

**NOMINATIONS OF STUART E. EIZENSTAT, JEFFREY
RUSH, JR., AND LEWIS ANDREW SACHS**

HEARING

BEFORE THE

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON THE

NOMINATIONS OF

**STUART E. EIZENSTAT, TO BE DEPUTY SECRETARY OF THE TREASURY;
JEFFREY RUSH, JR., TO BE INSPECTOR GENERAL, DEPARTMENT OF
THE TREASURY; AND LEWIS ANDREW SACHS, TO BE AN ASSISTANT
SECRETARY OF THE TREASURY FOR FINANCIAL MARKETS**

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JUNE 29, 1999
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Printed for the use of the Committee on Finance

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U.S. GOVERNMENT PRINTING OFFICE

61-859—CC

WASHINGTON : 1999

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-060089-8

5361-3

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FOR FINANCIAL MARKETS**

TUESDAY, JUNE 29, 1999

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

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Nickles, Mack, Thompson, Moy-nihan, Baucus, Conrad, and Kerrey.

**OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S.
SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FI-
NANCE**

The CHAIRMAN. The committee will please be in order.

We are here today, of course, to consider three nominations: Stuart Eizenstat, to be Deputy Secretary of the Treasury; Jeffrey Rush, Jr., to be Treasury IG; and Lewis A. Sachs, to be Assistant Secretary of the Treasury for Financial Markets.

We are going to have two panels today. First, we will have Mr. Eizenstat, then Mr. Rush and Mr. Sachs.

Stu, it is a pleasure to welcome you here today. I understand this will be your fourth Senate confirmation in the last 6 years, your second time in front of the Finance Committee. How lucky can you be?

The last time this committee considered your nomination was in 1996 and you were nominated to be Under Secretary at the Commerce Department. At that time, I stated that President Clinton had made an excellent choice.

I mentioned that your qualifications were most impressive, that you had a distinguished career in government, private sector, and academics, and that your writings demonstrated a breath of understanding on diverse issues like international trade and economics.

The CHAIRMAN. I am now happy to turn to my colleague and good friend Pat Moynihan to make any comments he may wish to make.

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN,
A U.S. SENATOR FROM NEW YORK**

Senator MOYNIHAN. I am happy to be here with you, Mr. Chairman, to welcome Stu Eizenstat and his distinguished sponsor. There are few people of his generation who have served with such distinction in such a wide variety of positions, but they have a common theme, which is international economic relations, at a time of great advances in organization, in the capacities of world trade, and the significance of world trade.

I think it is important, sir, that we have a nominee in the Treasury Department who has had experience in other parts of the government which relate to trade and to the primary responsibility in Treasury, which is, nonetheless, diffuse in other departments.

Now he comes to the central cabinet department in this field, and we welcome him. I cannot doubt he will do well. He obviously has some formidable sponsors. They range from all across the union.

The CHAIRMAN. Well, it is a pleasure to welcome our distinguished friends and colleagues, Senators Coverdell, Sarbanes. I would call on you, first, Senator Coverdell, to introduce our witness.

**STATEMENT OF HON. PAUL COVERDELL, A U.S. SENATOR
FROM GEORGIA**

Senator COVERDELL. Well, Mr. Chairman, it is an honor to be here. It is beginning to be a habit.

The Hon. Stuart E. Eizenstat, who I am happy to introduce today, is an esteemed son of Georgia. Raised in Atlanta, Stu already began to distinguish himself in high school as an all-city, honorable mention, all-American in basketball.

His ties to his home town and home State have remained strong. Upon graduation from Harvard Law School, Stu clerked for U.S. District Court Judge Newell Edenfield, Northern District of Georgia, and from 1970 to 1976, worked as attorney and partner of the Atlanta law firm, Powell, Goldstein, Frazier & Murphy, a very esteemed firm in our city. From 1981 to 1993, he was the head of the firm's Washington office and vice chairman of the entire firm.

Stu's mother still resides in Atlanta, where Stu returns frequently, most notably to host in November the annual Eizenstat Memorial Lecture, which he founded in honor of his father and uncle.

As you well know, service on the national and international levels has marked Stuart Eizenstat's career. His work as President Carter's chief domestic policy advisor propelled him into the limelight at an early age.

Afterwards, Stu remained in Washington to practice law. As I mentioned, he also found time to serve from 1981 to 1992 as adjunct lecturer at Harvard's John F. Kennedy School of Government, and as guest scholar at the Brookings Institution.

His Brussels years as U.S. Ambassador to the European Union saw him in prominent international trade and business role, and he continued his strong advocacy of U.S. exports in his year as Under Secretary of Commerce for International Trade.

He was successful in establishing the compliance center to monitor foreign governments' compliance with the trade agreements reached with the United States in order to assure U.S. business and workers the full benefits of these agreements.

Currently Under Secretary of State for Economic Business and Agricultural Affairs, Stu Eizenstat wears many hats, which include leading the State Department's work in trade negotiations.

He is also the chief advisor to the Secretary of State on international economic policy, and alternate Governor of the World Bank, the Inter-American Development Bank and the Asian Development Bank, the African Development Bank and the African Development Fund, and the European Bank for Reconstruction and Development.

Since 1995, Ambassador Eizenstat has been special envoy for property claims in Central and Eastern Europe. As such, he has made a unique contribution to promoting justice for the survivors of the Holocaust and their families.

I have only touched on his record of service. We would be remiss if we failed to mention Stu's supportive family, his wonderful wife Frances, and his fine sons, Jay and Brian. It is through their support that Stu is able to pursue his long dedication to public service.

I, therefore, consider it an honor to introduce this outstanding nominee for Deputy Secretary of the Treasury, the Honorable Stuart E. Eizenstat.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Coverdell.

Now it is my pleasure to call upon our distinguished colleague and friend, Senator Sarbanes.

STATEMENT OF HON. PAUL SARBANES, A U.S. SENATOR FROM MARYLAND

Senator SARBANES. Thank you very much, Mr. Chairman and members of the committee. I am very pleased to come this morning and to join Senator Coverdell in introducing Stu Eizenstat to the Finance Committee as the President's nominee to be Deputy Secretary of the Treasury.

This is the fourth time since President Clinton took office that I have had the privilege of introducing Stu at a confirmation hearing for high appointive office.

While he grew up in Atlanta, as Senator Coverdell has indicated, he currently resides, and has for some time, in Chevy Chase, Maryland. As the presence of Coverdell and myself here this morning suggests, both States are very eager to claim credit for his distinguished record.

As most of the members of the committee know, Stu brings to this nomination an extraordinary record in public service. Senator Coverdell has covered much of the background, but I just want to observe, he served as President Carter's chief domestic policy advisor and executive director of the White House domestic policy staff from 1977 to 1981. He then was in private practice. He returned

to government in 1993 as representative of the United States to the European Union.

From 1996 to 1997, he served as Under Secretary of Commerce for International Trade. For the past two years, he has been Under Secretary of State for Economic Business and Agricultural Affairs.

He also has served, since 1995, as special envoy of the State Department on property restitution in Central and Eastern Europe, seeking restitution of communal and private property belonging to the Jewish community, to church groups, and to U.S. citizens' property confiscated during World War II.

He also has been the lead on the Holocaust suits for Nazi victims, investigation in a Nazi goal, the convener of the Washington Conference on Holocaust Era Assets. In both of these responsibilities he has done extraordinary service. I know the members fully appreciate the difficulty and the complexity of those issues.

Stu Eizenstat was able to sort of bring the parties together and negotiate, I think, extraordinary resolutions of those issues.

I came to know him well in his service in the Carter Administration. I have had the opportunity to work with him on a regular basis ever since. Stu brings to government the highest standards of intelligence, judgment, character, and commitment to public service.

In a sense, his nomination as Deputy Secretary of the Treasury, the number two position in the department, brings together his wide-ranging experience in government.

The Treasury Department, one of our premier government agencies, has extensive responsibilities in both domestic and international economic policy. As President Carter's chief domestic policy advisor and executive director of the White House domestic policy staff, Stu participated in virtually all domestic and international economic issues.

In the Clinton Administration, he has held a succession of positions which have involved him intimately in international, economic, and trade issues. In addition, as Under Secretary for International Trade at the Commerce Department, he had significant management responsibilities for the bureau's 2,200 employees, responsibilities that will serve him well in his new post, which also carries with it substantial management duties.

Suffice it to say that Stu Eizenstat is one of our country's outstanding public servants. I believe that he and Larry Summers, the President's nominee to be Secretary of the Treasury whom this committee reporter out last week on a 20 to 0 vote, I believe the two of them will make an outstanding team at the Treasury Department. Their expeditious confirmation by the Senate will send an important signal of confidence to the country and to the world financial markets.

I think, in fact, one could argue that it may be as important to fill the positions of Secretary and Deputy Secretary at the Treasury as it is at the Department of Defense in the kind of world in which we now find ourselves because of the volatility of international markets and the need for their to be assurance worldwide that there are strong, steady hands at the helm with respect to this very significant policy area.

I think Stu will do an outstanding job. He has done an outstanding job in every position he has held, and he will do an outstanding job in this position as well. I am very pleased to strongly recommend him to the committee.

Thank you very much.

The CHAIRMAN. Well, I want to thank both you, Senator Sarbanes, and you, Senator Coverdell, for being here.

Senator COVERDELL. Thank you.

The CHAIRMAN. I know both of you have full commitments, so feel free to leave at your convenience.

Stu, I know that you have a number of members of your family here. I would be very happy to have you introduce them to us.

Mr. EIZENSTAT. Thank you very much, Mr. Chairman. I am very touched by the comments that you have made, and Senator Moynihan, and Senators Coverdell and Sarbanes.

I want to thank, particularly, my wife, Fran, for enduring with me over the years the sacrifices and stresses of public service. I would not be here today without her support, and that of my sons Jay and Brian.

The CHAIRMAN. I would ask them to please rise so we could all see them.

Mr. EIZENSTAT. Brian and his fiance Erin are in New York, but Jay and Jessica, and these are my two grandchildren, Menachem, who is 21 months old, and Broka, who is 6 weeks. You may hear them from time to time during this session. They may be giving the clearest enunciation of policy that you will hear from the Eizenstat family, certainly the loudest. [Laughter.]

My mother Sylvia, in Atlanta, and my mother-in-law, Sarah Taylor of Florida, are constant sources of strength. Permit me to say I feel the presence of both my late father Leo, and my father-in-law Eli on such occasions.

Mr. Chairman and members of the committee, I very much appreciate the opportunity to appear before you concerning my nomination to be Deputy Secretary of the Treasury. In making this nomination, the President has honored me.

The CHAIRMAN. Before you proceed, it is our practice to swear the witness in.

Mr. EIZENSTAT. I am sorry.

The CHAIRMAN. So would you please rise and raise your right hand.

[Whereupon, Stuart E. Eizenstat was duly sworn.]

The CHAIRMAN. Thank you. Please be seated. You may continue.

STATEMENT OF STUART E. EIZENSTAT, NOMINATED TO BE DEPUTY SECRETARY OF THE TREASURY

Mr. EIZENSTAT. The President has honored me with his trust by this nomination, for which I am deeply grateful. In all of my senior public positions in both the Carter and Clinton Administrations, I have made it a watch-word to have open, close, respectful, and cordial relations with members of the Senate and the House, regardless of party.

I have had the privilege of meeting with many members of this committee over the years. You will continue to find me responsive

to you at every hour or day of the week. I consider it a high priority to merit your personal confidence.

At various times in my public career I have worked on most of the issues, both domestic and foreign, that come before this committee and the department which I have been asked to serve in.

I have worked closely with the business and financial communities over several decades: in my service as U.S. Ambassador to the European Union in Brussels; as special envoy for property claims in Central and Eastern Europe; as special envoy to the President and Secretary of State for the promotion of democracy in Cuba; as Under Secretary for Economic, Business, and Agricultural Affairs. I have worked on many of the issues which I will be grappling with and working with you on. All have provided experience for this position.

From the various positions I have held in this administration, I have come to learn that one of the most fundamental strengths and sources of influence of the United States around the world comes from the buoyancy and strength of our economy which the President, Vice President, Secretary Rubin, Deputy Secretary Summers, and the Congress have helped create and set on the right course. Maintaining a strong U.S. and world economy is our central challenge.

I look forward to working with Deputy Secretary Summers, if he is confirmed, to achieve the five critical objectives which he laid out before this committee: maintaining a strong economic strategy, including both fiscal discipline and addressing the long-term needs of Social Security and Medicare; ensuring that our strong economy means growth in living standards for all Americans; building the sort of global economy that can underpin U.S. security and the prosperity of our workers; striving to ensure the safety, competitiveness, and efficiency of our financial system; and supporting the excellence and integrity of Treasury's career staff.

Mr. Chairman, Deputy Secretary Summers has assured me that, if confirmed, we would function as a team in the same productive way in which he worked with Secretary Rubin. With your support, I look forward eagerly to forming that partnership with him and to working closely with you.

May I say also at the outset that I have remained full-time, and then some, as Under Secretary of State throughout this transition period, and therefore have not been directly involved in major announcements that have been made recently, although I certainly look forward to being deeply involved in those if I am confirmed.

I again want to thank my family for their support, and I wish to express to you, Mr. Chairman and members of the committee, my thanks for being able to come before you, and my pledge to you to always be responsible and available to you at any time.

Thank you very much. I look forward to answering your questions.

[The prepared statement of Mr. Eizenstat appears in the appendix.]

The CHAIRMAN. I will begin by asking you the three standard questions we ask every nominee.

First, is there anything 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?

Mr. EIZENSTAT. No, sir.

The CHAIRMAN. Second, 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?

Mr. EIZENSTAT. No, sir.

The CHAIRMAN. Third, 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?

Mr. EIZENSTAT. Absolutely.

The CHAIRMAN. Besides the oral questions that you will be asked today, there may be some written questions for you. We will get these questions to you shortly after this hearing today, and will ask that you respond to them as quickly as possible.

Let me start out by asking, what do you think are the keys to being an effective Deputy Secretary? As you and Mr. Summers consider the variety of issues handled by the Treasury Department, are there certain areas upon which you will focus?

Mr. EIZENSTAT. Well, first of all, in terms of my lessons from my past government service—and I hope to bring those to Treasury—they are being respectful of everyone's views, being a good listener, understanding that there is no one in this town who has any venal motives, and that everyone is trying to do their best for the country; to try to never surprise the Congress and make sure the Congress is brought in on major decisions; to make sure that everyone who has an interest in a particular topic within the department and in the interagency process feels that they have been involved; and never trying to claim too much for the successes that are achieved.

I believe, in terms of the actual division of responsibilities, that Deputy Secretary Summers and I have, in general, talked about that. We obviously do not feel that it is appropriate to specifically allocate responsibilities before either of us are confirmed.

Larry has certain very clear world-class skills in macroeconomics; in working with the G-7 process and the financial architecture, I have developed some expertise in the areas of trade sanctions reform. We have both worked in different capacities on Medicare and Social Security issues over the years. I have a particular interest also in some of the enforcement areas.

So I think we will find it quite easy to do so, but we frankly thought it was appropriate to, first, wait for confirmation before we formalized those responsibilities.

The CHAIRMAN. As you point out, both you and Mr. Summers have vast experience in the international economy. This is important and noteworthy. But, of course, Treasury also has very important domestic responsibilities.

Do the two of you have experience in this area? Do you see this as a liability?

Mr. EIZENSTAT. No, not at all. We have very deep experience. Deputy Secretary Summers has deeply involved himself in a whole range of the domestic functions of the department, from the en-

forcement bureaus like Customs and Alcohol, Tobacco and Firearms, to Medicare and Social Security.

Likewise, I began my career in the Carter White House working on many of those same issues. I am familiar with them and I am updating myself on them as we speak. So I think that we both bring significant domestic experience to augment our international experience as well.

The CHAIRMAN. Let me turn to trade for a moment. You, of course, have had considerable experience as our ambassador to the European Union. One of our concerns is, how do we encourage our European trading partners to eliminate their agricultural subsidies and otherwise live up to their WTO obligations?

I want to stress the importance of this because it is the agricultural community who, today, is in many ways the strongest supporter of liberal trade policies. It is important that we do what is necessary to continue to have that support. Unfortunately, there has been a lot of talk in the past, but not much progress made with respect to the European agricultural subsidies.

Mr. EIZENSTAT. Mr. Chairman, you have touched on a critically important issue which, frankly, I spend probably as much time on as any other subject.

Let me say, first of all, that our overall trading relationship with Europe, which amounts to over a trillion dollars, taking investment into account as well on an annual basis, is generally good, and markets in Europe are generally open. The agriculture area, as you indicate, is a huge problem.

Let me suggest ways in which we are trying to deal with this. First of all, when it comes to individual products, like the acceptance of our hormone-fed beef, which has been proven time and again for decades to be completely safe, when it comes to the denial of access for bananas and many other products, if we cannot successfully get the market access, then we go to the WTO. We have won cases against the EU on both of those topics.

The EU has not implemented those WTO panel cases as yet, so we have retaliated, a couple of hundred million dollars' worth of retaliation in each case. That retaliation has gotten their attention in the Bananas case. We are now trying to resolve that amicably and we hope, with respect to beef, we can do so as well.

Second, I believe that the sheer force of the huge cost to the European Union of their agricultural subsidies, both internal and export subsidies, will, over time, lead to a reduction in those subsidies. They did so in the Uruguay Round in a modest way, over 20 percent, just a few weeks ago in what they call Agenda 2000 they did so again in a modest way, not at all sufficient.

But the pressures of enlargement, taking in Poland, Hungary, the Czech Republic, other major agricultural producing countries, will make it impossible for them to sustain a subsidy budget which now represents literally 50 percent of the entire EU budget, \$50 billion a year. That is unsustainable.

Third, in the round that we will be starting in Seattle in November, one of our top priorities will be to eliminate export subsidies and to reduce internal subsidies. We believe there will be tremendous pressures, not just by the United States, but Australia, New

Zealand, other agricultural countries, including developing countries, to press the European Union to phase these down.

So the combination of retaliation when necessary, the WTO panel decisions when necessary, the multilateral negotiations, and their own budget pressures, we think, will begin this process.

One last point, if I may. I believe the biggest barrier we have on agricultural access is not in any of the areas I have just mentioned. It is, rather, in biotech, or as we call it, GMO, products. Almost 100 percent of our agricultural exports in the next five years will either be genetically modified or be combined with bulk commodities that are genetically modified. The Europeans have an absolute fear, unfounded by any scientific basis, in accepting these products. They are talking about moratoria. This would have a severe impact on our agricultural community.

It is, to my mind, the single greatest trade threat that we face systemically with the European Union and it is one we are beginning to engage with them on getting our scientists together, getting our regulators together, and trying to encourage them to develop the kind of FDA process that we have to assure the European public, as we are assured, that these biotech products are completely safe and, indeed, environmentally benign.

The CHAIRMAN. I will ask one further question, then I will turn to you, Senator Thompson. You are next on the list.

I think the Asian crisis has made all of us increasingly aware of the repercussions that the financial crisis can have on the economy and our trade prospects. In fact, if anything has helped cause an undermining of confidence in world trade, I think it has been the currency situation.

It is clear that trade negotiations will not produce the expected benefits in the absence of exchange rate stability. What will you do at Treasury to ensure that our trading partners are opting for macroeconomic policies that do not undercut what we are trying to achieve on the trade front?

Mr. EIZENSTAT. Thank you very much, Mr. Chairman. That is also a critical issue and one which Secretary Rubin and Deputy Secretary Summers have been working on, and which the G-7 has endorsed the American-led architectural reforms just a week or so ago at Cologne.

First of all, we think that no country should try to devalue itself into prosperity. That is a mistake and we would in no way encourage it. Quite the contrary. Second, we have learned, I think, some important lessons from the Asian financial crisis that hopefully will avert future crises.

If I may just very briefly touch on those. I will be glad, in further questions and answers, to respond to those. The first, is the absolute importance of sound fundamentals. When you talk about, Mr. Chairman, exchange rates, one of the things that we found out is that you have to have sustainable exchange rates based on fundamentals.

If you have an artificially pegged exchange rate, if you try to lower your exchange rate or raise it in unsustainable ways, the market will catch up with you if it is not based on sound fundamentals.

We also have found out the crucial importance of things that, out of this context, might have seemed simply like good government things but, in fact, were absolutely essential to market confidence.

That is, transparency, disclosure of financial data, following good international accounting practices, having prudential regulatory oversight over banking and financial systems, having arm's-length transactions rather than crony capitalism. All of these are absolutely critical to sustaining reforms, and ones we are encouraging.

Next, is the IMF itself. The IMF has played an absolutely critical role in containing the contagion. Were it not for the IMF and the reforms and conditionality of the IMF programs, we would be in a much worse condition than we are now.

We also have learned that it is important for emerging markets to avoid excessive short-term borrowing in foreign-denominated currencies, to borrow long term, because what comes in short term can go out short term.

One of the facts that really sort of startles me when I think about it each day is that there is more money in short- and medium-term capital that flows across international boundaries in 1 day than 4 months' worth of trade figures would equal. So it takes four months of trade to equal just 1 day of capital movements. That shows the tremendous integration of markets.

Last, we have learned, I think, also, the need for better risk assessment by lenders who have to assess risk more carefully. They can do so if there is more disclosure on the borrowing country's side.

The CHAIRMAN. Senator Thompson?

Senator THOMPSON. Thank you, Mr. Chairman.

I had the opportunity to get acquainted with Mr. Eizenstat when we were both in the private practice in more sedate times. I have been an admirer of his for a long time. I am delighted to see these developments.

Following up, Mr. Chairman, on your question a bit, and Mr. Eizenstat's comments concerning the free flow of capital, some government and business leaders have argued, in effect, that perhaps private capital flows too freely with regard to these developing countries, and that the inability to control capital inflows and outflows have exacerbated the international financial crisis, when we see a situation such as in Malaysia today, for example, where Mr. Mahateer has apparently put a stop to that and is doing quite well, apparently, at least in the short run.

I would appreciate your view on those comments.

Mr. EIZENSTAT. Thank you, Senator. Thank you for remembering our long association.

We think that the absolute wrong lesson to be drawn from the Asian financial crisis is that one should try to impede the free flow of capital by artificial constraints.

Rather, the importance is to continue to reform, to continue to keep one's markets open, but to add to it the transparency disclosure, appropriate regulation, arm's length relationships which were often missing, and to add to that sustainable exchange rates.

Now, frankly, there are some countries—Chile is a good example—which have tried to encourage longer term capital flows as op-

posed to short-term capital flows by putting certain limitations or taxes on the short-term flows. They have done relatively well.

We find that those who try to put such controls on outflows are almost always making a mistake. In general, it is better, we think, not to put controls on at all, but rather to accept the flow of capital, encourage longer term borrowing, and put in place the prudential regulation and arm's length relationships and disclosure and transparency that will allow one to manage those capital flows in an appropriate way.

One last point on Malaysia. It is true that Malaysia has not done badly. But that is due to the fact that they came into the Asian financial crisis with better fundamentals than many of their neighbors.

The school is, I think, still very much out on how well they will do. It is important that, rhetoric notwithstanding, Prime Minister Mahateer quite quickly phased out many of the controls he put with a great deal of rhetoric.

Senator THOMPSON. Well, I certainly take your comments about the fundamentals very seriously. I think they are well made. I think the challenge ahead, perhaps, is those situations where the fundamentals are not that far off, that the countries involved are not insolvent, but are merely illiquid. You have a short-term situation to deal with, and how do you handle that without exacerbating problems in the long term?

But I would like to ask you another question that has more to do with domestic policy. Clearly, we are in a good situation with low unemployment, low inflation. The question is always where you go from here. I would appreciate your analysis as to how we got there.

Some would say that, in view of the fact that we have been relatively unaffected by the Asian flu, we have maintained our own prosperity, times are different, perhaps we have broken the economic cycle because of technology and our increased productivity.

I would appreciate your views on that observation, whether or not in fact we have. This is a different era. How we got to where we are, and what policies, the two or three fundamental things that we need to concentrate on as far as our domestic economy is concerned to maintain that.

Mr. EIZENSTAT. Thank you. If I may answer that by also drawing on my European experience, having lived in Brussels for two and a half years with my wife Fran at the EU, and seeing some of the difficulties they have had.

I think it is a combination of things. First of all, we deregulated our economy going back to the Ford and Carter years. President Ford started in 1976, President Carter took it forward with airline, trucking, bank, and energy deregulation, and President Reagan followed.

So deregulation is very important for freeing up competitive forces. That is, frankly, something that does not exist to the extent that it does in the United States and Europe, nor does it exist in many developing countries.

Second, it is having a flexible, adaptable work force with flexible labor rules. That is critically important at a time of global competi-

tiveness. That is, again, a problem the Europeans have, a very inflexible and immobile work force.

Third, is fiscal discipline. That is a discipline that all of us in the executive branch and in the Congress can take a great deal of pride in. Taking the touch medicine, starting in 1993 with deficit reduction acts, in 1997, again, and keeping that fiscal discipline tight, has lowered interest rates, allowed consumers to borrow, home owners to finance and refinance their mortgages, and really set forth what Larry Summers calls a virtuous cycle.

Fourth, exports and imports now account for fully one-third of our GDP and a third of the jobs created are as a result of trade. That is a figure one never could have given just 10 years ago. It shows the globalization and competitiveness of the U.S. economy.

It is very important, therefore, to keep the arteries of trade open, to have open markets abroad which we fight for every day, and to maintain our markets open to fair trade and free trade as well.

In terms of keeping this combination of events moving forward, if I just may briefly suggest a couple of things. The first, is that the priorities that were laid out yesterday, I think, set the tone for what should be done. They are all based on the concept of fiscal discipline.

The saving of Social Security and Medicare through debt reduction will increase national savings, will lead to an elimination of all publicly-held debt by 2015. So debt, instead of being a significant percentage of our budget, some quarter, will be almost zero by 2015. That will lift a tremendous load. Increased national savings means more investment in plant and equipment. It means more jobs, it means higher standards of living and more productivity.

We also think that there needs to be an emphasis on savings. If there is one area where I think we need to do the most in the next 5 to 10 years, it is dealing with our savings.

Now, in part, deficit reduction and debt buy-down, which are, again, fundamental to our principle of saving Social Security and Medicare, will increase national savings. We have already done that, with the help of the Congress, because of the fiscal discipline that the Congress and the administration have shown.

But personal savings remained extraordinarily low. The way we think to build up personal savings is through the kind of incentives that are in the President's USA refundable tax credit proposal.

The advantage of that proposal, Senator Thompson, is that it is focused particularly on those lower and middle income workers who have difficulty saving because so much of their income goes for necessities.

Some 73 million workers and their spouses do not participate in any employer-provided retirement program, about 50 percent of all workers. About 80 percent do not participate in the IRAs, which, of course, Chairman Roth is a legend for having sponsored.

So what we need to do is focus on incentivizing workers who are not saving to do so, and that will keep, together with continued fiscal discipline, debt buy-down through Social Security and Medicare reform, this process going.

Senator THOMPSON. Thank you very much.

The CHAIRMAN. Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman.

Secretary Eizenstat, we welcome you to the committee. I appreciate very much your nomination and intend fully to support it. We are going to miss you in the effort to try to make some sense of this climate change issue. My suspicions are that your experience attempting to negotiate that will put you in good standing to try to negotiate other things that Treasury has to do.

If I could, I will try to do it in a calmer fashion than I did with Larry Summers. I think I startled his wife, and I will try not to do that to Fran.

Mr. EIZENSTAT. I read the transcript, Senator. [Laughter.]

Senator KERREY. The problem that I have got with the President's proposal is that it does not contain any structural reform of Social Security. The President had a year-long conversation with the American people. In 1998, he campaigned with me and other Democrats, saying that our battle cry was to save Social Security first.

What I am now suspecting is, our battle cry should have been to save Social Security last, because we are not selecting any of the structural changes. They are hard. None of them are easy. But it is a limited number.

You disclosed that you have been over at State and you were not involved in this, so this is more of a statement to you, not necessarily something designed to provoke a response. So that is problem number one. There is not the structural changes in there.

The problem is, very simply stated: we have a liability out in the future, right now, 2034, that is so large that the only way that we can accommodate that liability is to cut benefits out in the future 25 to 33 percent. That is what the actuaries say.

If you ask the trustees, they say, keep the existing tax rate and you are going to have a 25 to 33 percent cut in benefits. That is what every American under the age of 45 faces. The President very eloquently talked about it for most of 1998, when he was out having this conversation with the American people.

It is a tremendous problem and it is not like the one we had in 1983, where we had fairly steady increases in the number of retirees per worker. We are going to have only two workers per retiree in 2030. You know the problem, and I do not need to restate it.

The solution is, you either increase the taxes by increasing the percent of tax or you increase the taxable wage base, or you reduce the liability, reduce the benefits out in the future.

Those really are the only two structural changes that you can make, neither one of which gets you a round of applause. Neither one of which gets you an audience saying, that is terrific. So, that is issue number one that I have got.

The second problem that I have got, which is one where Mr. Summers and I were getting a little heated and we needed a little help from Senator Moynihan to calm us down, but starting in 2014, we have to redeem those bonds. We redeem those bonds with individual income taxes and corporate income taxes.

It is something that I do not think was very well understood in 1983 when the reform was passed, that we are changing this program from a payroll tax system to payroll taxes plus income taxes. I think the President's proposal will take that problem and sort of

convert a necessity into a virtue by saying, we are going to take even more income taxes to pay these Social Security checks.

You can comment, if you choose to.

Mr. EIZENSTAT. I would like to, yes. Thank you.

Senator KERREY. All right.

Mr. EIZENSTAT. First of all, I cannot tell you how much I appreciate, and the administration appreciates, the leadership and courage that you are providing on this issue.

Let me state a couple of things. First of all, we know that, even with the program that has been laid out, which I would like very briefly to discuss, that this takes us to 2053, which is a long time off, but does not give us the 75-year solvency which we still remain committed to. Only reform done on a bipartisan basis will allow that.

Senator KERREY. Do you mind, Mr. Secretary, if I just insert, the reason we said 75 years is that we say we want to make certain that all beneficiaries, those who are currently eligible, which is about 37 million, and those who will be eligible in the future.

So when you say we are only going to take to 2050, that means that any beneficiaries who is under the age of 20, or under the age of 15, or somewhere in that range. They are the ones who are going to have to pay the price. I just wanted to try to put it in some kind of human terms.

Mr. EIZENSTAT. Yes, sir. I want to make it clear to you and to the committee that we remain committed to our objective of 75-year solvency. That will require reform and that reform, in turn, will require bipartisan cooperation. We look forward to working with the committee to achieve that.

But permit me, if I may, to talk about the proposal that was just outlined, because it addresses at least some—although I know not all—of the concerns that you have had.

That is, in essence, what will happen is that, for the next 10 years, the very large surpluses that are building up in Social Security will be used to buy down debt. The savings from that debt buy-down, and only that savings earned by that debt buy-down, will be used to then fund from, in effect, general revenues, the system to permit the solvency to be extended to 2053.

It is very important that we emphasize the fact that this, in effect, is money earned by the Social Security system which will be paid back to the Social Security system. We have all been borrowing for many years from Social Security surpluses.

In effect, what we are doing now is we are taking what will be a 10-year set-aside of \$2.1 trillion in debt reduction and, by reducing that debt over the next 10 years, we will have earned the right to take the savings from that, the interest savings which will be a little over \$100 billion, and begin, in 10 years, to put that back into the Social Security system.

So rather than simply saying we are taking general, corporate, or individual taxes, we really, philosophically, are using the interest savings. That is what is quite different from the President's original proposal.

We are taking Social Security out of the unified budget, we are taking pay-go provisions to protect that. It is a genuine lock-box

proposal. The interest savings, and only the interest savings, would then be used on the on-budget surplus to sustain that to 2053.

Again, let me close by saying we are not suggesting that is the end of the road. That is a long time, but it is not the end of the road. We want to work with you, we want to work with Chairman Roth and the members of this committee, to have a bipartisan approach to the rest of the reform to do the final piece of the job.

Senator KERREY. Mr. Chairman, if I could be permitted just 30 seconds. I am out running for reelection and I am explaining to Ne-braskans why this is necessary. Some people say, why do we have to do it for more than 50 years? What is wrong with 50 years? The answer is, your grandchildren. The answer is, we are sticking it to these kids. The promise is to keep solvency for all Americans; not just those who are eligible, but for all of us.

When the President says, I am willing to work with Congress, with great respect to you, Mr. Secretary and to the President, that is not enough. He is not running for reelection. He needs to explain to the American people why this is necessary and create the room for Congressional action.

In the absence of the President creating that room, it is not going to happen and we are going to delay. That delay will increase the difficulty of doing this and increase the likelihood that future generations are going to pay a terrible price for it.

We all know it. It is not a difficult thing to figure out. In the absence of the President creating the political room in the Nation and explaining to the country as only he can, it is not going to happen.

Mr. EIZENSTAT. Senator, with my own grandchildren here in the room, I certainly agree that it is for them that we want to act and assure this 75-year solvency.

Permit me to say that what has been transpiring, although obviously I was at State during this time, but what my colleagues at HHS and the White House and Treasury have been doing, is after the President's State of the Union address in which he laid his Social Security programs out, he listened, through hearings around the country, through talking to academic experts, and to listening to the comments and questions that were raised on Capitol Hill by those who had questions about the accounting.

A great deal of time, effort, and energy then went into the proposal which has just been released, which is, again, I think, quite in advance, and locking in and protecting those surpluses.

So I hope you will give us the time to work on a bipartisan basis now to go the next step.

The CHAIRMAN. Senator Mack, please.

Senator MACK. Thank you, Mr. Chairman.

Mr. Secretary, I welcome you before the committee, and indicate that, frankly, the Nation is fortunate to have people like yourself who are dedicated to public service.

So, again, I welcome you. I, on a personal basis, want to also, I guess, acknowledge that what you said earlier about your desire to work with members of the Senate on both sides of the aisle is something I have already experienced, and I appreciate it greatly.

Mr. EIZENSTAT. May I just also say there that I think, with Mr. Polk and others here who have known me, I work also with staffs.

Senator MACK. I have learned that is important, as well.

I, however, this morning want to focus on what we have chatted about over these last several months, and that is the issue of the Brothers to the Rescue, their response to the Congressional action, the passage of legislation that would allow them to make a claim against frozen assets. As I think most people know, four individuals were shot down over the Florida Straits. Four individuals lost their lives.

The President responded, I think, 8 months after the deaths of those four men with compensation to families in the amount of \$300,000, I think, per family, or \$1.2 million out of the frozen assets of the Cuban Government.

He said, and this is, again, taking this from a fact sheet which I know you have seen, that a number of the things he was going to do, he was requesting the Congress to pass legislation authorizing payment of compensation to the families of the victims out of Cuban-blocked accounts in New York. Now, this was in addition to the \$300,000.

The Congress reacted to that. We did, in fact, change the law. We amended the Foreign Sovereign Immunities Act. The families then proceeded to try to obtain these funds through the court. They made a claim of, I believe, \$80 million. The judge hearing the case concluded after the trial that they should be awarded \$187 million. They have now come to the Treasury, frankly, fully expecting that they would, in fact, receive compensation since they have this judgment, to be shocked—I think it is probably an over-used word, but I think it clearly indicates the reaction on the part of the families—to find out that the administration, the same administration, same President that asked the Congress to act to allow these families to go forward, now find that their government is, in fact, in court sitting side by side with the Cuban Government, blocking what I believe is a rightful claim.

I raise this issue today. I understand it is a very kind of narrow focus for someone who has the responsibilities that you have in front of you. But I raise it because you now are in the unique position where you can, in fact, make a ruling on this. You can make a judgment on it. I would like to get a sense about where you are.

Mr. EIZENSTAT. Thank you, Senator Mack. I appreciated the conversation I had with you and your staff on this. I promised you a letter, and we will give you a letter very shortly.

Permit me to say a couple of things on this. The President asked me several years ago to serve as a special envoy for the promotion of democracy in Cuba. Although, when I went to State from Commerce, I did not keep that title, I have kept the responsibility.

I feel very strongly. I have spent a tremendous amount of the last several years since I have been back from Brussels traveling around the world, Latin America to Europe, getting them to elevate their concerns about Castro, to speak out for human rights in Cuba.

I have gotten the European Union to pass something they called the Common Position on Cuba, which, for the first time, ties any improvement in their relationship to Cuba to concrete improvements in human rights and democracy. They have reaffirmed that every 6 months.

We have gotten the U.N. Human Rights Commission to condemn Castro just within the last few weeks with united European support. So, I feel very, very intensely about this issue. I think Castro has one of the most repressive regimes on the face of the earth.

Second, I met, as I know you have, over a year ago with each of the families for the Brothers to the Rescue in Miami in the offices of El Diario. It is an unforgettable experience. It is something that I always remember their plight, and the plight of those who were killed as something that I will always carry with me.

With respect to this particular issue, the question is, what impact will it have on other aspects of our policy? We are reviewing the Mack, Kyle, Lautenburg amendment. We know very strongly the motivations that you have.

There are some concerns that we have with the legislation. It potentially creates a special class of claimants who can satisfy their claims against terrorist governments from blocked diplomatic assets in contravention to those claimants, including many U.S. nationals who have claims against Castro going back some 25 years.

Senator MACK. If I could, let me just interrupt you for just a moment. Again, we have talked about this. The President asked us to pass legislation, which he signed, which, in essence, has done what you have just laid out. We said to the families that they should act in a certain way, and they have done so. They have responded to the legislation.

To my knowledge, no one else has a judgment. They may have claims, but they do not have a judgment. Are you stating that it is now the role of the Federal Government to arbitrate and decide what I believe the courts should be doing, and that is deciding among these many people who have claims? Do people with judgments not have prior, or stronger claims against those assets?

Mr. EIZENSTAT. Senator, the problem is that these people who have waited 35 years and have gone through the foreign claims settlement process, which include a number of families whose relatives were executed by Castro, did not have, until you wisely reformed the Sovereign Immunity Act in 1996, the opportunity of suing the Cuban Government in court. So they waited 35 years. They went through the only process available to them at that time under U.S. law.

Permit me to say, without going into greater detail on this because there are some other concerns we have in terms of the usefulness of blocking as a foreign policy tool and not wanting to undercut that, I know this is important to you and to others. We would like to continue to discuss this with you. Understanding the concerns we have and the concerns that you have, permit us to continue to discuss this with you.

Senator MACK. I will. I will just let it go at that. We will end it. I appreciate that. I do look forward to working with you.

The CHAIRMAN. Senator Chafee, please.

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

I was not here for the previous testimony. We had a meeting in the Environment and Public Works Committee. But I just want to say that I am an enthusiastic supporter for Mr. Eizenstat. I think, as you are, Mr. Chairman, I am familiar with his past work in the

Federal Government. We are deeply grateful for all that he has done.

So, I think it is a splendid nomination by the President. I think we are fortunate that we have got people of Mr. Eizenstat's talents that are prepared to serve our government. He has served our government in a variety of positions, as you know, Mr. Chairman, over the past several years. So I just want to congratulate the administration, congratulate Mr. Eizenstat for what he has done.

I just would like to put in a plug, if I might. I am what you might call a deficit hawk, Mr. Eizenstat. In other words, I am terribly anxious that we do everything possible to reduce the debt of the Nation. I feel that we are passing that debt on to our children. You have children and grandchildren, I suspect.

I just do not want us to live high on the hog and pass the bill on to our children or grandchildren. So, that is just where I come from. I commend to you that you use your considerable influence within the administration to do all we can to bring down the debt of the Nation.

Mr. EIZENSTAT. Senator, first, I think you know the affection and respect that I have for you. We have worked on so many issues, environment and otherwise over the years.

I absolutely share, and more important, the administration shares, your conviction with respect to fiscal discipline and reduction of the debt. Indeed, the whole core of the new framework that was announced yesterday to both save Social Security and Medicare is designed to reduce debt so substantially that, by the year 2015, there will literally be no publicly held debt.

It will be about two-tenths of 1 percent of our budget. So this is our goal. The debt buy-down will not just be a theoretical exercise. It will create the interest savings that we can use to help the longevity of the Social Security system, but also it will create the virtuous cycle that Larry Summers has talked about. That is, it will increase savings. By increasing savings, we can invest in this country in plants, equipment, and homes without having to borrow from abroad.

That investment, in turn, creates good paying jobs, creates more consumption, and it creates more revenues to continue the surpluses that have been built up. We now really are at a unique point in history. I think sometimes we all get involved in the day-to-day hustle and bustle of Washington.

It is important, really, to step back, because the Congress shares in this benefit with the administration, the President, Secretary Rubin, Under Secretary Summers, and others.

We now have an historic opportunity to use something none of us would have thought possible only 6 years ago when President Clinton inherited a \$219 billion deficit. That is, instead of deficits for as far as the eye can see, we now have surpluses. It is incredibly important that we carefully use those surpluses in the right way.

We think that the prime way to use it is to buy down debt, to get interest savings, to create this virtuous cycle, and to use this in a prudent way also for USA accounts that will help lower and middle income workers begin to save, because they are the lowest

savers, and to meet our critically important discretionary needs in defense, education, and environment.

So this is really an historic opportunity. We all have a great responsibility, and I look forward to working very much with you and members of the committee to exercise that responsibility in the most prudent and fiscally responsible way.

Senator CHAFEE. Well, thank you very much.

Thank you, Mr. Chairman. That is a very encouraging statement. One of the things, obviously, is that when the Federal Government is not out there borrowing money, it means that there is more money available for private capital to invest, and that is what we want.

Thank you.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Eizenstat, I join in the chorus of people who compliment you in your public service. I was struck by an editorial, I think it was in the New York Times or The Washington Post, I have forgotten which paper, that was dedicated solely to you and your service to our country. I could not agree more enthusiastically when I read that editorial.

I also want to just say thank you to you for your service on behalf of the American people. I do not think Americans know you very well, do not know all that you have done for them in many, many capacities, all the way from 1968 when you worked in the Postmaster General's Office, to your current job, and at least 31 years of public service, and exemplary service.

I do not know anybody who is smarter, brighter, or works harder and with more results than you. You have done a great job. I know the American people, if they knew all that you have done, would agree with me.

I want to also say how important I think it is that we be deficit hawks here and use this budget surplus to pay down the debt, for all the reasons that you have indicated.

I think it is very important in the future. As we all know, future deficits are future taxes; the more we lower the debt now, the more we do not have taxes off in the future.

I do want to ask you, though, your basic views as to debt reduction versus tax cuts, because there are many now who talk more aggressively about tax cuts, particularly with the re-estimates of OMB, and soon of CBO, and how do USA accounts fit into all of that. It looks like the surplus is going to be a lot larger than we earlier anticipated.

Mr. EIZENSTAT. Thank you, Senator. I think our watch-word is, first things first. The first things first in this case are using these surpluses, the on-budget surpluses, and not just unified budget surpluses. That is the big difference.

We are taking Social Security out of the unified budget. We are only talking about on-budget surpluses and using them in ways that will create additional national savings, additional investment, and keep this remarkable economic growth and performance going.

That has to be earned. We have to get down to the real business this year of saving Social Security, of extending its solvency to the

year 2053, of extending by a quarter of a century solvency of the Medicare system, of having a new prescription drug provision, and in using our surplus also for tax reductions that will lead to savings. That is the genesis of the USA accounts.

USA accounts will, through refundable tax credits, an automatic tax credit to every moderate income worker, some 124 million people will be eligible, and then a matching refundable tax credit for those who put in \$300 per person, or \$600 per couple.

This will create savers out of those who now do not have the wherewithal to save. It will cover the some 50 percent of American workers who are not covered by employer-provided retirement plans, and the 80 percent who are not able to participate in IRAs.

This is the kind of tax reduction that we think makes sense because it is savings oriented, not consumption oriented. In addition, we do have a number of other tax provisions designed to encourage particular activities, a child care tax credit, an R&D tax credit which I know you have championed for many years, a long-term care tax credit, a school construction tax credit, and a new market tax credit to encourage investments in low-income communities. These are the kinds of targeted tax credits, together with a savings oriented tax cut, that we think are the most prudent.

Senator BAUCUS. What do you say to those who are concerned about the government setting up another "bureaucracy" in the USA accounts?

Mr. EIZENSTAT. We think that this will be quite simple to administer. It will be done through the tax system and through tax credits. So, we do not think that there will be a large bureaucracy necessary to run this program. By running it through the tax system, it will be efficient.

Again, most importantly, and I say this with great respect for Chairman Roth, who I think, frankly, for as long as this republic stands, the Roth IRAs will be an absolutely fundamental contribution that you made to the security of this country, but we also need to deal with those lower and middle income workers who do not have the wherewithal to save because they use all of their disposable income for food, shelter, clothing, and necessities for the kids. That is the great benefit of the USA refundable tax credit.

Senator BAUCUS. Mr. Chairman, if I might, just one quick question.

The CHAIRMAN. Thirty seconds, please, because we do have another panel.

Senator BAUCUS. Right. I appreciate that.

Just how USA accounts might undermine employer-provided pension funds.

Mr. EIZENSTAT. This was something that, although as you know I have been full-time at State and have not worked on, in checking with those who have worked on them, one of the beauties of the USA accounts is they integrate very well and coordinate very well with employer-provided policies because you can make contributions, for example, into 401(k) provisions or your employer can make a contribution, and that can redound to your benefit through the USA account.

So we have tried to make sure that there was a coordination, that there would not be a disincentive to do so. Also, because of the

nondiscrimination rules in employer-provided policies, it would be very difficult for them to cut out their lower and middle income employees who were taking advantage of the USA accounts.

Senator BAUCUS. Well, good luck. That is, generally, I think you have a great future ahead of you, Stu. I wish you the best.

The CHAIRMAN. I think this brings us to the conclusion of your questioning. There will be some written questions.

Just let me say that I think we have a tremendous opportunity at this time to do good for this country and to assure its continued prosperity and growth. The thing that encourages me, is that everyone is talking about reform of Social Security, talking about Medicare reform, and are also talking about tax cuts. That is what you call your USA program.

I might say that sometime before that novel idea was introduced, I did introduce similar legislation. But the point I want to make to you, Stu, is that, to get anything done, it will take bipartisan support. That is the only way we are going to see the kind of progress that we all hope for and want.

Let me also say, and I go back to what Senator Kerrey stated, is that it is also going to take leadership, particularly in the area of Social Security and Medicare, two of the most important domestic programs. We can only bring about the kind of reform and restructuring that you said the administration is interested in if there is leadership from the White House. I want to underscore what Senator Kerrey said about that.

Senator MOYNIHAN. Mr. Chairman, could I just add a moment here?

The CHAIRMAN. Yes.

Senator MOYNIHAN. Because Secretary Eizenstat has not been through this particular thing, it will be almost 2 years ago that Senator Kerrey and I introduced a Social Security bill. It was simple. It had four points. It dealt with a 75-year actuarial requirement. It made a few horrendously terribly, shocking, political proposals, like including State and local employees in Social Security.

In 1935, it was not clear whether the Federal Government could tax a State government, so they were left out. About half of them are still out. They get Social Security on the side, but they get more than they have contributed. Well, we could not do that, could we? There might be somebody who complains.

In 2 years, we have never had a postcard from the White House, much less the Social Security Administration, which we reestablished in 1994 as an independent agency. No response of any kind, which is not promising because it says, no, they are not going to take a position on something where something real might happen. I would just make that point. You would not know that. Welcome to vagary.

The CHAIRMAN. The good Senator from New York states much more eloquently than I the need for real leadership in this area, particularly from the White House. One of the reasons I was so happy to see you nominated is that I appreciate and have observed first hand your willingness to work in a bipartisan way. So, I hope you will use your prestige and intellect for that purpose, because I think we do have a remarkable opportunity before us.

Mr. EIZENSTAT. Thank you. I very much appreciate your statement, and Senator Moynihan's. Let me respond by saying that bipartisanship has been always the hallmark of my public service. I know that, in this difficult set of issues, that progress can only be made in that way.

I think that the President's leadership was shown yesterday in the taking of Social Security out of the unified budget and the creative way we will achieve solvency, but I also know, Senator Moynihan, that that is not the end of the road and that we do have an objective of 75-year solvency. That does require real reform. That, in turn, requires a bipartisan spirit. I hope we can achieve that, and would look forward to working with all of you to encourage that.

The CHAIRMAN. Well, thank you very much for being here today. We will submit some written questions and would appreciate your prompt reply.

[The questions appear in the appendix.]

The CHAIRMAN. We are particularly appreciative of your family being here with you today, and we look forward to expediting as rapidly as possible the confirmation process.

Thank you very much.

Mr. EIZENSTAT. Thank you, Mr. Chairman.

The CHAIRMAN. I would like to call forward our next panel, which consists of Jeffrey Rush and Lewis Sachs. Gentlemen, please come forward.

Let me proceed, as the hour is growing late. Each of you have been nominated for an extremely vital position. Mr. Rush, as an IG, you will have the responsibility for detecting fraud, waste and abuse within the Treasury Department.

As you know, the Treasury IG has had some very serious management problems in the past. Those problems are beginning to be addressed, and I hope that you will continue that vital task.

Mr. Sachs, you will, of course, have responsibility for the Federal Government's policies and plans relating to financial markets. As more and more Americans invest their hard-earned money in the financial markets, it is obviously more important than ever that the markets continue to operate as smoothly as possible.

So, gentlemen, it is a pleasure to welcome both of you.

I now call on Senator Moynihan for any comments he may care to make.

Senator MOYNIHAN. We do, indeed, welcome you. We look forward to your testimony.

The CHAIRMAN. Next, I would like to ask you, Mr. Rush, first, and then we will turn to Mr. Sachs, if you have any members of your family here.

Mr. RUSH. My wife, Dawn, is with me.

The CHAIRMAN. Would you please stand? It is a pleasure to welcome you here.

Senator MOYNIHAN. You are very welcome.

The CHAIRMAN. And Mr. Sachs, do you want to introduce your family?

Mr. SACHS. Yes.

Senator MOYNIHAN. You have got some rivals coming in here.

Mr. SACHS. They are filing in now. I do have my family with me today. We have four generations of Sachs'. Right on cue, one of my daughters, Julia Sachs. Her twin sister is here somewhere.

The CHAIRMAN. She is right behind.

Mr. SACHS. Whitney Sachs.

The CHAIRMAN. And they are twins, are they not?

Mr. SACHS. They are twins.

The CHAIRMAN. I gather, to rise high in the Treasury Department, you have to have a set of twins. Is that correct? [Laughter.]

Mr. SACHS. That was part of the interview process, Mr. Chairman.

The CHAIRMAN. It is a great pleasure to welcome all of you. I think it is particularly important to have one's children. So, we welcome them, indeed. Do not be embarrassed; you should hear my grandchildren.

I am going to begin by, first, swearing you in. Would you please rise and raise your right hand.

[Whereupon, Mr. Rush and Mr. Sachs were duly sworn.]

The CHAIRMAN. Thank you. Please be seated.

We will now have the opening statements. Mr. Rush, would you go first, please?

STATEMENT OF JEFFREY RUSH, JR., NOMINATED TO BE INSPECTOR GENERAL, DEPARTMENT OF THE TREASURY

Mr. RUSH. Thank you. Good morning, Mr. Chairman, Senator Moynihan, Senator Thompson.

It is an honor for me to be before this committee as the President's nominee for the position of Inspector General for the Department of Treasury. I am pleased that my wife Dawn could be with me today.

This is the second time that the President has nominated me for a position requiring the advice and consent of the Senate. As a career civil servant, there is no higher honor.

I have spent the past 5 years serving the administration and the Congress as the Inspector General at the U.S. Agency for International Development. During that period, my staff has completed more than 1,900 audits and more than 290 investigations.

Our audit work has resulted in about \$250 million in questioned costs and funds put to better use. Our investigations have resulted in 12 criminal convictions, 15 civil actions, 230 administrative actions, and about \$12 million in monetary recoveries.

The U.S. AID Office of Inspector General has made important contributions to the agency's sustainable development and humanitarian assistance efforts.

If confirmed by the Senate, I will work to establish an office capable of meeting its statutory responsibilities and contributing to the performance of the Treasury Department.

I will work closely with the Treasury Inspector General for Tax Administration to ensure that the department is well served by our respective offices. I have known Inspector General David Williams for more than a decade. I look forward to working closely with him.

That concludes my opening statement.

[The prepared statement of Mr. Rush appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Rush.

Mr. Sachs?

STATEMENT OF LEWIS ANDREW SACHS, NOMINATED TO BE AN ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL MARKETS

Mr. SACHS. Thank you, Mr. Chairman, Senator Moynihan, Senator Thompson. I am honored to appear before you today as you consider my nomination to be Assistant Secretary of the Treasury for Financial Markets.

It is truly an honor to have been nominated by the President for this position. I am particularly grateful to Secretary Rubin and Deputy Secretary Summers for their strong support and for the confidence they have expressed in my by supporting my nomination.

They have assembled a truly talented group of professionals at the Treasury Department, and it is my earnest desire to make a further contribution to their efforts.

Before arriving at Treasury a short time ago, I spent 13 years at the investment banking firm of Bear, Stearns & Co., including seven as senior managing director and head of global capital markets.

In that capacity, I gained broad experience in many areas of the financial markets, including trading, underwriting, research, and investment banking. In particular, one of my areas of focus was advising some of the world's largest corporate borrowers as to the most efficient manner in which to finance their operations in the increasingly complex global capital markets.

For the past 10 months, it has been my privilege to serve at the Treasury Department as Deputy Assistant Secretary for Government Finance Policy. During this time, Treasury has been deeply involved in a variety of issues that are vital to our National economic well being and to the global financial system.

If confirmed as Assistant Secretary, I would welcome the opportunity to continue to apply my 13 years of financial market experience to help address the wide array of issues facing the Treasury Department.

In particular, I would be committed to promoting the competitiveness and efficiency of our financial markets and to ensuring that we continue to successfully meet the new and welcome debt management challenges associated with an age of surplus.

It is an honor to appear before this committee today and, if confirmed, I look forward to working closely with you and with the rest of Congress. Thank you, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement of Mr. Sachs appears in the appendix.]

The CHAIRMAN. I am going to begin by asking both of you our three standard questions.

First, is there anything 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? Mr. Rush?

Mr. RUSH. No, sir.

The CHAIRMAN. Mr. Sachs?

Mr. SACHS. No, sir.

The CHAIRMAN. Second, 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? Mr. Rush?

Mr. RUSH. No, sir.

The CHAIRMAN. Mr. Sachs?

Mr. SACHS. No, sir.

The CHAIRMAN. Third, 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? Mr. Rush?

Mr. RUSH. Yes, sir.

The CHAIRMAN. Mr. Sachs?

Mr. SACHS. Absolutely.

The CHAIRMAN. Now, as I told Mr. Eizenstat, there may be some additional written questions for you. We will get these questions to you shortly and ask you to respond to them as quickly as possible.

[The questions appear in the appendix.]

The CHAIRMAN. Now, Mr. Rush, less than a year ago the Senate confirmed David Williams as Treasury IG. At that time, he agreed with our assessment that, at a very minimum, the IG office was very troubled. As you testify today, what is your assessment of the Treasury IG office, and what do you see as your biggest challenges?

Mr. RUSH. First, let me say, it is a much improved office because of David Williams' commitment to try and improve both the investigations program and the overall relationship at the IG's office and other Treasury offices.

I have had only a few meetings with the staff, with David, and now with the acting Inspector General, Larry Rogers, and I am pleased by what I see.

The CHAIRMAN. Let me ask you this. I have been concerned about the lack of consistent management at the Treasury IG. What assurances can you give regarding your commitment to remain at the post for a reasonable period of time?

Mr. RUSH. I am in reasonably good health. I have been doing this business for about 31 years now. I do not plan to spend the next 31 at Treasury, but I certainly am going to be available for the next 3 to 5 years. It is important to me to bring some stability to an office that has seen such a dramatic turnover in IGs.

There is also a problem that I need to comment on with respect to Treasury only coming into the IG community in 1988. What that means, is it has not had the same opportunity as some of the front-line IG offices to develop a senior career staff of folks who have been around and who will keep the place going as top managers leave. So, we are going to work very hard on trying to identify our future managers and have a potential to always operate, even in the absence of an IG.

The CHAIRMAN. One of the responsibilities of your office will be to deal with whistle blowers, employees who identify fraud and abuse in the agency. In one of your previous positions, there was some question about whistle blowers. What will you do to encourage whistle blowers to come forward, and to assure those that do that there will be no retaliation against them?

Mr. RUSH. We, first, need to organize a whistle blower or hotline staff in such a way that people feel like they are isolated from folks like me. There is no reason for the Inspector General to be directly involved in receiving these complaints.

My responsibility is to encourage the entire work force to understand that they can bring complaints to our office, that we can protect their identify, that where there are problems with our ability to protect that identity, we work closely with the Merit Systems Protection Board and with the Office of Special Counsel who can also protect whistle blowers.

But I face this largely as an organizational matter, putting the right people at the point of direct contact with complainants, and giving them some assurance that we are going to handle their complaints in a responsible way.

The CHAIRMAN. Let me ask you, Mr. Sachs. As someone who has spent a lot of time on Wall Street, I understand that you were the youngest senior—

Senator MOYNIHAN. I was going to say, Mr. Chairman, for someone 35 years of age. [Laughter.]

The CHAIRMAN. Well, again, he is the youngest senior managing director in the history of Bear, Stearns & Co. He has been in Treasury for almost a year.

I would point out, the Secretary-designate is the youngest tenured professor at Harvard. There seems to be a constant pattern running through here.

How do you view the role of government in dealing with the operations, specifically the efficiency and the competitiveness of our markets?

Mr. SACHS. Thank you, Mr. Chairman.

This country is blessed with some of the most efficient and competitive capital markets in the world. I see the role of government as to continue to promote policies that would further enhance the competitiveness, efficiency, and safety of those markets.

It is equally important that we avoid policies that might restrict that competitiveness and the innovation which are hallmarks of those markets. I would seek to promote policies that would be consistent with those goals.

The CHAIRMAN. I am very, very concerned about the lack of personal savings in this Nation. The head of the Federal Reserve has stated that that is our most serious problem, the lack of savings.

I believe savings that can be made to government are important, but I also believe that it is important for the American family to have savings to maintain their standard of living once they retire. That is not the case, currently.

Do you see this as a problem, and what suggestions do you have for addressing it?

Mr. SACHS. Mr. Chairman, I certainly do share your concern and that expressed by Chairman Greenspan. It is terribly important, both for the future welfare of this country and the economy, that we seek to encourage greater private personal savings.

While we have been fortunate of late to have had an increase in national savings, largely due to the fiscal discipline that was discussed on the prior panel, both through the leadership of the administration and through the Senate, we have been able to increase

our National savings rate. But, as you indicate, the personal savings rate has declined in recent months.

I know that you personally have had a great deal of leadership in this area. The administration, as well, has put forth proposals in an effort to further encourage greater personal savings.

I can assure you that, if confirmed for this position, I would look forward to working with the committee and with other members of the administration to further examine what we might do to encourage greater personal savings.

The CHAIRMAN. I think that is very important that we do work together to address it.

Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman. I am going to ask a question, first, of Mr. Rush. We gathered that, just recently, the Office of Inspector General has learned that it is far behind in getting on top of the Y2K problem, the shorthand for the year 2000, for computers that have been programmed without the century dates.

How did that happen, or do you know? If you are behind, what is the Treasury like?

Mr. RUSH. Well, Treasury, actually, is in pretty good shape. As I understand it from Larry Rogers, who is now acting as the Inspector General, during a relatively routine meeting at the department level it was discovered for the first time that the Treasury's Office of Inspector General had not done a complete assessment of its own equipment.

Now, obviously, we have been auditing and reviewing the success of the department in complying with Y2K, but this was something of a surprise. What has happened since that discovery has been a very quick and thorough assessment, and a determination that we have a number of personal computers, not only in our Washington headquarters but throughout our field offices, and client servers, the larger computer, that are not, in fact, compliant.

The office is now working very closely, with the Assistant Secretary for Management, in an effort to, one, fully identify the problem and be sure, if there are funds remaining from the budget supplement of last year, that some of those funds be made available to OIG.

Senator MOYNIHAN. All right. You will come up here in a hurry and tell us if you are not getting the monies you need, all right?

Mr. RUSH. Yes, sir. If I am confirmed and we do not have compliant systems, I will certainly be here before January 1 to share that with the committee.

Senator MOYNIHAN. You do not have much time. What is the old story? That it is the shoemaker's children who go barefoot. But good. Do not hesitate. You do not have to get a hearing, just get on the phone.

Mr. RUSH. Thank you, sir.

Senator MOYNIHAN. The Chairman, I think, agrees with me.

The CHAIRMAN. Absolutely.

Senator MOYNIHAN. Could I ask Mr. Sachs two questions? Office of Management and Budget is projecting that, over the next 15 years, we could pay off the public debt. Then what are you going to do?

Mr. SACHS. Senator Moynihan, in that regard, I am fortunate to be considered for this position now as opposed to 15 or 16 years from now. There is a lot more work to do while we have this debt outstanding.

One of the objectives I would have, if confirmed for this position, would be to work out a long-term strategy to deal with this possibility. This is not something that we have faced before. We are certainly very pleased to be facing it now.

Senator MOYNIHAN. I think we had something like this around 1840. There was a surplus and the Federal Government divided it up and sent it back to the States. It was divided up and sent to each citizen. I think everybody got 17 cents, or something like that.

Mr. SACHS. I would certainly defer to the Senator on the history.

Senator MOYNIHAN. Well, check it out. You may need a precedent.

Mr. SACHS. I certainly will check it out. Perhaps we could look for some pointers in the history there.

Certainly in my experience, I have not seen this situation. It is, clearly, one of the great challenges that we will have. It is going to be important to put in place and begin implementing a strategy to deal with this possibility.

Senator MOYNIHAN. You will need a debt instrument that is as reliable as the Treasury bond.

Mr. SACHS. Yes. That is certainly one of the challenges.

Senator MOYNIHAN. Yes. Well, it is a nice kind of challenge.

Mr. SACHS. It is. As I indicated in my opening statement, it is a welcome challenge.

Senator MOYNIHAN. Just one other thing. On the question of efficient capital markets, could you help a subliterate here? What is efficient in a market and what is inefficient, and could you give us some examples without embarrassing colleagues abroad? Transparency, things like that?

Mr. SACHS. Yes. Transparency certainly leads to efficient capital markets. What I was referring to in my earlier statement was not necessarily efficient capital markets in the academic sense, but more to make sure that the plumbing is working properly, that there is as much liquidity as possible, that there is not an overly burdensome regulatory structure. Anything we can do to either take sand out of the gears or prevent sand from getting in the gears, so that the markets operate as smoothly as possible.

Senator MOYNIHAN. Now, watch images taken from the early Industrial Age. Give us a cyber image, instead of sand in the gears. Just in time.

Mr. SACHS. Good timing. [Laughter.]

Senator MOYNIHAN. Thank you, Mr. Chairman.

Mr. SACHS. Very good timing.

Senator MOYNIHAN. Thank you, Mr. Rush. Thank you, Mr. Sachs.

Mr. SACHS. Thank you, Senator Moynihan.

The CHAIRMAN. Senator Thompson, please.

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

I was intrigued to once again learn a little bit of history from Senator Moynihan and his example of returning the money back to

the States, or perhaps the people. You may use that in the future. It sounds like a tax cut to me, but we will see. [Laughter.]

Mr. Rush, as you know, the Governmental Affairs Committee, which the Chairman used to chair and that I know chair, has a special relationship to the Inspector General.

Mr. RUSH. Yes, sir.

Senator THOMPSON. We will have an opportunity to do a lot of work together, I am sure. I look forward to that.

But you are going into an interesting situation here. For all of the accomplishments of the Treasury Department, from a management standpoint, there is a lot that needs to be done. As you know, Congress passed the Government Performance and Results Act.

The idea was to set out what the goals are for the department, then figuring out ways to achieve those goals. To do that, you come up with a plan and you submit the plan to Congress. We are getting these plans in now, and it is not a very pretty picture.

It was not a pretty picture from Treasury. Last year's was deficient and, according to GAO, their plan for this year has improved little, if at all, from last year's version and will be of very limited use to the executive branch and Congressional decision makers.

In fact, the GAO said that Treasury's fiscal year 2000 plan is one of the two least improved of the major agencies. It was weak in all three core criteria for performance plans. That is, performance goals, strategies to achieve goals, providing reliable performance data.

So I am wondering if you have had a chance to become aware of this problem yet. Obviously you have not had a chance to do anything about it, but are you aware of this situation?

Mr. RUSH. Yes, sir. I am.

Senator THOMPSON. Also, the GAO issued its latest high-risk list, Federal activities that are the most vulnerable to waste, fraud, and abuse. There are 26 in all, and 5 of the 26 high-risk problem areas, almost 25 percent, are located in the Treasury Department, and 4 of the 5 relate to the IRS, which hopefully we have made some improvement on recently.

But all of these five problem areas have been on the GAO high-risk list for at least since 1995. So we are not making any progress with regard to that. When we talk to OMB, it always occurs to me that we forget about the "M" in OMB.

What do you think about that? Are you aware of this high-risk situation, and what can you do in your position to make a contribution toward alleviating these longstanding problems?

Mr. RUSH. Sir, I am aware. I have had some discussions with the Treasury IG staff. Treasury faces the same problem that most of the cabinet and executive agencies face. We fail to make sense of our information technology acquisitions and we fail to put together core accounting systems.

There are a lot of folks in this town who talk about financial management in the executive branch, but most of the systems that they rely upon are of little value. You would not rely upon them to manage your household budget. They are using systems like that to try to manage our massive Federal budget.

So I do not think you are going to see substantial improvement or progress until we come to grips with both information technology and financial management.

Senator THOMPSON. What do we need to do with regard to that? Are you talking about computers? When you are talking about systems, what are you referring to?

Mr. RUSH. Our problem is, we have been buying computers and not putting together systems. We have become very good at identify the latest piece of equipment with bells and whistles; we have not been very good at building those systems out to where all of our programs and operations are integrated. So within most of our agencies—

Senator THOMPSON. That has been a traditional IRS problem, especially, I think, the stovepipe systems that do not talk to each other.

Mr. RUSH. Right. Right. But it is not limited to IRS or Treasury; this is government-wide. When the Inspectors General were asked to deal with cross-cutting issues in this past year, every Presidentially-appointed IG identified these as problems: information technology acquisition and financial management.

The financial management issue is also important to resolve the problem you are referring to under the Results Act. That act, as you will recall, is an effort to link resources with outcomes, resources with results. You cannot do the resource side without accounting.

How can you know what it costs to get a given outcome if you do not have a system that can track dollars? So, until such time as we solve some of the core accounting problems, we will not have marked progress under the Results Act.

Senator THOMPSON. Well, that certainly hits home to me because we just had reports from Inspector Generals from four different departments that had to do with our export system in this country, and some of the export control issues that have come up recently, high-tech, dual-use, military use technology.

That is one of the things that almost all of the IGs were unified in, and that is, our being behind with regard to technology, our failure to integrate, one department not talking to the other, not being aware of what the other was doing, then when they did, not having the information system capability to go into somebody else's system to derive what you needed in that area.

In each agency, there might be four different departments that have responsibilities with regard to a particular export that is of great sensitivity, yet you have got to go through the system individually. So, it is, obviously, a government-wide problem.

Thank you very much.

Senator MOYNIHAN. Mr. Chairman, did Senator Thompson want to continue this line of inquiry?

Senator THOMPSON. Thank you very much, Senator Moynihan, but I think that pretty well covers it. I look forward to working with Mr. Rush. I was going to give Mr. Sachs an opportunity to follow up on you question a while ago.

The CHAIRMAN. Please take the time.

Senator THOMPSON. I knew he was eager to. But I have run out of time.

The CHAIRMAN. Let me thank you, Senator Thompson, for the interest in enforcement you have taken with respect to the performance goal legislation. I think it is a very, very important initiative on the part of Government Affairs, and I think your personal interest has helped make this legislation more effective.

I also want to thank both of you for being here. I particularly want to compliment the twins. I think their performance has been outstanding.

Thank you very much for being here. We will move forward on this. Questions will be submitted to you for written answers. Thank you very much.

Senator MOYNIHAN. Thank you all. Thank you, ladies.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 11:55 a.m., the hearing was concluded.]



A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STATEMENT OF STUART E. EIZENSTAT NOMINEE FOR DEPUTY SECRETARY OF THE TREASURY BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of this Committee, thank you for allowing me the opportunity to appear before you concerning my nomination to be the Deputy Secretary of the Treasury. In making this nomination, the President has honored me with his trust, for which I am deeply grateful.

In all of my senior public positions in the Carter and Clinton Administrations, I have made it a watchword to have open, close, respectful, and cordial relations with members of the Senate and House, regardless of party. I have had the privilege of meeting with many Members of this Committee over the years. You will continue to find me responsive to you, and I consider it a high priority to merit your confidence.

At various times in my public career, I have worked on most of the issues, both domestic and foreign, that come before this Committee. I have worked closely with the business and financial communities over several decades.

During the President's first term, I served under Secretary of State Warren Christopher as the U.S. Ambassador to the European Union in Brussels. It was then that I helped initiate the New Transatlantic Agenda, through which the United States and the European Union are developing closer ties in this post-Cold War era, and the Transatlantic Business Dialogue, which brings together European and American business leaders to provide advice on removing impediments to transatlantic trade and investment. In 1995, I was named Special Envoy for Property Claims in Central and Eastern Europe, a position I continue to hold. I have encouraged the return to individuals and religious communities of the property that the Nazis had confiscated and the communists had nationalized. For my service while in Brussels, Secretary Christopher conferred on me the highest award the State Department can give to a non-career Ambassador,

the Foreign Affairs Award for Public Service. I returned from Brussels in 1996 to become Under Secretary of Commerce and International Trade. In this position, I established the Compliance Center, which for the first time has given the U.S. government the capacity to monitor foreign government compliance with the trade agreements reached with the United States; we consequently have greater assurance that we are obtaining for U.S. business and workers the full benefits of the trade agreements we have negotiated.

In this second term, under the distinguished leadership of Secretary of State Albright, I have been Under Secretary of Economic, Business and Agricultural Affairs. I have advised Secretary Albright on international economic policy and have led the work of the State Department on issues ranging from trade negotiations to bilateral relations with major partners such as Japan and the European Union. I was named Special Envoy of the President and the Secretary of State for the Promotion of Democracy in Cuba to encourage our allies to condition their relations with Cuba on improvement in human rights and democracy there -- efforts that led to the Common Positions on Cuba by the European Union. In 1997 and 1998, I coordinated two massive government studies on Nazi gold and the role of neutrals on World War II; and I led the Washington Conference on Holocaust-Era Assets, which among other things produced historic principles for the return of the Nazi-looted art, helped solve the Swiss Bank dispute, and contributed to promoting justice for the survivors of the Holocaust and their families before the advent of the new millennium.

My State Department responsibilities; my work as a sous sherpa in the G-8 process; and my service as Alternate Governor of the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the African Development Fund, and the European Bank for Reconstruction and Development -- all provide experience for the position of Deputy Secretary of the Treasury.

From my various positions in this Administration, I have learned that one of our most fundamental strengths and sources of influence around the world comes from the strength of the U.S. economy, which President Clinton, Vice President Gore, Secretary Rubin, Deputy Secretary Summers have helped to create. They have set the right course with the support of the U.S. Congress. Maintaining a strong U.S. and world economy is our central challenge.

I look forward to working with Deputy Secretary Summers to achieve the five critical objectives that he indicated to this Committee he will focus on if confirmed as Secretary of the Treasury: maintaining a strong economic strategy, which includes both continued fiscal discipline and addressing long-term Social Security and Medicare problems; ensuring that our strong economy means growth in living standards for all Americans; building the sort of global economy that can underpin U.S. security and the prosperity of American workers; striving to ensure the safety, competitiveness, and efficiency of the U.S. financial system; and supporting the excellence and integrity of Treasury's career staff.

Mr. Chairman, Deputy Secretary Summers has assured me that, if confirmed, we would function as a team in the same productive way he worked with Secretary Rubin. With your support, I look forward eagerly to forming that partnership with him and working closely with you.

In closing, I especially want to thank my family and, most particularly, my wife Fran, for enduring with me the sacrifices and stresses of public service. I could not be here today without her support and that of my sons Jay and Brian, Jay's wife Jessica, and Brian's fiancée Erin Grossman.

Mr. Chairman, I wish to express to you my thanks for being able to come before you. Let me now try to respond to questions you and the Committee may have.

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The White House,

JUN 17 1999

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To the

Senate of the United States.

I nominate

Stuart E. Eizenstat, of Maryland,

to be Deputy Secretary of the Treasury, vice Lawrence H.

Summers.

WILLIAM J. CLINTON

DRAFT

DRAFT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

May 12, 1999

**PRESIDENT CLINTON NAMES STUART E. EIZENSTAT AS
DEPUTY SECRETARY AT THE DEPARTMENT OF THE TREASURY**

President Clinton today announced his intention to nominate Stuart E. Eizenstat as Deputy Secretary at the Department of the Treasury.

Ambassador Eizenstat is currently Under Secretary for Economic, Business and Agricultural Affairs at the Department of State. Ambassador Eizenstat's distinguished career in government began during his university years when he spent three summers working as an intern for both the legislative and executive branches of the Federal Government. From 1967 to 1968, he served as a White House staff aide under President Johnson. From 1968 to 1969, he was a law clerk to U.S. District Court Judge Newell Edenfield in the Northern District of Georgia. In 1970, he joined the Atlanta law firm of Powell, Goldstein, Frazer & Murphy where he worked for six years, and returned in 1981 as head of the Washington office and Vice Chairman of the entire firm until 1993. From 1977 to 1981, he served as President Carter's chief domestic policy advisor in the White House. In 1993, Ambassador Eizenstat was appointed by President Clinton as U.S. Ambassador to the European Union in Brussels and served until 1996 when he was appointed Under Secretary of Commerce for International Trade.

Ambassador Eizenstat received his A.B. from the University of North Carolina in 1964 and his L.L.B. from Harvard Law School in 1967. He has taught as an Adjunct Lecturer at the JFK School of Government at Harvard University from 1981-1992. He is the recipient of numerous awards and an honorary doctorate at the Yeshiva University.

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SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.) **Stuart E. Eizenstat**
2. Position to which nominated: **Deputy Secretary, U.S. Department of the Treasury.**
3. Date of nomination: **June 17, 1999**
4. Address: (List current residence, office, and mailing addresses.)
Residence: 9107 Brierty Road, Chevy Chase, MD 20815;
Office: U.S. Department of State, 2201 C Street, N.W.,
Washington, DC 20520
5. Date and place of birth: **January 1, 1943; Chicago, IL.**
6. Marital status: (Include maiden name of wife or husband's name.)
Frances Carol Taylor
7. Names and ages of children: **Jay Eizenstat, 28 years; Brian Eizenstat,**
25 years.
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
Henry Grady High School; 1964; high school degree
University of North Carolina; 1960-1964; A.B.
Harvard Law School; 1964-1967; LL.B.
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.)
Summer 1964: Office of Postmaster General John Gronouski
Washington, DC (research);

Summer 1966: Office of General Counsel, Department of Health, Education and Welfare, Washington, DC (legal research);
..
1967-1968: White House Staff, President Lyndon B. Johnson (research and speechwriting on domestic issues);
1968: Research Director, Vice President Hubert Humphrey Presidential Campaign, Washington, DC;
1968-1970: Law Clerk, U.S. District Court Judge Newell Edenfield, Northern District of Georgia, Atlanta, GA;
1970-1976: Attorney and Partner, Powell, Goldstein, Frazer & Murphy, Atlanta, GA;
1976-1977: Director of Policy, Carter/Mondale Transition, Washington, DC;
1977-1981: Assistant to the President for Domestic Affairs and Policy and Executive Director of the Domestic Policy Staff at the White House, Washington, DC;
1981: Guest Scholar, Brookings Institution, Washington, DC;
1981-1993: Partner and Vice Chairman, Powell, Goldstein, Frazer & Murphy, Washington, DC;
1982-1992: Adjunct Lecturer, John F. Kennedy School of Government, Harvard University, Cambridge, MA;
1993-1996: United States Representative to the European Union (with rank and title of Ambassador), Brussels, Belgium;
1996-1997: Under Secretary for International Trade, U.S. Department of Commerce, Washington, DC;
1997-present: Under Secretary for Economic, Business, and Agricultural Affairs, U.S. Department of State, Washington, DC.

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.)

I was appointed by President George Bush to the Presidential Task Force on United States International Broadcasting (1991-1992). I began serving as a Board member of the Eurasia Foundation in May, 1993. This organization was chartered by Congress to encourage democracy and free markets in Russia and in the CIS.

11. **Business relationships:** (List all positions held 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.)

The following positions were held until 1993:

- ASCII Group (Director);
- Hercules Incorporated (Director);
- PSI Resources, Inc. (Director);
- Israel Discount Bank of New York (Director);
- Powell, Goldstein, Frazer & Murphy (partner, Vice Chairman, and member of Board of Partners) (1981-1993).

Powell, Goldstein, Frazer & Murphy, an Atlanta firm with a Washington, D.C., office, is registered under the Foreign Agents Registration Act (FARA). While it was a very small percentage of my total billing time (my practice was almost exclusively representing United States corporations, particularly in the high-tech and export areas), I have performed FARA-related work for the following clients within the past ten years:

- (a) **Intelsat (The International Telecommunications Satellite Organization) (1/17/85-9/93).** Intelsat, created by multilateral agreement to which the U.S. is a party, is an international cooperative responsible for launching and operating international telecommunications satellites. This work has involved monitoring and representation on a variety of developments, proposals, and policies affecting international telecommunications satellite policy.
- (b) **Hitachi (9/25/85-4/1/90).** This work involved monitoring and representation on matters in the trade and business area of importance to the company and to its U.S. operations.
- (c) **M'Hamed Bargach (Embassy of Morocco) (3/30/87-8/1/90).** Counsel and representation in connection with foreign assistance legislation.
- (d) **Societe Generale de Surveillance, S.A. (4/1/87-4/11/90).** This involved representation in connection with proposed legislation relating to the regulation of preshipment customs inspection programs that certain nations employ to maximize importer compliance with their customs laws.

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- (e) Sunbelt Corporation (6/2/88-11/22/89). This involved work on tariff schedules for their products.
 - (f) Minorco (10/6/88-3/1/90). This involved providing counsel and representation with respect to certain acquisitions of assets and entities located in the U.S.
 - (g) Hong Kong Trade Development Council (2/15/93-3/31/93) and Hong Kong Economic and Trade Office of the British Embassy (4/1/93-993). This involved monitoring and representation regarding trade and other policy areas of interest to Hong Kong.
 - (h) British Airways PLC (3/1/93-9/93). Representation involving U.S. international aviation policy, including governmental approval of its investment in USAir.

Powell, Goldstein, Frazer & Murphy is registered as an organization under the Federal Regulation of Lobbying Act (FLRA) on behalf of certain of its clients. I have personally performed and reported the performance of lobbying activities and services for clients, including:

- The Alter Group
- American Council in Education
- Association of American Universities
- Bear, Stearns & Co.
- Messrs. Joseph Bernstein, Ralph Bernstein, William Deyo of Bernstein, Carter & Deyo
- The Chase Manhattan Bank
- Coalition for Advancement of Industrial Technology
- Coalition for Competition
- Coalition for Employment Through Exports
- Committee Against Regulation of Video Enterprises
- Committee for Equitable Compensation/Owens-Illinois
- Council on Research and Technology (CORETECH)
- DESTEC
- Digital Equipment Corporation
- The Entrepreneurs Group
- Flood Control Advisory Committee (Rochester, Minnesota)
- Fluor Corporation
- General Cinema Corporation
- Hudson Electric, Inc.

Hercules Incorporated
 Hewlett-Packard & Co.
 Hewlett-Packard & Co. (Deferral Coalition)
 Hitachi Ltd.
 Hitachi Sales Corporation of America
 Holiday Inn
 Hong Kong Trade Development Council
 Intelsat
 Intergraph Corporation
 International Paper Company
 The Jacques Borel Enterprises, Inc.
 Koch Industries
 Maxxam
 Mid-America Associates
 National Association of Medical Equipment Suppliers (NAMES)
 National Council for Industrial Innovation
 Owens-Illinois, Inc.
 Puerto Rico - U.S. Foundation
 Phillip D. Winn
 The Procter & Gamble Manufacturing Co.
 Project on the Federal Social Role
 PSI Energy
 Schering-Plough
 Second Olbill Era Kelulau, Palau
 Shea & Gardner
 SKW Alloys, Inc.
 Societe Generale de Surveillance, S.A.
 Sunbelt Corporation
 Weizmann Institute of Science, American Associates
 Westinghouse

12. **Memberships:** (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Academic:

1991-1993	Chairman, Feinberg Graduate School Weizmann Institute of Science
1990-1993	International Board of Governors Weizmann Institute of Science Rehovoth, Israel

1991-1996..	Board of Trustees Brandeis University Waltham, MA
1988-1992	Council of the Harvard Law School Association
1987-1991	Board of Visitors The University of North Carolina at Chapel Hill Chapel Hill, NC
1981-1989	Vice President and Board of Directors, American Associates Ben-Gurion University of the Negev New York, NY
<u>Public Policy:</u>	
1991-1994	Board of Directors Overseas Development Council Washington, DC
1993-present	Council on Foreign Relations
1992	Carnegie Endowment Institute for International Economics Commission on Organization of the Presidency
1991-1992	University of Virginia Miller Center Commission on the Vice Presidency
1991-1993	Advisory Council Carnegie Commission on Science, Technology and Government
1989-1991	Public Member Administrative Conference of the United States
1990-1993	Member Commission on the Selection Process of Vice Presidents

1989-1993	Board of Advisors Legislative Studies Institute
1990-1993 (approx.)	Member International Trade Committee National Foreign Trade Council
1993-1993	Board of Directors International Management and Development Institute
1986-1993	Principal and Board of Trustees Council for Excellence in Government
1985-present	Fellow National Academy of Public Administration
1981-1993	Board of Directors Center for National Policy
1990-1991	Democrats for the 90's
1981-1989	Democrats for the 80's
1987-1989	Board of Directors Near East Research, Inc. (<u>The Near East Report</u>)
1982-1989	International Policy Committee U.S. Chamber of Commerce Washington, DC
1978-1987	Board of Directors Woodrow Wilson Center for International Studies Washington, DC
1988	Member Governor's Commission on Federal Funding Commonwealth of Virginia
1988	Chairman Economic and Budget Strategy Committee Montgomery County Council

1984-1985 Member
 Committee on Federalism and National Purpose,
 chaired by Senator Daniel J. Evans and Governor
 Charles S. Robb

Religious and Civic:

1992-present Member
 National Council
 CLAL (The National Jewish Center for Learning and
 Leadership)

1992-present Board of Directors
 The Jerusalem Foundation, Inc.

1991-present Honorary Vice President
 American Jewish Committee

1989-1991 President
 Greater Washington Jewish Community Center
 Rockville, MD

1982-1986 Founding Chairman, Advisory Committee
 Institute for American Jewish-Israeli Relations
 American Jewish Committee
 New York, NY

1991-present Board of Directors
 UJA Federation of Greater Washington

1991-1993 National Advisory Board
 Project Interchange

1988-1993 Board of Trustees
 The Washington Institute for Jewish Leadership and
 Values

1988-1993 Board of Trustees
 Greater Washington Jewish Community Foundation

- 1987-1993.. Board of Trustees
The Jerusalem Institute of Management
- 1988-1990 Commissioner
Commission on Jewish Education in North America
Task Force on Federal/Local Relations
Cleveland, OH
- 1986-1990 Chair
Committee on Social Responsibility
American Jewish Congress
- 1982-1986 Board of Directors
The National Jewish Center for Learning and
Leadership (CLAL)
New York, NY
- 1981-1986 Board of Directors
Jewish Publication Society
Philadelphia, PA
- 1981-1984 Board of Directors
United Synagogues of America
- 1981-1982 B'nai B'rith Youth Commission
Washington, DC
- 1970-1974 Co-Chair (with spouse)
Adult Institute for Jewish Studies
Atlanta, GA
- 1973-1976 Vice President
Atlanta Bureau of Jewish Education
Atlanta, GA
- 1970-1976 Executive Committee
Atlanta Jewish Community Center
Atlanta, GA

Bar and Professional Associations:

1991-1992	Government Standards Committee American Bar Association
1982-1989	Special Committee on Lawyers in Government American Bar Association
1988-present	Fellow National Academy of Public Administration
1988-1993	Fellow Center for Excellence in Government
1967-present	American Bar Association
1981-present	District of Columbia Bar Association
1967-present	State Bar of Georgia

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.
None.
- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
1991-1993: Vice Chairman, National Jewish Democratic Council;
1992: Democratic Party Platform Drafting Committee (one of principal authors of 1992 Platform);
- 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.
Clinton Presidential Campaign 1992 -- \$750;
Clinton Presidential Campaign 1996 -- \$1000;
Democratic National Committee 1992 -- \$1200.
Democratic Congressional Campaign Committee.
Senate Campaign Committee.

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.)**

Phi Eta Sigma (Political Science Honorary), University of North Carolina;
Phi Beta Kappa (Junior year), University of North Carolina;
Cum laude (Political Science), University of North Carolina;
Special Parent Tribute, Yeshiva Mir Yerushalayim (January 17, 1999);
Public Service Award, American Jewish Committee (1999);
Patriot of the Expatriates Award, American Business Council of the Gulf Countries (May 1998);
Raoul Wallenberg Award, Endowment for Democracy in Eastern Europe (1998);
Honorary Doctor of Laws, Yeshiva University (1998);
Courage and Conscience Award, Israeli Knesset (1998);
The Remembrance Award, The Friends of the New England Holocaust Memorial (December 18, 1997);
Transatlantic Leadership Award, The European Institute (November 21, 1997);
International Humanitarian Award, American Jewish Joint Distribution Committee (October 14, 1997);
Moral Statesman Award, The Anti-Defamation League (May 20, 1997);
Ohev Israel Award, Ariel American Friends (March 18, 1997);
B'nai B'rith Philip Klutznick Award for Outstanding Public Service (1997);
Foreign Affairs Award for Public Service, U.S. Department of State (February 1996);
Hadassah, Luxembourg (1994);
Man of the Year, Yeshiva High School, Atlanta, GA (1993);
Order of the Old Well, University of North Carolina (1984);
Hadassah-Florida Atlantic Region, Myrtle Wreath Award (1991);
Hadassah-Southern New England Region, Tree of Life Award (1989);
The Academy of Jewish Religion, Jewish Leadership Award (1989);
Man of the Year Award from National Capital Association, B'nai B'rith Lodges (1982);
Award for Outstanding Service to Summer Youth Program, U.S. Department of Labor (1980);
Award for Outstanding Service, Hebrew Aid Immigration Society (1980);
Award for Outstanding Service, Opportunities Industrialization Centers (1979);
Award from Washington International Business Council (1978);

Award from National Coalition of Involved People (1977);
 Leaders of Atlanta, Atlanta Magazine (1976);
 Young Man of Year Award for Leadership, American Association for
 Jewish Education (1973-1974).

Who's Who in America; Who's Who in American Lawyers; Who's Who
 in American Jewry; Who's Who in World Jewry; Who's Who in American
 Politics; Who's Who in the World

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)
 See attached.

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.)
 See attached.

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

The areas of responsibility under the jurisdiction of the Deputy Secretary for the U.S. Department of the Treasury are ones in which I have had considerable experience. During my White House years as chief domestic policy adviser to President Carter I dealt extensively with a broad range of business, economic, and trade issues. All trade issues came to me before going to the President for decision, I was deeply involved in general trade policy, participated in interagency meetings chaired by USTR on trade issues, and was involved in discussions involving particular trade disputes. I developed a close and regular working relationship with the American business community, meeting with senior officers from a wide variety of U.S. corporations, having regular structured dialogues with representatives from organizations such as the Business Roundtable, U.S. Chamber of Commerce, National Association of Manufacturers, and the NFIB, as well as representatives of minority and women's businesses. Likewise, on economic issues, I was an ex-officio member of the Economic Policy Group and participated in virtually all domestic and international economic issues.

In private life, I wrote extensively on economic, trade, and competitiveness issues and have been involved in a variety of public policy groups and efforts looking at these issues.

From 1993 to 1996 I was the U.S. Representative to the European Union. For my work, I was awarded the highest award a non-career Ambassador can receive by Secretary of State Christopher. In this capacity I worked extensively and deeply on a variety of trade issues: the Uruguay Round; the U.S.-Euratom Treaty governing trade in civilian nuclear items; the 24:6 enlargement negotiations; a variety of sectoral issues from opposition to EU audio-visual quotas to the EU's banana regime. I have worked extensively with U.S. business interests on a variety of issues to improve market access, such as modifying the ETSI standards of the EU. I also worked directly with the Department of Commerce on negotiating Mutual Recognition Agreements with the EU, organizing the Transatlantic Business Dialogue between leading U.S. and European business leaders in Seville, and the ecolabel issue which threatens to become a non-tariff barrier to U.S. products. I worked very closely with the EU Committee of the U.S. Chamber of Commerce in Brussels and with an extensive number of U.S. businesses with problems in the European marketplace.

As the Under Secretary for International Trade at the U.S. Department of Commerce from April 1996 to June 1997, I got substantial management experience with an organization of over 2200 employees, including some 1500 Foreign Commercial Service officers abroad. I worked extensively with Ambassadors and trade ministers from a variety of countries to promote U.S. exports and reduce barriers to U.S. products and services, and traveled to many foreign countries in this capacity. Moreover, I have attempted to bring the private sector resources of the United States to bear in areas of high foreign policy interest—such as promoting the peace process in the Middle East, Northern Ireland, and Bosnia. I created the first unit to monitor foreign compliance with U.S. trade and economic agreements.

I have obtained additional financial and foreign policy experience through two special roles. Since early 1995 I have been the Special Envoy for Property Claims in Central and Eastern Europe. In this capacity, I have traveled to 11 countries in Central and Eastern Europe and the former Soviet Union to encourage the restitution of communal and private property belonging to the Jewish community and to the church groups and private property owned by U.S. citizens. I have met extensively with senior ministers in each of these countries. I have also helped negotiate the settlement of suits by Holocaust victims against Swiss banks; coordinated two massive U.S. government studies on Nazi gold flows and the role of neutral countries in World War II; coordinated the December, 1998, Washington Conference on Holocaust-Era Assets; have led efforts to promote Holocaust education worldwide; and am now helping to

deal with slave and forced labor issues in Germany. I have dealt with senior Swiss, German, Israeli, and Polish officials in this latter capacity.

From 1996 to 1997, I was the Special Representative for the President and Secretary of State for the Promotion of Democracy in Cuba. I have traveled some 50,000 miles, gone to 12 capitals, and met with Foreign Ministers, Economic Ministers, and other senior ministers in Europe, Latin America, and North America to encourage a more active effort to promote Democracy and human rights in the sole remaining totalitarian regime in the Western Hemisphere. I have gone around the world defending the Helms-Burton Act. I have remained involved in these issues while at the State Department.

Following U.S. Senate confirmation on May 22, 1997, on June 6, 1997, I was sworn in as Under Secretary of State for Economic, Business and Agricultural Affairs. The Under Secretary serves as the senior economic official at the Department of State. I advise the Secretary on international economic policy and lead the work of the Department on issues ranging from trade and aviation negotiations to bilateral relations with major partners such as Japan and the European Union, and on economic sanctions. I retain my title and responsibilities as Special Envoy for Property Claims in Central and Eastern Europe. I likewise remain a leader within the Administration in promoting democracy and human rights in Cuba.

I also intend to work closely with the Congress if confirmed. In both public and private life I have extensive experience in working with Congress and personally know a wide variety of Members and their staffs of both political parties.

All of this experience will serve me well in the position for which I have been nominated.

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.

Not applicable. I will retain my title and responsibilities as Special Envoy for Property Claims in Central and Eastern Europe (for the U.S. Department of State). I likewise will remain a leader within the Administration in promoting democracy and human rights in Cuba.

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.
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.
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.

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.
In order to avoid even the appearance of a conflict, because I own securities issued by the United States Treasury, I have decided to recuse myself from participating in Treasury debt management issues. In addition, if I am confirmed, my spouse and I will divest our holdings in the banking, energy, utilities, and real estate industries.
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.
None.
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.
See attached.

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.)

I am unaware of any potential for a conflict of interest to arise in light of the commitments I have made (see C.1. above). However, if a conflict should arise in the future in connection with my performance of duties as Deputy Secretary, I will consult promptly with Treasury's ethics counsel in order to comply with all applicable laws and regulations.

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.
No.
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.
No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.
See attached.
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.
No.
5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.
None.

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.
2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?
Yes.

Chairman Roth

Q: You have been closely involved in discussions with our European trading partners on sanctions issues. What lessons would you draw from that experience for future sanctions policy now that you will be responsible, as Deputy Secretary of Treasury, for administering most of our economic sanctions? Moreover, what are your views about balancing the promotion of free trade with legitimate concerns about how some of our trading partners handle human rights in their countries?

A: One key lesson I have drawn from my experiences with the EU and as Under Secretary of Commerce and State is the central importance of the President having adequate waiver authority to impose sanctions with flexibility and discretion. Sanctions can be an important foreign economic policy tool if used to enhance U.S. negotiating leverage to effectively influence another country's behavior. The discretion provided by both Title III of the Helms-Burton Act and the Iran-Libya Sanctions Act greatly contributed to our ability to advance the objectives of those acts. The absence of such flexibility in the Glenn Amendment initially threatened to undermine our negotiating position until that was recognized by Congress and the law was amended to give the President waiver authority. Without adequate waiver authority based on U.S. national interests, the President may be forced to engage in counterproductive unilateral sanctions that damage U.S. interests without accomplishing the objectives set forth by Congress.

We believe that we can actively pursue both the promotion of free trade and initiatives to improve human rights practices. Where we see a problem, I believe that we should engage in a serious bilateral dialogue with the offending country and employ all our diplomatic and political tools to try to persuade the country to change its ways. Through such dialogue, we should hold the offending country accountable to international standards for the protection of human rights. If bilateral dialogue is ineffective, we should pursue the issues multilaterally. For example, at the same time as we have pursued a strong open trade agenda, the Administration has played a leading role at the UN Human Rights Commission, where we have introduced or supported human rights resolutions on countries including Cuba, China, Iran, Sudan, and others.

There may be times when sanctions are appropriate, but sanctions should not be our weapon of first resort in dealing with foreign conduct contrary to our national interest. If our diplomatic and political efforts fail, we should make a maximum effort to develop a multilateral sanctions regime. These are most likely to be effective - for example, against South Africa's apartheid, Saddam Hussein, or Serbia before the Dayton Accords - with the least collateral damage to U.S. business and agricultural interests. But if we are unable to put such a regime together, we must be prepared to impose sanctions unilaterally if important American national interests are sufficiently threatened.

Question: The euro has dropped considerably against the dollar since its creation in January to the point where the euro is now trading essentially one-to-one for the dollar. Is that slide likely to continue for the foreseeable future and what effect will that have on our trade with Europe?

Answer: As Secretary Rubin has said, ultimately, exchange rates tend to move according to economic fundamentals and to market perceptions of those fundamentals.

Many analysts suggest that financial flows out of euros this year have come in response to two main factors. First, U.S. economic growth was stronger than some expected, while European economic growth was less buoyant than some expected. Secondly, there are indications that, partly in response to this, some investors have adjusted downward their portfolio holdings of euro-denominated assets or slowed their acquisitions of such assets.

Some analysts now believe that there is some evidence of improvement in European economic activity. Strong domestic demand-led growth is needed in Europe to contribute to a reduction in global imbalances. What is important for the long-term success of the EMU and the euro is that it be supported by credible macroeconomic policies, structural reforms, and the establishment of a more dynamic economy across Europe. A successful European Monetary Union that contributes to prosperity in Europe would be in the interest of the U.S.

Question: I applaud the steps the G8 has taken in fashioning debt relief for the developing world. It appears to me, though, that the most important factor in spurring economic growth in these countries is not debt relief, but sound market-oriented economic policies by their governments. Do you see the G8 debt-relief plan as doing anything to further sound economic policies in these developing countries?

Answer: We agree that sound economic policy, including the need for good governance and transparency, is the key to sustainable economic growth and the best way to reduce poverty. Economic reform and well-designed poverty reduction plans, backed by financial support and debt reduction, will create the basis for long-term economic growth. Without sound economic policies, many countries would slide back into the problems of high debt and slow growth that now hinder their development and impoverish their populations.

Under the G-8 HIPC proposal, the timing of debt relief will depend on how rapidly countries adopt economic reforms. The quicker a country embraces economic reform, the shorter the time necessary to qualify for debt reduction. To help direct the benefits of debt reduction and reform toward the poor, we have asked the IMF in collaboration with the World Bank and beneficiary countries, to integrate poverty reduction plans into the design and implementation of the IMF's Enhanced Structural Adjustment Facility (ESAF).

Q: Many of the trade disputes we have had with the European Union seem to stem from the inability of the EU, as an institution, to deal with issues before they develop into full-scale conflicts. Had the EU been able to respond with more flexibility, I am convinced that the bananas dispute would not have reached the level of acrimony that it did. Do you have any thoughts about the institutional development of the EU? Do you think we are destined to repeat the bananas experience in future areas of disagreement?

A: We are working with the EU directly to find ways to improve our ability to identify and resolve at an early stage those issues that have the potential of creating bilateral disputes. Avoiding trade disputes like bananas is one of the primary roles of the Transatlantic Economic Partnership (TEP) Steering Group that was created late last year.

In order to build further on this idea and to have a consistent policy over the full range of bilateral issues, we announced a common approach on "Early Warning" at the June 21 U.S.-EU Summit. Our joint statement outlines principles and mechanisms for the early identification and resolution of bilateral disputes. It calls on each side to improve its own internal, interagency coordination, so as to better identify early on those economic, political, and global policies that might cause U.S.-EU bilateral tensions.

We intend to work intensively over the next half year, both among U.S. Government agencies and with the EU side, to implement the statement and to improve its mechanisms if needed. We will also invite the various transatlantic dialogues to participate in the Early Warning process. Participation by the Transatlantic Legislative Dialogue (TLD) would be especially valuable. Ultimately, what matters is whether the EU is willing to make objective regulatory decisions based on sound science and to fully comply with WTO requirements.

There are also now tremendous changes taking place in the EU. By creating a more efficient Commission that is more responsive to the European electorate, these reforms could help increase EU decision-making transparency and effectiveness. This may well help decrease the likelihood of transatlantic disputes.

Question: A key purpose of the Administration's Social Security lockbox proposals is to completely eliminate the public debt by 2015. However, there are other important uses for U.S. Treasury securities besides financing Federal government deficits. For example, the Federal Reserve buys and sells Treasury securities as one tool in implementing monetary policy. Treasury securities also serve as the fundamental pricing benchmark for virtually all debt capital markets. What would you identify as key uses of Treasury securities other than financing Federal debt, and what impact would you expect the elimination of all public debt would have on these other uses?

Answer: Treasury securities do serve as a fundamental pricing benchmark across the yield curve for virtually all debt markets, domestic and international. The Treasury market is the largest, most liquid and most efficient in the world. Treasury securities are risk free and are issued across the yield curve, appealing to the broadest range of investors. These characteristics also make Treasury securities the principal hedging instruments across the markets. This is a utility function that Treasury securities provide to the world markets.

However, the capital markets are also adaptable. As the supply of Treasuries dwindles in the future, as we gradually reduce the debt held by the public, there would be a ready supply of securities of other issuers including high quality corporations and government-sponsored enterprises that would likely become benchmarks for the broader markets. We believe that the capital markets will adjust, as they have done time and time again, as the balance of borrowing shifts to a greater volume of private financing.

The Federal Reserve currently uses Treasury securities to conduct open market operations, but it has not always been that way, nor would it have to be in the future. Prior to the 1960s, in addition to Treasury bills, the Federal Reserve used private sector debt, such as bankers acceptances and commercial paper, to conduct open market operations and to increase the size of its portfolio. As with other market participants, the Federal Reserve would adapt to such a changing environment by substituting other debt securities for Treasuries.

**STATEMENT OF JEFFREY RUSH, JR.
NOMINEE FOR INSPECTOR GENERAL
BEFORE THE SENATE FINANCE COMMITTEE**

Good Morning, Mr. Chairman, Senator Moynihan, and members of the Committee. It is an honor for me to appear before this Committee as the President's nominee for the position of Inspector General for the Department of the Treasury.

I am pleased that my wife Dawn could join me today. This is the second time that the President has nominated me for a position requiring the advice and consent of the Senate. As a career civil servant, there is no higher honor.

I have spent the past five years serving the Administration and the Congress as the Inspector General at the U.S. Agency for International Development (USAID). During that period, my staff has completed more than 1900 audits and more than 290 investigations. Our audit work has resulted in about \$250.7 million in questioned cost and funds put to better use. Our investigations have resulted in 12 criminal convictions, 15 civil actions, 230 administrative actions, and about \$11.9 million in monetary recoveries. The USAID Office of Inspector General (OIG) has made important contributions to the agency's sustainable development and humanitarian assistance efforts.

My public service began in August 1968, when I joined the U.S. Army. Following basic combat training, I received training as a counterintelligence agent at the U.S. Army Intelligence Training School, Fort Holabird, Maryland. From February 1969 until July 1971, I conducted background investigations, and other domestic counterintelligence duties, including dignitary protection and facilities security.

My career in the civil service began in August 1971 as a special agent with the OIG, U.S. Department of Agriculture (USDA). I received my training as a criminal investigator from the Federal Law Enforcement Training Center. From August 1971 until November 1975, I conducted a wide range of complex and sensitive investigations. I served as a supervisory special agent from December 1975 until December 1978. I completed 30 hours towards a graduate degree in Administration of Justice during the years that I worked as a supervisory special agent in the USDA OIG's Kansas City Regional Office.

From December 1978 until June 1980, I served as the Assistant Regional Inspector General and from June 1980 until October 1983, I served as Regional Inspector General for the USDA OIG's Chicago Regional Office. In October 1983, I was promoted into the Senior Executive Service as the Deputy Assistant Inspector General for Investigations. From October 1983 until August 1994, I shared the responsibility of managing more than 300 employees engaged in investigative and law enforcement operations. From 1986 to 1990, I attended law school at night at the George Mason University School of Law. I received my Juris Doctor degree in May 1990. I was admitted to the Virginia State Bar in October 1990, the District of Columbia Bar in February 1991, and the Supreme Court of the United States in November 1993.

If confirmed by the Senate, I will work to establish an office capable of meeting its statutory responsibilities, and contributing to the performance of the Department of the Treasury. I will work closely with the Treasury Inspector General for Tax Administration to ensure that the Department is well served by our respective offices. I have known Inspector General David C. Williams for more than a decade, and I look forward to working with him.

That concludes my statement. I would be pleased to answer any questions that you have. Thank you.

The White House,

MAY 13 1999

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To the

Senate of the United States.

I nominate

Jeffrey Rush, Jr., of Virginia, to

be Inspector General, Department of the Treasury, vice David

C. Williams.

William J. Clinton

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

May 12, 1999

**PRESIDENT CLINTON NAMES JEFFREY RUSH, JR. AS INSPECTOR GENERAL
AT THE DEPARTMENT OF THE TREASURY**

The President today announced his intent to nominate Jeffrey Rush, Jr. to serve as Inspector General at the Department of the Treasury.

Mr. Jeffrey Rush, Jr., of Fairfax Station, Virginia, has over three decades of experience in military intelligence and criminal law enforcement. Since August 1994, he has served as the Inspector General of the United States Agency for International Development. From 1983-1994, he served as Deputy Assistant Inspector General for Investigations at the U.S. Department of Agriculture. Mr. Rush began his career as a criminal investigator with the Office of Inspector General at USDA in 1971. He served as a military intelligence specialist in the U.S. Army from 1968-1971. He is a graduate of Baker University, and received a J. D. degree from George Mason University Law School.

The Inspector General Act of 1978 created independent and objective units in each of the Departments of the Executive Branch to conduct and supervise audits and investigations concerning the programs and operations of the Department.

SENATE FINANCE COMMITTEE

STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**
Jeffrey Rush, Jr.
2. **Position to which nominated:**
Inspector General, Department of the Treasury
3. **Date of nomination:**
May 13, 1999
4. **Address: (List current residence, office, and mailing addresses.)**

9357 Braymore Circle (Residence) Fairfax Station, VA. 22039	USAID (Office) 1300 Pennsylvania Avenue, N.W. Room 6.06D Washington, D.C. 20523-6600
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5. **Date and place of birth:**
September 1, 1946; Kansas City, Kansas
6. **Marital status: (Include maiden name of wife or husband's name.)**
Married: Dawn C. Rush, Nee: Gadson
7. **Names and ages of children:**
Daughter: Logan E. Rush, Age 18
Son: Christopher G. Rush, Age 15
8. **Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)**

Washington High School, Kansas City, KS. - 1962-1964, Diploma, May 1964
Baker University, Baldwin, KS. - 1964-1968, Bachelor of Music Education, May 1968
George Washington University, Washington, D.C. - 1973, No Degree
Wichita State University, Wichita, KS. - 1977-1979, 1981, No Degree
George Mason University, Fairfax, VA. - 1986-1990, Juris Doctor, May 1990

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.)**

August 1, 1968 to July 31, 1971: Personnel Security Specialist, 116th Military Intelligence Group, U.S. Army. I conducted background investigations and performed other domestic counterintelligence duties. I was assigned to positions in Washington, D.C. and San Francisco, CA.

August 9, 1971 to October 29, 1983: Criminal Investigator and Supervisory Criminal Investigator, Office of Inspector General (OIG), U. S. Department of Agriculture (USDA). I served in various positions of responsibility from GS-9, Special Agent to GM-15, Regional Inspector General for Investigations. I conducted and supervised investigations and law enforcement activities relating to the programs and operations of the USDA. I was assigned to positions in Hyattsville, MD; Kansas City, MO; and Chicago, IL.

October 30, 1983 to February 21, 1993: Deputy Assistant Inspector General for Investigations, OIG, USDA, in Washington, D.C. I served in a career reserve position in the Senior Executive Service, and shared responsibility for the management of approximately 320 employees and the supervision of the investigative and law enforcement authorities administered on behalf of the Secretary and the Inspector General.

February 22, 1993 to March 4, 1994: Acting Inspector General, Peace Corps of the United States in Washington, D.C. I was appointed by the Acting Director. The Peace Corps is an independent executive agency that recruits, trains, and supports more than 6,000 volunteers who serve in more than 95 foreign countries. The Peace Corps OIG was established in 1989 and is made up of auditors, investigators, and program analysts.

March 5, 1994 to September 4, 1994: Deputy Assistant Inspector General for Investigations, Office of Inspector General, U.S. Department of Agriculture.

September 4, 1994 to Present: Inspector General, U.S. Agency for International Development (USAID) in Washington, D.C. I was appointed by the President and confirmed by the Senate to direct the USAID audit, investigations, and security programs. USAID is an independent, executive agency that administers foreign assistance programs (economic and development assistance) and the U.S. foreign disaster assistance.

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.)

I have more than 30 years of experience in counterintelligence, criminal investigation, and federal law enforcement. I have served as a senior executive since 1983. See response to Question 9.

11. **Business relationships:** (List all positions held 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.)

None

12. **Memberships:** (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

President's Council on Integrity and Efficiency	1994 to Present
Executive Council on Integrity and Efficiency	1993 to 1994
Senior Executive Association	1983 to Present
Association of Government Accountants	1995 to 1996
Federal Criminal Investigators Association	1980 to 1982
National Bar Association	1990 to 1991
American Bar Association	1990 to Present
Virginia State Bar	1990 to Present
Fairfax County Bar Association	1991 to 1994
District of Columbia Bar	1991 to Present

13. **Political affiliations and activities:**

- a. **List all public offices for which you have been a candidate.**

None

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

None

- 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.**

None

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.)

During my three years of active duty, I received four letters of commendation, a certificate of achievement and the Army Commendation Medal. During my 23 years of career service, I received numerous performance awards.

15. **Published writings:** (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

None

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.)

None

17. **Qualifications:** (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

My training includes successful completion of the U.S. Army Intelligence School, the Federal Law Enforcement Training Center, and the Federal Executive Institute. I have more than 30 years of criminal investigative and counterintelligence experience. I have served in Senior Executive Service positions in the U.S. government since 1983.

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.

Not Applicable

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

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

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

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.**

None

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.**

None

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.**

None

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.)**

I do not believe that any of my responses to the items in this questionnaire raise the issue of a conflict of interest. However, if I become aware that there may be a potential for a conflict of interest to arise in connection with the performance of my official duties following my appointment as the Treasury's Inspector General, I will consult promptly with Treasury's ethics counsel in order to comply with all applicable laws and regulations.

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.

As a federal supervisor/manager since 1973, I have been involved in routine employee grievances and administrative appeals. I have never engaged in or been found guilty of any misconduct or wrongdoing.

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.

No

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

Yes. See response to Question 1.

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.**

No

5. **Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.**

None

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

2. **If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?**

Yes

**ADDITIONAL QUESTIONS FOR MR. RUSH
(SUBMITTED BY SENATOR ROTH)**

Senator Roth

Question 1: What is your assessment of the current investigative and audit functions within the Treasury IG? Do you plan to continue with the reorganization efforts begun by the former IG David Williams? What other organizational and operational changes do you believe are warranted?

Mr. Rush: I have not had an opportunity to conduct a first hand assessment of current operations. However, I have had the benefit of assessments by former IG Dave Williams and Acting IG Larry Rogers. I believe that they have made significant progress in refocusing both the audit and investigations offices. I am particularly pleased with the reorganization efforts of former IG Williams and the increased staffing and resources available to the investigative programs. Until I have had an opportunity to complete my own assessment, I am unable to discuss any additional changes.

Senator Roth

Question 2: You indicated that the Treasury IG office is moving in the right direction. What do you need to do to keep that momentum? What do you see as your biggest challenges? What are your top priorities?

Mr. Rush: As stated in my response to Question 1, my views concerning the Treasury office are generally based upon my discussions with former IG Williams and Acting IG Rogers. In the past eight months, they have brought a sense of purpose and vision to an office that had been the object of public criticism.

My biggest challenge will be to continue to bring leadership to the office. My top priorities will be to immediately engage the Department and the Office of Management and Budget to:

1. Formulate the upcoming FY 2001 budget;
2. Assess senior and middle management within OIG to determine what, if any, staff changes should be considered;

3. Assess the OIG's organizational structure and resource allocations to ensure that each office can meet all of its responsibilities.

Senator Roth

Question 3:

I have been concerned about morale in the Treasury IG office, and about the office's ability to recruit and retain top talent. Are those problems, and if so, how do you plan to address them?

Mr. Rush:

There is no doubt that morale in the Treasury IG was very low prior to the appointment of former IG Williams. However, in my meetings with him, with Acting IG Rogers, and with many of the OIG Washington senior staff, I have witnessed an improvement in agency morale. In the recent past, a number of talented, senior criminal investigators have been recruited to manage field investigative operations. I will continue the efforts of former IG Williams and Acting IG Rogers to recruit and retain talented professionals for the Treasury OIG.

Senator Roth

Question 4:

Are there any specific steps that you would take to encourage whistleblowers to identify problems in the Department? Moreover, do you view retaliation against whistleblowers as a problem, and if so, what specific steps would you take to ensure that it does not occur on your watch?

Mr. Rush:

I am prepared to take a number of actions to encourage whistleblowers to identify and to report problems to my office. Among other things, we must inform employees of their right and responsibility to bring complaints to the OIG. Departmental publications and OIG publications should constantly remind employees that they can come to us with such complaints. I will ensure that the OIG is organized and staffed in such a way to receive anonymous complaints, and to receive other complaints that may require the protection of the employee's identity.

I consider retaliation against whistleblowers to be a very serious matter. I am prepared to take action both within the Department and in my relationships with the Congress to protect any whistleblowers from such retaliation.

Senator Roth

Question 5: Are you committed to maintaining effective communication between Congress and your office? What will you do to ensure that Congress, particularly the responsible committees like this one, are kept informed about the activities of your office?

Mr. Rush:

I believe it is vitally important for the OIG to establish and maintain communications with the Congress. The Inspector General Act of 1978 requires that the Congress be "fully and currently informed about problems and deficiencies" relating to the programs and operations of the Department.

In addition to our Semiannual Report to the Congress, I plan to routinely provide copies of audit reports of particular interest to the Members and their staffs on a regular basis. To the extent permitted by law, I will also provide copies of investigative reports. However, effective communication requires more than reporting to the Congress after we have completed work. To ensure that the Congress is informed and engaged with our OIG, I will direct that our annual work plan and strategic work plans be the subject of discussion between OIG managers and the appropriate committee staffers.

My staff and I will always be available to meet with Members and committee staffers to respond to any questions or issues of interest.

Senator Roth

Question 6: At the Finance Committee's recent hearings into the U.S. Customs Service, Michael Tarr of the Treasury IG office acknowledged that the Treasury IG had failed to effectively identify and address problems at Customs' Internal Affairs. He stated, "The problems we found in our review of Customs are issues which the OIG should have identified over the years. Had a thorough oversight process

occurred, some of the problems would have been identified sooner, and others less likely to have occurred as a result."

Please explain your view of the role of the Treasury IG in monitoring and overseeing the Department's three law enforcement bureaus - Customs, the Bureau of Alcohol, Tobacco, and Firearms, and the Secret Service? How will you ensure that the internal affairs/inspection offices within the bureaus are able to identify and pursue allegations of misconduct and corruption? In addition, how will you ensure that the investigative work conducted by the Treasury IG does not duplicate investigations conducted by the bureaus' internal affairs offices?

Mr. Rush:

The OIG is responsible for developing, referring, monitoring, and evaluating internal investigations. The OIG currently conducts periodic oversight reviews of the internal affairs offices of Treasury's law enforcement bureaus. To accomplish these reviews, the OIG has initiated semi-annual inspections to determine the internal quality control structure that is in place relative to investigative standards and reports to ensure proper investigative case review by management. The OIG will report the results of oversight reviews to the appropriate office or bureau head for corrective action. If the OIG considers the proposed corrective action to be inadequate, we will advise the Secretary/Deputy Secretary and the appropriate Committees of Congress.

The OIG has begun reviewing and coordinating with the internal affairs offices on all allegations of employee misconduct and corruption. The OIG will make determinations on a case-by-case basis as to which cases it will investigate and which cases will be investigated by the internal affairs offices.

**STATEMENT OF LEWIS ANDREW SACHS
NOMINEE FOR ASSISTANT SECRETARY OF THE TREASURY
FOR FINANCIAL MARKETS
BEFORE THE SENATE FINANCE COMMITTEE**

Mr. Chairman, Senator Moynihan, Members of the Committee, I am honored to appear before you today as you consider my nomination to be Assistant Secretary of the Treasury for Financial Markets. I am pleased to have my family with me today: my wife Whitney and our twin daughters Julia and Kathryn, my parents, Jo Ann Werbel and Franklin Sachs and my grandmother Ida Sachs.

It is truly an honor to have been nominated by the President for this position. I am particularly grateful to Secretary Rubin and Deputy Secretary Summers for their strong support and for the confidence they have expressed in me by supporting my nomination. They have assembled a truly talented group of professionals at the Treasury Department and it is my earnest desire to be able to make a further contribution to their efforts.

Before arriving at Treasury a short time ago, I spent 13 years at the Investment Banking firm of Bear, Stearns & Co., including 7 as a Senior Managing Director and Head of Global Capital Markets. In that capacity, I gained broad experience in many areas of the financial markets, including trading, underwriting, research and investment banking. In particular, one of my areas of focus was advising some of the world's largest corporate borrowers as to the most efficient manner in which to finance their operations in the increasingly complex global capital markets.

For the past ten months, it has been my privilege to serve at the Treasury Department as Deputy Assistant Secretary for Government Finance Policy. During this time, Treasury has been deeply involved in a variety of issues that are vital to our national economic well-being and to the global financial system. If confirmed as Assistant Secretary, I would welcome the opportunity to continue to apply my 13 years of financial market experience to help address the wide array of issues facing the Treasury Department. In particular, I would be committed to promoting the competitiveness and efficiency of our financial markets and to ensuring that we continue to successfully meet the new debt management challenges associated with an age of surplus.

It is an honor to appear before this Committee today and, if confirmed, I look forward to working closely with this Committee and the rest of the Congress. Thank you Mr. Chairman. I would be pleased to answer any questions that you or other members may have.

The White House,

May 20,

1999

To the

Senate of the United States.

I nominate

Lewis Andrew Sachs, of Connecticut,

to be an Assistant Secretary of the Treasury, vice Gary

Gensler.

William J. Clinton

**SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**
Lewis Andrew (Lee) Sachs
2. **Position to which nominated.**
Assistant Secretary of the Treasury (Financial Markets)
3. **Date of nomination:**
May 20th, 1999
4. **Address: (List current residence, office, and mailing addresses.)**

<u>Residence</u> 11 Broadview Road Westport, CT 06880	<u>Office</u> Department of Treasury 1500 Pennsylvania Ave., N.W. Rm. 2412 Washington, D.C. 20220
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5. **Date of and place of birth:**
August 21, 1963 in East Orange, NJ
6. **Marital status: (include maiden name of wife or husband's name.)**
Married - Whitney Dickinson Sachs
nee: Whitney Dickinson
7. **Names and ages of children:**
Julia Dickinson Sachs, 3
Kathryn Kyle Sachs, 3
8. **Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)**
Denison University, 1981 - 1985 B.A. 1985 Economics

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.)

6/85 - 6/98 The Bear, Stearns Companies, Inc.
245 Park Avenue
New York, NY 10167

<u>Years</u>	<u>Title</u>
7/91 - 6/98	Senior Managing Director, Head of Global Capital Markets
9/90 - 7/91	Managing Director
8/89 - 9/90	Associate Director
5/87 - 8/89	Vice President
6/85 - 5/87	Associate

8/98 - present Department of the Treasury
Deputy Assistant Secretary (Government Financial Policy)

10. Government experience: (List any advisory, consultative, honorary, or other part-time services or positions with Federal, State or local governments, other than those listed above.)

None

11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, or other enterprise, or educational or other institution.)

Denison University - Trustee, 5/95 - present
Bear, Stearns & Co., Inc. - Director, 10/97 - 6/98 (Broker Dealer)
The Bear, Stearns Companies, Inc. - Director, 10/95 - 10/97 (Holding Company)
Angiosonics, Inc. - Director, 6/97 - 1/99
Divecom Ltd. - Director, 3/98 - 1/99

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Bond Club of New York: 4/92 - Present
Bond Market Association, Corporate Bond Executive Committee: 1996 - 1998
Investment Association of New York: 1987 - 1998
Denison University, Trustee: 5/95 - present

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

None

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

None

- 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.

October 1990	Bear Stearns & Co. PAC	\$ 500.00
October 1991	Friends of Senator D'Amato	250.00
November 1991	Bear Stearns & Co. PAC	1,100.00
December 1991	Liz Holtzman for Senate	250.00
October 1992	Bear Stearns & Co. PAC	1,950.00
October 1993	Bear Stearns & Co. PAC	400.00
November 1993	Healy for Senate	1,000.00
October 1994	Moynihan Committee, Inc.	1,000.00
March 1995	Friends of Senator D'Amato	1,000.00
May 1995	Lugar for President Comm., Inc.	1,000.00
October 1995	Evan Bayh Committee	500.00
April 1996	Friends of Schumer	1,000.00
June 1996	DNC Services Corp./DNC	5,000.00
August 1996	Bear Stearns & Co. PAC	500.00
September 1996	Clinton/Gore '96	1,000.00
September 1996	Kerry Committee	500.00
May 1997	Schumer '98	500.00
June 1997	Evan Bayh Committee	1,000.00
December 1997	A Lot of People Supporting Tom Daschle	250.00

- 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.)**

Denison University

Pi Sigma Alpha - National Political Science Honor Society

President's Medal for Outstanding Leadership and Academic Accomplishment

15. **Published writings:** (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

None

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.)

None

17. **Qualifications:** (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

My qualifications include 13 years of experience in various aspects of the financial markets, including trading, underwriting, research and investment banking. Additionally, I have spent the past 8 months as Treasury Deputy Assistant Secretary (Government Financial Policy), and have become familiar with many of the issues on which I would be working if confirmed by the Senate.

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.**

My current employer is the Treasury Department.

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

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

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

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.**

I currently own securities issued by the United States Treasury. Treasury ethics officials have determined that there is a possibility that my interest in those securities may have conflict with some of the duties of the position of Assistant Secretary for Financial Markets. Accordingly, I have committed to sell those Treasury securities if I am confirmed as Assistant Secretary for Financial Markets.

- 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.**

I know of no such relationship, dealing or transaction that could result in a conflict of interest. I will consult with ethics counsel should any such issue arise.

- 3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.**

None

- 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.)**

While I am not aware of any conflicts of interest, should one arise, I will consult with ethics counsel to resolve any such issue.

- 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.**

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.

No

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.

No

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No

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.

No

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

N/A

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

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes

Chairman Roth

Q. In your opening statement, you mentioned debt management challenges associated with the age of surplus. Would you elaborate on that point, identifying some of the challenges and explaining how we are to meet them?

Answer:

Our nation's improving fiscal conditions have already prompted us to make several adjustments to the Treasury market borrowing program. These adjustments were made in line with Treasury's overall debt management goals: achieving the lowest cost of financing for the taxpayers, maintaining sound cash management, and promoting efficient capital markets.

The key challenge we face in the short term is to continue to meet these goals while reducing the debt and maintaining liquidity in our benchmark issues. We have been meeting this challenge by reducing the issue sizes of various offerings and adjusting issuance cycles and the instruments that we offer. For example, we have discontinued the issuance of 3-year notes and reduced the frequency of 5-year notes from monthly to quarterly issuance. We are considering reducing the frequency of other issues and have been discussing the possibility of buying Treasury securities in the market as another way to obtain greater flexibility in debt management. These changes will allow us to distribute the adjustments to our borrowing across the yield curve, while providing sufficiently large offerings to promote liquidity in our benchmark issues.

Finally, as we develop a longer term strategy, we must be cognizant of the secondary functions of Treasury securities, such as their utility as pricing benchmarks, hedging and investing instruments and tools of monetary policy. We look forward to examining this wide array of challenges and to formulating an effective long term strategy for managing down the size of our national debt.