

Congressional Closeup by William Jones

James Baker charms foreign relations panel

James Baker testified on Jan. 18 before a hearing of the Senate Foreign Relations Committee, whose members heaped praise on the secretary of state-designate, indicating that he would be quickly confirmed by the Senate. Baker's nomination was roundly approved by the committee, and recommended to the Senate.

Baker endorsed the Reagan administration's policy of working with Moscow on a broad four-part agenda of arms control, regional conflicts, human rights, and bilateral issues, and suggested that the superpowers might cooperate on other "global problems" such as terrorism, narcotics trade, and the environment.

Contrary to a recent column by William Safire in the *New York Times*, which claimed that Baker was a strong proponent of holding a human rights conference in Moscow in 1991, Baker claimed that he had reservations about the conference, telling the committee that he had not been involved in the Reagan administration decision to support the idea. "I have had some reservations in watching the issue develop," said Baker, "even during the election campaign, about the wisdom of holding the human rights conference in Moscow."

With regard to Soviet leader Mikhail Gorbachov's "reform" policy, Baker said that he was "impressed by the changes which have taken place in the Soviet Union, and what Secretary Shultz and the President have achieved there. I think those are dramatic changes . . . and I don't think that there can be any criticism of the progress that's been made there."

Baker declined, however, to give a date for resumption of the U.S.-So-

viet negotiations on strategic nuclear arms and said that the new administration "must take a hard look" at negotiating positions in a review that has been endorsed by President Bush.

Baker, the author of a notorious plan to gouge the debtor countries of Ibero-America, focused on Mexico in his comments, saying that a solution to the crisis there had to be found so that debts can be repaid. The Baker Plan also involves selling off Mexico's state-owned petroleum company Pemex to acquire funds for debt repayment. Objections to the sale by the leadership of the Mexican oil workers union led to extraordinary police-state measures against them by the newly elected government of President Carlos Salinas de Gortari, a move which President Bush called "bold and courageous."

Baker also said that he does not expect improvement in relations with Panama as long as Gen. Manuel Noriega is its most powerful leader.

Moves to wreck defense procurement

Several members of Congress, spurred on by U.S. Attorney Henry Hudson's "Pentagate" witchhunt against firms involved in defense contracts, are now putting forward various proposals to "reform" the procurement process, the most radical of which calls for the creation of an independent acquisition corps or agency that would make all purchases for the military. Other proposals would require that consultants to military contractors be registered with the Pentagon.

Similar proposals had been introduced in Congress last year, although

they languished in committee and were strongly opposed by many industry representatives and Pentagon officials. Following Hudson's raid on the Pentagon in June, and the first round of indictments issued on Jan. 6, Pentagon officials are presumed to be more malleable this time around.

In addition to consultant registration, there may be an effort to require all defense contractors to certify that they have not obtained any inside information that would give them an unfair advantage over competitors. Congress is also expected to prod the Defense Department into developing more explicit guidelines on what contract information can be released to defense contractors during the bidding process and what should be considered off limits.

The restrictions placed on the industry, although ostensibly motivated by a desire to "rationalize" the procurement process, would, in effect, tend to put a serious brake on the entire process by creating a witchhunt atmosphere among firms involved in the defense industry and scaring off others from ever getting near a defense contract.

Congress to create millionaire pensioners

A study conducted by the National Committee on Public Employee Pension Systems reveals that, with the 50% congressional pay raise recently passed, the average member of Congress would receive \$1.5-2.4 million in total congressional retirement pay, depending on future cost-of-living adjustments and average life expectancies.

In retirement, lawmakers on av-

erage would collect \$500,000 more in congressional pension benefits if their annual salaries are boosted from \$89,500 to \$135,000. "It's just unaffordable to pay such obscenely generous retirement to the most elite retiree group in the country," said Hastings Keith, a former seven-term Republican congressman from Massachusetts who heads the foundation that did the study.

The budget debate: jockeying for position

After considerable attack from Democratic congressmen on the Reagan budget proposals, Senate Minority Leader Robert Dole (R-Kan.) challenged the Democrats to produce their own budget—one that meets the Gramm-Rudman-Hollings deficit reduction target. "That way," said Dole, "when the Bush administration takes office, everyone's cards will be on the table."

Both sides want to seize the high ground prior to a budget summit between Congress and the new administration that many feel is likely to occur this year. Each wants the other side to put forward stringent austerity measures—with or without a tax hike. Bush has said he will provide Congress with a list of proposed modifications to Reagan's budget, which includes proposals for harsh restraint in many entitlement programs, like Medicare.

It is believed that Bush will address the issue in a joint session of Congress in early February, perhaps asking Congress to participate in budget talks.

Part of the see-sawing included a statement by Office of Management

and Budget director-designate Richard Darman, who said that Bush was prepared to take the automatic Gramm-Rudman sequestration cuts, although this would chop more than \$20 billion in budget authority from the military, an attitude which has been heavily criticized by outgoing Secretary of Defense Frank Carlucci.

Many budget experts doubt that Darman truly believes that a sequester would be acceptable. Yet for all their maneuvering, there is one major element that neither the incoming administration nor Congress can forecast: how long the financial markets will remain patient. On Wall Street, some analysts are already growing nervous. "The people in the markets aren't going to like these games at all," Paul Boltz, vice president at T. Rowe Price Associates in Baltimore, told the *Washington Post*. When the glitz of the inaugural festivities is past, and the ugly reality of the economic crisis makes itself felt, the "games" will become deadly serious.

Congress tries to slow down corporate takeovers

In lieu of a more far-ranging policy to deal with the economic avalanche about to befall this nation, Congress is promising to slow down leveraged buyouts (LBO). There is growing indignation about deals in which corporate managers, investment bankers, and takeover financiers stand to make millions of dollars after buying out shareholders with borrowed funds and then selling some of the assets of the newly purchased companies to pay off their loans.

Starting with hearings at the end of January, the Senate Finance and House Ways and Means committees

will examine whether tax deductions for interest payments encourage corporations to load up with debt, and also the broader question of whether corporate debt poses a danger to the economy.

The legislators are approaching the problem with a certain amount of caution, however, since the last time they threatened to tax corporate mergers—in October 1987—the stocks of takeover targets slipped. Three days later, the stock market crashed.

Nevertheless, the problem is so extreme, that Congress can no longer avoid trying to deal with it. The wave of LBOs has "gone to excess," said Lloyd Bentsen (D-Tex.), chairman of the Senate Finance Committee. Bentsen said that he was "deeply concerned" that the heavy burden of debt taken on by corporations will lead to more bankruptcies if the economy slips into a recession or interest rates rise.

Taxation will be at the top of the priority list as a means of curtailing risky takeovers. But aside from taxes, many other issues have been raised by the record-breaking binge of buyouts, so that Speaker of the House Jim Wright (D-Tex.) has organized nine key committee leaders into a special group to develop a coordinated approach to legislation. "Leveraged buyouts, hostile takeovers, acquisitions, mergers, and monopolistic trends in general" are on the agenda.

Curtailling the takeovers is, of course, easier said than done. Sources at the Paine Webber brokerage firm told the *Washington Post* that takeovers will continue because they are "based on a structural reality of the U.S. economy: The economic value of many U.S. companies exceeds their stock prices" or, as one Wall Streeter put it, "These companies are worth more dead than alive."