

NOMINATION OF DR. JOHN W. SNOW

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED EIGHTH CONGRESS
FIRST SESSION
ON THE
NOMINATION OF
DR. JOHN W. SNOW, TO BE SECRETARY,
U.S. DEPARTMENT OF THE TREASURY

JANUARY 28, 2003



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CONTENTS

OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman, Committee on Finance	1
Baucus, Hon. Max, a U.S. Senator from Montana	3
Warner, Hon. John, a U.S. Senator from Virginia	6
Allen, Hon. George, a U.S. Senator from Virginia	8
Frist, Hon. Bill, a U.S. Senator from Tennessee	9
Hatch, Hon. Orrin, a U.S. Senator from Utah	10
Breaux, Hon. John, a U.S. Senator from Louisiana	11
Nickles, Hon. Don, a U.S. Senator from Oklahoma	12
Graham, Hon. Bob, a U.S. Senator from Florida	13
Thomas, Hon. Craig, a U.S. Senator from Wyoming	14
Bingaman, Hon. Jeff, a U.S. Senator from New Mexico	15
Snowe, Hon. Olympia, a U.S. Senator from Maine	15
Lincoln, Hon. Blanche, a U.S. Senator from Arkansas	17
Smith, Hon. Gordon, a U.S. Senator from Oregon	18
Conrad, Hon. Kent, a U.S. Senator from North Dakota	19
Lott, Hon. Trent, a U.S. Senator from Mississippi	20
Rockefeller, Hon. John D., IV, a U.S. Senator from West Virginia	21
Kyl, Hon. Jon, a U.S. Senator from Arizona	23
Santorum, Hon. Rick, a U.S. Senator from Pennsylvania	24

ADMINISTRATION NOMINEE

Snow, Dr. John W., nominee to be Secretary, U.S. Department of the Treasury	25
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ALPHABETICAL LISTING AND APPENDIX MATERIAL

Allen, Hon. George: Opening statement	8
Baucus, Hon. Max: Opening statement	3
Bingaman, Hon. Jeff: Opening statement	15
Breaux, Hon. John: Opening statement	11
Conrad, Hon. Kent: Opening statement	19
Frist, Hon. Bill: Opening statement	9
Graham, Hon. Bob: Opening statement	13
Grassley, Hon. Charles E.: Opening statement	1
Hatch, Hon. Orrin: Opening statement	10
Prepared statement	69
Kyl, Hon. Jon: Opening statement	23
Lincoln, Hon. Blanche: Opening statement	17
Lott, Hon. Trent: Opening statement	20

IV

	Page
Nickles, Hon. Don:	
Opening statement	12
Rockefeller, Hon. John D., IV:	
Opening statement	21
Santorum, Hon. Rick:	
Opening statement	24
Prepared statement	69
Smith, Hon. Gordon:	
Opening statement	18
Snow, Dr. John:	
Testimony	25
Prepared statement	70
Biographical	72
Responses to questions from committee members	117
Snowe, Hon. Olympia:	
Opening statement	15
Thomas, Hon. Craig:	
Opening statement	14
Warner, Hon. John:	
Opening statement	6

**NOMINATION OF DR. JOHN W. SNOW, TO BE
SECRETARY, U.S. DEPARTMENT OF THE
TREASURY**

TUESDAY, JANUARY 28, 2003

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

The hearing was convened, pursuant to notice, at 9:38 a.m., in room 216, Hart Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Hatch, Nickles, Lott, Snowe, Kyl, Thomas, Santorum, Frist, Smith, Baucus, Rockefeller, Breaux, Conrad, Graham, Jeffords, Bingaman, and Lincoln.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. Good morning, everybody. I welcome you to this, the first hearing of our Senate Finance Committee during the 108th Congress.

I would start with special introduction of four new members of the committee, of which only one is here at this point. But we surely welcome our new Majority Leader, Senator Frist, as a new member of the Senate Committee on Finance. We also will welcome Senator Santorum, Senator Smith, and Senator Bunning.

All of these gentlemen are distinguished members and will, I think, all have individual things and outstanding things to contribute to the work of the Senate Finance Committee.

Of course, we welcome back all returning members of the committee, and particularly to continue our working relationship with Senator Baucus, past chairman of this committee.

While a gavel may change hands, I do not expect anything to change regarding the good working relationship that we have here on this committee, and particularly between Senator Baucus and me.

I want to emphasize right off the bat that the office that we are considering today is a very important part of constitutional responsibility. We need a person who can quickly tackle the challenges facing the Treasury Department and the Secretary of Treasury. We need a can-do type of person.

The matter at hand today is the nomination, then, of John Snow to be Treasury Secretary, and we compliment him on his selection by the President of the United States.

The Treasury Secretary is a very important position in the President's cabinet, particularly in the area of some international finance and domestic economic issues.

Given the importance of the office of Treasury Secretary, this committee has a bipartisan tradition of acting expeditiously on the nomination. We should not needlessly delay in carrying out our constitutional role with respect to this very important position of Treasury Secretary.

I ask my colleagues on both sides of the aisle to help us move this nomination quickly. I expect the nominee and the administration to quickly answer questions that have arisen or may arise out of this hearing, before we move forward.

I want to thank the nominee for his cooperation and for his willingness to withstand the heightened scrutiny that has developed in recent years.

In the course of our work on this nomination, we have found that Mr. Snow participated in executive compensation arrangements that were typical of senior executives of Fortune 500 companies. These kinds of arrangements were the subject of the reforms of Sarbanes-Oxley.

The Finance Committee's retirement plan legislation also tackled many of the excesses in executive compensation. Unfortunately, that legislation was held up in gridlock last year.

I intend to pursue the retirement plan legislation again this year. It is clear to me that we need to change the Tax Code and ensure that abusive executive compensation arrangements do not return.

Many have had questions about Mr. Snow's compensation package. Senator Baucus and I have asked several questions regarding this matter, and I believe that we have, now, a fairly good understanding of these issues between Mr. Snow and CSX.

We have shared with members in the media the answers to those questions. Reasonable people can disagree, but it appears that Mr. Snow's pay and benefits are typical of CEOs before Sarbanes-Oxley legislation.

While people want to dwell on what Mr. Snow made, I think it is important also to bear in mind what Mr. Snow is giving up to take the position of Secretary of the Treasury.

It looks like Mr. Snow is giving up approximately \$15 million in salary, benefits, bonuses by taking this position to serve the President and to serve the people of the United States, and to do the public service that he is doing in the tradition that he has in the past.

Mr. Snow will bring to the Treasury Department a distinguished background of business experience and prior public service. Most importantly, Mr. Snow is a proven leader, with a steady focus on long-range projects and short-term challenges.

This focus on short-term problem solving and long-term planning is what the Nation needs in a Treasury Secretary. As one of the Nation's principal economic policymakers, the Treasury Secretary must face our Nation's sluggish economic performance, and do it straight on.

In sum, Mr. Snow has a reputation of getting things done. This is very good news for people who want our economy to grow and

the creation of new jobs, because that is what the message from the last election was all about.

It is what Senator Baucus and I want to do on the Finance Committee: getting things done for the American people, having a viable economy. We welcome, then, Mr. Snow in helping us achieve that goal.

Before I conclude, there is a little bit about international trade. Tax policy is not the only issue that matters to this committee or to the Treasury Department.

Expanding international trade is critical to America's economic growth and security. Treasury, as a steward of the U.S. economy, has always played an important role in the formulation and implementation of U.S. trade policy.

As I have stated many times through the years, I do not want to see this role diminished, even as parts of the Customs Service are moved from the Department of Treasury to the new Department of Homeland Security. I hope the nominee shares this view. I look forward to hearing from Mr. Snow.

Now it is my privilege to call on Senator Baucus.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA**

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

First, I congratulate you on reassuming the chairmanship of this committee. We have had, as you said, a very good relationship. You and I have worked closely together to help maintain the bipartisan tone and mood of this committee. It makes a big difference to us, personally, clearly, but also to the committee, and hopefully to the Senate, Congress, and to the Nation. I look forward to working with you.

I also join you in welcoming our new members to the committee, particularly the new Majority Leader, Senator Frist, and the other members who have yet to arrive—I expect they will be here soon—Senator Santorum, Senator Smith, Senator Bunning.

There are four new members on your side, Mr. Chairman. We did not have the opportunity, after the last election, to add many on our side. But we look forward very much to working with you.

Let me turn to the subject of today's hearing. We are pleased to consider the nomination of John Snow to be the 73rd Secretary of the U.S. Treasury Department.

Mr. Snow, you have been nominated to, I believe, one of the most important positions in government. In fact, some could say one of the most important positions in government and the world.

The Treasury Department was created in 1789, shortly after the first Congress convened. It has been led by some of our most distinguished public servants, from Alexander Hamilton onward.

It has enormous responsibilities. As Treasury Secretary, your every word and action will have far-reaching consequences for our domestic economy, for our world economy, for the President, for all of us.

Therefore, I would like to use this to begin a discussion about the state of our economy. It is not in good shape. It is fragile. There are some positive signs, but on the other hand, we have lost 100,000—additional new jobs lost—last December. The unemploy-

ment rate increased from 4 percent to 6 percent, where it has hovered since 2001.

Industry is operating at only 76 percent of capacity. Businesses have stopped investing in new equipment and facilities. Consumer confidence is low and is dropping. The University Michigan's Survey of Consumer Confidence Index was 107.6 in December of 2000, dropped to 86.7 in December 2002, and in January it has dropped further, to 83.7.

So what do we do about this? The Federal Reserve cut the short-term interest rate 11 times in 2001. There is not much more it can do. That means we must turn to fiscal policy.

The mainstream economic policy—fiscal policy, that is, taxes and spending—in this situation would mean cutting taxes and increasing spending. That is mainstream economic policy, given the situation, as you know. I see you nodding your head in agreement.

I commend the President for recognizing the problem and proposing an economic growth package, and I am committed to working with the administration to try to find common ground.

At the same time, I would like to suggest three ways in which we may be able to improve on the President's package. First, we need to keep an eagle's eye on the deficit. Simply put, deficits matter. They do drive up interest rates and they do, very much, threaten our children's economic future.

I am pleased, Mr. Snow, that you have recognized this. You have stated, "A balanced Federal budget is the best choice to ensure a bright future for the Nation's economy, American workers, consumers and taxpayers, and, most of all, future generations." You have made several other statements to that same effect in the past.

Well, I agree with you. Unfortunately, the President's plan would make the deficit worse, not better. If enacted, the President's tax proposals would increase the deficit \$674 billion over 10 years, and if you add interest costs, the President's plan would add almost \$1 trillion to the national debt.

That worries me, Mr. Snow, and I hope it worries you. I hope we can count on you to continue your advocacy of a conservative fiscal policy and a balance budget.

I also urge you to try to force and shape the administration's policy so that any stimulus that is enacted this year is more up front, more in 2003 than in later years.

In fact, the Office of Management and Budget's own figures show that the fiscal stimulus of the President's plan in 2003 is only \$39 billion out of a total of \$674 billion, and that is not including interest costs.

My second suggestion is that we can improve the President's proposal by doing more to help States. States are facing their worst budget crisis in many decades.

In fiscal years 2002 through 2004, States are facing deficits of \$171 billion. My own State of Montana is facing a budget deficit of \$184 million, not high by California's standards, but very high by Montana's standards.

Given this situation, States may be forced to take steps that could only make the economy worse. They will have to cut spending or increase taxes. That will mean less spending by households and

businesses, and as a result, an even weaker economy. We need to break this downward spiral.

Therefore, I believe that the centerpiece of any plan should be a one-time grant to States. I have put forward a proposal for grants of up to \$75 billion to States. As a result, States would not have to lay off workers, they would not have to shut down vital services such as health care and education. They would not have to raise taxes.

Some argue that "States got themselves into this mess, so States must find a way out." I find that argument unconvincing. States just lack the tools that the Federal Government has to maintain budget stability through economic downturns. They have a requirement, that is, under their constitutions, they must balance their budgets.

Any plan that lacks a State relief component will ultimately fail to stimulate the economy. Attempts by Congress to spur the economy will fail if, at the same time, States are forced to raise taxes, cut spending, and eliminate jobs. Unfortunately, the President's plan does not have such assistance for the States. It should.

My third suggestion, is that we can improve the President's proposal by putting more money into the hands of all taxpayers, not just a few, or others who do not get benefits.

These are the folks who are hardest hit by the economic slump, the ones with overdue bills, with immediate expenses, the ones who will spend any tax cuts immediately and help stimulate the economy.

The President's plan includes an acceleration of many of the tax cuts that were enacted in 2001. I fully support acceleration of some of the tax cuts. While the President's plan puts money in the hands of most taxpayers, it does not provide relief to all. Thirty million of America's households will not receive any benefit at all.

I believe we need to include the refundable portion of the child care credit and the marriage penalty earned income tax credit provisions, as we did in the 2001 tax cut. I believe we should go further, by completely eliminating the income tax on the first \$3,000 of wages.

These are my main suggestions: keep an eye on the deficit—I said an eagle's eye, help States do more for all taxpayers, and I want to make sure that the Montana rancher who makes \$30,000 a year receives some benefit.

I hope, Mr. Snow, you will take these suggestions to heart so that we can work together in the bipartisan tradition of this committee to pass a solid proposal that helps restore economic growth.

Let me briefly turn to a different, but equally important issue, and that is Medicare. The Secretary of Treasury wears many hats. One of them is to be the managing trustee of the Medicare trust funds.

My concern. There were reports in the papers last week describing the administration's proposal for Medicare reform. The reports say that the President will propose a prescription drug benefit, but one that would only be available to seniors who enroll in a private health plan.

If these reports are true, they represent a dramatic change, a change in the debate last year over prescription drugs where there

was a widespread consensus among all participants and both parties that all Medicare beneficiaries should have access to a drug benefit, even if they remain in a traditional fee-for-service program, which, as you know, constitutes about 85 to 87 percent of Medicare beneficiaries. Eighty-five to 87 percent are in the fee-for-service program.

If reports about the President's proposal are true, his plan would represent a departure from this bipartisan consensus. I am anxious to hear more from you about the administration's Medicare plan.

Mr. Snow, the challenges ahead are difficult. The American people are anxious about the prospect of war, about prescription drug benefits, and about the health of the economy.

I hope you will use the opportunity this morning to shed some light on those areas of the President's agenda for 2003. I congratulate you on your nomination and look forward—and this is not just a passing phrase, I mean it—to working with you.

Thank you.

The CHAIRMAN. Thank you, Senator Baucus. Before we have members speak, I would like to have Senator Warner, Senator Allen, Senator Frist, and if Senator Daschle comes, speak before our members speak so that we can move important Senators on to other things.

Senator Warner.

STATEMENT OF HON. JOHN WARNER, A U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you, Chairman Grassley, Senator Baucus, and fellow friends and colleagues on this committee. I shall be brief. Perhaps my entire statement could be made a part of the record then.

The CHAIRMAN. Your full statement will be made a part of the record.

[The prepared statement of Senator Warner appears in the appendix.]

Senator WARNER. I listened very carefully to these opening statements. Indeed, I think they are well thought through and frame the issues not only for this hearing, but indeed for the Nation, as we move towards the correction and strengthening of our economy.

I pick up on a word that you used, Senator Baucus, the world. Never before have we seen the extraordinary issues, unprecedented issues, in the world have such a serious impact on our economy.

That is why my distinguished colleague, Senator Allen, and I are proud, on behalf of our State of Virginia, to submit to the Senate for confirmation one of our very finest and best-trained professionals. The State is here today to support this superb candidate.

His vast experience in education, public service, and business present a rare combination. More importantly, he is a man of character. I have known him a long time, from not only the business life that we lead in our respective responsibilities, but in many other ways we have shared experiences together.

He is universally and internationally respected. John Snow humbly represents the American dream. The son of a public school teacher and a father who was a sole practitioner lawyer, he worked his on way through college by coaching a grade school basketball

team. He went on to earn a Ph.D. in economics on a National Defense scholarship at our university, the University of Virginia.

He later won an award for outstanding teacher at the University of Maryland, while at the same time earning a law degree in night classes from George Washington University.

John previously worked in public service under President Ford as the administrator of the National Highway Traffic Safety Administration and other policymaking positions.

In business, he rose quickly through the ranks of CSX, a Fortune 500 transportation company, by pursuing a strong vision of what a forward-looking transportation company should be in the deregulated economy and taking the risks necessary to implement that vision.

There he gained hands-on experience with vast portions of America's economy, particularly the Nation's industrial and manufacturing base: steel, coal, energy.

The 50,000 workers at CSX and their families have John Snow to thank for refocusing this railroad at the end of the last century and laying the tracks for the long-term growth in this century.

His support from a number of leading organized labor unions, and their endorsements, including the United Transportation Union, the Seafarers International Union of North America, and the Hotel Employees and Restaurant Employees International Union, are a testament to John's leadership, judgment, management skills, and fairness.

John Snow kept the trains running on time for everyone dependent on CSX, from the shareholder, to the engineer, to the family that depended on the coal delivered by CSX trains to heat their homes.

John's work in the public policy arena was not limited to his time in public service. During the mid-1990's, he was chairman of the Business Round Table, where he represented the business community's views to the Federal Government.

He was a member of the National Commission on Economic Growth and Tax Reform, otherwise known as the Kemp Commission, which studied innovative ways to reform the Tax Code and unleash the American economy.

Most recently, he served as co-chairman of the conference board blue-ribbon Commission on Public Trust and Private Enterprise.

As Secretary of the Treasury, John Snow will be tasked with promoting fiscal policy to help maintain a stable and growing economic environment, to enforcing our trade laws, to ensure that the U.S. remains a leader in the global, one marketplace, and to work with other law enforcement and agencies under his supervision.

Gentlemen of the committee, and ladies, I suggest that the President made a very wise choice in John Snow, and I hope that the Senate will, in its infinite wisdom, see fit to confirm him expeditiously. Thank you.

The CHAIRMAN. Thank you, Senator Warner.
Now, Senator Allen?

STATEMENT OF HON. GEORGE ALLEN, A U.S. SENATOR FROM VIRGINIA

Senator ALLEN. Thank you, Mr. Chairman. Chairman Grassley, Ranking Member Senator Baucus, members of the committee, thank you for allowing me to present a good friend and a person I have a great deal of knowledge about as a friend, but also one who has advised me and has been a leader in Virginia for several decades.

I will not reiterate some of the great attributes that were mentioned by the senior Senator from Virginia, Senator Warner. But I do want to share with you my observations and why I think that the President made an outstanding decision in nominating John Snow to be Secretary of the Treasury.

John Snow is a resident, and has been since the 1980's, of Virginia. He is a person that I think has attributes and experiences that very few Americans have. When you talk about the Secretary of the Treasury and the economy, he has knowledge, he has a hands-on track record on jobs in the economy. He has run CSX, which once had Sea/Land, and which has a barge service.

So, therefore, John himself is very knowledgeable in the diverse aspects of our economy here domestically, as well as internationally, whether that's manufacturing, whether that's agriculture, whether that's mining, automobiles, and obviously, also, trade.

He also is one who is very respected; respected because he is a man of positive action. Everything he does, he does with energy, with optimism, with strategic planning, and is able to get others to join in in that endeavor.

He is one who trusts free enterprise and recognizes that free enterprise is what creates most of the new jobs. He also will come to this position not just from the private sector.

He has served in the Federal Government, so he is knowledgeable about the ways of Washington and how the Federal Government works, recognizes its limitations, and how the Federal Government can help or hinder job growth.

I do want to recognize that he was a coach, which of course I think adds a great deal to his background. Coaching middle school kids is no easy task.

I want to bring this up because it is important to understand. When John Snow came to Richmond, Virginia in the early 1980's, Richmond had not even had a mayoral election for many years because of Justice Department concerns, and problems in Richmond. They had elected, in Richmond, in the early 1980's, the first African-American mayor.

John Snow stepped forward to help bridge the gap between the past and the future. He was a founding member of what is called The Richmond Renaissance, which is an organization dedicated to promoting racial equality in downtown Richmond, as well as more investment and more jobs.

The new mayor appointed John Snow to the Richmond school board, because schools are so important for opportunity. He became a member of the board of Virginia Union University, an historically black college in Richmond.

Over the years, John became a leader in a variety of ways. When I was serving as Governor, he was an advisor to me as we put for-

ward a strategic plan to improve Virginia's economic opportunities, and we had record investment and record jobs thanks to John and his advice to our administration.

While he started the Richmond Renaissance, he is a renaissance man himself. If you look at his background, he is educated in law and economics at Mr. Jefferson's University, the University of Virginia. He has been involved in business. He has been in government. He has been a professor, a coach.

I submit to you, ladies and gentlemen of this committee, he is a man who, with his persuasiveness, his personality, his experience, and his knowledge, will articulate a vision and an action plan to get all Americans working to the best of their ability, their hard work, and their ingenuity.

So it is my pleasure to congratulate, number one, the President for making the best choice possible. I know that all Americans will benefit from his knowledge and his leadership.

I thank you all for allowing me to present this outstanding gentleman to you, as well as, I would say, his wonderful wife, Carolyn, who is the wonderful spirit that keeps John cheered up, moving forward, and makes sure if anything goes wrong, she gets it back in line. So they are a wonderful duo for all of America.

Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. And thanks to both Senator Warner and Senator Allen. You can stay if you want to, or you can feel free to go.

Senator WARNER. Mr. Chairman, we should note that my distinguished colleague mentioned "coach" three times, and he went out to help his brother coach the Raiders this weekend.

Senator ALLEN. Not well enough. [Laughter.]

Not well enough.

Senator NICKLES. How did he help him? [Laughter.]

The CHAIRMAN. It is our tradition, since we have Majority and Minority Leaders as members of our committee, to call on them, first.

So, Senator Frist. Then we will go in the order that we would normally proceed. Senator Frist?

STATEMENT OF HON. BILL FRIST, A U.S. SENATOR FROM TENNESSEE

Senator FRIST. Thank you, Mr. Chairman and Senator Baucus. I will be very brief. First, it is an honor to be able to join, with three of my colleagues, this particular committee.

I look forward to serving with both of you and pledge to do that in a cooperative way. We have a huge task ahead of us, if we look over the next 2 years, with a lot of legislation, as well as the important nominations such as the one today.

Again, I will be very, very brief, but do want to personally welcome Mr. Snow and thank you for providing us, the Ranking Member, and the Chairman with the information necessary to move forward with this nomination as quickly as possible.

It is absolutely critical that we have a strong, forceful Treasury Secretary to essentially serve as spokesman for the President's economic agenda as the President and the administration works aggressively to revitalize the economy.

I have had the opportunity to read your record, and I am confident that you are the right person for this job at this time. Your expertise in economics and public policy, coupled with your strong commitment to economic growth and job creation, is exactly—exactly—what we need at this critical juncture in our economy.

As mentioned by Senator Warner, your service at CSX, where you exhibited the vision necessary to transform a complex industry, was truly exemplary. I believe you have proven you have the ability to lead, which is one of the important traits that this country needs in a Treasury Secretary at this point in history.

Based on what I have heard from my colleagues, I am confident that the Senate will be able to move quickly on your nomination. I personally look forward to working with you, especially on the President's growth package.

It is important, as I am sure we will hear tonight, that we move quickly and expeditiously to make sure that we get the economy moving in the right direction. I look forward to your testimony today and look forward very much to working together with you to accomplish what has been pointed out. That is, to establish a strong foundation so that more people can realize the American dream.

The CHAIRMAN. Thank you, Senator Frist.

Now, Senator Hatch, followed by Senator Breaux.

**OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S.
SENATOR FROM UTAH**

Senator HATCH. Well, thank you, Mr. Chairman. I want to thank both you and Senator Baucus for calling this hearing this expeditiously, and want to welcome our new members to the committee.

I certainly want to welcome John Snow, whom I have known for a long time and have a lot of respect for. I have watched his service, both in government and in the private sector, and he has excelled everywhere he has been.

He also has a background both in the law and in economics, and probably has utilized his economics background more in recent years than he has his legal background. But both are important.

I support the President's plan to speed up the 2001 income tax cuts and to finally end the double taxation of dividends. These actions will strengthen our economy, they will improve corporate governance, and they will give a much-needed tax cut to families in Utah, and throughout our whole country of America.

So I look forward to working with Dr. Snow, Chairman Grassley, Senator Baucus, and other members of this committee to move these proposals through the Senate.

Once he is confirmed, our new Treasury Secretary will face very significant challenges. In particular, our ongoing trade dispute with the EU over the Foreign Sales Corporation regime and its successor tax provision will require action by Congress.

In that process, Congress will benefit from the assistance of the Treasury Secretary and the U.S. Trade Representative. I hope that we can resolve this FSC/ETI dispute this year, and at the same time enact important provisions to remove some of the tax law's impediments to the growth of U.S.-based multinational companies.

This is, of course, not all. Our next Secretary is going to have to grapple with the nearly overwhelming problems facing Social Security and the tax system, Medicare, Medicaid, and other matters as well. I am confident that Utah's families and business enterprises can look to John Snow to start us on the road to reform.

Again, I want to thank you, Chairman Grassley, for scheduling this hearing. I look forward to listening to today's testimony.

Mr. Snow, having known you all these years, I really look forward to working with you. I have no doubt you will be a great Secretary of the Treasury.

The CHAIRMAN. Thank you, Senator Hatch.
Now, Senator Breaux.

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

Senator BREAU. Thank you very much, Mr. Chairman. Welcome, Mr. Snow. I look forward to hearing from you and your testimony. I think that the President, has picked an outstanding person to become the next Secretary of the Treasury for the United States.

There are great challenges and great conflicts out there, and different opinions about what should be done to address all of these monumental problems.

I think that we have as many different opinions as we have members of the Congress, probably, as to what path we should take to bring about economic security for this country.

I think it is important for all of us, and I think particularly for the Secretary, to understand what an important role he has in this regard. It is probably an understatement to say that when the U.S. Treasury Secretary sneezes, the rest of the world is in danger of catching a cold, because what we do here affects not only the United States' economy, but really, indeed, the economy of the entire world, to a great extent.

I am very pleased to receive a nominee who has had a background in the private sector and the academic world, as well as previous experience in government. That type of balance, I think, is so very important to these tasks.

Someone who has a Ph.D. in economics from UVA obviously, I think, brings to the table the academic credentials for this job. But also your involvement early on in the private sector, then back into the government at the Transportation Department, and then back into the private sector as a major corporate executive, and then being willing to make the sacrifice to come back into government, I think, speaks volumes of your ability, and your integrity, and your history of government service and service in the private sector.

So, I look forward to your confirmation and look forward to working with you.

The CHAIRMAN. Thank you, Senator Breaux.
Now, Senator Nickles, followed by Senator Graham.
Senator Nickles.

**OPENING STATEMENT OF HON. DON NICKLES, A U.S. SENATOR
FROM OKLAHOMA**

Senator NICKLES. Mr. Chairman, thank you very much. I am looking forward to working with you and Chairman Baucus, and others on the committee. I hope this committee will be very productive this year. I think we have some big challenges.

I compliment the President on his nomination of Mr. Snow, and I look forward to his confirmation, and working with him to solve many of the outstanding challenges that we have.

I have had the pleasure of knowing Mr. Snow for a long time. I think he has the experience, both in the private sector and in the government sector, and that is very commendable. He has served in government, he has served as a professor, he has served in his current capacity in private sector.

I think that brings a great blend of experience that is very needed in the very important position of Secretary of the Treasury.

This is a big challenge. Just looking at this Tax Code, it is about 9,600 pages here. I oftentimes compare it to the Bible. Unlike the Bible, this contains no good news. [Laughter.]

But that is only part of the problem. There are a lot of inequities in this Code, one of which is that we tax dividends twice, so the effective rate on dividends total is 67 percent, and maybe over 70 percent.

That certainly discourages investment. It certainly discourages dividends. It certainly discourages the market. So, I'm interested in hearing from Mr. Snow, if we eliminated this unfair tax policy that is presently in this Code, what he thinks that might do to the market, and how we can eliminate some of the other inequalities.

We tax Social Security taxes. That is double taxation. That is not fair. We allow deductions for corporations unlimited on health care, but we do not allow an individual who is unemployed a deduction for health care. That is not very equitable. But that is also in this Code. There are a lot of things in this Code that need to be fixed, a lot of which are regulations.

I have got a few of the regulations. There are actually five volumes of regulations, Mr. Snow, and you will become more familiar with these. I started looking at them.

There is one regulation that is pending that I hope that you will stop that came from the previous administration that tried to make effective, or they announced the regulation 3 days before they left, dealing with the reporting of interest paid on foreign deposits of non-resident aliens.

That resulted in about \$10 trillion of money that is invested in the United States. If that regulation goes forward, my guess is that you will have a lot less than \$10 trillion and will greatly encourage the exodus of foreign deposits in this country.

I do not think that is a very wise regulation and I hope that you will reconsider that. That is one of the things I would like to have you look at.

I think you have got an enormous task. I compliment you and the President for having a positive growth package. One thing that I would just like to correct my colleague on. I think I heard one of my colleagues say, well, it only has about \$30-some billion of economic change in the first year.

In calendar year 2003—correct me if I am wrong during your statement, Mr. Snow—I think it has \$102 billion of tax cuts. I might also mention that I believe the President's package is almost all tax cuts.

I think Senator Daschle had one thing that said three-fourths of his proposal was more spending, not tax relief to people who were going to really generate the jobs. So, I just mention these.

I think it is important. As Senator Baucus mentioned, he thought the greater portion of the package should be more up front. I happen to concur with that. So, when we are putting the package together, I think we should. I do not really want to have tax reductions phased in over X number of years.

I would like to have as much of it moved up as immediate as possible. I believe a lot of that is called for in your package with the acceleration of rates. Also, it is called for in the acceleration of the child care tax credit, it is called for in the acceleration of elimination of the marriage penalty. All those things affect taxpayers and families, in my opinion, very positively so.

So, I compliment you on your proposal. I look forward to working with you to formulate a growth package that will create jobs and move this economy, and help the stock market, which will help all Americans, everybody that has an investment, everybody that has a requirement, and a hope, and a dream that we are going to have pensions that will be growing in the future.

So, you have an enormous challenge. I am confident you will be confirmed. I hope that you will be confirmed very quickly, because we have a lot of work that needs to be done in the next couple of months.

So, Mr. Chairman, I would hope this committee would report out Mr. Snow's nomination in the very near future.

The CHAIRMAN. Thank you, Senator Nickles.

Now, Senator Graham of Florida.

OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Thank you, Mr. Chairman. Congratulations to you on re-assuming the leadership of this committee. I would like to also extend my congratulations to the President for nominating such an outstanding American to this very important position.

Although CSX has its corporate headquarters in Richmond, it also has a very significant presence in my State. I want to certify that CSX has been a good corporate citizen for Florida.

Mr. Chairman, it seems to me that this nominee comes before us at a time in which we are faced, not with one, but a series of economic challenges, many of which have some internal conflict. Those challenges include improving the state of the national economy, which is not good.

We have lost 2 million jobs in the last 24 months. The unemployment rate has gone from 4.2 percent to 6 percent. Clearly, that needs to be a focus of the new Secretary of the Treasury.

There also is the issue, as Senator Nickles has just referred to, of the stock market. Not only is the stock market a scorecard for the state of our economy, but for many millions of Americans now it is the barometer of family well-being. Their retirement and abil-

ity to send their children to college are now closely tied to the performance of the stock market.

In the last 24 months, the S&P 500 has gone from 1,335 to its current 847. Clearly, we have a major challenge in terms of improving investor confidence.

Third, is the Federal fiscal condition. Just over the horizon will come a time when those Americans born after World War II start to retire. They will put enormous strain on the contract which exists between them and their national government.

They will have fulfilled their part of the contract by having worked and paid into the Social Security and the Medicare trust fund, and they are now going to be expecting the U.S. Government to meet its responsibility by providing the promised benefits. It will be a major challenge to our Federal Government to fulfill that contract.

Finally, the States, which in many ways are the final safety net of our society, as well as being the level of government primarily responsible for the education of the next generation of Americans, are being hammered. At no time in our history have the States collectively faced such difficult times as they do today.

Frankly, some of the reasons for their distress lie here at the Federal level, policies that we have adopted, for instance, which have undercut the revenue base of the States.

I am pleased, as we look at those challenges, both immediately and on a more long-term basis, that we have as the nominee for Secretary of the Treasury someone who has stated so eloquently his commitment to fiscal discipline.

For instance, in a 1995 opinion piece in the Richmond Times Dispatch, Mr. Snow described a balanced budget as "the best choice to assure a bright future for the Nation's economy, American workers, consumers, and taxpayers, and most of all, for future generations."

I concur enthusiastically in that observation and I look forward to hearing from Mr. Snow about how he plans to implement that central importance of a balanced budget in his new position as Secretary of the Treasury. That may be the only hope of achieving a balanced budget and the resulting benefits which he has so eloquently described.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Graham.

Now, Senator Thomas, followed by Senator Bingaman.

**OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S.
SENATOR FROM WYOMING**

Senator THOMAS. I shall try and be quick so that Mr. Snow, perhaps, will get a chance to visit with us a little later on. I welcome you here, sir.

He also has some connections in Wyoming, where CSX had the Grand Teton Lodge in Teton Park. So, we are delighted for that.

By the way, I have never seen such a package of background available to us on a candidate, and I think that is great.

We are obviously—and it has been mentioned here—in a struggling economy. We have a tax system that impedes, and occasionally discourages, success. We have a world economy that remains

weak and puts added pressure on it. Of course, companies, particularly small businesses, are bridled with burdensome and costly government regulations and taxes. We have a loss of investor confidence. We have some problems, obviously.

Finding solutions to these are what we are all for, and I am very enthusiastic about Mr. Snow's role to be able to help with that. I hope we can avoid focusing on short-term solutions and address more of the long-term structural solutions that need to be done.

I hope you are willing to lead and not simply follow, be innovative by addressing some of these problems, and work, of course, most with domestic and international partners to build confidence in the U.S. economy. So that is really what we have all talked about, certainly.

I believe Mr. Snow is up to those challenges. He has the experience, the background and the skills. I believe he will be a very, very effective advocate for U.S. interests here and abroad.

I am very appreciative that the President has nominated this outstanding individual, and I certainly support him. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Thomas.
Now, Senator Bingaman.

**OPENING STATEMENT OF HON. JEFF BINGAMAN, A U.S.
SENATOR FROM NEW MEXICO**

Senator BINGAMAN. Thank you, Mr. Chairman. Mr. Snow, congratulations to you. I will just mention two issues that I am going to ask about when we get a chance to ask questions.

I do think I would like to give you a chance to explain your views on some of the executive compensation recommendations that the Conference Board came up with—you were on that panel, I believe—and what role you can play in seeing some of those implemented.

Also, I wanted to ask about the very large and growing trade imbalance that we have with the rest of the world. The current account deficit, as I understand it, is growing each month and is at all-time historic high. I would like to know what your plans are to begin dealing with that issue. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Bingaman.
Now, Senator Snowe?

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

Senator SNOWE. Thank you, Mr. Chairman. I want to congratulate you, Mr. Snow, for your nomination as the 73rd Secretary of the Treasury.

When the President made your nomination back in December, he stated that you would be a key advisor in his administration on economic policy at a time when our Nation is facing slow recovery and limited future economic growth, and that these were the challenges that the next Secretary of the Treasury obviously would have to grapple with.

Your extensive experience in both the public and the private sector certainly equips you for assuming a challenging assignment in a challenging time. Both because of your experience in the public

and the private sector, you have had the opportunity, obviously, during the boom times and downturns to understand, as well as to experience, the variety of economic policies and the impact of those policies both on businesses and workers from both an academic and real-life perspective.

That will be essential because the next Secretary of the Treasury, I think, without question, has to be both assertive and aggressive in managing a lagging economy that is experiencing a jobless recovery, fraught with uncertainties because of the geopolitical perils of the potential war in Iraq, the war on terrorism, major unrest with an oil supplier that has driven up energy costs.

Obviously, the high unemployment rate, where more than 2 million people have lost their jobs during the course of this recession. So, obviously, this is a critical juncture in our economy.

I could not help but think about 2 years ago where we were at this time. It was sort of eerily reminiscent, because we were facing uncertainty, but with some major differences. We were not overshadowed by a potential war. Obviously, we had a \$5.6 trillion surplus.

But even at that time, we were concerned about the prospects of a recession. That is why we ultimately did pass a major tax cut in June of 2001, in fact, in Chairman Greenspan's words, as an insurance policy in the event that the economy should get worse.

Obviously, no one could predict what would occur on September 11th. But ultimately, because of the recession, because of the national imperatives, we have lost more than 75 percent of our surpluses since that time due to the economic downturn.

So the President is right in putting at the forefront of his domestic agenda economic growth in the economy. Two years ago, we were talking about accelerating debt reduction. We are certainly reminded of the fact of how quickly things can change.

If we do not have strong economic growth, then we cannot have jobs in the private sector, we cannot have the creation of new jobs, and we certainly cannot have a restoration of surpluses in the public treasury.

So it is vitally important that we do all that we can to rejuvenate economic growth. As Business Week highlighted not too long ago, an economy that grows at 4 percent for 30 years will grow 33 percent bigger than one that grows at 3 percent, which can amount to an \$8 trillion difference in today's dollars, and enough to support retirees if properly distributed.

The question is, what is the best use of our money at this time? What is the right prescription for an ailing economy? Should it be a short-term stimulus, should it be a long-term economic growth plan, or should it be a combination of both? Obviously, the President's plan embraces more the long-term approach, given the fact that 14 percent will be expended of his plan in the first year.

But given the fact that we have already enacted a \$1.3 trillion tax cut plan that essentially was an economic growth plan in 2001, should we not focus more on augmenting the impact of a \$41 billion short-term stimulus plan that we enacted earlier last year, and thanks to the President's aggressive leadership?

I happen to think that we should err on the side of prudence in determining the size of the growth plan, because it is going to be

absolutely important in terms of what the impact will be on the long-term deficits. Given the projections, it could be as well as \$300 billion for this year, including the cost of a potential war with Iraq.

So we have to maximize the value of each and every component of the growth plan. I think we have to get the greatest bang for the buck. I applaud the President's proposal in focusing on small businesses, with the small business expensing provision that was unceremoniously dropped in the last stimulus package in the Conference Committee, which was unfortunate because small business is now creating 100 percent of the new jobs in America. It contributes 42 percent to the general treasury. So, obviously, small business plays a vital role in the growth of our economy.

I applaud the President on accelerating the marriage penalty and the child tax credits because I think it does put money back in the hands of low-income/middle-income families. I think we ought to accelerate the refundability.

But, finally, I want to make this point. Obviously, I've expressed to you, in my meetings with you, Mr. Snow, about the impact of the elimination of the individual tax on dividends.

I really do think we have to really think very carefully about such a proposal that will affect the long-term deficits that ultimately could drive up long-term interest rates, as well as questioning the stimulative value in distribution of such a proposal.

So, that and more. I hope that we will have the opportunity to craft a stimulus plan that is more on the short-term and immediate future.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Snowe.

Now, Senator Lincoln?

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

Senator LINCOLN. Thank you, Mr. Chairman. I, too, would like to add my congratulations to your ascension back to the chairmanship.

And to all of the many issues we have to deal with this committee, I look forward to the wonderful bipartisan working relationship that you and Senator Baucus provide as the leadership there.

And to our nominee, I would like to extend my congratulations, and look forward to working with you. I appreciate your courtesy visits in coming to see many of us members so that we could get an early introduction to you.

I do believe that the Senate's role in the nomination process is extremely important, and it is incumbent upon us to fully and thoroughly review the Presidential nominees that are presented to us.

I welcome you, Mr. Snow, and I appreciate the work that you have done in your career. It is very impressive. Certainly, many here that have worked with you can attest to that.

It is a monumental task, but as hard as it is, those of us who have the honor of public life should remember the words of Thomas Jefferson, who said, "When a man assumes a public trust he should consider himself public property."

Normally, Mr. Chairman, we are able to have a good understanding of a nominee's background before the hearing, and we

have gotten a great deal of information from this candidate, as Senator Thomas alluded to the package that we received.

However, while I think the information is coming in as quickly as it does with other nominees, we only received last night some of the more complex issues that arise with the nominee we are visiting with today.

I, for one, want to fully understand and unwind some of the complex business dealings that we have had only a brief time to review. Therefore, Mr. Chairman, it is my hope that this hearing will be the first step in a process of detailed reviews that we might be going through.

I certainly want to be sure that all of our questions have been thoroughly answered and that the public has had the opportunity to look into these very complex dealings before we vote out the nomination, which I am assuming we can do in an easy amount of time. I certainly do think that that is our job in the committee, and I know that the Chairman will afford us that opportunity.

Again, Mr. Snow, I welcome you to the committee and look forward to being able to visit with you and answer some of these questions.

The CHAIRMAN. Thank you, Senator Snowe.

Now I go to Senator Smith, one of our new members. I welcomed you in my opening statement, and I welcome you again. I know you will contribute greatly to the work of the committee.

Then you will be followed by Senator Conrad.

**OPENING STATEMENT OF HON. GORDON SMITH, A U.S.
SENATOR FROM OREGON**

Senator SMITH. Thank you, Mr. Chairman.

Mr. Chairman and Senator Baucus, I want to express to you my feeling that it is a high privilege to serve in the U.S. Senate. It is doubly so to serve on this committee. I look forward to working with you in a bipartisan and productive way, and I thank you for your words of welcome.

It is also a pleasure for me to welcome John Snow to this committee. I am probably one of the few people here who knew John Snow in a professional sense before ever meeting him in a public sense, he as the leader of a great railroad, and myself, as the president of a food processing company, he providing services and myself trying to get products to markets.

I always found John a great professional, someone with a good understanding of the law, a good understanding of economics, and a real professional in his business.

Both food processing and railroads are mature businesses and highly competitive. To succeed in that arena, I think, as John has, speaks volumes about his ability to tackle any task. He certainly undertakes a great one now.

What I have found in John Snow over the years is someone who understands that we can help more people with growth in our economy than we can through central planning of government. He believes in a social safety net, he does not believe in socialism. I believe John understands completely that we cannot, and should not, tax and spend our way to prosperity.

But if we trust the American people sufficiently with their capital, with the fruits of their labor and the ability to pursue their dreams, then America will continue to be the leader of the free world and more people will be benefitted because of that.

I believe that John understands that whatever you tax, you will discourage. Whatever you doubly tax, you will doubly discourage. I think we will have some great debates about every feature of the President's tax proposal, and I look forward, John, to working with you in passing as much of it as possible.

But I think it is very, very important that we understand why America is so great a country in the world today. I think it is in part because we have tax rates that, relative to Europe and some in Asia, are much lower. If we will remember to trust the people with these resources, I think government will soon be back to surplus and prosperity.

But there is no doubt we have come through an extraordinary period of economic history, a period in which we have seen a stock market bubble that has left many very disillusioned.

We have got to take those steps, both short-term and long-term, to restore people's confidence. I think the President has chosen well by choosing John Snow to lead the critical Department of Treasury.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Smith.

Now, Senator Conrad from North Dakota.

**OPENING STATEMENT OF HON. KENT CONRAD, A U.S.
SENATOR FROM NORTH DAKOTA**

Senator CONRAD. Thank you, Mr. Chairman. I want to add my words of congratulations to you, Mr. Chairman, and to thank you for your outreach to the committee. Your coming by the office to take time to talk to us, each of us individually, I very much appreciate.

And Mr. Snow, thank you for that same opportunity that you gave us. I know that you and I were not able to hook up because, at various times, each of our schedules took us away from an appointment, but I want to thank you for affording us the opportunity.

I also want to say that I intend to support your confirmation. I think you come to this job with a wealth of experience and a reputation that is impeccable. I appreciate very much your being willing to take on public service and this challenge. It is critically important.

First of all, we face an extraordinarily difficult circumstance. We had a \$5.6 trillion surplus 2 years ago. That is what we were told we could expect. Now we know, if we adopt the President's policies, the tax cuts and the spending included in his plan, we are in the hole by \$1.5 trillion. That is a \$7 trillion turn in just a year.

It leaves us in a circumstance that, looking over 20 years of the budget policy of the country, going back to 1992, we were in deep deficit. We were able to pull out for 2 years, not use Social Security trust funds for other purposes.

But now this is where we are. We have plunged back into deficit. If we do not use Social Security to pay for tax cuts and other

things, we see that we are in deficit the entire rest of this decade, and by very, very large amounts.

That is especially worrisome because of where we are headed. If there is one thing that strikes me, is that we are in the sweet spot of the fiscal cycle now. Trust funds are running big surpluses, but that is going to change in the relatively near future.

Social Security goes cash negative in 2017, and when it goes cash negative it does it in a very dramatic way. That is why these deficits we are running now are, I believe, so damaging and so dangerous to the long-term fiscal health of the country.

It is not just Social Security, but the same is true in the Medicare trust fund. We are in the sweet spot of the cycle now, running surpluses. But those surpluses, starting in the year 2016 with the Medicare trust fund, go cash negative, and in a very dramatic way.

One of the reasons I count myself as an enthusiastic supporter, Mr. Snow, is that in the past you have been somebody that was riveted on this question of whether or not deficits hurt us or not. There is some thinking now in Washington that deficits do not matter. I think that is truly a dangerous notion.

I was very pleased to see in the Richmond Times Dispatch your statement that "a credible, sustained reduction in Federal deficits leading to a balanced budget will bring major economic benefits." I believe that.

As the government spends less and borrows less from investors to cover declining deficits, more capital will be available for investment in the private sector. Inflationary pressure will ease and interest rates will respond by declining as much as 2 percentage points.

Well, Mr. Secretary-to-be, I hope you still believe that deficits matter and that they are a challenge to us, and that they must be dealt with.

Again, I will enthusiastically support your confirmation.

The CHAIRMAN. Senator Lott is next, then Senator Rockefeller.

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

Senator LOTT. Thank you, Mr. Chairman. I, too, will try to be brief because I would like to get to the question and answer period.

I want to congratulate Mr. Snow for his nomination to be the Secretary of the Treasury. This is certainly one of the critical positions in the President's administration.

I am very pleased that the President chose John Snow, with his background academically, in the business world, professional world, and in a great variety of experiences of a lifetime. It has made for very entertaining reading and a lot of information that we have had the need to check into, and we certainly have done that and will continue to do so.

I want to also thank your family, Mr. Snow, for being willing to have you make this sacrifice which will affect them, probably in some ways, even more than you. We thank them for being willing to allow you to do this.

I think you are an excellent selection for this position and will do an outstanding job as Secretary of the Treasury. I alluded to your education background. It is rare that we have somebody that

has the type of education you have had, including a Ph.D. in economics and a law degree. It looks to me like perhaps you are over-qualified educationally. I hope it will provide some benefit to you.

I know that you have done an outstanding job as the chairman, CEO, and president of an outstanding railroad. I have had occasion to work with you in that role and others, as you have been willing to be involved in government and the pursuit of solutions to the needs of our country.

As I looked over your resume and looked at the questions you answered, I was very impressed with the diversity of things that you have worked in. Not just because of the railroad holdings, which are diverse, but also your charitable involvement, your involvement with education, both at the college level and in other educational programs, and in land management.

You have worked with entities that try to assess what is happening with the economy, such as the American Economic Association, American Enterprise Institute, American Men of Science. There is a long list of areas there.

And you have been prepared, on occasion, to take positions and make statements about what you thought maybe we needed to do to help our country. I know you will not shy away from that in your new role, confidentially as an advisor to the President, but also publicly as you come to us and seek solutions for the future success of our country.

So I think this is a great choice. I want to say that you have been forthcoming in answering the questions that have been propounded by the committee and have been raised in the press.

I know sometimes even that has not been easy because it gets to be very personal in nature. But, as I believe Senator Snowe said, we are all now open, when we assume these positions, to public review of everything we have done.

I also want to point out that I hope that the committee will find answers to questions that we have as quickly as possible and move this nomination forward, because the Secretary of the Treasury is an important position. We need to get this position filled as quickly as possible as we go forward this year in developing a growth package for the future of our country.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lott.

Now, Senator Rockefeller, followed by Senator Kyl.

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

Senator ROCKEFELLER. Thank you, Mr. Chairman. I welcome you back to your position and welcome new members of the committee. I welcome you, John Snow. We have known each other for many, many, many years and we agree on many things, and on one particular thing we agree not at all.

That one, we have been battling out for 18 years, and so far you have the upper hand. So, I congratulate you on that. [Laughter.] That is something called captive shipping, for those who may be interested.

I would echo a little bit the comments, Mr. Snow, of Kent Conrad. I mean, it is almost as if the American people, the media

following along with that, leading, whichever it is—I think some of the President's view is that we are, on the one hand, as Kent Conrad pointed out, at a point where we are about to disappear into the deepest of red inks. We have a \$350 billion Federal deficit, as I think the latest count is. Our global trade deficits are higher than they have ever been in all of history. At least, that is our trend.

We have this question of the war in Iraq that faces us, the cost of that. But, of course, it is not just the cost of the war, but it is the cost of what has to be done after the war, and just in that one country.

If you look at what is happening in Afghanistan, we won that war rather easily, and now the warlords are sort of moving in and taking over again. So, what have we really done to change Afghanistan, except to get rid of the Taliban, who again are coming back in conjunction with Al Queda using the border between Afghanistan and Pakistan.

Now, all of this indicates enormous expenses which are not yet on the books because they have not been spent, but which, if current trends proceed, are going to have to be spent.

It is my own view that the President has made up his mind that we need to intervene in Iraq. He may not do so in the next 30 days, but the chances are that that will happen.

So that expense will go from off-book to on-book, followed by the rehabilitation of the country, which is probably a 10- or 12-year process, if that is possible in a country that was stitched together in 1919 rather poorly and crudely by, particularly the British and the French.

In addition to that, the Central Intelligence Agency has made it very public and very clear, and Senator Graham has referred to this frequently, that if we do attack Iraq there will be a 75 percent chance that there will be retribution within this country.

We have become accustomed in our country to thinking that attacks, even on Americans, take place only overseas, and for the most part they have. September 11th taught us differently. But did it? Does that memory linger as strongly?

Well, I think it does, for the most part, but not in all States. If there is a 75 percent chance that, if we attack Iraq, there will be retribution by them, with others, in this country, then you have a whole other dimension of what happens to markets, and what happens to deficits, and what happens to public confidence. Beyond that, we have the gigantic sum not yet addressed, except in aviation transportation security, of homeland security.

I think the bill on homeland security is going to be enormous, and needs to be enormous, because I think we are looking at the situation of terrorism, Al Queda organized in 70 countries, including our own, for the next three or four decades. I think this is part of our future.

So the charts that Senator Conrad put up only begin to exacerbate my concern over our financial condition. You indicated, as Senator Graham said, in an article in the Richmond Times Dispatch, that you are in favor of a balanced budget. I would say that that is a far horizon these days.

I will be interested, in my questioning, as to how you think we can possibly do that, with the additional factor of a tax cut. I will not go into the elimination of the taxes on corporate dividends. I will not go into the fact that figures show, in many quarters, that about half of corporations do not pay any taxes at all, that small businesses, medium-sized businesses are not likely to be helped by this. The stock market is not likely to be helped by this.

States are now increasing in their deficits: California, \$35 billion, \$50 billion total and growing. The cost of health care, the cost of Medicaid. All of these things are just add-ons, add-ons, add-ons to what can bring a Nation to its knees, which is an uncontrollable financial spiral downwards.

So, these things are of enormous concern to me. I represent people that require certain services, as you know very well. Many of your former employers/present employees happily work in our State, and you pay them well and you give them good benefits. That is not always the case in my State.

So, I have to worry about them. I have to worry about long-term interest rates and the effect on them. I have to worry about deficits. I have to worry about their security and their safety. That is the first line that we all take when we take our oaths, to protect from foreign and domestic violence and terrorism.

So, I will conclude with that. But I just think that the task before you is enormous, and I hope that you will speak to us candidly about how you think we can have fiscal stability. Thank you, sir.

The CHAIRMAN. Senator Kyl?

**OPENING STATEMENT OF HON. JON KYL, A U.S. SENATOR
FROM ARIZONA**

Senator KYL. Thank you, Mr. Chairman.

Thank you, Mr. Snow, for being so patient. The end is near. Obviously, a big part of your job will be to listen to members of Congress, and you appear to do that very well, although it seems to me that you do not really need any lectures about balanced budgets.

I know this: you cannot balance the budget by voting for over \$500 billion in new spending, as many of my Democratic friends did last week. Alan Greenspan has talked to us about that, and noted that the best thing Congress can do is to restrain our appetite to spend taxpayers' money.

We can balance the budget and achieve much more with robust economic growth. The best way for Congress to effect that is to keep spending down and to support tax relief, balanced and across-the-board tax relief as President Bush has proposed.

I understand that that is the approach that you support. One of the reasons is because, as Senator Snowe pointed out, over time there is a huge difference between 3 percent economic growth and 4 percent economic growth. Just that 1 percentage can make a huge difference. It is more than enough to offset any short-term deficit. So, the key to our prosperity is robust, long-term economic growth, not a focus on short-term deficits.

I think you appreciate that, and I will look forward to exploring that more with you as we get into your comments. Thank you very, very much.

The CHAIRMAN. Senator Santorum, I welcomed new members earlier. I welcome you a second time. Thank you for being with us. We know you bring a great deal of experience, particularly in tax matters and jurisdiction of the Ways and Means Committee, to the committee. Thank you.

**OPENING STATEMENT OF HON. RICK SANTORUM, A U.S.
SENATOR FROM PENNSYLVANIA**

Senator SANTORUM. It is always nice to be singled out.

Let me just say that I agree with Senator Kyl's comments, and am very excited about your nomination. I just want to encourage you again on the President's plan on the elimination of the double taxation of dividends. I just want to make a point.

As someone who comes from a State where we have seen a lot of dislocation as a result of mergers and acquisitions, I am someone who very strongly believes that the elimination of the double taxation of dividends will provide the right incentives for corporate executives.

As someone who headed a major corporation, I would actually love to hear your comments about this in the questioning period.

As someone who believes we provide the right incentives by eliminating the double taxation of dividends to grow companies in a responsible way, to provide value to the shareholders through the disbursement of profits instead of the incentives which are currently in place to borrow money and to use profits to grow stock prices—irrationally in some cases—which results in mergers and acquisitions that are not well-conceived in many cases, that result in devastating job losses for many people in my State—I mean, I cannot tell you the number of companies in Pittsburgh who have been taken over and acquired, and the ranks decimated because of the incentives in the Tax Code to grow stock prices and provide investor value through acquisitions and mergers.

This will change that incentive. I believe it will result in dramatically improved job security for the average working American. It is not a point that I frankly hear being made about this issue, but I think it is one of the most important ones to be made, and would certainly like your comments about that during the questioning time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Santorum.

Secretary-designate Snow, we will now go to you. Normally in a nominations hearing, every member has opening comments. When you come before our committee again, it is generally Senator Baucus and me who will make opening comments, then we will immediately go.

But I think it is very important that members have an opportunity to speak out when we have a person as important as you and your position coming before the committee.

It is now your turn to say anything you want to for opening comments, and also give you an opportunity to introduce anybody from your family and/or friends who are here to support you.

**STATEMENT OF JOHN W. SNOW, NOMINATED TO BE
SECRETARY, U.S. DEPARTMENT OF TREASURY**

Dr. SNOW. Thank you very much, Chairman Grassley, Ranking Member Baucus, and members of the committee. I very much appreciate the opportunity to be here. I listened carefully to what you had to say in framing the issues. I, if confirmed, look forward to trying to respond as Secretary of the Treasury.

I also am grateful for so many thoughtful, warm, and welcoming comments. They mean a lot to me. I am particularly grateful for Senator Allen and Senator Warner joining me today to introduce me to you, and for the many courtesies they have extended to me over the years.

Mr. Chairman, if I could, I would like to take that opportunity you offered me to introduce my family. With me today is Carolyn Snow, right behind me here. Next to her is Douglas Martin.

The CHAIRMAN. I think that the committee would appreciate anybody you introduce standing up.

Dr. SNOW. All right. Carolyn?

Senator BAUCUS. Stand up.

Dr. SNOW. And next to her is a very close family friend, really a member of the family. That is Douglas Martin, from Richmond, Virginia. Senator Baucus, out in your home State of Montana is my oldest son, Bradley Snow, who is 37.

Out there, it is, I guess, about 9:00. Bradley told me he was going to give the youngsters, who are about seven, five, and three, the morning off from school so the grandchildren could watch this. I send my warm regards to Bradley, Lisa, and the three grandchildren.

In New York, I have a hardworking son who is in his early 30's. He works on Wall Street. I hope he is very hard at work right now getting the GDP growing. [Laughter.] I send my regards to him and to his wife, Mary.

Finally, the youngest son, Christopher. Senator Kyl, I mentioned, is in Arizona, where he is going to school and sharpening up his golf game. I particularly take some delight in introducing him because it is a way for me to correct the record in a very major way.

There were press reports to the effects that I am a scratch golfer. Any of you who have played golf with me know that certainly is not the case. The scratch golfer in the family is Christopher, who is out in Arizona working with a golf pro, going to school, and trying to get ready for one of those qualifying tours. So I hope that you know that, if confirmed, you do not have a scratch golfer coming into the Cabinet.

I also want to thank many, many friends who are here. I will not name them and ask them to stand. But I think it is important to recognize Jim Brukenhoefer. He is better known as "Brukenrail." Many of you know him.

He is the national legislative director for the United Transportation Union, a union that represents many, many, many of the CSX employees. Jim Brukenhoefer. I greatly appreciate the support that Mr. Brukenhoefer and the UTU president, Byron Boyd, have given me in this process.

Also with us is Jim Henry. Jim is the chairman and president of the Transportation Institute and one of the leading thinking and

policy operations in the maritime unions. And Terry Turner, from the Seafarers International Union.

I am grateful for the support of Mike Sacco and the SIU, and for the Hotel Workers Union, and for the other rail unions. I am really grateful you all could be here today.

I come before you today as the President's nominee for the extraordinarily important and challenging post as Secretary of the Treasury. I have great admiration for the President and his leadership, and I am humbled and I am deeply, deeply honored that he would ask me to return to public service at this critically important time, after a quarter century absence from public service.

The Department of Treasury has a long and rich service to the Nation, as many of you noted in your opening comments. It would be an honor to lead so many truly talented and dedicated public servants.

I hope that, when this hearing is concluded, I will have the support of the Finance Committee, I will have your support and confidence, and, at the appropriate time, the confidence and support of the full Senate.

I come before you mindful of the critical role this committee plays in so many important public policy issues that the Nation faces. Having worked closely with both the legislative branches and the executive branch for the past 30 years, I understand the public policy issues and that the issues that come before this committee are complex. They often involve trade-offs and people can have legitimate differences.

My hope is, as we conduct the public debate on these important issues, the growth package, the deficits, taxes, generally, international trade, and so on, that the public debate on these issues will involve—and I commit to do it on my part—a high-level, constructive discourse and mutual respect.

As has been said by many of you, these are clearly extraordinary times, important and challenging in the way few times have been.

We have seen in the last year and a half the truly tragic events of 9/11, the war on terrorism, the corporate scandals which have shaken confidence in capital markets, and the falling stock market, really, the blow-out of the stock market.

But despite these significant events, the economy is recovering. It is a testimony to the inherent resiliency, I think, of the American economy that it could take so many shocks, so many body blows and still do as well as it is doing.

But despite these shocks, the economy is recovering. As the President has said, it is not recovering fast enough. We can, and must, do better. We must build on the proven strengths of this economy, the ingenuity and creativity of the American people that Senator Smith spoke so eloquently about.

We must continue to move forward towards policies that will generate economic growth, more good jobs, and a rising standard of living for all. I agree with Senator Kyl. The best remedy for the problems that we face is a good, strong, healthy, growing economy that reaches the potential of the American economy to create jobs and expand. As long as there are Americans who want a job and cannot find one, the economy is not growing fast enough.

What does that all mean? I think it means rewarding hard work. I think it means encouraging savings, encouraging investment, encouraging that entrepreneurial spirit that benefits everyone, prudent risk-taking, people investing their capital and seeking a return on it.

Americans also benefit from a growing world economy, from open markets. I am committed to President Bush's initiatives to establish a more prosperous, and yet a more stable, international economy.

If confirmed, I will not be content until we put the American economy on a higher growth path, until everyone who wants to find work gets a good job. Jobs give people dignity and they provide hope.

I know what it is like to need a job, and I know what it is like to create jobs. I would like to see more "Help Wanted" signs all across America, committed to doing the things that would make that possible, to make that a reality.

I believe the President's recent economic growth proposal moves our tax system in the right direction, and the potential of the American economy as well. It will create jobs. It will spur investment. It is an investment in the American people and in their future.

But it also says—and I think this is important—that what is good for the future is even better for today. That is the key to the acceleration.

If confirmed by the Senate, I stand ready to work with this committee, and indeed all members, as you and your colleagues in the Congress confront the pressing problems of our times.

Mr. Chairman, before I respond to your questions, I have one more comment to make that I would like to make part of this opening statement. That deals with currency.

There has been a consistent policy on the dollar going back the better part of a decade. I support that policy. I favor a strong dollar. It is in the national interest. A strong currency provides a reliable medium of exchange and serves as a stable store of value that people will choose to hold.

Sound pro-growth economic policies and a commitment to free and open markets are the foundation for a strong dollar. I thank you very much for the opportunity to appear here before you today, and I am happy to try and answer any questions you may have for me.

The CHAIRMAN. We will take 10-minute rounds, including applying to the Ranking Member and the Chairman. I would ask that, when the red light comes on, people finish their question with one sentence. Then we will move on to the answer, then immediately to the next person.

I have three questions that we would ask every nominee who comes before the committee, so I would ask those, first, of you.

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

Dr. SNOW. No, Senator, there are not.

The CHAIRMAN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably

discharging the responsibilities of the office to which you have been nominated?

Dr. SNOW. No, Mr. Chairman, I do not.

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

Dr. SNOW. Yes, I do.

The CHAIRMAN. I would add to that, not in the form of a question, that you have 21 members of the Senate here on this committee. We would appreciate any answers that come out of this hearing and, more importantly any other questions.

Also, because of a process of putting holds on nominations, you could expect any one of 79 other members of the Senate that may ask a question to you, or ask to meet with you. I would encourage you to do that in order to move your question along.

Also, some of those questions might be unrelated to you as a nominee, but are just something that previously have been asked of the Treasury Department to answer and there has been some, let us just say, dragging of feet.

Who knows how many questions have been asked, of 100 members of the Senate, of your department? Those are fair game. Right or wrong, they are fair game. So have the people you are going to supervise, when you are nominated, help us get answers to those questions.

Before I begin my round of questions, I would like to make a few quick, general points, more for my colleagues. I would strongly encourage my colleagues to have all written questions to the committee by 5:00 tonight.

The reason for the tight schedule is because Majority Leader Frist has agreed to accommodate the Democratic leadership by not scheduling any votes after noon on Thursday. That commitment puts a burden on the Finance Committee.

I want to remind my colleagues that we would like to have the new Secretary of Treasury before us next week to testify about the President's economic proposals. To make that happen, the nominee must be voted out of the Finance Committee by Wednesday to have a chance to vote him out before noon on Thursday.

I want members to have their questions answered. I want Mr. Snow and the administration to have an opportunity to answer those questions. So I ask that you and your staff work with us and give us written questions by 5:00. It would be particularly helpful to highlight those questions that must be answered prior to the vote. I thank my colleagues for that.

The first question. I am sure you would expect questions like this. But it is also not only in relationship to you as a person, but in regard to previous actions by the Congress last summer that are called Sarbanes-Oxley.

Some have criticized you for accepting an executive compensation package from CSX, yet your compensation package seems typical of CEOs. Last year, the Finance Committee dealt with a lot of those issues that I am not going to go into, but I did define them as Sarbanes-Oxley.

First, am I correct that your compensation package from CSX was typical of most Fortune 500 companies? Second, could you please detail for the committee the benefits that you are leaving behind at CSX in order to reenter government service?

Dr. SNOW. Senator, yes. My package, which was approved by the CSX Compensation Committee, all of whose members are independent, was sort of standard fare for CEOs of Fortune 500 companies. They all have some particular wrinkles, but my compensation was always judged against and compared to comparable companies and found to be comparable. So, I think that is the answer to that side of the question.

The CHAIRMAN. Could you give us some detail, though, of what benefits you might be leaving behind because of the appointment that you now have?

Dr. SNOW. Senator, what I am leaving behind is all present options that will not be exercisable, and that is a significant part of my net worth, I would say. That is, options permitted in the past, with the last three years of the market being down and with CSX down as well, an awful lot of the future wealth is in options and that is all being left behind. That has been estimated by our HR people to be something on the order of \$25 to 50 million.

In addition, I am leaving behind an arrangement that CSX had worked out with me, I think it was 3 years ago, as part of a transition plan, a succession plan that the company had put in place and asked me to oversee, which would have made available to me 200,000 shares of restricted stock. I guess the stock is about \$30, so that is \$6 million. I am leaving behind all the options that went with that, 800,000 options as well.

I am leaving behind, as well, the provision for payment of club dues, reasonable and customary access to an airplane, provision for an office and a secretary, and a variety of things that constitute that \$15 million number you talked about.

The CHAIRMAN. All right.

I would move on to an economic issue. Some debate about the bonus depreciation of the stimulus package, last year, doing what we anticipated it would do. The President has some enhanced bonus depreciation in his package that he is going to present to the Congress to use to create jobs.

In your estimation, has the 30 percent bonus depreciation enacted March of last year been an effective measure for encouraging economic recovery? Would you be supportive of additional bonus depreciation as part of a growth and jobs package?

Dr. SNOW. Senator, I think it has been effective in softening the decline in investment, and therefore helping to keep the economy stronger than it otherwise would be. Yes, I think there is a real case to be made for that, and it constitutes good tax policy.

The CHAIRMAN. I would like to go, now, to the issue of rate cuts, and particularly small business expensing. The President has proposed that the individual rate reductions currently scheduled to go into effect in 2004 to 2006 would be accelerated to this year. The President has also proposed small business expensing to go from \$25,000 to \$75,000 for this year.

What are your views on how this would affect the economy, and particularly as it relates to small business specifically? I would con-

centrate on small business, because obviously I want to hear your views on it, coming from Fortune 500-type corporate governance.

But, also—and this might be a dispute, but I see it often in the news media—about small business creating 80 percent of new jobs. So, I am interested in your views on that issue, on the issue of expensing and marginal tax rate reduction.

Dr. SNOW. Mr. Chairman, I think those statistics are right. Small business is a powerful job generator in the United States. The interesting thing about every small business, is it wants to get to be a big business.

I am pleased that Jack Ferris, who is the head of the NFIB, the National Federation of Independent Businessmen, is a supporter of my nomination. I have worked with him on tax policy over the years.

Yes, I agree. I think it is important to give small business the boost it needs. It gets a boost from this package from the expensing.

But I think the bigger boost, important as that is as a direct help, is from the overall impact of the package in lowering marginal tax rates, removing restrictions and distortions in the Code on equity capital formation, and I should point out that an awful lot of small businessmen will receive significant tax reductions under this plan.

Do not hold me to the number exactly, but something like two-thirds of all the members of the highest income-paying class, as broken out in those 20 percent categories, the highest category, are, in one way or another, connected with small business. They are small business people. So, small business people get an advantage here in a lot of ways.

The most important way, though, is just to make the whole economy more efficient and make it grow faster. As it grows faster and becomes more efficient, there will be more of those “Help Wanted” signs put up around small business, and there will be more small business jobs, and they will expand.

The CHAIRMAN. I will have some more questions after my colleagues have finished.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Snow, I think we all have some concerns about State budget deficits. Some suggest that the estimates of the deficits facing States could be in the neighborhood of about \$170 billion over the next two fiscal years, which is a big amount.

As an economist, is it accurate that those States, because they have to balance budgets and therefore they either have to raise taxes or cut spending to balance those budgets, will be a further drag on the economy?

Dr. SNOW. Senator, it certainly depends how they go about balancing those budgets. But reducing aggregate expenditures reduces aggregate demand, and certainly, in and of itself, has a negative effect.

A lot of that negative effect, though, I think will be offset by the growth package. The best thing we can do for the States is to see the economy grow. And as the economy grows, State budget coffers will increase.

Senator BAUCUS. That is an assumption. You are making an assumption that the economy will grow, in fact. At some point it will, but the question is timing. It is when.

There are a lot of factors which are discouraging immediate growth. Basically, it is the uncertainty in the country today about a lot of factors. One, is potentially going to Iraq. Another is, frankly, a bit about this economic package. That is, what is its fate in the Congress? There are a lot of complaints, a lot of misgivings about the economic package.

In fact, I just read this morning how the chairman of the House Ways and Means Committee has some very significant questions and concerns over the dividend proposal, which is the centerpiece, frankly, of the plan.

So, going back to my basic question, if we are going to borrow now—whatever we do is a borrow. We are borrowing, whether it is taxes, whether it is spending, or whatever it is, at this point in 2003.

So if the Federal Government is to borrow now, why not borrow to help the States? Because that, it seems to me, is going to prevent States from cutting back on education, cutting back on jobs, and/or raising taxes. Why does not some component of a solid tax economic stimulus plan include significant aid to the States?

Dr. SNOW. Well, Senator, as I have not seen the budget yet, which will be out, I am told, on the 3rd or the 4th—

Senator BAUCUS. But you have been advised of what it is going to say.

Dr. SNOW. Unfortunately, I have not.

Senator BAUCUS. But you read the papers and know what the press says it is going to say.

Dr. SNOW. Well, Senator, the press said that I had a scratch handicap, so I dismiss some of what the press says. I really cannot speak to the budget at this time. I do know, and I believe this deeply, that this is a well-conceived growth package.

It is a package that the country needs. It is a package that eliminates distortions in the economy. It is a package that eliminates inefficiencies in the economy. When you eliminate inefficiencies—

Senator BAUCUS. I do not want to get into an argument, Mr. Snow. Obviously, you are charged to be promoting the President's plan. But I am just asking another issue. As an economic matter, does it not make sense—because we have to work together. We have got to compromise. The President has got his plan, but frankly there is something called the U.S. Congress. We have two different branches of government and we have to work together.

So, in a spirit of working together, is there something to be said about giving aid to the States?

Dr. SNOW. Senator, I think that issue will be joined better after we see the President's budget.

Senator BAUCUS. Is it going to differ significantly from what has been released?

Dr. SNOW. Senator, I do not know. I am not yet in a position to discuss that subject because I am not yet privy to how the President's budget deals with this particular issue.

Senator BAUCUS. Another question. The President's plan, as reported and has been given to the public, accelerates a lot of rates,

which I think in some sense makes some sense. But it leaves out two.

One, is the effective date for reducing marriage penalties for recipients of the EITC that is not accelerated, and the same applies to the refundability of tax credits for households with children. That, too, is not accelerated. These are people, 30 million households, who certainly are going to spend the benefit they get, if they were to get it, and they are going to spend it now.

If we are going to accelerate rates, why not accelerate for those 30 million households?

Dr. SNOW. Senator, this package is focused on reducing rates for people who pay taxes. That is the centerpiece of this. It does provide a lot of help, I think, to people whose income is below the median. The child credit—

Senator BAUCUS. Mr. Snow, a lot of people do not pay income taxes today. A lot of people pay payroll taxes. There are a lot of people in the country who are in a very difficult strait. A main tenet of tax policy is refundability to help those people, the EITC.

So if we are going to accelerate the rates for the top income earners, why not accelerate the benefits for this group of Americans who certainly are going to spend the money when they receive it and who desperately need it?

Dr. SNOW. Senator, they will be helped greatly by the job effects of this bill and by the growth effects of this bill. You indicated you did not think that this bill had a lot of impact on the first year on jobs, but from what I have seen, there will be about 500,000 additional jobs by the fourth quarter of this year, if this plan is adopted. There will be a million and a half additional jobs by the fourth quarter of 2004.

Senator BAUCUS. Are you willing to work with the Congress in perhaps accelerating those two areas?

Dr. SNOW. Senator, I am absolutely prepared to work with you. Absolutely.

Senator BAUCUS. Medicare. You know the question. What is the answer? [Laughter.]

Dr. SNOW. Well, the Secretary of the Treasury has a fiduciary duty on Medicare as the chairman of the Medicare trust, but the Secretary of HHS, Tommy Thompson, has the lead. The President has indicated that he is committed to make a prescription drug plan available as part of Medicare, and to reform Medicare.

I do not know. I am not deeply schooled in this subject, but it is pretty clear that we cannot continue to see health care costs growth at the rate they have been growing.

Senator BAUCUS. And the more precise question is, how can this Congress, in good faith, possibly enact prescription drug benefits for some seniors, but not for all seniors?

As I mentioned in my opening statement, roughly 85 to 87 percent of seniors are in the fee-for-service program. They are not in managed care plans. The President proposes that this prescription drug benefit is available only to seniors who participate in private plans, not to fee-for-service, except for some minor adjustments. How is that right? Why is that the right thing to do?

Dr. SNOW. Well, Senator, he is also proposing far-reaching reforms in the way that all health care gets provided.

Senator BAUCUS. Mr. Snow, that is a separate issue. We are talking about drug benefits.

Dr. SNOW. Well, Senator, I am not an architect of that program. I think that is a question better addressed to Tommy Thompson.

Senator BAUCUS. And the other question I have in this first round, Mr. Chairman, is on budget deficits. Actually, the figures are \$39 billion is all that will be spent, actually spent, in fiscal 2003.

The effect of the President's plan for calendar 2003 does not really kick in, that is actual expenditures, until—well, \$39 billion is the figure for the first nine months of calendar 2003. That is, for fiscal 2003. It is probably a little more than \$39 billion for calendar 2003.

Nevertheless, the point is, clearly, you have heard the long list of probable Federal spending increases, whether it is the war in Iraq, whether it is occupation costs, North Korea is a big cloud, homeland security.

AMT. Nobody has mentioned AMT yet. Over the next several years, the Alternative Minimum Tax is going to be extremely expensive, and clearly the President is going to propose, and the Congress is going to enact, significant AMT relief. That is extremely expensive, \$200 or \$300 billion.

I have not heard the administration yet on its proposal on Federal and State tax reform. The baby boomers are coming along, and Social Security and Medicare. Health care costs are going up 13 percent annually.

Do you not think that deficits do matter?

Dr. SNOW. Well, certainly deficits matter.

Senator BAUCUS. Then why do we have such a large tax package today, in view of all of those other probable big expenditures, which clearly are going to increase the deficit? Now, I know the theory is that we are going to grow out of this.

That is not what happened with President Reagan. I was sitting in the Congress when President Reagan proposed his huge, big tax cut. The deficits rose. The theory was that they would not. We were told they would not. But the deficits rose significantly during the 1980's.

And we have static scoring. We do not have dynamic scoring. We have static scoring. By all static scoring analyses, we are facing huge, big budget deficit increases in the out years.

Most will say it is all right in the first year to stimulate the economy, 2003, maybe 2004. That is what most economists say. I do not want to put words in Chairman Greenspan's mouth, but, as reported to the press as what Chairman Greenspan says, it does not make a lot of sense to me, you spend an awful lot of money, which will have the effect of raising interest rates significantly in the out years.

Dr. SNOW. Senator, you have asked me a lot of questions.

Senator BAUCUS. The basic question is about deficits and this tax plan's interest rates.

Dr. SNOW. Let me say, the deficits we are looking at are relatively modest compared with the GDP. The debt levels are relatively modest versus the GDP. That is the important consideration.

It is the relationship of the debt we take onto our ability to service it. Getting the American economy strong is the best way to service that debt. Reducing taxes stimulates the economy and puts us in a better position to do that.

Yes, deficits matter. They matter when they are built into the fabric of the financial structure of the country, when they are large relative to the GDP, when the debt is large relative to the national output. We are not there, Senator.

The best evidence of that, of course, is simply looking at financial markets. We have today the lowest interest rates in 40 years. That is not a signal of financial markets being deeply disturbed about deficits.

Senator BAUCUS. Well, I wish I had more time to discuss this issue with you, but my time has run out. The next round of questions, we will get back into this.

Senator BAUCUS. Senator Hatch, now.

Senator HATCH. Well, thank you, Mr. Chairman. All I can say is, any friend of Brokenrail is a friend of mine as well. What it means, is you as a corporate 500 executive have the support of the unions that worked with you. That really says something right there. It also says that the union movement understands these economic matters, at least some of them do. That is important as well.

I remember when we had double-digit inflation, and double-digit interest rates when President Reagan took office. There is no question that his tax rate reductions actually resulted in increases in actual revenues to the government. The problem was, we in the Congress spent so much that the deficit was also going up.

Increased spending on the military, helped the deficit to go up as well, but it ended the Cold War, which probably saved us trillions of dollars.

Now, let me just say this. As you may know, my home State of Utah has a high number of very large families. The people of Utah would really benefit from reducing the marginal tax rates, but also from reducing the marriage penalty and accelerating the full \$1,000 per child tax credit this year.

Moreover, Utah has thousands of small businesses that pay taxes at the high individual rates because they are small businesses. Yet, we have heard a great deal about some who charge that the President's growth and job plan would do little or nothing for anyone except the very wealthy.

Now, how do you answer these critics that say that this plan unfairly benefits the wealthy and does little for regular families?

Dr. SNOW. Well, Senator, I think they are wrong.

Senator HATCH. I do, too.

Dr. SNOW. I think this plan helps Americans generally. An average family of four with income of \$40,000 gets \$1,100 tax cut. It is \$1,100 that they do not have today that they will use to spend, to buy things, to save, and put their children through better schools, and so on.

The dividends. We have heard so much about the dividends and the effects of the dividends going only to the wealthy. There are an awful lot of people who are not wealthy, a lot of seniors, who depend on the dividend, for whom the dividend is critically important.

My own mother was a high school teacher in Ohio. When she retired, she had an Ohio State teacher's pension, as did her friends who were teachers.

When they would gather to meet, conversation often turned to their financial circumstances. One aspect of their financial circumstances that was of great interest to them was dividends.

Now, these are not wealthy people. My mother would have been delighted to have a few hundred dollars more a year because she was not paying taxes on her dividends, and so would, I think, millions and millions of other people, Senator.

This is a plan that promotes growth, that helps the average American. We have to realize that it is a plan taken as a whole. The American economy works in a circular fashion. It does not work in a linear fashion. As we make one part of it better, we make it all better. This plan is designed, I think, to make the whole economy function better.

Senator HATCH. Well, opponents of the President's plan are saying that the plan is unfair because a large share of the benefits from the tax cut would go to Americans with the highest income. However, this argument ignores the fact that the top 50 percent of all income earners pay over 96 percent of all income taxes. Do you know of any fair way of reducing income taxes without making the people who pay most of the taxes better off?

And let me just ask you this question, in addition. Dr. Snow, taxpayers making about \$92,000 and above paid about 67 percent of all income taxes in the year 2000. Now, under the President's plan, would this group's share of the total income tax go up or down?

Dr. SNOW. It would go up, Senator.

Senator HATCH. That is right.

Dr. SNOW. It would go up. The highest income categories pay a larger share of the total tax bill after the President's bill goes into effect than they do today.

Senator HATCH. So this means that the tax burden for those making less than about \$92,000 per year would go down under the Bush plan, correct?

Dr. SNOW. Absolutely, Senator.

Senator HATCH. I am convinced that America's seniors will be far better off once we finally end the double taxation of dividends, which is the point you have been making.

Most seniors, even those with modest incomes, have to pay tax on dividends. Seniors who get dividends get a lot of them, over \$2,000 a year, on average, for people making \$30,000 to \$40,000 a year.

How big an impact would this part of the President's plan have on seniors?

Dr. SNOW. Senator, as I recall the numbers from the President's plan, there are 10 million seniors who will be the beneficiaries of this part of the plan. That is, 10 million senior Americans who, today, are paying a tax on dividends who will not be paying it if the President's program is adopted.

Senator HATCH. Dr. Snow, can you explain to the committee how the double taxation of dividends increases the risk of corporate bankruptcies?

Dr. SNOW. Yes. Yes, I will. The double taxation of dividends discourages corporate America from using equity capital in their balance sheets. It encourages them to use more debt capital because debt is cheaper. But, in the process, we make American companies more vulnerable and less stable than they otherwise would be to shocks of downturns, because their debt-to-equity is higher than they would be otherwise.

Senator HATCH. In other words, it is an incentive to take on debt.

Dr. SNOW. It is an incentive to take on debt. It is an incentive to do transactions, as Senator Santorum said, by borrowing money, because you borrow money, you get a deduction on it. You increase shareholder value.

And I have sat with any number of corporate executives who will always want to increase shareholder value, and they say, we do not want to do it with dividends. Why? Because dividends, while a nice way to reward shareholders, are tax inefficient.

The great thing about this provision, Senator—and I am glad you are giving me a chance to respond to these questions, because every single economist I have ever talked to, and everything I have ever read on this subject, there is unanimity of agreement that the double taxation of dividends is a distortion, a big distortion, in our economy that makes the economy less efficient, that encourages more use of debt versus equity, and leads to the sort of consequences that Senator Santorum talked about.

Senator HATCH. And there are a lot of companies that have huge amounts of capital that are not given to their shareholders.

Dr. SNOW. Senator, if you would allow me, there is one other aspect of this that has not been much talked about that I think is advantageous.

Senator HATCH. Sure.

Dr. SNOW. And that is what it does for good corporate governance. There has been a lot of criticism raised about the way companies keep their books and about the accounting profession.

One thing you cannot hide, is cash. If companies are encouraged to pay dividends, to reward shareholders with cash dividends, I think it will do a lot to restore confidence in the real earning power of American enterprise.

Senator HATCH. Well, like a number of my colleagues on the Finance Committee, I am very concerned about the ongoing dispute with the European Union over the Foreign Sales Corporation rules and its replacement tax regime.

It is very difficult to see an easy solution to this problem for America's exporters that have been relying on our current rules. However, one possible bright spot in this mess is that it could open up an opportunity for Congress to reform our international tax rules.

What do you believe is the right timetable for resolving this dispute? How can we best reform our tax laws to make U.S.-based companies more competitive?

Dr. SNOW. Senator, that is a highly complex and involved subject. I know the President has indicated he wants to see the matter resolved as soon as possible. He suggested that it needs to be resolved by legislation to keep us in conformance with WTO rules. At

the same time, it must be done in a way that avoids unfair burdens on U.S. corporations that create the problems you alluded to.

I do not have the answers right now, but I pledge to work with you and your colleagues to find answers to it. I think it is a very important issue.

Senator HATCH. Well, thank you. I look forward to supporting you. I know you well. I know you can do this job, and I know you can do it well. We need a very strong leader at this time in this area, although, I thought your predecessor was a strong leader as well. But thank you for being willing to give up so much to serve this country in the way you are doing.

Dr. SNOW. Senator Hatch, thank you very much.

The CHAIRMAN. Senator Breaux?

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

Mr. Snow, thank you for your presentation.

One thing that is certain in this business, if you are around here long enough, you get to hear all of the arguments. If you have been here about 30 years or more like I have, you get to see the sides switch positions on the arguments, sometimes.

I remember when the Republicans used to argue about the dangers of deficit spending, and the Democrats used to say that any deficit over 3 percent of GDP was terrible for the economy. It seems like we have sort of reversed positions.

Now I am hearing the administration say that a deficit of under 3 percent is not that bad, and those of us on this side are talking about the deficit impact of the proposed tax cut. So, it has kind of come full circle in a relatively short period of time.

Tax cuts are always good politics, to a certain extent. The question is not whether it is good politics, but whether we can draft a plan that is also good public policy. That is the challenge that we are all going to have.

I noted, in discussion of the dividend proposal, it seems to me that the problem today is not so much that dividends are double taxed. The problem really is that not enough companies are declaring dividends.

So, the real focus of any kind of a proposal should be to stimulate the economy and to grow the economy to allow companies to, in fact, declare dividends.

You pointed out that the package was focused on people that pay taxes. The concern I have, is that the largest part of the tax proposal by far is the dividend tax relief. In my State of Louisiana, only 8 percent of Louisiana citizens have dividend income.

So, if the largest part of the tax plan is going to be focused on people who pay taxes, in my State, 92 percent of the people do not get dividend income that is taxable.

So it seems to me that the administration is not following through with the premise that the largest portion should go to the people who, in fact, pay taxes.

My question is, has the administration really given up on the argument that the dividend tax cut is economic stimulus in the short term, and are proposing it because it is, long-term, good public policy?

Dr. SNOW. Senator, your questions raise a lot of really good issues. Why do corporations not pay more dividends? I think one

reason they do not pay dividends, is that dividends are a tax-disfavored form of distribution of corporate wealth.

I would very much expect to see, in response to the enactment of the President's dividend proposal, a significant increase in corporations paying dividends. I think less than half pay dividends now. I think you would see that change.

I think Microsoft's action here about a week or so ago is indicative—they never paid a dividend, and now they will pay dividends—of what we could well see. And it makes sense, because we are now making it more advantageous for companies to reward their shareholders with dividends than was the case before, so we lower the cost of doing something. Whenever you lower the cost of doing something, people tend to do more of it.

So I would expect dividends to be paid by many more companies, and I would expect the companies that pay dividends to increase the level of dividends.

Now, on the second part of your question, I think that the dividend policy, the exclusion of the dividends from the individual taxpayer, is good tax policy. Long-term, it will engender a lot of changes in the economy: greater reliance on equity capital, remove the distortions that we talked about, balance sheets that are more aligned with equity than is the case today, maybe some fewer restructurings that do not make economic sense, and more dividends being paid.

I think it has some short-term impact, though, too, because the market, once it sees this being enacted, I think, will have a positive reaction. There will be a positive reaction in equity markets. But I would grant you that it has probably more long-term implications than immediate short-term implications.

Senator BREAUX. Does it have any potential adverse impact on the security markets? If so, what would that be?

Dr. SNOW. Senator, I do not think it has any adverse impact on the security markets. I know some questions have been raised about the effects on 401(k)s and Roth IRAs, and so on.

Senator BREAUX. Public financing.

Dr. SNOW. Public financing. I have not made an in-depth study of that, but the things I have seen indicate that there will not be a major impact. People who invest in municipal bonds, people who invest in tax-exempts, do so because they want security.

A two-day flip in the market will wipe out values that will more than offset the virtue of dividends, tax exclusion. So I think there will not be a large shift in investment vehicles as a result of this, except that more companies will pay dividends, and dividends will be larger.

I did do a little look at the 401(k)s and the Roth IRAs, and so on to see. The advantages of taking money and putting it into an IRA or a 401(k) is so great, that it swamps the effect on the other end.

Some people have suggested, well, the funds in the IRA should not be taxed. But if you did that, since dividends are not taxed in IRAs today, you would never tax dividends. The President's proposal is that income should be taxed once, but not twice.

Senator BREAUX. Let me ask a question. Is it your opinion—I mean, we fight this argument of whether we have a business in-

vestment or capacity problem or whether we have a problem, really, with the lack of consumption by consumers.

I mean, the last tax cut we did, which I supported, the \$1.3 trillion, was in a very different time. We had a surplus. The geopolitical situation in the world was not nearly as shaky as it is today when that was passed.

Today, the circumstances that we are facing, the deficit, Iraq, North Korea, the price of oil, all the things on the international scene are quite different from what it was when we passed the last big tax cut.

Part of that tax cut, however, was something to increase business investment with a 30 percent accelerated depreciation. I mean, did that not work at all so we have got to come back and address that again? What does Treasury think? Is it a business investment capacity problem or is it a lack of consumption problem?

Dr. SNOW. Senator, I think that Treasury sees the economy recovering, but at a lower rate than would be desirable and with less job creation than would be desirable. I applaud you and members of the Congress who supported that 2001, how do you call it, ECTRA tax.

Senator BREAUX. We just call it the big tax cut. [Laughter.]

Dr. SNOW. It was really needed. I was, I remember, in July or August of 2000, looking at our car load, numbers and our container load numbers, and barge load numbers, and truck load numbers at CSX. It is almost as if, in the summer of 2000, the economy hit a wall for the industrial sector.

I was astonished at the rapidity with which the industrial sector began to decline. I think if the Congress had not done what it did then, with the President's support, of course, as well, and taken a leadership role on it, I think the economy could have really gone south and had a deep recession.

So what we had, was a pretty shallow and pretty short recession that otherwise would have been, I am confident, Senator, much, much worse.

Senator BREAUX. But we have had reports in business that there is an over-capacity problem.

Dr. SNOW. There are a number of industries in which that is true. There are a number of industries, those particularly associated with the Internet, telcos, the aviation industry, that substantially over-built in anticipation of demand continuing to rise, and it did not. They find themselves with substantial—very substantial in some cases—excess capacity.

I served on the board of a major telecommunications company and watched their commitment to the Internet and their commitment to telco deregulation, and their commitment to this growth in this critically important sector. The industry, as a whole, made some big mistakes. They over-invested. It will take some time to work that off.

The airlines after 9/11, but maybe even before it, found themselves with excess capacity. That is not generally true, but there are a number of industries, such as the steel industry in which Senator Rockefeller takes such interest, with substantial excess capacity.

Some of those industries will never, like steel, will never see demand levels like they once saw, I think. It will take some time before demand for the fiberoptic cable that has been laid is sufficient to have messages, voice, and data running over that fiberoptic system.

I think that is probably years out until we get utilization of the capacity of our fiberoptic network. So I would agree with you. There is an overhang of excess capacity in a number of industries.

Senator BREAUX. Thank you.

The CHAIRMAN. Senator Nickles?

Senator NICKLES. Mr. Chairman, thank you very much.

Mr. Snow, thank you as well. I am enjoying this dialogue and discussion. Let me just ask you a couple of questions, and maybe make a few comments interspersed. Presently, for individuals, the highest income tax rate is 38.6 percent; for corporations, the corporate rate is 35 percent. I personally do not think it is right. You mentioned most of the individuals that are paying the highest rate are sole proprietors, entrepreneurs.

I personally find it very offensive—I have been one, and I have also run a corporation—and wrong in the Tax Code to have those individuals paying a higher rate than corporations. The corporate tax rate is 35 percent. Should we not make the individual rate at least no higher than that, effective immediately?

Dr. SNOW. Senator, as you know, that is the President's proposal. I agree with you.

Senator NICKLES. It is his proposal. That is a coincidence. I am glad to see that. [Laughter.] Corporations. You mentioned the inequity in present law. Right now, corporations can borrow money and write off the interest expense, or they can go into the equity market. One way they get to expense it, the other they do not.

There are different ways of handling or eliminating the double taxation of dividends. I will just mention, my personal preference would be to allow the corporation—again, I used to run one—to expense dividends.

It may cost a little more, but to me it is a more effective and efficient way of eliminating the double taxation. Individuals pay interest and pay taxes on interest received, most interest. Not all interest. Likewise, they should on dividends. In other words, tax once.

Senator Breaux mentioned, well, wait a minute. What effect would this be on securities? I would warn our friends out in the security industry, I would be very offended to think that the security industry would be opposed to this proposal because they might have tax-exempt income and not pay any taxes on it, compared to dividend income that is taxed twice.

When I was waving this Tax Code around and saying there are some real inequities, that is one heck of an inequity. From the corporate side, you were asked the question, why do corporations not pay more dividends. It is stupid policy to be paying a lot of dividends right now.

If you have \$1,000 of income, with the corporate and the individual at 35 percent rate, that is 70 percent to the Federal Government, 30 percent to the individuals you are trying to benefit. That is not a very good deal.

So that is why you go into debt and that is why you give bonuses instead of stock. There are lots of inequities that your proposal, or the administration's proposal, would rectify.

But, as I mentioned, there are a couple of different ways of doing it. I will be asking you later, at a different point, should we consider the expensing of dividends instead of just individuals. There are pluses and minuses.

Also, I want to make a couple of comments, too. I have heard a couple of our colleagues say, well, their economic proposal—they being the Democrats—we want to hand everybody a \$300 check whether they paid income taxes or not.

They may come back and say, well, wait a minute. They paid payroll taxes. I would just inform you, if you look at payroll taxes, the total amount of money going in for Social Security and Medicare pretty much equals the total money going out for Social Security and Medicare.

So what that proposal basically is saying, is we want to take general revenue funds and finance Social Security. We are already paying a lot of money in Social Security taxes and in payroll taxes, 15.3 percent of payroll up to \$88,000. That is a lot of money. That is about \$13,000.

Individuals have to pay taxes on it in addition to that, so they have to earn about \$16,000 to pay the \$13,000. Then some people say, wait a minute, let us have general revenue financing to go in and pay for Social Security. I seriously question the wisdom of that.

It kind of goes with this idea that some would like. They say, well, let us just make all these tax cuts refundable, even if they do not pay taxes, as a way to distribute more income. In other words, let us use the Tax Code as a method to sprinkle out money to a lot of people.

The Federal Government paid, just for your information, about \$7,200 last year for every man, woman and child in the United States. Some people want to figure it out another way. How can we increase that? Instead, I would like for us to work on things that would grow the economy and eliminate some of these disincentives.

Double taxation. When I mentioned the effective rate of dividend taxation is really 70 percent, that makes no sense. I happen to think, if you reduce that and make it a more reasonable rate, i.e., 30-some percent, you are going to get a lot more economic activity towards dividends and towards growth. So, there are some inequities. You are trying to solve it.

I also want to mention one other thing. Some people propose, well, let us just have increases in the Earned Income Tax Credit, again, a refundable tax credit that individuals receive.

I just want you to know that that is about a \$30 billion program. It has been expanded dramatically over the last many years and it is very error-prone. About 30 percent of the payments have errors made in them, some fraudulent, some not fraudulent, some just mistakes.

But you cannot find, in all likelihood—and let me know if you do—a program that is more error-prone. There are real incentives. Individuals can get \$4,000 from Uncle Sam. We will write you a check. Maybe they file a fraudulent return. Maybe it is accidental, maybe it is not.

You will find out that almost 50 percent of the District of Columbia residents would qualify for EITC. In other words, it is very error-prone. Some people want to call that a tax cut. It is not a tax cut, it is a payment, a cash payment.

So when we are looking at some of these plans, I compare what is a tax cut and how much is spending. I notice that some of these proposals are almost all spending.

We had big debates the last couple of weeks on how much money we are going to spend. At that point, a lot of people were not too concerned about the deficit.

So, I mention these things. Let us not increase programs that are so error-prone, and let us do try to see if we cannot do good tax policy. At the same time we are doing some changes to help grow the economy, let us do good.

One possible change that some people might propose would be an investment tax credit. I would just say, as a person that has benefited from that, I think that would be a terribly bad idea. I do not think that is good tax policy.

Let us do good tax policy. Let us eliminate double taxation where we find it. Let us get rates down to more manageable rates that, frankly, will encourage growth. Any time you have a rate that is combined over 50 percent, you have a real disincentive to grow.

Then one final comment. You have a lot of individuals, self-employed individuals, that pay a combined rate of taxes well in excess of 50 percent, and they are not wealthy.

Maybe they are paying income tax at 28 percent, and they also pay both sides of the FICA tax, that is 15.3, you add the two together, that is 42.3. You add your State income tax, another 6 or 7. They are a 50 percent marginal rate, with a taxable income of \$30,000. That is not good. That is a real disincentive to grow.

So, I look forward to working with you, because I think you have a better comprehension and understand of the flaws that are in the present Code. As we make some tax changes, hopefully we will make some significant improvements.

I would also hope for you to really be thinking long-term, not so much in this first growth package, of ways to come up with an alternative tax that would be much simpler and fairer. This thing is so full of inequities, you cannot fix it a paragraph at a time.

It really needs an alternative Tax Code that I would love to see this committee work together in a bipartisan fashion to come up with something that is fair, flat—or flatter, anyway—simple, and understandable.

We are all going to be doing taxes. When you look at this and you look at those five volumes of regulations that go with it, this is a disaster. You have a chance to help us try and fix it.

It will not happen unless, frankly, we have Democrats, Republicans, and the administration on board to really try and come up with a better Tax Code. The inequities that Senator Hatch alluded to on foreign taxation are almost an invitation to export jobs.

This regulation that I asked you to look into, and I would appreciate your response to me, is a regulation that will export jobs and export capital. I hope that you will take a serious look at it.

Some people in your shop evidently seem to be in favor of it, but in my opinion it is a very bad idea that will cost us jobs and capital and I hope that we would not do that.

So I would appreciate your response in getting back to me on that regulation.

Dr. SNOW. I will, Senator. I would be delighted to do that. That matter, I understand, is out for comment. I will review the comments and get back to you.

If I could just make one observation on what you said, because I agree with much of it. An overlooked aspect of the President's program is the fact that, by making those out-year tax cuts available now, it puts people in a position to be able to plan their futures. They can count on those monies for the out years.

One thing that I think has come out of the economics profession is a clear understanding that if you affect people's long-term outlook, you get much different results than if you just give them a temporary stimulus in their pocket.

If they have it, if they can see it over a multiple—it is called the permanent income hypothesis. People spend out of what they can see coming in over the longer term. If we can affect people's longer-term horizons, they begin to spend now.

Knowing that I will have that extra \$1,000 in my pocket, if I am a typical family of four with \$40,000 of income, I have an additional \$1,100 next year and the year after, it causes me to feel better now.

It causes me to influence my spending and decisions now. It is the present impact of the ability to know with a certainty that in the future your economic well-being is greater. It telescopes the future into the present. What I think an important part of the President's program is, is telescoping the future into the present.

Senator NICKLES. Part of our dilemma, is if we do the tax cuts or changes under reconciliation, they will be limited to the term of the reconciliation bill, which kind of flies in the face of a lot of what you said. That is just something we have to work with.

The CHAIRMAN. Thank you, Senator Nickles.

Now we will go to Senator Bingaman. If other Republicans do not return, then it would be Senator Graham and Senator Lincoln.

Senator Bingaman.

Senator BINGAMAN. Thank you, Mr. Chairman.

Thank you again, Mr. Snow, for being here. Congratulations on your nomination.

Let me ask a couple of questions on this issue of executive compensation. You did serve on this board, or the Conference Board Committee, that looked into that issue.

I think there is a general perception of some unfairness as it applies to executive compensation, one set of rules for top executives, a whole different set as to other employees of a company.

One of the issues we tried to address in the Sarbanes-Oxley bill was a prohibition. We put a prohibition in there against companies providing loans to their top executives.

Do you support that concept? Do you think that is a good provision?

Dr. SNOW. Yes, Senator, I do. I very much support that. The provision, as I understand it, is the outgrowth of some really egregious behaviors in some notable instances.

I am not close enough to know how the provision will ultimately be implemented, but I hope it will not be implemented in a way that precludes some very useful things.

I remember, years ago we recruited a very able top figure from the U.S. Air Force, a four-star, to join us. And one of the things about being in the Air Force, apparently, is you live in company housing and do not build up any equity.

We made a loan guarantee, I think, on a house for that individual so he would have accommodations appropriate to his position. I do not find that offensive, frankly. I do find \$400 million loans to go out and buy yachts offensive.

I understand the need to have clear-cut rules, but I hope the rule would not penalize innocent people like the general I made reference to.

Senator BINGAMAN. Let me also ask, I think there has been concern about deferred compensation matters, and particularly as those apply to top CEOs. If Congress were to grant the Treasury Department regulatory authority over deferred compensation matters, do you have a notion as to what you would do with that authority?

Dr. SNOW. Senator, I know there have been, again, some highly publicized cases of what looked like egregious practices there. Some look into that, I think, is probably fully justified. I do not know the particulars of the legislation you are talking about, though.

Senator BINGAMAN. Let me also just ask about one issue which I think you have been criticized on that relates to obtaining credit for years with the company when you were not actually there in determination of your pension benefits.

Is that a practice that you think is appropriate in some cases, or should be prohibited? What is your view on that?

Dr. SNOW. Senator, like anything else, I think that practice could be abused. But I also think, used appropriately, it is a very effective way to recruit and retain senior management.

At CSX, it works this way. For a senior executive, maybe the top 200 people or so, maybe more, they are eligible, after the age of 45, to get 2 years of credited service for every 1 year so that if somebody joins the company at 42, they will build up 3 years until they get to be 45, then after 45 they build up two-for-one.

So say they retire at 60, they would get 15 years at two-for-one, or 30, and then the additional three that they worked before they became eligible, so they would get 33 years. That puts them in a more attractive position for retirement. I think we pay 1, 1.25 percent or something per year for retirement on the number of years you are credited with.

Senator BINGAMAN. To what group does that apply? You are describing a practice that applies to some.

Dr. SNOW. It applies to a fairly limited number of people at, oh, I would say the vice president level and above, maybe the assistant vice president level and above. It has a very beneficial effect. It has been helpful to me in recruiting senior executives who say, I am

leaving my prior company, and what will my retirement be with you?

We are able to say, well, you will be able to get two years for one of credited service after 45. It is an important part of the compensation arrangement. It also plays, Senator, on the other side. There is an active market for corporate executives.

A corporate executive who is being recruited away from a company will look at his accrued service, and the fact that he can get 2 years for one by staying tends to tie him to the company.

So I do not think there is anything inappropriate or basically wrong about that sort of an arrangement. It is really just another way of paying people. It is an attractive way to recruit people, and it is a helpful way to hold people in senior jobs.

Senator BINGAMAN. Let me ask about the trade imbalance. From January through November of this last year, the trade deficit was \$391 billion. I think in November it was over \$40 billion. This represents a substantial imbalance between what we are purchasing from the rest of the world and what we are selling to the rest of the world.

I guess I would ask a couple of questions. First, is this a problem, as you see it, that requires us to take action? Secondly, if it is, what action would you expect to take?

Dr. SNOW. Senator, at the current levels of the current account deficit, I am not particularly troubled by it. It is something I think we should keep our eye on. But the \$400 billion or so annually that it is running is really a small part of the size of the total U.S. economy and is certainly manageable.

What it really means, I guess, if you put it in its simplest terms, is that Americans value the world's goods more than they value the dollars that they are expending to get those goods. At some point, people can run into too much debt, I grant you that. But I do not think we are in consuming. It is really a decision. The current account deficit reflects, in my mind, two things.

It reflects a decision to consume on the part of Americans where, explicitly, Americans are saying, the goods that we get from the rest of the world are more valuable to us than the dollars that we have to give up, not different in kind from a decision you make to buy a new suit. The new suit is more valuable to you than whatever it cost to get it.

There is nothing inherently wrong about that, as long as you do not have so many suits that you are putting yourself in a straitened economic condition. We are not putting America in a straitened economic condition by virtue of this current account deficit.

It also reflects, the second thing, the confidence of the world in the U.S. economy and their willingness to hold dollar-indexed or dollar-based assets. So, it is a vote of confidence, I think, in the United States as well.

Senator BINGAMAN. So the \$3 trillion debt position that we currently have on our external debt, you do not see that as a problem?

Dr. SNOW. Senator, I think that debt is manageable. I think it is a manageable debt relative to the size of the U.S. economy, well within normal ranges. What I worry about, is getting out of normal ranges.

What I worry about, is ever suggesting that deficits do not count. What I worry about, is long term. What I really worry about, is saying that the debt levels do not count. They really do count.

If they reach some unmanageable level, there would be a certain—it is not a question of whether it will happen—reaction in financial markets and interest rates will go up. My only argument is that, at the current levels, we are not approaching that. These are manageable.

Senator BINGAMAN. Thank you.

The CHAIRMAN. Senator Graham? Thank you, Senator Bingaman.

I am going to step out for just a few minutes to meet a constituent. I will ask Senator Baucus to chair while I am gone.

Senator Graham.

Senator GRAHAM. Thank you, Senator Grassley. In a few days I am going to undergo a medical procedure. I am very much dependent on my physicians to assess my symptoms, and from that diagnose the problem, and then prescribe a course of action that will correct it.

It seems to me that a similar set of analyses are necessary as we look at the future of our economy. This is particularly true, because every dollar that we spend or every dollar that we forego through a tax reduction is not one that we are going to pay, it is one that our children and grandchildren are going to pay, because every one of those dollars is borrowed.

We run the risk, if we do inadequate or incorrect diagnosis and prescription, of the Argentinization of America, with a fiscal condition that becomes unsustainable.

In your opening statement, Mr. Snow, you indicated that your diagnosis of the problem with the American economy is a failure largely on the supply side and that it is to be met by encouraging capital formation, savings, and investment.

I am curious as to that diagnosis, because my analysis comes to a different conclusion. I have a picture which I wish I were able to show today—it is a familiar picture—of the airplanes parked in the desert in Arizona. I hope you do not have any railroad rolling stock parked in the desert in Arizona.

It represents almost 2 years of Boeing's production of commercial airliners. To me, that says that our problem is not that we cannot produce enough airliners. The problem is, we cannot produce enough customers to fill up the airliners.

Therefore, our fundamental economic problem today, under my diagnosis, is that we have a demand side slackening which is being driven by a loss of confidence in a number of different areas, from personal security to job security, to retirement security.

Could you give me some explanation. Have I correctly stated what your diagnosis of the problem is, and if so, how did you come to that diagnosis?

Dr. SNOW. Senator, I do not know that I have a very clear-cut diagnosis of what ails the American economy today. I think it is, frankly, fundamentally in a recovery. But it is a slower recovery and a less certain recovery than we want to see, and it is a recovery without as many new jobs being created.

It is certainly a recovery without corporate profitability rising significantly. We know it is a recovery without the stock market.

The stock market maybe reflects other things, the uncertainty in the market with the war, and so on.

I think it is a very good question you raise, and a very complex question. Part of it is certainly a demand issue. Companies are not cut back from their traditional levels of research and development expenditures.

They have cut back from their traditional levels of capital expenditure. They have done that because they are awaiting strengthening in demand conditions. So, I would agree with you there that strengthening the demand side will be helpful.

But I look at the economy, not as broken down into demand or supply, as such. I look at it basically as a circle. We can start anyplace in this circle and have this discussion, but one point on that circle is producers who are responding to customers.

As customers feel better about their prospects, as they have more wealth, more income, or just higher expectations for the future, their sense of their long-term well-being improves, they begin to be more robust in their buying practices.

Some businesses will then find they need to go out and hire additional people, make some capital investments, or expand the shop or the store a little bit. To do that, they then create demand for people to come in and work for them. They create demand for people to expand their plant.

Those people who get additional demand then become better able to be participants in the system. As the economy expands that way, there is need for more capital. So, banks find that their loan windows are more active. Savings and loans find their loan windows are more active. It is a demand problem, it is a supply problem.

The economy is really the interaction of demand and supply. I will grant you that there are demand problems here, but I do not like to think of the economy as one or the other. I like to think of it as this circle and whole set of complex interactions that really constitute demand and supply.

Senator GRAHAM. Well, I appreciate that analysis. But I come back to my feeling that the part of that circle that needs the greatest attention today is the part that will encourage both business and individual consumption, because we have this significant volume of unutilized capacity to produce goods and services.

I anticipate that when we start the consideration of the President's tax proposal, that you or a representative from Treasury will be an active participant in those hearings. I would like to continue to pursue how the prescription of the President's tax proposal relates to the diagnosis of the state of the economy.

Dr. SNOW. Senator, I very much would like to return to you and talk about that. I am just thinking of CSX today. In our train network, we are operating at, I would say, with a third excess capacity. That is, a typical efficient-sized train is about 100 cars, or 110 cars. So, our trains are going out with 60 or 70 cars on them rather than 100.

Now, if the demand picks up, we will be able to add those additional 20, 30, 40 cars on the trains without much additional cost. That will create higher profitability for us. That will lead us to go out and make more investments in the track structure and hire more people to run the trains.

So, there is an excess capacity problem. I agree with you. I think it is true in many industries, and stronger demand will certainly help deal with that. I would like to see stronger demand for the things that we haul, because then we could add those additional cars and it would fall to the bottom line and make us much more profitable.

Senator GRAHAM. Thank you, Mr. Snow.

I would like to move to a different area for my second question. As a former Governor, and I think the first time we met was when you came to Tallahassee, the States frequently, if they wish to stimulate some particular activity through reducing taxes, will look at other areas to see where there could be increases to offset those cost of those proposals.

The States do not have the benefit that the Federal Government does, which is the ability to run large deficits and borrow without limit. They must balance their accounts on an annual basis.

My question is, do you think that, as we consider this program of economic stimulation, that there are some areas that we might reduce its net cost by looking at other tax changes? As an example, Senator Nickles talked about the Earned Income Tax Credit as being a place where there was substantial slippage in collection.

Mr. Rossotti, the recently-retired head of IRS, I think, put a figure of \$60 billion a year on what he thinks the leakage is out of the system, a question of tax shelters, runaway corporations, etc.

How much attention do you think we should be giving to those issues as part of an economic stimulus bill in order to reduce its net cost?

Dr. SNOW. Senator, I think those things need to be addressed in any event, because they are important issues in and of themselves. To the extent that those issues can be addressed early on and create some additional revenue for the U.S. Government, I think that is a wonderful thing.

I have talked extensively with the staff of Treasury about their concerns on some of these practices, tax havens and abusive tax shelters, and so on. Once I know more about it, I very much want to pursue what we can do in that area because it erodes confidence in the tax system if abusive practices are widespread. So, I agree with you.

Senator GRAHAM. Well, I appreciate that comment. Going back to my suggestion that it will not be very long before you or someone from the Treasury will be back discussing the specifics of the President's proposal, I would hope at that time I could ask this question and you or your representative will have some specific ideas of what we could do to offset the cost of the current economic stimulus proposal.

Dr. SNOW. Thank you, Senator. We will be prepared to discuss that.

The CHAIRMAN. Senator Snowe?

Senator SNOWE. Thank you, Mr. Chairman.

Mr. Snow, getting back to the size of the President's plan. I would like to explore that a little bit further with you.

I know that these deficits, as you mentioned earlier in response to another question, would be modest relative to the GDP. Obvi-

ously, we have to rejuvenate this economy that ultimately will put people back to work and restore surpluses.

But obviously there is a very fine line around here of how far we go in terms both of tax cuts and spending policies. I am just reminded, in looking at this article in the paper from last week, "Data shows rapid growth in Federal budget shortfall."

I mean, I have been here for more than 20 years and I have seen the ups and downs, as you well understand as an economist. Having been a CEO of a multinational corporation, you understand the prevarications of various policies.

My concern is that it is not what we know today, it is what we do not know. Two years ago, when you were talking about that \$5.6 trillion surplus, I was fond of saying that, where I come from in Maine, when the calendar shows March and it is spring, we do not put our shovels away because you just never know when it is going to snow again.

The same is true when it comes to the pitfalls that we may face in this country, as we have already seen so tragically over the last 2 years.

So I guess my question is, in terms of relative size of the GDP, maybe 2 percent, maybe 3 percent, but then we cannot fore-ordain the future and when it becomes 5 percent and 6 percent. That is where we lose control. We understand, hopefully, that these deficits will be temporary, but we want to make sure that they are temporary.

So I guess I am a little concerned when I see the President's proposal of \$674 billion, and 50 percent of which is devoted to one proposal that does not have the broadest maximum impact for the here and now.

Dr. SNOW. Well, Senator, I agree with your comments on that subject and echo the sentiments of Senator Conrad, that deficits matter. They are very important.

We cannot allow ourselves to get into the situation ever again that we were in the late 1980's and so much of the 1990's. I was very much engaged in that effort to try to slow down Federal spending and balance the budget back at that time.

I am not happy about these deficits at all. The President is not happy about these deficits. The deficits, though, are a reaction to the priorities of the country at this time with the war on terrorism, and homeland security, and the need to give the economy a boost and take out an insurance policy for the short-term and grow it in the long term.

But you are right. There is some level of deficit, clearly, that is troublesome, that begins to tilt the financial markets. We were getting to that point in the early 1990's. Interest rates were reflecting that.

It was clear that the capital markets were exacting a price for the spending levels of the United States, the deficit levels of the United States. We are not there yet, Senator. We are a long way from there.

But your point is well taken, and Senator Conrad's. We have got to never get there. We cannot get close to that. While I am encouraged that financial markets give us the lowest interest rates we have seen in 40 years, I know that can change if we ever give the

financial markets the reason to think that the U.S. Government is not committed to fiscal responsibility and fiscal restraint.

My pledge, as Secretary of the Treasury, if you confirm me, is that I will articulate that point of view very, very forcefully.

Senator SNOWE. Well, I think it is obviously a shared responsibility, both the President's, and, of course, the Congress. When I served on the Budget Committee, I can well recall when CBO was estimating the projections over 10 years.

In 2001, they said that the previous year's spending approved by Congress of \$12 billion translates into \$560 billion over 10 years. In the year 2000, it was \$109 billion over 10 years in increased spending. So, it was more than \$670 billion in over 10 years in increased spending. So I think, obviously, the combination is something that I think we all have to be mindful of.

The other issue is short-term stimulus versus a longer term growth package. As I raised in my initial remarks, the fact is, we did pass the \$1.3 trillion tax cut package that really was, in essence, a long-term growth package.

Would it not be better to maximize the effects of a short-term plan now that ultimately could enhance the longer term benefits that we have already initiated?

Dr. SNOW. Senator, I think this plan does have some powerful impacts on the short term. It could be made stronger, of course, but I think it is a prudential balance between short term and long term. Creating, by the fourth quarter of this year, 500,000 additional jobs is a real impact.

Those are the CEA estimates that have been revealed, and the Treasury estimates. It is 1.5 million by the fourth quarter of a year from now, and that is a lot of additional jobs in the American economy. I think that is real.

So the package is big enough and strong enough to have real impact on the short term. I am sure there will be much discussion about, what is the right balance between long term and short term. But what the President has put on the table, I think, is a bold and far-reaching proposal that deserves careful consideration.

Senator SNOWE. On the proposal of eliminating individual taxes on dividends, and there will be a lot of discussion over time, of course, on this issue, and we have heard a lot of prognostications about the effects of it for the long term. But I know I have seen some estimates regarding seniors, that it is going to benefit seniors.

Yet, on the other hand, I have read that only 6 percent of seniors with incomes of \$50,000 would be benefitted specifically by this proposal. I think, again, it goes back to, what is going to have the broadest impact for the greatest number of people.

I understand the issue of corporate governance, which you discussed with me in our meeting. I appreciate that. I do not doubt that there is a merit to this issue sometime in the future.

The question is, to what extent right now? I think that is the real issue in terms of whether or not it should be part of the package or be significantly modified to make it much more precise and targeted, the equivalent of capital gains. Now, some suggested that.

I have also heard that it skews investments. We are really only focusing on one dimension of someone's portfolio. And, while 50 percent of households may be in the stock market, many of them

may be predominantly in 401(k)s, and 401(k)s will not benefit from this proposal. So, I think the question is whether or not it is skewed in a way that disproportionately benefits too few people.

Dr. SNOW. Senator, I would respond briefly. Those are fair questions, and I hope you will give me a chance to come and talk to you about them. I do not think this skews investment, though, as between 401(k)s, or Roth IRAs, or municipal bonds.

What I think it does, in its simplest terms, is simply remove an unjustified distortion which, today, creates an incentive to under-utilize equity capital. So, it puts equity and debt on a more level playing field. It does not take anything away from the debt side, but it tries to remove a barrier which makes equity capital less attractive. So, in that sense, it just levels the playing field.

But I very much would look forward, if confirmed, to a chance to come back and discuss this whole subject with you in great detail.

Senator SNOWE. I am sure we will.

I just have several other questions. Regarding trade, you mentioned in your statement about the consistent policy on a strong dollar that goes back for the better part of a decade, which is certainly true. But what are we going to do about those countries that sort of distort and manipulate their own currencies to, obviously, their advantage?

I mean, in Maine, we have borne the brunt of distortions in trade policies, and unfair competition from abroad, subsidies. Of course, the strong dollar has aggravated the circumstances. We just had two mills in Maine close and file for bankruptcy, with 1,130 jobs at stake.

What are we doing to vigorously root out the subsidies to ensure that there is not currency manipulation by other countries? If you look at China, for example, they have been able to control the value of its own currency to maintain a price advantage for their goods.

Japan, in the past, has struck down the value of the yen. So, that really has been detrimental to many of our industries in Maine that are obviously import sensitive.

Dr. SNOW. Senator, this is a highly sensitive subject. I, broadly speaking—and you have seen my comments on this subject—favor reliance on open exchange markets and think that the trading system of the world is best promoted by having currencies which reflect their inherent value.

I hope you will let me defer, though, on those precise questions you have asked me until I can get better briefed on them. Then I will come back and talk to you.

Senator SNOWE. Thank you.

The CHAIRMAN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

Mr. Snow, again, we are proud that you are here. I know that you are proud to have your family with you, and I know your family is very proud to be here. So, we welcome the family to the committee.

Mr. Chairman, I have a few questions, and I am sure I will not have time. So I would like to ask unanimous consent that I may submit the remainder of my questions to Mr. Snow through the committee.

The CHAIRMAN. Yes. That gives me an opportunity to remind people that we want these questions all in by 5:00.

Senator LINCOLN. By 5:00 today.

The CHAIRMAN. Not just you, everybody.

Senator LINCOLN. Yes, sir.

Mr. Snow, the average per capita income in Arkansas is about \$22,000. In four of Arkansas' 75 counties, including my home county of Phillips County, over 40 percent of the population lives under the poverty line.

Many of these are working people. Most of them are working people, and they pay State income tax, they pay property tax, they pay sales tax, they pay excise tax, and they try hard to raise their families properly.

I have been very concerned lately with the mainstream comments that I have heard which describe these people as being somewhat fortunate, or somehow fortunate.

The Wall Street Journal, for instance, has described them as "Lucky Duckies" because they are able to benefit from refundable income tax credits and pay no Federal income tax.

Having shadowed some of these hardworking Americans, I have been saddened by these types of characterizations. I am also concerned about how some administration officials have tried to assert that payroll taxes are not taxes at all, and that refundable credits are being described as "welfare checks."

From the documents that you have provided us, it is obvious that you have worked hard and have built a comfortable financial situation. When you look at the President's Cabinet and advisors, it is important to have those who can understand the privations that the working poor have endured.

So I guess, in the context of some of the things that my good friend from Oklahoma brought up, which was, I think, followed up with comments by Senator Graham about the errors in the EITC versus the errors in corporate taxation, I do hope that we will have more information from the Treasury about that and where we can look to the correction in those errors, and maybe perhaps what the differences are.

But as Secretary of the Treasury, who will you turn to for the information concerning the realities of poverty, and how do you consider the working poor? I think that is important for us to hear.

Dr. SNOW. Well, I think I numbered myself among the working poor years ago as I was putting myself through college. I mean, I really do, Senator, sympathize with the working poor. I know what it is like to really depend on a job. I put myself through college because I had a job. I could not have done it otherwise.

The best thing we can do for the working poor is make the economy stronger. I really believe that a strong economy—I think it was President Kennedy who talked about, "a rising tide lifts all boats," when asked to characterize his tax plan back in 1962, I think. There is a lot of merit in that idea.

I think we need to look at the economy as a positive sum game from which everybody can benefit. Not as a zero sum game where things are just being pushed from one place to another, but as a positive sum game.

That is why I am so enthusiastic about this package, because I think it plays into the fact that we make the American economy a positive sum game.

But I want you to know, I have the warmest sympathy for people who are struggling, who have rent payments to make and have food to put on the table and wonder where the money is coming from, people who worry about, can they educate their children, have the money to send them to schools, and so on.

I mean, I left college because my father could not afford to send me to college. I was off at a private college that strained the income level of my family, and left. I recognized that, to get a college education and do it within the family budget, it was going to be my responsibility.

Senator LINCOLN. So you will be depending on your own personal experience.

Dr. SNOW. Senator, yes. I am confident that, if I am confirmed, I will get a chance and want to come up and talk to you and get your experiences as well.

Senator LINCOLN. Well, we definitely have a great deal in Arkansas. When you talk about the disparities, we are very similar to Senator Breaux. Roughly just below 8 percent of the people in our State file for derivatives. That is a big issue for us, obviously, in equity.

I have heard a lot about the hypothesis of permanent income, or I think has been described, the way people will react when they have certainty. You have talked a little bit about it.

My question then would be, if many States like ours that depend on small businesses who are their largest employers, why has the administration really dropped the estate tax repeal as a priority, which in turn would give, I think, a lot of our small businesses, family-owned businesses and farms, the certainty of knowing how they could really deal with the capital that they need to reinvest in their companies?

Dr. SNOW. Senator, I think the President remains committed to that.

Senator LINCOLN. But it was not a part of his package proposal.

Dr. SNOW. No. But I do not think that reflects any lack of commitment to the proposal.

Senator LINCOLN. I noticed in your statement that one of the policies that you singled out to support was the strong dollar, and we have talked a little bit about that.

You come from a transportation background and know that many of our manufacturing and agricultural exports do go by rail. You have heard that a number of my State's biggest agricultural exporters, specifically cotton and rice, have been hit hard by the 6-year run-up in the value of the dollar, which the Federal Reserve says has now increased by about 25 percent.

The Department of Agriculture's recent trade outlook pointed out the continued strength of the dollar's primary constraint on the growth of agricultural exports. How are you planning to help out with this dollar problem as it applies to these industries, and what advice are you going to give USDA and USTR in order for them to reply as well?

Dr. SNOW. Well, Senator, as I said in my opening statement, I think the best policy we can have there is to support sound pro-growth policies that reflect a commitment to free markets, to open markets, because they are the foundation for the strength of the currency. If confirmed as Treasury Secretary, that is where I will be putting my efforts.

Senator LINCOLN. Jumping to another issue which has been brought up by my colleagues, as the Treasury Secretary, you will serve as the managing trustee of the Medicare trust fund. You will obviously serve as one of the President's principal advisors in that arena.

In the recent press that we have read, since none of us have had the privy to take a look at what the President's plan is, there is a certain desire on the administration's part to privatize Medicare.

I am certainly concerned. They have said that their goal of privatizing Medicare is to control the cost of the program by increasing efficiencies. Yet, studies by the Inspector General of HHS, the GAO, and MEDPAC have indicated that private plans have actually been less efficient than traditional Medicare.

GAO has found that the Federal payments to Medicare HMOs in the Medicare+Choice program were higher than Medicare would have paid if those beneficiaries had been enrolled in traditional Medicare.

From my perspective in Arkansas where we have no Medicare+Choice, and my seniors, who tend to be on the lower income scale, are actually paying for the prescription drug packages of other seniors across the country who do have access to Medicare+Choice, how does the administration expect to save through market-based reforms, and will the real savings come from just simply shifting those costs to the beneficiaries, particularly the low-incomes?

Dr. SNOW. Senator, I am going to be very candid with you and say you know a lot more about this subject than I do. It is a subject that, given the fiduciary duties of the Treasury Secretary, if I am confirmed, I intend to get fully up to speed on. But at this point, if you do not mind, I think the subject is so complex and my knowledge so insufficient to it, that I would defer.

Senator LINCOLN. Well, it is a complex issue. I would just encourage you, there is not a one-size-fits-all that fits this Nation.

From those of us that come from rural States with disproportionate amounts of seniors who live in rural areas, I hope that you will take a good, hard study on the ramifications of what the President is proposing, the effects that it might have on us.

Dr. SNOW. I will commit to do that.

Senator LINCOLN. Under the watchful eye of this committee, the Treasury Department is reviewing the taxation of so-called split-dollar life insurance arrangements. As you know, these products do provide a useful management tool for businesses. I have certainly expressed that. But there are also some abuses.

Have you ever owned an interest in a split-dollar life insurance arrangement? If so, do you still own an interest in the policy? Have you conducted a swap or a roll-out of the policy, taken a loan against such a policy, or have you, to date, paid taxes on any of

the life insurance benefits provided by your company without being grossed up?

Dr. SNOW. No, Senator, I do not have the second-to-die policy that you are talking about.

Senator LINCOLN. Split-dollar. Yes.

Dr. SNOW. The split-dollar policy.

Senator LINCOLN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

The CHAIRMAN. Senator Conrad?

Senator CONRAD. Thank you.

First of all, thank you for your extraordinary—

The CHAIRMAN. Senator Conrad, just a minute. If you can forbear, what I would like to do is have Senator Conrad go, then I do not think there are any members coming back on my side. There may be some members over here come back.

But Senator Baucus and I would like to have a few more minutes, after Senator Conrad, to finish up. So we will not break for lunch or anything.

Dr. SNOW. That is fine, sir.

The CHAIRMAN. Senator Conrad?

Senator CONRAD. I was going to say, thank you for your extraordinary patience here today.

First, I would like to set the record straight on something one of my colleagues said. Senator Kyl said, Democrats, last week, voted for \$500 billion of additional spending. That is not the case. There were not \$500 billion of amendments offered.

There were about \$25 billion of amendments offered, some supported by Democrats, some opposed by Democrats, some supported by Republicans, some opposed by Republicans.

What they have done, is taken that as though it was 10 years of appropriations for those amendments. Those were not 10 years. Those amendments were 1-year amendments, not 10 years.

Mr. Snow, I think you are a very fine man. Everything I have read about you is impressive to me. Your testimony here today is impressive to me. You are clearly an exceptional person.

The great thing about our democracy, is we can differ. We profoundly differ on the wisdom of the package the President has proposed.

Let me give you, quickly, my reasons why I think it is a mistake. First of all, it strikes me as ineffective in terms of providing lift to the economy now. I believe that, because such a small portion of it is effective now.

We calculate the total cost as over \$900 billion. We add in the associated interest costs. Yet, we only see \$36 billion effective in this fiscal year. Now, there has been a difference on the committee, is it \$36 billion, or \$58 billion, or \$102 billion.

The differences are, this is a fiscal year benefit. Fifty-eight billion is a calendar year benefit. The \$102 billion Senator Nickles talks about is liabilities arising from the changes this year, but much of that will not be felt until 2004.

So, first of all, as a stimulus, it strikes me as ineffective. We ought to beef up the lift we are giving to the economy now.

The second part of this, is the question of fairness. There are many ways to look at it. I have chosen just one. Somebody getting

an income of over \$1 million a year gets an \$88,000 tax reduction, according to the Brookings Institution and the Center for Tax Policy.

Those who are in the middle of the income scale in our country—that is, they divide us up into equal one-fifth groups, 20 percent in each category by income—an individual taxpayer earning \$21,000 to \$38,000 gets, on average, a benefit of \$265.

The averages that you were alluding to include higher income individuals who get much more. But those who are in the middle of the income distribution get \$265. That does not strike me as fair, nor does it strike me as the wisest way to stimulate the economy. Those at the top end—and I have got nothing against millionaires. I hope everybody in America becomes a millionaire. It would be a great thing.

But, in terms of the fairness of distributing money, it does not strike me as fair, and not very effective a stimulus, because when people at the high end get money they are much less likely to spend it and stimulate the economy than those at the bottom end.

Third, it strikes me as irresponsible, because of a chart I put up earlier. Here is where we are headed. We have taken the plunge back into deficits. In 2004, we are talking about a deficit of almost \$500 billion.

Now, Mr. Snow, you make the point that this is a relatively small percentage of the GDP. My counter to that would be this. This is the sweet spot of the economic cycle. We should not be running deficits here at all because of what is to come. This is what, I must say, worries me greatly about the future fiscal strength of our Nation.

We are in the period now where the trust funds are running big surpluses that are being used to pay for other things, instead of being used to pre-pay the liability, instead of being used to pay down debt, which is what the President had told us in 2001 would occur.

He said we would have maximum pay-down of the debt. Instead, what we now see is maximum taking of money from the Social Security trust fund to pay for these tax cuts and other expenses. This, to me, is the greatest threat looming over us. You have referred to it in previous times.

Let me also just cite that Chairman Thomas, the Republican chairman of the Ways and Means Committee, today said that he raised questions about the plan to slash taxes and investment dividends, cautioning the proposal could have dramatic, unforeseen consequences on the economy, corporate management, and financial markets.

He went on to say, “the dividend plan does not actually end the double taxation of dividends, echoing criticism in the business community that it would leave some dividends taxed, while favoring others.” He said he also worries about the plan’s impact on investor behavior and corporate management.

Let me just conclude by raising what is, to me, the greatest concern, whether this really is a growth package. We had a hearing the other day in the DPC, the Policy Committee of the Democratic party.

We had renowned economists there who said they do not think this is going to encourage growth, they think it will inhibit growth. Their rationale was that the dead weight of deficits and debt will overwhelm the lift to the economy of tax reduction.

Their bottom line point was, to me, in a question that I asked, if you were cutting taxes, but in this circumstance they were paid for by spending cuts or they were paid for by offsetting revenue, that would give lift to the economy. But the President is not proposing spending cuts to pay for this. He is proposing to take it from the Social Security trust fund. In that context, their conclusion was—and they have done very sophisticated econometric modeling—that this is actually a package that will “unbalance at the margins and reduce growth.”

Could you respond to their concern?

Dr. SNOW. Yes, Senator. And to your charts. You have presented the numbers in a little different way than I have seen them, and I am glad that you have helped explain the differences.

First, on this issue that it is going to be ineffective in the short term. I really think that misjudges the power of what the President is putting in motion here. I will grant you that a significant part of this is reductions that people will get in future years. A lot is not, and we can return to that, the child credit and the 10 percent category, the marriage penalty, and so on, and taking 3 million off the rolls.

But my major point here, is that while a lot of this looks like it is out in the future, I believe it is going to have an impact now, a real impact now. I do not think anybody can sneeze at the level of jobs that the Treasury Department and the CEA indicate will be forthcoming. They are a little different. Treasury was about 465, and CEA was about 510, so I rounded it to 500 when I gave you that number for the fourth quarter of 2003.

Similarly, for the fourth quarter of next year, Treasury and CEA are off a little bit, but round it to 1.5 and you are basically where they are. Those are big numbers, Senator. So I think I would have to take issue with the economists who—and this is a subject for a much longer discussion—disaggregate what I am saying.

Second, you have compelling charts there. The chart that shows a millionaire gets \$88,000 and a person below the median gets \$265 or something—

Senator CONRAD. Actually, it is the middle 20 percent.

Dr. SNOW. The middle 20 percent gets \$265. My response on that, is that whenever I go back and look at those distributional tables, the distributional tables produce results that show the people in that top 20 percent have a bigger burden and the people on the bottom 20 percent have a smaller burden. How to reconcile that, I do not know.

Also, the numbers I have seen—and maybe they are subject do dispute, as numbers always are—suggest that a family of four making, I think it is, \$39,000 a year, ends up with about \$1,100 a year reduction, which I also cannot, off the top of my head, square with your numbers. But I would like to try and find a way to square it.

Some of those charts you showed at the end are charts that worried me when I was head of the Budget Task Force of the Business

Round Table, when I was chairman of the Business Round Table, and when I got seriously into the effort to work on a balanced budget amendment.

I think you are absolutely right there, that we need to be thinking now about the cost of those huge, unfunded promises we have made to future generations. The demographics are overwhelming. They overwhelm us.

We need to get our arms around that. Social Security and Medicare, too. That is a little different issue. But get both of those systems that are so much a part of the fabric of American life on stronger financial footing.

To be frank with you, I would have to engage those individual economists to understand, really, where they are coming from and what assumptions they are making.

Finally, on your charts. They are excellent charts. I would just make one observation. You know this as well as, or better, than I. Small changes in expenditure levels over a significant period of time, or small changes in growth rates, will change those numbers dramatically.

My hope would be that the growth plan the President is proposing, if adopted, would take the revenue side higher and that expenditure constraints will take the expenditures lower.

But you take two-tenths of 1 percent on expenditures and flip it the other way, or two-tenths of a percent on revenues and flip it the other way, as you know as somebody who follows these numbers, you get a whole different picture. We ought to be working to try and find ways to make that picture very different than your charts show.

Senator CONRAD. If I could just say, in conclusion, the problem with all of this is, these numbers, in many ways, are the best-case scenario because they have in them relatively strong economic growth going forward.

Number two, they have no costs for the potential war. Number three, they have no costs for fixing the Alternative Minimum Tax. The Alternative Minimum Tax, which now affects less than 2 million taxpayers, is going to affect 30 or 40 million taxpayers in the cost to fix it. The cost to fix it is \$600 billion. That is a 10-year cost. Not a dime of that is in here.

So I would say to you, unfortunately, I wish this were a worst-case scenario. I really believe it is probably a best-case scenario. Digging the hole deeper before we start filling it in, I think, will have adverse economic consequences. I thank the Chair.

The CHAIRMAN. Yes. Thank you, Senator Conrad.

I would ask the staff to still keep us on 10-minute turns here.

First of all, it is kind of rare to have Senator Conrad quoting Congressman Thomas. [Laughter.] I think, obviously, that gets our attention. I hope that Congressman Thomas was maybe not fully quoted in the paper today, because I think he may have been referring to the fact that there are some dividends that do not bear double taxation.

I am not sure exactly, but I think that is what he was referring to, based on conversations that I have had with him in the past. In any event, we will have to get into those things in the future and we will have ample opportunity to do that.

Just kind of an admonition that I would like to make publicly, that I think I made privately. That is, I have encouraged any secretaries of Treasury, not just you, or maybe any secretaries at all of any department, to be very transparent in everything that you do in your dealings with Congress.

I think the President hired you to be a very good communication person, as well as a very good advisor. In that role, I think it is a matter of communication with both Houses of Congress, the same communication, same very clear communication.

Sometimes I think that the other body seeks an opportunity to make a deal. I want to be aware of those. I think Senator Baucus would appreciate being in on the ground floor. In fact, I would think we would want to be very open with each other on all aspects of that. In other words, do not get taken in.

I would also ask you to be conversant—and I do not want to discuss it with you—and seek the President's opinions on these things. I think he has a very good stand on something we in the midwest worship, ethanol.

I think it is a very good renewable fuel. There are some tax credits that are connected with it. There will be some issues in the energy debate this summer that will relate to it.

I would like to have you become conversant on the benefits of that. If the President, obviously, comes to Iowa and gets sold on it, it has got to be a pretty good thing.

Then there is a new product coming down the line that Senator Lincoln and I are very interested in, and that is soy diesel and tax provisions related to that. I would like to have you become conversant on that, also because you are a railroad person and that can be mixed very well with diesel in railroads. Maybe you already do that, I do not know.

The other thing is, there is a new product that the University of North Iowa developed that is kind of a soy track rail curve grease, is what it is called, to cut down on friction with railroads. That is a renewable product, just like ethanol and soy diesel.

You are not dependent upon big oil, you are helping the family farmer. There are so many good things about it. In fact, there is nothing bad about any of these things. They are all good, good, good, and you ought to become acquainted with them.

The next point I would raise, would be something you have already addressed, but just to get one final short comment on it. That is, the President's proposals that individuals should receive dividends tax-free if the corporations pay tax on those dividends. Do you think this proposal would have any effect on stock market prices, and not just a gut feeling, whatever you have studied on it?

Dr. SNOW. Senator, I have not, myself, given the matter any study. But I have talked to friends and associates who are in the stock market business, people who make a living in the equity markets.

Everyone I have talked to has said it is bound to have a positive effect on the stock market. They vary in their estimates, but every person that I know from the equity markets that I have talked to has supported the idea and said it will have a beneficial effect, which seems to make sense to me, I would say.

The CHAIRMAN. Thank you.

On another point, and a different point, during our committee's hearing last September, we had a hearing on the FSC ETI case, which the United States lost to Europe in the WTO.

As a result of Congress having to take action, I suggested that we create a bipartisan, bicameral working group involving Treasury and the USTR to come up with a solution. This group has made good progress, I believe.

I would like to ask for your commitment to continue this process, and ask if you have any views on how this matter should be addressed.

Dr. SNOW. Senator, I will absolutely commit to engage in that process as effectively as I can. It is a priority of the President. He would like to see action on it in the Congress this year. I will engage fully.

But at this point, I do not have any well thought out ideas on how to accommodate the WTO requirements with what, it seems to me, we have to keep in mind as well, and that is not prejudicing the competitiveness of American business.

The CHAIRMAN. I would like to have you comment on a short point that I want to make. This may be unfair to previous secretaries of the last several decades, but it seems to me that a big part of the Treasury Department, which is the 100,000 employees at the IRS, is not given the attention by Treasury secretaries that they should. This is an agency that obviously touches every taxpayer in the country.

I have said in the past that senior Treasury officials could not find the IRS if they were standing at the corner of 11th and Constitution. I do not want this to be said during your tenure at Treasury. I would expect you to have an active interest in the work of the IRS, and when problems occur at the IRS, you should be engaged in reaching solutions.

Congress emphasized its desire to have an active Treasury Secretary and IRS management when we named the secretary to the newly-created IRS Oversight Board. So, I would appreciate any comments on what I have said, as well as your commitment that the IRS will not be a forgotten part of your work.

Dr. SNOW. Yes, Senator. I share fully your admonition to me on that score. I have met the very able deputy director of OMB, Mark Iverson, who has been, I think, nominated now for that role.

I worked with him in getting briefed on OMB matters as they related to Treasury, and was very impressed by him. I think he will be a terrific head of the IRS. I will commit to you to take a direct interest in it.

The CHAIRMAN. All right.

We discussed executive compensation issues in the past. I would like to talk just a little bit about stock options. Companies have embraced stock options as a means of aligning the interests of management with shareholders.

Commentators have stated that the CSX stock option program basically placed management in a position where they could receive all the benefits of stock price increases, but would be insulated from any decrease. I would appreciate your response to that concern, whether it is accurate, inaccurate, or however you want to comment.

Dr. SNOW. Senator, I think there has been some misuse of stock options in many instances. Stock options were conceived of as a mechanism to align the long-term interests of the management with the long-term interests of the shareholders.

For that to happen, management needs to take the proceeds, or should take the proceeds, of option-based transactions in stock. I am happy to see that, in many companies, stock options are taken simply as cash and often exercised shortly after the vesting period is reached. That does not accomplish the objective.

That does not align management with shareholders' long-term interests. It is one of the recommendations of the conference board, the blue ribbon Commission on Corporate Governance, that I served on and which has been referenced, was to suggest that beneficiaries of options programs have long holding periods for the stock, that when they sell the options they take them in stock, and then be required to hold the stock.

In part, I think, some of the problems that we have seen in corporate America over the last several years was an over-reliance on stock options, which took corporate America to a way too short-term focus and misaligned the interests, and got away from the original intent of the stock options themselves.

The CHAIRMAN. I will turn to Senator Baucus. I only have two more points I want to make, and I will turn to Senator Baucus first.

Senator BAUCUS. Thank you, Mr. Chairman.

First, just a clarification here, Mr. Snow. You wondered how your statement, which is true, that a family of \$40,000, roughly, gets a tax reduction of, what, \$1,100.

Dr. SNOW. Eleven hundred.

Senator BAUCUS. How that would square with Senator Conrad's chart that showed that taxpayers basically in that category would not get near as much reduction. I think the answer is that the \$40,000 income family would get that benefit only in 1 year—that is, that comes up in 2003, if I am reading the figures correctly—whereas, his chart was a 10-year chart. It shows the average over 10 years.

So that family, when the dividend provisions as proposed were to kick in, and other provisions kick in in later years, it would have the effect, on average, over 10 years, of what Senator Conrad's chart showed, whereas, the administration's statement was true, but it is only true in the first year. It is not true in terms of comparing with other income taxpayers, on the average, over 10 years.

The basic question I have is—well, a couple of them. First, why do you want this job?

Dr. SNOW. Senator, I—

Senator BAUCUS. Really. Stop and think about it.

Dr. SNOW. I will tell you why. It is a great chance—

Senator BAUCUS. Your wife would like to hear the answer to this question.

Dr. SNOW. I am a great believer in public service. I have been in public service before. I think it is the noblest calling, and the worthiest calling. I am deeply honored and humbled to have an opportunity to serve, and to serve in such a significant role in ad-

dressings these vastly important issues that you and your colleagues have talked to me about today.

What did President Kennedy say about public service? That it was the opportunity to use one's talents in the highest and most challenging calling for the most worthy cause. I cannot be as lofty as he, but it is those sorts of sentiments that animate me here.

Senator BAUCUS. What moral obligation do we have as public servants, you and I, and others? Because at some point in our lives, we are no longer going to be here. So what moral obligation do we have to try to leave this place in as good a shape, or better shape, than we found it?

Dr. SNOW. Senator, I think that is the moral obligation. I think the moral obligation is to expend our talents, our energies, our efforts to make the world a better place while we are here, and to leave the world a better place for the fact that we were here.

Senator BAUCUS. Then, presumably, that would include our children and grandchildren.

Dr. SNOW. Most importantly, I think. Most importantly. What concerns me about those charts that we looked at, is the burden that we are going to be leaving our children and grandchildren unless we can find some answers to those huge obligations of the future.

Senator BAUCUS. Well, that is what I was going to get into next, and that is those very same concerns.

You made the point, and it is true, that a slight percentage change in growth rates, inflation rates, employment rates, and other variables can dramatically change those charts one way or the other. They can go higher, or they can go lower.

I have forgotten the exact figure, but, my gosh, I can remember it is something to the effect that, over a six- or seven-month period, OMB and CBO's estimates for a ten year period change, at one point, by over \$1 trillion. The estimates can change very quickly.

But, still, these charts are useful. They are the best evidence we have as to what the future holds. Even though the future will change from these estimates very significantly. So I guess we have to make the best judgment we can based upon the information that we have.

My concern, and I think you heard it on both sides of the aisle here, is about the long term, given the best evidence that we have, just being reasonable people, just looking ahead the best we can, knowing things are going to change very significantly. Who knows whether the United States is going to invade Iraq, and if we do, when or how long it is going to last.

There are many who have observed that the longer this is prolonged, the more there is a cloud over the economy. Now, of course, nobody is suggesting the Administration wants to speed up military action just for the sake of getting the economy back into better shape. That would be irresponsible, to say the least.

But if you look ahead at the potential cost of the war, who knows? Potential occupation costs. At this point, we do not see European countries rushing in to support us, as they did in the Gulf War.

The AMT. Senator Conrad mentioned it. It is \$600 billion over 10 years. You and I both know we are going to have to pay. Then the trust fund problems, Social Security, Medicare.

Prescription drug benefits, which have not received a price tag yet. Last year, prescription drug benefits that we were debating cost in the neighborhood of \$300 to \$600 billion a year. That was last year. We have inflation to worry about here. So, I am not going to get into a debate with you over whether the President's plan is really going to spur growth or not.

But if you look at all the probable potential costs—they may not happen. Who knows? But you have to give it your best judgment—and given what happened back in the 1980's with big tax cuts, it did stimulate the economy, but in addition, deficits rose. They did not fall, they rose. Partly because that is revenue, partly because this government thought it was correct to spend more on defense because of the Cold War problems back then.

So I just urge you and the administration, in exercising our moral obligation and noble calling, to dig down deeper and find solutions that are better, not just for the short-term, that is, not just today, in 2003 and 2004, which is a big year, but also for the future.

I say that, in part, because I think that will engender more confidence in the American public and American businesses, and frankly enhance long-term growth.

My judgment is that most consumers, and most investors, really are looking for more stability, more certainty so they can better plan their futures and think ahead a little more. The more there is uncertainty and instability, the harder it is to plan, the more there is a dampening effect. People withhold spending, investors withhold investment, et cetera.

There are a lot of people, mainstream people, who have very significant misgivings about the potential longer term debt and deficits, even though we know that things can change a little bit. Just averaging it all out, it looks like it is probably going to happen.

I just urge you and the administration to give it a second thought for doing what is right. People will reward you and the administration "for doing what is right," whatever that is.

But basically right, just kind of making the best judgment, listening to the music as well as the words, reading between the lines, and kind of getting a sense of what is basically right here. Most people think that this plan is not right.

Certainly not the dividend package. There is support for it, but I must tell you, I have called a lot of CEOs of American companies and have asked them, what should we do about this? What about this dividend plan? Nobody supports it. They do not.

They say, stimulate spending and consumer demand to stimulate the economy in the short run so more of our products can be bought. They do not care a lot about dividends.

Also, it is the complexity of the dividend proposal. It is unimaginably complex. It is not just a reduction or exclusion of dividend income from tax. It is not that at all.

Chairman Thomas is right, some get tax cuts, some do not. We have got these different pots. Can a company declare dividends, or can it not, depends on last year's income taxes paid. Then you have

got the loss carried back for 2 years, then you have the dividends deemed, in what year, what period.

I mean, Senator Nickles held up the Code. I am not saying that that book is going to double in size if this is enacted, but it is certainly not going to decrease in size. It is going to increase.

My basic point to you is, as you think about the noble calling and moral obligation, is there not some way we can work better together for the people we represent?

Dr. SNOW. Well, Senator, I look forward to doing precisely that. I do not think, though, we should shrink from putting in place good economic policy. I have not heard anybody—anybody—say that, despite the complexities of it, that equalizing the treatments of debt capital and equity capital is not a good idea.

Whether economists from the left, the right, or the middle, they all agree on the proposition that this is a distortion in the economy that hurts our performance, that leads to higher debt-equity ratios, and on and on. I will not give you the argument.

But I hear you and I want to engage with you in the same way you are engaging with me. These are complex issues. There are arguments on all sides of these issues.

Senator BAUCUS. I might say, no one really disputes what you just said. I have talked to and asked a lot of people who I think kind of know what is going on about taxation dividends, and they all agree with you. No economist will dispute the points you have made.

However, almost all of them will say—at least the ones I have talked to, and I try to find mainstream people, because it does not do me any good to find people on one side or the other, knowing what they are going to say—that there are other reforms which are better. There are other changes in the Code which are better, agreeing that eliminating the double taxation is a needed reform.

A couple of other questions I have, or things I want to point out, is the FSC ETI issue. Several Senators have raised it. I urge you to work very aggressively on this. It is not just a tax change. It is not only a change to the tax law, but it is a change in the trade policy of the WTO. As you know, that is a big debate around here.

Chairman Grassley and I did put together this working group, and I strongly urge you at Treasury to help find a solution which is both tax-related, as well as WTO-related.

As you know, you are going to run into tremendous resistance by the administration. They do not want to go to the WTO, a lot of them do not. It is extra work for them. The WTO is complicated enough as it is.

But the point I am making is, the WTO rulings are very unfair to the United States and we should not enact tax changes which reward that unfairness and those rulings.

The unfairness, basically, is that a direct taxation system is discriminated against compared with an indirect taxation system, as you know. So sometimes we have to go the extra mile, work harder, put more on our plate to do what is right for the sake of American manufacturing and exporters, particularly.

So you will hear many of us doing the best we can to make sure that we follow that double track, not just a single change in the

Tax Code track, which frankly rewards discrimination against the United States.

Dr. SNOW. Senator, I thank you on that. I pledge to work hard to find the right answer. It will not surprise you, despite your reservations about the dividend proposal, that I am going to be a strong advocate for it.

If there are other proposal that work well, I am anxious to talk to you about them as well. But I really do think you never go wrong when you line up behind good economic policy. That is good economics, I can guarantee you that.

Senator BAUCUS. Well, there is not a lot of enthusiasm in the people I have talked to.

Next, is the strong dollar. You have heard several Senators here comment on the strength of the U.S. dollar compared to other countries' currencies. I think this is going to be a bigger issue in the next couple, 3 weeks, months, and years.

That is basically because a lot of other countries do pursue a weak currency policy in order to export and help their manufacturers, help their exporters. It is true. A high-dollar policy makes imports cheaper. When consumers buy cheaper products than they otherwise might, it tends to keep inflation down.

The Treasury Department, in past years, has loved a high dollar because they really like to keep those inflation rates down. That is sort of an unwritten and little-known secret around here, regardless of competitive policy.

I just urge you to give a long, hard look at the problem. It is a big problem. It probably explains our burgeoning deficit with China. As you know, the trade deficit we have with China has surpassed that of Japan, and largely it is because the Japanese currency is undervalued.

So, I encourage you very much to work with China. When I talk to people about this, somebody will say, well, it is good that the Chinese have not let their currency fluctuate in the market, because that hastens the day when the politburo leaves. This is the State Department speaking. They are going to say all this stuff.

Sure, those American exporters have a concern and all that, but, gee, we have got to keep organized the way of the world design and shape, and we have got to hasten the day the politburo goes down the tubes so that there is more competition and so more companies do more business in China, et cetera.

I understand all that and I appreciate that. But to a significant degree, we do not stand up enough for our exporters, farmers, ranchers, manufacturers. I think you are going to find more—and I am the third Senator to mention this point today—in the future. So, I just urge you to think much more deeply about that.

Another point, and I am about done. That is the enforcement, or lack of enforcement at the IRS. According to former Commissioner Rossotti—these are startling statistics—56 percent of identified taxpayers with incomes of \$100,000 or more and under-report are not pursued by the IRS. Half, with incomes over \$100,000 and under-report, are not pursued by the IRS.

Seventy-nine percent of identified taxpayers who use abusive devices—offshore accounts, et cetera—are not pursued. Eighty percent are not pursued. Seventy-five percent of taxpayers who do not

file a tax return are not pursued. Sixty percent of identified tax debts are not pursued. We have a huge enforcement problem.

I think the Treasury has said about \$70 billion of income taxes is not collected because of offshore shenanigans, and about \$30 to 40 billion of that is just garden-variety Americans, a little bit of income. Their credit cards. They manipulate offshore accounts which are not reported.

I mean, that is \$70 billion in 1 year. I think the American people know this. It undermines their confidence in the Federal Government. What is really going on here?

I think you could do a great service in really looking at enforcement in a proper way, a fair, but firm, way. Not just lip service, not gestapo, but just fair but firm, going after these people who are not being Americans. I think it would be very important.

Finally, let me say I just wish you very well. You will be a very good Treasury Secretary, and I wish you the best.

Dr. SNOW. Thank you very much, Senator.

Senator BAUCUS. My door is always open.

Dr. SNOW. Thank you very much. I look forward to following up on a lot of these issues you raised and being available to you at any time as well. Thank you.

Senator BAUCUS. I might say, too, I looked up the town you mentioned that we discussed earlier. I could not find it.

Dr. SNOW. Brodus?

Senator BAUCUS. No, no. You mentioned Aldus.

Dr. SNOW. It is my midwestern pronunciation. It is Brodus.

Senator BAUCUS. Oh, Brodus. All right. Yes. That is a big town in Montana.

Dr. SNOW. Sorry. Yes. It was Brodus.

Senator BAUCUS. Brodus. Yes. Thanks.

The CHAIRMAN. Thank you.

Two things, to finish up here. One, is in regard to a discussion, I think it was the last point that Senator Lincoln asked you about, about insurance products at CSX that were part of your compensation, or potentially part of your compensation.

To ensure that she has a complete answer, could you please commit to written answer what insurance products were part of your compensation package, and what, if any, change has taken place with your leaving CSX?

Dr. SNOW. Yes, I will. I will be delighted to do that. She asked me if I had a split-dollar life policy. I do not, and I have not. But the board at one point, some point a year or so ago, committed to make that available to me as part of the retirement package.

Then in the post-Sarbanes era, there was a question about whether or not a split-dollar policy is a loan or not, or is an implicit loan, that the compensation could be.

The board said that they thought it inadvisable to make that split-dollar life policy available and simply gave me a life insurance policy for my heirs. But I would be delighted to do that, Senator.

The CHAIRMAN. All right. Thank you.

Then the last one you can answer in writing as well, but it relates to something that Senator Baucus and I, last year, worked very hard to provide the administration with the flexibility it need-

ed to administer and operate the newly-created Department of Homeland Security.

In so doing, we provided allowances for the Secretary of Treasury to delegate certain revenue-related functions under the U.S. Customs Service to the Secretary of Homeland Security.

In subsequent letters, however, and in a November colloquy, we also made it very clear that we did not intend for wholesale, or even large-scale, delegation of this authority to occur. I reiterated this intention in a letter that I recently sent to the Acting Secretary of the Department of Treasury.

And, while I do not expect you to answer this question today, I would be interested in learning about your intentions regarding delegation of these revenue-related functions to the Department of Homeland Security, and would want an answer for the record, and the more prompt, the better.

Dr. SNOW. I would be pleased to do that, Senator.

The CHAIRMAN. Yes. I would restate, or I guess associate myself with the remarks of Senator Baucus, on your handling of today's meeting and our wishing you well for the future, and to work with you and have an open door as well. Thank you very much.

Senator BAUCUS. I might say, before we adjourn.

The CHAIRMAN. Yes. Go ahead.

Senator BAUCUS. It is a small point. But the Customs programs within Treasury. My understanding is that the Treasury Secretary has to decide in 3 weeks whether or not to make a transfer of revenue collection operations to Homeland Security.

I urge you, and I assume you will be confirmed by then, to take a good, hard look at that and not make that transfer. I think it is important that the revenue collection functions remain in Treasury.

Dr. SNOW. Thank you for that, Senator.

The CHAIRMAN. Thank you all. Hearing adjourned.

[The prepared statement of Senator Santorum appears in the appendix.]

[Whereupon, at 1:35 p.m. the hearing was concluded.]

APPENDIX

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Thank you, Mr. Chairman. Along with you and Senator Baucus, I extend my welcome to the new members of the committee. I appreciate your scheduling today's hearing on the confirmation of Dr. John Snow as Treasury Secretary. I believe it is critical that we confirm a new Treasury Secretary as soon as possible. Our President needs a Cabinet Secretary who can serve as an unimpeachable spokesman on the economy, and who can effectively promote policies to strengthen it and to make our tax system fairer, more effective, and simpler for all Americans.

I applaud President Bush's choice of John Snow. Dr. Snow has a strong track record of high-level experience in both government and in the private sector. He has worked in the Department of Transportation, and he gained vast corporate experience as he rose through the management ranks at CSX. Also, we should not overlook the fact that John Snow is a trained economist, with knowledge on what makes economies as vast and complex as ours tick.

Moreover, Dr. Snow has shown that he has what it takes to lead a major organization through a difficult transition to meet a changing world. Perhaps most important, he has worked for decades with other political and business leaders to promote sound economic policy. His will be a steady hand at the helm.

We need John Snow's kind of experience and leadership at the head of Treasury. Our economy is fundamentally strong, but we know that major challenges lie ahead. In the near term, the President's team needs a strong leader to push the Bush growth and jobs package through Congress, and to keep American businesses competitive and creating jobs in the face of ever-increasing globalization.

I support the President's plan to speed up the 2001 income tax cuts and to finally end the double taxation of dividends. These actions will strengthen our economy, improve corporate governance, and give a much-needed tax cut to families in Utah and throughout America. I look forward to working with Dr. Snow, Chairman Grassley, Senator Baucus, and the other members of the Committee to move these proposals through the Senate.

Once he is confirmed, our new Treasury Secretary will face a significant challenges. In particular, our ongoing trade dispute with the EU over the Foreign Sales Corporation regime and its successor tax provision will require action by Congress. In that process, Congress will benefit from the assistance of the Treasury Secretary and the US Trade Representative. I hope that we can resolve the FSC/ETI dispute this year, and at the same time enact important provisions to remove some of the tax law's impediments to the growth of U.S.-based multinational companies.

This is not all. Our next Treasury Secretary will have to grapple with the nearly overwhelming problems facing Social Security and the tax system. I am confident that Utah's families and business enterprises can look to John Snow to start us on the road to reform.

Again, I want to thank Chairman Grassley for scheduling this hearing, and I look forward to listening to today's testimony. Welcome, Dr. Snow.

PREPARED STATEMENT OF HON. RICK SANTORUM

Chairman Grassley and Ranking Member Baucus, I am happy to participate in this nomination hearing of Mr. John Snow, Secretary-designate of the United States Treasury. As a new member to the Senate Finance Committee, let me first say that I look forward to working with both of you as an active member of this committee in the 108th Congress. From the consideration of the Charity Aid, Recovery and Empowerment (CARE) Act to an economic growth and jobs proposal to be forged

over the next few months—I believe there is much to tackle, and anticipate constructive debates that will produce solid results.

The matter before the Committee today is President Bush's nomination of John Snow to become the Secretary of the U.S. Treasury. I have had the pleasure of working with John in his leadership capacity at CSX. I believe his professional experience in the transportation industry paired with his academic background make him a well-qualified candidate. One of the greatest contributions that John brings to this position is a pragmatic view of business operations, and firsthand knowledge of how our nation's economic policies impact jobs, growth, and overall workplace stability.

To that end, I look forward to hearing from Mr. Snow today regarding the President's proposed economic growth package. I am particularly interested in the proposal to eliminate the double taxation of dividends. The debate has already begun over the stimulus effect of this proposal; who it will benefit; and how it will be implemented. One area of consideration that I think has been overlooked, and argue presents one of the biggest benefits, is how this proposal encourages job retention—and ultimately job security. One of the effects of taxing dividends at both the corporate and individual levels has been the accumulation of capital. I would further submit financial build-up encourages corporate behavior that has been volatile to the job market. By restoring the incentive for corporations to pay dividends, we create a more stable business cycle; minimize the propensity for mergers and acquisitions; and minimize job displacement. With job instability being a primary concern of individuals across the United States, this proposal not only speaks to but addresses those very real concerns.

Upon Mr. Snow's confirmation, I anticipate engaging the Department on several items of interest—including the CARE Act and debt relief for Heavily Indebted Poor Countries (HIPC). These have been high priorities of mine in the 107th Congress, and I look forward to working with my colleagues on the Committee, as well as the Administration, to find agreeable solutions and attainable results.

Chairman Grassley, I ask for unanimous consent to submit written questions for Mr. Snow's response. I appreciate you holding this hearing today, and I further encourage the Committee to consider Mr. Snow's nomination promptly.

PREPARED STATEMENT OF DR. JOHN SNOW

Chairman Grassley, Ranking Member Baucus, and members of the Committee, I very much appreciate the opportunity to be here today. I am particularly grateful for the warm introduction by Senators Warner and Allen and the many courtesies they have shown me over the years.

I come before you today as the President's nominee for Secretary of the Treasury. I have great admiration for the President and his leadership and I am both humbled and honored that he would ask me to return to public service at this important time.

The Department has a long and rich history of service to the nation, and it would be an honor to lead so many talented and dedicated public servants. I hope that when this hearing is completed, I will have the confidence of this Committee and, at the appropriate time, the full Senate.

I come before you mindful of the significant role this Committee plays in so many important issues that our nation faces. Having worked closely with both the legislative and executive branches of the federal government for the past thirty years, I understand that public policy issues are complex and that people can have legitimate differences. It is my hope that we can conduct the public debate on these important issues with a high level of constructive discourse and also with mutual respect.

These are clearly important and challenging times. We have seen in the last year and a half the tragic events of 9/11, the war on terrorism, the corporate scandals and the falling stock market. But despite the significant events, the economy is recovering. But as the President has stated, we can and must do better. We must build on the proven strengths of our economy. We must continue to move towards policies that will generate economic growth and more good jobs and rising living standards for all. As long as there are Americans who want a job and can't find one, the economy is not growing fast enough.

That means rewarding hard work and encouraging savings, investment, and the entrepreneurial spirit that benefits everyone. Americans also benefit from a growing world economy and open markets. I am committed to President Bush's initiatives to establish a more prosperous and stable international economy.

If confirmed, I will not be content until everyone who wants to work can find a good job. Jobs give people dignity and provide hope. I know what it's like to need a job and I also know what it takes to create jobs.

I believe that President Bush's recent economic growth proposal moves the tax system, and the potential of the U.S. economy, in the right direction. It will create jobs. It is an investment in the American people and their future.

If confirmed by the Senate, I stand ready to work with this Committee, and indeed all Members, as the Congress confronts the pressing problems of our times.

Before I take your questions, I have one more comment to make during my opening statement.

There has been a consistent policy on the dollar going back the better part of a decade, which I support. I favor a strong dollar. A strong dollar is in the national interest. A strong currency provides a reliable medium of exchange and serves as a stable store of value that people choose to hold. Sound, pro-growth economic policies and a commitment to free and open markets are the foundation for a strong dollar.

Thank you for the opportunity to appear here today and I will be happy to answer any questions.

**SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**
John William Snow
2. **Position to which nominated:**
Secretary of the Treasury
3. **Date of nomination:**
TBD
4. **Address: (List current residence, office, and mailing addresses.)**
Residence: 122 Tempsford Lane, Richmond, Virginia 23226
Office: Office of the Chairman, CSX Corporation, 901 East Cary Street,
Richmond, Virginia, 23219
Mailing: Either of above.
5. **Date and place of birth:**
August 2, 1939 in Toledo, Ohio.
6. **Marital status: (include maiden name of wife or husband's name.)**
Married to Carolyn Kalk Snow. Her maiden name was Carolyn Elizabeth Kalk.
7. **Names and ages of children:**
Christopher Howard Snow, age 21
Ian Kendall Snow, age 33
Bradley Dean Snow, age 37

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

- 1970 to 1987: Johns Hopkins University, Master of Liberal Arts, awarded in May of 1988.
- 1964 to 1967: George Washington University Law School, LL.B., awarded in June of 1967.
- 1962 to 1965: University of Virginia, Ph.D., Economics, awarded in June of 1965.
- 1960 to 1962: University of Toledo, B.A., awarded in June of 1962.
- 1958 to 1960: Kenyon College, undergraduate credits earned.
- 1957 to 1957: University of Toledo, undergraduate credits earned.
- 1955 to 1957: Gilmour High School, High School Diploma, awarded in June of 1957.
- 1953 to 1955: Central Catholic High School, high school years completed.

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

- 2002 to present: *Chairman & Chief Executive Officer*, CSX Corporation, 901 East Cary Street, Richmond, Virginia, 23219.
- 1991 to 2002: *Chairman, President and Chief Executive Officer*, CSX Corporation, 901 East Cary Street, Richmond, Virginia, 23219.
- 1989 to 1991: *President and Chief Executive Officer*, CSX Corporation, 901 East Cary Street, Richmond, Virginia, 23219.
- 1988 to 1989: *President and Chief Operating Officer*, CSX Corporation, 901 East Cary Street, Richmond, Virginia, 23219.
- 1987 to 1988: *President and Chief Executive Officer*, CSX Transportation, 500 Water Street, Jacksonville, Florida 32202.

- 1986 to 1987: *President and Chief Executive Officer*, CSX Rail Transport, 500 Water Street, Jacksonville, Florida 32202.
- 1985 to 1986: *President and Chief Executive Officer*, Chessie System Railroads, 100 North Charles Street, Baltimore, Maryland 21201.
- 1984 to 1985: *Executive Vice President*, CSX Corporation, 701 East Byrd Street, Richmond, Virginia 23219.
- 1980 to 1984: *Senior Vice President, Corporate Services*, CSX Corporation, 701 East Byrd Street, Richmond, Virginia 23219.
- 1977 to 1980: *Vice President, Government Affairs*, Chessie Systems, Incorporated, 15th & New York Avenue, N.W., Washington, D.C. 20005.
- 1977 to 1977: *Visiting Fellow*, American Enterprise Institute, 1150 17th Street, N.W., Washington, D.C. 20036.
- 1977 to 1977: *Visiting Professor of Economics*, University of Virginia, Charlottesville, Virginia 22904.
- 1976 to 1977: *Administrator*, National Highway Traffic Safety Administration, 400 7th Street, S.W., Washington, D.C. 20590.
- 1975 to 1976: *Deputy Undersecretary*, U.S. Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590.
- 1974 to 1975: *Acting Assistant Secretary for Government Affairs*, U.S. Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590.
- 1973 to 1974: *Deputy Assistant Secretary for Policy*, U.S. Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590.
- 1972 to 1973: *Assistant General Counsel*, U.S. Department of Transportation, 400 7th Street, S.W., Washington, D.C. 20590.

- 1972 to 1975: *Adjunct Professor of Law*, George Washington University Law School, 2000 H Street, N.W., Washington, D.C. 20052.
- 1970 to 1970: *Consultant*, Prentice Hall, Washington, D.C.
- 1967 to 1972: *Attorney*, Wheeler & Wheeler, 808 17th Street, N.W., Washington, D.C. 20006.
- 1966 to 1966: *Economic Consultant*, National Congress of Petroleum Retailers (renamed the Service Station Dealers of America and Allied Trades), 1532 Pointer Ridge Place, Suite E, Bowie, Maryland 20716.
- 1965 to 1969: *Assistant Professor of Economics*, University of Maryland, College Park, Maryland 20742.
- 1965 to 1965: *Consultant*, Wheeler & Wheeler, 808 17th Street, N.W., Washington, D.C. 20006.
- 1964 to 1965: *Dissertation Fellow*, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington, D.C. 20210.
- 1964 to 1964: *Instructor*, American and European Economic History, University of Virginia, Charlottesville, Virginia 22904.
- 1962 to 1964: *National Defense Education Act Fellow*.

I have also held or hold positions with the following subsidiaries of CSX Corporation in connection with my executive leadership positions with the company:

- 1997 to present: *Co-Chairman of the Board and Co-Chief Executive Officer*, CRR Holdings, LLC, 901 East Cary Street, Richmond, Virginia 23219.
- 1996 to present: *Director*, Green Acquisition Corporation, 50 North Laura Street, Jacksonville, Florida 32202.
- 1996 to 1997: *Chief Executive Officer and President*, Green Acquisition Corporation, 50 North Laura Street, Jacksonville, Florida 32202.
- 1997 to present: *Co-President*, Green Acquisition Corporation, 50 North Laura Street, Jacksonville, Florida 32202.

- 1988 to present: *Director*, CSX Hotels, Incorporated, 300 West Main Street, White Sulphur Springs, West Virginia 24986.
- 1988 to present: *Director*, The Old White Development Company, 300 West Main Street, White Sulphur Springs, West Virginia 24986.
- 1988 to present: *Director*, Greenbrier Village Utility Company, 300 West Main Street, White Sulphur Springs, West Virginia 24986.
- 2000 to 2002: *Director*, Baronial Transportation Corporation, Dissolved, 901 East Cary Street, Richmond, Virginia 23219.
- 1998 to present: *Director*, Brown Water Transportation Corporation, 901 East Cary Street, Richmond, Virginia 23219.
- 1989 to 1998: *Chairman of the Board and President*, CSX Anchorage, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.
- 1988 to present: *Director*, CSX Anchorage, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.
- 1997 to present: *Chairman of the Board and President*, CSX Rail Holding Corporation, 901 East Cary Street, Richmond, Virginia 23219.
- 1988 to 1998: *Chairman of the Board*, American Commercial Lines, Incorporated, 1701 East Market Street, Jeffersonville, Indiana 47130.
- 1984 to 1998: *Director*, American Commercial Lines, Incorporated, 1701 East Market Street, Jeffersonville, Indiana 47130.
- 1988 to 1999: *Director*, CSX/Sea-Land, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.
- 1991 to present: *Chairman of the Board and Director*, Sea-Land Services, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.
- 1999 to present: *Chairman of the Board and Director*, Sea-Land Terminals, LLC which became CSX World Terminals, LLC in 1999, 901 East Cary Street, Richmond, Virginia 23219.
- 1990 to present: *Director*, The Greenbrier Resort Management Company, 300 West Main Street, White Sulphur Springs, West Virginia 24986.

- 1998 to 2000: *Director, CTI Holding, Incorporated, 901 East Cary Street, Richmond, Virginia 23219*
 - 1998 to present: *Co-President and Director, Consolidated Rail Corporation, 2001 Market Street, Philadelphia, Pennsylvania 19103.*
 - 1990 to 1999: *Director, Grand Teton Lodge Company, North Highway 89, Post Office Box 250, Moran, Wyoming 83013*
 - 1991 to 1998: *Chairman of the Board and President, CSX Juneau Mining, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.*
 - 1990 to 1998: *Director, CSX Juneau Mining, Incorporated, 901 East Cary Street, Richmond, Virginia 23219.*
 - 1996 to 1997: *Director and President, Green Merger Corporation, 901 East Cary Street, Richmond, Virginia 23219.*
 - 1989 to 1998: *Chairman of the Board and President, SUPRA Corporation, 901 East Cary Street, Richmond, Virginia 23219.*
 - 1989 to present: *Director, SUPRA Corporation, 901 East Cary Street, Richmond, Virginia 23219.*
 - 1988 to present: *Director, CSX Technology, Incorporated, 500 Water Street, Jacksonville, Florida 32202*
10. **Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)**

ORGANIZATION	POSITION	TENURE
Federal Aviation Administration Air Traffic Services Subcommittee	Chairman	2000 to 2002
Governor Ronald Reagan's Advisory Group on Regulatory Policy (1980 Presidential Campaign)	Member	1980
Governor's Task Force on Executive Reorganization in Maryland	Advisor	1967
National Commission on Economic Growth and Tax Reform	Member	1995 to 1996

National Commission on Financial Institution Reform, Recovery and Enforcement	Co-Chairman	1992 to 1993
Richmond City School Board	Member	1983 to 1985
Transportation Task Force (President-elect Reagan's Transition Committee)	Member	1980 to 1981
National Commission on Intermodal Transportation	Member	1992
Services Policy Advisory Committee for U.S. Trade Representatives	Member	Approximately 1991 to 1992
President Gerald Ford's Domestic Policy Review Group	Member	1973 to 1974
Washington, D.C. Airports Task Force	Member	1989 to 1990
White House Conference for a Drug Free America	Member	1987 to 1988

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

ORGANIZATION	POSITION	TENURE
American Commercial Lines, Incorporated	Chairman of the Board Director	1988 to 1998 1984 to 1998
Baronial Transportation Corporation	Director	2000 to 2002
Basset Furniture Industries, Inc.	Director	1990 to 1998
Brown Water Transportation Corporation	Director	1998 to present
Carmax, Inc. (and predecessor Circuit City, Inc.)	Director	1996 to present
College of William and Mary School of Business Administration Sponsors, Inc.	Director	1988 to 1996
Consolidated Rail Corporation	Co-President Director	1998 to present 1998 to present
CRR Holdings, LLC	Co-Chairman of the Board and Co-Chief Executive Officer	1997 to present
CSX Anchorage, Incorporated	Chairman of the Board and President	1989 to 1998

ORGANIZATION	POSITION	TENURE
	Director	1988 to present
CSX Corporation	Chairman President CEO	1991 to present 1988 to 2002 1988 to present
CSX Hotels, Incorporated	Director	1988 to present
CSX Juneau Mining, Incorporated	Chairman of the Board and President Director	1991 to 1998 1990 to 1998
CSX Rail Holding Corporation	Chairman of the Board and President	1997 to present
CSX/Sea-Land, Incorporated	Director	1988 to 1999
CSX Technology, Incorporated	Director	1988 to present
CTI Holding, Incorporated	Director	1998 to 2000
Dominion Resources, Inc.	Director	1992 to 1995
Grand Teton Lodge Company	Director	1990 to 1999
Green Acquisition Corporation	Director Chief Executive Officer and President Co-President	1996 to present 1996 to 1997 1997 to present
Green Merger Corporation	Director and President	1996 to 1997
Greenbrier Village Utility Company	Director	1988 to present
Johns Hopkins Risk Sciences and Public Policy Institute	Member	1995
Johns Hopkins University	Board of Trustees	1993 to present
Johnson & Johnson	Director	1998 to present
NationsBank, Inc. (and predecessors First & Merchants Bank and Sovran Bank)	Director	1987 to 1997
Sapient Corporation	Director	2002 to 12/31/02
Sea-Land Services, Incorporated	Chairman of the Board and Director	1991 to present
Sea-Land Terminals, LLC which became CSX World Terminals, LLC in 1999	Chairman of the Board and Director	1999 to present
SUPRA Corporation	Chairman of the Board and President Director	1989 to 1998 1989 to present
Textron, Inc.	Director	1991 to 1998
The Greenbrier Resort Management Corporation	Director	1990 to present

ORGANIZATION	POSITION	TENURE
The Old White Development Company	Director	1988 to present
U.S. Steel Corporation (and predecessor USX)	Director	2001 to present
University of Tennessee Development Council	Member	1988 to present
University of Virginia Darden Graduate School of Business Administration	Board of Directors	1995 to 2001
Verizon Communications, Inc. (and predecessor GTE Corporation)	Director	1998 to present

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

ORGANIZATION	POSITION	TENURE
American Bar Association	Member	Approximately 1968 to 1991
American Economic Association	Member	Approximately 1964 to 1972
American Enterprise Institute	Board of Trustees	1994 to present
American Men of Science	Biographee	Approximately 1972
American Society of Traffic and Transportation	Member	Approximately 1968 to 1974
Association of American Railroads	Director	1985 to present
Augusta National Golf Club	Member	1993 to 2002
Better American Foundation	Member	1995
Brookings Council	Member	1993 to present
Bull and Bear Club	Member	1988 to present
Business Council	Member Vice Chairman Executive Committee	1992 to present 1999 to 2001 1993 to present
Business Roundtable	Member Chairman	1989 to present 1994 to 1996
Capitol Hill Club	Member	1997 to present
Center for Energy and Economic Development	Member Chairman	1993 to 2002 1993 to 1995
Center for Excellence in Government	Principal	1987 to 2002
Center for Strategic and International Studies, Global Energy Advisory Committee	Member	1999
Chevy Chase Club	Member	1965 to present

ORGANIZATION	POSITION	TENURE
Citizens for a Sound Economy	Member	1988
Coal Based Generation Stakeholders Group	Member	1999 to present
Commonwealth Club	Member	1981 to 2002
Competitiveness Center of the Hudson Institute	Member	1992 to 1993
Conference Board on Public Trust and Private Enterprise	Co-Chairman	2002 to present
Council of 100 (Florida)	Member	1989
Council on Economics Education in Maryland	Member	Approximately 1965 to 1968
Country Club of Virginia	Member	1984 to present
District of Columbia Bar	Member	1972 to 1991
East Lake Golf Club	Member	2001 to present
Elkridge Club	Member	1987 to present
Environmental Quality Committee of Natural Resources Section of American Bar Association	Member	Approximately 1968 to 1972
Federal Bar Association	Member	Approximately 1968 to 1974
Federal City Council of Washington, D.C.	Member	Approximately 1977 to 1980
Federated Arts Council of Richmond	Member	1981 to 1985
Forum Club	Member	Approximately 1992 to present
Foundry Golf Club	Member	1999 to present
Interstate Commerce Commission Practitioners Association (defunct)	Member	Approximately 1968 to 1975
Kennedy Center Corporate Fund Board	Vice Chairman Chairman	2000 to 2002 2002 to 2003
Kentucky Economic Development Corporation	Not available	Not available
Kentucky Coal Authority	Member	1990
King Coal Club	Member	1997 to 1998
Kinloch Golf Club	Member	1999 to present
Larendale Tennis Club	Member	Approximately 1985 to 1986
Laurel Valley Golf Club	Member	2001 to present
Management Roundtable, Richmond, Virginia	Member	1995 to present
Metropolitan Club	Member	1983 to present

ORGANIZATION	POSITION	TENURE
(Washington, D.C.)		
National Audubon Society	Member	1998 to 1999
National Coal Council	Member	1988 to 1995
National Constitution Center	Director	1998 to 2002
National Freight Transportation Association	Member	Approximately 1985 to 1989
Pablo Creek Golf Club	Member	2002 to present
Partners in Economic Reform (private group to foster labor/management relations in the Russian Mining Industry)	Member	1991 to 1997
President Nixon's Inaugural Ball Committee	Member	1972 to 1973
Richmond Children's Museum Advisory Board	Member	1989 to 1996
Richmond Renaissance (public/private partnership to promote community development in Richmond, VA)	Member, Executive-Committee Treasurer	Not available 1982-1985
Rolling Rock Club	Member	2002 to present
Ron Brown Award for Corporate Leadership	Director Chairman	1997 to present 1999 to 2000
San Jose Country Club	Member	1986 to 1988
Supervisory Board of NDX Intermodal BV	Member	1996 to 1998
The Floridian	Honorary Member	2000 to present
The Olde Farm Golf Club	Member	2001 to present
University Club, Washington, D.C.	Member	Approximately 1968 to 1980
Virginia Bar Association	Member	1958 to 1992
Virginia Business Council	Member	1989 to present
Virginia Foundation for Independent Colleges	Member	1988 to 1990
Virginia Museum	Board of Trustees	1988 to 1994
Virginia Museum of Fine Art	Trustee	1988 to 1994
Virginia Union	Director	1981 to 1985
Washington Center for the Performing Arts	Member	1978 to 1980

13. **Political affiliations and activities:**

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

I have never been a candidate for public office.

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

To the best of my recollection and records, I rendered the following services to political parties or election committees in the past 10 years:

- Served as Co-Chairman of National Republican Senatorial Committee and National Republican Congressional Committee's House-Senate Dinner in 2000 and 2002
- Served as Co-Chairman of the National Republican Senatorial Committee's Senate Dinner in 1999-2002
- Member of the Republican National Committee's Team 100 and Eagles Committee in various years since 1993
- Served as Co-Chair of the New York Republican Party's NY Victory 2002 Dinner in August 2002
- Co-hosted a fundraising event for the Taft/Bradley Committee (Ohio) in July 2002
- Hosted a fundraising event for Senator Gordon Smith in May 2002
- Served on the Finance Committee for the Florida Republican Party's FL Victory 2002 Dinner in January 2002
- Hosted a fundraising reception for Senator John Warner in December 2000
- Served as Coordinating Co-Chairman and hosted a reception for the Republican National Committee's Victory 2000 fund in 2000
- Served as Finance Chairman and hosted a fundraising event for the George Allen for Senate committee in 2000
- Served on the Finance Committee and hosted a fundraising event for the McCain for President committee in 2000.
- Served as Vice Chairman for the Republican National Committee's

2000 RNC Gala

- Served as State Fundraising Chairman for the Republican Governors' Association in 1999
- Hosted a fundraising event for American Success PAC, Congressman David Dreier's political action committee, in 1998
- Co-hosted a fundraising event for Taft/O'Connor Committee (Ohio) in 1998
- Hosted an event in Richmond, Virginia for the Republican Senatorial Campaign Committee in 1998
- Hosted a fundraising reception for Senator John McCain in December 1997
- Served on the Finance Committee of the Jim Gilmore for Governor committee in 1997
- Served as Chairman of the Presidential Trust of the Republican National Committee for the State of Virginia in 1996
- Hosted a fundraising event for the Dole for President committee in June 1995
- Hosted a reception for the Jim Miller for Senate committee in 1993
- Served on the Finance Committee and hosted a fundraising event for the George Allen for Governor committee (Virginia) in 1993
- Co-Hosted a fundraising event for the Republican National Committee in Richmond, Virginia in 1992

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

To the best of my recollection and records, the following is a list of contributions I have made to individuals, campaign organizations, political parties, political action committees, or similar entities of \$50 or more in the last 10 years. Please note that in addition to my individual contributions, CSX Corporation, of which I am Chairman and CEO, has made significant political contributions in the past 10 years.

<u>CONTRIBUTIONS</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>RECIPIENT</u>
Federal Candidate Contributions			
	\$1000.00	10/03/02	Alexander for Senate
	\$1000.00	06/29/02	Friends of George Allen (for 2006 cycle)
	\$1000.00	05/09/02	Gordon Smith for U.S. Senate 2002, Inc.
	\$1000.00	04/05/02	Murtha for Congress Committee
	\$1000.00	11/02/01	Lindsey Graham for Senate
	\$1000.00	12/11/00	Friends of John Warner Committee
	\$1000.00	11/15/00	Bush-Cheney Recount Fund
	\$1000.00	10/19/00	Santorum 2000
	\$1000.00	10/12/00	Abraham for Senate 2000 (general)
	\$1000.00	05/08/00	Cantor for Congress
	\$1000.00	04/06/00	Bush for President, Inc.
	\$1000.00	06/30/99	Abraham for Senate 2000 (primary)
	\$1000.00	06/03/99	Friends of George Allen (general)
	\$1000.00	03/29/99	McCain 2000, Inc.
	\$1000.00	03/26/99	Friends of George Allen (primary)
	\$1000.00	10/27/98	Friends of Senator Don Nickles
	\$1000.00	10/06/98	Citizens for Ernest F. Hollings
	\$1000.00	09/28/98	Sam Brownback for Senate
	\$1000.00	09/25/98	Citizens for Bunning
	\$1000.00	09/21/98	Faircloth for Senate Committee 1998
	\$1000.00	09/03/98	Matt Fong U.S. Senate Committee
	\$1000.00	09/03/98	Shelby for U.S. Senate (general)

<u>CONTRIBUTIONS</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>RECIPIENT</u>
	\$1000.00	09/03/98	Evan Bayh Committee
	\$1000.00	07/23/98	Bud Shuster for Congress Committee
	\$500.00	06/25/98	Demaris Miller for Congress
	\$1000.00	12/17/97	McCain for Senate '98
	\$1000.00	07/11/97	Shelby for U.S. Senate (primary)
	\$1000.00	07/01/97	Ben Nighthorse Campbell Victory Fund
	\$1000.00	06/19/97	Citizens for Arlen Specter
	\$1000.00	06/19/97	Murkowski '98
	\$1000.00	09/30/96	Friends of John Warner 1996 Committee
	\$1000.00	04/30/96	Friends of Larry Pressler
	\$1000.00	06/30/95	Dole for President, Inc.
	\$1000.00	06/30/95	Dole for President Compliance Committee
	\$1000.00	11/01/94	Santorum '94
	\$500.00	07/11/94	Ernie Whitfield for Congress Committee
	\$1000.00	07/06/94	Oliver North for U.S. Senate Committee, Inc.
	\$1000.00	01/24/94	Dick Zimmers for Senate Committee
	\$100.00	11/08/93	Friends of Jim Cooper
	\$1000.00	04/13/93	Jim Miller for U.S. Senate
	\$500.00	01/28/93	Friends for Jack Fields
	\$1000.00	10/21/92	Murkowski for Senate
Federal PAC Contributions			
	\$1000.00	10/15/02	Good Government for America PAC
	\$4000.00	06/28/02	Good Government for America PAC
	\$5000.00	06/12/02	CSX Corporation Good Government Fund
	\$5000.00	03/13/02	Over The Hill PAC
	\$5000.00	06/14/01	Good Government for America PAC
	\$5000.00	12/22/99	CSX Good Government Fund PAC
	\$5000.00	10/29/98	CSX Good Government Fund PAC
	\$1000.00	09/30/98	American Success PAC
	\$1000.00	12/12/97	CSX Good Government Fund PAC
	\$1000.00	12/19/96	CSX Good Government Fund PAC

<u>CONTRIBUTIONS</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>RECIPIENT</u>
Federal Party Contributions			
	\$5000.00	10/23/00	Victory 2000
	\$5000.00	10/06/92	Republican National Committee
	\$120.00	02/13/92	Republican National Committee - Republican Presidential Task Force
State and Local Candidate Contributions			
	\$2500.00	07/01/02	Taft/Bradley '02 (Ohio)
	\$5000.00	10/17/01	Earley for Governor (Virginia)
	\$500.00	10/17/01	Schwarz 2002 (Michigan)
	\$5000.00	06/27/01	Earley for Governor (Virginia)
	\$1000.00	10/23/00	Underwood for Governor (West Virginia)
	\$250.00	11/01/99	Watkins for Senate (Virginia)
	\$500.00	04/12/99	Hord for Delegate (Virginia)
	\$1000.00	09/21/98	Taft/O'Connor '98 (Ohio)
	\$1000.00	09/21/98	Engler for Governor (Michigan)
	\$1000.00	07/01/98	Friends of Governor Tom Ridge (Pennsylvania)
	\$500.00	10/01/97	Moss for Delegate (Virginia)
	\$2500.00	07/09/97	Gilmore '97 (Virginia)
	\$250.00	03/27/97	John Hager for Lieutenant Governor (Virginia)
	\$250.00	06/19/96	John Hager for Lieutenant Governor (Virginia)
	\$1000.00	10/10/94	Governor Pete Wilson Committee (California)
	\$250.00	03/25/94	Crenshaw for Governor Committee (Florida)
	\$100.00	03/07/94	Roy A. West for Council (Virginia)
	\$100.00	02/01/94	Engler for Governor Committee (Michigan)
	\$5000.00	10/18/93	Friends of Jim Gilmore (Virginia)
	\$500.00	07/28/93	Friends of Jim Gilmore (Virginia)
	\$250.00	05/19/93	Hicks for Commonwealth's Attorney (Virginia)
	\$100.00	05/19/93	Hicks for Commonwealth's Attorney (Virginia)
	\$2000.00	04/06/93	Jim Miller Exploratory Fund (Virginia)
	\$1000.00	03/09/93	Williams for Governor (Texas)

<u>CONTRIBUTIONS</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>RECIPIENT</u>
	\$1000.00	03/09/93	Clint Miller for Governor (Virginia)
State Party Contributions			
	\$4000.00	10/29/02	New York Victory Fund 2000
	\$5000.00	12/29/99	Republican Party of Virginia
	\$500.00	04/10/95	Republican Party of Virginia
	\$1000.00	03/28/94	Republican Party of Virginia
	\$250.00	03/23/94	Republican Party of Virginia
	\$5000.00	09/22/93	Republican Party of Virginia – Victory '93
	\$5000.00	10/09/92	Republican Party of Virginia

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

- Honorary degree by University of Richmond, Doctor of Commercial Science, to be awarded in Spring 2003
- Honored for leadership in the railroad industry by the B&O Railroad Museum, event scheduled for March 2003
- Awarded honorary degree by Tiffin University in 2002
- Awarded Marco Polo Award by the China Association for International Exchange of Personnel and Friends of China Foundation in recognition of outstanding achievements as a valued business partner and "Good Neighbor" to China in 2001
- Named Man of the Year by the Multiple Sclerosis Society in 2001
- Awarded Private Sector Distinguished Service Award by the Tax Foundation in 1998
- Awarded Right Hand Man Award for rail industry leadership by the Cooperstown Conference in July 1997
- Named International Executive of the Year by the Brigham Young University Marriott School of Management in 1997
- Named Man of the Year by the Maritime Port Council of Greater New York and Vicinity in October 1996
- Awarded the Medal of Merit by the U.S. Department of the Treasury in 1995

- Awarded Chief Executive Officer Award for the Railroad Industry by the Wall Street Transcript in 1994
- Named an Outstanding Alumnus by George Washington University in approximately 1994
- Named one of the “Best Managers of 1992” by Business Week Magazine (John W. Patton, President/Publisher) on January 11, 1993
- Awarded honorary Doctor of Laws by Kenyon College in 1993
- Awarded honorary degree by Jacksonville University in 1992
- Named Man of the Year by the New York Boy Scouts in approximately 1992
- Awarded Chief Executive Officer Award for the Transportation/Railroads Industry by the Wall Street Transcript in 1991
- Recognized for Outstanding Service as Virginia Division Crusade Chairman by the American Cancer Society in 1990
- Awarded Chrysler Motors Pentastar Award in recognition of effort to establish CSX Transportation as a superior supplier in 1988
- Awarded honorary degree by Pikeville College in approximately 1988 or 1989
- Awarded Secretary’s Outstanding Achievement Award by U.S. Department of Transportation in approximately 1975 or 1976
- Awarded Outstanding Teacher Award by the University of Maryland in approximately 1968
- Elected to the Order of the Coif in approximately 1967
- Elected to Omicron Delta Epsilon (economics Honors Society) in approximately 1962

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

- Report on Executive Compensation Reform, Conference Board’s Blue-Ribbon Commission on Public Trust and Private Enterprise, September 18, 2002. (I am Co-Chair of this Commission.)

- “CSX Corp.,” *Journal of Commerce*, January 7, 2002.
- “A Search for Excellence,” *The Sun-Sentinel* (Fort Lauderdale, FL), December 27, 1999, 23A (editorial) (reprinted in *The San Francisco Chronicle*, December 24, 1999, under the title of “Social Investment Pays, Businesses Learn.”).
- “CEED – Its First Five Years,” *CEED News* (trade publication), December 1997.
- “Another View: Balance the Federal Budget, Credibly,” *The Virginian-Pilot* and *Richmond Times-Dispatch*, November 12, 1995 (op-ed).
- Statement regarding Mexican loan forgiveness issued under my name as Chairman of the Business Roundtable, January 20, 1995.
- “Keeping on Top of Business,” *Fortune*, December 26, 1994.
- Statement regarding U.S. Senate health care proposal issued under my name as Chairman of the Business Roundtable, August 5, 1994.
- Statement regarding President Clinton’s budget cuts issued under my name as Chairman of the Business Roundtable’s Budget Task Force, February 7, 1994.
- “Railroads’ Survival Depends on Saving Staggers,” *Industry Week*, October 19, 1987.
- Railroad Revitalization and Regulatory Reform, Washington: American Enterprise Institute, 1977 (with Paul W. MacAvoy).
- Regulation of Entry and Pricing in Truck Transportation, Washington: American Enterprise Institute for Public Policy Research, 1977 (with Paul W. MacAvoy).
- Regulation of Passenger Fares and Competition Among the Airlines, Washington: American Enterprise Institute for Public Policy Research, 1977 (with Paul W. MacAvoy).
- “Asymmetry, Entropy and Policy: Reply,” *Antitrust Bulletin*, vol. 2, issue 4, Winter 1975 (with J. L. Hexter).
- “Relative Entropy and Performance,” *Nebraska Journal of Economics and Business*, vol. 13, issue 1, 1974 (with J. L. Hexter).
- “Mergers, Asymmetry and Antitrust,” *Antitrust Bulletin*, vol. 19, issue 2, Summer 1974 (with J. L. Hexter).

- “Entropy, Lorenz Curves, and Some Comments on Size Inequality Among the Largest U.S. Corporations,” *Nebraska Journal of Economics and Business*, vol. 12, issue 1, Winter 1973 (with J. L. Hexter).
- “Further Comments on Relative Aggregate Concentration” – *Southern Economic Journal*, January 1972.
- “Relative Entropy, Asymmetry and Market Performance” – *Journal of Business*, Fall 1971.
- “An Entropy Measure of Relative Aggregate Concentration: Reply,” *Southern Economic Journal*, vol. 38, issue 1, July 1971 (with J. L. Hexter).
- “The Economics of Car Hire Pricing” – Proceeding of the Transportation Research Forum, Northwestern University Press, 1970 (paper originally presented at the annual meeting of the Transportation Research Forum, October 1970, New Orleans).
- “An Entropy Measure of Relative Aggregate Concentration,” *Southern Economic Journal*, vol. 36, issue 3, January, 1970 (with J. L. Hexter).
- “Economic Theory and Ratemaking” – *Journal of Transportation*, Spring, 1969, pp. 43-50.
- Perspectives in Economics, Interstate Press, Illinois, 1st ed., September 1968; 2nd edition, February 1969. A book of essays on economics and economic history – Editor and contributor. “Competition and Monopoly” in Perspectives. “The Economics of Concentrated Industry,” in Perspectives. “Antitrust and Oligopoly” in Perspectives. “The Language of Economics,” in Perspectives.
- The Law and Economics of Nuclear Industry, George Washington University Science and Technology Institute, Fall, 1968.
- “Valuation in Law and Economics,” Paper prepared for the 2nd conference on Problems of Economic Change, October, 1967, University of Illinois.
- “Air Freight Forwarding: A Legal and Economic Analysis,” *Journal of Air Law and Commerce*, Autumn, 1966, pp. 485-496, Lead article. Reproduced with slight modification in *Air Transportation*, February 1967, pp. 31-39.
- “Proposals for Administrative Action Under the Federal Coal Mine Health and Safety Act of 1969” – *Natural Resources Lawyer* (Journal of Natural Resources Section, American Bar Association) – Vol. III, No. 2, May 1960, pp. 248-275, with Edward K. Wheeler.

In addition, in my capacity as CEO, I have written numerous statements contained in CSX internal and external publications such as the letter to shareholders in the CSX Annual Report.

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

The following is a list of speeches I have delivered in the past five years during which I likely commented on topics relevant to the position to which I have been nominated. Since I do not customarily deliver speeches from prepared text, choosing instead to speak extemporaneously, I am unable to provide the Committee with formal copies of the below listed speeches.

Date	Group/Organization/Company	Location
11/07/02	Conference Board Investor Relations Press Conference	New York, NY
10/15/02	McGuireWoods meeting on Corporate Governance	Richmond, VA
09/06/02	J.P. Morgan Logistics Conference	New York, NY
05/04/02	Tiffin University Commencement	Tiffin, OH
02/14/02	Deutsche Bank Alex Brown 11th Annual Transportation Conference	Naples, FL
11/07/01	Virginia Military Institute	Lexington, VA
10/02/01	UBS Warburg	London, England
07/2001	Commonwealth North Forum	Anchorage, AK
07/06/01	Merrill Lynch Transportation Conference	New York, NY
02/15/01	Deutsche Bank Transportation Conference	Naples, FL
01/2001	Forum Club	Richmond, VA
11/08/00	Virginia High Speed Rail Development Committee/Southeast High Speed Rail Conference and Exposition	Richmond, VA
09/27/00	Dinner of Champions (Multiple Sclerosis Fundraiser)	Richmond, VA
05/18/00	Ron Brown Award Ceremony	Washington, DC
05/16/00	National Grain and Feed Association	Jacksonville, FL
04/01/00 - 04/02/00	School of American Research, "Evolving Nature of Work in the Workplace"	Santa Fe, NM
03/15/00	Commonwealth Club Public Affairs Luncheon	Richmond, VA
05/27/99	American Iron & Steel Institute General Meeting	New York, NY
03/24/99	Ron Brown Award Ceremony	Washington, DC

Date	Group/Organization/Company	Location
03/09/99	Philadelphia Union League Club	Philadelphia, PA
11/20/98	MIT Center for Transportation Studies	Boston, MA
11/19/98	Tax Foundation Dinner	Washington, DC
11/09/98	American Council of State Highway Transportation Officials	Boston, MA
10/11/98	McGuire, Woods, Battle & Booth Partnership Meeting	Richmond, VA
06/1998	Transportation Forum Panel with Bud Shuster, Brad Mallory and Stephen Wolf	Harrisburg, PA
04/29/98	Schroder Transportation Conference	Miami, FL

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

I am very honored and humbled to have been nominated by the President to serve in his Administration as the Secretary of the U.S. Department of Treasury. I believe that my academic training and professional experience provide a useful background for service as Secretary of the Treasury if I am confirmed. I was educated as both an economist and an attorney. After receiving a bachelors of arts degree from the University of Toledo, I obtained a doctorate from the University of Virginia in economics, secured my law degree from George Washington University, and earned a masters in liberal arts from Johns Hopkins University. My academic training has provided me with a fundamental understanding of public policy and commercial forces that influence economic activity in this country.

My prior government experience as an official in the U.S. Department of Transportation has also allowed me to become familiar with the development and implementation of the public policy at the federal level. As the Administrator of the National Highway Traffic Safety Administration, I became intimately familiar with the workings of the federal government and gained significant expertise in the regulatory process.

My lengthy career as a senior executive of a Fortune 500 corporation culminated in my election as Chairman and Chief Executive Officer of CSX Corporation in 1991. It was then the largest global multi-modal freight transportation company in the United States with extensive domestic and international assets and about 50,000 employees. Today, the principal business unit of CSX is the largest railroad in the eastern United States, which puts me in close touch with the nation's industrial and manufacturing base. Also in this capacity, I have extensive experience dealing with fast changing customer requirements, labor-management relations, regulatory matters, legal issues, capital markets/Wall Street issues, complex business transactions, telecommunications and fiber optics, and corporate governance issues.

I have also played a major role in restructuring CSX. The company I inherited eleven years ago had a number of non-rail assets including one of the largest international container shipping companies in the world, Sea-Land Services, Inc. As a leader in world shipping, Sea-Land's business was influenced by rapidly shifting global economic and geopolitical forces such as currency fluctuations, international conflicts (e.g., the Gulf War), and the collapse of communism, which played a major role in business strategy and decisions. Overseeing CSX Corporation has given me the opportunity to engage in significant international travel during which I have met with foreign business and government officials. In addition, I led the strategic re-direction of CSX in the late 1990's to divest non-rail assets and strengthen our railroad. We have now successfully sold off virtually all of our non-rail assets and have built an exceptional eastern railroad network that is poised for substantial long-term growth.

In addition to my academic and professional experience, I have been a leader of several business groups that have been active in the public policy arena, including the Chairmanship of the Business Roundtable from 1994 to 1996. Most recently, I served as co-chairman of the Conference Board's Blue Ribbon Commission on Public Trust and Private Enterprise. In that capacity, I have worked with other business leaders to develop best practices relating to executive compensation, corporate governance, and accounting designed to restore confidence in American business and our equity markets. Accordingly, if confirmed, I believe that my extensive experience in business and government will serve me well as I serve the President, the Congress, and the American people. I welcome the opportunity to discuss your questions at the confirmation hearing.

B. FUTURE EMPLOYMENT RELATIONSHIPS

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

If confirmed by the Senate, I will sever all connections with my present employer and business firms.

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

No, I do not have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during my service with the government.

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

No person or entity has made a commitment to or agreement with me to employ my services in any capacity after I leave government service.

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

Yes, if I am confirmed by the Senate, I expect to serve at the pleasure of the President.

C. POTENTIAL CONFLICTS OF INTEREST

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

Any potential conflict of interest will be resolved in accordance with my ethics agreement with Kenneth R. Schmalzbach, the Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

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

Any potential conflict of interest will be resolved in accordance with my ethics agreement with Kenneth R. Schmalzbach, the Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

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

During the past 10 years, as Chairman and CEO of CSX Corporation, as Chairman of the Air Traffic Control Subcommittee, and as a member and Chairman of The Business Roundtable, I have engaged in activities for the purpose of directly or indirectly influencing the passage, defeat, or modification of legislation as well as affecting the administration and execution of law or

public policy. The following is, to the best of my recollection and records, an overview of those activities:

Maritime Security Legislation

In my capacity as Chairman, President, and CEO of CSX Corporation from 1992 through the passage of the Maritime Security Act of 1996 (PL 104-239), I met with Members of Congress, including members of the Merchant Marine and Fisheries, Armed Services, and Ways & Means Committees in the House, the Commerce, Science and Transportation, and Finance Committees in the Senate, and officials in the Bush and Clinton Administrations, including officials within the Departments of Defense and Transportation, to urge passage of the legislation to revitalize the United States-flag merchant marine.

Air Traffic Services Subcommittee

In my capacity as Chairman of the Air Traffic Services Subcommittee from 2001 through September 2002, I met with the leadership of the relevant authorizing and appropriating Committees of the House and Senate to discuss policy and funding issues associated with the work of the Subcommittee. In addition, I met with officials within the Executive Office of the President and the Department of Transportation concerning the responsibilities and activities of the Subcommittee.

Government Regulation of the Freight Railroad Industry

In my capacity as Chairman, President, and CEO of CSX Corporation, I have from time to time called on Members of Congress and key Administration officials to discuss the importance of the Staggers Act and its implications for the sustainability and growth potential of the freight rail industry. These visits were in addition to my appearances to testify before certain committees, and in many instances were in direct response to pending legislation which sought to change the regulatory framework within which the freight railroads currently operate.

Shipping Reform

In my capacity as Chairman, President, and CEO of CSX Corporation from approximately 1996 through passage of the Ocean Shipping Reform Act of 1998 (PL 105-258), I had discussions with members of the House Transportation and Infrastructure Committee and the Senate Commerce Committee, as well as conversations with officials of the Department of Transportation and the Federal Maritime Commission in favor of this legislation to reform the Shipping Act of 1984.

Rail Labor/Management Issues

In my capacity as Chairman, President, and CEO of CSX Corporation during the

last ten years, I have discussed rail labor management issues with members of Congress, including members of the House Transportation and Infrastructure Committee and members of the Senate Health, Education, Labor, and Pensions Committee, as well as with officials of the Executive Office of the President, the Departments of Labor and Transportation, the National Mediation Board and the Surface Transportation Board. In particular, these discussions focused on labor protection issues and issues that were the subject of three Presidential Emergency Boards in 1996.

Budget Reform

In early 1994, in my capacity as Chairman of The Business Roundtable's Federal Budget Task Force, and from mid-1994 through mid-1996 as Chairman of The Business Roundtable, I was actively involved in efforts to advance budget reform initiatives, including a balanced budget constitutional amendment embodied in Senate Joint Resolution 41 and President Clinton's proposed budget cuts in 1994. As part of those efforts, I met with President Clinton, other Administration officials and Congressional Leaders on several occasions and testified about S.J. Res. 41 before the Senate Judiciary Committee's Subcommittee on the Constitution on February 17, 1994 (see below).

Other Business Roundtable Initiatives

In my capacity as Chairman of The Business Roundtable from mid-1994 through mid-1996 and throughout my membership in the same, I helped advance a number of important policy initiatives. During my Chairmanship, these initiatives included: health care reform; S. 1028, the Health Insurance Reform Act; tort reform; regulatory reform; trade promotion authority, including the Uruguay round of GATT and NAFTA.

As part of these initiatives, I visited on numerous occasions with key Administration officials and Members of Congress.

National Commission on Financial Institution Reform, Recovery and Enforcement

In 1993, in my capacity as Co-Chairman of the National Commission on Financial Institution Reform, Recovery and Enforcement, I participated in a number of conversations with Members of Congress and officials in President Clinton's Administration about the work of the Commission and its recommendations.

Energy Policy

In my capacity as Chairman, President, and CEO of CSX Corporation, I have been a consistent advocate for an environmentally responsible yet balanced and sustainable national energy policy. Over the years, this has involved

conversations and meetings with Members of Congress of the relevant committees of jurisdiction as well as key Administration officials. In 1993, I argued against energy excise tax legislation (103rd Congress, H.R. 1960, S. 876) as well as proposals seeking a dollar-per-gallon increase in the barge fuel tax. Most recently, beginning in 2001, I spoke or met on several occasions with key Administration officials in anticipation of a comprehensive energy bill moving through Congress (107th Congress, H.R. 4, S. 517). In this context, specific issues of interest included clean coal technology, mountaintop mining and repeal of the 4.3 cents per gallon deficit reduction fuel tax that applies to freight railroads.

Conrail Acquisition

In my capacity as Chairman, President, and CEO of CSX Corporation, and beginning in 1996 when CSX sought to acquire its eventual 42 percent share of Conrail, I met or spoke on numerous occasions with Members of Congress representing the regions in which Conrail operated as well as those Members serving on the relevant committees of jurisdiction. The purpose of these contacts was to highlight the many economic advantages such a transaction would deliver to each respective state and the various industries (current or prospective rail customers) located therein. The communications continued through the successful integration of Conrail into the CSX and Norfolk Southern rail systems.

Corporate Governance and Accountability

As the Congress considered various legislative proposals in 2002 related to corporate accountability (107th Congress, H.R. 3763, S. 2673), in my capacity as Chairman and CEO of CSX Corporation, I assumed a leadership role within the business community in support of President Bush's tough and measured response to corporate abuses. I had a number of discussions on related issues with House and Senate leadership as well as Members of Congress serving on the House Financial Services and Senate Banking Committees.

4.3 cents per gallon deficit reduction fuel tax

Since the imposition of this tax in 1993, I have participated in my capacity as Chairman and CEO of CSX Corporation in rail industry efforts to repeal the tax (104th Congress, H.R. 3415, S. 1739; 105th Congress, H.R. 4332; 106th Congress, H.R. 1001, S. 820; 107th Congress, H.R. 1024, H.R. 4, S. 661). As part of these efforts, I met or spoke with Members of Congress serving on the relevant committees of jurisdiction as well as those in party leadership positions. In addition, I discussed the issue with key Administration officials to encourage support for the legislation.

Railroad Retirement System

In my capacity as Chairman, President, and CEO of CSX Corporation, I

participated in rail industry efforts to secure passage of the Railroad Retirement and Survivors' Improvement Act of 2002 (106th Congress, H.R. 4844; 107th Congress, S. 697, H.R. 1140, H.R. 10 (P.L. 107-90)). As part of these efforts, I met with key Members of Congress serving on the relevant committees of jurisdiction as well as those in party leadership positions. In addition, I met with various Administration officials to encourage support for the legislation.

Department of Transportation, Federal Railroad Administration, Surface Transportation Board

In my capacity as Chairman, President, and CEO of CSX Corporation, I have from time to time visited with one or more officials of these organizations to discuss topical issues related to their respective jurisdictions. The issues ranged from CSX-specific safety programs or operational matters to broader public policy issues affecting the entire freight rail industry.

Tort Reform

In my capacity as Chairman, President, and CEO of CSX Corporation, I have from time to time advocated for measured reforms to our legal system. In particular, I have stressed the need for fair and reasonable limits on non-compensatory damage awards and restrictions on excessive punitive damages. In this effort, I have met or spoken on occasion with various Members of Congress, most recently in 1997 following an excessive and unwarranted punitive damages verdict (\$2.5 billion) against CSX. I have also encouraged Bush Administration officials to make sensible tort reform a cornerstone of the President's legislative agenda.

Congressional Testimony

- *Senate Committee on Commerce, Science and Transportation, Subcommittee on Surface Transportation and Merchant Marine, 107th Congress, 2nd Session, July 31, 2002.*

I testified before the Committee in my capacity as Chairman and Chief Executive Officer of CSX Corp. about rail shipper concerns.

- *House Committee on Transportation and Infrastructure, Aviation Subcommittee, 107th Congress, 2nd Session, July 16, 2002.*

I testified before the Subcommittee in my capacity as Chairman of the Air Traffic Services Subcommittee about the need for restructuring the Federal Aviation Administration.

- Senate Committee on Commerce, Science and Transportation Subcommittee on Surface Transportation and Merchant Marine, 107th Congress, 1st Session, June 28, 2001.

I testified before the Subcommittee in my capacity as Chairman, President and CEO of CSX Corp. about Surface Transportation Board's new merger rules.

- Senate Committee on Appropriations Subcommittee on Transportation and Related Agencies, 105th Congress, 1st Session, Mar. 20, 1997.

I testified before the Subcommittee in my capacity as Chairman, President and CEO of CSX Corp. about the proposed Conrail merger with CSX Corporation.

- House Committee on National Security Special Oversight Panel on the Merchant Marine, 104th Congress, 1st Session, April 6, 1995.

I testified before the Panel in my capacity as Chairman, President, and CEO of CSX Corp. on issues facing the merchant marine industry during the Committee's consideration of the authorization for the U.S. Maritime Administration.

- Senate Committee on the Judiciary Subcommittee on the Constitution, 103rd Congress, 2nd Session, Feb. 17, 1994.

I testified before the Subcommittee as a representative of the Business Roundtable expressing support for an amendment to the Constitution to require a balanced Federal budget.

- Senate Committee on Commerce, Science, and Transportation Subcommittee on Merchant Marine, 103rd Congress, 1st Session, Aug. 5, 1993.

I testified before the Subcommittee in my capacity as Chairman, President, and CEO of CSX Corp. on issues relating to U.S. maritime policy.

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

Any potential conflict of interest will be resolved in accordance with my ethics agreement with Kenneth R. Schmalzbach, the Designated Agency Ethics Official. Should any potential conflict of interest arise in the future, I will seek guidance from a Treasury ethics official.

5. **Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.**
6. **The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:**

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

Not applicable

D. LEGAL AND OTHER MATTERS

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

I have never been disciplined or cited for a breach of ethics or unprofessional conduct by any court, administrative agency, professional association, disciplinary committee, or other professional group. Furthermore, to the best of my recollection and records, I have never been the subject of such a complaint to any such entity.

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

In 1982, I was arrested for driving under the influence of alcohol in West Valley City, Salt Lake County, Utah. I was never convicted of that charge and the prosecuting attorney voluntarily dismissed the charge before trial. In connection with this incident, I paid a \$334.00 fine for making an unauthorized left turn with my automobile. I have never been charged with or convicted of any other offense.

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

In the past thirty years, as an executive for CSX Corporation, a member of numerous Boards of Directors, and as a public servant in the employ of the Department of Transportation, I have been named as an individual defendant in civil actions that have been filed against such entities. While not an exhaustive list, my available records indicate that I was named as a party in the following lawsuits:

Date	Nature of Action	Result of Action	Names of Parties	Court
6/24/1999	Racial discrimination claim filed by former trainman/conductor.	Dismissed for failure to prosecute on 11/12/2000	<u>Plaintiff</u> : Kenny A. Johnson <u>Defendants</u> : CSX Corporation; CSX Transportation; <i>John W. Snow</i> ; Alvin R. Carpenter	U.S. District Court for the Northern District of Georgia
1/28/1992	Securities fraud claim	Case closed	<u>Plaintiffs</u> : Lord Abbett Series Fund, Inc.; Lord Abbett Global Fund; Lord Abbett Fundamental Value Fund, Inc.; Lord Abbett Equity Fund; Affiliated Fund, Inc. <u>Defendants</u> : William R. Wilson; James R. Thomas, II; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procope; Robert A. Oswald; George P. MacNichol, III; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; James P. Holland; Robert L. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia	U.S. District Court for the District of Delaware

Date	Nature of Action	Result of Action	Names of Parties	Court
			Gas Systems, Inc.; Thomas S. Blair; Daniel L. Bell, Jr.; Arthur Andersen & Co.	
8/26/1991	Securities Exchange Act claim	Case closed	<u>Plaintiff:</u> State Board of Administration of Florida <u>Defendants:</u> William R. Wilson; James A. Thomas; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procope; Robert A. Oswald; George P. MacNichol, III; Richard E. Lowe; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas System, Inc.; Thomas S. Blair; Arthur Andersen & Co.	U.S. District Court for the District of Delaware
7/17/1991	Class Action – Securities Exchange Act claim	Case terminated with respect to John W. Snow on 12/24/1991	<u>Plaintiff:</u> Howard Weiner; Robert Schyberg <u>Defendants:</u> Toby S. Wilt; Robert G. Weeks; Wallace Stettinius; William W. Sprague, Jr.; <i>John W. Snow</i> ; B. Franklin Skinner; Herbert M. Shayne; Toy D. Savage, Jr.; Doyle E. Hull; Andrew H. Hines, Jr.; William F.	U.S. District Court for the Northern District of Georgia

Date	Nature of Action	Result of Action	Names of Parties	Court
			Gorog; Eileen M. Friars; Randolph R. Fisher; First Boston Corp.; Dennis C. Bortorff; Page D. Cranford; John D. Connor; Hugh M. Chapman; R. Eugene Cartledge; Edward J. Campbell; C&S Sovran Corp.; Bennett A. Brown; William W. Berry; Ronald W. Allen; Willard A. Alexander	
7/12/1991	Securities Exchange Act claim	Case closed	<u>Plaintiffs:</u> William J. and Judith Klein <u>Defendants:</u> William R. Wilson; James R. Thomas, III; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procope; Robert A. Oswald; George P. MacNichol, III; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas System, Inc.	U.S. District Court for the District of Delaware
6/24/1991	Securities Exchange Act claim	Case closed	<u>Plaintiffs:</u> Edward Sheehan; David Levy; Charles Harad; Harold Feinman <u>Defendants:</u> William R. Wilson; James R. Thomas, III; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G.	U.S. District Court for the District of Delaware

Date	Nature of Action	Result of Action	Names of Parties	Court
			Procopé; Robert A. Oswald; George P. MacNichol, III; Richard E. Lowe; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas System, Inc.; Thomas S. Blair	
6/24/1991	Securities Exchange Act claim	Case closed	<u>Plaintiffs:</u> Reba Seidel; Rosalind V. Hodkins <u>Defendants:</u> William R. Wilson; James R. Thomas, III; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procopé; Robert A. Oswald; George P. MacNichol, III; Richard E. Lowe; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas System, Inc.	U.S. District Court for the District of Delaware
6/21/1991	Securities Exchange Act claim	Case closed	<u>Plaintiff:</u> Audrey Unger <u>Defendants:</u> William R. Wilson; James A. Thomas; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G.	U.S. District Court for the District of Delaware

Date	Nature of Action	Result of Action	Names of Parties	Court
			Procopé; Robert A. Oswald; George P. MacNichol, III; Richard E. Lowe; William E. Lavery; W. Frederick Laird; Malcolm Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas System Inc.; Thomas S. Blair	
6/19/1991	Securities claims	Case closed	<u>In re: Columbia Gas Securities</u> <u>Plaintiffs:</u> Gerald Wolfe; John T. Williams; Audrey Unger; Bertram Susker; Marion Stewart; Rodney Shields; Edward Sheehan; Reba Seidel; Gay Schroeder; Richard Cohen; Joseph Ravinovits; Daniel Proto; Richard J. Popper; Ari Parnes; MT Packaging, Inc.; Malcolm P. Moses; Michael D. Miller; Marie Caroline Weigold; Lord Abbett Series Fund Inc.; Lord Abbett Global Fund; Lord Abbett Fundamental Value Fund, Inc.; Lord Abbett Equity Fund; Andrew Linz; David Levy; Pat	U.S. District Court for the District of Delaware

Date	Nature of Action	Result of Action	Names of Parties	Court
			Leathem; Mason Lappin; William J. Klein; Judith Klein; Bruce Ison; Rosalind V. Hodkins; Stanley Hershfang; Harry Lewis; Charles Harad; State Board of Administration of Florida; Harold Feinman; Augustus J. Fabens; Rita Edelson; James Costentino; Affiliated Fund Inc.; <u>Defendants:</u> William R. Wilson; James R. Thomas, II; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procope; Robert A. Oswald; Morgan Stanley & Co. Inc.; George P. MacNichol, III; Richard E. Lowe; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; James P. Holland; Robert H. Hillenmeyer; First Boston Corp.; Sherwood L. Fawcett; Donaldson, Lufkin & Jenrette Securities Corporation; John D. Daly; John H. Croom; Columbia Gas System, Inc.; Thomas S. Blair; Daniel L. Bell; Arthur Andersen &	

Date	Nature of Action	Result of Action	Names of Parties	Court
			Co.; a defendant class of underwriters represented by lead underwriters Morgan Stanley & Co. Inc.	
6/19/1991	Securities claims	Case closed	<u>Plaintiffs:</u> Gay Schroeder; Pat Leathem <u>Defendants:</u> William R. Wilson; James R. Thomas, III; <i>John W. Snow</i> ; Ronald W. Skeddle; Ernesta G. Procope; Robert A. Oswald; George P. MacNichol, III; William E. Lavery; W. Frederick Laird; Malcolm T. Hopkins; Robert H. Hillenmeyer; Sherwood L. Fawcett; John D. Daly; John H. Croom; Columbia Gas Systems, Inc.; Thomas S. Blair	U.S. District Court for the District of Delaware
3/4/1988	Breach of contract claim filed by former spouse relating to dispute over interpretation of financial obligations imposed by divorce settlement	Court dismissed two of the three counts and entered partial summary judgment in my favor on the third; remaining allegations were resolved through settlement and case was dismissed with prejudice	<u>Plaintiff:</u> Frederica S. Wheeler <u>Defendant:</u> <i>John W. Snow</i>	Circuit Court of Montgomery County Maryland

Date	Nature of Action	Result of Action	Names of Parties	Court
		in 1991.		
8/31/1987	Fair Labor Standards Act claim	Motion to dismiss granted with respect to John Snow on October 9, 1987; motion to dismiss lawsuit against all parties granted Nov. 3, 1987	<u>Plaintiffs:</u> UTU Local 377, Robert W. Early; Thomas Decker <u>Defendants:</u> CSX Transportation Inc.; CSX Corporation; <i>John W. Snow</i>	U.S. District Court for the Western District of New York
4/13/1984	Shareholder derivative action alleging breach of fiduciary duty in sale of stock	Court entered judgment in favor of defendants on March 31, 1987; upheld by Sixth Circuit on May 19, 1989	<u>Plaintiff:</u> Pittsburgh Terminal Corp. <u>Defendants:</u> Baltimore and Ohio Railroad; CSX Corporation; John T. Collinson; Alvin R. Carpenter; Roland W. Donnem; Paul A. Funkhouser; Paul R. Goodwin; Norman G. Halpern; Robert L. Hintz; John S. Lanahan; Kenneth C. Morriss; Richard G. Rayburn; Richard D. Sanborn; <i>John W. Snow</i> ; Hays T. Watkins	U.S. District Court for the Northern District of Ohio; U.S. Court of Appeals, Sixth Circuit
Approx. 1984	Breach of contract claim brought by employees who challenged buyout offer in which they could not participate because of caps on the program	Court dismissed case	<u>Plaintiffs:</u> Sandra Kushto; Darlene V. Hoyt; Kim Owens; Clara F. Stano; Ruby D. Breon; Nancy Marie Quinet; Thomas Frank Toth; Gwendolyn A. Geer; Linda Renehan; Lori A. Sweet; Cornelia M. Nedomatsky;	U.S. District Court for the District of Maryland; U.S. Court of Appeals, Fourth Circuit

Date	Nature of Action	Result of Action	Names of Parties	Court
			Kathleen Newsom; Danita L. Tinner; Arleen M. Wells; Anita R. Claus; Stephen Fitzgibbon; Gregory D. Ryan; Gail P. Wilson; Sherri Kavalsky; David Kincaid; David Blackburn; John Kriss <u>Defendants:</u> Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees; R.I. Kilroy; CSX Corporation, t/a The Chesapeake & Ohio Railway Co., Baltimore & Ohio Railroad, and affiliated lines; <i>John W. Snow</i>	
6/13/1977	Modification of divorce decree	Parties jointly propdsed agreement that was approved by Court	<u>Plaintiff:</u> Frederica S. Wheeler <u>Defendant:</u> <i>John W. Snow</i>	Superior Court of California for the City and County of San Francisco
Approx. 1975	Challenge to rulemaking procedures	Court upheld rulemaking	<u>Plaintiff:</u> National Wildlife Federation <u>Defendant:</u> <i>John W. Snow in his official capacity as administrator, Federal Highway Traffic Safety Administration</i>	U.S. District Court for the District of Columbia; U.S. Court of Appeals, District of Columbia Circuit
Approx. 1974	Dispute regarding repayment of	Case settled prior to trial	<u>Plaintiff:</u> Edward K. Wheeler	D.C. Court of General

Date	Nature of Action	Result of Action	Names of Parties	Court
(records have not been located)	promissory note brought by former employer/former father-in-law; counterclaim asserted for money owed by former employer		<u>Defendant:</u> <i>John W. Snow</i>	Sessions
07/31/73	Divorce	Divorce granted	Frederica S. Wheeler and <i>John W. Snow</i>	Anne Arundel County, Maryland

CSX and its affiliated companies are involved in a variety of civil litigation in virtually every state in which the company conducts business. Most cases involve personal injury, garden variety commercial disputes, condemnations and other cases representative of the wide variety of litigation expected in a large operating company. Several times each year, CSX's opponents will serve a deposition notice on myself and other senior officials who have no personal knowledge of the underlying issues and events, often apparently as a means of harassment. An overwhelming majority of the time, CSX convinces courts to quash the notice or enter some protective order.

To the best of my recollection and records, I have testified as a witness in the following cases:

Litigation

CSX Transportation v. Qwest - In April 1999, CSXT filed a lawsuit against Qwest Communications, Inc. and Qwest Communications Corporation (collectively, "Qwest") in federal court in Jacksonville, Florida, alleging breach of the fiber optic placement agreement that governs Qwest's ability to install fiber optic communications facilities along CSXT's railroad right-of-way. CSXT alleged that Qwest breached the fiber optic placement agreement by failing to pay CSXT sums due thereunder, and breached its fiduciary duty to aggressively market and sell certain telecommunication assets for the benefit of both companies. CSXT further sought corresponding damages as a result of those breaches.

In October 2000, Qwest asserted a counterclaim in the lawsuit, alleging that CSXT had fraudulently or negligently induced Qwest to enter into a 1999 Settlement Agreement that purported to resolve certain disputes between the parties relating to their respective defense and indemnity obligations under the fiber optic placement agreement. Pursuant to the Settlement Agreement, Qwest agreed to indemnify CSXT from all compensatory damages assessed against

CSXT in connection with lawsuits arising from Qwest's installation of fiber optic conduit and cable on CSXT's right-of-way. With respect to any punitive damages assessed against CSXT, Qwest agreed to indemnify CSXT, and CSXT agreed to reimburse Qwest for such amounts, up to one-half of any fees it received from Qwest under the fiber optic agreement.

I was listed as a witness in this litigation and was deposed about conversations that I had with Phil Anschutz, Chairman of Qwest, in the early stages of the relationship between CSXT and Qwest about the structure of that relationship. The case settled in mid-2002.

CSXT vs. New York State Office of Real Property Services et al.

I was deposed in July 2002 in a case brought by CSXT, Inc. against the New York office of Real Property Services and numerous local jurisdictions challenging the property tax assessment imposed on the company's railroad operating properties for tax years 2001 and 2002.

This case was filed in U.S. District Court for the Southern District of New York in White Plains, and was brought under provisions of the Railroad Revitalization and Regulatory Reform Act of 1976 (4R Act). The company alleges that the state of New York and its local taxing jurisdictions are imposing discriminatory taxes of the property of CSXT in violation of Federal law.

Major v. CSX Realty Inc. - I was deposed as a witness in a Florida civil litigation (Lee County Circuit # 94-3484 -CA-WCM) involving construction of a residence located on Gasparilla Island in 1991 by a subsidiary of CSX Corporation. Co-defendants included the general contractor, the architect and the structural engineer. The theory of the case involved breach of contract, violation of building codes, breach of implied warranty, breach of express warranty, misleading advertising, fraudulent misrepresentation and violation of the Florida Deceptive and Unfair Trade Practices Act. My involvement stemmed from receipt of correspondence directly from the plaintiff, Ralph Major. I had limited knowledge of the facts of the case and received a protective order barring my deposition in 1997. In August 2002, the protective order was dissolved and I was deposed in Richmond on October 15, 2002. I testified about receiving correspondence from Mr. Major about his grievances and related discussions. I also testified about the capabilities of the people working on resolving Mr. Major's grievances.

The case was settled and dismissed with prejudice on December 4, 2002.

Richard Klem v. CSX Corporation – On June 25, 1997, Mr. Klem, a former CSX executive whose employment was terminated, filed suit against CSX Corporation in the Circuit Court for the City of Richmond alleging breach of an employment contract. Mr. Klem contended that the Conrail transaction was a merger that triggered the "change of control" provisions and benefits of his

employment contract. If such provisions were triggered, he would have been entitled to certain bonuses and benefits. CSX denied that the "change of control" provisions were triggered by this transaction. The case was settled by the parties in May, 2000 following mediation. I was not a party to the litigation, but I was deposed. In my deposition, I testified to my understanding that the Conrail transaction was not a "change of control" event and to my observations of Mr. Klem's job performance.

Michael Schneider v. CSX Transportation, General Motors Corporation, and John Flanigan, Circuit Court for Wayne County, Michigan, Civ. Act. No. 91-127643-NZ - In this action which was filed in October of 1991, plaintiff alleged that CSX Transportation (CSXT) wrongfully discharged him from his position as National Account Manager for the General Motors account. He also alleged that General Motors and its employee, John Flanigan, interfered with his employment relationship and defamed him by falsely advising CSXT that Schneider had performed incompetently.

In June 1992 the court granted summary judgment in CSXT's favor. The court agreed that Schneider was an at-will employee and therefore had no cause of action for breach of an implied employment contract. (The court did not reach CSXT's position that Schneider was not discharged but voluntarily resigned his employment when he refused a reassignment to Jacksonville.)

In August of 1992 the trial court granted summary judgment in favor of General Motors and John Flanigan on the tortious interference and related claims asserted against them. Schneider appealed the dismissal of his claims against General Motors and Flanigan, but did not appeal the dismissal of his claims against CSXT. In December of 1993 the Michigan Court of Appeals denied his appeal and the case was concluded.

I was deposed in this action on June 3, 1992. The deposition was transcribed and video-taped. I was questioned regarding my knowledge of the circumstances of Schneider's departure from CSXT and my knowledge of Mr. Schneider's performance, which was very limited. I was also questioned regarding the company's at-will employment policy for management employees. I was asked specifically about several notes I had written to Schneider over the years after attending meetings with him and other CSX employees at General Motors. The notes were generally positive but did not indicate specific knowledge of Schneider's performance on the GM account.

Palank v. CSX Transportation – This action involved the July 1991 derailment of an Amtrak train traveling on CSXT tracks in South Carolina, which resulted in the death of eight people. The family of a Florida resident, Paul Palank, sued CSXT in state court in Palm Beach County, Florida. A jury awarded the Palank family \$6.14 million in compensatory damages. In a separate trial on punitive damages, another jury awarded the Palank's a \$50 million punitive damages judgment against CSXT. That award was affirmed by a Florida appeals court in

November 1999.

I was deposed in the case on May 31, 1995. My deposition was noticed because I was CEO of CSX at the time of the accident. I had no personal knowledge of the issues relevant to the accident at issue and repeatedly testified to that effect during my deposition.

Brian M. Freeman Enterprises v. Railway Labor Executives Association et al. – This case, originally brought in federal court in New Jersey and transferred to federal court in Jacksonville, involved the claim of Brian M. Freeman Enterprises, Inc., an entity controlled by the late Brian Freeman, that CSXT executives orally agreed to compensate Freeman a “success fee” with respect to certain work rule changes negotiated between CSXT and some of its unions in the 1980’s. These work rule changes, often referred to as “crew consist” agreements, involved the reduction in the number of crew members required to operate CSXT trains.

Freeman alleged that others and I had committed CSXT to compensate Freeman hundreds of millions of dollars, by orally agreeing to be bound to a written memorandum of understanding entered into, not by Freeman and CSXT, but by Freeman and the railway unions. The case was tried before Judge William Terrell Hodges in April of 1995. In October of 1995, Judge Hodges issued a written opinion that rejected Freeman’s claims in their entirety and entered judgment in favor of CSXT.

I testified in the case by deposition on November 16, 1994, and at the trial on April 17, 1995.

Administrative Matters

Surface Transportation Board (“STB”) Proceedings –

In my capacity as chairman of CSX Corp., I have occasionally been called upon to speak on the company’s behalf in Surface Transportation Board proceedings. To the best of my recollection and records, the following represent the occasions on which I have spoken on behalf of the company:

Major Rail Consolidation Procedures, STB Ex Parte No. 582, (Sub-no. 1) (June 2000)

My prior testimony in Ex Parte 575 was resubmitted to the Board as part of a joint submission by CSX, Norfolk Southern and Union Pacific, so as to become a part of the record in this proceeding.

Major Rail Consolidation Procedures, STB Ex Parte No. 582 (February 2000)

I spoke at the STB's hearings in favor of the STB's proposed moratorium on major rail mergers. I explained that the time might well come in the future when the public interest would best be served by further Class I railroad consolidation, but that the time had not yet come. I said that, in my view, the rail industry was then still in the process of working through several major rail mergers. I expressed concern that without the proposed moratorium on mergers, transactions then being proposed might exacerbate the significant operational instability then prevailing and divert attention from the essential job of making the existing mergers a success.

Review of Rail Access and Competition Issues, STB Ex Parte No. 575 (April 1998)

As part of a submission by the Association of American Railroads, I reviewed the state of affairs in the railroad industry in the late 1970's, which led to the enactment of the Staggers Rail Act of 1980. I spoke of the success of that Act in providing the rail industry with many of the same market freedoms available to other competitive industries. I also spoke of the benefits of deregulation and explained how proposals for "competitive access" which would have forced access to competitors' facilities, are in reality an assault on deregulation and on the ability of railroads to invest private capital in an industry with huge capital demands. I stated that the market-based regulation initiated with the Staggers Act has benefited both the railroads and the shipper community by promoting investment in railroad operations and that these benefits would be jeopardized by any attempt to re-regulate railroads through forced access.

CSX Corporation and CSX Transportation, Inc and Norfolk Southern Corporation and Norfolk Southern Railway Company – Control and Operating Leases/ Agreements – Conrail Inc. and Consolidated Rail Corporation, Finance Docket No. 33388 (The Conrail Control Proceeding) (June 1997)

I expressed my strong support for the joint application for the acquisition of Conrail by CSX and Norfolk Southern. I recounted my long-standing support, including my views while serving as Under Secretary in the Department of Transportation that Conrail should be returned to the private sector and divided between CSX and Norfolk Southern. I explained my view that extended single line service over the then-existing CSX lines and the Conrail lines that CSX would operate would enhance rail's competitiveness with motor carriers making rail a more attractive option for many shippers in the East without negatively impacting passenger operations. I offered my view that the transaction would improve service, reduce costs and expand the market reach of both of the two strong rail competitors in the East.

Central Power & Light Company v. Southern Pacific Transportation Company, STB Docket No. 41242 (October 1996)

I testified before the STB on behalf of the Association of American Railroads. This proceeding consolidated three individual rate cases for the purpose of evaluating the circumstances under which the STB might require a railroad to offer common carrier rates over only a portion of its route. I testified that the ratemaking freedoms that the railroads have enjoyed since the Staggers Act have given them the ability to invest heavily in their rail infrastructure. I stated that the case for changes in the regulatory rules applicable to rail ratemaking had not been made by the proponents of reregulation. I concluded that the various proposals before the agency would result in a significant, albeit difficult to quantify, reduction in railroad revenues and earnings, with a reduction in the industry's ability to invest in plant and facilities such as new intermodal terminals and additional double-stack clearances, thus reducing the industry's ability to compete for the most highly competitive traffic on the highways.

Interstate Commerce Commission ("ICC") –

Water Transport Association – Petition for Declaratory Order – American Commercial Lines Voting Trust, ICC Finance Docket No. 30215 (June 1983)

I represented CSX before the ICC and argued in support of CSX's proposed acquisition of Texas Gas and its subsidiary American Commercial Lines, Inc.

Chessie/Seaboard Merger (effective November 1, 1980)

I testified in support of this merger.

Security Barge Line, Inc., Extension – Removal of Restriction, No. W-1235 (Sub-No. 1) (Aug. 1973).

I appeared as a private attorney before the ICC on behalf of my client Sioux City and New Orleans Barge Line, Inc. which appeared as an intervener in a proceeding considering the application of Security Barge Line, Inc. for authorization to operate as a common carrier by water in specified ports.

Sioux City and New Orleans Barge Lines, Inc., Extension – Mississippi River System, No. W. 431 (Sub-No. 12).

I appeared as a private attorney before the ICC on behalf of my client Sioux City and New Orleans Barge Line, Inc. in a proceeding considering its application for operation as a common carrier by water.

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

I have never been convicted of a violation or entered a plea of guilty or *nolo contendere* to any Federal, state, county or municipal law, regulation or ordinance.

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

There is no additional information, favorable or unfavorable, which the Committee should consider in connection with my nomination.

E. TESTIFYING BEFORE CONGRESS

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

Yes, if confirmed by the Senate, I am willing to appear and testify before any duly constituted committee of the Congress on such occasions as I may be reasonably requested to do so.

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

Yes, if confirmed by the Senate, I am willing to provide such information as is requested by such committees.

Addendum to Question D.3

On March 4, 1988, Frederica Wheeler filed suit against John Snow in the Circuit Court of Montgomery County, Maryland, alleging, among other things, that he failed to pay child support and other costs associated with the care of his two sons. Mr. Snow denied all of the allegations and moved to dismiss Ms. Wheeler's suit. He specifically asserted that Ms. Wheeler was no longer entitled to child support because neither child continued to reside with her as required by the Settlement Agreement that determined custody and visitation rights with respect to their children. Mr. Snow also stated that, to the extent there was any unpaid child support owing to his son, Ian, it had been more than offset by Mr. Snow's payment of Ian's educational costs during the relevant period. The court dismissed all of Ms. Wheeler's claims with the exception of her allegations that Mr. Snow failed to pay child support owed to Ian for a period of 19 months as well as certain transportation and allowance costs for Ian while at college. When the suit was filed in 1988, Ian was 18 years old. In order to spare the family the difficulty of a trial, the parties settled the remaining issues in dispute. They entered a written settlement agreement on January 25, 1991, when Ian was 21 years of age.

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question 1. Do you believe IRS is providing adequate service for taxpayers?

Answer. The IRS has made important strides in recent years in providing quality service to taxpayers. The IRS' ability to respond to telephonic inquiries and provide meaningful assistance through its taxpayer assistance centers has improved signifi-

cantly. The IRS' web site has proven to be a valuable resource for many taxpayers and an effective educational and outreach tool for the IRS. Overall, the public's attitude towards the IRS is improving, and compared to where we were 5 years ago, there has been a real change.

More can and must be done. Most taxpayers do their best to comply with the law. Our tax laws are so complex, however, that it often is difficult for even the best intentioned taxpayer to discern the correct answer. The IRS must provide these taxpayers with timely and meaningful guidance wherever and however possible. In addition, the IRS must continue its efforts to be more responsive to taxpayer inquiries, to reduce wait times, and to process requests and cases more quickly. All of this can only enhance respect for our tax system and reinforce voluntary compliance.

Question 2. Do you believe IRS has an adequate enforcement presence so that honest taxpayers have confidence that their neighbors and business competitors are paying their share of taxes?

Answer. I believe that the IRS' enforcement presence can be improved if the Treasury Department and the IRS work together to use IRS resources more efficiently and more effectively. The answer is not simply more audits and more enforcement, but rather better audits and better enforcement. The IRS is working to identify significant areas of non-compliance, issue guidance to shut down the perceived opportunities, and target enforcement resources to these areas. The IRS' ongoing modernization program, when completed, will be central to the IRS' ability to use its resources most effectively, as will the National Research Program, or NRP. The Treasury Department and the IRS also are working to issue guidance for issues that historically have generated significant controversy and required a disproportionate amount of IRS resources. This guidance will free IRS resources for other enforcement priorities. While the IRS has taken important steps in the past few years to ensure that it is able to address areas of significant noncompliance, these efforts must continue.

Question 3. If not, what is your strategy for improving taxpayer service and enforcement? Can the improvements be financed by using current IRS resources more effectively or does IRS need additional resources? If IRS can use its resources more effectively, please explain which resources and how you would bring about the change.

Answer. As explained in response to the prior question, I believe that the IRS must continue to seek ways to use its existing resources more efficiently and more effectively. As an initial matter, we need clearer rules that are easier for taxpayers to apply and less burdensome for the IRS to administer. Clearer rules will enable the IRS to better assist taxpayers who are trying to comply with the law, and will reduce controversy and conserve IRS resources. Where this can be done through administrative guidance, I will continue the Treasury Department's commitment to identifying and issuing such guidance. If better rules require a legislative change, then we need to be ready to work with the Committee to enact that legislation. I would look forward to working with the Committee, if confirmed, in this process.

In terms of compliance, the Treasury Department and the IRS must continue their efforts to identify areas of significant noncompliance. Right now, our challenge is to effectively address the issues we know about, such as known abusive tax avoidance transactions and offshore credit card scams. As we move forward, the challenge will be to identify these issues early on, before they become widespread among taxpayers. This will require rules that will provide us the information needed to identify these areas and the commitment to act quickly when problem areas are identified. Important steps have been taken in this regard and will need to continue if we are to utilize the IRS' resources most effectively.

Question 4. To what extent do you intend to continue the department's commitment to combating abusive tax avoidance?

Answer. I am absolutely committed to continuing the Treasury Department and IRS' fight against abusive tax avoidance. There is no greater threat to our system of voluntary compliance than the belief among honest taxpayers, who are doing their best to comply with often complex tax laws, that some taxpayers are dodging their obligations and getting away with it. I recognize that we face many challenges, and that we must be willing to explore all of our options and learn from our past. I appreciate the Committee's longstanding commitment to stopping abusive tax avoidance, and I look forward with working with the Committee, if confirmed, in addressing this serious problem.

Question 5. What do you believe are the key strategies for dealing with abusive tax schemes employed by individual taxpayers and tax shelters used by individuals and corporations?

Answer. One of the most significant challenges facing the Treasury Department and the IRS is ensuring that the response to abusive tax avoidance remains flexible

enough to effectively address the wide range of abusive practices that we are seeing today. At the corporate level, and increasingly among high net-worth individuals, abusive tax avoidance transactions may meet the literal requirements of the Code but are structured to obtain benefits that simply were not intended by the statute. Early and full disclosure of questionable transactions by taxpayers and promoters will allow the Treasury Department and the IRS to promptly evaluate these transactions and make an appropriate response, such as a change in administrative guidance or a proposed legislative change. The proposals issued last year by the Treasury Department focus on disclosure and transparency, and, if confirmed, I would look forward to working with the Committee on the Treasury Department's legislative proposals.

At the individual level, the challenges are different. Tax scams use false legal claims and misrepresented facts in an attempt to reduce tax liability. Their promoters prey on taxpayers who often lack the sophistication to realize that these scams are little more than simple tax evasion. Our challenge is to educate taxpayers about the dangers of these tax scams, aggressively pursue and stop the promoters who are pushing these scams, and take appropriate enforcement action against the taxpayers who already have participated in these scams. The IRS recently announced an offshore disclosure initiative directed at offshore credit card scams. This initiative, and the significant background work done by the IRS, has raised public awareness of this problem, will allow taxpayers who have participated in this scam to pay what they owe and come back into compliance, and will enhance the IRS' ability to shut down the promoters of these scams. I am confident that the experience we gain from this initiative will help us move forward against other tax scams.

Question 6. How will you determine the appropriate staffing levels for IRS's enforcement activities and what short and long-term strategies will you employ to ensure that IRS's enforcement staffing levels are appropriate?

Answer. Determining appropriate staffing levels requires a true understanding of areas of noncompliance. While the Treasury Department and the IRS have identified some of these areas and are working together to address them, a significant obstacle is the fact that we lack current information on the areas of noncompliance. The Taxpayer Compliance Measurement Program, or TCMP, last looked at data from 1988 before it was discontinued.

The IRS very recently has started its National Research Program, or NRP, as a successor to the TCMP. The NRP is first focusing on individuals from all income levels and will be expanded to other types of taxpayers, including businesses. The NRP will identify those areas of greatest noncompliance and enable the IRS to build effective compliance programs. Over time, the NRP will allow the IRS to more accurately assess the effectiveness of its enforcement efforts.

The NRP will provide the information needed to determine how the IRS' resources should be best utilized to address the areas of greatest noncompliance. At the same time, the IRS' traditional compliance and service responsibilities must be carried out. Maintaining a balance between these priorities will be a challenge, and I look forward to working with the Committee, if confirmed, to ensure that the appropriate balance is being reached.

Question 7. What are your plans for dealing with known tax debtors and cheats?

Answer. The IRS must continue improving its ability and capacity to resolve outstanding tax liabilities. In many cases, taxpayers simply may not be able to pay back the full amount owed for any number of reasons. An installment agreement or offer-in-compromise may be appropriate for many of these taxpayers, and the Administration proposed legislation last year to permit partial-liability installment agreements for cases where a taxpayer cannot enter a traditional installment agreement but where an offer-in-compromise is not practical.

In other cases, a taxpayer either may be capable of paying the outstanding liability or may have reported less than the amount truly owed. In the latter case, and as discussed in response to other written questions, the IRS must identify these taxpayers and ensure that they pay the taxes they owe. For other taxpayers who simply are not paying a liability they are aware of and can pay, the IRS must be able to contact these taxpayers efficiently and remind them of their obligations. I believe that all alternatives for achieving this must be examined so that the IRS' own resources can be used most efficiently.

Question 8. Does IRS have a balanced enforcement presence?

Answer. I believe that the IRS' enforcement presence across taxpayer groups reflects important enforcement priorities but can be improved. As the Committee is aware, audit rates vary greatly between the largest and smallest taxpayers. There are good reasons for this, including the fact that auditing every individual taxpayer would be impractical from a resource perspective. The examinations we conduct must be effective, efficient, and appropriately targeted.

Coordinated Issue Case, or CIC, taxpayers are audited every year. These taxpayers are the largest, most sophisticated businesses with the most complex returns. While continuous audits therefore are appropriate, the IRS has been examining ways in which CIC audits can be changed to reduce IRS and taxpayer burden. The IRS' recently announced Limited Issue Focused Examination, or LIFE, program is an important step in this direction, and the efficient use of resources for these types of cases will allow more resources to be directed to non-CIC taxpayers.

For non-CIC taxpayers, who include everyone from individuals to large businesses, whether we have a balanced enforcement presence depends on where we have noncompliance. It is impractical and wasteful for the IRS to audit every taxpayer every year. The National Research Program, or NRP, discussed in response to other written questions, will allow the Treasury Department and the IRS to determine whether its enforcement resources are being properly allocated.

Question 9. What, if any, actions in the areas of corporate governance, transparency and . accountability do you feel are still needed in light of the accountability failures in the private sector over the past couple of years?

Answer. Less than a year ago, the President called for and ultimately signed into law the most significant corporate reforms since the Depression. Those efforts laid out an aggressive agenda for regulatory, civil, and criminal reform, and their full effect is yet to be realized. We will need time to judge the efficacy of those important reforms, and time to allow the SEC to conclude its work and implement the new law.

The Conference Board Commission on Public Trust and Private Enterprise, which I co-chaired, supported these corporate reform efforts. We called upon every company board and its management to further review corporate governance and financial reporting practices to encourage an even higher standard of best practices. Every company, its board and senior management have critical roles to play as we work to restore confidence in our capital markets.

Question 10. Approval was given by the shareholders in 1991 to initiate the program, and in 1996 to modify it, but the board—without the shareholders consent—unwound the program in 2000—why weren't the shareholders given the right to decide on the unwinding of the program in 2000?

Answer. CSX shareholders were not involved in the decision to terminate the Stock Purchase and Loan Program because such decisions are generally within the province of the Board of Directors and its Compensation Committee, which consists entirely of independent directors. The board represents the interests of the shareholders on routine matters pertaining to the administration and termination of such compensation programs.

Question 11. Why was it fair for the executives of CSX to discharge the risk and losses that they incurred as a result of the "unwinding of the program" and not permit the shareholders the same opportunity?

Answer. I believe that the board's decision to unwind the program was fair and reasonable under the circumstances. The board terminated the Stock Purchase and Loan Program because it believed that the program no longer served its intended purpose of aligning the interests of senior management with the long-term interests of shareholders. In fact, because of the challenges associated with the Conrail acquisition, the program actually became a disincentive and effectively penalized the 170 participants in the program.

Question 12. Why would executives care if the stock prices rises or falls, if they are insulated against loss by loan forgiveness and tax reimbursements as they were in the CSX plan?

Answer. CSX's long term compensation programs uniformly align the interests of the shareholders with those of the management team. Despite the loan forgiveness associated with the SPLP program, the managers care if the share price rises or falls because of their total long term compensation programs that are all linked to the performance of the company stock price.

Question 13. You were co-chairman of The Conference Board's Commission on Public Trust and Private Enterprise. Did the CSX Stock Purchase and Loan Program meet the requirements of the Commissions' recommendations?

Answer. I am not aware of any specific recommendations in the Conference Board's report that would have prohibited such a program. However, the SPLP program, which had characteristics of both an options program and a loan program, was overly complex and would likely not be pursued by CSX in the future.

Question 14. If confirmed as Treasury Secretary, how do you perceive your role as a steward for good corporate governance?

Answer. I certainly will act to the best of my ability to be a good steward for proper corporate governance. I realize that, as the chief financial minister of the United States, I can and should set a strong example for other business leaders. My recent

work with the Conference Board evidences my desire to set such an example. I care deeply about these issues and I look forward to working with you to ensure that the reforms instituted by the President and the Congress last year accomplish these stated objectives.

Question 15. One of the most troubling developments during the recent corporate scandals involved the underfunding of pensions and other retirement vehicles for rank and file workers, while executives solidified their own financial stake by generously funding their own pensions. How do you square the increase in your own annual pension by roughly \$500,000 per year in 1996 according to some reports, with the performance of CSX following the Conrail merger?

Answer. The board of directors gave me enhanced pension benefits in 1996, which was done as part of my overall compensation package. The board felt that the enhanced pension was appropriate to retain my services through the challenging period when we were engaged in a strategic acquisition of Conrail and the sale of non-rail assets. It's important to note that the board was recognizing the value of a sound long term strategic decision, and not short term quarter to quarter performance.

Question 16. The London Times has reported that CSX may have actually underfunded the pension of one its subsidiaries, SeaLand, prior to its sale in 1999. Can you explain the details of SeaLand's pension funding in the late 1990's and why your pension contributions were increased while rank and file workers pensions may have been underfunded?

Answer. In 1999, CSX sold Sea-Land to Maersk. Maersk agreed to assume responsibility for a number of pension obligations including those of the Sea Land employees in Great Britain. At the time of the transaction, it is my understanding that CSX met the statutory funding requirements regarding the pension under British law. The independent trustees of the pension plan that represented the British Sea-Land employees attested to this at the time, thus relieving us of any legal obligation regarding the pension obligation.

Question 17. Many companies have been reducing pension benefits for their rank and file workers while continuing to expand benefits for executives and upper management, either through deferred compensation arrangements, stock purchase and option programs, individualized life insurance policies, etc. Do you believe there should be more linkage between benefits for executives and rank and file workers or do you believe the status quo works?

Answer. Issues regarding linkage between executive pay to those of rank and file employees needs to be looked at on a case-by-case basis. This is clearly a complicated issue and I will look forward to sitting down with you and hearing your thoughts on any specific proposals or recommendations you may have.

Question 18. How would the dividend income paid on stocks purchased with non-recourse loans under CSX's former Stock Purchase and Loan Program be treated under the President's proposal to eliminate the shareholder level tax on dividends?

Answer. If the hypothetical question were posed today, it is my understanding that the participants of the SPLP program would not receive any dividend income because CSX did not pay corporate income taxes last year and therefore would not be eligible for this benefit.

Question 19. Do you support expanding the IRS' tax intercept authority to help collect child support owed to children who are no longer minors?

Answer. Current Treasury Department programs to intercept and offset tax refunds and other federal payments have proven to be an effective and efficient tool for collecting delinquent child support. In fact, in many cases, tax-refunds of a given taxpayer are being offset year after year to cover delinquent child support.

If offset provisions are effective, expanding them to cover payments to children who are still dependent on their parents' support but who are no longer "minors" seems reasonable.

However, before endorsing such an expansion, we would need to explore its ramifications more fully and determine if there are reasons why such a broader offset provision would not be prudent.

Question 20. What policy changes, if any, would you propose to make the Treasury Department a more effective partner in child support enforcement?

Answer. Although I cannot personally offer suggestions for extension of these and similar programs, I would be very interested in exploring how the Treasury Department could further assist in child support enforcement without, of course, compromising our primary role of tax collector.

I support current Treasury Department offset programs that help collect delinquent child support payments as well as other types of delinquent debts to the federal government. These are effective and cost-efficient programs.

Use of the new hires database to provide information that can help locate delinquent payors is also a very important effort.

TAA Tax Credit:

Question. The Treasury Department is charged with implementing the Trade Adjustment Assistance (TAA) health insurance tax credit enacted in the Trade Act of 2002. How is the Department's work progressing? What is your estimated time frame for implementing the advanceable and refundable features of the tax credit? What difficulties has the department faced in implementing the tax credit? What are states doing to implement the group-coverage options for TAA recipients who are not eligible for COBRA coverage?

Answer. The Treasury Department is working hard on implementation of the tax credit. Regarding the refundable end-of-the-year credit, which became effective for qualified coverage in December of 2002, the instructions and forms for eligible individuals to claim the credit on their 2002 tax returns have been published and have been distributed to state workforce agencies. A model notification for TAA-eligible individuals has been forwarded to state workforce agencies to be transmitted to eligible individuals, and the IRS will be notifying PBGC-eligible individuals shortly.

We plan on the advanceable credit being fully operational by August 1, 2003, as required by the statute. A program office has been staffed at the IRS and is well underway in designing the structure for advancing the credit on behalf of eligible individuals. A contractor will be facilitating the administration of the advanceable feature and we expect that contractor to be in place by February 1, 2003. Although an advanceable, refundable credit that will be paid to an entity other than the taxpayer is unprecedented in the history of the tax code, we have thus far been able to address the unique issues associated with the administration of the credit as they have arisen.

Several states have expressed an interest in providing for state-based coverage. Treasury is actively working with the States to facilitate such coverage within the constraints of the enabling statute.

Question on Unemployment. The unemployment rate is 50 percent higher than it was just two years ago, and each month the economy seems to have fewer jobs. Labor statistics suggest that many people who have lost jobs are unable to find work simply because of the general economic situation. Please explain why the administration continues to oppose providing additional unemployment benefit extensions to the 1 million longer-term unemployed Americans who have exhausted their benefits but still cannot find work.

Answer. The President did support and sign into law a 13-week extension of unemployment insurance benefits.

In addition, he has proposed Personal Reemployment Accounts to help the 1.2 million workers having the toughest time getting back to work.

By providing funds for training, child care, transportation, etc., these Accounts help the unemployed make the transition back into the workforce.

The Reemployment Accounts have an extra incentive for finding a job. If any of the \$3,000 per worker amount is left in the account after a job is found, the worker may keep it as a reemployment bonus.

The President believes—as I do as well—that workers want jobs, not subsidized unemployment. His economic program is designed to create jobs and to help the long-term unemployed find jobs.

Question. The average annual cost of a family health insurance policy exceeds \$7,000. Thus, a family without health insurance but with an annual income of \$30,000 would still need to spend between 10 to 15 percent of its gross income to purchase health insurance after receiving a \$3,000 tax credit like the one the President has proposed. Nearly 60 percent of uninsured people live in families with incomes below \$30,000. How does the President's proposal make insurance more affordable for families? Will it help reduce the number of uninsured in any significant way?

Answer. We expect the proposed tax credit, up to \$1,000 for low-income individuals and up to \$3,000 for low-income families obtaining family coverage, to provide a significant reduction in the cost of health insurance facing the majority of Americans who are eligible for the credit.

Individuals would have the option to purchase coverage through a number of state-sponsored purchasing groups. Many individuals will find their coverage cost lowered through such pooling. States could, under limited circumstances, provide additional contributions to certain low-income individuals purchasing through specific groups, making the insurance even more affordable.

Less healthy individuals who are unable to obtain health coverage in the non-group market due to their health status could use the credit to purchase insurance

through state high-risk pools, for which the premium is generally subsidized. High-risk pools are currently available in about 30 states.

RESPONSES TO QUESTIONS FROM SENATOR ROCKEFELLER

Question 1. This last November, in their biannual report “The Fiscal Survey of States,” the National Governors’ Association said states faced “the most dire fiscal situation since World War II.” More recently, NGA estimated the states would have to deal with a budget shortfall of \$60–70 billion next year, despite having already made across-the-board cuts.

In 2002, 45 states took action to limit their Medicaid spending. Recently, Families USA released a study in which they detailed the significant impact that Medicaid spending has on state economies. For example, they found that in fiscal year 2001, the 50 states spent a combined total of nearly \$97.7 billion on Medicaid and that this investment generated an almost three-fold return in state economic benefit.

Despite this situation, the President did not include any state fiscal relief in his economic stimulus plan. How can the Administration believe that the actions states are being forced to take will not mitigate the effect of any stimulus package?

Answer. It’s true that if states cut taxes or slash spending, the economy will not recover as quickly as it would otherwise in response to the stimulus package.

But the source of the states’ difficulties is not the lack of federal money. It’s the slow-growing economy.

The President’s growth package attacks the source of the problem, returning dollars to those who will spend them on goods and services. The package generates about 500,000 jobs at the end of 2003 and 1.6 million at the end of 2004.

That increased spending flow will itself—through state sales taxes and income taxes—help bring in revenue.

Preliminary Treasury work suggests that about \$20 billion of extra state and local receipts will be generated through the end of calendar year 2004 by the economic jumpstart given to the economy by the growth package.

Question 2. The Treasury Department, together with HHS and DOL, is responsible for implementing the new health care provisions of the Trade Adjustment Assistance Act of last year. As you know, there were four consumer protections included in the TAA which are necessary to make any tax credit a viable option for covering the uninsured. Those protections were guaranteed issue, no pre-existing condition exclusions, comparable premiums and comparable benefits. However, under TAA these protections only apply to individuals who have 3 months of prior coverage at the time they apply for coverage using this new tax credit.

The Administration has chosen to interpret the three month rule in such a narrow manner that many laid-off workers and retirees may *technically* qualify for the credit but have no hope of finding affordable, decent coverage to buy with the credit. LTV went bankrupt last spring and stopped providing retiree health benefits to steelworkers in February. The Administration has determined that their previous health coverage will *not* count toward meeting this necessary threshold to ensure the consumer protections.

This will not just affect LTV. The fact is that both laid-off workers and the PBGC recipients who qualify for this credit will most likely *not* have had coverage since they were working or had retiree benefits. Without the market protections, none of those retirees will get coverage, despite all the promises that were made to them. What would you say to these workers?

Answer. I understand that the provisions of TAA are just now being implemented. The provision you refer to is one that was considered at great length.

It is important to note that the three-month rule is not an eligibility rule for the credit. An individual who does not have three months of “creditable coverage” would not be denied the credit. The three-month rule is the way that the statute defines the group of people for whom the four requirements you identified must apply in order for state-elected coverage options to be qualified health insurance for purposes of the tax credit.

Under the law, the four requirements must apply only with respect to an individual whose aggregate of the periods of “creditable coverage” is three months as of the date on which the individual seeks to enroll in the state-elected coverage. The statute defines “creditable coverage” by reference to another Internal Revenue Code section, which in turn provides that a period of coverage that precedes a break of 63 days or more is not counted. Thus, for example, if someone is covered under an employer-sponsored group health plan and then loses that coverage and remains without creditable coverage for 63 days or more, then the coverage prior to the break would not be counted in determining whether the individual has three

months of coverage. Treasury concluded it was bound to follow the statute as written.

Question 3. The Treasury Department is responsible for establishing the process for making the tax credit both refundable and advanceable. The statute calls for the process to be in place by August of this year. Until then, the tax credit is only refundable, meaning laid-off workers and PBGC beneficiaries will have to pay for their health care coverage up front, and apply for a refund at the end of the tax year. What is the status of that process?

Answer. The Treasury Department is working hard on implementation of the advanceable tax credit and they expect it to be fully operational by August 1, 2003. Despite the fact that no other advanceable credit has ever been enacted, they have been able to address the unique issues associated with the credit as they have arisen.

In addition, regarding the refundable end-of-the-year credit, which became effective for qualified coverage in December of 2002, the instructions and forms for eligible individuals to claim the credit on their 2002 tax returns have been published and have been distributed to state workforce agencies. A model notification for TAA-eligible individuals has been forwarded to state workforce agencies to be transmitted to eligible individuals, and the IRS will be notifying PBGC-eligible individuals shortly.

As part of the TAA, Congress provided a tolling period for TAA-eligible (but not PBGC eligible) individuals with respect to the 63-day rule. The period beginning on the date of the TAA related loss of coverage and ending on the first day of the month in which the individual becomes a TAA eligible individual will not be counted in determining whether an individual has incurred a 63-day break in creditable coverage.

A state may offer coverage options that extend the four special requirements to individuals without three months of creditable coverage. Likewise, a state could apply one or more of the four standards to individuals who have met a lesser coverage requirement (such as three months of coverage counting periods before a 63-day break in coverage). Such insurance would be eligible for the credit. The law simply permits a state to offer a plan that charges a person without three months of coverage a different premium than someone who is not eligible for the credit, to impose a preexisting condition limitation, to provide that person different benefits than someone who is not eligible for the credit, or to deny access to coverage. This permissive rule provides needed flexibility to states in arranging coverage for people who have been out of the insurance market for a significant period of time and increases the likelihood that insurance will be available.

I hope we can work together to make this program workable for all its intended beneficiaries.

Question 5. As the Treasury Secretary, you will have a fiduciary responsibility for the Medicare program. According to press reports, the President will propose only providing a Medicare prescription drug benefit to beneficiaries who have access to and choose to enroll in private managed care plans. Managed care plans/HMOs are virtually nonexistent in rural areas, are notorious for avoiding seniors with health problems, and have consistently pulled in and out of markets, stranding untold hundreds of thousands of seniors. Do you support limiting access to a drug benefit based on geography? Do you believe a drug benefit should only be offered to those seniors who happen to live in a state where private managed care plans may participate in such a plan?

Answer. The President has not announced his proposal to improve the Medicare program, and I have not been involved in discussions of the proposal.

I do, however, share the following principles that the President has laid out regarding Medicare:

- All Medicare beneficiaries should have the option of a subsidized drug benefit as part of modernized Medicare.
- Medicare should provide beneficiaries with better health insurance options, like those available to all Federal employees and members of Congress. These options should include keeping traditional Medicare coverage with no changes.
- Medicare legislation should strengthen the program's long-term financial security.
- Medicare's regulations and administrative procedures should be updated and streamlined, while the instances of fraud and abuse should be reduced.
- Medicare should encourage high quality care for all beneficiaries.

As the Managing Trustee of the Medicare Trust Fund, I will take very seriously the responsibility of working to ensure that Medicare delivers on its promises to today's retirees and keeps faith with tomorrow's beneficiaries.

Question 5. I believe that most Americans are worried about both their physical and economic security. The Finance Committee has jurisdiction over programs that are essential to the economic and health security of millions of Americans—whether Medicare, Medicaid, Social Security, our nation's welfare program, or the tax code. Would you please tell me about your views regarding our growing deficit and its effect on our nation's long term fiscal stability? What does our expanding deficit mean for the future of Medicare or Social Security?

Answer. Deficits have arisen out of an extraordinary coincidence of events: the war on terrorism, the need to boost homeland security, and the need to give the economy a boost.

There is some level beyond which the deficit becomes troublesome. But we're not near that level now and deficits relative to the economy will be declining in future years.

It's good to keep in mind that balanced budgets don't cause growth. Growth creates balanced budgets. The President's package creates the growth we need to keep deficits from jeopardizing our long-run fiscal stability.

Medicare and Social Security face serious long-term financial problems. In the absence of reform, the two programs will put enormous strain on future federal budgets.

I understand the President will propose modifications to the Medicare program that will help alleviate the long-term problem. Moreover, the best way to ease future financial strains from the two programs is to enhance economic growth and that is exactly what the President's economic plan will do.

Question 6. Mr. Snow, over the last several months there have been a number of statements from senior White House officials involved in economic policy that suggest that middle class Americans do not pay their fair share of the federal tax burden. I think this is an outrageous notion, but it troubles me to think what kind of future policies might result if there is an emerging Administration view that our tax system is too progressive. Do you believe our income tax system does not require enough from lower and middle income Americans? Do you have any concern that they are not paying their fair share of federal taxes? Will you agree to oppose proposals that unfairly increase the tax burden on lower and middle income Americans?

Answer. I support proposals to reduce the tax burden for taxpayers at all income levels. The President's Economic Growth Package would reduce the income tax burden of many low- and moderate-income taxpayers by accelerating several provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), including expansions of the child tax credit, the 10percent rate bracket, and the standard deduction for married couples.

Under the President's proposal, taxpayers with income under \$30,000 will have their taxes reduced by a greater percentage than taxpayers with income over \$100,000. The average percentage tax cut for taxpayers with income under \$30,000 is 17 percent, while the average percentage tax cut for taxpayers with income over \$100,000 is 11 percent.

Because the percentage reduction in income taxes is greatest for families with incomes under \$50,000, these families will pay a smaller share of the total income tax burden under the President's proposal than they do under current law. Under current law, 4 percent of individual income taxes are paid by families with income under \$50,000. Under the proposal, 3 percent of individual income taxes are paid by families with income under \$50,000.

Question 7. Do you have a rough idea how much you yourself would benefit from the President's proposal to eliminate the so-called double taxation of dividends and any idea, even a rough approximation, of the benefit of that proposal for the average CSX worker would benefit? Can you explain to me why Congress should endorse a policy that has such a huge discrepancy in who would benefit—especially when despite its enormous \$364 billion over ten years cost, it will do nothing to stimulate our economy this year?

Answer. I have not sat down and thought about how the proposal would affect me, but I have thought about how it would affect the economy as a whole. Cutting taxes on capital leads to more investment by firms in plant, equipment, and research. Investment by firms makes workers more productive. And the wages paid to workers are ultimately based on their productivity. Thus, average workers stand to benefit quite a bit whenever taxes on capital are reduced.

However, the benefits to the economy of this proposal go beyond reducing the tax rate on capital. Double taxation of corporate profits creates significant economic distortions. It encourages corporations to use equity finance rather than debt finance. It encourages firms to retain earnings or repurchase shares rather than distribute dividends. The current tax system also creates incentives for firms to waste time

and effort engaging in transactions for the sole purpose of minimizing their tax liability. It also encourages firms to organize as an unincorporated entity rather than a corporation. Removing these distortions will encourage economic growth and benefit the society as a whole.

TRADE PROMOTION/MANUFACTURING JOBS (ROCKEFELLER)

Question. In the position to which you have been nominated by the President, you will be a principal adviser to the Administration on trade. Working to bring the benefits of trade to West Virginia has been one of my primary concerns as Senator, and before that as Governor. As you surely know from your work with West Virginia industries as head of CSX, many of my state's core industries are struggling to compete in the global marketplace because of high energy and transportation costs.

As Treasury Secretary, what policies would you advocate to the President that would promote trade, while at the same time preserving good-paying manufacturing jobs for workers in West Virginia and across the country?

Answer. The Administration is pursuing an ambitious global trade agenda and has been at the forefront of new trade initiatives. The U.S. is pressing ahead with the WTO negotiations and has made bold proposals for agricultural liberalization and the elimination of duties on non-agricultural products. The United States is also proceeding with a very active Free Trade Agreement agenda—including the recent completion of FTAs with Chile and Singapore FTAs, the 34country FTAA currently underway in this hemisphere, and pending negotiations with Central American countries, Morocco, Australia and the South Africa Customs Union. I believe these efforts can help produce substantial benefits for U.S. industry, farmers, and consumers.

The President's international steel initiative has also encouraged the closure of inefficient excess capacity throughout the world. Our own steel industry is undertaking important adjustment efforts here at home essential to its continued competitiveness. The United States is also playing an active role in efforts to enhance global disciplines over government subsidies in the steel sector. I will support continued efforts in all of these areas.

New Markets:

Question 1. I understand that the administration received some \$26 billion in requests for New Markets Tax Credits. The total available for 2002 is \$2.5 billion. I presume the Department will have a number of qualified applications that do not receive credits. These applications contain projects in economically distressed areas that are ready to go. Given the great demand and the need to promote economic stimulus in the low income communities targeted by the credit, what is your view on including additional volume for the credit in the stimulus bill?

Answer. I have not yet had an opportunity to fully review all aspects of the New Markets Tax Credits Program. If I am confirmed as Secretary of the Treasury, I would be glad to review this matter and get back to you.

Question 2. Supporters of the NMTC are concerned that implementing the President's dividend exclusion proposal would discourage corporate investors from taking advantage of the NMTC and other tax credits designed to offset corporate earnings.

In simple terms—in order for corporations to pass tax-free dividends to shareholders they must pay corporate income taxes on earnings. I believe this will lead to a bottoming out of the tax credit market.

Was this an intended impact of the dividend exclusion proposal? And if not, how does the Administration propose to address this issue?

Question 3. As I mentioned, the CDFI Fund plans to announce the first round of NMTC allocation awards next month at which point Community Development Entities (CDEs) that are awarded an allocation of Credits will be able to enter into formal agreements with their investors.

But it is unlikely that an investor would be willing to finalize an investment agreement with a CDE until the dividend exclusion issue is resolved. These first round investors are already being asked to break new ground by investing in CDEs in exchange for the NMTC and the added uncertainty of how the dividend exclusion issue is likely to delay final investments decisions.

How does the Administration propose to address this investor concern?

Answer to questions 2 and 3. The purpose of the proposal is not to bottom out the tax credit market and it is not anticipated that the proposal will have that result. Corporations will typically have income the tax on which is not reduced by the NMTC that will be a source from which tax-free dividends can be paid. In addition, corporations and shareholders will continue to derive a tax benefit from the NMTC. That credit will reduce corporate level taxes and, therefore, preserve corporate assets. Finally, in many cases, corporations will have nontax incentives to engage in

the activity promoted by the NMTC. Therefore, the economic incentives to undertake those activities entitled to the NMTC will continue to be analyzed taking into account both the direct return from the activity and the value of the tax benefit to the corporation and its shareholders.

Question 4. As a former Governor, I am particularly concerned about State fiscal relief, especially when NGA is reporting that the combined deficits among states will be \$65 to \$80 billion in the coming year. West Virginia, alone, is facing a \$200 million shortfall right now. The Bush plan includes an repeal the tax on stock dividends. This will hurt States by reducing state revenue by \$4 to \$5 billion, each year. Secondly, some predict it will also hurt municipal bonds sales, including school construction. Nationwide the estimate for school construction is \$112 billion. West Virginia's school construction needs are \$1.8 billion. Most communities fund school construction by municipal bonds. Construction could start this year, while dividend relief won't be noticed until 2004. I believe that promoting school construction be a more sure way to create jobs and stimulus our economy.

What do you think of promoting and expanding school construction bonds, and how do you think this would enhance our economy in the short term?

How do you think the stock dividend proposal will effect the tax-free bond market-covering schools, hospital and other public projects?

Answer. Certainly expanded school construction would boost economic activity. There can be fairly long lead times, though, between identifying the need for a school, planning, approval, issuance of bonds, and then actual construction. So, I'm not sure whether there could be much expansion of school construction this year, but any expansion would help.

The Treasury Department has analyzed the impact of the exclusion for stock dividends on the tax-exempt bond market. We have concluded, like most private commentators, that the impact would be minor.

RESPONSE TO A QUESTION FROM SENATOR JEFFORDS

Question. When you are confirmed, you will inherit proposed Treasury regulations on conversions to cash balance pension plans. Cash balance plans are a type of defined benefit plan. In its proposed regulations, Treasury provided a special rule applicable only to cash balance plans for purposes of age discrimination. Was this because cash balance plans could not meet the nondiscrimination rules applicable to all other defined benefit plans? In what respects will cash balance plans have to meet standards similar to those established for defined benefit plans? When are different standards appropriate? Will you review these proposed regulations to insure that older workers are not harmed under cash balance conversions?

Answer. The regulations you refer to are proposed regulations. I will review these regulations before they are finalized keeping in mind your comments.

RESPONSES TO QUESTIONS FROM SENATOR LINCOLN

Question 1. Under the watchful eye of this Committee, the Treasury Department is reviewing the taxation of so-called "split-dollar" life insurance arrangements. As you know these products do provide a useful tool for business, but there are abuses.

Have you ever owned an interest in a split-dollar life insurance arrangement and if so, do you still own an interest in the policy. Have you conducted a "SWAP" or "rollout" of the policy, taken a loan against such a policy, and have you, to date, paid taxes on any of the life insurance benefits provided by your company without being "grossed up?"

Answer. On July 11, 2001 the Board of Directors approved, and the Company entered into, an employment agreement with John Snow. The agreement specified that the Company would provide Mr. Snow with a fully paid split-dollar life insurance policy with a death benefit of \$25,000,000.

Changes in tax regulations enacted after the approval of the employment agreement eliminated favorable tax treatment that had previously been available for such policies. In addition, with the passage of Sarbanes-Oxley, the loan-type features of the product effectively prohibited its use for executive officers. As a result, CSX never purchased a split dollar life insurance policy for Mr. Snow. Instead, the company investigated providing an alternative insurance product to fulfill its obligations under the employment agreement. Ultimately, CSX decided to purchase a universal life policy of \$25,000,000 for Mr. Snow in lieu of the split-dollar policy. CSX is providing Mr. Snow with a lump sum payment to cover the costs of the premiums and gross-up associated with his purchase of the universal life insurance policy.

Question 2. I have read the recent reports in the press about the administration's desire to privatize Medicare, and I am concerned. The administration has said that their goal of privatizing Medicare is to control the costs of the program by increas-

ing efficiency. However, studies by the Inspector General of HHS, the GAO, and MedPAC have indicated that private plans have actually been less efficient than traditional Medicare. Given these findings, how much does the administration expect to save through market-based reforms? Will the real “savings” come from shifting more costs to beneficiaries?

Answer. Senator Lincoln I understand your concern regarding the Medicare program and reports you have read. As I said in the hearing, while Secretary of HHS, Tommy Thompson is the Administration’s point person on the Medicare issue, if confirmed, I will become a trustee of the program and will take a keen interest in fulfilling those duties.

Question 3. There have been reports in the press that the President’s Medicare reform proposal will force seniors to enroll in a private managed care program if they want to have prescription drug coverage. Consequently, seniors who remain in the traditional, fee-for-service Medicare program will not have drug coverage. Last year, there was bipartisan consensus that all Medicare beneficiaries get prescription drug coverage, including those in traditional Medicare. Why would the President prevent the seniors in traditional Medicare from getting drug coverage?

Answer. Your concern over efficiency in the Medicare system providing, prescription drug coverage for seniors and obtaining the best price for Medicare purchases will all be important issues to focus on as we go forward in examining the Medicare program.

Question 4. I am also concerned that the President’s Medicare reform proposal would cause the federal government to pay much higher prices than every other federal program does for prescription drugs. Under the President’s plan, HMOs and private insurance plans would be negotiating the price the federal government pays. However, under federal law, HMOs can’t negotiate prices that are lower than the Medicaid “best price.” But currently, the federal government always pays a price that is much lower than the Medicaid “best price”: such as 340B hospitals and the Veterans Administration.

Why would we want the federal government under Medicare to pay higher prices than every other federal program does for the exact same drugs?

Answer. Obviously as a private citizen, I have not been involved in the formulation of the Administration’s Medicare plans, nor am I privy to what will the President’s budget will contain regarding Medicare. However, I look forward to getting involved in Medicare, to working with you regarding the important issues you raise, and to meeting with you in order to fully address your concerns.

Question 5. As you know, Social Security taxes are only paid on the first \$87,000 of income. This money goes into the Social Security trust fund and, if we are in a deficit situation, it is subsequently borrowed.

In 2016 when the Social Security Trust fund runs out of money we have no assurances that cuts in the program won’t be used to pay for the short fall.

So my questions are:

- If we borrow from people paying into Social Security now and then make those same people pay back the debt to Social Security with benefit cuts, isn’t that a double tax?
- Shouldn’t people who are paying into the Social Security trust fund receive the benefit of tax cuts which are paid for by borrowing from Social Security? Isn’t it their benefits that are on the line?
- Considering interest, is a tax cut enacted while we are in a deficit situation tantamount to a tax increase?

Answer. Under the assumptions in the 2002 report of the Social Security Trustees, Social Security would begin to experience annual cash deficits in 2017. At that time, the Social Security Trust Fund would show a substantial positive balance, consisting of debt instruments issued to the Social Security Trust Fund from the general fund. Under current projections, the government would be obligated to redeem debt held by the Social Security Trust Fund from 2017 through 2041. The revenue source for redeeming debt held by the Social Security Trust Fund is the revenue base for general government revenues, as opposed to Social Security’s payroll tax base.

Your question specifically asks about the effects of benefit cuts employed to lessen the fiscal pressures associated with annual programmatic deficits in Social Security. While there are a variety of proposals in existence for strengthening Social Security, each of them assumes that the federal government would continue to fully honor debt issued to the Social Security Trust Fund, as has been done in the past, and would commit the revenues necessary to do so even during periods of programmatic cash deficits.

The larger policy question facing the Congress pertains to the extent to which it is practicable to fiend Social Security benefits solely through the issuance of large

amounts of debt to the Social Security Trust Fund that must later be redeemed. Many proposals have been offered to establish a more effective means of advance funding future benefits, such as the establishment of personal accounts, designed to lessen the degree to which future benefits are staked on the government's ability to cope with large programmatic cash deficits.

Question 6. If we borrow from people paying into Social Security now and then make those same people pay back the debt to Social Security with benefit cuts, isn't that a double tax?

Answer. It is important to understand that every penny of every dollar of Social Security payroll tax revenues—whether surplus or not—is credited to the Social Security trust fund and invested in special Treasury securities, where it accrues interest. No funds so deposited to the Social Security trust fund are available to pay anything other than Social Security benefits. Therefore, neither income tax cuts or increases nor on-budget spending increases or decreases outside of Social Security have any impact whatsoever on them balances in the Social Security Trust Funds.

Question 7. Shouldn't people who are paying into the Social Security trust fund receive the benefit of tax cuts which are paid for by borrowing from Social Security? Isn't it their benefits that are on the line?

Answer. As mentioned above, there is no impact on Social Security trust fund balances from either tax cuts or increases or spending increases or decreases outside the program. As a result, the Trust Fund balances are in no way affected—either today or tomorrow—by other operations of the federal government outside the Social Security program. However, Social Security recipients, like all Americans, will receive the benefit of a stronger economy from the President's economic growth package than would occur in its absence. In that regard, they and the nation as a whole will benefit from the President's economic growth package, and it will put the nation on a stronger footing to meet its long term obligations.

Question 8. Considering interest, is a tax cut enacted while we are in a deficit situation tantamount to a tax increase?

Answer. The interest expense associated with general revenue reductions in the jobs and growth package are orders of magnitude smaller than the estimated amount of the revenue lost. Because federal borrowing is not generally earmarked for any specific purpose, this allows the federal government to finance its operation at the least cost to the taxpayer. The purpose of the jobs and growth package is to enable the U.S. economy to perform on a higher level consistent with its potential, thereby leading to higher economic growth and federal revenues. This was the stated purpose behind President Kennedy's program in 1962. As Senator Snowe noted from a recent business week article, an economy that grows at 4 percent for 30 years will grow 33 percent bigger than one that grows at 3 percent, which can amount to an \$8 Trillion difference in today's dollars. With respect to the jobs and growth plan, the level of deficits and associated debt service will remain well within historical norms, and shrink over time.

RESPONSE TO A QUESTION FROM SENATOR HATCH

Question. As you may know, there is an ongoing trade case that may result in shutting out a major supplier of lithography equipment to the United States semiconductor industry. The effect could also be to close down the one U.S. supplier of lithography equipment. This case is a Section 337 case (patent infringement) brought by Nikon Corporation against ASM Lithography ("ASML"). ASML is the producer of lithography equipment that could be shut down. ASML has facilities in the U.S. and the Netherlands, and acquired the one U.S. company making lithography equipment, Silicon Valley Group, in 2001. An economic study prepared by two economists, Jerry Hausman of MIT and Dr. Seth Kaplan of Charles River Associates, estimates that there will be a severe negative impact on the U.S. semiconductor industry, on the electronics industry, and on the U.S. economy as a whole if ASML lithography machines are excluded from the U. S. The economists predict losses from an exclusion order well in excess of 100,000 U.S. high paying jobs.

The Section 337 law specifies that a public interest review must be made before this exclusion order is put on the books. Would you support a full review on whether it is in the public interest to shut ASML out of the U.S. market? What factors do you think should be considered in making this decision?

Answer. It is my understanding that a Section 337 case involves a full investigative review, with formal evidentiary hearings before an administrative law judge, and that parties to these investigation include complainants, respondents, and attorney from the International Trade Commission to represent the public interest. When this process is completed and the ITC has reported its findings, I will be in a better able to take a position and advise the President.

RESPONSES TO QUESTIONS FROM SENATOR NICKLES

The Terrorism Reinsurance Act of 2002 (TRIA) created a temporary federal reinsurance backstop for losses related to foreign acts of terrorism. The program is designed to provide short-term market stabilization by providing a federal backstop for coverage currently unavailable, unaffordable or limited in the private insurance market. In considering the TRIA, Congress was careful not to create a federal insurance program or a federal insurance regulatory system. Congress granted states the exclusive jurisdiction over the regulation of insurance in 1945 when it enacted the McCarran-Ferguson Act. Congress again confirmed its commitment to state regulation of insurance in 1999 when it stated in the Gramm-Leach-Bliley Financial Services Modernization Act that the McCarran-Ferguson Act remains the law of the land.

Question 1. TRIA is to be administered by the Department of the Treasury. In implementing the TRIA, what role do you envision the Treasury Department playing—the role of a traditional reinsurance entity that relies on the existing state insurance regulatory structures? Or, do you envision a more direct federal regulatory role in the insurance market?

Answer. I understand that the program as drafted and intended by Congress places a strong reliance upon the role of state insurance authorities. They are the primary insurance regulators, with the Federal Government taking the role of a reinsurer. I am pleased to learn of the close cooperation that has existed between the Treasury and the National Association of Insurance Commissioners in administering the program to date, and I would hope and expect that close cooperation to continue.

Question 2. Given the temporary nature of the federal terrorism reinsurance program, do you envision allowing insurers to utilize their customary practices (for example, with regard to policyholder communications or information collection) to meet the requirements of this program? Or, do you envision the need to establish an entirely new framework of federal regulations?

Answer. I understand that the approach taken by the Treasury Department in administering the program to date has been to rely upon existing insurance practices wherever possible. New regulations are envisioned only where the requirements of the program under the legislation would require them, where existing practices or arrangements do not cover certain aspects of the program, or where regulations might facilitate participation in the program. That approach seems to me to be consistent with the intent of the Congress, particularly in view of the temporary nature of the federal program.

RESPONSES TO QUESTIONS FROM SENATOR THOMAS

Question 1. U. S. manufacturers and agriculture producers have been hurt since the late 1990's by the strength of the U.S. dollar. Though I support allowing the market to set the value of the dollar, the market must be free of government and trader manipulation.

Unfortunately, this has not occurred in recent years, as various governments have used currency distorting practices to undervalue their currencies at the expense of the U.S. dollar. In rare emergency situations, limited short-term intervention may be required. However, long-term intervention is clearly detrimental to many segments of the U.S. economy.

a. What are your thoughts on the current value of the U.S. dollar and its impact on current and future economic growth?

b. Except when a coordinated intervention is warranted, how will you dissuade other nations from intervening in currency markets?

Answer. The value of the dollar has a variety of impacts on the U.S. economy. The most effective support for American workers and businesses is sustained strong growth in the U.S. and global economies. In this environment, President Bush's jobs and growth proposals are designed to enhance long-term growth potential while providing near-term support against downside risks. If confirmed, I will stress the need for stronger growth in my discussions with officials in other countries.

I favor reliance on open exchange markets and think that the trading system of the world is best placed by having currencies that reflect their inherent value. I think it is wise for other countries to follow such policies and will express that view when appropriate, if confirmed.

Question 2. Everyone agrees that the tax code is too complicated. Most people agree that individual and corporate taxpayers spend too much time and money in complying with the code. Unfortunately, the passion, focus, and political willpower required to correct the problem is all too often non-existent.

The Treasury Department is embarked upon a review of the code and developing proposals to reduce the code's complexities.

a. In your opinion, is the tax code too complex?

b. Are you willing to provide the financial and staff resources required to complete the project? Senator Thomas

Answer. I agree. The United States income tax system is far too complicated. Millions of taxpayers and businesses face significant challenges in understanding the tax law, keeping required records, completing numerous and detailed tax forms, and responding to IRS requests for additional information. Complexity also makes it more costly for the IRS to administer the tax code.

Last year, the Treasury Department proposed the creation of a uniform definition of child, which would simplify filing for millions of taxpayers with children. I am very interested in finding additional ways to reduce compliance burdens and administrative costs. If I am confirmed, I promise that Treasury will devote the resources to work with the Congress on tax simplification efforts.

Question 3. Small manufacturers wishing to build or expand existing facilities are encountering serious capital constraints. Last Congress, I proposed changes to the tax laws governing industrial development bonds to relieve some of the pressure these manufacturers face. I expect to introduce similar legislation this year to address the problem.

My proposal will double the bond and capital expenditure limit from \$10 million to \$20 million; add a future inflation index; and expand the definition of manufacturing facilities to include value-added agriculture and high-technology.

In view of the sluggishness of the manufacturing sector of the economy,

a. Do you believe these changes would stimulate investment and create jobs in this sector?

b. As Treasury Secretary, how will you address the current weakness in the manufacturing sector?

Answer. IDBs are one of several types of private activity bonds subject to the State-by-State private activity bond volume cap. Under current law, the amount of bonds for a particular business in the same municipality or county is limited to \$10 million. Studies indicate that IDBs are more important in determining the specific location of manufacturing facilities than in increasing aggregate investment and employment.

The Treasury would support some change in the capital expenditure limit so that firms that have good business reasons to increase the size of a plant after the bonds are issued could do so (within some limits) without rendering their bonds taxable. We don't believe that increasing the volume cap would be appropriate, nor do we believe that changing the specific rules governing the types of bonds covered by the cap will have a significant effect on the economy as a whole. We look forward to working with you on your proposal.

All three of the tax elements of the President's jobs and growth package will help the manufacturing sector in its desire for growth and job creation.

- The proposed expansion of expensing of capital investment from \$25,000 to \$75,000 will lower the cost of investment in equipment and machinery for qualifying firms, particularly smaller manufacturers. In addition, the proposed increase from \$225,000 to \$400,000 in the limit on the total amount of investment that a firm may undertake and still claim expensing would increase the number of firms benefiting from the provision.
- The dividend exclusion will reduce the distortion caused by the double tax on corporate income, lowering the economy-wide cost of capital and making investment more attractive.
- Accelerating the reductions in individual income taxes will put more purchasing power in consumers' hands, increasing the demand for output from the manufacturing sector.

Question 4. It is my understanding that the Bureau of Alcohol, Tobacco, and Firearms (BATF) has initiated a project to examine the federal tax treatment of certain flavored alcohol beverages that contain hard liquor. Concern has been expressed in some quarters that these beverages are improperly classified as malt beverages rather than distilled spirits.

a. Does the Department have in place adequate safeguards to ensure that products are properly classified for tax purposes?

b. If the answer to (a) is no, what proposals will you put forward to address the situation?

c. What is the status of the BATF investigation?

Answer. In recent years, a new type of alcohol beverage product, known as "flavored malt beverages" has been introduced to the consumer market. These products differ from traditional malt beverages in that they exhibit little or no traditional

malt beverage character, and their flavor is derived primarily from added flavors rather than from the fermentation of malt: In fact, although the alcohol content of these products is similar to that of beer, the alcohol in many of these products also derives primarily from the alcohol in the flavors rather than from the fermentation of malt.

Treasury's new Tax and Trade Bureau (that part of ATF not transferred to Justice by the Homeland Security Act) recently completed an examination of the formulation of over one hundred of these products and found that in a majority of these products, the alcohol is primarily from the alcohol in the flavors and not from fermentation of malt. For a number of years brewers have been allowed to use flavoring ingredients containing alcohol when producing malt beverages, but in light of these findings the agency recommended promulgating regulations limiting the amount of alcohol in flavored malt beverages that may come from the flavorings. A notice of proposed rulemaking should be published in the near future.

RESPONSES TO QUESTIONS FROM SENATOR SANTORUM

Question 1. The Terrorism Risk Insurance Act (TRIA) of 2002 provides a temporary, federal reinsurance backstop without creating a new, federal regulatory scheme for implementation.

If confirmed, do you plan to implement TRIA through the creation of a federal insurance regulatory mechanism, or will you direct Treasury to assume a role similar to traditional reinsurance and rely on existing state regulatory structures?

Answer. I understand that the program as drafted and intended by Congress places a strong reliance upon the role of state insurance authorities. They are the primary insurance regulators, with the Federal Government taking the role of a reinsurer. I am pleased to learn of the close cooperation that has existed between the Treasury and the National Association of Insurance Commissioners in administering the program to date, and I would hope and expect that close cooperation to continue.

DEBT RELIEF FOR HEAVILY INDEBTED POOR COUNTRIES

Question 2. Last year Senator Joe Biden and I introduced legislation designed to lessen the Third World's unsustainable debt burden. The legislation, S. 2210, the Debt Relief Enhancement Act, was supported by a large coalition of non-governmental organizations, international relief organizations, and religious institutions.

The HIPC Initiative was adopted by the World Bank and the IMF in September 1996. Under the Initiative, multilateral debt forgiveness is financed from the World Bank, RAF, regional development banks, and developing countries. The U.S. has supported the HIPC Initiative as a means to promote economic growth and poverty alleviation, and to reward those countries with the best performance records with the cancellation of debt that most likely would never be paid.

In response to critics who felt the Initiative was not moving fast enough, substantial changes were made in the program in 1999 to speed assistance under the Initiative. The Biden-Santorum bill sought to build on these most recent enhancements by reducing debt service payments to manageable levels so that HIPC countries can devote the necessary internal resources to achieve sustainable development.

President Bush and others in the Administration have proposed delivering U.S. aid in the form of grants instead of loans as a way of avoiding increasing the debt burden on developing countries.

If confirmed as Secretary of Treasury, how might you work with Congress and the multinational financial institutions to help provide broader and deep debt relief to qualified countries?

Answer. If confirmed as Secretary of Treasury, I look forward to working on these important issues. I know that the Bush Administration has had a number of initiatives aimed at the developing world, particularly the poorest nations involved in the Highly Indebted Poor Countries Initiative. Those policies focus first and foremost on improving economic growth, which is the primary way of reducing poverty and providing countries the opportunity of having more sustainable finances. Below are some examples of policy issues that the Administration supports and which I plan to learn more about if confirmed.

The President has always supported fulfilling the U.S. commitment to debt reduction for the poorest and most heavily indebted countries (HIPC) that are committed to economic reform. If confirmed, I look forward to working with the Congress on the authorization and financing of this important effort.

I also believe it is important to provide more assistance in the form of grants. Due to the efforts of the Bush Administration, the International Development Association (IDA) and the African Development Fund (AfDF) will provide 18-21 percent of

assistance in the form of grants. Moreover, those countries that are most vulnerable due to extreme poverty, severe indebtedness, or suffering from the scourge of HIV/AIDS will qualify for an even larger share of grants.

In addition to greater resources for the most vulnerable countries, however, assistance will eventually only make a difference if it is used effectively. That is why the Bush Administration has stressed the importance of measuring development results at all levels. For instance, in the most recent IDA negotiation the Administration achieved agreement on establishing a new measurable results system. The United States linked a portion of its IDA contribution to progress on this system. If confirmed, I look forward to working with Congress this year to evaluate progress on the IDA agreement.

The President has also proposed a significant increase in development assistance to the poorest countries that are ruling justly, investing in people, and promoting economic freedom. I know that Treasury has been very involved in the design and creation of the Millennium Challenge Account. If confirmed, I look forward to working with Congress to make this concept a reality.

RESPONSES TO QUESTIONS FROM SENATOR SMITH

Northwest Pears:

Question 1. For more than a year the U.S. canned pear industry has petitioned the U.S. government to remove South African canned pears from the list of products eligible for duty-free access to the U.S. market under the African Growth and Opportunity Act (AGOA). Industry believes that these benefits were conferred in error and contrary to the intent of the Administration to exclude import sensitive products from AGOA benefits. The U.S. Treasury Department plays a significant role in determining the fate of the canned pear industry's petition. Will you support the canned pear industry and hence rural agricultural areas in my state by recommending that the President rule in favor of the U.S. canned pear industry petition?

Will you support the canned pear industry and hence rural agricultural areas in my state by recommending that the President rule in favor of the U.S. canned pear industry petition?

Answer. I understand this issue has been under review within the Administration and that the U.S. canned pear industry's petition to remove canned pears from duty-free access has been given very careful consideration. As I have not been part of those discussions up to now, it would be premature for me to come to a final view, but if confirmed I will give this issue close consideration.

Bonus Depreciation

Question 2. The Administration has worked hard to jump-start the industrial part of the economy through the 30% bonus depreciation provision in last year's Job Creation and Worker Assistance Act. Industries in my state tell me that provision is very important and holds out the possibility that more of their customers will be motivated to begin placing orders for goods and equipment.

These companies tell me, however, that the recovery in the industrial sector could take a long time and be very gradual. Unfortunately, the existing bonus depreciation provision has a very short life span, the percentage of the bonus is modest and the slow pace of the recovery is preventing extensive use of the provision so far. There is a strong sense among these companies that the provision should be extended beyond the remaining two-year window and that the percentage should be beefed up to ensure that it motivates the customers to begin placing meaningful orders.

I am in the process of drafting a proposal that would do two things. First, it would extend the provision by an additional three years, thus ensuring that the bonus depreciation provision will be available for the next five years. Second, it would increase the 30% to 50%, thus helping to ensure that the provision truly will motivate more companies to begin making serious orders for goods and equipment.

I recognize that the Administration has a set of priorities on how best to stimulate growth and that other Members of this Committee and congress as a whole will have others. Without asking you to put my proposal above other Administration priorities or in any way detracting from the fine proposal that the Administration has crafted, wouldn't you agree that a stimulus of this nature could have a dramatic effect on industrial orders and the high-paying, family-wage jobs that result therefrom?

Answer. The Administration is strongly supportive of last year's action by Congress to provide for bonus depreciation through September 2004. I believe it has had a very desirable effect in softening the decline in investment that would have occurred during the recession, and I believe it will continue to provide significant help

as businesses accelerate their investment to take advantage of the provision before its expiration. As you know the President's Growth Package offers broad based and permanent growth incentives through the dividend exclusion and rate reductions as an alternative to additional bonus depreciation. I look forward to working with you, if I am confirmed, to give consideration in the future with respect to the need for an extension of the provision.

RESPONSES TO QUESTIONS FROM SENATOR BUNNING

Question 1. Treasury staff has proposed a rule that would require U.S. financial institutions to report interest paid to nonresidents (REG-133254-02) so that this information can be shared with their foreign governments. These requirements, entitled, "Guidance on Reporting of Deposit Interest Paid to Non-Resident Aliens," make minor changes to an earlier proposed rule promulgated just days before the end of the Clinton Administration.

Treasury has been criticized from many sources for moving forward with this rule. The FDIC, the American Bankers Association and the Conference of State Bank Supervisors have expressed concern that the rule will divert significant capital inflows from the U.S. Others voice concern the rule will profoundly change U.S. tax and economic policy by executive exaction—policy designed intentionally to attract foreign investment by not taxing bank deposit interest. And some claim that by providing foreign governments with financial information on U.S. investors, this rule will stymie anti-terrorism efforts. With respect to this rule:

A. IRS takes the position that the Regulatory Flexibility Act (RFA) is inapposite by claiming that the rulemaking "does not impose a collection of information on small entities." Title 5 U.S.C. 603 provides that "the [RFA] applies to interpretive rules . . . to the extent such interpretive rules impose on small entities a collection of information requirement." How does the Treasury Department reconcile this view, especially if the sole purpose of the rulemaking is collection and transmittal of information to the Service and to foreign governments on interest paid to non-resident-alien? What standard will the Treasury Department apply to determine if a rule is: a. interpretive, b. imposes a collection requirement, and c. what steps will Treasury take to ensure the spirit and the letter of the RFA are fulfilled?

B. It would be very frustrating if we spent several months producing a pro-growth tax bill, only to see the economic benefits offset by an IRS regulation that causes capital flight and undermines the safety and soundness of the U.S. banking system. Given the significant risk that this rule has the potential to cause hundreds of billions of dollars of capital to leave the U.S., and the dubious benefits to be derived from reporting on income that is not taxable, would the Treasury perform a cost-benefit analysis before promulgating this rule? If not, on what basis does the Treasury believe the rule escapes the strictures of OMB Circular A-94?

C. The IRS implies that only by sharing information with Europeans can they best fulfill their mission of "improving compliance with US tax laws." Since stopping U.S. citizens and residents from escaping taxes by falsely claiming foreign residency is the expressed reason for the rule, what evidence does the Treasury have that Americans are more inclined to lie about residing in the highest taxed nations of the world in order to avoid lower taxes, as opposed to falsely claiming residence in Columbia, Mexico, China or the Middle East? What systems are already in place that permits a cross-share of information between the INS and Treasury so that the satisfaction of the substantial presence test can be confirmed without seeking to ask foreign officials the status of U.S. investors?

D. Has the Treasury Department considered that the rulemaking could divert deposits from the U.S., where it is monitored and subject to seizure, to Hong Kong and elsewhere, where they cannot be monitored, and drive such money exchanges further underground and away from formal exchange and banking mechanisms? What, if any, restrictions are imposed on the use to which the information provided by the U.S. to foreign governments can be put?

E. The Service is not authorized to issue a rulemaking that is not "needful" for the "enforcement" of the Code; it is not authorized to require a return unless under a valid rulemaking; and, in any event, cannot require such a return unless a person is liable for any tax imposed by the Internal Revenue Code or for the collection thereof. Since U.S. bank deposit interest received by foreigners is generally not taxed, on what authority are these rules issued if they are not needed to enforce U.S. tax law?

Answer. I understand that the pending proposed regulation, which would require reporting by banks in the United States to the Internal Revenue Service on interest paid to certain nonresident alien depositors, has been the subject of criticism. This proposed regulation was issued by the Treasury Department in July of 2002. At the same time, the Treasury Department withdrew a much broader proposed regulation that had been issued in January of 2001 at the end of the prior Administration. The current proposed regulation reflects careful consideration by Treasury of the comments received from the banking industry and other interested parties regarding the January 2001 proposed regulation.

After working closely with banking industry representatives to understand their concerns, Treasury concluded that it was appropriate to narrow the scope of the proposed information reporting requirement. The new proposed regulation is intended to facilitate the goal of ensuring compliance with U.S. tax laws by permitting appropriate information exchange pursuant to our bilateral tax treaties in appropriate circumstances without unduly burdening U.S. banks. However, the regulation was issued in proposed form in order to provide an opportunity for those potentially affected to comment on their impact.

Treasury is now working to consider all of the comments on this proposed regulation. If confirmed, I pledge to give full attention to all the concerns that have been expressed about the proposed regulation in order to ensure an appropriate resolution of this important matter.

EXCHANGE RATES

Question 2. The U.S. trade deficit is now running close to \$400 billion a year, nearly four percent of the gross domestic product. One explanation for this increase in the trade deficit is the effect of the strong dollar on both the price of products exported from the U.S. and products imported into the U.S. Particularly, there is concern that the price of the dollar and the resulting decrease in U.S. exports contributed to the loss of many U.S. manufacturing and agriculture jobs in recent years. With respect to this issue:

A. Does the Treasury Department feel that the strength of the U.S. dollar has contributed significantly to the increased size of the U.S. trade deficit? What effect is the strong dollar having upon the U.S. job base in both the manufacturing and agricultural sectors?

Answer. Since I am not confirmed, I cannot speak for the views of the Treasury Department, but I can tell you my own view. The value of the dollar is one of several factors affecting the size of the trade deficit. The U.S. trade deficit reflects, fundamentally, the difference between domestic saving and investment. The most effective support for American workers and businesses is sustained strong growth in the U.S. and global economies. In this environment, President Bush's jobs and growth proposals are designed to enhance long-term growth potential while providing near-term support against downside risks.

Question 3. B. Is the current price of the U.S. dollar in line with economic fundamentals? If so, what steps should the government be taking to bring the dollar more in line with global currency markets?

Answer. Exchange rates are subject to many influences in international capital and goods markets. In recent years, foreign interest in investing in the United States, in particular, has exerted a strong influence on the dollar in foreign exchange markets. U.S. fundamentals—underlying productivity growth, the flexibility of labor and capital markets, and low inflation—have remained strong, which continued to attract investment and result in high demand for dollars.

Question 4. C. There is evidence that a number of countries, including Japan, Korea, China and Taiwan, may be manipulating currency markets in order to keep their currencies below the market-determined rates as a means of subsidizing exports. What is the United States doing to address these concerns through both bilateral and multilateral methods?

Answer. I know this issue is of great importance. The President is committed to opening markets abroad and to the principle of free trade. If confirmed, I hope to have the opportunity to study this issue closely and work with you on it in the future.

Question 5. Would you support some type of AMT relief that would help companies facing business difficulties? If so, could you elaborate on possible permutations that such relief should take?

Answer. The AMT clearly is a problem that must be dealt with. The corporate AMT reduces the ability of the corporate income tax system to stimulate the economy during a downturn, because AMT payments tend to increase during periods of

poor economic performance. In addition, the corporate AMT can lead to economic inefficiencies by distorting investment over time and among firms.

I believe that Congress and the Administration must work together to address the issues presented by the corporate AMT as part of their efforts to simplify and improve our corporate tax system. If confirmed, I look forward to working with you on this issue.

Question 6. As you know, the Internal Revenue Code sets three significantly different tax rates for beer, wine and distilled spirits. Section 5010 of the Internal Revenue Code provides a tax credit for wines and flavors used in the manufacture of distilled spirits. The intent of the credit is to recognize the differential in the rates of taxation that are applicable to wine and distilled spirits and to ensure that any wine-based component of a finished distilled spirits product is taxed at the lower tax rate applicable to wine. Likewise, the credit also acts to apply a lower tax rate to flavors containing 2.5 percent or less of alcohol that are used to produce distilled spirits. Without Section 5010, these wines and flavors would be subjected to a higher tax rate than is appropriate. Section 5010 appears to strike a fair and delicate balance among many competing interests. Given the strong interest among my constituents in the State of Kentucky, would you commit that the Treasury Department will engage my office in discussion if the Administration should begin to seriously consider modifications to Section 5010?

Answer. Should the Treasury Department consider any change to the section 5010 tax credit for wines and flavors, I commit to you that, if I am confirmed, the Treasury Department will consult with you and other interested members of the Congress.

Question 7. One change to the tax system that can have an immediate impact on the economy is a capital gains tax cut. In addition to playing a unique role in fostering economic activity and growth, a capital gains tax cut can actually increase government revenues in both the short- and long-term and have a positive impact on the stock market. What are your views towards capital gains tax reform? Do you support lowering or repealing the tax? Would you address the impact a capital gains tax cut or repeal could have on the economy in the short term as well as in the long term? Would you support a capital gains tax cut as part of a comprehensive tax package anticipated to come before the Senate and through the Finance Committee? How would a cut or repeal of the capital gains tax rate affect the economy compared to the dividend tax reform proposed by President Bush?

Answer. The President's proposal to eliminate the double taxation of corporate income includes a provision that will provide substantial capital gains tax relief. Shareholders will be permitted to increase the basis in their shares each year to the extent of a corporation's fully taxed retained earnings. When shareholders sell their stock, the effect of this adjustment will be to reduce taxable capital gains by the amount of the corporation's previously fully taxed retained earnings. In combination with the dividend exclusion, this provision will eliminate the double tax on corporate income, whether it is paid out as dividends or retained in the corporation for reinvestment. Much like a reduction in capital gains tax rates, this should increase the value of the stock market. However, ending the double taxation of corporate earnings offers additional benefits and, along with the other proposals in the President's growth package, provides the best mix of short-term and long-term growth incentives.

RESPONSES TO QUESTIONS FROM SENATOR LEVIN

Question 1. In September 2002, the Conference Board's blue-ribbon panel, the Commission on Public Trust and Private Enterprise, which you co-chaired, issued a report with recommendations for corporate reform. The report concluded that the use of stock options contributed to companies' "artificially propping up stock prices over the short-term to cash out options" and recommended that fixed price stock options be expensed on the financial statements of public companies. The report also encouraged the Financial Accounting Standards Board (FASB) to move expeditiously to promulgate a uniform and broadly accepted method of valuing options. Do you continue to support expensing stock options? Do you continue to support FASB's expeditiously promulgating a methodology for valuing options for accounting purposes?

Answer. More important than my personal views, I believe we should respect and preserve the independence of the Financial Accounting Standards Board. To support that independence, I believe a Secretary of the Treasury—or in my case a nominee—should avoid opining on specific accounting questions.

As a general matter, accounting principles should apply uniformly and consistently to corporate finances.

Question 2. In January 2003, the same blue-ribbon Conference Board commission you co-chaired recommended that “[p]ublic accounting firms should limit their services to performing audits for clients and closely related services that do not put the auditor in an advocacy position, such as novel and debatable tax strategies and products that involve income tax shelters and extensive off-shore partnerships and affiliates.” According to the report, implementation of such tax strategies can lead to auditors auditing their own work, a practice the report deemed “highly undesirable.” Do you continue to support barring auditors from providing tax shelter advice to their audit clients?

Answer. One critical step in restoring investor confidence in our capital markets is to ensure a “gold standard” of professionalism and accountability in auditing. To avoid conflicts of interest and to maintain strict impartiality, especially in light of the revelations of the past two years, I have concluded that the best practice for auditors is to stick to providing services closely related to the audit.

Question 3. Section 402 of the Sarbanes-Oxley Act, codified at 15 U.S.C. 78m(k), prohibits publicly traded corporations from issuing company-financed loans to corporate directors or officers. Some proposals have been made to weaken or circumvent this prohibition by permitting company loans that enable corporate executives to purchase company stock, exercise stock options, obtain split-dollar life insurance or other insurance, relocate for work, or pay taxes. Do you support or oppose creating exceptions to the Sarbanes-Oxley prohibition on company financed loans to corporate executives?

Answer. No, I do not support creating exceptions to the Sarbanes-Oxley prohibition on company-financed loans to corporate executives. The President signed this bill into law only six months ago. We should give the statutory reforms time to prove their effectiveness in corporate America.

Question 4. The USA Patriot Act required the Treasury Department to issue, by April 2002, anti-money laundering regulations implementing Section 312 of the law requiring U.S. financial institutions to use due diligence when opening accounts for foreign financial institutions. These regulations were proposed and readied for final issuance in December 2002, but have yet to be promulgated. They are now overdue by almost one year. If confirmed, will you review these anti-money laundering regulations on an expedited basis?

Answer. I understand that Treasury issued a proposed rule implementing Section 312 of the USA PATRIOT Act in May 2002 and an interim final rule on July 23, as required by the statute. I also understand that Treasury delayed issuing a final rule in expectation of receiving a comment letter regarding the proposed rule from you and Senators Grassley and Kerry. That letter, which was received in October, raised many significant issues that required further deliberation. I understand those deliberations are nearly completed.

I also understand that Section 312 is one of the most far-reaching of the anti-money laundering provisions of the PATRIOT Act, in that it imposes due diligence obligations on potentially thousands of U.S. financial institutions with regard to accounts and relationships they maintain for numerous types of foreign financial institutions, as well as due diligence obligations with regard to private banking accounts they maintain for non-U.S. persons. Because of its significance, it is important to Treasury to give the regulation full and careful consideration.

That being said, I will make a high priority of issuing this final rule, as well as all other rules required of Treasury under the PATRIOT Act.

Question 5. In November 2002, just before leaving office after five years of work, IRS Commissioner Charles O. Rossotti issued a report describing a huge and growing gap “between the number of taxpayers whom the IRS knows are not filing, not reporting or not paying what they owe, and our capacity to require them to comply.” He wrote that, while the size and the complexity of the tax code have continued to increase, IRS enforcement resources have continued to diminish, and the IRS is “losing the war” to stop tax evasion. Do you support Mr. Rossotti’s recommendation that Congress provide the IRS with a steady increase of 2 percent per year over the next five years in resources for audits, investigators, and enforcement actions?

Answer. I share the former Commissioner’s concerns about noncompliance and recognize the serious threat it poses to the confidence among honest taxpayers that all are paying their fair share. The Treasury Department and the IRS must move aggressively to stop noncompliance at all levels and among all taxpayer groups.

While I am not certain of the right level of resources needed to address this serious problem, I do believe that our existing resources can and should be used more effectively and efficiently. Rules requiring the early disclosure of questionable transactions, for instance, will permit the IRS to focus on analyzing these transactions, rather than hunting for them. Initiatives such as the one addressing offshore credit card scams will allow the IRS get to the promoters, who are at the root of the prob-

lem, while bringing large numbers of taxpayers back into compliance without the expenditure of significant IRS resources. Other innovative programs will and should be implemented. Better use of existing resources will be far more effective than providing additional resources to be used in ineffective ways.

Question 6. It has been reported that over the last four years, CSX claimed more than \$1 billion in pretax profits on its financial statements but, in at least two of those years, CSX paid no federal corporate income taxes. Please comment on whether you support the corporate alternative minimum tax, and whether companies that report significant book profits should pay at least some corporate income taxes.

Answer. The CSX tax obligations over the last four years, as reported in the press, were fulfilled entirely consistent with Federal law and applicable regulations. In those years when CSX had no tax federal liability, it was due largely to the combination of lower earnings and unusually high capital investment by our company. Congress adopted tax provisions over the years to encourage capital investments in the hope that those investments would create new jobs and spur economic growth. As for the corporate alternative minimum tax, I am continuing to study this issue and have not formed any preliminary opinions. I would very much like to hear your thoughts on this subject and how the code can be improved to promote greater equity.

Question 7. It has been reported that, in calculating your pension benefits, CSX gave you credit for 44 years of service, even though you worked at CSX for a total of 25 years. Please confirm whether you were credited with 44 years of service and, if so, how that happened.

Answer. Yes. I was employed at CSX for roughly 25 years and I was credited with 44 years of service on my CSX pension. I was not the only executive provided this benefit. The CSX board of directors approved this pension benefit for senior executives at the company. CSX provided extra pension credit to a large number of managers, generally at the Vice President level and above. It is a fairly common practice among U.S. corporations to provide extra pension credit as an incentive to attract and retain high quality senior executives. I found this compensation tool to be quite effective in retaining existing executives who might have been contemplating a move to another company. I also found the pension credit to be a very attractive inducement to entice workers from other companies to join CSX. Without such a pension credit, the lateral executives who transitioned to CSX would likely have suffered losses under their former employer's pension programs.

Question 8. It has been reported that, in 2000, two CSX directors were permitted to purchase millions of dollars in real estate from CSX subsidiaries. Please confirm whether this report is true and, if so, identify the directors, the real estate properties, the dates of the transactions, and the amounts paid for each piece of real estate; and explain whether the CSX board authorized these purchases, whether the amounts paid reflected fair market value, and the justification for selling the real estate to the CSX directors.

Answer. Charles Rice and Robert Kunish, who are both outside directors of CSX Corporation, purchased a total of five properties from a CSX subsidiary, CSX Realty Development LLC, between 1996 and 1999. Mr. Kunish purchased one property in 1996 for \$598,000 and second property in 1999 for \$3.25 million. Mr. Rice had three separate transactions in 1998 totaling \$3.1 million. I was not personally involved in any of the transactions. I understand, however, that all of the transactions were at arms length and Messrs. Rice and Kunish paid full price for the properties. The transactions were not approved by the CSX board and I do not believe board approval would have been required of such transactions. Because of administrative errors, CSX failed to properly report these transactions in its proxy statement. Upon learning of the reporting oversights, I promptly instructed CSX staff to file a Form 8(K) with the Securities & Exchange Commission, disclosing the transactions. I also instructed CSX staff to implement new safeguards to avoid similar oversights in the future. Specifically, the company now requires all subsidiaries of CSX to independently attest that no CSX director has transacted any business during the reporting period.