

NOMINATION OF NEAL WOLIN

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

NEAL WOLIN, TO BE DEPUTY SECRETARY OF THE TREASURY

MAY 8, 2009



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CONTENTS

OPENING STATEMENTS

| | Page |
|---|------|
| Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Committee on Finance | 1 |
| Grassley, Hon. Chuck, a U.S. Senator from Iowa | 3 |

CONGRESSIONAL WITNESS

| | |
|---|---|
| Lieberman, Hon. Joseph, a U.S. Senator from Connecticut | 5 |
|---|---|

ADMINISTRATION NOMINEE

| | |
|---|---|
| Wolin, Neal, nominated to be Deputy Secretary of the Treasury, Department of the Treasury, Washington, DC | 6 |
|---|---|

ALPHABETICAL LISTING AND APPENDIX MATERIAL

| | |
|---|----|
| Baucus, Hon. Max: | |
| Opening statement | 1 |
| Prepared statement | 19 |
| Grassley, Hon. Chuck: | |
| Opening statement | 3 |
| Prepared statement | 21 |
| Lieberman, Hon. Joseph: | |
| Testimony | 5 |
| Schumer, Hon. Charles E.: | |
| Prepared statement | 23 |
| Wolin, Neal: | |
| Testimony | 6 |
| Prepared statement | 24 |
| Biographical information | 27 |
| Responses to questions from committee members | 36 |

**NOMINATION OF NEAL WOLIN, TO BE
DEPUTY SECRETARY OF THE TREASURY,
U.S. DEPARTMENT OF THE TREASURY,
WASHINGTON, DC**

FRIDAY, MAY 8, 2009

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

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

Present: Senators Cantwell and Grassley.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; Cathy Koch, Chief Tax Counsel; Ayesha Khanna, International Trade Counsel; and Mary Baker, IRS Detailee. Republican Staff: Kolan Davis, Staff Director and Chief Counsel; Mark Prater, Deputy Chief of Staff and Chief Tax Counsel; Jim Lyons, Tax Counsel; and Nick Wyatt, Tax Research Assistant.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The committee will come to order.

The author, Georges Bernanos said, "A thought which does not result in an action is nothing much, and an action which does not precede from a thought is nothing at all."

Today we have before us Neal Wolin, whom President Obama has nominated to be Deputy Secretary of Treasury. Mr. Wolin, in your new role you must be ready to both think and to act.

These difficult economic times demand action, but as Bernanos said, this action must be based on thought: creative thought, careful thought, deliberate thought. It must be based on thought that incorporates the lessons of the past and thought that envisions the potential of the future.

Mr. Wolin, you have shown yourself to be a thinker. You have spent several years in public service, both at the White House and as Deputy General Counsel and General Counsel at the Treasury. During this time you examined complicated financial, tax, and economic issues. You helped to guide Treasury through economic storms and economic growth. As Deputy Secretary, you must bring all of this experience to the table. This experience must guide your thinking, and this thinking must guide your actions.

Your thoughts and actions will have a direct effect on how quickly our country recovers its economic strength. As Deputy Secretary, you will help oversee our financial recovery. You must ensure that these plans are sound. You must also ensure that these plans are transparent. The American people deserve to know the purposes for which their taxpayer dollars are being used, and they must believe that their hard-earned money is being put to good use.

Your thoughts and actions will help to guide the Internal Revenue Service. We owe it to all Americans to ensure that all taxpayers pay their fair share of tax and file their returns in a timely manner. That is the only way we can begin to close the tax gap, which has been estimated at \$345 billion every year.

During these challenging economic times when demands on the budget are so great, the IRS must first collect all of the revenues that it is legally owed, we must pursue those who evade their taxes by improperly moving their assets offshore, and we should consider opportunities to reform the tax code in a fair and responsible way.

Your thoughts, your actions, along with those of this committee and this Congress, will help determine how to reform the tax code—no small matter. This week, as part of its budget, the administration announced several international tax proposals that will directly affect American multinational corporations. These proposals would change American companies' abilities to defer tax on foreign earnings, the calculation of foreign tax credits, the classification of foreign businesses, and the use of offshore tax havens by individuals.

As these proposals demonstrate, our international tax system is complex. We must approach fundamental changes to our tax code with thought and with care. We need to ensure that our tax policies are fair and support American businesses. We must design these policies to encourage economic growth and create jobs that Americans need and deserve.

Your thoughts and your actions will help drive America's international economic policy. Finding global solutions to our global crisis is as important as ever, whether coordinating recovery and regulatory efforts or using market-based reforms and sustainable growth.

Our economic relationship with China must top this international agenda, and its success requires sustained and energetic efforts by Secretary Geithner and at every level at the Treasury. We also need to reassess our relationship with Cuba. As Deputy Secretary, you will oversee the Office of Foreign Assets Control, otherwise known as OFAC. Despite Congress's clear intent to facilitate sales of American agricultural products to Cuba, OFAC continues to adhere to obsolete regulations that make it difficult for American farmers and ranchers to sell their products in a market just 90 miles from our shore.

Next week I plan to introduce a bill that will correct these policies and ensure that Montana's farmers and ranchers have reliable access to that market, and I hope you will work with me to further this important goal.

Mr. Wolin, the road ahead is difficult, but I believe that you will be able to navigate it. I expect you to do so with innovative and deliberative thought. Think before you act, and it is my hope and

belief that your thought will result in successful and decisive action.

Senator Grassley?

**OPENING STATEMENT OF HON. CHUCK GRASSLEY,
A U.S. SENATOR FROM IOWA**

Senator GRASSLEY. Yes. Thank you, Mr. Chairman.

I would begin, Mr. Wolin, by repeating something that I said to Secretary Geithner during his nomination hearing. I told Secretary Geithner that his Department possesses a great deal of power even in ordinary times, and that in these extraordinary times that position is even more powerful. So, I repeat that, because the same holds true for everything you are going to be doing as Deputy Secretary.

Mr. Wolin, if confirmed, you will potentially have a hand in everything Treasury does. Many of those policy areas are of special concern to this committee, but public debt, tariffs and trade, terrorist financing, as well as tax policy are all issues of great concern to the 23 of us on this committee. Of course, this is in addition to this committee's fundamental responsibility to exercise oversight over the Treasury Department. You probably are capable of the very steep learning curve that goes with this job, but there is one, and not much time to climb it.

This committee's oversight responsibilities and public debt concerns have converged in the TARP program, proving the need for strong oversight. From its creation, the TARP program was originally sold to Congress by the previous administration as a tonic to heal our economy by purchasing troubled assets, but instead became a toxin to free enterprise, as money was arbitrarily distributed without much transparency.

A few months ago some were saying that the \$700-billion TARP program could actually make money for taxpayers; however, in January of this year the Congressional Budget Office put a price tag on TARP of \$189 billion, but by late March revised that number upward to \$356 billion. I would not be surprised to see this number climb in the future, but already taxpayers seem to be losing more than half of their investment in the TARP program.

The massive and growing cost of the TARP program, combined with the cost of the economic stimulus package, have led to increased concern about the size of our deficit and our inability to budget responsibly. A common response to these concerns is to blame the previous administration, and there is some validity to that. The last administration did create a perilous budget situation and left a large budget deficit behind. But despite that, we are expected to end the current fiscal year with a deficit of \$1.7 trillion, according to our own Congressional Budget Office.

I think we can all agree that running large deficits is bad, but it simply does not follow that the remedy is to run even larger deficits. That \$1.7 trillion amounts to around 12 percent of GDP. To put that into perspective, the highest deficit level in the post-World War II period was 7.2 percent in 1946, and 6 percent in 1983. We are not just pushing the envelope when it comes to running a large deficit, but we are going into what I would consider uncharted territory, and I am not sure that we will be able to find our way back

to fiscal responsibility. I hope that reflating and inflation is not the response to accomplishing that.

I raised concerns about deficits in my written questions to Dr. Krueger, who was confirmed Wednesday as Treasury Assistant Secretary for Economic Policy. His response read, in part, "At 12.3 percent of GDP in FY2009, the budget deficit does reach a very high level, but the administration projects that the growing economy and the end of temporary spending measures and other policy developments will cause the deficit to decline sharply going forward."

Leaving aside the question of whether our recent spending spree will actually be temporary, I am concerned that relying on the economy to grow us out of the deficit may not be realistic given our approach to the Federal Government's revenues. As I have already said, Federal revenues—or what most people would call taxes—are a large part of this committee's jurisdiction, and we are approaching a crisis.

In addition to the usual constellation of tax provisions that expire on an annual basis, at the end of 2010 most of the bipartisan tax relief enacted in 2001 and 2003 will expire. President Obama has indicated that he supports making many parts of 2001 and 2003 tax relief permanent, but this is not the case on lower rates on capital gains and dividends.

So I come to the conclusion that, if we expect our economy to have any chance to grow us out of our deficit, we cannot penalize saving or investment. Furthermore, the stated willingness of the administration to raise taxes on taxpayers earning more than \$250,000 a year could be a serious blow to small business. Finally, any cap-and-trade tax would likely lead to massive increases in energy prices that would impact everybody, regardless of income level.

I am very concerned that the Nation's tax policy is being driven by a ravenous hunger for revenues rather than by a desire to promote economic growth. This hunger is, itself, derived from massive budget deficits and runaway spending that in many cases, as with the TARP program, are subject to a completely inadequate amount of oversight.

So it is imperative that you, as our next Deputy Secretary of the Treasury, assist Congress in conducting appropriate oversight into the TARP program, along with all other activities the Treasury Department is engaged in. This role was assigned to Congress by our U.S. Constitution, and the people I work for expect me to carry out that constitutional responsibility.

So I hope more serious thought is given to the short- and long-term budget and revenue pictures as well. I worry, and I am not the only one who worries that, instead of solving the problems we now have, we are creating more problems that will take generations to solve. Thank you for your willingness to serve the people of this country.

The CHAIRMAN. Thank you, Senator Grassley, very much.

I would now like to introduce our witness, but I see that we are joined by the Honorable Senator from Connecticut, Joe Lieberman, who would like to introduce the nominee. We are very honored to

have you here, Senator. Why don't you proceed and introduce the witness?

**STATEMENT OF HON. JOSEPH LIEBERMAN,
A U.S. SENATOR FROM CONNECTICUT**

Senator LIEBERMAN. Thank you very much, Mr. Chairman, Senator Grassley, Senator Cantwell. I am honored to be here to introduce Neal Wolin to this committee. He, in turn, will introduce his wonderful—and I might say large—family, those magnificently present today.

In the role for which Neal has been nominated, Deputy Secretary of the Treasury, he is coming to the Department, if confirmed, obviously, at a most critical time in its history. The Treasury Department is at the epicenter of our government's efforts to get our economy back on track, to get it creating jobs again, and restoring national and international confidence in our markets.

Just yesterday afternoon the Treasury Department released the much-anticipated results of the so-called "stress test" performed on some of the country's largest financial institutions. The good news is that most of the financial institutions have passed the stress test. I am sure we would all agree it is too early for them to go off their Lipitor, and probably particularly too early—perhaps they should never contemplate going back to the life of excess and over-indulgence and lack of discipline that put them in the condition that they have been in.

The Treasury Department will play a major role in the coming year in managing our Nation's finances, reducing budget deficits, bringing levels of public debt down to manageable levels, and providing the materials from which we here in Congress, with your leadership, can enact health care and, from other committees, energy and education reforms.

Mr. Chairman and Senator Grassley, you have stated a series of challenges that the Department faces. These are no small tasks. There is significant work to be done. I am proud to say, based on personal knowledge of the nominee, that President Obama, Secretary Geithner, and the entire country would be well-served by the impressive public and private sector experience that Neal brings to this position.

I would also add that there is a tendency among some to think that this Department is dominated by people in the Treasury Department whose experience begins and ends on Wall Street and who are separated from the lives of average Americans. Neal Wolin's story is a classic American story. His grandparents were immigrants. His grandfather was a shoemaker, grew up in a home where, as in our homes, he was instructed, if you work hard, you can go far in this country. His father is a lawyer.

He himself worked hard, went to Yale College, got a Master's at Oxford, graduated from Yale Law School, and almost immediately began a career in public service. He was Special Assistant to three Directors of the Central Intelligence Agency: William Webster, Robert Gates, and Jim Woolsey, also an Executive Assistant to the National Security Advisor, and then Deputy National Security Advisor during the Clinton administration. I think his national security background is unusual, but I think it can be a vital asset in help-

ing, in many ways, the Secretary to respond to the twin responsibilities of working internationally within the financial community, but also in combatting terrorist financing.

In addition to his impressive record in public service—and I apologize, I failed to mention, he went from all that to becoming Deputy General Counsel in the Treasury Department from 1995 to 1999 before being nominated by President Clinton and confirmed as General Counsel of the Treasury Department, a position he held from 1999 to 2001.

In 2001, he came to Connecticut, in which capacity I really got to know him better and more personally. He has worked at the Hartford Financial Services Group, serving first as executive VP and general counsel, but then, as has been the case throughout his career, Neal rose to become president and chief operating officer for property and casualty operations. That is a significant operation and gave him extraordinary management experience, which I think will serve him well in his leadership responsibilities at Treasury, if he is confirmed to be the Deputy.

In sum, Mr. Chairman, Senator Grassley, Neal Wolin would bring to this position an extraordinary intellect, remarkable public service experience, great integrity, tremendous work habits, and what I take to be an excellent capacity to work well with people in times that are stressful and times that are not, all of which should really enable him to serve our country in exactly the way we need him to do now. So, needless to say, I hope you will, after considering him fully, recommend him for confirmation to the full Senate.

I thank you for giving me this honor of introducing him to you this morning.

The CHAIRMAN. Thank you, Senator, very much. That was a very complete, comprehensive introduction, which we deeply appreciate.

Mr. Wolin, it is now customary for anybody nominated to introduce his family, so we would love to have you do so.

Mr. WOLIN. Thank you, Mr. Chairman. My wife, Nicole Elkon, and our son, Ethan Wolin, behind me. My other son, Oliver, I guess has left. My parents, Doris and Harry Wolin, and my in-laws, Mimi Liebeskind and Andre Elkon. Thank you so much for being here.

The CHAIRMAN. Why don't you all stand so we can all give you a round of applause and thank you for your contribution here, including Ethan. [Applause.]

STATEMENT OF NEAL WOLIN, NOMINATED TO BE DEPUTY SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. WOLIN. Chairman Baucus, Ranking Member Grassley, Senator Cantwell, it is an honor to come before you today. I want to thank President Obama and Secretary Geithner for the opportunity they have offered me to serve in the Department that is at the center of the administration's efforts to address this historic economic crisis.

If confirmed, I look forward to working closely with this committee, its staff, and the Congress as the Treasury Department implements the President's economic program and as we work to-

gether to heal our economy, modernize the regulatory system, and return America to the path of prosperity.

President Obama and Secretary Geithner have taken bold steps to revive our economy, stabilize the housing market, and increase the flow of credit to families, entrepreneurs, and small businesses. They are also committed to building a comprehensive regulatory framework that supports the dynamism of our economy, while ensuring that the American people are not again forced to suffer the consequences of a preventable catastrophe.

I look forward, if confirmed, to helping Secretary Geithner keep the Treasury Department running smoothly during these extraordinary times. The Treasury Department is a complex organization, and its 12 bureaus and more than 100,000 employees deserve strong management support as they work tirelessly on behalf of the American people on issues as diverse as domestic and international economic policy, tax policy and administration, consumer protection, national security, law enforcement, and more.

Please allow me to provide some brief background. I first entered public service during the administration of President George H.W. Bush as Special Assistant to Directors of Central Intelligence William Webster, Robert Gates, and Jim Woolsey. Under President Clinton, I served at the National Security Council, and later as Deputy General Counsel and General Counsel at the Department of the Treasury.

In 2001, I moved to the Hartford Financial Services Group, first as general counsel and subsequently as president and chief operating officer of the company's property and casualty insurance operations, where the companies I led delivered strong, profitable results.

I also had the privilege of managing the companies' relationships with the thousands of small businesses and entrepreneurs that are the backbone of the property and casualty industry. Working with those entrepreneurs on Main Street was the part of the job I enjoyed most, and it reinforced my deep appreciation for small businesses and the challenges and pressures they face.

Having had the privilege of serving under Presidents of both parties and of managing large organizations in the public and the private sectors, I hope to put that experience to work once more in the service of the public during these challenging times.

American taxpayers must have confidence in the Department of the Treasury, confidence that decisions are transparent, that taxpayers' concerns are heard, and that Treasury officials are accountable to the American people and to their elected representatives. Above all, Treasury must maintain the highest standards of integrity and embrace the best values of public service. Seeing that happen will be my highest priority.

I recognize that American prosperity does not spring from the actions of the Treasury Department, but from the hard work and inspiration of millions of individuals and businesses. Treasury's place is not to micromanage America's economy, but to help foster an economic climate within which the American people can flourish.

In closing, Mr. Chairman, Ranking Member Grassley, Senator Cantwell, it is my great hope to have the privilege of returning to the Department of the Treasury and offering my hardest work and

best efforts to the President and the Secretary, to the Congress, and to the American people.

Thank you very much for considering my nomination. I would be happy to take your questions.

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

The CHAIRMAN. Thank you, Mr. Wolin, very much.

I have three questions which are obligatory, that we ask of all nominees.

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

Mr. WOLIN. No, Mr. Chairman.

The CHAIRMAN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. WOLIN. I do not, Mr. Chairman.

The CHAIRMAN. Do you agree, without reservation, to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress—

Mr. WOLIN. Absolutely, Mr. Chairman.

The CHAIRMAN. If you are confirmed.

Mr. WOLIN. If I am confirmed.

The CHAIRMAN. Thank you. You are eager, that is good.

I would like to ask a little bit about the President's recently announced proposals to reform U.S. international tax law, including changes to deferral, check the box regulations, and foreign tax credits. Many in the business community say these changes will actually drive U.S. businesses offshore—very detrimental to U.S. business. What do you believe will be the effect those proposals will have on U.S. businesses and the degree to which they will tend to encourage U.S. business to move offshore?

Mr. WOLIN. Mr. Chairman, thank you for that question; a very, very important issue. I think the competitiveness of U.S. business is multifactoral. Clearly, the tax rates are one issue, but so is technology, the cost of health care, and other issues as well. The President, as he announced these proposals earlier this week, made clear that he is very committed to the competitiveness of U.S. business, but wants to make sure that the framework within which our tax code operates does not overly incent businesses to move jobs and business investment overseas.

So, Mr. Chairman, if I am confirmed in this role, I would be very interested in working with you, the committee, and your staff to try to get the balance right, to make sure that American business is both in a position to be highly competitive vis-à-vis the rest of the world, but also to make sure that the tax code does not create incentives to move jobs overseas or investment overseas.

The CHAIRMAN. But what about these particular proposals? What do you think the net effect of those standing alone will be?

Mr. WOLIN. I think, Mr. Chairman, that these proposals are not ones that take away deferral overall, so that principle is left in place, but make sure that the kinds of incentives that are solely based on the tax code to move jobs overseas are addressed. I think that within that context, as I said, and as the President made

clear, it is very important to address competitiveness issues, and that is something that I would want to work with you on, whether it is relating to issues about foreign tax credits or, for that matter, deferral of expenses.

The CHAIRMAN. But again, do you think these proposals, standing alone, have a net effect of increasing American competitiveness overseas or decreasing it?

Mr. WOLIN. I think, Mr. Chairman, the net effect of these proposals is to try to make sure that businesses do not move jobs overseas. I think on a competitiveness basis, if you look at the President's program in its totality with respect to what he wants to do with health care, making the R&E tax credit permanent, and so forth, I think the competitiveness issues are clearly something that he is very, very much focused on.

The CHAIRMAN. What is the effect of a couple of countries—I am thinking of the U.K. now—changing from a worldwide system to a territorial system? What will the effect be, and what, on the margin, will the effect be in the United States? Why has Britain made that change?

Mr. WOLIN. Mr. Chairman, I think the effects are ones that we will have to see as they develop. The statutory corporate tax rates, obviously, in the United States are higher than they are overseas, but, if you look at the effective rates, including all of the proposals that the President is putting forward, it is roughly competitive with most of the corporate rates in the OECD. Exactly how the British move to territoriality will resolve itself, I think is too early to tell.

The CHAIRMAN. I think the answer to the question is that Britain thinks it will help Britain vis-à-vis other countries in the world, and that is why they are making the change. That is why countries are moving from worldwide to territorial, and that is basically why many American companies think that they are at a significant disadvantage, where other countries have a territorial system and the United States is worldwide, which means that a U.S.-based company pays taxes twice, both in the other country as well as the United States, whereas countries that are territorial pay only one tax, and that is in the country where they are doing business.

So I strongly urge you to take a very, very close look at that. I do not know, to be honest, whether this was thought through as well as it could and should have been with respect to American competitiveness, and I urge you to, as I said in my opening statement, think before you act.

Mr. WOLIN. Thank you, Mr. Chairman.

The CHAIRMAN. I have many more questions, but my time is about expired.

Senator Grassley?

Senator GRASSLEY. Thank you.

I have a couple of questions that are more on process than on policy, and, if I have time, I will get to a couple of policy questions. I usually take 2 or 3 minutes to explain my philosophy about oversight. I am not going to do that, but, if you have any questions, other people can tell you.

As you may be aware, I am active in that area. The primary way I conduct oversight is to write letters asking detailed questions and requesting Department documents. While Secretary Geithner has

assured me that he will respond to my inquiries in a full and timely manner, I would hope to get the same assurance from you. Can I have that commitment today?

Mr. WOLIN. Yes, Senator, you have my commitment.

Senator GRASSLEY. Thank you.

I have 3 pages of recommendations I am not going to read from the Special Inspector General for TARP on TARP transparency. I just want to read a few of them, and then I have some questions—not just about the recommendations I mention, but the whole process of IG recommendations.

Treasury would require all TARP recipients to: report on how they used TARP funds; mitigate significant fraud risk imposed by allowing participants in the Troubled Asset Loan Facility to post mortgage-backed securities as collateral by security-by-security screening; reject collateral if underlying loans backing an MBS do not meet underwriting criteria; mitigate risk of waste, fraud, and abuse in Public-Private Investment Partnerships by imposing strict conflict of interest rules; et cetera, et cetera.

Mr. Wolin, the Special Inspector General for TARP, in his most recent quarterly report, made a number of recommendations to improve transparency, mitigate risk of loss of taxpayer dollars, and reduce waste, fraud, and abuse. These seem like good, common-sense recommendations to me.

Generally, do you agree? If you do not feel comfortable making a flat-out statement, then answer in writing. But if you have looked at them and can answer that—let me—before you answer, do you agree—can you tell me what you would do to make sure that the Treasury Department adopts those recommendations?

Mr. WOLIN. Senator, I think that the Special Inspector General for TARP is an important partner of the Department's in running that program. I think Secretary Geithner believes that very, very much, and I know he is viewed at the Treasury as a partner in that effort. Senior Treasury officials, including those running the TARP, meet with him on a regular basis to work through the recommendations he has put forward and to make sure that, with respect to some of the issues that you mentioned, Senator, transparency, conflicts of interest, making sure that the programs are structured in a way that has integrity, that he is a partner in all of those efforts.

Senator GRASSLEY. You probably are acquainted enough with Federal bureaucracy to know that a lot of Inspectors General encounter resistance from their departments. I hope with the President's commitment from his campaign—and I have not seen him detract from that since he has been President—for more transparency in government, that cooperation with Inspectors General is one way to have more transparency in government.

I would ask about the cost of bail-outs. In his latest report, the Special Inspector General indicates that the total projected funding subject to his oversight as of March 31 is \$2.5 trillion, and that number does not appear to include any capital assistance that Treasury expects to provide to those institutions who fail the stress test.

From January to March this year, the cost of the \$700 billion TARP program rose from \$189 billion to \$356 billion. Chrysler said

they do not intend to pay back their money. The fair market values of all three Maiden Lane LLCs that the New York Fed created to bail out Bear Stearns and AIG have dropped. So, Mr. Wolin, I would like your opinion as to whether we will actually get back any of this money. I would also like to know how Treasury expects to monitor the effectiveness of these programs. This is the last part of it: are there quantifiable benchmarks to determine the success or failure of these programs?

Mr. WOLIN. Senator, Secretary Geithner, I think, has spoken forcefully about the importance of making sure that these programs are structured in a way that protects absolutely as much as possible the taxpayers' interests. I think that exactly how these financial institutions and other TARP recipients do is something we will have to see, but the programs are structured in such a way that we have clarity about how lending is going by those institutions.

The Treasury has put up a website, for example, *financial-stability.gov*, that puts out monthly reports with respect to the lending levels by category of these financial institutions. That kind of transparency and the kind of accountability that comes with it is something that I know the Treasury Department is very much focused on, and I expect that that will be something that Treasury will continue to work on. If confirmed, I would certainly want to be very much involved in that effort.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman. I want to underscore your comments made earlier about thinking through these issues of America's competitiveness and making sure that the policies that are put forth really do consider the full spectrum of how businesses are working in today's global economy.

Mr. Wolin, first of all, congratulations on your nomination. It is great to have your family with you today; I am sure they are very, very proud of you. I know that we urgently need people over at the Department of the Treasury. But I also want to bring up the fact that the TARP legislation required Congress to receive a report from the administration by April 30th on changes that they would like to see, or changes necessary on the regulatory side of the equation. We still have not gotten that report.

My concern is, I want to try to understand where you are on this issue on the regulatory side, what you support or do not support, because I obviously think we need more transparency in addition to, obviously, capital adequacy and enforcing regulations against fraud.

But we had a previous instance where former Securities and Exchange Commissioner Arthur Levitt, Secretary for the Treasury and National Economic Council Chairman Larry Summers—that is when he was—and Federal Reserve Chairman Alan Greenspan all opposed the Commodities Future Trading Commission's attempts to regulate over-the-counter derivatives. Basically they all supported a 2000 law that blocked nearly all regulation of derivatives.

Now, I understand you were General Counsel at Treasury when then-Secretary Summers endorsed that legislation. Since then, Mr. Levitt has called it basically a regulatory system that failed to

adapt to the new financial instruments. I know that Mr. Greenspan told Congress that he, too, now believes that deregulating the credit default swaps market was a mistake. So would you agree that exempting the default swaps and other derivatives has turned out to be a huge mistake?

Mr. WOLIN. Senator, there is no question that the derivatives markets, credit default swaps, and the other instruments that you referred to require substantially more robust regulation. It is something that I understand the Treasury is focused on right now and, if confirmed, I would absolutely be engaged in working on that more robust regulation of those markets, both the dealers who deal in those instruments, but also the markets themselves.

Senator CANTWELL. So was it a mistake?

Mr. WOLIN. I think there is no question but that these are markets that need to be regulated, and to the extent that that did not do that, we have certainly learned that lesson.

Senator CANTWELL. All right. I just want to be clear, because there are certainly a lot of different opinions floating around. In fact, the previous nominee for your position, Mr. Cohen, recently told a crowd in New York, "As far as I'm concerned, I am far from convinced there was something inherently wrong with this system."

So I want to get it clear. There are a few people in the administration who still cannot say that it was a mistake, and these are the same people I think who are slow-walking, thinking that we are all going to forget about the regulatory reform that is needed. I can assure you, we are not going to forget what is needed. My patience is running out with the administration having to take 5 months to say that some of these things ought to be regulated, and how they ought to be regulated.

Mr. WOLIN. Senator, I do not want to be unclear at all. There is no question but that these markets need better and more robust regulation, and, if confirmed, I would look to be part of that effort.

Senator CANTWELL. All right. So do you think that all the derivatives and credit default swaps should be moved onto regulated exchanges?

Mr. WOLIN. Senator, I think this is not something I have been involved in, but I certainly support the testimony that Secretary Geithner gave in his confirmation hearing with respect to moving standardized instruments onto clearinghouses, onto regulated markets, and so forth.

Senator CANTWELL. Yes. I am not clear where the Secretary really is on that issue, because in a private conversation after the hearing he said he did not mean exactly what he said at the hearing, and since then he has said to a group of colleagues that the administration still has not come out with their policy. So, that is why we are trying to get to the heart of this matter. So, do you support aggregate position limits on all contracts?

Mr. WOLIN. I think position limits are absolutely part of the approach that is appropriate here, Senator. Yes.

Senator CANTWELL. So putting all these instruments on regulated exchanges and having position limits and having regulatory oversight, organizations like ICE and others that are currently not regulated exchanges?

Mr. WOLIN. I think the regulation of dealers in these instruments, I think standardized contracts on exchanges and through clearinghouses, position limits, transparency so that the market can understand what is being traded with price transparency and so forth, are all elements of the proper approach.

Senator CANTWELL. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

I would like to talk a little bit about the IRS. What went wrong? Why did the IRS not discover Bernie Madoff's scam earlier?

Mr. WOLIN. Mr. Chairman, I do not know precisely why they did not discover Bernie Madoff earlier. What I would say to you is that it is very important for IRS enforcement capabilities and resources and efforts to be focused. It is something that the administration is committed to that I would, if confirmed, be very much committed to, both from the perspective of sort of the tax gap, but also from the compliance perspective.

I think part of what the President put forward earlier this week with respect to international tax compliance and tax haven kinds of proposals would help in this regard—more transparency, more information reporting—and allow the Internal Revenue Service to better police those kinds of circumstances.

The CHAIRMAN. Well, I know your heart is in the right place, there is no doubt about that. The question is, how do we measure success here? As you well know, often benchmark metrics are needed to measure success to see if we can make any headway or progress at all. The one that comes to my mind is this tax gap.

What thoughts do you have, and what will you do with the IRS to very significantly reduce that tax gap? Those are brave words, wonderful words, we are going to work on that. That is one thing. I do not want to hear those words. I want to hear what specifically you are going to do, and what the metrics are, and what the standards will be by which we will know whether we are successful or not.

Mr. WOLIN. Mr. Chairman, I think the first thing I would do is sit down with Commissioner Shulman and work through a set of metrics that we could put in place; exactly what those are, I am not sure. But I would want to work with you and your staff and be very clear with Commissioner Shulman about, what is it that we can put in place that would allow us to measure our progress in the tax gap. It is obviously a challenging issue and one that people have been at work at for a long time.

But I think the establishment of clear metrics, and then accountability around achieving progress on those metrics, and transparency about how we are doing, transparency with you and this committee, and more broadly the American people. Precisely what those metrics are, I think I would want to be able to work through with the Commissioner and with this committee.

The CHAIRMAN. What is a reasonable period of time within which you can develop those and report back to this committee?

Mr. WOLIN. I do not know precisely, Mr. Chairman, but I would be interested in doing that aggressively and in a focused way, and as quickly as we could do it.

The CHAIRMAN. Well, I am going to give you a date. I am giving you, first, a chance to give me a date. So, I will throw it back to

you. What is a reasonable date by which you think you can do this? If you do not give me a date, I will give you one. I will give you one if I do not think yours is reasonable. [Laughter.]

Mr. WOLIN. I would hope, by Labor Day, Mr. Chairman, we could come back with some—

The CHAIRMAN. That is a little late. That is a little late. I am going to give you 2 months. Two months. Two months from today, because this is huge. I mean, it is \$300-some billion a year. We talk about cutting programs, and that is often important. We talk about raising revenue, and that is often important. But it seems to me the first target should be the \$345 billion of taxes that are legally owed but not collected. My gosh, American taxpayers are subsidizing those who are not paying their taxes.

Mr. WOLIN. Absolutely.

The CHAIRMAN. That is not right. I just urge you to attack that aggressively.

Mr. WOLIN. Absolutely, Mr. Chairman.

The CHAIRMAN. Like a mean, junkyard dog.

Mr. WOLIN. Will do.

The CHAIRMAN. Good.

Senator Cantwell?

Senator CANTWELL. Thank you, Mr. Chairman.

I guess I kind of have a similar time question, because last September, in front of the Senate Banking Committee when they were talking about TARP legislation, the SEC Chairman, Chris Cox, said that “there should be a great sense of urgency to regulate credit default swaps to fill the regulatory black hole.”

Do you agree that there should be a sense of urgency at Treasury on this?

Mr. WOLIN. I think there is no question, Senator, that with respect to the wide range of regulatory reform issues in the financial services sector—the President has spoken to it, the Secretary has—that we need to get something done, and we need to put in place a framework much sooner than later.

Senator CANTWELL. Well, you have already missed one deadline by legislation, which was due April 30th. So what is your sense of when that can happen?

Mr. WOLIN. Senator, I do not know. If confirmed, I certainly would want to understand where the Treasury Department is in this process and to urge that it be completed absolutely as quickly as possible. You would have my commitment.

Senator CANTWELL. And what do you think that time frame could be? I do not have the power of the chairmanship so I cannot commit—

The CHAIRMAN. Yes, you do, Senator. [Laughter.]

Yes, you do. We will work it out, what you want.

Mr. WOLIN. With respect to the report, Senator, or the regulation of—

Senator CANTWELL. It has taken us 5 months now of this administration to say clearly, in an articulate fashion, in writing: this is what the problems with credit default swaps were and this is how we believe they should be regulated. You had 13 OPEC countries basically saying to the administration, we need this. The global

economy needs this regulation. We need the United States to be clear that you are not going to let this happen again.

These statements are not that hard to make, but when the Treasury Secretary comes up here and says this is what I mean, and then later says, no, no, that is not what I meant, and then later tells members of Congress, we have not even decided yet what we are going to do, it clearly gives everybody the indication that the administration is slow-walking what are needed requirements for regulatory oversight for something that has caused the biggest financial crisis in America in the last several decades. The fact that it has taken this long to articulate that—it is not that hard to articulate. What you are going to find is, Congress is going to articulate it and do so very quickly.

Mr. WOLIN. Senator, I will certainly commit my best efforts to getting this articulated absolutely as quickly as possible.

Senator CANTWELL. So, if you had to give a date, just like on the previous—

The CHAIRMAN. Well, let us do it this way. Senator, why don't you and I consult, and we will send a letter to the nominee today in order to get a response before the confirmation vote.

Senator CANTWELL. Thank you, Mr. Chairman. I thank you. That is a good suggestion.

Thank you very much. Thank you, Mr. Wolin.

The CHAIRMAN. Executive compensation. Your thoughts? It is a huge issue. To be honest, I do not know that Wall Street understands the anger in the country over executive compensation abuse. There were all the bonus payments, especially for TARP recipients, when companies were going down the drain and they were getting all this taxpayer money. They get paid these big bonuses, and they seem to be insensitive to the American public, hardworking Americans—I do not want to overstate that point, but it is true—who are paying taxes and are very incensed. I do not think Wall Street gets it.

On the other hand, I am not sure that Washington really understands some of the exigencies of compensation and the well running of banks and other firms in the country. But the main point is, we need limits on executive compensation. I know Secretary Geithner is working on coming out with guidelines.

The haunting or echo of what Senator Cantwell is saying—that was supposed to be some time ago, and we still have not heard it yet. I know he has worked with Senator Dodd, the chairman of the Banking Committee, on those limits. But just talk to us a little bit about executive compensation and what you think the limits should be, especially companies that receive taxpayers' money, or even companies that do not receive taxpayers' money, in order to get a sense of confidence in this country that certain people are not ripping off the bulk of other people in the country. Your thoughts?

Mr. WOLIN. Mr. Chairman, an enormously important issue. I thank you for raising the question. There is no question that the levels of executive compensation have gotten untethered from what seems appropriate. This is an issue on which I know the President and the Secretary have articulated principles.

But it seems to me that compensation needs to be more transparent, it needs to be much more related to success, to alignment

with shareholder interests, or in the case when government assistance is involved, to taxpayer interests. It needs to be based on performance, the idea that compensation should be linked to success, and success should be thought of in longer-term periods than just this quarter's or this year's sales results, but to the real creation of value.

So I think those are the principles that are appropriate to executive compensation, particularly, as you say, in circumstances where government assistance has been provided, but even more generally the idea of alignment to value and performance and payment for success and not for failure, I think, are key elements of how we ought to be approaching executive compensation and how, as I understand it, the Treasury Department is approaching it as they seek to put forward implementing rules for the language in the Recovery Act that deal with executive compensation.

The CHAIRMAN. Well, I urge you to look at this aggressively because, if you are confirmed—you will be confirmed—as Deputy Secretary, you are going to have a lot of operating authority in making sure that people are working on this very aggressively and very forthrightly. Patience is wearing a little thin. I urge you, a word to the wise, just follow through and do the best you can, because we have to nail that one down.

I would like to ask a couple, few questions about China. I believe that the management of our relationship with China will very much determine the well-being of the American people in 5, 10, 15, 20 years from now, as well as that of the Chinese people, and perhaps many other people in the world. We have to get this managed.

We have to manage this right. Like most things that are very important, it takes effort, it takes a creative thought, it takes a lot of work, it takes a lot of focus. I compliment Secretary Paulson for putting together the strategic economic dialogue. I thought it was a good start, but it was only a start. I think it can be much more focused, more aggressive, more comprehensive than it has been.

Next, is here in Washington. I think it is in June. I am not sure of the exact date. In the first strategic dialogue, Wu Yi was the main Chinese leader. She is a tough lady. She was pretty good. But she has been replaced by Wang Qishan, as well as Dai Bingguo, and I urge you to give a lot of thought to make sure that is put together very well and very comprehensively, but also with the Congress.

We are a non-parliamentary form of government—and that is why we are having this hearing—in many respects. So when you put your plan together, I urge you to also have separate meetings between the Congress and the Chinese counterpart, because they have to learn from us, because we are one of the three branches of government. We write the laws. As a non-parliamentary form of government, we write them, not the administration. We have to learn from them, and they from us. So, it is just, get ahead of the game and do the very best you can to focus on a strong relationship, in my judgment, with China.

I also want to remind you that, because of scheduling conflicts, many Senators who were interested in your nomination were unable to attend, but they will nevertheless have questions that they will want to submit to you. I urge them to have their questions in

by 5 p.m. this afternoon, and I also urge you to respond to those questions as quickly as you possibly can so we can take up your nomination vote on the Senate floor very quickly.

I guess my final point is just to impress upon you how important it is for you and Secretary Geithner—but I am talking about you because you are here—to be forthright—very forthright—and to work with us and not surprise us.

With all due, full respect, your opening statement reminded me of what I call the Justice Sandra Day O'Connor statement. I was, a few years ago, on the Judiciary Committee and, prior to her, many nominees would give long, involved statements about the law, and so on and so forth. When she testified, she said nothing, absolutely nothing. She said, basically, thank you, and that was it. I was very disappointed, and I thought it was a cop-out. I thought it was just a dodge.

I thought it was just, here she is, she has been nominated to one of the most honorable positions in the U.S. Government, and she just sat there. It was a tactic to just avoid any difficult statement that you might otherwise make. And with all due respect, your statement was a little short, too. So what I am saying is, we are a separate branch of government, and we care too, just like you do.

Theoretically we are in the same political party. So, you should err on the side of working with us, err on the side of calling us up, calling me up and saying, hey, we have a problem here, hey, this is something we need to work on, this is coming up, and that kind of thing—advanced notice of things. You will find us very willing to want to work with you. On the other hand, if you do not, things tend to fall apart.

So I just urge you very, very strongly to just think, maybe once a week, what can I tell them down there that is important and constructive? What information do I have to get from them? I meet weekly with Secretary Geithner. Excuse me. I meet weekly with Mr. Summers; I meet monthly with Secretary Geithner. It is locked in. I just encourage you to, in your calendar, just think of the appropriate people that you need to lock in, and once a week, every other week or something, just make a telephone call or something. Just keep those lines of communication open. Just keep working on them.

Mr. WOLIN. You have my commitment on that, Mr. Chairman.

The CHAIRMAN. Good. All right. Good luck.

Mr. WOLIN. Thank you, sir.

The CHAIRMAN. And I wish your family good luck. It is a tremendous undertaking. It is a great honor that you are pursuing, and I wish you the very best luck.

Mr. WOLIN. Thank you, Mr. Chairman, very much.

The CHAIRMAN. The hearing is adjourned.

[Whereupon, at 11:06 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Hearing Statement of Senator Max Baucus (D-Mont.) Regarding the nomination of Neal S. Wolin to be Deputy Secretary of Treasury.

The author Georges Bernanos said:

“A thought which does not result in an action is nothing much, and an action which does not proceed from a thought is nothing at all.”

Today, we have before us Neal Wolin, whom President Obama has nominated to be Deputy Secretary of Treasury. Mr. Wolin, in your new role, you must be ready both to think, and to act.

These difficult economic times demand action.

But as Bernanos said, this action must be based on thought — creative thought, careful thought, deliberate thought. It must be based on thought that incorporates the lessons of the past, and thought that envisions the potential of the future.

Mr. Wolin, you have shown yourself to be a thinker. You have spent several years in public service, both at the White House and as Deputy General Counsel and General Counsel at Treasury.

During this time, you examined complicated financial, tax, and economic issues. You helped to guide Treasury through economic storms and economic growth.

As Deputy Secretary, you must bring all this experience to the table. This experience must guide your thinking. And this thinking must guide your actions.

Your thoughts and actions will have a direct effect on how quickly our country recovers its economic strength. As Deputy Secretary, you will help oversee our financial recovery.

You must ensure that these plans are sound. You must also ensure that these plans are transparent. The American people deserve to know the purposes for which their taxpayer dollars are being used. And they must believe that their hard-earned money is being put to good use.

Your thought and actions will help to guide the Internal Revenue Service. We owe it to all Americans to ensure that all taxpayers pay their fair share of tax and file their returns in a timely manner.

That's the only way that we can begin to close the tax gap, which has been estimated at \$345 billion every year. During these challenging economic times, when demands on the budget are so great, the IRS must first collect all the revenues that are legally owed. We must pursue those who evade their taxes by improperly moving their assets offshore. And we should consider opportunities to reform the tax code in a fair and responsible way.

Your thoughts and actions, along with those of this Committee and this Congress, will help determine how we reform the tax code. This week, as part of its budget, the administration announced several international tax proposals that would directly affect American multinational corporations.

These proposals would change American companies' ability to defer tax on foreign earnings, the calculation of foreign tax credits, the classification of foreign businesses, and the use of offshore tax havens by individuals.

As these proposals demonstrate, our international tax system is complex. We must approach fundamental changes to our tax code with thought and care. We need to ensure that our tax policies are fair and support American businesses. We must design these policies to encourage economic growth and create the jobs that Americans need and deserve.

Your thoughts and actions will help to drive America's international economic policy. Finding global solutions to our global crisis is as important as ever, whether coordinating recovery and regulatory efforts, or urging market-based reforms and sustainable growth.

Our economic relationship with China must top this international agenda. And its success will require sustained and energetic efforts by Secretary Geithner and at every level at the Treasury.

We also need to reassess our relationship with Cuba. As Deputy Secretary, you will oversee the Office of Foreign Assets Control, or OFAC.

Despite Congress's clear intent to facilitate sales of American agriculture products to Cuba, OFAC continues to adhere to obsolete regulations that make it difficult for American farmers and ranchers to sell their products in a market just 90 miles from our shores.

Next week, I plan to introduce a bill that will correct these policies and ensure that Montana's farmers and ranchers have reliable access to that market. I hope that you will work with me to further this important goal.

Mr. Wolin, the road ahead is difficult. But I believe that you will be able to navigate it. I expect you to do so with innovative and deliberate thought. And it is my hope and belief that your thought will result in successful and decisive action.

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United States Senate
Committee on Finance



Sen. Chuck Grassley · Iowa
Ranking Member

Statement of Sen. Chuck Grassley
Hearing on the Nomination of Neal Wolin, to be Deputy Secretary of Treasury, U.S. Department
of Treasury
Friday, May 8, 2009

I want to begin by repeating something I said at the beginning of Secretary Geithner's nomination hearing. I told Mr. Geithner that the Treasury Secretary possesses a great deal of power even in ordinary times, and that in these extraordinary times that position is even more powerful. I repeat that because the same holds true for the position of Deputy Secretary of the Treasury. Mr. Wolin, if confirmed you will potentially have a hand in everything the Treasury Department does. Many of those policy areas are of special concern to this committee. Tax policy is always a priority of this committee, but public debt, tariffs and trade, and terrorist financing, among many other issues are also of concern. Of course this is in addition to this committee's fundamental responsibility to exercise oversight over the Treasury department. You will have a very steep learning curve in your new job and not much time to climb it.

This committee's oversight responsibilities and public debt concerns have converged in the Troubled Asset Relief Program, or TARP program. Proving the need for strong oversight from its creation, the TARP program was originally sold to Congress as a tonic to heal our economy by purchasing troubled assets, and it instead became a toxin to free enterprise as money was arbitrarily distributed without transparency. A few months ago some were saying that the \$700 billion TARP program could actually make money for taxpayers. However, in January of this year the Congressional Budget Office put the price tag of the TARP program at \$189 billion and in late March revised that number upward to \$356 billion. I wouldn't be surprised to see this number climb in the future, but already taxpayers are losing more than half their investment in the TARP program.

The massive and growing costs of the TARP program, combined with the costs of the President's \$787 billion economic stimulus bill, have led to increased concerns about the size of our deficits and our inability to budget responsibly. A common response to these concerns is to blame the previous administration, and there is some validity there. The last administration did create a perilous budget situation and left a large deficit behind. Despite this, we are expected to end the current fiscal year with a deficit of \$1.7 trillion according to CBO. I think we can all agree that running large deficits is bad, but it simply does not follow that the remedy is to run even larger deficits. \$1.7 trillion amounts to around 12% of GDP. To put that into perspective, the highest

deficit level in the post-World War II period was 7.2% in 1946 and 6% in 1983. We aren't just pushing the envelope when it comes to running a large deficit -- we are going into uncharted territory, and I'm not sure we will be able to find our way back to fiscal responsibility. I raised concerns about deficits in my written questions to Dr. Alan Krueger who was confirmed this past Wednesday as Treasury Assistant Secretary for Economic Policy.

His response read in part "At 12.3 percent of GDP in FY2009, the budget deficit does reach a very high level, but the Administration projects that the growing economy and the end of temporary spending measures and other policy developments will cause the deficit to decline sharply going forward." Leaving aside the question of whether our recent spending spree will actually be temporary, I'm concerned that relying on the economy to grow us out of our deficits may not be realistic given our approach to federal government revenues.

As I've already said, federal revenues, or what most people call taxes, are a large part of this Committee's jurisdiction, and we are approaching a crisis. In addition to the usual constellation of tax provisions that expire on an annual basis, at the end of 2010 most of the bipartisan tax relief enacted in 2001 and 2003 will expire. President Obama has indicated that he supports making many parts of the 2001 and 2003 tax relief permanent, but that is not the case on lower rates for capital gains and dividends. If we expect our economy to have any chance to grow us out of our deficits, we can't penalize saving or investment. Furthermore, the stated willingness of the Administration to raise taxes on taxpayers earning more than \$250,000 a year could be a serious blow to small business. Finally, any cap and trade scheme would likely lead to massive increases in energy prices that would impact everyone regardless of their income level.

I'm very concerned that the nation's tax policy is being driven by a ravenous hunger for revenues rather than by a desire to promote economic growth. This ravenous hunger is itself derived from massive budget deficits and runaway government spending that in many cases, as with the TARP program, is subject to a completely inadequate amount of oversight.

It is imperative that the next Deputy Secretary of the Treasury assists Congress in conducting appropriate oversight into the TARP program along with all other activities the Treasury department is engaged in. This role was assigned to Congress by the U.S. Constitution, and the people I work for expect me to carry it out. I hope more serious thought is given to the short and long-term budget and revenue pictures as well. I worry—and I'm not the only one—that instead of solving the problems we now have, we are creating more problems that will take generations to solve.

Statement of Senator Charles E. Schumer
Nomination of Neal Wolin to be Deputy Secretary of Treasury
May 8, 2009

Mr. Chairman, thank you for inviting me to submit this statement for the record in support of Neal Wolin, President Obama's nominee to be Deputy Secretary of the Treasury.

As you know, we are in the midst of an economic crisis of historic proportions. From stabilizing the housing market to unfreezing the flow of credit to modernizing our nation's regulatory system, the challenges facing Treasury Secretary Geithner and his staff are considerable. I am confident that Neal will prove to be an indispensable asset in the Administration's efforts to tackle these daunting tasks.

Neal is no stranger to public service. Early in his career, he served as an aide to not one, not two, but three CIA Directors, including now-Secretary of Defense Robert Gates, as well as to two National Security Advisers. In 1995, he moved over to the Treasury Department to become Deputy General Counsel, and in short order rose to become the Department's top lawyer. As General Counsel, he provided legal and policy advice to Treasury Secretaries Rubin and Summers, and supervised more than 2,000 attorneys. What's more, at age 38, he was the youngest person ever to hold the position.

Upon leaving the Clinton Administration, Neal joined The Hartford Financial Services Group, one of the nation's oldest and most respected insurance companies. He began as General Counsel, then took over the reins of the firm's property and casualty insurance practice. His tenure at The Hartford helped him further hone his managerial skills, and gave him first-hand knowledge of the difficulties confronting many businesses today.

Neal has also held a number of academic posts. He has taught public policy at Harvard's Kennedy School, researched economics at the Brookings Institution, and taught law in my hometown, at Brooklyn Law School. He himself is a graduate of Yale Law School, Yale College, and Oxford.

Throughout his remarkable career, Neal has always made time to get involved in his community. He's currently on the board of the Appleseed Foundation, the University of Hartford, and the RAND Corporation's Institute for Civil Justice. I always want to recognize Neal's lovely wife, Nicole, for all the work she has done for the families of those who perished on September 11, 2001.

It is clear to me that Neal possesses the knowledge, the work ethic, and the sense of civic duty necessary to excel as Deputy Treasury Secretary. I encourage the Committee to approve his nomination with the certitude his credentials merit.

**Opening Statement
Nominee for Deputy Secretary of the Treasury
United States Senate Committee on Finance
May 8, 2009**

Chairman Baucus, Ranking Member Grassley, members of the committee, it is an honor to come before you today.

I'd like to introduce the members of my family who are here with me: my wife, Nicole Elkon, our sons Ethan and Oliver; my parents, Harry and Doris Wolin, and my wife's parents, Andre Elkon and Mimi Liebeskind. I am enormously indebted to them for their love and their support.

I want to thank President Obama and Secretary Geithner for their trust and for the opportunity they have offered me to serve in the department that is at the center of the Administration's efforts to address this historic economic crisis.

If confirmed, I look forward to working closely with you as the Treasury Department implements the President's economic program and as we work together to take all necessary steps to heal our economy, modernize the regulatory system, and prevent similar crises from developing in the future.

President Obama and Secretary Geithner have proposed a bold strategy to revive our economy, stabilize the housing market, increase the flow of credit, and restore economic vigor and growth to the United States.

Beyond these efforts, they are committed to identifying the failures that contributed to the crisis and to crafting a new and comprehensive regulatory framework that supports the dynamism of our economy while ensuring that the people of the United States are not again forced to suffer the consequences of a preventable catastrophe.

As the President and the Secretary have made clear, this system must be more comprehensive and effective than the framework that has failed us over the last several years. It must protect consumers and investors, and it must be able to adapt and evolve in step with transformations in national and global financial markets.

As we do this work, the Department of Treasury has to serve the taxpayers conscientiously and efficiently. When considering issues of regulation and policy, we must do so in an atmosphere of openness and transparency, explaining our actions and hearing the concerns of taxpayers. I believe that I can support these efforts by helping to manage existing and emerging initiatives, and by helping to free those who have been doing double-duty and more -- so that they can focus their talents on their primary tasks. The Treasury Department is a large, complex organization, and I look forward to helping Secretary Geithner keep the Department running smoothly during these extraordinary times.

Chairman Baucus and Ranking Member Grassley, and members of the Committee: I have had the privilege of serving in the executive branch under presidents of both political parties, in

foreign policy and in economic policy. I have experience managing in the public sector and in the private sector. Please allow me to speak for a moment about each, as you consider my nomination.

I first entered public service during the administration of President George H. W. Bush, when I was honored to serve as Special Assistant to Directors of Central Intelligence William Webster and Robert Gates. Under President Clinton, I joined the National Security Council as Deputy Legal Advisor, and then served as Executive Assistant to National Security Advisor Anthony Lake.

I moved to the Department of the Treasury in 1995, first as Deputy General Counsel and later as General Counsel. Our areas of focus during that time included fiscal responsibility, actions to deal with financial crises in foreign markets, efforts to expand economic opportunity in distressed rural and urban areas, and reform of the IRS, an effort which benefitted greatly from the leadership of this committee.

In 2001, I moved to The Hartford Financial Services Group as General Counsel. One of my chief concerns while in that position was to build a robust and effective compliance function.

After subsequently becoming President and Chief Operating Officer of the Hartford's property and casualty insurance operations, I had the opportunity to manage one of the nation's oldest insurance companies during a time of challenging market conditions. Through prudent pricing and careful analysis and management of risk, the companies I led delivered strong, profitable results.

I also had the privilege of managing the company's relationships with the thousands of small businesses and individual entrepreneurs who are the backbone of the property and casualty industry. Working with those entrepreneurs on Main Street was the part of the job I enjoyed most. It reinforced my deep respect for America's small businesses and my deep appreciation for the challenges and pressures that small business owners face, particularly in these difficult times – a respect and appreciation I carry with me today.

As the Treasury Department focuses on the financial issues that have dominated headlines for many months, we must not –and we will not –lose sight of the other vital roles the Treasury Department plays. The Department's 12 bureaus and more than one hundred thousand employees deserve strong management support as they work tirelessly on behalf of American taxpayers.

As this committee is well aware, the Department of the Treasury has criminal and national security responsibilities, tracking and stopping the flow of money to criminal organizations and terrorists abroad. It is my hope that my national security and intelligence experience will better equip me to work with the dedicated professionals in those areas.

I know that the closest contact that most of your constituents have with Treasury is their annual interaction with the Internal Revenue Service. I share with you a commitment to a modern IRS

that is professional and courteous in its dealings with taxpayers, while remaining effective in its efforts to collect revenue owed the federal government.

In the larger sense, American taxpayers must have confidence that the Department of the Treasury is serving their interests in matters large and small -- that decisions are made transparently, and that our officials are accountable to them and to their elected representatives.

Above all, Treasury must maintain the highest standards of integrity, must comply scrupulously with legislative and procedural dictates, and must embrace the best values of public service. Seeing that happen will be my highest priority.

I recognize that American prosperity doesn't spring from the actions of the Treasury Department but from the hard work and inspiration of millions of individuals and businesses, large and small. Treasury's work, as we implement policy, craft needed regulation and serve taxpayers is to ensure that we have a growing economy that allows homeowners to get mortgages or entrepreneurs to get loans and that attracts the capital our growing businesses need. Treasury's place is to help foster an economic climate within which the American people can flourish.

In closing, Mr. Chairman, Senator Grassley, and members of this Committee, it is my great hope to have the privilege of returning to public service and offering my hardest work and best efforts to the President and the Secretary, to the Congress, and to the American people.

Thank you very much for considering my nomination. I'd be happy to take your questions.

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

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Neal Steven Wolin
2. Position to which nominated:
Deputy Secretary of the Treasury
3. Date of nomination:
April 20, 2009
4. Address: (List current residence, office, and mailing addresses.)
Home:

Work:
5. Date and place of birth:
December 9, 1961; Chicago, IL
6. Marital status: (Include maiden name of wife or husband's name.)

7. Names and ages of children:

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Yale Law School; New Haven, CT; 1985-88; J.D., 1988
 University of Oxford (Balliol College); Oxford, England; 1983-1985; M.Sc. in Development Economics, 1985
 Yale College; New Haven, CT; 1979-1983; B.A., summa cum laude, in History, 1983
 Leo Baeck School; Haifa Israel; September-December 1977 (exchange student)
 Evanston Township High School; Evanston, IL; 1975-1979; diploma, 1979

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.)

Deputy Counsel to the President for Economic Policy and Deputy Assistant to the President, The White House, Washington, DC; 2009-present

President and Chief Operating Officer, Property and Casualty Operations; The Hartford Financial Services Group; Hartford, CT; 2007-2009

Executive Vice President and General Counsel; The Hartford Financial Services Group; Hartford, CT; 2001-2007

Adjunct Lecturer, John F. Kennedy School of Government, Harvard University; Cambridge, MA; 2001

Visiting Fellow in Economic Studies; The Brookings Institution; Washington, DC; 2001

General Counsel; U.S. Department of the Treasury; Washington, DC; 1999-2001

Deputy General Counsel; U.S. Department of the Treasury; Washington, DC; 1995-1999

Executive Assistant to National Security Advisor Anthony K. Lake and Deputy National Security Advisor Samuel R. Berger; The White House; Washington, DC; 1994-1995

Deputy Legal Adviser; National Security Council; The White House; Washington, DC; 1993-1994

Special Assistant to Directors of Central Intelligence William H. Webster; Robert M. Gates and R. James Woolsey; Washington, DC; 1990-1993

Associate; Wilmer, Cutler & Pickering; Washington, DC; 1989-1990

Law Clerk; U.S. District Judge Eugene H. Nickerson; Eastern District of New York; Brooklyn, NY; 1989-1990

Adjunct Associate Professor of Law; Brooklyn Law School; Brooklyn, NY; 1989

Summer Associate; Paul, Weiss, Rifkind, Wharton & Garrison; New York, NY; 1988

Coker Teaching Fellow; Constitutional Law I; Professor Burke Marshall; Yale Law School; New Haven, CT; 1987-1988

Summer Associate; Williams & Connolly; Washington, DC; 1987

Summer Associate; Wilmer, Cutler & Pickering; Washington, DC; 1987

Research Assistant; Professor W. Michael Reisman; Yale Law School; New Haven, CT; 1987

Research Assistant; Professor Geoffrey C. Hazard, Jr.; Yale Law School; New Haven, CT 1986-1987

Summer Associate; Sidley & Austin; Chicago, IL and Washington, DC; 1986

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.)

Member; President's Advisory Commission on Holocaust Assets in the United States; 1999-2000

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.)

President and Chief Operating Officer, Property and Casualty Operations; The Hartford Financial Services Group (and subsidiaries); Hartford, CT; 2007-2009

Executive Vice President and General Counsel; The Hartford Financial Services Group (and subsidiaries); Hartford, CT; 2001-2007

Member, Board of Regents; University of Hartford; Hartford, CT; 2002-2009

Member; Board of Directors; Appleseed Foundation; Washington, DC; 2007-2009

Chairman, Board of Directors; Teach for America – Hartford; Hartford, CT; 2008-2009

Member, Board of Overseers; Institute for Civil Justice; Rand Corporation; Santa Monica, CA; 2001-2009

Member, Board of Directors; Goodspeed Musicals; East Haddam, CT; 2008-2009

Member, Advisory Board of Governors; Partnership for Public Service; Washington, DC; 2007-2009

Member, Board of Directors; International Center for Research on Women; Washington, DC; 2008-2009

Member, Board of Directors; American Institute for Chartered Property Casualty Underwriters; Philadelphia, PA; 2008-2009

Member, Board of Directors; Greater Hartford Legal Assistance Foundation; Hartford, CT; 2001-2006

Trustee, Karen A. Wolin Insurance Trust (trust contained term life insurance policy of my sister; her sons were beneficiaries); 1998-2001

Partner, Cornelia Associates Partnership (622-630 ½ Cornelia Bldg.); Chicago, IL; 0.8888% interest; 1985-2001

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

District of Columbia bar, 1989-present

Illinois bar, 1989-present

Connecticut bar, 2002-present

Council on Foreign Relations, 1993-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.

| | | |
|--|--------|------|
| Hartford Advocates Fund | \$625 | 2009 |
| Courtney for Congress | \$400 | 2008 |
| Sestak for Congress | \$500 | 2008 |
| Larson for Congress | \$500 | 2008 |
| Hartford Advocates Fund | \$4382 | 2008 |
| Obama Victory Fund | \$2300 | 2008 |
| Committee to Elect Chris Murphy | \$1000 | 2008 |
| Committee to Elect Chris Murphy | \$250 | 2007 |
| Hillary Clinton for President | \$2300 | 2007 |
| Tim Brennan for Town Council (West Hartford, CT) | \$250 | 2007 |
| Chuck Coursey for Town Council (West Hartford, CT) | \$100 | 2007 |
| Jose Cerda for Clerk (Chicago, IL) | \$250 | 2007 |
| Hartford Advocates Fund | \$2700 | 2007 |
| Chris Dodd for President | \$2100 | 2006 |
| Courtney for Congress | \$300 | 2006 |
| Friends of Chris Dodd | \$2100 | 2006 |
| Hartford Advocates Fund | \$200 | 2006 |
| David Yassky for Congress | \$250 | 2006 |
| Sestak for Congress | \$300 | 2006 |
| Tobias Read for State Representative | \$200 | 2006 |
| Bill Halter for Arkansas | \$250 | 2006 |
| Friends of Joe Lieberman | \$500 | 2005 |
| Forward Hartford | \$250 | 2005 |
| John Kerry for President | \$2000 | 2004 |
| Erskine Bowles for Senate | \$500 | 2004 |
| Friends of Blanche Lincoln | \$500 | 2004 |
| Jonathan Harris for State Senate (CT) | \$100 | 2004 |
| Joe Lieberman for President | \$1500 | 2003 |
| Friends of Jim Maloney | \$500 | 2002 |
| Larson for Congress | \$250 | 2002 |
| Steve Andreasen for Congress | \$300 | 2002 |

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 Beta Kappa, Yale College chapter, 1982-present

Charles Clark Prize for highest academic standing, Silliman College, Yale University, 1983

Charles and Julia Henry Fellowship; Oxford, England; 1983-1984

Coker Teaching Fellow, Constitutional Law I, Yale Law School, 1987

Alexander Hamilton Award, U.S. Department of the Treasury, 2001

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.)

I have served as General Counsel and Deputy General Counsel of the Department of the Treasury. In those roles I was involved in a wide range of issues across the Department's functions. I have served as a senior executive, in both legal and business roles, of a Fortune 100 financial services firm. During the period I served as President and Chief Operating Officer of The Hartford's property and casualty operations, the division's business results exceeded its targets. I have had a range of roles in the national security areas of the United States government.

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.

Yes.

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 connection with the nomination process, I have consulted with the Office of Government Ethics and the Treasury Department's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of the ethics agreement that I have entered into with the Treasury Department's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

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.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Treasury Department's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of the ethics agreement that I have entered into with the Treasury Department's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

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.

As an executive at The Hartford Financial Services Group, I worked on legislation involving a federal role in terrorism insurance, the establishment of a role for the federal government in regulating insurance companies and the creation of a trust fund to compensate people with asbestos-related injuries. I testified twice before a subcommittee of the House Financial Services Committee on insurance regulatory issues.

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.)

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Treasury Department's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of the ethics agreement that I have entered into with the Treasury Department's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

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.

Attached.

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: N/A

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.

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.

While performing my duties as a Freshman Resident Counselor in college, I was mistakenly arrested during an attempt to ensure that a group of freshmen under my charge did not get into any mischief while performing a prank. With the full support of my college dean, the prosecutor decided to drop all charges against me and, accordingly, all charges were dismissed.

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

In re Hartford Financial Services Group ERISA Litigation (D. Conn.). This putative class action, filed on March 23, 2009, brought on behalf of participants in The Hartford's employee 401(k) plan who invested in Hartford stock, alleges that various alleged plan fiduciaries, including the plan sponsor, Hartford Fire Insurance Company, breached their fiduciary duties to plan participants. The defendants include the directors of the Hartford Fire Insurance Company during the relevant time, of which I was one. There are no allegations directed to me individually apart from my status as a former director of Hartford Fire Insurance Company (a wholly owned subsidiary of The Hartford Financial Services Group).

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.

FINANCE COMMITTEE QUESTIONS FOR THE RECORD
United States Senate
Committee on Finance
Nominations Hearing for Neal S. Wolin
May 8, 2009

Questions from Chairman Baucus

Question 1:

Executive compensation is an issue of great importance. We fought hard to include executive compensation limits in the TARP, and I expect Treasury to fully enforce these limits. Will you commit to enforcing these executive compensation limits? What are your thoughts generally on the current limitations, and how do you think Treasury should handle this issue going forward?

I agree that executive compensation is an issue of great importance. Taxpayers deserve to know that their tax dollars are being used prudently and specifically for the purpose of fueling economic recovery and not lavish executive pay packages. In addressing the issue of executive compensation, I believe that we should be guided both by the provisions of the American Recovery and Reinvestment Act (Recovery Act) and by the compelling principles outlined by the President: that executive compensation be based on long-term performance, that it be transparent, and that it be fully aligned with the interests of the U.S. taxpayers. The Department of the Treasury is committed to enforcing the limits on executive compensation imposed by the Emergency Economic Stabilization Act of 2008, as well as those established in the Recovery Act. Treasury is currently drafting an Interim Final Rule to implement the executive compensation provisions of the Recovery Act. If confirmed, I give you my commitment to enforce these provisions.

Going forward, it will be important for the Treasury to communicate clearly to the American public and the private sector that the government will hold companies accountable for how they use taxpayer assistance. I look forward to working on this issue and balancing these policy goals.

Question 2:

I have been very pleased with the work Neil Barofsky has done as Special Inspector General. He has one of the greatest oversight challenges in the history of the federal government. I would like your commitment to work with the Special IG, to cooperate with his office and, frankly, to use him to help senior management at the Treasury Department run the TARP program. Do I have this commitment?

You have my commitment to work with the Special Inspector General for TARP and to cooperate fully with his office. The work performed by the Special Inspector General for TARP is important to ensuring that Treasury's financial stability programs are transparent and accountable, and that they best serve the public interest.

Question 3:

Mr. Wolin, in what direction do you see Secretary Geithner steering the U.S.-China economic relationship? Toward what goals is he heading bilaterally and multilaterally? What role will you play in this process? How do you see this Committee's role? In thinking about our relationship with China, what lessons do the past eight years offer you?

As Secretary Geithner has said, the United States and China share a major interest in a stable, well-functioning and smooth international financial system.

Secretary Geithner and the Obama Administration are committed to a positive, cooperative, and comprehensive bilateral relationship with China. The United States and China should work closely, bilaterally and through the G20 process, to ensure sustained efforts of the scale required to bring about global recovery and financial stability.

Looking back on the last eight years, it is now clear that Chinese growth was far too dependent on exports, and on demand from US consumers. This cannot be the basis for sustained Chinese growth in the future. Going forward, it is critical that China adopt effective policies to spur growth through domestic demand, rather than continuing to rely on exports. This means raising Chinese household incomes, strengthening social safety nets, and encouraging the development of their service sector. It also means carrying out China's commitment to move toward a flexible, market-determined exchange rate for the Renminbi, which, despite the progress that has been made, remains undervalued.

If confirmed, I plan to work with Secretary Geithner and Treasury to engage extensively with China to bring about a shift toward growth driven by China's own domestic demand, and the U.S.- China Strategic and Economic Dialogue will be one mechanism for advancing this goal. I believe that it is important that Congress have an opportunity to contribute to the U.S. – China Strategic and Economic Dialogue. I will work with my colleagues at Treasury to encourage the Chinese delegation to meet with Congress while they are in Washington. If confirmed, I look forward to working with the U.S. – China relationship.

Question 4:

In April, I and fourteen other Senators sent a letter to Secretary Geithner to express our frustration about Treasury's decision to uphold Bush Administration policies which seriously hamper sales of U.S. agriculture goods to Cuba. It took more than a month to get a response. That level of responsiveness is unacceptable. This is an issue about which I, and several others on this committee, feel very strongly. Can you commit to me that you will be more responsive about these important issues?

Chairman Baucus, I understand your concerns. If confirmed, I commit to working with my colleagues at Treasury to ensure that Treasury responds to Congressional correspondence in a timely and appropriate manner.

Question 5:

What are the most serious problems at the IRS and how will you fix them? The IRS is working with old computer systems, some going back to the 1960s. To what extent do you see this as a serious problem? What role do you think information technology should play in tax administration?

The success of the voluntary tax system is based in large part on taxpayers' faith in the fairness of the system. I regard the tax gap as a serious problem facing our nation's tax system. Improved information technology can help to close that gap, as can greater information reporting and increased enforcement. If confirmed, I will consult with Internal Revenue Service (IRS) Commissioner Shulman on ideas for improving both tax collections and taxpayer service, recognizing that such improvements likely will require significant and sustained investments in both the IRS' information technology systems and its personnel. I look forward to working with the Committee on improving the technology systems in order to help to narrow both the international and domestic tax gap.

Question 6:

60% of individual returns are prepared by paid preparers. Do you support standard preparer competency standards in order to improve the quality of the returns they file?

I believe that paid preparers should provide knowledgeable, professional, and honest service that results in high quality tax returns. It is my understanding that, to ensure high quality work by preparers, the IRS has at its disposal a variety of mechanisms, including education, outreach, and, if necessary, disciplinary actions. Improving the quality of returns is a clear benefit to both taxpayers and the IRS. The benefits and burdens of imposing competency standards must be weighed before making a determination whether to do so. The costs of administering the standards system could fall on the IRS and thus on taxpayers. An introduction of standards across the industry also could result in increased costs to both preparers and their customers. If confirmed, I look forward to learning more about this issue and to working with IRS Commissioner Shulman and this Committee to ensure that taxpayers' interests are protected.

FINANCE COMMITTEE QUESTIONS FOR THE RECORD
United States Senate
Committee on Finance
Nominations Hearing for Neal S. Wolin
May 8, 2009

Questions from Ranking Member Grassley

Question 1:

The *Tax Increase Prevention and Reconciliation Act of 2005* included a provision to impose 3% withholding on all payments made to government contractors in order to combat widespread abuse of the Federal tax system among government contractors as documented by the Government Accountability Office. Originally slated to apply to payments made after December 31, 2010, under current law this provision will apply to payments made after December 31, 2011, as a result of a delay in implementation contained in the *American Recovery and Reinvestment Act of 2009*. The House version of the Stimulus Bill called for this provision to be permanently repealed.

Do you think implementation of the 3% withholding provision applying to government contractors ought to be delayed or repealed completely? If you believe the 3% withholding ought to be repealed, do you think the government ought to pursue the billions of dollars GAO estimates thousands of contractors doing business with the government owe in tax debts?

I understand that this provision was enacted in order to improve tax compliance by government contractors. The tax gap is a serious problem, and government contractors, like everybody else, should pay their taxes. In general, withholding and information reporting are effective mechanisms to close the tax gap. However, the burdens of such mechanisms must be weighed against the benefits, especially when the burdens may be placed on state and local governments, as is the case with respect to the 3 percent withholding provision. It is my understanding that to ensure tax compliance by government contractors, the federal government currently utilizes a variety of other mechanisms, from up-front registration with the Central Contractor Registry to back-end collection through the Federal Payment Levy Program. The President's Budget proposes increased information reporting with respect to government contractors and improvements in the Levy Program. If confirmed, I look forward to working with this Committee on this important issue.

Question 2:

The US has the second highest statutory marginal tax rate of OECD countries. Which do you think is more important in keeping US multinational corporations competitive: The effective tax rate, or the highest marginal tax rate? That is, is it more important that the total amount of tax paid by a corporation as a percentage

of its adjusted gross income is low, or is it more important that the tax rate paid on its last dollar earned is low?

While the U.S. statutory corporate tax rate is high relative to other industrialized countries, our corporate tax laws include a variety of incentives, including relatively generous depreciation allowances, such that the effective marginal corporate tax rate is about average when compared to other members of the Organization for Economic Co-Operation and Development. Statutory tax rates provide an incomplete picture of the corporate tax burden because they do not reflect the corporate tax base. That is, statutory tax rates do not reflect, for example, the effects of allowances such as depreciation. The effective marginal tax rate combines statutory corporate tax rates, depreciation allowances, and other features of the tax system into a single measure of the share of an investment's economic income needed to cover taxes over the lifetime of the investment. Both measures are important, as is the effective average tax rate, which is the tax paid as a percentage of income and which some think is important in determining a corporation's investment decisions, including investment location. Compared to the statutory rate, the effective marginal tax rate gives a more accurate picture of the incentive for corporations to invest at the margin, and thus to grow and compete successfully.

Question 3:

When Secretary Geithner and I met in my office and when he appeared before this committee as Treasury Secretary nominee in January, I started our dialogue by referring to an op-ed in the August 14, 2008 edition of the Wall Street Journal. That op-ed was written by then-Senator Obama's senior economic advisors, Drs. Furman and Goolsbee. They indicated that an Obama Administration would seek to keep the revenue base at or close to historic averages of GDP. At that point, CBO reported that, over the past 40 years, taxes as a percent of GDP averaged 18.3 percent.

At the hearing, Secretary Geithner indicated that, in general, he agreed with Drs. Furman and Goolsbee's target. Now, the budget before us stays very close to that average in the first five years, but trends about one-half point above that average in the last five years, though it peaks at 19.5% in the last year.

**Do you disagree with those, including some in the Democratic Congressional Leadership, who argue the only path to fiscal discipline to maintain record levels of Federal taxation as a percentage of the economy?
Do you recognize that there is a downside to future economic growth if we return to record levels of Federal taxation?**

The effect of taxes on the economy is a very important and complicated issue. The President's Budget reduces taxes for 95 percent of working families, and the Budget does not project revenue increases until 2011, when nearly all economic forecasters believe we will have moved beyond the current period of recession and into a period of growth. The Obama Administration believes that at that point – when our economy is back on track –

it will be critical to focus on restoring fiscal discipline and reducing the deficit. At that time, the Administration proposes setting tax rates at the level that prevailed at the end of the 1990s, when the economy did very well – and when we ran a balanced budget, even budget surpluses. Once the economy recovers, it will be important to find the right balance between revenues and spending in order to restore fiscal responsibility and discipline. If confirmed, I look forward to working with this Committee to try to find that balance.

The Administration believes that an unchecked rise in federal debt – the result of not restoring fiscal discipline – would pose a threat to the U.S. economy in the longer term. The consequences of a long-term substantial rise in the federal debt would be very troublesome. Federal borrowing would crowd out private investment, it would raise interest rates, and, in the long run, reduce productivity growth, which would reduce our long-run rise in the average standard of living. If revenue increases are used to lower the deficit, the economy will benefit because government borrowing will not crowd out private sector investment as much and interest rates will be lower.

Question 4:

According to the Congressional Budget Office, the effective individual income tax rate for American households in the lowest quintile was -6.6 percent in 2006 while the rate for households in the second quintile was -0.8 percent. This means that many “taxpayers” are actually getting more out of the system than they pay in. According to their 2009 Survey of U.S. Attitudes on Taxes, Government Spending, and Wealth Distributions, the Tax Foundation found that 66 percent of adults believe that everyone should be required to pay some minimum amount of tax to help fund the government.

Do you believe that the concept of fairness dictates that all tax filers pay at least a small amount in income taxes paid for the specific purpose of funding the government?

As a result of successful programs such as the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit, some working families receive refunds from the IRS in excess of their federal income tax liability – although it should be kept in mind that such families are often paying payroll and other taxes as well. Programs such as the EITC, and now the Making Work Pay Tax Credit, have provided powerful incentives for the less financially advantaged to improve their lives through work, which is to their benefit and the benefit of our society as a whole. If confirmed, I look forward to working with this Committee on the important issues these programs raise.

Question 5:

Mr. Wolin, you may be aware that the IRS recently killed a program where they used private debt collectors to collect delinquent tax debt. I have expressed my disappointment in the sham cost effectiveness study to Secretary Geithner and

Commissioner Shulman and have asked for a strategic plan to reduce the amount of delinquent tax debt which, according to a GAO report last year is almost \$300 billion – over \$100 billion of which was deemed to be collectible. Commissioner Shulman has encouraged taxpayers to file their returns this year even if they couldn't pay the taxes they owed. This is good since millions have been impacted by the economic crisis.

However, IRS must be sure to not lose track of these folks so that they are encouraged to pay those taxes if and when they do get money. And IRS must do all it can to close the tax gap and crack down on tax cheats. This should be a priority before raising taxes on anyone. What recommendations do you have to improve tax collections?

I understand that the IRS has been engaged in modernizing its information technology systems and it must continue to do so. More effective use of upgraded information technology can help the IRS in its core mission of tax collection and taxpayer service. If confirmed, I look forward to working with Commissioner Shulman and this Committee on this important issue.

Question 6:

Mr. Wolin, Secretary Geithner announced the results of the stress tests yesterday. Little is known about Treasury's role in conducting those stress tests. Can you tell us what you know about how those were conducted?

I would also like your opinion on why the taxpayers aren't at increased risk if the banks convert the preferred shares that Treasury obtained under TARP to common shares. Is this merely an accounting gimmick that will not result in any net increase in the capital available to these institutions? (ie. preferred shares are listed as a liability on their balance sheets while common stock will be listed as an asset)

If the senior preferred shares are converted to common stock, does this put the American taxpayer at a much higher risk of not being repaid?

Under TARP, Treasury put in place measures to protect American taxpayers. Senior preferred shares provide protection to taxpayers because they pay regular dividends and other shareholders are subordinate to the shares held by the government. This insures the taxpayer is first in line to recoup money should the company enter bankruptcy and have to liquidate assets. Additionally, the contracts signed by TARP recipients require them to pay dividends on the preferred shares held by the government before paying dividends to anyone else, and restricts the institutions from raising dividends for other stockholders without first paying dividends on the senior preferred shares. The EESA specifically directs Treasury to institute measures to protect American taxpayers. What type of measures could be put in place if the preferred shares are converted to common stock?

If the preferred shares are converted to common stock, will the government have voting rights in the institution? If the answer is yes, will the government exercise that right and if so how will the government determine how to vote its shares?

The stress tests were designed and conducted by the Federal Reserve and other federal bank supervisors. These forward-looking assessments focused on the largest financial firms to ensure that they maintain adequate capital buffers to withstand losses in a more adverse economic environment. By focusing on individual banks, this approach allowed the analysis to take into account the unique exposures that individual banks face as well their individual prospects for generating earnings.

Treasury was not involved in the administration of the assessments. At various points throughout the process, the supervisors did inform Treasury of how they intended to conduct the test. Treasury was involved in the design of the post-stress test process including the requirement that each institution develop a “capital plan,” given the role Treasury’s Capital Assistance Program would play in helping banks meet their capital buffer need if they are unable to meet that need through the private market.

The conversion of senior preferred shares to common stock, if this were to occur, does not necessarily put American taxpayers at a higher risk of not being repaid. As a general principle, whether conversion benefits a shareholder depends primarily upon the exchange rate in the particular conversion. Although converting from preferred shares to common shares may involve the forfeiture of regular dividends, it can also allow the shareholder to capture the full equity upside in an institution. Treasury will carefully examine each case in which we are asked to exchange preferred shares for common shares and will ensure the taxpayers’ interest is protected. With regard to the exchange of Capital Purchase Program shares, Treasury will look for private capital to be raised or other capital securities to be exchanged at the same time as any exchange by Treasury.

Whether the Treasury owns common or preferred stock, important taxpayer protections are embedded in the programs. In all cases, the Special Inspector General for TARP has the authority to investigate fraud and abuse at a TARP recipient. Additionally, institutions receiving TARP funding will not be able to pay dividends and will be subject to strict executive compensation restrictions.

Finally, in the event that financial institutions need significant government assistance in terms of the quantity or composition of capital, Treasury, in consultation with the institution’s supervisors, will evaluate whether the existing board and management are strong enough to restore the firm to viability without government assistance.

Where Treasury does take common equity, it will seek to return the company to purely private ownership as quickly as possible, and will be guided by the basic principle that the best way to serve the interest of shareholders and taxpayers is to exert its influence only on core governance issues and not on day-by-day operations.

Question 7:

It has been reported that former TARP administrator Neel Kashkari said it may take three to five years for our economy to recover from the financial crisis and recession.

How long do you expect recovery to take? If it takes 3 to 5 years for our economy to recover, does that mean the measures being taken by the Treasury Department now are not having much of an impact?

Does the Treasury Department have a timeline of improvements expected in the economy as a result of the TARP program, and other initiatives?

Economic forecasting is an imprecise science, and recent events in the financial sector, which are outside the bounds of historical experience over the past 50 years, have added even more uncertainty. Given the wide range of outcomes, there is no specific time table for improvements; all forecasts should be considered as indicating the possible general trend of developments. As Secretary Geithner has said, the actual course of the economy will move in fits and starts.

Still, most forecasters predict that the economy will begin growing again in the second half of 2009, and many, including both the Congressional Budget Office and the Administration forecasts, suggest the economy will grow by nearly 3 percent or more in 2010.

The actions the Obama Administration has taken to jumpstart the economy through the Recovery Act , to open credit channels, provide capital to encourage lending, and to help homeowners, are a key reason the economy is expected to improve. The effects of these programs are just beginning to be felt; withholding reductions were fully in place on April 1, and the Office of Management and Budget estimates that about \$15 billion of Recovery Act spending was actually paid out in April, although spending is rapidly ramping up.

Question 8:

Mr. Wolin, I introduced a bill to require hedge funds to be registered so we at least know how many and who they are. Do you support requiring registration of hedge funds?

As Secretary Geithner testified in March, the Administration's policy is that all advisers to hedge funds (and other private pools of capital, including private equity funds and venture capital funds) whose assets under management exceed a certain threshold should be required to register with the SEC. If confirmed, I will work closely with Congress to pass legislation that would mandate registration of hedge fund advisers as part of a comprehensive package of financial regulatory reform.

Another area ripe for regulation is credit default swaps. Given your experience in the insurance industry, do you believe these financial instruments should be regulated like insurance products or commodities or something else?

We need a robust and effective regulatory system for all over-the-counter derivatives, including credit default swaps. Credit default swaps have some insurance-like characteristics similar to the bond insurance protection written by mono-line financial guarantee insurers. Credit default swaps also have a close relationship to corporate bonds and other securities, and they were used by some banks to manage their bank capital requirements and to structure asset securitizations. Given these various characteristics of credit default swaps, multi-agency regulatory cooperation is appropriate. One critical aspect of a robust and effective regulatory system is that derivative instruments be subject to consistent and appropriate regulation, regardless of how the instruments are labeled (commodities, securities, banking products, insurance). Appropriate and consistent federal regulation can best be accomplished by a combination of amendments to the Commodity Exchange Act, the securities laws, and banking regulations.

The chairwoman of the Securities and Exchange Commission has been active in promoting the regulation of credit rating agencies. Do you agree that these agencies should be regulated?

Systematic mistakes by rating agencies on structured securities were a substantial contributor to the current crisis. Moreover, over-reliance by investors on flawed and misleading credit ratings contributed to the breakdown of market discipline.

While rating agencies have revamped many of their processes in recognition of these failures, this is not enough. The Administration supports strengthened regulation of credit rating agencies to improve transparency of ratings methodologies and the risks that ratings measure, to better enable market discipline on agencies, and to strengthen policies and procedures to manage and disclose conflicts.

What should Treasury's role be in regulating these entities and instruments?

Through its role as Chair of the President's Working Group on Financial Markets, Treasury can play an important role by working with regulators to strengthen and align regulation under existing statutory authority, developing policy proposals in coordination with regulators, and working with Congress to pass appropriate legislation in these areas.

Question 9:

With the billions of taxpayer money that has been given to the auto companies, I am perplexed by recent reports that General Motors has announced it will be shifting more of its production overseas, rather than in the United States. What is Treasury doing to make sure American jobs are protected since General Motors would no longer exist if Treasury had not showered billions of U.S. taxpayer money on it?

The President and his Auto Task Force are focused on helping General Motors and Chrysler restructure to achieve financial viability in a way that preserves as many American jobs as possible. General Motors is currently in the process of finalizing its restructuring plan and is in an active and constructive dialogue with the United Auto Workers in which CEO Fritz Henderson made clear that all options are on the table. The President's Auto Task Force will continue to engage in this process to ensure that General Motors' final viability plan is good for American workers and the American economy.

Question 10:

As a result of the *American Recovery and Reinvestment Act of 2009*, economic recovery checks are being sent out to people with the purpose of providing a boost to those who do not qualify for the "Making Work Pay" tax credit. Though taxpayers are ineligible to benefit from both the full "Making Work Pay" tax credit and the \$250 economic recovery payment, it has been reported that economic recovery payments will go to many people who are also benefitting from the full amount of the "Making Work Pay" credit. These individuals will apparently be required to repay the \$250 to the IRS at tax time next year. Is this accurate, and if so, how did it come about? How many taxpayers are affected, and how much money will have to be returned to the Treasury? How is the Treasury Department and the IRS informing taxpayers of this situation? Why wasn't the legislation more thoroughly reviewed to prevent this situation from occurring?

Section 1001 of the Recovery Act allows a Making Work Pay tax credit for eligible individuals based on earned income. The Recovery Act also requires, in section 2201, that the Secretary of the Treasury disburse a one-time economic recovery payment of \$250 in 2009 to the following individuals:

- Retirees, disabled individuals, and Supplemental Security Income (SSI) recipients receiving benefits from the Social Security Administration;
- Disabled veterans receiving benefits from the Department of Veterans Affairs; and
- Railroad Retirement beneficiaries.

Although the Making Work Pay tax credit generally benefits workers while economic recovery payments generally benefit pensioners, there may be some overlap between these groups of individuals; for example, pensioners who continue to work.

Consequently, section 1001 of the Recovery Act explicitly states that the credit “shall be reduced by the amount of any payments received by the taxpayer during such taxable year under section 2201.” Through numerous public statements, Treasury has informed taxpayers of this legislative requirement. For example, the IRS web-site explains that any economic recovery payment “will be a reduction to any Making Work Pay credit for which the recipient qualifies.” My understanding is that Treasury does not have an estimate of the number of taxpayers affected or the dollar amounts involved.

Question 11:

The National Federal of Independent Business has been conducting a monthly survey of small business for 35 years. The April “Small Business Economic Trends” survey found that small business hiring plans are at their lowest level in the whole 35 year history of the survey. The likelihood of small business owners has never been worse. Additionally, I frequently hear from small business that, despite the enactment of the \$700 billion TARP program, credit is no easier to obtain. Given that most people think of small businesses as the engine that drives our economy, can the TARP program possibly be considered at all successful if those businesses are still not able to access credit?

There is no doubt that this financial crisis has prevented many small businesses with good credit histories and a record of making their payments on time from accessing the capital they need to make payroll and maintain or expand their operations. A major goal of Treasury’s efforts to stabilize the financial system, restart secondary markets, and ensure banks have the capital necessary to lend, is to get credit flowing again to the small businesses that have always been critical to job creation in our country.

Treasury has – working very closely with the Small Business Administration (SBA) – already started implementing a strategy to reverse the steep drop-off in SBA lending and activity in the SBA secondary markets. Treasury put forward an overall strategy that included temporarily eliminating fees for 7(a) borrowers and increasing loan guarantees to 90 percent, in combination with an aggressive effort to get secondary markets flowing again. The temporary fee elimination and the increase in loan guarantees have been instituted as part of the Recovery Act, and it is my understanding that a new \$15 billion initiative to unlock secondary markets will be operational shortly.

There is already some evidence that lending conditions may be improving for small businesses. Average weekly loan volumes for the SBA’s 7(a) program have increased by 28 percent compared to the period from January to mid-March. But President Obama and Secretary Geithner recognize that many businesses are still struggling to get loans – and in particular, to maintain their lines of credit. If confirmed, I am committed to working with my colleagues at Treasury to focus on new ways to increase the availability of credit to small business owners across the country.

Are you worried that the current administrations stated preference to raise taxes on filers with more than \$250,000 in annual income will hurt the ability of small

businesses to hire additional workers and retain current workers? Secretary Geithner and other in the Administration have said that only 2% of small businesses will be affected by the tax hikes on the top two rates contained in the President's budget. What is the source for that statement? Is this 2% figure accurate? The Joint Committee on Taxation states that 55 percent of the revenues raised by hiking the tax rate on the top two rates comes from flow-through business income. Do you acknowledge that even though a relatively small percentage of small businesses are affected by these tax hikes, that the larger small businesses, which are most likely to make more than \$250,000, and therefore are most likely to have their taxes increased, involve more jobs? In other words, in terms of job creation and retention, do you see a distinction between an S corporation manufacturing business with 450 employees that makes \$450,000 in income and a part-time sole proprietorship with no employees that makes \$5,000 in income? All other things equal, will increasing taxes on these small businesses increase or decrease employment for these businesses?

The President believes that small businesses are critical engines of job creation and economic growth, and he is committed to ensuring that small businesses have the support they need to compete in an increasingly global economy. In keeping with that commitment, the Administration has proposed a series of tax cuts for small businesses, both in the Recovery Act and in the President's Budget, including providing capital gains tax cuts for small business owners, expanding the Net Operating Loss carryback provision for small businesses, and expanding bonus depreciation to help small businesses make new investments. As a result of these proposals, the vast majority of small business owners will receive tax cuts, including from the Making Work Pay tax credit.

It is the case that the President's Budget is allowing marginal tax rates for those with income over \$250,000 to essentially return to the level they were at in the 1990s (with a lower dividend rate), a period in which there was significant small business creation and very strong job growth among small businesses. My understanding is that this change will affect less than 2 percent of small business owners. That number is based on a count of those taxpayers who have income from sources associated with small businesses, such as partnerships, S corporations, and sole proprietorships, and has been confirmed by the Treasury and by independent sources. Moreover, 81 percent of taxpayers in the top two brackets with flow-through income who will pay higher taxes because of an increase in the top bracket rates have adjusted gross income greater than \$500,000.

President Obama and Secretary Geithner appreciate the importance of job growth for both small entrepreneurs and quickly-expanding small businesses. Obviously, resources devoted in any year to wages and benefits of employees are a business expense and not subject to tax. It is the Administration's goal to create an environment in which every small business has the opportunity to succeed, and, if confirmed, I will be very interested in working with the Committee to explore additional ways to support small businesses.

Question 12:

One of the Administration's key selling points for the American Recovery and Reinvestment Act was its potential to save or create between 3 million and 4 million jobs. On January 10, 2009, Christina Romer and Jared Bernstein asserted, "In light of the substantial quarter-to-quarter variation in the estimates of job creation, we believe a reasonable range for 2010Q4 is 3.3 to 4.1 million jobs created." On February 9, 2009, President Obama emphasized that "the single most important part of this Economic Recovery and Reinvestment Plan is the fact that it will save or create up to 4 million jobs, because that's what America needs most right now." The Administration's assumption is that 90% of those jobs would be created in the private sector. However, on March 10, 2009, in a closed door meeting with House Speaker Nancy Pelosi and Democratic House leaders, Mark Zandi of Moody's.com and Allan Sinai of Decision Economics, Inc. estimated that the stimulus bill would save or create only 2.5 million jobs in the first two years.

The Administration's job creation forecast was based on its assumption (articulated in the President's Budget) that the unemployment rate would peak at 8.2% in the second and third quarters of 2009. With reports today that the unemployment rate has jumped to 8.9%, what, if any, revisions would you make to the Administration's estimated number of private-sector jobs created or saved by 2010 as a result of the American Recovery and Reinvestment Act?

Precisely how is the administration determining whether a job has been "saved"?

The Administration's assessments of GDP growth from the Recovery Act are based on the responses of well-respected, mainstream models of the U.S. economy. The estimates of jobs created or saved are based on a conservative rule of thumb about how jobs would respond. That was a deliberate choice, to avoid over-predicting job gains. As mentioned earlier, economic forecasts are inherently uncertain.

Estimating the Recovery Act's effect on jobs created and saved depends not only on how much stimulus is applied to the economy, but also on how quickly the stimulus affects spending. Forecasters who estimate smaller job gains may have different views about how fast stimulus funds can be applied to the economy. The Administration has accelerated both the tax cuts and the spending from the Recovery Act relative to what many economists thought was possible when these measures were being discussed. Tax cuts were in place as of April 1 (some even earlier), one-time \$250 payments to Social Security recipients are going out this month, and program-related outlays are ramping up, and were up to nearly \$30 billion as of early May.

While the Administration will revise its economic forecast later this summer, as part of the established process of the Mid-Session Budget Review, the estimates of the jobs saved or created would not change significantly with a different starting point. It is my understanding that the estimate of 3.5 million jobs created or saved is relative to a baseline that does not include the Recovery Act and that if the economy without the Recovery Act were to be worse than the baseline, the approach used by the

Administration would, to first approximation, still estimate that 3.5 million jobs will be created or saved.

Delegation of Customs Authority

Question 13:

Are you aware of the role that the Department of the Treasury has in customs affairs?

I am aware of the role that the Treasury has in customs affairs. When I last served at Treasury, the Department represented approximately 40 percent of the total law enforcement officers of the Federal Government. Since that time, while Customs was transferred from Treasury to the Department of Homeland Security (DHS), Treasury retained legal authority for "customs revenue functions," which include those matters involving collection of revenue and regulation of trade for economic purposes. I understand that Treasury has delegated authority of day-to-day operations to DHS but retains sole authority to approve regulations and reviews certain classes of regulations. Treasury also plays a role in the future direction of Customs commercial operations through its role as chair of the Interagency Board of Directors for the International Trade Data System (ITDS).

Question 14:

How well do you think the delegation of customs authority by the Department of the Treasury to the Department of Homeland Security is currently working? Do you have any recommendations for improving the current system?

While I am not deeply familiar with this issue, my understanding is that cooperation on customs revenue functions has been fairly effective overall but that there is room for improvement. If confirmed, I look forward to working with you and your staff to discuss this issue further and would welcome any recommendations that you may have.

Relationship with the Department of Homeland Security

Question 15:

What is the optimal relationship between the Department of the Treasury, the Department of Homeland Security (particularly U.S. Customs and Border Protection), and the Office of the United States Trade Representative, with respect to the development and administration of our domestic customs laws and regulations, as well as our international obligations with respect to customs matters?

The optimal relationship among these agencies is one of partnership and close cooperation. I understand that Treasury staff is in regular contact with both the Department of Homeland Security and the Office of the U.S. Trade Representative. If

confirmed as Deputy Secretary. I will take inter-agency coordination very seriously, and I look forward to strengthening cooperation and partnership as appropriate.

Question 16:

Can there be better coordination among the Department of the Treasury and the Department of Homeland Security, U.S. Customs and Border Protection, and the Office of the United States Trade Representative, with respect to customs matters? If so, how?

If confirmed as Deputy Secretary, I will take inter-agency coordination very seriously, and I look forward to strengthening cooperation and partnership wherever needed. I also look forward to learning more about any potential challenges or obstacles to optimal coordination and, if confirmed, I would welcome any recommendations that you or your staff might have.

Question 17:

If confirmed, will you commit to strive to improve the coordination and cooperation among the four bureaucracies? Is there anything that the Finance Committee can do to help to improve these working relationships?

If confirmed, I commit to strive to improve coordination and cooperation. Further, if confirmed, Treasury staff and I will work with the Finance Committee in seeking to improve these working relationships.

ITDS

Question 18:

Are you aware of the importance of the International Trade Data System? Do you believe that sufficient resources have been dedicated to the development of the International Trade Data System among the participating government agencies? Are you aware of any particular agencies that have not dedicated sufficient resources?

My understanding is that the ITDS was designed to eliminate redundant trade formalities and achieve significant efficiencies in trade processing by replacing the current practice where traders report separately to individual agencies (often on paper) with a single electronic filing and distribution to the appropriate agencies.

I understand that a status report of each agencies' situation and recommendations for accelerating implementation of ITDS was presented in the ITDS Report to Congress of October 2008. I am not aware of the current resources available to the agencies. If confirmed as Deputy Secretary, I look forward to learning more about this issue and to working with the Committee.

Staffing

Question 19:

Do you have any concerns that current staffing levels at U.S. Customs and Border Protection are not sufficient to administer fully the customs authority delegated by the Department of the Treasury to the Department of Homeland Security?

While I look forward to examining this issue more fully if I am confirmed, I do not at present have sufficient knowledge of staffing levels at the agencies. If confirmed, I will review the administration of the customs revenue functions to ensure that the authority delegated by Treasury can be effectively administered.

FINANCE COMMITTEE QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance
Nominations Hearing for Neal S. Wolin
May 8, 2009

Questions From Senator Cornyn

The Administration has accepted applications from private sector companies and individuals seeking selection as fund managers under the planned Public-Private Investment Partnership (PPIP). Under the PPIP, Treasury and private investors will enter into partnerships to purchase troubled mortgage-backed securities from the various financial institutions that hold these toxic or legacy assets in an effort to free up the credit market and get these institutions to start lending again.

However, the program has faced questions from a variety of organizations, especially about the requirement that potential fund managers already have a minimum of \$10 billion in toxic securities under management. Although Treasury appears to have backed off this criterion to an extent, the lack of overall transparency in the selection process has led many organizations and Members of Congress on both sides of the aisle to wonder whether or not the Department already has in mind a shortlist of firms they will select.

For example, The Wall Street Journal stated in an April 1 editorial, "None of this bodes well for the bank rescue. The purpose is to create new buyers for these toxic securities, a process that, in Treasury's own words, will lead to better 'price discovery.' The best way to accomplish that is with highly competitive bidding that includes any player with a solid track record in handling distressed assets. The weaker asset-holding banks are already wary of selling into this program, worried that low bids will result in big losses that will further hurt their balance sheets. They will be even less likely to take part if only a handful of managers, who have every incentive to keep prices low, are doing the bidding."

Question 1:

First, I notice that the PPIP application does not request a description of all assets currently, or historically, under management. A broader assessment of the manager's current assets under management might provide a better reflection of an institution's readiness to manage specific asset categories, such as Residential Mortgage-backed Securities (RMBS) or Commercial Mortgage-backed Securities (CMBS). What are your views on Treasury conducting a wider assessment?

It is my understanding that Treasury's goal in selecting managers is to identify those who will best enable the program to succeed. As you suggest, this will require a broad and thorough assessment of the capabilities of both the applicant institutions and the specific managers who will be working on the Securities Public-Private Investment Fund. The

assessment will include consideration of all of the assets under management, as well as an evaluation of the historical experience of the relevant individual managers.

Question 2:

Second, how much relevance should be given to the assets that are currently under management of a given firm in relation to the size of the fund to be created by that manager? Are similar asset classes as meaningful in determining the capabilities of the manager?

It is my understanding that Treasury's process is designed to select the best managers. This evaluation will include consideration of a number of factors, including the relative size of the proposed fund compared to assets currently under management. Experience with similar asset classes is another factor that will be considered. These factors will be evaluated in the broader context of the applicant's full profile.

Question 3:

Furthermore, some observers have questioned whether there may be a bias towards large institutional fund managers in the PPIP. Do you agree with this criticism? Are large institutions presumed to be more stable or are they presumed to be able to raise large amounts of capital more quickly? Are they presumed to be better managers of these assets?

It is my understanding that Treasury is seeking to find the best managers who will make the program as effective as possible. In selecting managers, Treasury will look for demonstrated capacity to raise private capital, experience investing in eligible assets, and operational capacity to manage the funds in a manner consistent with Treasury's stated investment objectives, while also protecting taxpayers.

I believe that Treasury has encouraged asset managers to partner so that larger firms partner with smaller firms to bring specific investment expertise, distribution relationships, or other services to the table. As Treasury announced publicly last week, many managers have chosen to submit applications that reflect partnerships of this kind.

After the initial pre-qualification of Fund Managers, Treasury is considering opening the program to other Fund Managers and may adjust the requirements to best meet the needs of the program and encourage participation.

Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)

Last month, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) issued his most recent quarterly report. In the report he made a number of recommendations that he thought would improve accountability and transparency in the TARP. He also mentions that the Department of Treasury has

rejected a number of his recommendations. For example, the SIGTARP highlights that Treasury refuses to adopt his recommendation that all TARP recipients be required to: (1) account for the use of TARP funds; (2) set up internal controls to comply with such accounting and; (3) report periodically to Treasury on the results, with appropriate sworn certifications.

Question 4:

Do you agree with Treasury's position? If so, why?

It is my understanding that the recommendations made by the Special Inspector General for TARP raise important points that have been helpful to Treasury in structuring and documenting transactions under the programs. Treasury staff meets regularly with representatives of the Special Inspector General for TARP to brief them on program development and implementation. If confirmed, I will work to ensure that Treasury gives all of the comments and suggestions made by the Special Inspector General for TARP serious and thoughtful consideration. Treasury has already adopted many of the recommendations of the Special Inspector General for TARP – particularly those pertaining to potential program vulnerabilities and compliance issues.

In order to promote confidence in these programs and protect the public interest, Treasury has introduced a number of initiatives designed to increase transparency and accountability. An important element of Treasury's commitment to transparency is communicated through the monthly lending and intermediation survey and snapshot, which was launched in January 2009. This initiative helps the public easily assess the lending and intermediation activities of banks participating in the Capital Purchase Program. The snapshot captures data from the 21 largest recipients of investments under the Capital Purchase Program. In March 2009, the snapshot program was expanded to include all banks participating in the Capital Purchase Program, including more than 500 small and community banks across the country.

Participants in the Capital Assistance Program must submit plans demonstrating how they intend to use their capital to preserve or strengthen their lending capacity compared to what it would have been but for government capital assistance. These institutions must also detail their lending in monthly reports broken out by category, showing the volume of new loans they provided to businesses and consumers and how many asset-backed and mortgage-backed securities they purchased, accompanied by a description of the lending environment in the communities and markets they serve.

Question 5:

Are there any recommendations made by the SIGTARP in its quarterly report that you think Treasury should reject as well? If so, which ones and why?

As I understand it, Treasury is currently in the process of evaluating the recommendations in the latest Special Inspector General for TARP report. If confirmed, I commit to working with the Special Inspector General for TARP. The work performed by the Special Inspector General for TARP is important to ensuring that Treasury's financial stability programs are transparent and accountable, and that they best serve the public interest. Treasury should adopt recommendations made by the Special Inspector General for TARP that can be implemented consistent with the goals of ensuring financial stability and economic growth.

