer the specific questions you raise. The appropriate public policy response depends on the specifics of the deal, such as whether the deal would involve the purchase of a share of Boeing by foreign governments, whether it would involve joint research and development or joint production, and whether it would involve the transfer of a significant number of American jobs abroad.

In general I believe that foreign direct investment is on balance good for the American economy. An open-door policy in favor of such investment usually makes sense when private foreign investors are involved, but it must be carefully considered when foreign governments are involved as significant investors. In the former case, market objectives can be presumed to motivate the investment decision, and the usual presumption in favor of market forces applies. When a foreign government is the investor, however, foreign national interests are at play, and these may conflict with American national interests. For this reason, I support the recent changes in the Exxon-Florio process that require that foreign direct investments involving foreign governments be subject to CFIUS review.

I also believe that because of the obvious importance of the military and commercial aircraft industries to both national and economic security the United States must adopt policies that ensure

that American producers have the technological and financial wherewithal to compete with subsidized foreign producers.

Q.2. If Boeing were to enter into an agreement with Deutsche Aerospace to produce an aircraft, would you object? If not, why?

A.2. In general, I believe the CEA should carefully watch all major developments in the aerospace industry. I clearly recognize the importance of the aircraft industry to our country and its economy. Our aerospace industry has been a major exporter and an important developer of new technologies. It is an industry facing stiff foreign competition and pressures from sharp cutbacks in military procurement of new aircraft. I believe that the United States must adopt policies that ensure that American producers have the technological and financial wherewithal to compete with subsidized foreign producers.

Q.3. Are you concerned that the proposed deal or a follow-on production deal would have a negative impact on McDonnell Douglas and would you therefore oppose it as you opposed the MD-12 deal because of its potential impact on Boeing?

Q.4. Are you concerned that a deal between Boeing and Deutsche Aerospace to produce an aircraft would have a negative impact on Boeing's U.S. subcontractors? If so, do you find it of enough concern to oppose the deal?

A.3. and A.4. With respect to the proposed deal between Boeing and Deutsche Aerospace, unfortunately, very little is known about the proposal. There has been very little public information about the specifics of the transaction. Therefore, it is difficult to give any precise answers about whether the concerns raised about the McDonnell Douglas-Taiwan Aerospace deal should also be raised regarding the possible Boeing-Deutsche Aerospace deal. Before any specific policy decisions are made, it would be important to know and examine all of the particulars of the deal, including the various subcontracting provisions. Given that the details have not been made public, and therefore I have not had the opportunity to study them, I cannot comment on whether objections to the transaction are appropriate or what the potential impact on subcontractors might be.

Q.5. Do you believe that a U.S. Government official should sit across the table from the Deutsche Aerospace representatives as you suggested would have been appropriate in the MD-12 case "to structure a better deal from the American point of view?" If not, why not?

A.5. With respect to the involvement of Government officials in any such transactions, I believe the newly revised provisions of Exxon-Florio enacted as Section 837 of the 1992 Defense Authorization Act must be looked at to determine the appropriate Government role, if any. These provisions call for an extended Government investigation whenever a foreign corporation that is controlled by or acting on behalf of a foreign government seeks to take over a U.S. company. The provisions also expand the factors that the President must consider when making a decision on whether an acquisition would threaten U.S. technological leadership. If the proposed deal between Boeing and Deutsche Aerospace involves acquisition of

part of the former by the latter—which on the basis of available information about the deal I do not believe to be the case, then it would have to be evaluated to determine whether it met the criteria set forth in these new provisions. If so, Government involvement in examining the transaction would be called for.

**QUESTIONS FROM SENATOR CHRISTOPHER S. BOND
REGARDING UC-BERKELEY, BRIE & IIE**

In your nominee questionnaire, you state that you will be on official leave from the University of California at Berkeley during your term at the CEA and that you believe it is “quite likely” that you will return to the University after completing your Government service. Given that your employment at the University includes your position as Director of the Institute of International Studies and Director of Research of the Berkeley Roundtable on the International Economy, please provide detailed answers to the following questions.

Q.1. Do either of these entities receive funding from companies, corporations or other organizations that might have business before the CEA or other White House organizations with which you would have close involvement (e.g., the Economic Security Council, CFIUS, USTR, etc)? If so, do you intend to recuse yourself from involvement in matters involving those companies or organizations?

Q.2. Do you believe that the likelihood that you will return to these positions at the University create any potential conflict of interest?

Q.3. Please list the companies, corporations, individuals or other entities which have contributed \$5,000 or more to either the Institute of International Studies or the Berkeley Roundtable or the University itself for the specific benefit of the Department of Economics.

A.1-3. First, I have no agreement regarding any ongoing relationship or prospect of returning to the Berkeley Roundtable on the International Economy or the Institute of International Studies. I have severed all ties with those two organizations. My only agreement is with the University of California, from which I have a leave of absence and have the right to return at the end of that leave. Therefore, to the best of my knowledge, there are no ongoing conflicts between my position at the CEA and the Institute of International Studies or the Berkeley Roundtable on the International Economy.

Since I am on a leave of absence and I am able to return to the University of California, I will, of course, recuse myself from involvement with specific governmental policies or programs directly affecting the University of California. In addition, as stated in my questionnaire provided to the Banking Committee, I will do whatever is necessary to resolve any potential conflicts of interest, although I do not believe any exist. Should any potential conflicts arise, I will take whatever action is deemed necessary by the Office of Government Ethics.

Finally, I have attached to these answers, as Exhibit B, a copy of the pertinent pages (and a brief supplemental letter) of the annual report of the Institute of International Studies which details Extramural Grants and Contracts involving the Institute of Inter-

national Studies and the Berkeley Roundtable on the International Economy for 1991-92. I have also attached two lists, within Exhibit B, which detail External Funding Sources for BRIE and the Department of Economics, University of California at Berkeley for 1991-92.

QUESTIONS FROM SENATOR ALFONSE M. D'AMATO

Q.1. You are on record as recommending consideration of "a tax on the short-term turnover of stocks and other securities" (Los Angeles Times March 4, 1990) as a means of improving U.S. competitiveness. How is decreasing the liquidity and attractiveness of America's capital markets, the biggest and most efficient in the world, going to contribute to the competitiveness of American industry? Who would pay such a transaction tax, if not the retirees for whom those stock and bond portfolios are managed?

A.1. A tax on the short-term turnover of stocks was suggested by a variety of economists and policy analysts who were looking at options to encourage longer-term investments by institutional investors and others. Many of those suggesting such a tax were writing during the period following the stock market crash of 1987 and the downturn of the market in 1989. Those proposing the idea were looking for a way to take some of the volatility out of the market, thereby encouraging smaller investors to return to the market and promoting longer term investment strategies.

In evaluating such a proposal, as with any tax proposal, the Council of Economic Advisers would look at what behavior any proposed tax would either promote or discourage. In looking at a tax on the transfer of securities, the CEA would certainly examine closely the effects that any such tax would have on decreasing the liquidity and attractiveness of America's capital markets. The CEA would also examine closely who would be adversely affected by any such tax proposal.

I am certainly well aware of the importance of our capital markets. They are the biggest and the most efficient in the world, and I support keeping our markets as efficient and effective as we possibly can.

Q.2. The Council of Economic Advisers was created by Congress in 1946 to be the chief source of economic advice for the President. You are here today, and your colleagues on the Council will be here on future days, because your appointment is subject to the advice and consent of the Senate. That is to say, that while you advise the President, you and your Council are accountable to the American people through its elective representatives. President Clinton has proposed to create in the White House another economic body, the National Economic Council, a body not created by Congress and whose head, referred to in the press as the "Economic Czar," is not subject to confirmation by the Senate. This arrangement has been criticized as eclipsing the role of the Council of Economic Advisers as set out by Congress. Would you explain for the Committee how the Council of Economic Advisers will function in the shadow of the National Economic Council? Will it become, in the words of a Wall Street Journal article, "The Council of Economic Irrelevance?"

A.2. The Council of Economic Advisers (CEA) will not be in the shadow of the National Economic Council (NEC). Indeed, the CEA will be enhanced, not diminished by the NEC. The Council of Economic Advisers will play an integral part in formulating any proposals or programs that affect the economy and will give its input both directly to the President, and through the meetings and inter-agency groups arranged by the NEC. The CEA will continue to provide the analytical expertise needed by the NEC and by the President. In addition, the CEA will continue to perform its role in preparing *The Economic Report* for the President and in advising the President on the state of the economy.

The National Economic Council, on the other hand, will function largely as a body designed to bring together a variety of proposals from different parts of the Government, including the CEA, to work out differences in these proposals, and to present the President with a set of coherent options.

QUESTIONS FROM SENATOR PETE V. DOMENICI

Q.1. GDP has risen for six straight quarters and most recently at a 3.4 percent annual rate. As CEA head, you will be called upon to make forecasts that will be used for calculating the budget. What is your expectation for economic growth in 1993 and 1994?

A.1. As you may know, there is considerable and indeed unusual agreement among most private forecasters that growth will be right around 3.0 percent for 1994. As forecasts move beyond one year out, they become less accurate, as movements in the economy, particularly those of interest rates, become much harder to predict. For now, I cannot give any estimates beyond what the Blue Chip or CBO forecasters have provided, but I am working with other members of the economic team to develop a forecast that incorporates what we believe will be the effects of the administration's economic policy package on the economy. I look forward to discussing these forecasts with you and the other members of the committee when they become available and to working with you as we all work to get our economy back on track.

Q.2. OMB has used the consensus 3.0 percent economic growth forecast of the 51 Blue Chip forecasters to make their budget projections. Is there any reason to believe that this is far wide of the mark for 1993 and 1994?

A.2. As stated in response to Q.1 above, I am currently working with members of the economic team to develop an administration forecast. The forecast will incorporate our assessment of the effects of administration's policy package on the economy. Since the Blue Chip forecasters may have made different assumptions about the likely policy environment during the next few years, it is possible that our forecast will differ somewhat from the Blue Chip forecast, but I do not think the resulting differences will be large. If I am confirmed as Chair of the CEA and once our forecast is finalized, I will be happy to discuss it with you and the other members of the committee.

Q.3. Why, with recent economic growth, have we not seen more job creation?

A.3. It is unclear exactly why job creation has lagged so far behind the limited upturn in the economy. It is clear that while some recent indicators point to sustainable economic growth in the range of 3.0 percent, we are still running a tremendous deficit in terms of jobs and the creation of new jobs. Unemployment is still higher than it was at the trough of the recession and it remains a particularly troubling problem which the Clinton Administration intends to focus much of its attention on. It is clear that we must do better at providing decent jobs for our citizens before we can be satisfied that our economy is moving in the right direction. Some of the lack of job growth can be attributed to gains in productivity, but those gains do not tell the whole story. It is an issue that I intend to examine very carefully if I am confirmed as Chair of the Council of Economic Advisers. I look forward to working with you and the committee to develop sound policies leading to job growth.

Q.4. Some in Congress are blaming the Fed for the slow economy and are pushing for more control over monetary policy. Do you think this is a fair characterization of the Fed's actions and do you think more Congressional and Executive control is the answer?

A.4. First, I think the Fed should be commended for the steps they have taken to lower interest rates.

In terms of going forward from here, it will be essential that the administration, the Congress and the Federal Reserve work together to get the economy back on track and get things moving again. If the Congress and the administration take the necessary steps to get things in better order on the fiscal side, then it is important to have a supportive policy from the Federal Reserve on the monetary policy side.

Q.5. The economy has been growing now for six quarters and the most recent quarter's growth, at 3.4 percent, was the strongest since 1988. Is this the time for a stimulus package? Is it possible to have a significant stimulus package that doesn't raise the deficit?

A.5. The President's economic team is currently exploring a variety of options with respect to economic programs. No decisions have been made yet regarding how much any package should contain regarding both deficit reduction and stimulus. Certainly, a package that leads to long-term economic growth will ultimately help bring down the deficit by raising the overall level of economic activity and therefore the amount of tax revenues collected. Once an economic package has been put together, I will be pleased to discuss it in detail with you and other members of the Committee.

Q.6. What prescriptions are important for our economy's long-term growth?

A.6. The most important things we can do for long-term economic growth are to increase private and public investment in our economy and to bring down the deficit. Investments in people and training, in research and development and in basic infrastructure will be very important to long-term economic growth. In general, we must move from policies that encourage consumption to policies that encourage investment, particularly investment in new jobs and new technologies. In order to have the funds necessary to

make these investments, it is essential that we also increase our saving rates and that we work to increase government savings by bringing down the deficit.

Q.7. Are the returns from public investments in infrastructure better than returning the funds through deficit reduction and allowing the private sector to invest?

A.7. It is difficult to answer this question in the abstract. The returns to public investment vary with the kinds of public enactment. Returns can be quite high on public investments in infrastructure, education and R&D for example. Furthermore, the effects of deficit reduction on private investment depend on how much of the additional saving made possible by deficit-reduction is channelled into private investment and on what kinds of new private investment occur. Finally, there are some kinds of public investment—for example, public investments in infrastructure—that are complementary to private investment projects and actually raise their rates of return.

Q.8. How should we pay for new government “investment” outlays?

A.8. The economic team has not yet decided on which new government “investment” outlays are appropriate. Therefore, it is probably premature to determine how such investments will be paid for. Certainly, all such decisions will be made with a clear understanding of the need to bring down the Federal deficit. As noted in Q.7 above, some kinds of public investments are important for economic growth. Some of these may be investments that are already on the books or can be accommodated in already existing budget projections. Once the President’s economic package has been put together, I will be happy to discuss with you the various proposals for paying for any recommended investments.

Q.9. The defense budget has been decreasing as a share of Government outlays since 1986. The 1990 budget agreement capped defense spending and devotes any defense saving to deficit reduction. How much faster should we cut defense spending?

A.9. Again, the basic decisions regarding the level of defense cuts have not yet been made. Therefore, it would be premature to give a precise answer. Certainly there is an expectation that further defense cuts are in order, given the changes that have occurred throughout the world. However, some offsetting expenditures will be required to ensure an orderly conversion from defense production to civilian production. The overall process of shrinking our total defense expenditures will need to be undertaken carefully and in a well-planned approach.

Q.10. Should we divert the peace dividend from deficit reduction to higher spending?

A.10. As noted above in Q.5, the overall mix of deficit reduction versus public investment has not yet been determined. Therefore, it is premature to make any specific determination regarding the use of the peace dividend. Clearly, our deficit must be reduced, regardless of whether the funds for deficit reduction come from the so-called peace dividend or from cuts elsewhere. On the spending side the basic decisions regarding investments in our economy have not, yet been made, so it is premature to state whether funds for

any such investments would come from the peace dividend or from other sources. Once the economic plan has been put together, I look forward to discussing it with you and the other members of the committee.

Q.11. What kinds of new taxes would you propose and what are the negative effects on the economy of raising taxes?

A.11. No decisions have yet been made on proposals for any new taxes by the economic team. I can state, as I did at the hearing, that I believe that the composition of our taxes is very important. Taxes do two things: they raise revenue, and they either encourage or discourage particular kinds of economic activity. In general, I favor a tax policy that encourages investment and savings and that encourages a greater degree of equity in the tax burdens of different income groups.

Q.12. If "investment" outlays would be increased, what other outlays would you suggest reducing?

A.12. As I noted in my answers to several previous questions, no decisions have yet been made about an overall economic package, so I cannot comment on whether investment outlays will be increased or what other outlays might be reduced. In general, as I noted at the hearing, one major area in which expenditures must slow down is health care. The administration will be suggesting a variety of reforms to our health care system that are designed to bring down the growth in health care costs.

Q.13. Would you recommend tax incentives for R&D?

A.13. Yes. I favor a permanent extension of the research and development tax credit. In general, I believe we need to use the tax code to encourage investments, including those in research and development.

Q.14. Does the type of taxes a nation pays matter in terms of whether they are income taxes or consumption taxes?

A.14. Yes. As I noted in response to Q.11 above, the composition of our taxes does matter because taxes have the capacity to encourage certain kinds of economic behavior and to discourage others. In general, I favor a tax structure which encourages investment and saving. I believe there are a number of changes which could be made to our tax structure to place a greater emphasis on the need for investment. Such investments would both help America remain competitive over the long-term and would help stimulate growth in the economy.

Q.15. If more Government spending is to be paid for by spending the peace dividend and raising new taxes, how much importance do you place on reducing the deficit?

A.15. The Clinton administration will place considerable emphasis on reducing the deficit. As I noted at the hearing, all items are on the table and everything is being considered as part of a package to both reduce the deficit and get the economy back on track. No decisions have been made yet about whether additional Government spending will be called for, or about how to allocate any savings from reductions in the amount of defense spending. However,

once our package has been put together, I look forward to discussing it with you and the other members of the committee.

Q.16. In your recent book, *Who's Bashing Whom?* you place emphasis on policies that will change the composition of our trade. Doesn't the level of our trade deficit depend importantly on our National Savings Rate and doesn't that depend importantly on the Federal deficit?

A.16. Yes. As I note on p. 14 of my book, the size of the overall trade deficit is primarily a macroeconomic phenomenon. But I also believe that our deficit depends in part on specific tariff and non-tariff barriers and practices within a number of foreign countries which have the effect of excluding American products.

Q.17. Wouldn't deficit reduction go a long way toward correcting our trade imbalance?

A.17. Yes. The imbalance between national saving and national investment is the major determinant of the size of the trade imbalance and a reduction in the deficit which reduces the gap between our national saving and our national investment will reduce the gap between our imports and our exports. However, other sources of the gap, such as structural barriers abroad to U.S. exports, would not be directly affected by changes in our deficit.

Q.18. President Clinton has made a commitment to cut the deficit in half in 4 years. Do you think he can keep his promise?

A.18. The recent OMB and CBO figures indicate that the baseline deficit is much larger than expected, so the commitment will be more difficult to achieve. However, there is no question that the Clinton administration is committed to serious deficit reduction and that it will propose a variety of steps to achieve the goal of meaningful deficit reduction. Once the Administration's economic package has been put together, I look forward to meeting with you to discuss how we can implement it to ensure that our economy is put back on track and that we achieve significant deficit reduction.

Q.19. In helping him to meet his promise, what kinds of policies would you recommend to him to cut the deficit in half?

A.19. As I noted at the hearing, no decisions have yet been made regarding the specifics of the administration's deficit-reduction package. Therefore, it would be premature to discuss any precise options. What should be noted is that all items are on the table. We are looking at a wide variety of both spending cuts and revenue options. Most certainly, any package is likely to include some significant health care reforms. Obviously, one of the fastest growing areas of the budget is health care and the administration will be pursuing programs to bring down the spiraling costs.

Q.20. What steps do you see as necessary for the new administration to enforce the semiconductor agreement with Japan?

A.20. Since entering into the semiconductor agreement, substantial progress has been made in increasing the U.S. market share in Japan, but work remains to be done if we are to achieve the goals called for in the agreement. The administration will continue to pressure the Japanese to comply with the semiconductor agreement and to make the changes necessary to open their markets to

freer competition. Certainly high on our agenda with Japan will be Japan's adherence to the semiconductor agreement. We will first have to examine the situation after the data for the fourth quarter of 1992 becomes available in March of this year. Once we have examined these results, we will determine what if any additional actions should be taken.

Q.21. The Bush administration has actively pursued the removal of tariffs in the Uruguay Round, pushing for a "zero-for-zero" proposal on tariffs. Tariffs cost U.S. industry billions of dollars a year. Will the zero-for-zero initiative continue as a high priority for the new administration?

A.21. I believe the administration will be committed to doing all that it can to open foreign markets to U.S. products. Certainly, high tariffs abroad pose important barriers to open trade for U.S. goods in many important markets.

Q.22. What objectives do you see as important for the semiconductor industry as the Clinton administration continues the GATT talks?

A.22. As you know, I have long been concerned about barriers to trade and have focused a good deal of my writings on barriers in the high-technology area. There are a number of distinctive features of Japanese capitalism—vertical integration, *keiretsu* groups, cooperative business-government relations, and strict, often paternalistic regulatory arrangements—which hamper the efforts of foreign producers to sell in Japan, particularly in areas such as semiconductors. We need to continue to establish goals, such as those called for in the semiconductor agreement with Japan and to keep up the pressure to ensure that we do all we can to achieve those goals. We also need to continue to negotiate with the Europeans and others for reductions in these tariffs on semiconductor imports.

Q.23. Tell me whether you support or oppose the following [list of trade-related issues].

A.23. A number of the items listed in your question are ones where no decision has yet been made, and therefore it would be premature to respond, since I have not yet had an opportunity to discuss these issues with the President. In addition, many of the items are issues which will be determined by either the Department of Commerce or the USTR. Certainly, the CEA will be involved in those discussions, but they have not yet begun. I would, however, be happy to consult with you or other members of the Banking Committee as these issues come up for discussion.

However, I can tell you that my general view is that we need to take an aggressive stance in attacking both tariff and nontariff barriers and structural impediments that make it difficult for American producers to sell abroad. I support the extension of Super 301 and I know that President Clinton and USTR Mickey Kantor have also expressed support for the extension of Super 301. I have also stated the need to address many structural impediments, which often include things such as antitrust laws, merger and acquisition laws, and other regulations affecting the competitive environment American producers face abroad. I also believe that we need to retain strong antidumping and countervailing duty laws to ensure

that American companies have support in bringing actions against unfairly traded imports.

With respect to tariffs, I believe this administration will be committed to doing everything possible to obtain better access for American producers, including tariff reductions overseas. I know the administration will work for the strong enforcement of our trade laws and our trade agreements and will draw upon all of the various tools available to enforce our trade laws.

With respect to antitrust laws or other structural impediments to U.S. exports, I believe the administration will analyze each particular situation to determine the best approach to address the problem. This might include greater enforcement of our own laws, or new bilateral agreements, or efforts to get other countries to enforce their own laws, or efforts to seek greater international adherence to standards which promote competition and prohibit anti-competitive actions.

In addition, I know that the Clinton administration is committed to a program of worker assistance to ensure that those workers, farmers or businesses that are hurt by unfair foreign competition are given appropriate assistance.

Q.24. In your book, *Who's Bashing Whom?* you wrote that "the availability of investment capital in certain product areas, such as displays, is limited in the United States by lender perceptions that, once the Japanese have targeted a market, the prospects for American competitors are not good." What, if anything, can the Banking Committee do to reverse the trend [of limited investment capital in products that the Japanese have targeted]?

A.24. The overall lack of investment capital and bank lending is of concern to the administration and is of considerable concern to both the high-tech community and to the small business community. In general, some of the lack of bank lending can be attributed to the current large spread between long-term rates and short-term interest rates. Along with the general economic climate, this spread has made many bankers reluctant to lend to any industry which they perceive to be risky. Among those businesses perceived to be riskier investments are small businesses and high-tech businesses, particularly in those product areas where the Japanese have already committed substantial resources. Among the steps that are under consideration to address this issue are the development of a secondary market for small business loans, a simplification of the process for securities registration for small businesses, and variety of options noted in response to Q.23 regarding greater enforcement of our own laws and greater adherence to international standards which promote competition.

Q.25. Do you support continued funding for SEMATECH?

A.25. No specific decisions have been made regarding specific items for inclusion in the President's budget. Therefore, I cannot state what the level of support will be within the administration for SEMATECH. In general, I do believe that SEMATECH has served a useful purpose and has been one of the reasons our semiconductor industry is regaining its competitive position.

Q.26. Should other high-tech industries follow the Sematech model as an effective way to compete with "the Japanese system"?

A.26. Competing with "the Japanese system" will require a large variety of steps. I believe that the first step is to clearly recognize that in many ways the Japanese system is different from ours and that the Japanese target and assist certain of their industries in ways that we do not. Once that recognition is made, the Government can begin to put together policies that help our industries combat these structural barriers. We can assist our companies in a number of ways. One is to fight harder for changes in the structural barriers that are causing the imperfections in the market. Another may be the approach used with SEMATECH and still others may be warranted, depending on the nature of the industry and the kinds of barriers to trade and targeting involved in a specific case.

Q.27. Do you agree that other steps need to be taken to increase the manufacturing base of the U.S.? If so, what steps do you think the Federal Government should be pursuing?

A.27. Rebuilding the U.S. manufacturing base was a major component of the Clinton economic plan, and will remain a priority for the Clinton administration. The administration can play a critical role in promoting manufacturing exports, supporting civilian research and development, training workers and helping small- and mid-sized businesses gain access to the latest technology through programs like manufacturing extension. Changes in the tax code can be targeted to encourage investment in manufacturing industries. Finally, the U.S. Government can pursue trade policies designed to open foreign markets to U.S. manufactured goods.

Q.28. United States scientists are very good at applied research, but U.S. companies seem slower than our international competitors in taking that research and turning it into new state of the art products. What should U.S. industry be doing differently to reverse this trend [trend of slow in taking applied research and turning it into new products]? What role, if any, should the Federal Government play?

A.28. Commercialization of technology remains a problem for the United States. Many of the impediments that have hampered private investment across the board—such as inadequate access to low-cost, patient capital—contribute to private-sector shortcomings in this area. The Government can play a role, especially in facilitating commercialization of the technology developed in Federal facilities. Federal programs such as the Small Business Innovation Research program and the Small Business Technology Transfer program are steps in the right direction.

Q.29. Is process manufacturing an area worthy of additional funding?

A.29. Developing new manufacturing processes and methods is an important element in lowering costs of production and improving our overall competitiveness. Programs in process manufacturing thus have significant commercial application. Funding levels for specific Federal manufacturing and technology programs have not

yet been set, and it would be inappropriate for me to comment on them.

Q.30. Is there a relationship between the health of the service sector and the health of the manufacturing sector?

A.30. Jobs in the manufacturing and services sectors are linked in that services industries often play supporting roles for manufacturing companies. Jobs in industries ranging from transportation, to computer programming, to financial services depend to varying degrees on the manufacturing sector.

Q.31. Our tax code encourages debt, mergers and acquisitions, providing incentives for companies to focus on short-term paper profits. What changes in the tax code should be made to reverse this trend?

A.31. As you know, there are a number of provisions in the tax code which some experts believe contribute to the number of leveraged transactions (LBO's, highly-leveraged transaction, corporate takeovers and other mergers and acquisition) and to the short-term orientation of many corporation. Chief among these is the so-called "double taxation" of dividends. It is not clear yet what changes to the tax code, if any, the administration will pursue. In general, I believe that any changes that are considered will be those that, among other things, place a greater emphasis on savings and investment. No decisions have yet been made about the best ways to achieve these goals, but there is certainly recognition by the administration that we need to encourage longer-term investments and the development of more patient capital.

QUESTIONS FROM SENATOR BARBARA BOXER

Q.1. Have the United States and its businesses kept up with other countries in spending on research and development? Assuming you think that we can spend more as a Nation, how can U.S. businesses be persuaded to [spend more on R&D]?

A.1. It is disturbing that the United States invests much less overall than many of our foreign competitors, including Japan and that our civilian R&D spending as a percent of our GDP is much lower than that of our major competition. There are several ways for the Government to encourage private-sector investment, including targeted changes in the tax code. One option that has drawn wide-ranging support calls for permanent extension of the R&D tax credit.

Q.2. What can the Federal Government do directly to support commercial technology development? Do you think some of the funds necessary for those tasks should come from the Defense Department budget?

A.2. The Clinton/Gore Technology Plan called for a significant shift in the balance of Federal R&D spending between military and civilian programs from the current breakdown—which is somewhat less than a 60/40 split—to a 50/50 split. While such a shift will promote commercial technology development, it must be accompanied by a plan to re-employ defense workers in civilian technology programs. Also important in supporting commercial R&D are Federal programs such as the Small Business Innovation Research Program,

which sets aside a percentage of Federal agency R&D budgets for small-business projects, and the new Small Business Technology Transfer Program, which sets aside Federal R&D funds for small-business technology transfer projects.

Q.3. There are many who contend that we should not concern ourselves with deficit reduction while in a recession. Are you of that view or otherwise? Are you of that view [that we should not be concerned with deficit reduction while in a recession]?

A.3. As an economist, I believe that too great an emphasis on deficit reduction at a time when we are in a recession can be detrimental. The amount of deficit reduction that the Nation can absorb is in part controlled by the robustness of the economy. Presently, we are seeing some limited economic growth. However, the growth is not occurring everywhere in the Nation, and certain regions, most notably California, have not yet seen much growth. In addition, the growth that we have seen has not resulted in significant job growth. The goal of the administration is to develop a plan that encourages growth in output and jobs while cutting the deficit gradually. We are considering a plan with three elements: economic stimulus, an increase in public investment and deficit-reduction. Once this plan has been put together, I look forward to discussing it with you and the members of the committee.

Q.4. How do you reconcile lowering the deficit with providing the necessary resources for revitalizing the economy and addressing domestic social needs?

A.4. I believe the administration is committed to both meaningful deficit reduction and getting the economy growing again. Solid economic growth is one of the most important aspects of deficit reduction. If we can get the economy growing at a more significant pace, then it becomes easier to achieve greater deficit reduction. In addition, if we promote greater investment in our economy and our human and natural resources, we will be setting the economy on a path of more sustainable growth and greater long-term productivity. Moreover, our economic programs must focus on job creation. While we have seen some upward movement in a variety of economic indicators, our unemployment rates remain a significant problem. Clearly, a major emphasis of our economic plan will be the creation of more jobs and better jobs so that more Americans have the opportunity to earn enough to feed, clothe, and house their families.

Q.5. As you know, the semiconductor industry is very important in my State. The 1980's were a devastating time for the electronics industry in California. In understanding what happened to the electronics industry in the 1980's and particularly to the semiconductor industry—how much of the problem would you say was a result of the failure of U.S. trade policy in the 70's and 80's, how much was simply a result of market forces and increased competition, and how much was allocable to unfair practices?

A.5. There is little doubt that unfair trade practices and foreign subsidies contributed considerably to the sharp decline of the U.S. semiconductor industry in the 1980's, although it is difficult to apportion responsibility among various factors. Japan heavily sub-

sidized its semiconductor industry during the 1970's and 1980's, while maintaining a market that was virtually closed to non-Japanese firms, first through formal barriers and later through structural barriers like keiretsu. The fact that Japanese semiconductor firms were members of vertically integrated keiretsu also gave them access to inexpensive capital, another advantage over U.S. firms.

Q.6. How would you have applied your theories of managed trade given the unfair trading practices of the 1980's—particularly in the semiconductor industry?

A.6. Many of the unfair trading practices encountered by U.S. industries—including semiconductors—during the 1980's were not the kind for which multilateral remedies exists. For example, structural barriers such as keiretsu, which have posed barriers to American industries such as auto parts and semiconductors, are not covered by GATT rules. Nor are multilateral remedies for structural barriers being negotiated in the Uruguay Round.

While it would be preferable to negotiate multilateral rules and remedies in these areas, such a solution will be slow in coming. U.S. trade experience in the 1980's taught that carefully selected sectoral market-access negotiations often prove successful in such cases in the absence of an effective multilateral procedure. This was the case in semiconductors—where the United States negotiated an agreement with Japan that included marketshare goals—and it will continue to be the case in certain situations.

Q.7. We all share the desire, I am sure, for both healthy corporations and jobs for Americans. How do you reconcile the occasionally conflicting needs, goals and interests between business and workers under a managed trade approach? Is managed trade primarily for the benefit of American corporations or American workers?

A.7. Managed trade can mean many different things to many people. My own work has focused not so much on managed trade as on the need to establish a defensive trade policy that allows for responsive measures to foreign trade barriers. We must first recognize the type of competition we face and must identify the trade barriers and impediments erected by other countries in industries strategic to the United States. We must then use our trade policies to defend against foreign practices and structural barriers that harm our Nation's producers. This should result in better markets for our producers and as a result, more production jobs for our workers. Both workers and businesses stand to gain tremendously if we can truly open up foreign markets to U.S.-produced goods.

Q.8. Under the ideal definition of managed trade, how do you define the Nation's strategic industries and where do you think we should go with those industries?

A.8. Again, I think managed trade can mean a variety of things. My work and my views focus more on the defensive steps that can be taken to address the very real tariff, non-tariff and structural impediments we face in trying to compete in foreign markets. For example, in looking at the American and Japanese trade relationships regarding electronics, telecommunications, pharmaceutical, and computers, I found that Japanese government actions and reg-

ulations as well as the *keiretsu* corporate structure enabled the Japanese to obtain an advantage over American competitors. In responding to these situations, the administration will need to adopt a policy that is appropriate to the particular situation, not an across the board approach. The response might be greater enforcement of our own laws, or new bilateral agreements or sectoral agreements, or efforts to get foreign countries to do a better job of enforcing their own laws, or to seek greater international adherence to standards that promote competition. We need to develop a set of strict rules and a better method of enforcing those rules to ensure that America's exporters have an effective method of coping with unfair foreign imports or imports coming from countries which have targeted those products or corporations in such a way as to give them an unfair advantage.

Q.9. Given the current recession, where would you advise President Clinton to spend the first critical Federal dollars?

A.9. As I have noted in response to a number of other questions, no decisions have been made yet regarding President Clinton's new budget or where any new emphasis will be placed. Therefore, it would be premature to discuss where the first dollars should be spent. In general, I favor and I believe the administration will come forward with a plan that involves economic stimulus, an increase in public investment and gradual deficit-reduction. Getting the economy moving again will involve considerable emphasis on job creation and on the need to shift toward policies which encourage greater investment in people, in infrastructure, in research and development and in new plant and equipment so that we can remain competitive and put people back to work. As soon as this plan has been put together, I look forward to discussing it in detail with you and the members of the committee.

Q.10. In a global economy, do the differing ways foreign countries treat business activities within their own borders in areas like environmental protection, occupational standards, antitrust policy, and tax policy need to be reconciled? Do you foresee these types of issues addressed in future multinational agreements like GATT? For example, what would you think of an international antitrust policy to standardize multinational practice?

A.10. The extent to which a country enforces its antitrust, environmental or labor laws can have a major impact on international trade and investment. This fact has been acknowledged by the Clinton administration in the context of the negotiation of the supplemental agreements to NAFTA. Worker rights have already been considered in multilateral negotiations, and it is likely that environmental issues will be raised in future trade talks. Lax antitrust enforcement in Japan has been raised as part of the Structural Impediments Initiative between that country and the United States, and I would hope that this issue will be tackled more seriously in future bilateral and multilateral trade talks. In general, I favor new multilateral agreements to address structural differences in a variety of areas including the ones you mention in your question, although I believe that it will take a long time to negotiate such agreements.

Q.11. What kind of policies should be fostered and implemented to assist displaced workers and communities negatively affected by defense conversion?

A.11. President Clinton made it clear during the presidential campaign that manufacturing and training programs should take account of workers and communities negatively affected by defense conversion. For example, any manufacturing extension program should try to include extension centers in areas that have been hard hit by defense cuts, and should employ former defense workers. The CEA will be working with the NEC, the Labor Department and other interested agencies to develop a comprehensive and coordinated set of policies to deal with the problems and opportunities posed by defense conversion.



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January 13, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
FAX: 202 224 5137

Dear Senator Riegle:

I am pleased to have the opportunity to write in support of the nomination of Laura D'Andrea Tyson to be Chair of the Council of Economic Advisors. I have known her as a valued colleague and fellow administrator at the University of California, Berkeley over the past fourteen years. She clearly possesses the economic capacities and skills requisite for this important position, but goes beyond to have the qualities of political and public leadership equally required.

Her purely academic pursuits are impressive. She has basically focused on two large subject matters over her career. In the first instance are her earlier interests related to the economic structure and future prospects of Yugoslavia and Eastern Europe more generally. Her publications in this arena have been notable for their ability to combine state of the art technology with a clear sense of what changing political conditions were beginning to make possible. I simply cite one sentence she wrote in 1985: "In the countries of Eastern Europe there are signs that the experience of austerity is promoting a rethinking of development strategy and, in some countries, a renewed interest in reform of the economic structure as well." Her sense of the changes that began to emerge clearly some years later is tribute to her skills as economist as well as her political instincts.

The second area of Ms. Tyson's particular specialization has been the broad issue of American responsiveness to economic policies pursued by competitors in Europe and Japan. She has been among the leaders in asserting that trade policies followed by our competitors matter, but at the same time, she has avoided the excesses sometimes associated with this view. Thus she has been opposed to simple United States protectionism as a solution, and has advocated more leadership in policies like encouraging expenditures in research and development. What is clear is, that once more, her innovative positions have gradually emerged into broad consensual professional stands. Attitudes about trade policies have been much influenced by her research and her clearly

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Fellowship; Center for International Security Studies (MIGISS); Program in Population Research
• AREA PROGRAMS: Center for African Studies • Canadian Studies Program • UC Center for Crime and European Studies • Institute of East Asian Studies • Center
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and East European Studies • Center for South Asia Studies • Center for Southeast Asian Studies • Center for Western European Studies • French Cultural Studies Program
• Center for British Caribbean Studies Program • Iberian Studies Group
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Industrial Systems • Postgraduate Groups: Asian Studies • Latin American Studies

written conclusions.

As Chair of the Council of Economic Advisors, Ms. Tyson will bring such unique skills with her. But she brings much more. She has a high degree of competence as a general professional economist. As such, she has full ability to oversee and respond to general macroeconomic projections of activity as well as sectoral microeconomic issues in the important policy arenas of health, environment, education, etc. Her personal talents in utilizing the opinions and abilities of her co-workers and assistants are quite important aids to this essential task. She has the capacity to understand the broad consequences of economic policy, and to work extraordinarily well with others in developing a consensus position.

A final word should also be said of her considerable competence to communicate effectively. She does so over the widest gamut, ranging from the most skillful of economists to those active politically to those only casually interested in economic matters. This extraordinary talent will permit her to play a position of considerable importance in the discussion of economic policy to be carried out by the Clinton administration.

In sum, I heartily endorse her appointment and recommend her confirmation. The nation gains immensely from her commitment to public service, as we will all soon become aware.

Sincerely,



Albert Fishlow
Dean, International and
Area Studies



January 15, 1993

Kenneth T. Rosen
Chairman

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Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

I have known Laura Tyson as a professional economics colleague for over twenty years. We were first fellow graduate students at MIT. We then taught together in the economics department at Princeton University and are now colleagues at the University of California at Berkeley.

My overall assessment of Laura Tyson is extremely positive. She is an outstanding teacher and scholar on applied economics topics. She is without question the best teacher of economics at Berkeley. Her research on mixed economies, international trade, and competitiveness issues is pragmatic and of the highest quality. Laura Tyson is not an economic theorist and so should not be judged on that basis (some of the negative comments in the press are implicitly making this type of judgement.) She combines common sense and good economic judgement to attack policy problems. Her prescriptions, at times, challenge the mainstream prescriptions of orthodox economists. I view that as a great virtue which makes her policy input more valuable. Any economist can mouth the orthodox economics policy solutions but few can define new activist policies as well as Laura Tyson.

On a personal basis, Laura Tyson is an easy person to work with. She forcefully represents her views, but is willing to compromise and listen to all sides of an issue. She is ideal for the role of Chairman of the Council and Economic Advisors.

I recommend her in the strongest way for the position.

Sincerely,

Kenneth T. Rosen
Professor Economic Analysis & Policy
Chairman Center for Real Estate & Urban Economics



January 15, 1993

The Honorable Senator Donald Riegle
 The Senate Banking Committee
 U.S. Senate
 Washington, D.C.

Dear Senator Riegle:

This is a letter in support of the confirmation of Professor Laura D'Andrea Tyson, who has been nominated to be the Chairperson of the Council of Economic Advisers.

This is a very important position. The Council of Economic Advisers, in addition to OMB, serves as a watchdog over governmental economic policy. I am happy to say that I can think of no one who could fill this job better than Ms. Tyson. She has that unique combination of economic ability, intelligence, personal tact and persuasiveness which will, I believe, make her the best Chairperson in the history of the Council. Her already brilliant choices for other members of the Council and for economic positions elsewhere in the government, which have been leaked to the press, confirm that she can assemble and lead the best possible team to head the government's economic policy.

Let me first say a few words about Professor Tyson's intellectual accomplishments. She has a reputation for being the leading economist of her generation in one area, socialist economics, and within a very short period of time has established her reputation as a leading economist in another very significant area, trade policy. Her early papers on Yugoslavia established a very interesting finding: that inflation in Yugoslavia was not due to the unusual demands of the worker managed firms, but rather were the results of macroeconomic policies which had simply gotten out of control. Fifteen years later this Milton Friedman style analysis, if we wish to call it that, of a socialist society seems exactly right, if not obvious. But at the time Tyson's analysis was very novel and it immediately made her one of the leading authorities on socialist economies. Indeed to this very day her analysis of the behavior (we should say misbehavior) of socialist and emerging socialist economies exactly hits the mark. It has been the socialist governments' inability to control their macroeconomics policies which has caused the inflation which almost everywhere has been their undoing.

Professor Tyson's research on Yugoslavia was indeed nothing but common sense, which was however, not so common. This of course is one of the most marked features of all of her writings, and one of her qualities which will make her a superb Chairperson of the Council

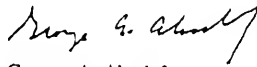
Re: Laura D'Andrea Tyson
January 15, 1993
Page 2 of 2

of Economic Advisers. In this regard I refer you to her next major contribution, her work on trade policy, which is summarized in her magnificent book Who's Bashing Whom? In this book Professor Tyson gives a very detailed picture of the trade issues facing America's high technology industries. Indeed this is the very best account any where of the complex problems facing these industries. It gives the facts. It is aware of the economic theory. And it does not simplify or distort the issues. This book is a "must read" for everyone who is interested in these important topics. Everywhere it conveys the sound judgement of its author. These are talents which I stress because they are so apparent in her work and also because they are so needed by a Chair of the Council of Economic Advisers.

So far I have been reviewing Professor Tyson's intellectual accomplishments. They are indications of her intelligence which is a necessary qualification for her proposed job. But she also has in very high degree those other talents which are needed to be a superb Chairperson. She has an ability to explain economics to others. Her first-year economics classes were the best taught classes on campus. With 600 to 800 students she received course ratings which would make instructors teaching just ten people envious. Indeed her courses have been almost impossibly well taught. Furthermore, whatever the occasion, I have never seen Laura in any way lose her cool. She is indeed unflappable. And she listens to others. In sum, with all these qualities, in such high degree, there is no one better to lead the new administration's economic team.

In sum, a new day is dawning. And under the leadership of Laura Tyson I expect U.S. economic policy to again be restored to the world's best.

Yours sincerely,



George A. Akerlof
Professor

GA/el



Walter A. Haas School of Business

150 Barrows Hall
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January 15, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing
and Urban Affairs
U.S. Senate
534 Senate Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

I am writing in support of the nomination of Professor Laura d'Andrea Tyson to serve as Chair of the President's Council of Economic Advisers. I have had the pleasure of working with Professor Tyson on a number of projects during the past 4 years and am confident that she will uphold the tradition of integrity, intellectual honesty, and effectiveness established by such predecessors as Walter Heller, Gardner Ackley, and Charles Schultze.

Improvements in U.S. economic performance require new policies that acknowledge the limits of the laissez-faire economics of the past 12 years and the theories underlying many of them. Professor Tyson is well suited to the task of advising President Clinton on these policies. She will also be extremely effective in another critical function of the CEA Chair, communicating these policies to Congress, industry, and the American public.

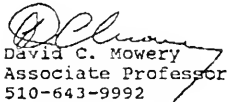
Professor Tyson's research acknowledges the strengths of market-based mechanisms for resource allocation, while underlining their occasional limitations in supporting innovation and investment in the assets that are essential to U.S. competitiveness in a global economy. I interpret her "cautious activism" as a presumptive preference for market-based solutions, subject to the caveat that markets are known to fail. Professor Tyson correctly notes that the postwar development of such economies as Japan did not rely

Senator Donald W. Riegle, Jr.
January 15, 1993
Page Two

exclusively on the market. Instead, government policies supported investments in the skills, assets, and institutions needed to complement and support market forces. The impressive productivity and innovative performance of such U.S. industries as agriculture and commercial aircraft also has rested on a mix of robust market institutions and public programs. In refreshing contrast to many of her professional peers, Professor Tyson bases these conclusions on observation of the real world, rather than derivations of mathematical formulae in her study. But her analytic and methodological skills are strong, as one would expect in a scholar with a Ph.D. from M.I.T. holding appointments as a full professor in both the Economics Department and the Haas School of Business at U.C. Berkeley, and will enable her to serve this Administration with distinction.

The policy agenda of the Clinton Administration and the prospects for improvements in the living standards of the U.S. population require policies that recognize the need for open markets for international trade and investment, along with policies that create a strong U.S. economic infrastructure of human skills, technology, and public investment. Professor Tyson's background has prepared her to meet this challenge and oversee the coordination and consistency of trade and technology policies. I urge you to support her confirmation as Chair of the Council of Economic Advisers.

Sincerely,



David C. Mowery
Associate Professor
510-643-9992



January 15, 1993

Senator Donald W. Riegle, Jr.
 Chairman, Committee on Banking, Housing and Urban Affairs
 United States Senate
 534 Senate Dirksen Building
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 fax 202-224-5137

Dear Senator Riegle:

I write in support of the nomination of Dr. Laura D'Andrea Tyson as Chair of the Council of Economic Advisers (CEA). I have been a colleague of Professor Tyson's at the University of California, Berkeley, for over 13 years. I worked at the CEA in 1983-84, as Senior Staff Economist under Martin Feldstein. In addition to my position at Berkeley, I am Associate Director for International Finance and Macroeconomics at the National Bureau of Economic Research of Cambridge, MA.

Professor Tyson is an outstanding economist. Like many successful academics, her career thus far could be viewed in two stages. First, she proved her worth within the profession by means of scholarly publications in a specific area of expertise, Eastern European economies. Then, more recently, she branched out to address broader issues of policy concern for the benefit of broader audiences, largely in the area of international trade policy. Her communications skills are spectacular, whether as an expositor to the public, as a participant in high-level meetings, or as one of the most popular teachers we have ever had at Berkeley.

Some mainstream academic economists have been quoted in the press as expressing skepticism regarding Professor Tyson's nomination. She has no lack of defenders, who point out correctly that the skills desirable for CEA chairperson are not identical to those skills desirable for maximum academic publication, that some critics are jealous, that she is indeed a bit of a "West Coast outsider," and that the American people elected Bill Clinton President in anticipation that he would bring in new ideas. I am concerned that such defense, coming from non-economists, may confirm in the minds of my fellow economists, most of whom do not know Professor Tyson as well as I, the notion that she is not a "real economist." Perhaps my concern is needless, because the American people are as likely in any case to heed these defenders as to heed the views of academic economists, probably more likely. Nevertheless, I would like to try to set the record straight.

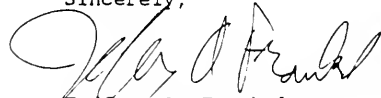
page two

Laura Tyson is a real economist. She is not one of those social commentators who publicly opines on "managed trade" and other questions of economic policy without first deeply investigating, pondering, and understanding the issues involved. She is, indeed, a careful scholar who checks her facts, consults the published wisdom, and thinks analytically. I recommend to anyone her November book on recent trade issues in high-tech sectors, particularly to those who say she believes in protectionist managed trade without having read anything she has written. Who's Bashing Whom?, published by the Institute for International Economics, is well-written, informative, thoughtful and well-balanced. I say this as a strong free-trader myself.

One measure of Professor Tyson's academic repute is that for the last five years U.C. Berkeley and the Harvard Business School have been fighting a prolonged tug-of-war over her.

The charge of the Council of Economic Advisers is to argue for good economics. When other Cabinet agencies promote regulations, tax breaks, and spending for special interests, the Council member is typically the only one at the table to defend the economic interests of the average citizen. This is true regardless of political party, regardless of who is President, and regardless who is Chairperson of the Council. It will continue to be true with Laura Tyson, a highly knowledgeable and skilled economist, as Chair. The CEA will be in good hands.

Sincerely,



Jeffrey A. Frankel
Professor of Economics

UNIVERSITY OF CALIFORNIA, BERKELEY

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SANTA BARBARA • SANTA CRUZ

INSTITUTE OF INTERNATIONAL STUDIES

BERKELEY, CALIFORNIA 94720

January 25, 1993

Laura D'Andrea Tyson
Chair, Council of Economic Advisers

Dear Laura:

With regard to the info. you requested here are copies of the pertinent part of the Annual Report. To this list I would add that we received \$20,000 from Violet Walstrum (Mrs. Bendix's mother) for the Reinhard Bendix Fellowship Fund. Also, we did receive the interest income from the Simpson (\$56,000) and the Sharlin (\$9,000) fellowship funds for student fellowships.

Please call me if you need further info. or explanation.

It was good to hear from you. Thank you for all of your support and the best of luck.

Maria Bertero-Barcelo, MSO

INSTITUTE OF INTERNATIONAL STUDIES

Table A.1

Entirement Grants and Contracts
1991-92

Type	Principal Investigator	Agency	Title of Project	Total Dollar Amount	Fiscal Year	Fund Div.
N	Agresti	IUCN/UNEP	The Politics of N. American Free Trade	10,000	7/1/91-6/30/92	G
N	Bickerton/Dent	I-CCC	Greening of Soviet Foreign Policy	7,500	7/1/91-6/30/92	G
N	Dinning/Br. Alton	I-CCC	Role of People's Lib. Army in Chinese Politics	14,100	7/1/91-6/30/92	G
C	Farlow	I-CCC	Joint IIS/ERG IOCC Program at Berkeley	20,118	7/1/91-6/30/92	G
C	Farlow	I-CCC	Synovslike Foreign Policy Clips	20,000	7/1/91-6/30/92	G
C	Farlow	I-CCC	IOCC No. California Libr-stamps Conference	5,000	7/1/91-6/30/92	G
C	Grossman	Pa-J	Paid Interest Account	1,891	7/1/91-6/30/92	G
C	Hass	I-CCC	Understanding Change in International Law	15,326	7/1/91-6/30/92	G
C	Hass	I-CCC	Democratization, Human Rights, Conflict Mgmt.	14,239	7/1/91-6/30/92	G
C	Husren	World Bank	Political Economy of Poverty, Equity, & Growth	1,571	7/1/91-6/30/92	G
N	Laplanche/Davison	I-CCC	Dynamics and Impact of Custom Protest	7,500	7/1/91-6/30/92	G
C	Laplanche/Davison	I-CCC	Women and Technology in War: Britain 1914-1918	16,000	7/1/91-6/30/92	G
N	Laplanche/Davison	I-CCC	Nuclear Exchange Program	15,000	7/1/91-6/30/92	G
C	Palmer	USIA	Can the USSR Integrate Globally...?	30,000	7/1/91-6/30/92	G
C	Schrammer/Altes	I-CCC	Prices of Democracy: Self-Interest/National Security	14,397	7/1/91-6/30/92	G
N	Tyson	I-CCC	IOCC Northern California Inscr. Campus Conference	6,960	7/1/91-6/30/92	G
N	Tyson	I-CCC	IOCC'S Campus Program	21,000	7/1/91-6/30/92	G
N	Tyson	I-CCC	Teach. Seminar: Game-Theoretic Approaches	10,103	7/1/91-6/30/92	G
C	Tyson	I-CCC	Administrative support	2,000	7/1/91-6/30/92	G
N	Tyson/Lee	Pa-Rim	Potential Impact of Formation of Pac. Free Trade Area	11,739	7/1/91-6/30/92	G
N	Walker/Martin	I-CCC	Nuclear Weapons, Relations Guba and Econ. Cooperation	12,500	7/1/91-6/30/92	G
C	Weller	I-CCC	U.S. Conceptions of the Balance of Power	3,714	7/1/91-6/30/92	G
C	Weller	I-CCC	Changing Conceptions of the Balance of Power	13,799	7/1/91-6/30/92	G
N	Weller	I-CCC	Int'l Institutions and the Balance of Power	12,675	7/1/91-6/30/92	G
N	Wolens/Annally	I-CCC	Prospects for Inscr. Among E/W Europe	6,000	7/1/91-6/30/92	G
N	Weber/Baehny	I-CCC	Organizational Responses to Multipolarity	14,381	7/1/91-6/30/92	G
C	Weber/Handley	I-CCC	The People and the Bomb	13,500	7/1/91-6/30/92	G
N	Weber/Handley	I-CCC	People and the Bomb, Determ. & Security	14,100	7/1/91-6/30/92	G
ES/ERP (Berkeley, Researchable on the International Economy)						
C	Chen/Z. Jovan	TFC	Broadband Commun. and HDTV Development in the USA	225,725	11/1/88-6/30/92	GN
C	Chen/Z. Jovan	Shaw	Manufacturing, Amer. Competition, Control of Adv. Techn	940,650	5/1/90-10/31/91	G
C	Chen/Z. Jovan	EEC	Travel Funds for academics	3,293	5/1/88-12/31/91	G
N	Collet/LANL	D-DE/LANL	Industrial Tech. Supply Base Project	199,939	2/2/92-3/1/93	GN
N	Collet	SERC	International Support: Yellow Micro Green	3,360	7/1/91-6/30/92	G
N	Collet	C-Edmans	PATI	19,411	1/1/92-12/31/91	G

Table A.1

Type	Pin	Inv. Agency	Agency	Title of Project	Direct Costs	Indirect Costs	Funding Period	Type
C	115	MOJSS Wash	Inter- Agency	Group in International Studies	1,178,719		1/1/88-12/31/91	G
US Demography Group (Program in Population Research)								
C	Hannet	NSP	NSP	Program in Anthropological Demography	159,721		1/1/81-12/31/91	G
C	Hannet	RHI	RHI	Gender Factors: Causes in Anthropology	35,360	19,286	2/1/89-6/30/91	G
C	Hannet	RHI	RHI	Fertility Decline	331,004	150,333	8/1/89-11/31/91	G
C	Lee	RHI	RHI	Modeling and Forecasting Demographic Time Series	403,900	191,722	1/1/89-12/31/91	G
C	Lee	RHI	RHI	Interdisciplinary Training in Demography	38,081	22,379	7/1/89-6/30/91	G
N	Bhalan	RSP	Shawwan	Children's Health & Use of Medical Care	60,190	20,060	9/1/91-12/31/91	G
ISSA/IDR								
N	Friedel et al.	Ford	Ford	From & Institutional Factors in Global Econ. Growth	310,191	46,326	10/1/91-9/30/94	G
P	Adelman	IGCC	IGCC	Economic Causes and Consequences of National Breakups	18,898		7/1/92-6/30/93	G
P	Aggerdal, V.	La.Rim	La.Rim	The Politics of Regional Trade Agreements: Toward Pacific Rim, European, and North American Blocs?	14,970		7/1/92-6/30/93	G
P	Agterwal/Doherty	IGCC	IGCC	Economic Multipolarity and Dilem. North-South Relations	17,245		1/1/91-6/30/94	G
P	Alkhalaf/Rang	IGCC	IGCC	Bureaucratic Autonomy in South Korea and the Philippines	20,728		1/1/92-12/31/94	G
P	Borrell/Vojvack	IGCC	IGCC	Nationalist Movements in Comm. Regimes: Comparing Bosnia, Serbia	12,000		7/1/92-6/30/93	G
P	Ferrelles/Dewar	IGCC	IGCC	Transnational Bargains, Ideological Conversion, and Extent Intervention: ...	14,400		7/1/92-6/30/93	G
P	Bradshaw/Smith	IGCC	IGCC	Coming to Terms with Previous State Repressive Civic Activists and State Responses in the USSR	13,255		7/1/92-6/30/93	G
P	Breda/Gard	IGCC	IGCC	Measuring Soviet Decline: Datability and Politics of Int. Child	12,000		7/1/92-6/30/93	G
P	Brunow/Turner	IGCC	IGCC	Reasons and Resistance: A Comparative Study of National Movements in Palestine/Israel and South Africa, 1912-1990	19,178		7/1/92-6/30/93	G
P	Chaves/Washington	IGCC	IGCC	Outwearing a New Order, Defining a New Self: The Public Discourse of the American Colonization of the Philippines, 1898-1908	14,250		7/1/92-6/30/93	G
P	Chenou/Yu	IGCC	IGCC	The Office of Strategic Services (OSS) in China	17,700		7/1/91-6/30/93	G
P	Chenou/Tran	IGCC	IGCC	The Amer. in Academic Community and United States-Soviet Relations	11,470		7/1/92-6/30/91	G
P	Chenou, D./Chenou	IGCC	IGCC	Politics of Conversion: Protestantism, Politics in Argentina	15,453		7/1/92-6/30/93	G
P	Chenou, R./Chenou	IGCC	IGCC	Societas, Religions/Politics of Econ. Reforming in Mexico	13,378		7/1/92-6/30/93	G
P	de Smet's/Allen	IGCC	IGCC	Global Use of Common Resources: High-Sch. Student Learning with Role-Playing Simulation and Models	14,826		7/1/92-6/30/93	G
P	Donner/Inchell	IGCC	IGCC	Role of the People's Liberation Army in Chinese Politics	10,000		7/1/92-6/30/91	G
P	Evans/Heiler	IGCC	IGCC	Politics of Redistributive Develop. Case Study of Kerala	13,190		7/1/92-6/30/93	G
P	Evans/Talbot	IGCC	IGCC	Historical Analysis of the World Coffee Market	23,853		7/1/92-6/30/93	G
P	Fishlow/V.Pyan	IGCC	IGCC	Politics to Improve Urban Air Quality in Devel. Countries: A Case Study for Santiago	20,100		7/1/92-6/30/93	G
P	Hass/Connolly	IGCC	IGCC	Is Eastern Europe Moving West? Prospects for Integration	10,000		7/1/92-6/30/93	G

Table A.1

Type	Full Inventory	Agency	Title of Project	Project Costs	Related Costs	Printing Period	Type
P	Harvard/Stanford	IGCC	International, Global Change Factors - Sustainable Dev	24,492		7/1/92-6/30/93	G
P	Harvard/Stanford	NBI	Economic and Cultural Factors in Demographic Behavior	472,570	65,853	7/1/92-6/30/93	G
P	Harvard/Stanford	NBI	Family Decline	253,575	104,973	12/1/92-11/30/94	G
P	Harvard/Stanford	NSF	Plasticity of Human Handicaps under Environmental Fluctuation	119,710	16,852	11/1/92-12/31/94	G
P	Harvard/Stanford	IGCC	Transjunctive Ethnicity	6,000		7/1/92-6/30/93	G
P	Harvard/Stanford	IGCC	Food Use and Emotions in the USSR: ... C3 and S01	18,944		7/1/92-6/30/93	G
P	Harvard/Stanford	IGCC	Energy Tech. Comparison between Former Soviet Union & West	6,000		7/1/92-6/30/93	G
P	Harvard/Stanford	IGCC	Social Change and Cultural Identity in Post-Soviet Societies	14,309		7/1/92-6/30/93	G
P	Kornel/Robertson	IGCC	A Comparative Analysis of China, India, Japan, Russia/USR	6,000		7/1/92-6/30/94	G
P	Lapida/Jawson	IGCC	Exchanges, Norms, and Threats, Medieval France, 975-1209A.D.	19,400		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Social Mobilization in Real Leninist Societies	6,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	The Rise and Fall of the Anti-Nuclear Movement in the USSR	6,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	State Disintegration and Nation-Building in Gorbachev's USSR	10,000		7/1/91-6/30/94	G
P	Lapida/Jawson	IGCC	Radical Popular Movements/Disintegration of Soviet Union	18,580		9/1/91-8/31/93	G
P	Lapida/Jawson	IGCC	Women and Ideology of War: Recruitment ... 1914-1918	95,642	6,240	7/1/92-6/30/93	G
P	Lapida/Jawson	NEJHD	Intelligence Training in Democracy	60,000		7/1/92-6/30/94	G
P	Lapida/Jawson	NSF	New Methods for Processing Third-World Populations	41,900	26,181	7/1/92-6/30/94	G
P	Lapida/Jawson	NSF	International Relations Theory: A Formal Approach	24,258		7/1/92-6/30/94	G
P	Lapida/Jawson	IGCC	Inegration in Europe: Effects on the Common Agricultural Policy	24,258		7/1/92-6/30/94	G
P	Lapida/Jawson	IGCC	Stability and Adaptation under Global Pop. Change: Social	70,970	34,357	7/1/92-6/30/93	G
P	Lapida/Jawson	NEJCC	Political and Organizational Sources of Ethnicity and Response	15,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Political Economy of Land Tenure	6,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Urban Density as Emerging Aspect of Global Conflict	6,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	and Urban Intervention ... Bangalore	4,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	IGCC Nonmon. California Inter-Campus Conference	41,166		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	The Issue on Global Conflict and Compensation of International			7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Shakra Campus Program			7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Foreign Direct Investment and the Diffusion of Technology	70,247	24,524	11/1/92-10/31/94	G
P	Lapida/Jawson	IGCC	in East Asia			7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Biotechnology Trajectories in Japan and the US	20,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	International Politics: From Theory to Practice	13,155		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	International Politics: From Theory to Practice	51,248	7,168	7/1/92-6/30/94	G
P	Lapida/Jawson	IGCC	International Politics: From Theory to Practice	101,670	46,473	7/1/92-6/30/95	G
P	Lapida/Jawson	IGCC	International Politics: From Theory to Practice	61,265		7/1/92-6/30/94	G
P	Lapida/Jawson	IGCC	International Politics: From Theory to Practice	12,000		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Reciprocity, Responsibility and the Transition of Trade	12,700		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Nuclear Weapons, Relative Gains, and Int'l Econ. Cooperation	13,775		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	International Institutions and the Balance of Power	13,775		7/1/92-6/30/93	G
P	Lapida/Jawson	IGCC	Beyond 1992: Ideas and Institutions-Rethinking in the European Comm.	6,000		7/1/92-6/30/93	G

C = Continuing period from previous reporting year, including those that have been extended another year during this reporting period.

N = New awards for this reporting year

G = Grant

CV = Contact

P = Project/contract submitted this reporting period

GRAND TOTALS BY COST CATEGORY

Institute of International Studies
 Louisa D'Andrea Tyson
 Office of the Dean
 111 Marina Bertozzi-Barcelo
 Oct. 15, 1992

INTERNATIONAL AND AREA STUDIES
 Office of the Dean
 TOTAL EXPENDITURES

Page 5 of 5

Fund source	DIRECT RESEARCH														Purpose of Other Category	TOTAL
	FACULTY SUPPORT				GRADUATE STUDENT SUPPORT				Other			Teaching				
Admin.	Release-time	Summer	Salary	Non-salary	Other	GSAs	Fellowships	Travel & Other	Non-family	Colloquia/	Other	Teaching	Direct or	Suballiec.		
State	31,400	0	2,791	53,645	403	0	154	0	10,070	0	0	0	0	0	340,512	
State	19,933	0	0	0	0	56,138	76,205	21,730	4,225	56,792	0	0	0	0	340,814	
Reserve	0	0	0	0	0	0	38,500	0	0	0	0	0	0	0	38,500	
Funda.	1,413	59,290	32,952	25,006	25,006	24,458	44,000	35,814	71,585	0	3	0	0	0	294,531	
OSP	4,967	0	0	0	0	0	0	0	0	0	0	0	0	0	4,967	
General/Fund	136,739	34,199	64,716	46,860	46,860	91,791	85,148	9,062	165,335	16,552	4,421	0	0	0	654,823	
Donations:	12,884	0	0	3,835	3,835	0	0	0	6,086	3,080	0	0	0	0	25,807	
	452,427	146,889	100,159	129,749	129,749	172,387	244,007	66,606	757,313	76,344	54,073	0	0	0	1,699,954	

Table A-6

UNIVERSITY OF CALIFORNIA AT BERKELEY
BERKELEY ROUNDTABLE ON THE INTERNATIONAL ECONOMY (BRIEF)

Laura D'Andrea Tyson, Co-Director

External Funding Sources*
Period January 1991 - December 1992

Organization	Amount	Period
Alfred P. Sloan Foundation	1,062,400.00	5/1/90 - 10/31/93
European Community	271,200.00	11/1/89 - 6/30/92
Siemens Corporation	20,000.00	9/10/91
	5,000.00	9/14/92
Rockwell International	5,000.00	12/18/91
	5,000.00	12/29/92
	75,000.00	5/6/92
The Government of Korea <i>Ministry of Science and Technology</i>	86,267.00	3/15/91 - 12/31/92
State of California <i>Caltrans</i>	8,065.00	5/6/92
The Ploughshares Fund	20,000.00	7/1/92 - 6/31/93
University of California at UCLA <i>Systemwide Biotechnology Research and Education Program</i>	15,000.00	
Northern Telecom Inc.	10,000.00	2/22/92
Los Alamos National Lab	206,006.00	3/16/92 - 3/15/93

* Includes funding in excess of \$5,000.00;
State of California public education funds support teaching salaries and provide office space.

UNIVERSITY OF CALIFORNIA AT BERKELEY
DEPARTMENT OF ECONOMICS

Laura D'Andrea Tyson, Professor

External Funding Sources*
Period January 1991 - December 1992
Miscellaneous Departmental Awards or Undergraduate and Graduate Scholarships

Organization	Amount	Period
Mellon Foundation	125,000.00	10/90 - 9/93
Ford Foundation	awarded in 1930	1930 - present
<i>endowment</i>		
James Fish	9,600.00	10/1/92
James Fish Public Policy Research Aw.	20,000.00	1/1/91
John Quigley	5,000.00	6/1/92
Bank of Japan	20,000.00	10/1/91
Roy B. Christie Jr.	20,000.00	8/1/91
Lindbury Trust	5,000.00	4/1/92

* Includes funds in excess of \$5,000.00; does not include departmental funds from the State of California.

UNIVERSITY OF CALIFORNIA, BERKELEY

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SANTA BARBARA • SANTA CRUZ

David J. Teece
 Director, Center for Research in Management
 Mitsubishi Bank Professor
 Haas School of Business

Center for Research in Management
 554 Barrows Hall • Berkeley, CA 94720
 Tel (510) 642-1075 • Fax (510) 642-2826

January 15, 1993

Senator Donald Riegel, Jr.
 Chairman, Committee on Banking, Housing and Urban Affairs
 United States Senate
 534 Senate Dirksen Building
 Washington D.C., 20510-6075

Dear Senator Riegel:

I am pleased to write in support of the appointment of Professor Laura Tyson to the chair of the President's Council of Economic Advisors. I believe she will make a brilliant appointment.

Laura Tyson is a colleague of mine at Berkeley, where she has dual appointments in both the Department of Economics and the Haas School of Business. I have known Laura since I accepted an appointment at Berkeley in 1982. Like her, my Ph.D is in economics; my fields of study include industrial organization, technological change, and international business. Overall, my philosophy is one that supports minimalist government where possible and desirable, incentives that favor investment over consumption, an open and liberal international order, and the rebuilding of American competitive strengths through private and public sector restructuring.

My enthusiastic support for Laura's appointment is based on my respect for her intellect, my understanding of her views and economic thinking, and my great confidence in her character and values. Let me briefly deal with each.

Laura has impeccable academic credentials: a BA from Smith, and a Ph.D from MIT. She has had appointments at top level institutions throughout her academic career. Her interests have migrated from the study of comparative economic systems to the study of trade, technology and competitiveness.

Laura is clearly a reformist. She notes in her book that "the policies and institutions that served the nation well when we were the world's unquestioned technological leader require overhaul now that Japan and Europe have emerged as our economic equals" (p. 296). I suspect she will bring fresh insight to bear on many issues.

For several years she hasn't been quite in the mainstream of economic

January 15, 1993

Page 2

To: Senator Donald Riegel
Re: Laura Tyson

thinking. That's mainly because while we have had a competitiveness problem for almost two decades, the mainstream of the profession has wanted to deny its existence until quite recently. The reason Laura has so much to say about many contemporary policy questions is that the profession swept many of them under the rug, or simply couldn't deal with complex institutional policy questions. Indeed, use of the word "competitiveness" was said to signal woolly thinking.

Laura's approach to problems is to bring economic and institutional analysis and behavioral evidence to bear on policy questions. Unlike many of her colleagues, she is less inclined to accept the conventional wisdom when the evidence flatly contradicts it. Her courage to advance new ideas, modify them when necessary, and learn from the ensuing debate is one that will serve her and the nation well. Her willingness to challenge orthodox presumptions is not motivated by political tastes but by the desire to clear out a good deal of economic religion which protects the sacred cows of the status quo. I am very confident that Laura's deepest passion is to improve the long run competitive performance of the American economy and its people. The quote from Abraham Lincoln which adorns the introduction to her latest book Trade Conflict in High Technology Industries captures the spirit behind her concerns about how the nation is dealing with problems of US competitiveness:

The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise to the occasion. As our case is new, so we must think anew and act anew. We must disenthrall ourselves and then we shall save our country.

Some of Laura's views on current policy questions are contained in her writings. Significantly, Laura believes "that what we as a nation make and what we trade matters. The composition of our production of trade does influence our economic well being". This is obviously correct, but her position irks more stolid economic theorists. The proposition helps undergird Laura's leanings towards a more activist trade policy, because she's worried that the industries the US gets to own is in part the consequence of other nations' industrial policies. That is, to the extent that industrial policies expand high technology activities abroad, US industry is impaired in its ability to export, and may simultaneously lose market share in the US to foreign firms which are supported by their governments. To the extent that existing multilateral rules don't adequately regulate such policies, Laura

* p. 11-12 of Who's Bashing Whom?

January 15, 1993

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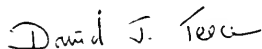
To: Senator Donald Riegel
Re: Laura Tyson

favors modifications to US law to deter or compensate for foreign practices. Otherwise our own industrial structure will be dictated by foreign governments. Put differently, complete laissez faire approaches are problematic especially if other countries are playing by different rules. Laura also favors a more determined technology policy to support industries with positive spillovers.

Laura's views on other matters of policy are not so apparent from her writings, though I'm sure you will ferret them out. I suspect when you probe you will find that her positions are quite pragmatic. I believe she favors deficit reduction and policies which favor investment in education and infrastructure over consumption. On macro policy issues, which haven't been her primary academic interest, she has a firm understanding of foundations, and is capable of listening to others when appropriate. She is keenly aware of her own areas of relative strength and weakness, and has the courage and capacity to reach out for specialized expertise when needed.

Finally, let me point out that Laura is of the finest moral calibre. She is extremely honest, and has the highest ethical standards. She has gained great respect in the academic world for her ability to establish consensus and move the enterprise forward. These qualities will be much needed in Washington, and I look forward to observing her help shape the policies that are needed to help improve the nation's prosperity and well being.

Sincerely yours,



David J. Teece

DJT:trm

HARVARD UNIVERSITY
 CENTER FOR BUSINESS AND GOVERNMENT



January 15, 1993

Well Hall
 John F. Kennedy School of Government
 79 John F. Kennedy Street
 Cambridge, Massachusetts 02138
 (617) 495-1446
 Fax: (617) 496-0063

Senator Donald W. Riegle, Jr.
 Chairman, Committee on Banking, Housing and Urban Affairs
 United States Senate
 534 Senate Dirksen Building
 Washington, D.C. 20510-6075

Dear Senator Riegle:

Laura D'Andrea Tyson has my highest recommendation and endorsement for the position of Chairman of the Council of Economic Advisors. Professor Tyson played a major role in the development of issues and action programs relating to competitiveness in the United States -- first with the Young Commission, then the Cuomo Commission, and then the Conference at the Carter Center.

As Chairman of Scientific-Atlanta, Inc., a global manufacturer of telecommunications and instrumentation equipment, and as chair of the EIA/ATV Committee*, I had the opportunity to work closely with Laura Tyson. Professor Tyson prepared a thorough review of a national position on high-definition television.

My recommendation of Laura Tyson comes from the perspective of a CEO of a major high-tech company. I have always found that her viewpoints combine a scholarly background with the deep knowledge of the realities of the corporate world, global market place and the nation-at-large. Professor Tyson articulates her positions in a thoughtful and persuasive manner. The nation is fortunate indeed to have a distinguished woman of her stature to represent us and chair the Council.

I appreciate the opportunity to present this letter of endorsement.

Sidney Topol
 Retired Chairman and CEO,
 Scientific-Atlanta, Inc.
 Atlanta, Georgia

*Electronic Industries Association/ Advanced Television Committee

HARVARD UNIVERSITY
 GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
 GEORGE F. BAKER FOUNDATION

ROSEBETH MOSS KANTER
*Class of 1960 Professor of
 Business Administration*

MORGAN HALL
 SOLDIERS FIELD
 BOSTON, MASSACHUSETTS 02163
 617-495-6053
 TELEX: 6817220 HARBUS SCH BSN
 FAX: 617-490-5271

January 14, 1993

Senator Donald W. Riegle, Jr.
 Chairman, Committee on Banking,
 Housing & Urban Affairs
 SD-534, Dirksen Senate Office Bldg.
 Washington, DC 20510-6075
 Attn: Steven B. Harris

Dear Senator Riegle:

Laura D'Andrea Tyson is extremely well-qualified to serve as Chair of the Council of Economic Advisers, and I am happy to give her my strongest endorsement.

Professor Tyson's accomplishments as an international institutional economist are vital resources for the U.S. at this time when many of the important debates center around U.S. industrial competitiveness, national technology policy, and trade relations, especially with Japan. It is important to have leadership from an economist like Professor Tyson who has contributed outstanding scholarship to these debates--especially Dr. Tyson's new book on high tech trade with Japan, published by the prestigious Institute--and who connects the abstract and theoretical field of economics to practical policy concerns. Professor Tyson possesses a shrewd intellect and stunning knowledge of the application of economic models and principles to the key policy choices facing America.

It is to her credit that many of her publications appear in journals that are interested in practice and policy as well as theory. She wants to delve into the meaning of economic facts and statistics and use them to build strategy. She was one of the early economists to warn that the U.S. was losing our manufacturing edge and under-investing in new technology. She has marshaled the evidence on the impact of foreign investment on the U.S. economy to show why domestic ownership of assets matters for America. She has examined with depth and great insight the way that economic outcomes were shaped by political choices, especially in the case of Japan. And her book is the best discussion yet of how to ensure that free trade means fair trade. The focus of her recent book has been on the high tech industries essential for America's future, and their prospects in light of Japanese strength and political policy. Yet she is also an expert on Eastern Europe, an area that interests American business as an opportunity for expansion.

Senator Donald W. Riegle, Jr.
Attn: Steven B. Harris
January 14, 1993

Her considerable academic and professional skills and achievements were recognized by Harvard University. In 1989-90 she was offered tenure in the Harvard Graduate School of Business Administration after a highly rigorous selection process in which about 90 distinguished senior faculty members reviewed all of her academic work and discussed her credentials. She is considered the leading economic scholar on trade policy and has been invited to contribute to nearly every major forum or national committee on these issues.

I urge you to confirm this appointment.

Sincerely,



Rdsabeth Moss Kanter

RMK/wr

HARVARD UNIVERSITY
CENTER FOR BUSINESS AND GOVERNMENT

ROBERT Z. LAWRENCE
Albert L. Williams Professor of International
Trade and Investment



John F. Kennedy School of Government
Well Hall
79 John F. Kennedy Street
Cambridge, Massachusetts 02138
TEL (617) 495-1118
FAX (617) 495-0063
15th Jan 1993.

Senator Donald W. Riegle Jr.
Chairman, Committee on Banking, Housing and Urban Affairs,
United States Senate
534 Senate Dirksen Building
Washington D.C. 20510-6075.

Dear Senator Riegle,

It is a pleasure for me to support the nomination of Laura D'Andrea Tyson as Chairman of the Council of Economic Advisors. Her knowledge, intellect, communication skills, and character combine to make her a superb selection.

Dr Tyson has been a major contributor to the academic and the public debates on how to make the US economy more competitive. As a participant in the field, I have always found her research insightful, well-written, provocative and firmly grounded in the real world. Indeed, when Charles L. Schultze of the Brookings Institution and I were looking for the best protagonists of the case for a new strategy for US trade we naturally chose Laura Tyson to write one of the three key papers in our book An American Trade Strategy: Options for the 1990s (Brookings Institution; 1990).

When presenting her views in person, Laura Tyson is highly articulate. I also admire her integrity. She has never flinched from stating her views, even when they differed from many of her colleagues. Both the President and the country will benefit greatly from her leadership and her commitment to improving America's economic performance.

Sincerely yours,

Robert Z. Lawrence.

Albert L. Williams Professor
of International Trade &
Investment.

JOHN KENNETH GALBRAITH
HARVARD UNIVERSITY
CAMBRIDGE, MASSACHUSETTS

January 6, 1993

Professor Laura D. Tyson
Department of Economics
University of California
Berkeley, CA 94720

Dear Professor Tyson:

With others, I am sure, I was more than slightly appalled, even disgusted, by the suggestion, prominently featured in the press, that your economic work and views do not extend competently to the larger range of economic policy. Of course they do. Suggestions to the contrary carry over from academic life and the refined division of labor of the university world. No one can suppose, as to Washington, that you will be so confined.

You will not be distressed by having Alan Blinder on the Council. But his appointment in no wise suggests any inadequacy on your part. That no one who knows your work and interests -- and the post to which you move -- will believe. Your arrival in Washington will be a great step up for the profession, as I will certainly tell anyone who happens to ask.

Yours faithfully,



John Kenneth Galbraith

JKS/aab

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

DEPARTMENT OF ECONOMICS

CAMBRIDGE, MASSACHUSETTS 02139-4307

14 January 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075

FAX: (202) 224 5137

Dear Senate Riegle:

I am jumping at the chance to offer to your Committee a very strong endorsement of Dr. Laura D'Andrea Tyson, who has been nominated to be the Chairman of the Council of Economic Advisors. I have known Dr. Tyson since she was a first-year graduate student at M.I.T. about twenty years ago, and I have followed her work ever since.

We are proud of running a tough, highly-competitive Ph.D. program at M.I.T. I can tell you that Dr. Tyson got an A from me (in a course in macroeconomic theory, by the way) and came through as one of the ablest graduate students of her cohort. She has had first-rate training and has profited from it.

Dr. Tyson is an excellent economist. Her work has built on the latest developments in our understanding of international trade, and has argued from them to important conclusions about commercial policy. These are always worth listening to; she argues them forcefully and well.

In one of her papers she has described herself as "a cautious activist" in trade policy. That sounds to me like a fair description. It is not a bad category to be in. I would not want any other sort of person on the job, and I hope you feel the same.

My summary view is that Dr. Tyson will be an able, knowledgeable and effective Chairman of the Council. She will be able to bring the best economic knowledge of the country to the service of President Clinton. It is an excellent nomination, and should be confirmed with enthusiasm.

Sincerely yours,



Robert M. Solow



Massachusetts Institute of Technology
Sloan School of Management
50 Memorial Drive
Cambridge, Massachusetts 02142-1347

January 13, 1993

Lester C. Thurow
Dean
E52-473

Telephone: 617-253-2932
FAX: 617-258-6617
EMAIL: LTHUROW@EAGLE.MIT.EDU

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075

Dear Senator Riegle:

It is my privilege to write a letter in support of Laura Tyson's nomination by President Clinton to be Chairman of his Council of Economic Advisers. I am writing you both as the 1993 Vice President of the American Economics Association and as the Dean of MIT's Sloan School of Management.

I have known Laura Tyson since she was a student here at MIT in our Ph. D. Program and worked with me on a project looking at the banking systems and the activities of central banks in a number of different industrial countries. She is well trained and on top of the major developments in all major fields of economics, including macro-economics which everyone must present as a field of study. I found it a pleasure to work with her then.

Since then I have followed her intellectual activities closely and she has been a visiting professor here at MIT. The good qualities she demonstrated as a student have remained with her. She does her homework, she is on top of the analysis required to make good judgments, she listens to contrary arguments, and it is still a pleasure to work with her — as I have from time to time done in jointly authored articles.

Perhaps the highest recommendation that I can give to her is that both the MIT Management School and the Harvard Business School have been trying to lure her away from Berkeley and the University of California. I wanted to have her here at MIT and thought she would have been a great addition to my faculty. In the same mode, she will be a great addition to President Clinton's official family.

Intellectually her work in recent years has focused on industrial economics. Professor Tyson thoroughly understands macro-economics but I think that an understanding of industrial economics is even more important for today's Chairman of the President's Council of Economic Advisers. As severe as our macro problems are, the major economic problems facing the United States are not how do you get macro-economic policies right. That can be done perfectly and the United States will still fail economically.

Letter to Senator Riegle, Jr.
Page Two

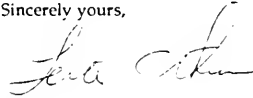
January 13, 1993

The central problem is how do you restore productivity growth and make American industry more competitive in international markets. If we do this, Americans' real wages can start rising after a 20 year period of decline. If we cannot, Americans' real wages will continue to fall.

Laura Tyson's intellectual strengths match America's long run economic needs.

I urge you to confirm her and support her strongly.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Lester C. Thurow".

Lester C. Thurow
Dean
MIT Sloan School of Management

Vice President,
American Economics Association

5201 Great America Parkway, Santa Clara, California 95054 Telephone: (408) 987-4200
1225 Eye Street, N.W., Suite 950, Washington, D.C. 20005 Telephone: (202) 682-9110

January 19, 1993

Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking Housing
& Urban Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As members of the Advanced Technology Coalition (ATC), we wish to express our strong support for the confirmation of Dr. Laura D'Andrea Tyson as Chair of the Council of Economic Advisors.

As you may know, the ATC is a broad coalition of high-tech companies and associations, traditional manufacturing industries, labor, professional societies, and research consortia that have a common goal of ensuring America's industrial and technological leadership. The Coalition includes organizations which represent 5 million U.S. workers, 3,500 electronics firms, 325,000 engineers and 13,500 companies in other manufacturing sectors.

We believe that Laura Tyson will be an exceptionally influential and imaginative Chair of the CEA. Dr. Tyson's work has concentrated on some of the most important policy issues that face the United States economy. Her recent book (*Who's Bashing Whom? Trade Conflict in High-Technology Industries*) is based on exhaustive research of key high-tech industries and a sophisticated understanding of the global environment in which American firms and workers compete. Her policy recommendations are thoughtful and balanced, and firmly grounded on first-rate empirical research.

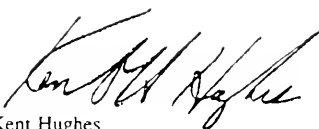
If America is to maintain its industrial and technological leadership, our top economic decision makers must have a thorough understanding of the realities of the global economy, and have innovative ideas for strengthening America's economic competitiveness. America's standard of living and economic and geopolitical strength will increasingly be determined by its ability to commercialize new technologies. We believe that Dr. Tyson's insights into trade and technology policy will be invaluable as the United States seeks innovative solutions to the challenges of the post-Cold War era, and we urge you to join us in supporting her confirmation.



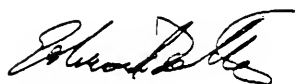
Sincerely,



J. Richard Iverson
President & CEO
American Electronics Association



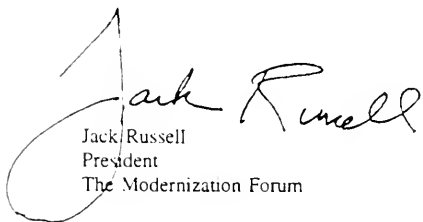
Kent Hughes
President
Council on Competitiveness



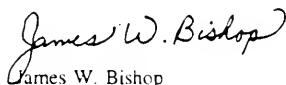
Edward A. Miller
President
National Center for Manufacturing Sciences



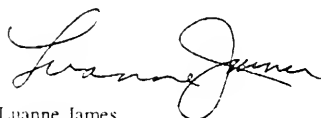
Arvid Larson
Chairman
IEEE-USA Technology Policy Council



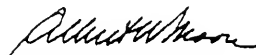
Jack Russell
President
The Modernization Forum



James W. Bishop
Executive Director
Southeast Manufacturing Technology
Center



Luanne James
President
Information Technology Association
of America



Albert W. Moore
President
AMT - The Association for Manufacturing
Technology

KARL F. LANDEGGER PROGRAM
IN
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SCHOOL OF FOREIGN SERVICE
GEORGETOWN UNIVERSITY
WASHINGTON, DC 20057-0889



January 14, 1993

DR THEODORE H. MORAN
Karl F. Landegger Professor
and Director

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MS. CAROL V. EVANS
Instructor

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The Ford Motor Company

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075

Dear Senator Riegle:

I am writing with great enthusiasm on behalf of Dr. Laura D'Andrea Tyson's nomination to be Chairman of the Council of Economic Advisers in the Clinton Administration.

Dr. Tyson's chairmanship greatly expands and enhances the traditionally rather narrow focus of the Council on aggregate macroeconomic analysis. Her particular expertise comes from looking closely at the international context in which high technology industries are created, rise, struggle with competition across borders, and (if successful) expand to new heights. The outcome is particularly important because such industries typically offer great positive spill-overs for the countries where they are located and generate high skilled, high wage jobs in the communities where they are found.

The kind of detailed knowledge that Dr. Tyson possesses about competition in high tech industries has been alarmingly rare within the ranks of prior Chairmen of the Council of Economic Advisers. Yet it is precisely this kind of background that will be vital in making the policy decisions we need to enhance American competitiveness as we approach the twenty-first century.

The issues that Dr. Tyson has established her reputation addressing are particularly sensitive, since they deal with sectors where many governments have kept markets closed by subsidizing as well as protecting their own national firms. Given the publicity that Dr. Tyson's nomination has generated in the press, I would urge the

The Honorable Donald W. Riegle, Jr.

January 14, 1993

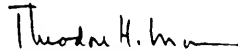
Page Two

Members of the Committee to go ahead and question her closely on matters concerning managed trade and public sector targeting. What the Members will discover is that Dr. Tyson is extraordinarily careful and precise in delineating the exceptional circumstances in which intervention on the part of the U.S. government might be warranted. When she describes herself as a "cautious activist," I believe she will place emphasis on the "cautious." Overall, her commitment to enhance the working of markets is no less firm than her predecessors in the Chairmanship of the Council. But she is acutely sensitive to the dangers of ignoring protectionism and intervention on the part of other governments in high tech industries where the economies of scale are large and the pace of change is extremely rapid.

Finally let me make a few observations about Dr. Tyson's personal qualities. She is open, engaging, approachable, frank, persuasive, and honest. I mention these personal qualities because, given the legacy of aloof disdain toward Congress on the part of several senior officials of the previous administration, the Members of the Committee will find, I am sure, that they will come to look forward to exchanging ideas with Dr. Tyson and working together with her in addressing the major economic challenges that confront our nation.

I hope that these remarks are helpful to your deliberations.

Respectfully,



Theodore H. Moran

THM:may

MCCMICROELECTRONICS AND
COMPUTER TECHNOLOGY
CORPORATION3500 West Balcones Center Drive
Austin, Texas 78752-8509
(512) 345-0918Dr. Craig I. Fleck
Chairman and
Chief Executive Officer

January 14, 1993

Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

I am pleased and honored to support the nomination of Dr. Laura Tyson for the Chair of the President's Council of Economic Advisors. I have known and worked with Dr. Tyson for several years, when I was Director of the Defense Advanced Research Projects Agency (DARPA) and currently as Chairman and CEO of the Microelectronics and Computer Technology Corporation (MCC) consortium of information technology and aerospace companies. Dr. Tyson has assumed a leadership role in focusing, most effectively, on U.S. economic competitiveness, productivity and growth.

Dr. Tyson has superb training and experience in classical economics. She has such deep command of her craft and science that she is able to innovate in light of changing circumstances and environment for the U.S. Changes include a U.S. economy increasingly driven by worker and management skills and training, rather than natural resources or geography; globalization of corporations, finance and markets; and, high technology as a key to success not only in "high tech" industry but in all industry, large corporations and small businesses alike. Anybody with a lesser background would be adrift, applying textbook lessons by rote rather than reason.

Dr. Tyson's sphere of experience extends well beyond academia. She has had sufficient engagement with Federal and state government to realistically understand what can and cannot be done. She has strong and long standing relationships with industry, appreciating the problems and prospects for the U.S. business and labor communities. When her nomination was announced there was uniform support from the industry segments in my consortium, electronics and aerospace -- two of the industries providing the most medium- and high-value-added jobs for the Nation. Her understanding of and constructive relationships with industry means that she is trusted. That trust can be an invaluable asset for the new Administration as it seeks to build a partnership between industry and government.

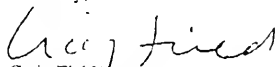
On a personal level Dr. Tyson is warm, open and easy to work with. When she makes a decision everyone is sure they have had their fair opportunity to express their views. She is one of the fastest learners I have ever encountered, and is open to new ideas. She can play an important role in building consensus on the Nation's economic future among departments in the government and with committees of the Congress.

January 14, 1993
Senator Donald W. Riegle, Jr.

Page 2

History will show that Dr. Tyson's nomination is one of the wisest of President-Elect Clinton, and I have every confidence she will be confirmed by, and fully supported by, the Senate.

Sincerely,

A handwritten signature in cursive script that reads "Craig Fields".

Craig Fields
Chairman and CEO

UNIVERSITY of PENNSYLVANIA

PHILADELPHIA 19104

LAWRENCE R. KLEIN
Benjamin Franklin Professor of Economics
Emeritus

DEPARTMENT OF ECONOMICS
3718 LOCUST WALK CR

13 January 1993

The Hon. Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing
and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075
FAX: (202)224-5137

Dear Senator Riegle:

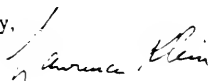
The designation of Professor Laura Tyson as Chairperson of the Council of Economic Advisers is a very thoughtful selection. I enjoyed participating with her for several years (2 rounds) on the Cuomo Commission, dealing with matters of competitiveness and growth of the US economy.

I found her to be an excellent committee participant who consistently did the appropriate homework and had much to contribute. I sympathize a great deal with her position on our country's trade and the need to advance our position both through vigorous market competition and associated policies at all levels of government. Her latest book on this subject, *Who is Bashing Whom?*, shows strong professional competence, as well as an ability to see through trade problems from various sides -- business, government, multilateral agencies.

At an earlier stage of her career, she participated very constructively in lively discussions on the building of statistical models of the Soviet economy. Her economics background on the economies of Eastern Europe showed up clearly in the interchanges among specialists, and she impressed me as one who has certainly mastered the technical details.

Without hesitation, I support Professor Tyson's selection for appointment as head of the Council of Economic Advisers.

Sincerely,



LRK/BAM

Council on Competitiveness

January 15, 1993

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Honorable Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Senator Riegle:

I am writing to strongly endorse the nomination of Professor Laura Tyson to be the Chair of the President's Council of Economic Advisers.

She brings to the position solid academic credentials and a growing body of scholarly work. In her latest volume, she explores the question of international trade in a range of industries where markets are imperfect and there is, as well, an active government role. The Council's current project on trade, technology and investment is building on Professor Tyson's work and insights.

In addition to her research, Professor Tyson brings several other very important qualities to the position. She has taught in business schools as well as departments of economics which has given her a heightened sense of a world in which risk and uncertainty are common elements. She will bring that added perspective to her advice for a President who, like the private sector, faces an uncertain economic future.


As the country enters the post-Cold War era, we are adding a growing concern about our long-term economic prospects to a decade-long preoccupation with a geopolitics of containing international communism. Professor Tyson and her colleagues at the Berkeley Roundtable on International Economics have been among the leaders in thinking about the long term road strategy for an America that is very much part of the global economy. Several of her colleagues contributed to the report of President Reagan's Commission on Industrial Competitiveness, better known as the Young Commission after its chairman John Young, just retired CEO of Hewlett Packard.

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Senator Donald W. Riegle, Jr.
January 15, 1993
Page Two

I am sure that Professor Tyson will be an effective and creative voice in the Clinton Administration. Our economic policy will be the better for her advice. It is with real enthusiasm that I can speak on her nomination.

Sincerely,



Kent H. Hughes
President

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January 14, 1993

Senator Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Building
Washington, DC 20510-6075

Dear Mr. Chairman:

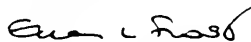
I write in support of the appointment of Dr. Laura D'Andrea Tyson to the position of Chairman of the Council of Economic Advisers.

I first became acquainted with Dr. Tyson's work seven or eight years ago. At that time I was working for a high-technology American company with growing business interests overseas. I also chaired a working group on Japan at the National Association of Manufacturers. Dr. Tyson's analysis of what other governments do to promote their own industries struck me as extremely well-informed and realistic.

Here at the Institute I'm working on a book about what to do with the post-Cold War global defense industry. I continue to draw inspiration from Dr. Tyson's work, especially her clear, rigorous and well thought out discussion of "strategic" industries.

Dr. Tyson combines many virtues: intelligence, modesty, tough-mindedness and warmth. She is a well trained economist with "mainstream" credentials, but she has had the courage to depart from conventional economic thinking. She will bring fresh perspectives to what may well be a critical turning point for the U.S. economy. I strongly support her confirmation.

Sincerely,



Ellen L. Frost
Senior Fellow

January 15, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate

Dear Senator Riegle,

I would like to endorse in the strongest possible terms the candidacy of Laura D'Adrea Tyson for the position of chairwoman of the Council of Economic Advisors.

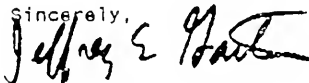
I have known Ms. Tyson for over five years, and, in my view, she is an excellent economist, an extremely astute and balanced policy analyst, an extraordinary team player. You will not find anyone else who has given more thought -- and original thought -- to national and international problems, nor someone with a greater gift for articulating her ideas to experts and laymen alike. You will not find anyone who is more capable of making a valuable contribution to heated debates where the "right" answer is not black or white but painted in shades of grey.

Without question, her contributions to deliberations in the Executive Branch will be enormous, and I predict that she will elevate the CEA's position in all the arenas of national policy. But I also believe that she will become one of the Congress's most sought after officials to exchange views privately and in public hearings, so powerful is her ability to explain the complicated intersection of economics and public policy, to separate the real choices, and to put forward thoughtful recommendations.

I hold these views not just as someone who has one foot in the academic world, being as I am a professor at the Columbia Graduate School of Business. In addition, I have spent the past fourteen years on Wall Street, and prior to that I held a variety of senior economic policy posts in the Nixon, Ford and Carter administrations. I have also had the privilege, I might add, to testify before your committee on such subjects as third world debt, competitiveness, and Japan. In all these experiences I have had the chance to interact with a broad range of the nation's most accomplished economists.

I can put it simply. Ms. Tyson represents the very best that America has to offer.

Sincerely,



Jeffrey E. Garten

Economic Strategy Institute

1100 Connecticut Avenue, NW
Suite 1300
Washington, DC 20036
Telephone: 202/728-0993
Facsimile: 202/728-0998

January 14, 1993

Senator Donald W. Reigle, Jr.
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075

Dear Don:

I am writing concerning the nomination of Laura Tyson as Chairman of the Council of Economic Advisors.

I believe she is an outstanding choice. She brings a knowledge of the real world that has been sorely missing at the CEA for a long time.

I urge her speedy confirmation.

Best regards,

Clyde V. Prestowitz, Jr.
Clyde V. Prestowitz, Jr.
President

ESI

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January 15, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

I write to urge your favorable consideration of the nomination of Laura D'Andrea Tyson to head the Council of Economic Advisers. As Chairman of Governor Cuomo's Commission on Competitiveness, I have worked closely with Laura Tyson during the past six years on our studies of national economic policy. This experience convinces me that she is an outstanding choice to lead the Council.

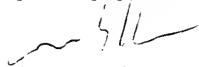
It should be evident that Laura Tyson has the academic and intellectual credentials for the task. Her work has demonstrated that she has a realistic understanding about the economy and the many factors that influence economic performance. Just as significant, Laura Tyson has the personal qualities and skills to make an important contribution to the President-elect's economic team. Throughout our work together on the Cuomo Commission, she has been an outstanding team player, advocating her position effectively and at the same time helping form a consensus and responding with grace and style to the positions advocated by others.

On Sunday, the New York Times Business Section will publish an op ed piece by Lee Smith and myself on Laura Tyson's appointment. I am enclosing a copy of that article. It makes the argument, which I would like to repeat to the members of your Committee, that the challenge of global competition makes it important that the head of the CEA be able to articulate not only the options available for macroeconomic policy, but also the initiatives needed to address long term structural problems that influence economic performance and the standard of living for all Americans. America's competitiveness determines how well Americans live. Our economic performance turns not just on macroeconomic factors but also on such factors as technology, trade, education, training, corporate governance and public investment. During the campaign the President-elect spoke of a realistic and aggressive program to deal with the underlying structural issues that have contributed to stagnating standards of living and sub-par performance of America's economic system. Laura Tyson's expertise on these issues as well as her understanding of macroeconomics gives the new Administration a leader for the Council of Economic Advisers capable of participating with other members of the economic team in shaping a long-term program to rebuild America's economic strength.

In addition to these important qualifications, Laura Tyson is a terrific person, who will bring to the job personal qualities of openness, integrity and candor that will help all of you as you tackle the serious challenges confronting our economy.

For all these reasons, I commend Laura Tyson to you and your colleagues. I hope that your consideration of her nomination will convince you, as my experience with her has convinced me, that she will be a distinguished leader of the Council of Economic Advisers.

Very truly yours,



Lewis B. Kaden

Tyson's a Terrific Choice

by Lewis Kaden and Lee Smith

A few disgruntled economists have criticized the appointment of Laura Tyson, suggesting that she lacked sufficient background in quantitative theory to head the Council of Economic Advisers (CEA). We know Laura Tyson well, having worked closely with her for the past six years on the development of new national economic policies. We believe that her far-ranging knowledge, her realism about the global economy, and her consensus-building skills make her an outstanding choice to chair the CEA.

By tradition, past presidents have given the top job at the CEA to economists with reputations in macroeconomics -- experts on how government monetary and fiscal policies influence the level of demand, hence the rate of growth and level of unemployment. For most of the post-World War II era, we could afford to worry just about managing the business cycle. With little global competition and the world's most modern factories, American industry achieved the high levels of productivity growth necessary for a steadily rising standard of living.

Starting in the late 1970s America's economic problems spread beyond the cyclical problem of growth and recession to the long-term structural problem of a declining standard of living caused by

diminishing competitiveness. The conventional view was that our competitiveness problem was due to an overvalued dollar, which would be corrected by the proper macroeconomic policy -- dollar devaluation. Yet despite a cheaper dollar for the past five years, our trade deficits remain huge, and American standards of living continue to stagnate.

Tyson, like our Commission, has argued that a purely macroeconomic response to competitiveness problems, primarily by lowering the value of the dollar, was too narrow a policy. How well we produce determines how well we live. Excellence in production in turn depends on factors such as technology, trade policy, public investment, education, employee participation, and corporate governance. These concerns are now widely understood, in and outside academia, to be critical to economic performance.

To address these problems, the president-elect is seeking a more realistic, structural approach to economic policy that will hasten the needed reforms in America's economic system. One element of the strategy is a new macroeconomic policy to increase private and public investment, thus spurring demand to strengthen the current recovery, as well as to make industry more competitive and to achieve major deficit reduction over the course of the next five years.

But we should not stop with investment and long-term deficit reduction. The second element is structural reform of schools,

training systems, corporate governance, and the policy-making process. The shortcoming of America's institutions -- from labor markets to inner-city schools -- are holding Americans back. While managers, workers, investors, parents, and educators will have to take the lead in most of these reforms, Washington can help enormously if policymakers understand the institutions that make for excellence in production and the role for positive government action.

The president's chief economist has to be able to articulate the administration's structural economic policy. That is one of the reasons that Tyson is such an excellent choice for CEA. She will provide the economic realism and expertise in trade, investment, industrial structures, technology as well as macroeconomics needed to help the president-elect shape a long-term program of economic renewal.


DEWEY BALLANTINE

1775 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20004-6605
TELEPHONE 202 862-1800 FACSIMILE 202 862-1093

15 January 1993

ALAN S.W. WOLFF
202 429-2332

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
United States Senate

Dear Senator  Riegle:


I am writing in support of the nomination of Laura D'Andrea Tyson to be Chairman of the President's Council of Economic Advisors. Ms. Tyson is a superb choice whom I believe will serve with great distinction in this position.

The choice of Laura Tyson represents an obvious departure from past Presidential appointments to chair the CEA in one significant respect. Laura Tyson's published work, her extensive experience, and her interest emphasize the importance of the composition of the American economy as well as aggregate levels of activity. This is a profound difference that is vital to our country's interests as we enter the Post Cold War Era. U.S. manufacturing and high value-added services have been ignored by much of the academic economic profession and by many of the economists who have served in government. The United States can no longer afford to be indifferent.

The time has come for the Executive, Congress, industry and labor to work together to improve American competitiveness. I know that the Semiconductor Industry Association, with whom I have worked for the last 13 years, is very favorably impressed with Ms. Tyson and her work. Basic industries can benefit equally from the fresh approach and interest which Ms. Tyson brings to this field. Many in industry believe that she can help formulate public policies that will support America's maintaining and enhancing its position in world industry. The Committee should recognize that the appointment of Ms. Tyson is clearly part of the mandate which the President-elect received for change.

I urge prompt and favorable action on Ms. Tyson's nomination.

Very truly yours,



NEW YORK WASHINGTON LOS ANGELES LONDON

FELIX G. ROHATYN
ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

January 14, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking, Housing and Urban Affairs
UNITED STATES SENATE
534 Senate Dirksen Building
WASHINGTON, D.C. 20510-6075

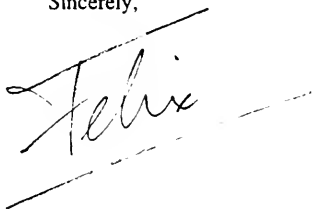
Dear Don,

I know that you will be holding hearings on the confirmation of Laura Tyson for Chairman of the Council of Economic Advisors. I have had the pleasure of knowing and working with Ms. Tyson, most recently as a member of the Cuomo Commission which did extensive work on the economy over a period of two years or so. I have the highest regard for Ms. Tyson as an economist and I have found her a pleasure to work with and to know personally.

I support her confirmation without any hesitation whatsoever.

Kindest regards.

Sincerely,

A handwritten signature in cursive script, reading "Felix", is written over a horizontal line. A second horizontal line is drawn below the signature, extending further to the right.

4780 Dexter Street
Washington DC 20007
January 14, 1993

Dear Senator Riegle:

I am writing to express enthusiastic support for the nomination of Laura Tyson to chair of the Council of Economic Advisors. In my view, the choice of Ms. Tyson for this post is the single best selection President-elect Clinton made in naming his senior appointees. I hope, and assume, that your committee will approve her easily.

I am sure that you are aware of Ms. Tyson's professional background. She has written for more than a decade about the very issues that have concerned your committee and that President-elect Clinton has said he will emphasize: strategies for raising the national growth rate, the ingredients of national competitiveness, the proper conditions to foster high-tech industries, and the right interaction between government policy and private industrial growth. Her new book, *Who's Bashing Whom*, considers these issues and many others in a thoughtful and practical-minded way.

You are aware that the selection of Ms. Tyson initially provoked grumbling from a number of other economists. Some of this was pure sour grapes, from young men who had felt entitled to the job. More of it reflected a difference within the profession — and a difference that reflects entirely to Ms. Tyson's credit. The CEA has often been considered a redoubt for theoretically-oriented macroeconomists, whose main specialty was abstract modeling of the economy. Ms. Tyson's specialty has been a much more realistic, detailed analysis of how the modern economic world actually functions. In my view, at least, the time is certainly right for her approach. (I attach a commentary I did for National Public Radio on this subject.)

For purposes of identification, I should disclose that I am the Washington Editor of the *Atlantic Monthly* magazine, and a regular commentator for National Public Radio. This is, however, a personal letter of support for Ms. Tyson, based on having followed her work for several years. Naturally the organizations for which I work are not taking any position on this issue.

Again, I hope very much that you recommend Ms. Tyson for confirmation. I am sending a signed copy of this letter by regular mail.

Sincerely,

James Fallows

[Another of President-elect Clinton's nominations is expected to encounter very little resistance in Congress: that of Laura Tyson, an economist from the University of California at Berkeley, to head the Council of Economic Advisors. But other economists have been loudly criticizing the choice in the press. Commentator James Fallows says that the complaints say more about the deficiencies of the profession than those of the nominee.]

Laura Tyson has spent the last decade on subjects that would seem quite relevant in the Clinton age — shifts in national competitiveness, how high-tech industries rise and fall. But when her appointment was announced squeals of wounded pride went up from the economics establishment. Robert Lawrence of Harvard, for instance, said the choice must mean that Clinton wanted to advise himself. Paul Krugman of MIT, an early favorite for the job, pointed out that the established "pecking order" among economists had been ignored. There were many similar complaints.

Why should economists be such sore losers, compared, say, to disappointed candidates for secretary of state? The dispute has less to do with Tyson than with the conflict between two approaches to economics: hers, with its look at specific bureaucracies and policies and firms, and the highly theoretical economics now in academic vogue.

In the days of Adam Smith or even John Maynard Keynes, economists wrote mainly with words, not graphs or numbers, and they knew that their real subject was human behavior, which followed certain patterns but was not subject to hard scientific proof. After World War II university economics, especially in America, became much more math-bound and abstract. Its big names, the macroeconomic analysts, rose above the details of how factories or government agencies actually behaved — the kind of details Tyson has emphasized. They specialized instead in theoretical models of how economics should behave. The creation of a Nobel award in economics in 1969 reinforced the idea that economics was a branch of pure science, a kind of physics that happened to deal with the velocity of money rather than the speed of light.

In reality economics remained about as precise as political science. That is, it used mathematical tools and constantly refined its understanding but was completely in the dark about many big questions. Since the Nobel award was established, American economists have virtually monopolized it, and Japanese, Koreans, and Germans have been shut out. During that same period, of course, the dollar lost two thirds of its value against the yen. Good theoretical economists and a good economy remain two different things.

Nonetheless, theoretical economics retained its glamour, and its scientific aura — and, to bring us back to Laura Tyson, its view of the Council of Economic Advisors as the entitlement for its brightest math-genius stars. Many of these same high-flyers, as the columnist Robert Kuttner has pointed out, display a Bobby Fisher-like imbalance between their analytical and their social skills. And so when Tyson — a woman who wrote about history and semiconductor policies and was perhaps not as "good at math" — took the job that was rightfully theirs, their sense of basic justice was outraged, and they let out their primal cry.

As we wait for the din to die down, the rest of us know how we'll judge Laura Tyson: not on the elegance of her models but by whether her ideas work.

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January 18, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

I write on behalf of Laura Tyson to Chair President-Elect Clinton's Council of Economic Advisors.

I have known Dr. Tyson, professionally and socially, since the early 1980's, when I met her at the Berkeley Roundtable on the International Economy. My professional and academic interests were, and have been, largely focused on competition issues, and increasingly on our corporate sector's capacity to meet international competition in global markets. Accordingly, I had, and have, a real interest in Dr. Tyson's works and writings, and have read much of them. I have, moreover, participated in professional meetings with her, and served with her as a member of Governor Cuomo's Commission on Competitiveness.

I believe, therefore, that I am qualified to speak of her competence as an economist, and as the potential Chairperson of the Council.

I enclose a copy of an Op-Ed piece from the New York Times of January 17, 1993. I concur totally with the views expressed by the Chairman and Executive Director of Governor Cuomo's Commission, with whom Dr. Tyson and I served. I could not say it any better.

Of equal importance to me, however, are two more of Dr. Tyson's characteristics: she is articulate, and can communicate complex concepts in an understandable manner. While I hesitate to say this is uncharacteristic of some in her field, it surely

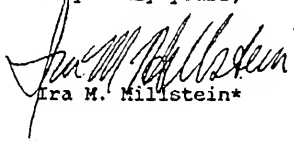
WEIL, GOTSHAL & MANGES

Senator Donald W. Riegle, Jr.
January 18, 1993
Page 2

is a useful and desirable characteristic for someone who will need to articulate complex economic concepts; and, she has, additionally, a capacity to listen patiently, and to understand many points of view. I have never found her to be doctrinaire or unwilling to listen meaningfully to all sides of an issue being considered. Indeed, at close hand, in earlier work with her on the Governor's Commission, I observed her ability to bring consensus out of some highly divergent views on the trade issue.

In short, I believe Dr. Tyson will bring to her new position high intelligence, outstanding integrity, and leadership qualities, in addition to the qualities described in the enclosed Op-Ed piece.

Very truly yours,



Ira M. Millstein*

Enclosure

* Ira M. Millstein is Chairman of the Board of Advisors of Columbia University School of Law's Institutional Investor Project, the Lester Crown Visiting Faculty Fellow at the Yale School of Organization and Management, and Senior Partner at the law firm of Weil, Gotshal & Manges. In 1989, he served as Chairman of the New York State Pension Investment Task Force. He recently served on the Project Advisory Committee of the Council on Competitiveness and as a member of the Corporate Governance & Financial Markets Subcouncil of the Competitiveness Policy Council, and the Cuomo Commission on Competitiveness.

Economic Policy Institute

1750 RHODE ISLAND AVENUE, NW • SUITE 200 • WASHINGTON, DC 20036 • 202/775-8810 • FAX 202/775-0819

January 15, 1993

Senator Donald W. Riegle, Jr.
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510-6075

Dear Senator Riegle:

It is with great pleasure that I write to support President-elect Clinton's choice of Laura D'Andrea Tyson to be the Chair of the Council of Economic Advisers and to urge the Senate to confirm her nomination.

Laura Tyson will bring to the leadership of the Council an impressive academic background and strong expertise in economic research which will enable her to lead the Council in its traditional role of providing macroeconomic analysis and advice to the President. In addition, her work on international competitiveness and trade, and on the link between technology and manufacturing will help the President and his Administration promote the national interest in this new era in which other nations are using government policy to create comparative advantage in industries which are crucial to economic success.


Dr. Tyson's academic career of scholarship, research and teaching at MIT, Princeton, and at the University of California at Berkeley have put her at the forefront of the economics profession. Her work as a founder of the Berkeley Roundtable on the International Economy, as a member of the Economic Policy Institute's Economic Advisory Board, as a member of the Cuomo Commission, and as an active participant in policy fora in Washington and around the country has made her a leading voice in the debate about what government can and cannot do to build a strong economy. Her work has also given her a systematic exposure to the problems faced by government, business and labor in trying to devise policies to build successful firms and high performance (and high-wage) workforces.

Senator Riegle
January 15, 1993
Page 2

When he announced this nomination, President-elect Clinton indicated that "the Council of Economic Advisers will be more central to my administration than in any since the administration of President Kennedy." In Laura Tyson he made the perfect choice of someone who can lead the Council, advise him and his Administration, and work in a collegial fashion with the other members of his National Economic Commission to forge the policies to rebuild the American economy and economic opportunity for Americans.

I highly recommend Dr. Tyson for this position and urge you to approve her nomination.

Sincerely,



Jeff Faux
President



January 13, 1993

Senator Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, D.C. 21510-6075

Dear Chairman Riegle:

It is my understanding that your Committee will be holding a confirmation hearing on January 21st for Laura D'Andrea Tyson as Chairman of the Council on Economic Advisors. I am writing to support her nomination.

I have worked with Laura during the last several years, first during 1990 and 1991 when I served as Chairman of the Manufacturing Forum of the National Academies of Science and Engineering, and then during 1992 as Chairman of the Manufacturing Subcouncil of the Competitiveness Policy Council. She was a member of the Subcouncil.

As you know, Laura has been in a leadership position at the Berkeley Roundtable on International Economics at the University of California at Berkeley for a number of years and has done extensive personal research and writing on issues and policies related to economic growth, international trade, technology development, industrial productivity, and competitiveness. She has participated in a wide variety of public policy study groups related to these subjects.

Her high integrity and distinguished relevant experience qualify her for confirmation. She will serve the nation well.

With best regards.

Sincerely,

A handwritten signature in cursive script that reads "Ruben F. Mettler". The signature is written in dark ink and is positioned below the word "Sincerely,".

Ruben F. Mettler
Retired Chairman and CEO, TRW Inc.

George M. C. Fisher

Chairman of the Board
Chief Executive Officer

January 18, 1993

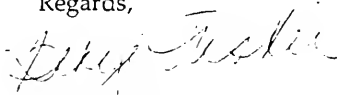
Senator Donald W. Riegle, Jr.,
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
534 Senate Dirksen Building
Washington, DC 20510-6075

Dear Senator Riegle:

I am delighted to support Laura Tyson's nomination as Chair of the Council of Economic Advisors. Dr. Tyson has been in regular contact with Motorola throughout her involvement in the Berkeley Roundtable for International Economy. She also has been advisor to and facilitator for Motorola University. In all of these interactions, Dr. Tyson has demonstrated superb intellectual skills, excellent judgement, and outstanding communications abilities.

Based on her extensive knowledge of the trade distorting practices often used by our global economic competitors, I believe Dr. Tyson would bring a much needed dimension of realism to the economic policies of this country. I believe Laura Tyson is eminently qualified to Chair the Council of Economic Advisors, and I wholeheartedly support her nomination.

Regards,



George Fisher

GF:paf



STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224
(518) 474-1238

January 19, 1993

Senator Donald Riegler
Chairman of the Senate Committee on Banking,
Housing and Urban Affairs
Dirksen Senate Office Building
Room 534
Washington, D.C. 20510

Dear Senator Riegler:

I am writing to you to express my strong support for the appointment of Laura Tyson to head the President's Council of Economic Advisers. Over the past five years I worked with Ms. Tyson on Governor Cuomo's Commission on Competitiveness, which afforded me the opportunity to see first hand her exceptional intellectual capabilities, her wide-ranging knowledge, and a personal style which enables her to persuasively present complex ideas and to work with others to reach consensus. In short, she has the expertise and the personal capacity to be an extremely effective and influential economic adviser to the President.

In her work with the Commission as well as in her professional career, Ms. Tyson has argued that America's economic problems, in particular our decline in international markets and stagnant living standards, cannot be simply solved by purely macroeconomic responses. Ms. Tyson argues that how well we live is determined by how well we produce and she recognizes that excellence in production in turn depends on structural economic factors such as technology, trade policy, public investment, education, employee participation and corporate governance.

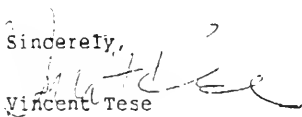
As the State's Director of Economic Development, the structural nature of our economic problems is very apparent. Despite a very aggressive economic development program we have had a slow gradual

loss of jobs. The jobs are lost at the local level, but the process starts at the national or global level because of forces largely out of the states' control. For example, Long Island has lost almost 100,000 defense-related jobs because Washington policymakers started the cutbacks in defense spending without putting in place a parallel program of conversion. When Smith Corona, and Trico, and other New York companies moved thousands of jobs to Mexico, the proximate cause was global, not local.

The President-elect is now seeking a more realistic, structural approach to economic policy. One element of the strategy is a new macroeconomic policy to increase private and public investment, thus spurring demand to strengthen the current recovery, as well as make industry more competitive, and to achieve major deficit reduction over the course of the next five years. The second element is structural reforms of schools, training systems, corporate governance, and the policy-making process. The shortcoming of America's institutions -- from labor markets to inner-city schools -- are holding Americans back. While managers, workers, investors, parents, and educators will have to take the lead in most of these reforms, state and federal government can help. In areas as diverse as university and business partnerships, development of new high tech companies, promotion of energy efficiency, and facilitation of employee buyouts, New York, like other states, has developed innovative approaches and techniques that can be the base for a new federal-state partnership for competitiveness.

In closing, Professor Tyson has what it takes to help the President forge the comprehensive program the nation needs. I am very pleased to be able to voice my support for her confirmation.

Sincerely,


Vincent Tese

October 1991). The Europeans instead offered to cap launch aid at 45 percent of total development cost.

Despite a number of promising contextual factors, including the growing market share of Airbus, the budgetary constraints of its supporting governments, and the more aggressive antisubsidy stance of the European Commission, neither the Americans nor the Europeans were willing to compromise much further, and the talks broke down in early 1991. The United States then reactivated its GATT complaint against the German exchange rate guarantee and lodged a second complaint against other Airbus subsidies as a violation of the 1979 aircraft code. In early 1992 a GATT panel finally ruled in favor of the United States in the former case.⁴⁸

The 1992 US-EC Bilateral Agreement

Under the pressure of this decision and the other pending GATT case, bilateral talks between the two sides resumed. Surprisingly, these talks finally produced a bilateral agreement that addressed all of the major points of contention. Box 5.2 contains a summary description of the 1992 agreement, which applies to all future government involvement in the development of commercial aircraft of 100 seats or larger in both countries.

The agreement has several remarkable features. First, it establishes specific quantitative limits on both direct and indirect (military) subsidies for the development of new aircraft. The maximum allowable direct subsidy rate of 33 percent for the development cost of a new aircraft is clearly a compromise. Identifiable benefits from indirect subsidies are also restricted to 4 percent of the value of each firm's annual sales. In light of earlier European charges that American producers had benefited from huge indirect subsidies, this limit appears low, but it reflects the fact that such subsidies are likely to be considerably less important in the future than they have been in the past.

Second, the agreement resolves the dispute over which interest rate should apply to the repayment of launch aid. Although the Europeans prevailed in their choice of the government cost of borrowing over the commercial interest rate, the Americans won terms that accelerate the repayment of such aid, thereby reducing the value of lower borrowing costs. The United States also won another major victory on the highly contentious question of transparency. The agreement contains detailed reporting requirements that are essential to its enforcement. Ironically, these requirements should also prove useful to the Europeans in their ongoing efforts to increase the efficiency of the Airbus consortium.

Third, the agreement mandates at least two annual meetings a year for the purpose of monitoring its implementation, with additional meetings required at the request of either side. Coupled with the transparency requirements, these meeting requirements establish a framework for settling disputes.

Finally, the agreement explicitly proposes that its new disciplines be incorporated into the 1979 GATT agreement on civil aircraft and be adopted by all of

48. In July 1992, as part of the terms of a deal to complete the full privatization of Deutsche Airbus, the exchange rate guarantee was officially terminated (*New York Times*, 20 July 1992, C5).

Box 5.2 Provisions of the 1992 agreement between the United States and the European Community on trade in civil aircraft

Aircraft covered

All aircraft of 100 seats or larger are subject to the provisions of the agreement.

Direct support levels

Funds advanced by governments for aircraft development may not exceed 33 percent of total development costs and are to be provided only to programs in which there is a reasonable expectation of recoupment within 17 years.

Interest rates

Airbus will repay the first 25 percent of total development costs at the government cost of borrowing (GCOB) within 17 years of first disbursement; the remaining 8 percent will be repaid at the GCOB plus 1 percent within 17 years of first disbursement.¹

Repayment conditions

Airbus will make repayments on a royalty or per-plane basis and in a specified manner that limits backloading. Under previous practices, the terms and conditions on government launch aid to Airbus had allowed it to delay payment until late in the repayment cycle, thereby increasing the value of low-cost support.

Prior commitments

The agreement does not apply to any prior or outstanding government support committed to large civil aircraft programs.

Indirect supports

Both sides agree that indirect (i.e., military) supports should neither confer unfair advantage on manufacturers of civil aircraft nor lead to distortions in international trade in such aircraft.

Identifiable benefits from indirect support are limited to 3 percent of the value of industry-wide turnover in each signatory and 4 percent of the value of each firm's annual sales. Benefits will primarily be calculated as cost reductions in the development of a civil aircraft program realized from technology acquired through government R&D programs.

Transparency

Both sides agree to exchange, on a regular and systematic basis, information on the total amount of government support for new development projects and its share in total development costs; the terms and conditions of such support; aggregate data on disbursements and repayments relating to direct government support; and aggregate amounts of identifiable indirect support. In addition, both sides agree to provide a complete list of prior disbursements and commitments, including information on the type of repayment obligation and the planned repayment period.

Inducements and offsets

By clarifying rules on inducements in the 1979 GATT agreement, the 1992 agreement strengthens the prohibition on governments conferring special favors in exchange for aircraft purchases. Both sides agree that such inducements include foreign military or economic aid and landing rights.

Escape clause on emergency aid

Either side may temporarily derogate from the agreement, *with the exception of the development support provisions*, if the survival and financial viability of an aircraft manufacturer are in jeopardy. Any such withdrawal would require consultations with representatives of the other side, full disclosure of information to justify the withdrawal, and full explanation of the remedy to be used.

Production supports

No further production subsidies are allowed.

Equity infusions

Equity infusions are excluded from the agreement. However, both sides commit themselves not to provide equity in such a manner as to undermine the effectiveness of the agreement.

Dispute settlement mechanisms

Both sides will consult at least twice a year to ensure the functioning of the agreement. Either side may request consultations related to the agreement at any time. Such consultations must be held no later than 30 days after they are requested.

1. The United States had wanted commercial interest rates to apply but finally accepted the European position.

Source: Adapted from "Agreement Concerning the Application of the GATT Agreement on Trade in Civil Aircraft."

its signatories. In fact, the Europeans had hoped to get them to participate in the new agreement from the beginning, but this strategy was seen as a delaying tactic by the Americans, who suggested multilateralizing the bilateral agreement at a later date. The United States prevailed on this point, but both sides have wasted no time in recommending the extension of their bilateral deal to other interested GATT members.

Despite its specificity on some bitterly contested issues, the 1992 agreement does contain some important loopholes. An emergency escape clause allows either side to derogate temporarily from its terms—with the exception of those covering direct development supports—if the survival and financial viability of an aircraft manufacturer are jeopardized. Such a withdrawal requires prior consultations and the disclosure of full information for justification. In the event of a withdrawal, the agreement's prohibitions on production subsidies, inducements, equity transfusions, and other forms of government assistance could be temporarily relaxed. Given the highly cyclical nature of the market for global aircraft, both sides saw an escape clause as a necessary condition for accepting the agreement.

The agreement also explicitly allows the use of national trade laws to address all conflicts other than those relating to the magnitude and terms of direct and indirect government supports. This means that trade actions involving such issues as dumping, intellectual property protection, and business practices are not precluded.

Finally, the agreement can be terminated by either side at the end of one year. Thereafter, unilateral withdrawal from the agreement can only take effect 12 months after prior notification of an intent to withdraw.

Overall, the 1992 agreement is a noteworthy accomplishment for both sides and a major improvement over the 1979 aircraft agreement. Although it has been criticized by some US observers (but not by the American producers, who support it) because it allows the Europeans to continue to subsidize Airbus, this criticism overlooks a crucial point: because of the industry's underlying economics, government support for the development of new aircraft cannot and should not be ruled out altogether. Rather the challenge is to specify parsimonious and precise rules that permit subsidies for beneficial innovation and competition while precluding rent-shifting subsidies that injure all parties. The 1992

agreement meets this challenge by proscribing certain kinds of beggar-thy-neighbor and efficiency-reducing subsidies, such as inducements and production subsidies, while controlling potentially beneficial development subsidies through specific rules and enforcement mechanisms.

Why were the United States and the European Community finally able to agree in some detail on issues they had been debating for years? The growing competitive success of Airbus was a major consideration on both sides. By 1992 Europe had realized its long-term goal of building a European producer that was Boeing's competitive equal. As Airbus's share of the market grew, its need for public development assistance diminished, and some of its European supporters seized upon the opportunity to economize on their future commitments. It also seems likely that, having realized their goal, the Europeans wanted to secure Airbus's place in the global industry by deterring the entry of new subsidized foreign competitors in the future. In this respect, the proposed deal between McDonnell Douglas and Taiwan Aerospace (discussed below) may have been a factor encouraging the Europeans to compromise, in the expectation that a bilateral deal with the United States would cover the possible provision of subsidies by Taiwan and other Asian governments to McDonnell Douglas.

The success of Airbus also motivated the American producers, especially Boeing, to accept a compromise. By the end of 1991, their patience with the Europeans was wearing thin. Infant-industry subsidies to level the playing field were one thing; generous beggar-thy-neighbor subsidies to grab market share were quite another. Even Boeing, which had previously counseled patience, was beginning to argue that unilateral American action would soon be required if bilateral negotiations continued to fail.⁴⁹ Clearly, however, a bilateral agreement was preferable as long as it imposed enforceable limits on European subsidies that left the playing field relatively level for the development of future aircraft models.

Finally, both Europe and the United States may have been moved to compromise because of excess capacity conditions in the global market⁵⁰ and the growing danger of a trade or subsidy war that would dissipate rents for both sides.

Challenges Facing the American Commercial Aircraft Industry

The 1992 agreement contains but by no means eliminates the external challenge to the American aircraft industry posed by continued European support for Airbus. And it does nothing to reverse the damage done by past support. Boeing

49. Boeing is understandably intent on trying to reach some "level-playing-field" agreement on the launch subsidy question before Airbus makes good on its intention to launch the 350, which would pose a major competitive alternative to the Boeing 747. In a January 1992 speech before the Council on Foreign Relations, Boeing Chief Executive Officer Frank A. Shrontz argued that "enough is enough" and expressed his opinion that Boeing had a strong case for retaliatory action against Europe under US trade law.

50. According to Wall Street projections, with which Boeing officials largely concur, total annual demand for new aircraft deliveries is not likely to exceed 600 airplanes per year for the next decade, whereas current industry production capacity is 1,000 airplanes per year and climbing.

Tyson Willing To Confront Rivals of U.S.

By Peter Behr
Washington Post Staff Writer

Turning his back on the mainstream economics profession, President-elect Clinton yesterday picked as his chief economist Laura D'Andrea Tyson, a University of California at Berkeley professor known for her willingness to confront Japan and Europe over the issue of industrial competitiveness.

Unlike many of her predecessors as chairman of the president's Council of Economic Advisers (CEA), Tyson, 45, is not a top-ranked economist whose vita boasts studies of the broad forces at work in the economy and forecasts.

Her realm is the finer detail of semiconductors, jet engines and aluminum smelters, which she and her colleagues at Berkeley have examined. Tyson is best known for her case studies of American industries in trouble.

Tyson has argued that the federal government must monitor the health of the most critical industries, steer federal research funding their way under certain conditions and use trade sanctions to keep foreign competitors from unfairly targeting these industries.

"She's a very good, formal economic modeler. She has the technical side of it," said a Berkeley colleague, Michael Borrus. "But her focus is on the way the economy actually works, rather than just what the models say."



LAURA D'ANDREA TYSON
... calls herself a "cautious activist"

Tyson's microeconomic focus on specific industries and her willingness to mix it up with Japan and Europe on trade provoked some questions from her colleagues in the economics profession.

"She's a good economist," said Massachusetts Institute of Technology economics professor Paul Krugman, but "not one of the superstars. It's a bit surprising that Clinton did not name an economist with a really strong macroeconomic side." Krugman, who wanted the job himself, said fellow economists feel a lot of goodwill toward her.

Barry Bosworth, a Brookings Institution economist who served in the Carter, Nixon and Johnson administrations, predicted Tyson would have trouble recruiting top-ranked colleagues to fill out the other two positions on the council.

Bosworth said Clinton's decision to create a new National Economic Council in the White House to coordinate economic policy, with Wall Street executive Robert E. Rubin in

charge, and the choice of Tyson may signal a downgrading of the CEA.

But Clinton—perhaps anticipating the criticism—sought to elevate the council's role yesterday.

In selecting Tyson, "I looked for someone who possesses not only an exceptional analytical reputation, but someone with a capacity to understand the underlying political and global realities that affect our ability to compete."

And Tyson did not apologize for breaking the mold.

"We definitely need sound fiscal policies. We definitely need sound

monetary policies," she said, citing the traditional policy cornerstones of budget discipline and inflation restraint. "But we need other things as well. . . . We need competitive American companies. We need new technologies. . . . We need an open international trading system."

While she declines the label of an "extreme" free trader, she says she's no protectionist, either.

"Cautious activist," is the tag Tyson pins on herself: "activist," because of the more direct role for government that she advocates and "cautious" because of the risks that entails.

Robert Kuttner

THE WASHINGTON POST

JANUARY 7, 1993

Real-World Economist

The nation's leading economists, who gathered this past week for the annual meeting of the American Economic Association, are upset that Bill Clinton did not draw from the old boy network to select his chief economist. Instead he picked Laura d'Andrea Tyson of the University of California at Berkeley, an unconventional economist with a dazzling intellect who chooses to work in English rather than algebra and to study the real economy rather than build sand castles.

When Tyson was named, collecting uncharitable comments from the profession's leading macroeconomists was as easy as trolling for bluefish during a feeding frenzy. Economics, especially macroeconomics, tends to attract mathematical theorists, many of whom are astonishingly innocent of actual economic institutions. These whiz kids, often tenured before age 30, thrill each other with arcane manipulations of models, many of which depend on assumptions not rooted in economic reality.

Tyson is a different sort of economist. She received her doctorate at MIT, perhaps the leading graduate department in economics. But as director of the Berkeley Roundtable on the International Economy, most of Tyson's scholarly work has been on technology, trade and competitiveness—issues of no small interest for, say, a president of the United States.

Most standard economic models assume what economists call "perfect competition," in which supply, demand and price are set by purely market forces. But in the real world of commerce, governments often in-

tervene to promote economic development, military R&D spending spills over into commercial technology, and companies conspire to set prices.

Most economists don't like the real world of imperfect competition, because it requires investigation of actual institutions that are too messy for neat computer modeling. Instead, they urge policy-makers to seek a world more like the one in their textbooks.

Tyson's recent book, "Who's Bashing Whom?" is a study of international commerce, and its attendant politics, in a world where most governments intervene to seek competitive advantage for their industries. It is grounded in Tyson's careful research, at Berkeley and the Harvard Business School, of several real-world industries, their interactions with their governments and their government's conflict with each other about what constitutes fair play.

In the past, most macroeconomists have insisted that it doesn't much matter if other nations protect their industries and that the main job of the U.S. government is to set a good example. Tyson noticed that several American industries were going under because of foreign government-industry collaborations and assessed the practical policy choices.

As Tyson's work came to prominence in the late 1980s, C. Fred Bergsten, head of the prestigious Institute for International Economics, gamely invited Tyson to write her book under his institute's auspices. This raised eyebrows, because Tyson was not a member of the free-trade club that IIE epitomizes.

I recall Bergsten saying that if "managed trade" were going to be taken seriously, he wanted the best professional economist sympathetic to that view to make the best possible case, so that the issue could be properly debated. Bergsten convened a panel of trade experts, economists and others to meet several times to critique Tyson's manuscript as it evolved.

I happened to be a member of that panel; I participated, admiringly, as Tyson engaged some of her toughest critics with grace, wit and real knowledge and honed the manuscript into a superb book. So I am not impartial. But I have come by my partiality through a careful reading of Tyson's work.

Some of Bergsten's colleagues may now regret his invitation, since it was the quality of the book and the imprimatur of IIE that helped give Tyson one more credential that put her on the short list to chair the Council of Economic Advisers.

When President-elect Clinton nominated Tyson, there was a spate of rather lazy newspaper stories based on some quick telephone reporting. The stories quoted leading economists, mostly unnamed, saying that Tyson was unqualified for the job. Many of these anonymous crit-

ics, of course, had wanted the job for themselves, or one of their colleagues, or at the very least for their brand of economics.

These stories contained enough sour grapes to fill a vineyard. Many quoted senior economists churlishly predicting that no economist of any stature would deign to take one of the other two positions on the council, serving under Tyson.

Well, this week Clinton named Princeton economist Alan Blinder, one of the two or three most distinguished macroeconomists of his generation, to serve on the council under Tyson. The New York Times' Louis Uchitelle, a writer whom I normally admire, broke the story of the appointment in an article that implied Blinder had been imposed on Tyson to compensate for her own lack of qualifications. In fact, Tyson had energetically recruited Blinder herself.

As the profession's princelings deal with their wounded vanity, they might wish to reexamine those esoteric models. Given its recent track record, no academic discipline has less reason for the stunning arrogance so characteristic of economics. As an act of reflection and re-education, they might begin by reading Tyson's book.

Tyson to Bring Nontraditional Views To Council of Economic Advisers Job

By RICK WARTZMAN

Staff Reporter of THE WALL STREET JOURNAL
 WASHINGTON — Since its founding 46 years ago, the Council of Economic Advisers has been a vociferous voice for free trade in internal White House disputes. Laura D'Andrea Tyson may well turn that tradition on its head.

In fact, President-elect Clinton's pick to run the panel "is a proponent of many of

admires her work, also was considered for the CEA job.

But it is Ms. Tyson's stance on giving federal aid to specific sectors that is most troubling to mainstream economists. Charles Schultze, who was chairman of the CEA under Jimmy Carter, was critical of Ms. Tyson's views at an economics forum just a couple of weeks ago. He said that, while he agreed with several specific policy recommendations in her new book, he didn't like the sound of the "background music" — namely, the idea that high-tech industries deserve special support from the government.

Exactly what impact Ms. Tyson will have in the Clinton White House isn't clear. Although the president-elect said the CEA would "be more central in my administration" than in any since President Kennedy's time, he announced Ms. Tyson's appointment a day after nominating five more-moderate members of his economic team. Two Nobel laureates, James Tobin and Robert Solow, have expressed concerns that Mr. Clinton's creation of a National Economic Council may relegate the CEA to second-tier status.

Over the years, the CEA has been led by some of the top names in academia, including Arthur Okun, Martin Feldstein and President Bush's chairman, Michael Boskin. Many less-renowned figures also have headed the panel, and Ms. Tyson's credentials are certainly stronger than some of her predecessors.

Perhaps what is most unusual about the selection is that Ms. Tyson is more of an expert on specific trade and technology issues than she is on broad macroeconomic policies. Two other members of the CEA, who could provide strength in the macroeconomics area, are still to be named.

Some are encouraged by Ms. Tyson's fresh perspective. "She represents cutting-edge thinking," says Jeff Faux, president of the liberal Economic Policy Institute.

New Chief of Staff

President-elect Clinton's decision to select Thomas McLarty as his chief of staff bucks recent history. See article on page A12. In other developments:

- Reich and Magaziner have an opportunity to test their theories, A12.
- Backgrounds of latest cabinet-level nominees are summarized, A4.

the things that previous council chairmen would have tried to prevent," says Carnegie-Mellon University's Allan Meltzer.

In her new book "Who's Bashing Whom," for example, Ms. Tyson begins with the notion that "free trade is not necessarily and automatically the best policy." While making a strong case against protectionism, she argues that the U.S. should provide "countervailing subsidies" to industries that can demonstrate that they have been harmed by the subsidies other governments give to their companies.

The choice of the 45-year-old Ms. Tyson, an economist at the University of California at Berkeley, surprised many of her colleagues, including some in the Clinton camp. Her standing in the academic world doesn't match some of her rivals for the post. "She's more of a translator and communicator of economic ideas than a front-line theorist," says Paul Krugman of the Massachusetts Institute of Technology, where Ms. Tyson earned her Ph.D. Mr. Krugman, who nonetheless says he

Laura Tyson to Bring Nontraditional Views To Economic Council

Continued From Page A2

"She's part of a new generation of economists that look at how you compete in a world where borders are porous."

Yet some fear how her ideas will play out, especially in Washington. "There has been a line of thought developed that some degree of managed trade can be good," says Lyle Gramley, a CEA member in the Carter administration. "The problem is that when you start down that path, you may not know where to stop. And even if you do, the politicians may not let you."

Those who have worked with Ms. Tyson

say she isn't as extreme as she is often painted. M.I.T.'s Mr. Krugman says Ms. Tyson tends to set higher hurdles for an industry to receive a government subsidy than do many others who promote "industrial policy." An industry "would have to make a more convincing case in Tyson's world" that it has spillover effects that benefit the economy as a whole, Mr. Krugman says. He puts her in the school of "deft interventionists." Ms. Tyson takes a similar line, describing herself as a "cautious activist."

But in some eyes, her words are hardly cautious. Four years ago, Ms. Tyson wrote that "some industries are more strategic than others" and deserve extra help from the government. "The next president will have to force this issue," she wrote in the *Harvard Business Review*, "because his economic advisers almost assuredly will not."

This time around, of course, at least one of them assuredly will.

Bill Clinton's Pragmatists

President-elect Clinton's announcement of four more high-level appointments yesterday made it clear that he intends to run a problem-solving Administration — creative but not ideological, energetic but not confrontational. His managers, he said, must know "the limits of what government can do as well as what government must do."

Three of the four are women, reflecting Mr. Clinton's pledge for a diversified Administration. Laura Tyson, an economist at Berkeley, will head the Council of Economic Advisers. Carol Browner, Florida's top environmental official and a protégée of Vice President-elect Al Gore, will run the Environmental Protection Agency.

Donna Shalala, chancellor of the University of Wisconsin, will lead the Department of Health and Human Services. The Harvard lecturer Robert Reich will become Labor Secretary.

Ms. Tyson describes herself as a "cautious activist." She has been accused, wrongly, of protectionism. But she does call for retaliation against protectionism by other countries. And she would subsidize U.S. industries that promote advanced research, train skilled workers and otherwise spin off large benefits to the rest of the economy. All this gives heartburn to many economists who preach free, unsubsidized markets and multilateral solutions to trade problems.

Unlike Ms. Tyson, Mr. Reich opposes selective

subsidies for industry. Yet he too champions major investments in education and workplace skills. That's the centerpiece of Mr. Clinton's strategy for spurring growth by "putting people first" — a strategy Mr. Reich helped design.

Ms. Shalala is a more curious choice. A skilled backstage negotiator, she received high marks for her stewardship of New York City's Hunter College and the University of Wisconsin. Yet she is primarily an educator. The two most pressing tasks facing her department are reforming the welfare system and overhauling medical care.

Ms. Browner, the choice for the E.P.A., faithfully reflects Mr. Clinton's vision of artful activism. Few officials face more difficult choices — choices between jobs and environmental protection, between committed environmentalists and businessmen who, as Mr. Clinton observed yesterday, are often disheartened by complex and sometimes contradictory regulations.

Ms. Browner won compromises on several thorny issues in Florida, satisfying environmentalists without engaging industry. Her strength was her ability to steer all parties toward agreement by balancing competing interests and avoiding ideological combat — a defining and useful trait in all of Mr. Clinton's appointments thus far.



Viewpoints

Just Leave Laura Tyson Alone

By LEWIS B. KADEN
and JEE D. SMITH

All the dogmatic economists have criticized the appointment of Laura Tyson, the University of California at Berkeley economics professor, to head the President's Council of Economic Advisors. We know Laura Tyson well, having worked closely with her for the past six years on the development of new national economic policies. We believe that her far ranging knowledge and her realism about the global economy make her an outstanding choice for the job.

By tradition, past Presidents have given the top job at the Council to economists who were experts on how the Government's monetary and fiscal policies influence the level of demand, the rate of growth and the level of unemployment.

For most of the post World War II era, this was enough. With little global competition and the world's most modern factories, American industry achieved the high levels of productivity growth necessary for a steadily rising standard of living. But beginning in the late 1970's, America's economic problems spread beyond the cycles of

Lewis B. Kaden is chairman and Jee D. Smith is executive director of the Governor's Commission on Competitiveness of the State of New York.

growth and recession to the long term structural problems of a declining standard of living caused by diminishing competitiveness. The conventional view among economists was that the competitiveness problem was due to an overvalued dollar, curable by devaluation. Yet despite five years of a cheaper dollar, our trade deficits remain huge and our standard of living continues to stagnate.

MS. TYSON'S approach to the problem is different. She has argued that a purely macroeconomic response to competitiveness problems — primarily lowering the value of the dollar — is inadequate. She has argued that how well we produce determines how well we live and she recognizes that excellence in production in turn depends on factors such as technology, trade policy, public investment, education, employee participation and corporate governance.

To hasten the reform of the nation's economic system, President-elect Clinton is seeking to create a realistic, structural approach to economic policy. One element of the strategy is a new macroeconomic policy to increase private and public investment, thus spurring demand to strengthen the current recovery, as well as to make industry more competitive and to achieve major deficit reduction in the next five years.

But we should not stop with investment and long term deficit reduction. The shortcomings of

Her stress on education, technology and trade will serve the new President quite well, thank you.

many of America's most important institutions — from our labor markets to our inner city schools — are holding us back. While managers, workers, investors, parents and educators will have to take the lead in most of these reforms, Washington can help enormously if policymakers understand the institutions that make for excellence in production and the role for positive government action.

Rather than produce narrow forecasts of growth, the President's chief economist has to be able to articulate the Administration's far reaching structural economic policy. That is one of the reasons that Ms. Tyson is such an excellent choice to head the Council. She will provide economic realism and expertise in trade, investment, industrial structures and technology as well as the macroeconomics needed to help Mr. Clinton shape a long-term program of economic renewal. ■

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HEADLINE: Clinton aide mulls options for activism: Michael Prowse profiles a key member of the president-elect industrial team

BYLINE: By MICHAEL PROWSE

BODY:

LAURA D'Andrea Tyson is one of those 'cautious activists' who surround Bill Clinton. If there is a more aggressive US industrial policy under the new president, much of it will be put down to her.

'I have always walked a tightrope,' says Ms Tyson, a professor of economics at the University of California's Berkeley campus and one of the few women likely to exert an important influence on the Clinton administration's economic policy.

She performs something of a balancing act within the US economics profession. She is far more sceptical of free market theories than many colleagues. She was one of the few US academics willing to defend the 1986 semiconductor trade deal between the US and Japan under which Tokyo agreed to assist foreign companies in achieving a 20 per cent share of the Japanese market. Many theorists regard such 'managed trade' agreements as covert protection.

Yet she is anxious not to be typecast as a believer in crude government intervention. 'I was defending a particular form of managed trade in special circumstances,' she says.

Ms Tyson is a senior member of President-elect Bill Clinton's economic transition team and is likely to get an important economic post in the new administration, probably in a revamped commerce department or the proposed new Economic Security Council.

Over the next month her main task is to prepare policy options for Mr Clinton in high-technology and manufacturing industry. In other words, she will be mulling the options for a more aggressive US industrial policy.

'Cautious activist' is Ms Tyson's self description. It is a phrase that accurately describes most of Mr Clinton's advisers, including his economic czar, Mr Robert Reich of Harvard's Kennedy School of Government. Mr Reich - who has hinted he wishes to return to Harvard after the transition - has argued for a bigger government role, especially in education, training and infrastructure.

Mr Lawrence Summers, chief economist at the World Bank and another leading economic transition team member, is a cautious activist too. He has long supported tax incentives to spur industrial investment and at the World Bank has directed a project analysing east Asian industrial development, which stressed

the role of government more than has been fashionable in the US.

However, main economic innovations in the Clinton administration are likely to occur in industrial and technology policy - Ms Tyson's field.

She sets out her thinking at length in a new book, *Who's Bashing Whom: Trade Conflict in High-Technology Industries*, published last week by the Washington-based Institute for International Economics. This focuses on trade conflicts in areas such as semiconductors and commercial aircraft as a platform for articulating a new activist agenda.

The message is that the US must react domestically to competitors' policies: 'Flawed domestic choices, not unfair trade practices, are the main cause of the nation's long run economic slowdown,' she writes. Trade policies 'cannot compensate for domestic programmes that remain fiscally and intellectually impoverished'.

As part of a strategic response to the end of the cold war, she wants the US to 'develop an institutional capability for assessing competitive and technological trends in high-technology industries and begin to shift its R&D (research and development) moneys from military to civilian programmes'.

Such an agency, possibly within the Commerce Department, could provide 'industry-specific information' to formulate domestic strategies for winning back market share. To improve US competitiveness she favours more generous tax incentives for corporate R&D, heavy federal investment in civilian R&D and targeted subsidies for strategic industries, such as semiconductors and supercomputers.

She says the wisest response to subsidies abroad is often to introduce subsidies at home. The scope for action is large: US industrial subsidies are worth only 0.5 per cent of gross domestic product, compared with 1 per cent in Japan and 3 per cent in Europe.

On trade, she believes the US should continue to promote a multilateral rule-based system. But the rules should be modified to permit domestic subsidies. She believes the European Community was justified in subsidising Airbus.

What Ms Tyson regards as cautious activism, however, may be seen abroad as threatening behaviour. If her thinking proves a good guide to the Clinton administration's approach, other countries will have to come to terms with a US which pursues its own interests far more nakedly than in the past.

High marks for UC's Tyson's stew of views

THE NOMINATION of UC Berkeley economics Professor Laura D'Andrea Tyson to head President-elect Bill Clinton's Council of Economic Advisers sent shudders through the halls of Washington's conservative think tanks.

If confirmed, the 45-year-old self-described "cautious activist" will become the first woman to chair the council since its creation 46 years ago and one of the few to advocate a shift away from unbridled free-trade policies. Her support of more managed trade and industrial policies has prompted a chorus of groans from free-trade advocates who believe her policies will lead the country further into economic decline. But her nomination has been hailed by progressive and moderate economists who view her policies as a breath of fresh air for the nation.

"I can't think of anyone better to deal with the global economic issues in a domestic context," said economist and columnist Julianne Malveaux.

"She will be a distinguished, hardworking, energetic, and enormously productive chair of the council," said John Quigley, chair of Berkeley's economics department. "She will bring fresh ideas and a new perspective [to the job]."

Tyson, who served as one of Clinton's economic advisers during the campaign and is part of his transition team, did not return Bay Guardian phone calls.

Tyson's specialty as director of

the university's Berkeley Roundtable on the International Economy and head of the Institute of International Studies has been in comparative and international economics, with a recent focus on high-technology. Like the president-elect, Tyson eschews traditional labels and has created a niche for herself with a mix of views that defy pigeonholing. She has been a strong advocate for high technology subsidies and transfer of the "peace dividend" from military programs to selected industries in an effort to promote high-paying U.S. jobs, which she says is crucial to a healthy economy. Tyson has said that national security depends on economic security.

Tyson has also promoted tough trade restrictions in retaliation for international restrictions as a way to increase U.S. markets around the world, immediate federal spending on the nation's infrastructure, a targeted capital-gains tax cut, and additional deficit spending to boost the U.S. economy.

"My trade policy is a defensive one," Tyson wrote in her new book, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*. "I recommend that the nation's trade laws be used to deter or compensate for foreign practices that are not adequately regulated by existing multilateral rules."

Tyson's stew of views prompted Malveaux to place her philosophy as somewhat to the right of Clinton's labor secretary-nominee and Harvard lecturer Robert Reich, and to the left of Brookings Institution economist Alice Rivlin, tapped by Clinton to serve as deputy budget director. Certainly she will be much more progressive than Clinton's choice of Lloyd Bentsen as secretary of the Treasury.

"The place I would raise questions is the macroeconomic approach she is likely to take," Malveaux said. "It may not trickle down, unless she is careful, to poor people and people of color."

Tyson's biggest impact may come in the nation's technology industries. Much of her recent focus has been on high-tech and on diversion of the "peace dividend" to those markets. That focus is likely to pro-

vide economic support for California's ailing industries. In *Who's Bashing Whom*, Tyson wrote that "technology-intensive industries, in particular, make special contributions to the long-term health of the American economy." (Coincidentally or not, the day before Tyson's nomination, her current boss, UC president Jack Peltason, unveiled a new plan to create a new corporation designed to market the university's technology research for commercial use.)

Tyson also appears ready to expand the traditional role of the council chair and to work on a variety of domestic issues — from health care to environmental policy. She has repeatedly called for greater attention to the nation's infrastructure.

"An emergency federal spending program to repair the nation's bridges, highways, and airports, combined with a temporary extension of unemployment benefits, could cure the economy's recessionary malaise and provide the groundwork for its long-term revival," Tyson wrote in the Los Angeles Times last year.

"Cutting the deficit has not been one of Tyson's major goals, and in the same article, she noted that her plans "would increase the budget deficit, but additional deficit spending, not a deficit-neutral tax break as some Democrats have proposed, is what's needed to prime the pump of recovery."

Another area of concern for Tyson's critics has been her support of managed trade over free trade. Tyson has argued that many countries engage in some form of managed trade and that the United States must aggressively follow suit if it expects to compete into the next century.

In a 1990 paper, Tyson wrote, "For informed policymaking, the real choices are not choices between pure free trade and protection — which most economists incorrectly equate with managed trade — but choices about the appropriate combination of liberalization and government that will improve the national economic welfare."

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