

NOMINATION OF LAWRENCE H. SUMMERS

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

LAWRENCE H. SUMMERS, TO BE SECRETARY OF THE TREASURY

JUNE 17, 1999



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NOMINATION OF LAWRENCE H. SUMMERS, TO BE SECRETARY OF THE TREASURY

THURSDAY, JUNE 17, 1999

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

The hearing was convened, pursuant to notice, at 10:06 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Hatch, Murkowski, Nickles, Gramm, Lott, Mack, Thompson, Moynihan, Baucus, Rockefeller, Breaux, Conrad, Graham, Bryan, Kerrey, and Robb.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order.

I am very pleased to welcome everyone here for the nomination hearing of Lawrence Summers. Larry, of course, has been serving as Deputy Secretary of Treasury, and has been nominated to replace Robert Rubin as the Secretary of Treasury.

Larry, you are no stranger to this committee. During your 6 years at Treasury, including your last four as Deputy Secretary, you have appeared in front of us a number of times, all of them great fun, I know. But your intellect and impressive resume are a matter of public record. I understand that you were the youngest professor in history to be granted tenure at Harvard, at the age of 28. What was wrong with you, Pat? [Laughter.]

Senator MOYNIHAN. Well, look at the difference.

The CHAIRMAN. You also won an award for the Best American Economist under age 40. You have served in high-level positions in this government. I could go on and on, but I want to make sure we have time for questions.

At this time, Larry, I thought it would be enjoyed by all of us if you would introduce your wife and children.

Mr. SUMMERS. Thank you very much, Mr. Chairman. I would like to introduce my wife, Vicky Summers, my daughters, Pam and Ruth Summers, and my son—

Senator MOYNIHAN. Who is that fellow with the red tie?

Mr. SUMMERS [continuing]. And my son, Harry Summers, with the red power tie.

The CHAIRMAN. I can tell he is all boy.

Mr. SUMMERS. And Cheryl Ellis, who has become part of our family.

The CHAIRMAN. Let me welcome each of them. It is a pleasure to have the family here. This is a big day, I know, for the entire family. Thank you for joining us.

At this time, I would now like to turn to you, Senator Moynihan.

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

Senator MOYNIHAN. Thank you, Mr. Chairman. With the same spirit and enthusiasm that you have shown, I would like to suggest that the nominee, perforce, who will be the 71st Secretary of the Treasury, will probably be only one of half a dozen economists ever to hold that position. I think it certainly is fair to think of Hamilton as having been an applied economist.

It is important that Mr. Summers, having had a distinguished academic career, has of late moved more into public service. He was on the staff of the Council of Economic Advisors under President Reagan, and, if you want to add terror to the prospect of public service, under Martin Feldstein.

He was vice president of the Development Economics and Chief Economist at the World Bank. Then he served under Secretary of Treasury Lloyd Bentsen, our colleague and dear friend, as the Under Secretary for International Affairs. He moved on to his present position, and is now before us in a grand sequence. We wish him every possible success, and will hold our questions for later, sir.

The CHAIRMAN. At this time, we will swear you in. Mr. Summers, would you please rise and raise your right hand?

[Whereupon, Mr. Lawrence H. Summers was duly sworn.]

The CHAIRMAN. Thank you. Please be seated.

Mr. Summers, we would now ask you to proceed with your opening statement.

**STATEMENT OF LAWRENCE H. SUMMERS, NOMINATED TO BE
SECRETARY OF THE TREASURY**

Mr. SUMMERS. Thank you very much. Chairman Roth, Ranking Member Moynihan, members of this committee, I am grateful for the opportunity to appear before you again today in connection with my nomination to be Secretary of the Treasury. I am greatly honored by the trust in me that the President has demonstrated by nominating me to follow in the distinguished tradition of Lloyd Bentsen and Robert Rubin.

For the past 6½ years, I have served at the Treasury Department. From 1993 to 1995, I served as Under Secretary of International Affairs under Secretary Bentsen, where my focus was on international financial issues.

For the past 4 years, I have served as Secretary Rubin's deputy. In that capacity, I have participated in the formulation of the administration's economic and budget strategy, and worked on Treasury priorities ranging from debt management to protecting the Nation's borders, as well as working actively on international issues.

It has been an immense privilege for me to work with President Clinton and the other members of his economic team, with the Fed-

eral Reserve, and with this committee, along with others in Congress, to put in place a core economic strategy for our country.

That strategy has been based on macroeconomic stability and fiscal discipline. It has been based on critical public investments, particularly in education. It has been based on a recognition of America's interests in open markets and stable, strong growth around the world.

Mr. Chairman, while important challenges remain, we in the United States can never afford to be complacent. The strength of the American economy in recent years stands out. Powered by the initiative and enterprise of American workers and business and our market system, we are enjoying the lowest rates of inflation and unemployment in a generation.

We have seen the restoration of American economic leadership around the world. Most important of all, for the past several years, we have seen the fastest growth in the real earnings of American families in a quarter century.

Mr. Chairman, I know that we can all acknowledge the remarkable contributions that Secretary Rubin has made to our economy over the past 6½ years. At Treasury, on the economic issues, and the others we face, the right course has been set. Our challenge will be to carry on.

If confirmed as Secretary, I will focus on five priority objectives. First, maintaining a strong economic strategy based on continued fiscal discipline and the use of this moment of opportunity to address the long-term problems facing Social Security and Medicare.

Second, ensuring that a strong economy translates into growth in the living standards of American workers and their families, and that no part of this country or group of Americans is left behind.

Third, building a strong, stable, and growing global economy on which American prosperity and security ultimately depend, while at the same time working to ensure that global integration benefits American workers, farmers, and businesses.

Fourth, striving to ensure that the American financial system is as safe, competitive, and efficient as possible in meeting the needs of American consumers and businesses.

Fifth, supporting the tradition of excellence and integrity at the Treasury Department in both the career and the political staff that I have come to so much admire during my six and a half years at the department.

I might just acknowledge that no one exemplifies that tradition more than the director of the ATF, John McGaw, who has served in the Treasury Department, in the Secret Service, and in the ATF, who is with us here this morning.

Mr. Chairman, it has been my privilege, both as Under Secretary and as Deputy Secretary, to work with this committee on many issues. If confirmed, Stu Eizenstat and I look forward to working as a team closely with you in the future, and with others in the Congress, on the full range of challenges that we face.

None of us could do these jobs without the support of our families, and I want, once again, to thank mine. Mr. Chairman, I am grateful to you for bringing me before this committee, and I would be pleased to respond to any questions that you or members of the committee may have.

The CHAIRMAN. Larry, I will start out with three standard questions we ask every nominee.

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

Mr. SUMMERS. No.

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

Mr. SUMMERS. No.

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

Mr. SUMMERS. Yes.

Senator MOYNIHAN. He got those right. [Laughter.]

The CHAIRMAN. That is the reason he got tenure so early.

Senator MOYNIHAN. Yes.

The CHAIRMAN. Besides the oral questions, Larry, that we will be asking you, I, and I suspect probably some others, will have written questions for you. I will get my questions to you shortly after this hearing. In order to expedite the committee's consideration of your nomination, I would ask you to provide us with a written answer to these questions by noon on Monday, June 21.

[The questions and answers appear in the appendix.]

The CHAIRMAN. Larry, you have some big shoes to fill. Secretary Rubin was an extremely effective and respected Secretary of the Treasury. You pointed out, you had the benefit of serving as his Deputy for four years.

As you prepare to assume the top job, what lessons have you learned? Are there significant differences between Secretary Rubin and you, and if so, what should we expect to see?

And let me ask you this related question. One of the most important components of the American and global economy is, of course, Wall Street, the financial industry, the markets. At the same time, it is also one of the least understood and, at least to me, unpredictable segments.

Because of Secretary Rubin's long and distinguished career on Wall Street, he had their confidence. You do not have, of course, the same background. Is that going to be a problem? If so, how do you plan to address it?

Mr. SUMMERS. Mr. Chairman, I have been privileged to work closely with Secretary Rubin over the last four years on all aspects of the Treasury's economic policies and we share a common orientation with respect to economic policy and, I might say, a common orientation with respect to the Treasury Department more broadly.

Crucial elements of that common orientation are a commitment to macroeconomic discipline. That means a recognition of the importance of maintaining budget surpluses, respect for the independence of the Federal Reserve, and recognition that a strong currency is in our national interest.

It means also, and I think this is a very important point, an emphasis on the long-run fundamentals of our economy and building as strong, long-run fundamentals as we can. If we are able to do

that, while markets will fluctuate, our economy will be strongest in the long run.

It means also, and this is one of the things that I was able to identify as one of my priorities, respect for the Treasury Department as a great institution in maintaining and building on the greatness of that institution.

I think we are only able to do that if we focus on what is best for the national interest and recognize that certainly the best way to get things done is through bipartisan cooperation, something to which I will be very much committed.

The CHAIRMAN. Well, I am happy to hear that, because I think this committee believes it is critically important to work in a bipartisan manner.

Let me turn, if I might, to the global crisis that we have been enduring. Many countries around the world have gone through significant turmoil and are now only beginning to show signs of recovery. Of course, you have played a key role, formulating the U.S. and international response to these problems.

As you look back, what lessons have you learned? For instance, did the U.S. policy of promoting free capital flow contribute to the problems? Have the international bail-outs simply encouraged irresponsible lending practices? As we go forward, should our international recommendations mirror what we are trying to achieve for economic growth at home, namely low tax rates, stable currency, and free trade?

Mr. SUMMERS. Mr. Chairman, the events of the last few years are unprecedented and enormously complex. We understand them better today than we did a year or two ago, and I am sure we will understand them much better in several years.

But I think the single lesson that stands out most is the importance of strong national policies for economic outcomes. Where countries are able to put in place strong policies, they are able to attract and retain capital. Where that is not possible, greater difficulties come in.

In terms of what we need to do to promote strong policies and promote American interests, a first crucial requisite has to be working to promote transparency globally. If you look at the history of our own capital market, I would suggest to you that the most important innovation for making it work is generally accepted accounting principles.

Because those principles make surprises much less likely by forcing disclosure, because, as it has been said, conscience is the knowledge that someone is watching, and that which has to be disclosed is much more likely to be done in the right way.

We have made a major effort, and are making a major effort, to promote transparency globally, along with promoting better, stronger regulation and controlling the set of practices that have come to be labeled under the term "crony capitalism" that led to such substantial difficulties.

Certainly, Mr. Chairman, I would agree with what you said, the importance of macroeconomic stability of relying on market forces as a way of promoting growth, of limiting budget deficits. These are a very complex subject.

We are also looking very hard at the supply of capital, at the tendency towards excess risk taking, steps that can be taken in that area, and at the role of the private sector when crises come. I think this whole question of the international financial architecture will be crucial for some years to come.

The CHAIRMAN. Let me turn a moment to the IMF. As you are well aware, many people have criticized the fund for a cookie cutter approach to economic problems, prescribing the same medicine for different ailments. Do you agree with that assessment? How would you evaluate recent IMF actions, such as in Russia? Do you believe that we need any specific reforms in the IMF?

Mr. SUMMERS. Mr. Chairman, I certainly believe, as the management and staff of the IMF do, that there is room for improvement and room for learning from the lessons of experience.

I think we can all take some satisfaction from the fact that those countries—Mexico, Korea, Thailand—that have been able to carry through on their commitments to the IMF have proven to be much more successful economically and are enjoying recoveries of a kind that we are not seeing from those countries who were not able to live up to their commitments to the IMF, for example, Russia, or over a substantial period, Indonesia.

But I think we have seen in the recent experiences that these kinds of financial problems have roots that go beyond the fiscal element and heavily involve financial systems, and the ways in which those national financial systems intermediate flows of capital. That will be an issue that will have to be a much larger part of the IMF's response to these crises. If you like, more microeconomic than macroeconomic in the future.

I also think that we have seen that the role of the private sector in resolving these crises is essential. The IMF will have to work to ensure that, in an appropriate way, private sector actors and financial institutions take their role in the resolution of crisis.

I think, if I could just add one thought, Mr. Chairman, that a number of the steps that were embodied in the IMF quota legislation that the Congress passed last year will be very constructive.

The emphasis on premium or penalty interest rates in the case of large support programs, the emphasis on conditionality that gets at issues of corruption and governance, the emphasis on trade liberalization and growth-oriented strategies are all elements in which I would expect to see the IMF evolve, and certainly those kinds of changes will be things that we will be pushing very hard.

The CHAIRMAN. Let me turn a moment to savings. Despite the fact that our country has been enjoying prosperity, recent reports show that Americans are continuing to spend more than they save. Alan Greenspan says that the Nation's saving rate is our number one economic problem.

In line with the importance of encouraging savings, I want to prioritize tax incentives for savings and retirement security. Do you agree as to the importance of encouraged savings, and if so, how would you square that with what I consider the relatively modest tax incentives for savings in the administration's budget? What would you propose that we do?

Mr. SUMMERS. If I could just, first, inject a personal note, Mr. Chairman. My own first experience with this committee came, I be-

lieve it was, in 1987, when, as a professor of economics, I had an opportunity to testify at a hearing with Chairman Bentsen and yourself, when the subject of the day was the IRA. My function was to explain what a serious problem America's low national and personal savings rate was, and how important it was to move forward with IRAs.

Certainly in my economic work and during my time at Treasury, I have come to very strongly hold the view that increased savings is important as a macroeconomic imperative because it is the only way to finance increased investment for growth without borrowing from abroad and the dislocations that it represents, and at a time when the baby boom generation is facing maturity and life spans are increasing, to ensure retirement security for all of our citizens. I think we made, with your leadership, Mr. Chairman, important progress in promoting savings. I think these are areas where we need to look further.

The administration, for example, has included proposals to support and encourage payroll deduction IRAs to help motivate employers to get their people involved in IRAs, and Roth IRAs. The administration has worked to promote much greater pension accessibility.

Of course, Mr. Chairman, the administration has come forward with a proposal for universal savings accounts, which has some elements in common with your own PRA proposal that seeks to make this universal and to reach the nearly 70 million Americans who do not now have access to pensions or 401(k)s and are not yet involved in IRAs.

It seems to me that, as we look at what is really an important issue for us, the negative personal savings rate in our country, that getting all Americans and not just a portion of our population involved in savings and finding the best way to do that have to be a priority, both for American families and for the national economy. It is something I will be very much committed to working on.

The CHAIRMAN. Well, I am encouraged. I think this is a highly important proposition for the future welfare of this Nation. I have a couple of more quick questions I want to ask.

We have talked a lot about global issues. At the same time, we must not forget that the Treasury Department oversees the Internal Revenue Service, an entity that directly affects every American citizen.

Now, the Treasury Secretary is an ex-officio member of the newly-created, but not yet functioning, IRS Oversight Board. We in Congress, as you well know, are committed to seeing through the important reforms that are already taking place in the IRS. I happen to think we have a very good man in the Commissioner.

But I would like to ask you, Larry, do you share that commitment, and would you describe what you will do to make this reform a reality?

Mr. SUMMERS. Mr. Chairman, I share the commitment. One of the things I am proudest of during my tenure as Deputy Secretary was my role in helping to recruit Charles Rossotti to become the IRS Commissioner, because I think he has really been a very powerful force for change toward modernization and toward customer service, in particular, at the IRS.

I have had the opportunity to chair the internal board with respect to the IRS that has been in place, and look forward, if confirmed, to getting the Oversight Board called for in the legislation up and running as rapidly as possible and to taking my role as an ex-officio member.

I think we are seeing some very important signs of progress at the IRS, the rate at which the phones are being answered, in substantial increases in electronic filing, in culture change toward a culture of providing advice, walk-in centers that provide advice, problem resolution day.

I know that many of the provisions that were contained in the IRS reform legislation, such as the proposal for innocent spouse relief, are removing important and wrong burdens from thousands of families.

But, clearly, as Commissioner Rossotti has recognized, we have a long way to go. I believe the reorganization that he is driving towards, a line of business approach that will distinguish between needs of households and the needs of large companies, as the IRS crafts its response, will make a very large, positive difference.

I, as Secretary, will be committed to working with him, as I have worked closely with him during my time as Deputy Secretary, to create an IRS effective in carrying out its mission of collecting the taxes that are owed, and doing that mission, but doing so in a way that is as unintrusive as possible.

I believe, with better strategic targeting, we can impose fewer burdens on the vast majority of taxpayers who pay what they owe, and at the same time assure all taxpayers that what is owed is collected.

The CHAIRMAN. Reform is going to take, and need, the active support of the Secretary of Treasury. So I cannot underscore or emphasize too much how important your leadership is in this area.

Let me just say on that matter, I think it is important that we get the Oversight Board functioning. That is something that Senator Grassley and Senator Kerrey played a key role in developing. But I regret to say, it is not yet functioning. I think that is a must.

Finally, let me ask you a couple of questions with respect to Social Security and Medicare reform. Nothing is more important than assuring the viability of these two critical domestic programs.

Will the administration be offering a comprehensive reform bill on Social Security, and if so, when? Likewise, with respect to Medicare, does the administration plan to offer a comprehensive reform bill on Medicare, and if so, when?

Let me emphasize, Larry, that these are two burning problems that is essential we move on, and it is essential that we move on in a bipartisan way with strong administration leadership.

Mr. SUMMERS. Mr. Chairman, all of us in the administration share your judgment about the importance of those programs. I identified that as one of my priority areas as Secretary of the Treasury.

The President and the administration are committed to carrying forward the process on these programs in the best way possible. The President's budget lays out a framework for addressing the Social Security issue and making substantial contributions to long-term solvency.

I do expect that, sometime in the near future, the President will offer some further, quite specific plans with regard to the Medicare program.

The CHAIRMAN. I cannot emphasize too much the need for a specific plan if we are really going to act positively.

Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman. I think you would probably agree that sometime in the near future may be too late. I mean, this is June, sir.

On that point, we had some recent information about the cumulative effect of our 1993 budget reconciliation with the tax measures and program reductions that came out of this committee. They were anticipated to produce savings of \$500 billion over a 5-year period.

Now it turns out to be more like \$1.2 trillion, a virtuous cycle, as it has been called, as it became clear the deficits were not going to be indefinite, we were going to monetize the debt, interest rates fell, investment grew, with that consequence.

Would you not agree that if we can use the existing surpluses, the Social Security surplus which has been there since 1977 and only now is beginning to be recognized, and is growing because of the economy, to pay down the debt? If we were just to save the Social Security surplus in the next 10 years, we would retire more than half the national debt, is that not right? Would that not be something we could agree on and all understand?

Mr. SUMMERS. Senator, I think it is very important that, as you suggest, we do reduce the national debt by the full amount of the Social Security surpluses, which would continue this virtuous circle by reducing interest rates, which makes possible more growth, which makes more tax collections, which makes larger surpluses, which makes lower debt, which reduces interest rates, which starts the cycle going again. That is an enormously important process.

But my hope would be that we could go beyond that in several ways. We could go beyond that by achieving surpluses, even in excess of the Social Security surplus, so as to have even greater debt reduction. That is what the plan in the President's budget would do.

My hope would be that we could also find ways of extending the solvency of the Social Security program and extending the solvency of and modernizing the Medicare program. Because my belief is, Senator Moynihan, that while forecasts are always uncertain and I think we always have to be mindful of the prospect of a rainy day, that the magnitude of the surpluses that are in prospect really make it imperative for all of us, in a bipartisan way, to think about what kind of framework is best for us to operate in during this period of surplus, and certainly not to make any commitments of the money in those surpluses until we have the right kind of overall framework in place, a framework that addresses the future needs of both the Social Security and the Medicare programs.

That, of course, is what is behind the Save Social Security First commitment to the President and the approach that he laid out in the State of the Union. But public debt reduction is absolutely, as you suggest, at the center of all of that.

Senator MOYNIHAN. If you are looking for some ideas, Senator Kerrey and Senator Breaux have some very specific ones.

Could I just ask one last question. Do I take it from your comments then that you would not be for a major tax reduction?

Mr. SUMMERS. Senator, I believe that any unpaid for tax cut would be imprudent.

Senator MOYNIHAN. I see. You would not want to see the on-budget deficit used for a tax cut. If you could pay for tax cuts in other ways, that would be different.

Mr. SUMMERS. That is exactly right. I believe that an unpaid for tax cut prior to establishing an overall framework for the surpluses that addresses Social Security and Medicare would not be prudent in a fiscal sense, and would not be prudent given the situation of our economy.

Senator MOYNIHAN. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Congratulations. I have enjoyed getting acquainted with you over the last few years. You seem more relaxed now than when I first got acquainted with you, and that you smile occasionally.

Mr. SUMMERS. There you go. [Laughter.] We will see whether I am smiling in a few minutes, Senator Grassley.

Senator GRASSLEY. If I could talk about something that is a little bit on the peripheral of your work, but because you are so close to advising the President on broad economic issues, I wanted to bring up something about bankruptcy, not in depth about the bill we have, but just the general problem of bankruptcy.

It comes from my serving on the Judiciary Committee and chairing the subcommittee that has primary jurisdiction over bankruptcy policy. As you probably know, this legislation will soon be before the Senate.

Would you agree, at least in a general way, with the proposition, in a macro sense, that bankruptcy is a way of transferring costs from one person, a bankrupt, to everyone else? In other words, would you agree that debt discharged in bankruptcy results in higher prices for goods and services as businesses have to offset losses?

Mr. SUMMERS. I think it is a complicated question, but certainly there is a strong tendency in that direction, and also towards higher interest rates for other borrowers who are going to pay back their debts.

Senator GRASSLEY. So, in a sense, debts discharged in bankruptcy result in higher prices for everyone, including the poor. When you have a system like we have now where affluent people can get their debts discharged, even if they could pay those debts in part or in full, would you not agree that such a bankruptcy system provides economic benefits to the affluent by requiring the poor to help pay for these benefits?

Mr. SUMMERS. Senator, I certainly would share the concern about what might be called "opportunistic bankruptcies" on the part of affluent individuals that then push costs onto the rest of the system. Certainly, I think, a society that believes, as I very strong-

ly think we should, in personal responsibility has to look carefully at its bankruptcy statutes as one aspect of that.

At the same time, I think we have to be appropriately careful with respect to those who genuinely are unable to meet their obligations to assure that they are not treated in an overly punitive way.

We have to make sure there is the right kind of treatment of particular categories of obligations. That is what we have worked to do as we in the administration have contributed to the bankruptcy legislative process. I think we are particularly supportive of a bill that was engaged in the Senate in the previous Congress, and in which I know you had a very large role.

SENATOR GRASSLEY. Yes. Before I move on to an IMF-directed question, I thank you very much for the statement that you made just a little while ago about the necessity for personal responsibility. I think that general statement from people of political leadership like you are, and we are, is very, very important.

Secretary Rubin recently outlined the administration's proposal for updating the international financial framework. Apparently, this plan involves a somewhat bigger and somewhat richer International Monetary Fund. Could you put some meat on the bones of this outline for us? More specifically, would this require new authority, new powers, and new responsibilities for the IMF?

MR. SUMMERS. Secretary Rubin's proposals and the proposals of the department, the ones I would support, would not call for any new funding for the IMF from the United States or from other countries. So, it would not be an expansion in that sense.

We have worked to update and modernize the different financial facilities of the IMF so as to make them responsive to the new kinds of problems we face, and, in particular, to try to enhance the IMF's role in functioning in a preemptive way to prevent crises rather than stepping in to respond to crises after they have taken place.

We have called for the IMF to take a role in working to resolve crises involving private creditors, and we have looked, as I had indicated in responding to the Chairman's question, at the question of IMF surveillance with regards not just to fiscal issues, but also with respect to the flow of capital and the danger that, when you have excessively short maturities, you increase the risk of financial panic.

SENATOR GRASSLEY. At a recent meeting, in preparation for this weekend's Cologne summit, the finance ministers from a group of seven countries came up with five principles governing future involvement of private sector creditors in resolution of financial crises.

One of these principles states that private sector lending decisions should not be based on expectations of official bail-outs. Do you endorse this and other principles agreed to at Frankfurt?

MR. SUMMERS. Yes, I do.

SENATOR GRASSLEY. What is your view on the role of private sector creditors in resolving financial crises?

MR. SUMMERS. Senator Grassley, I think I have to go back one step to answer that question. I think the best hope for a successful, well-functioning global economy is to have an economy based on

market forces, and that means the flow of private sector capital across international borders, which has enormous potential to bring with it technology to finance growth and development, and, I might say, exports from the United States.

I think our challenge at Treasury is to create the right kind of framework for the flow of private sector capital. That means recognizing, on the one hand, as we discussed in the context of personal bankruptcy, that there has to be a very strong presumption and obligation that money that is lent will be repaid, and that it is an obligation to meet debt obligations internationally, just as it is domestically.

In the case of financial crisis, when situations arise where a country is unable to meet its obligations, we believe that an appropriate response has to be determined on a case-by-case basis.

While there is no warrant or reason for bail-outs, it is also important to encourage policy reform and it is also important to prevent contagion and the spread of the problem and financial panic to other countries.

So we have supported a prudent, case-by-case approach that will, on occasion, involve the provision of finance, but it is designed, as I think your question suggests, to control the moral hazard problem, and certainly assure—and this is an important point—both internationally and within each of these countries that lending decisions are based on the strength of the underlying project of the underlying borrower and not any presumption or expectation of the availability of bail-out funds.

Senator GRASSLEY. Then on that point, and in sum, when, if ever, are official bail-outs of private sector lenders appropriate?

Mr. SUMMERS. There is never a rationale for bailing out private lenders for the sake of bailing out private lenders. There is, at times, a role for the provision of finance to countries in serious financial trouble who are also having trouble paying back their private sector lenders, because of the problem of contagion, because of the need to provide an impetus to policy reform. But the rationale for the provision of finance has to be controlling the risks to the global economy that are involved, not providing any kind of bail-out to the private sector creditors.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Next, we have Senator Breaux, to be followed by Senator Thompson.

Senator BREAUX. Thank you, Mr. Secretary. Welcome back. You have a beautiful family and some really wonderful children. We thank you for your willingness to continue to serve us in public office. Obviously, you are not doing this for the monetary gain that this position pays. Your wife is nodding approvingly in the back there. This is not why you are in public service, I know. So, we thank you for your willingness to serve.

Mr. SUMMERS. Senator Breaux, I think any thanks that are directed at me should also very much be directed at my family.

Senator BREAUX. Well, that is why I was mentioning them. I think it is important that they support you so strongly in this endeavor.

Tell the committee, and indeed, when you do so, tell the markets of the world why they should not be concerned about a professor assuming this extremely important profession.

I think that there would naturally be some concern, I think, that has been expressed by investment houses, the business community, and workers, and the people who run all of the markets that we have someone who does not come from their background or from their community, who all of a sudden will be in charge of monetary policy.

I know I have complete confidence in you. I want to say that up front. But what can you say to all of them to assure them that they should be comfortable with a professor, indeed, coming to this important post?

Mr. SUMMERS. Senator Breaux, I hope and believe that, while I did spend time in the ivory tower, I am not an ivory tower person. I have had the chance for six and a half years now to work very closely with Secretary Rubin and to work very closely with many people in the private sector, and to work closely with those in the markets as we have responded to the problems that have emerged in the emerging markets, and as we have carried out the Treasury's work in areas like debt management. I think there is some experience.

I think, for example, of someone who I know is admired very much on a bipartisan basis, George Shultz, of people who have come out of academic life and have been able to work effectively in government and in positions that influence financial markets.

But I feel that I have gained a great deal of experience from my contacts with them and, I'd like to think, trust on the part of many of those I have had a chance to work with in the markets.

Senator BREAUX. We are obviously projecting large surpluses in the budget of the United States, and some obviously argue that we should give some of that back to the taxpayer, indeed, if not give it all back to the taxpayer in the form of maybe across-the-board tax cuts.

One of the questions facing this committee and this Congress, indeed, the American public, is are we going to have a tax cut? If so, what type and what form should it take?

My concern, is I would like to do a little bit of everything, which is obviously what politicians like to do. I think some of that surplus should be used for Social Security, some of it needs to be used for Medicare, some of it, I think, is important to reduce the debt, which is what we do when we use it for Social Security and for Medicare, long-term debt.

What is your opinion of the viability of trying to do a little bit of everything? By that, I mean using some of the surplus of Medicare and Social Security, but also at the same time using some of it for a tax cut which would be targeted to where it can be most beneficial.

Mr. SUMMERS. Senator, certainly there is a case for a paid-for tax cut. The President's budget contains a tax cut targeted at what I think are some important issues: child care, long-term care, supporting school construction.

As for a tax cut that would be an unpaid-for tax cut, I think that is something that would have to be looked at only in the context

of an overall framework for handling the budget surpluses that lie ahead of us, and in the context of a framework where we have made progress, where we have achieved meaningful, long-term extensions of solvency with respect to both Social Security and Medicare. I think, without that it would be inappropriate for us to make a commitment of a kind that would likely prove to be almost irreversible.

I think it is important for us all to be mindful of the fact that, while we are very proud of the performance of the economy and very pleased with the projections of budget surpluses looking forward, these projections, as Senator Moynihan's statistics indicated a few minutes ago, reflect a quite favorable set of surprises on the upside.

As we saw during the 1980's, those surprises can go very much in both directions. I think the first focus for us is on reducing public debt and establishing the long-term framework.

I would just make one other point. That is, when we reduce public debt we are reducing future taxes, because when we reduce public debt we are reducing the interest payments that the Federal Government has to ultimately meet. So the steps that we take, just as borrowing is not a way of avoiding tax increases or spending cuts, it is just a way of postponing them, so, too, paying back public debt is a tax cut on future generations.

Senator BREAUX. I think managing the long-term debt is what we have to be really concerned about. Can we manage it? Is it out of perspective with what the gross national product of this country is? Some would argue that it is not.

Is there no way that you could support some program that attempts to address all of those concerns, maybe not as much in any one area than any one person would want, but do something on Social Security, do something on Medicare, and also do something with targeted tax cuts that help people who need it the most without having to raise taxes somewhere else in order to reduce them over here.

When we talk about paid-for tax cuts, a lot of times it means, just go raise taxes somewhere else so you can have a tax cut over here. I do not get really excited about that.

So the question is, is there not some way that something could be crafted for you to recommend that it be adopted that would attempt to do all of those using the surplus in a balanced fashion?

Mr. SUMMERS. Senator, the President's budget, as you know, takes meaningful steps with respect to Social Security and Medicare, and in the context of those steps proposes what would be, in addition to the paid-for tax cut, a quite significant further targeted tax cut.

Senator BREAUX. The USA accounts.

Mr. SUMMERS. The President's USA's proposal, I believe, has the potential to build on the work this committee has done over many years with respect to our system of incentives for savings and universalize it.

So, yes. The President's budget provides an example of an answer to your question that suggests that we can address each of these issues. But what I feel very strongly about is that it would be wrong for us to start in discussing tax cuts until we had agreed

on some overall framework, and that that was an overall framework that addressed the long-term needs of both Social Security and Medicare.

Senator BREAUX. Well, I enthusiastically support your appointment and look forward to working with you. Thank you.

The CHAIRMAN. Next, we have Senator Thompson, to be followed by Senator Mack.

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

Mr. Summers, good morning. We had a chance to chat briefly about some of the issues that I was interested in. I certainly appreciate that time. I appreciate your mentioning again today the potential role of the private sector with regard to international crises, and our discussions concerning transparency and some things that might be done.

However, I have a couple of other areas I would like to cover with you today. I am tempted to follow-up on Senator Breaux. I agree with him. I believe this concept of paid-for tax cuts has never been one that I have totally understood, to tell the American people that we will give you a tax cut as long as you pay for it. But that is a separate subject, I suppose, that perhaps we can discuss another time.

I would like to talk about some of the management issues, challenges, I guess we call them nowadays, that Treasury has that you will be inheriting. As chairman of the Governmental Affairs Committee, we asked the GAO to analyze the Treasury Department's year 2000 performance plan under the Government's Performance and Results Act.

As you know, under the Government's Performance and Results Act that we passed a few years ago, we are trying to get departments to come up with their goals, what they are really trying to perform, and then to come up with plans every year as to how they are going to achieve those goals. Then we can go back and look and see and determine whether or not agencies, departments of government, are really being able to do what they want to do.

According to the GAO, Treasury's plan has improved very little, if at all, from last year's version and will be of limited use to the executive branch and Congressional decision makers. They rated Treasury's 2000 plan as one of the two least improved of the major agencies.

According to the GAO, the Treasury's 2000 performance plan contains no goals or measures to address four of the five high-risk problems, specifically those at the IRS. Speaking of the high-risk problems, as you know, GAO issues a high-risk list of the Federal activities that are the most vulnerable to waste, fraud, and mismanagement.

Five of these 26 high-risk problems, government-wide, almost 25 percent, are located in the Treasury Department. Four of the five relate to the IRS, and all of these five problem areas have been on the GAO high-risk list since 1995.

So we are not making a lot of progress here. I think that you would probably agree that we need to do better. I know we do not have time. This has not been, I am sure, in your portfolio in times past and we do not have time to discuss it in a whole lot of detail today. I am not asking you to do that.

But I certainly want to get your commitment to address this, get the appropriate people involved, and see if we cannot do better than keeping this department, that has achieved so much in so many other areas, on this high-risk list and not really carrying out the functions that it is supposed to be under the GPRA law.

Mr. SUMMERS. Senator Thompson, let me, first, assure you of my commitment with respect to the seriousness of these issues. I think perhaps it would be helpful for me to arrange a briefing for you with some of my colleagues from the IRS. While I am not familiar at all with the GAO report you are citing, the year 2000 issue is something Commissioner Rossotti and I have talked about a great deal.

My understanding is that, during the 1999 filing season, the one that was completed this April 15th, the IRS essentially instituted its Y2K compliance systems without substantial incident.

Senator THOMPSON. This does not really have as much to do with the Y2K problem, as such. It is just the plan for the year 2000 to comply with the GPRA requirements, of setting forth the plans for the department, and so forth.

Mr. SUMMERS. I am sorry. I misunderstood you.

Senator THOMPSON. It is not something that we deal with every day, but it is important.

Mr. SUMMERS. I misunderstood your question. It is important. I was referring to the Y2K problem. What you are referring to, I now understand, is the broad GPRA process.

Senator THOMPSON. Right. The Government Performance and Results.

Mr. SUMMERS. We will work very hard at Treasury to make sure that there are clear and measurable goals. That is something that I look forward to talking to you about.

Senator THOMPSON. Well, I appreciate that. We will work together on that.

The second, getting back to the IMF. I think we all understand and appreciate the balancing that we have to do when these financial crises arrive in balancing the financial meltdown potential on the one hand, versus the moral hazard we create when we rush in with money in some of these areas. I think we all probably agree that there is a proper IMF rule. Well, not all of us. George Schultz, who you cited a while ago, would not agree with that. But most, I would suppose.

It gets down to, what are the precise policies? What should the IMF be doing in a given situation? Obviously, the United States has a lead in that. It seems to me that a lot of the criticisms had to do with what is perceived to be a requirement for a tight money policy, defending the currency of these Nations, emerging markets, even when they get into trouble, instead of, perhaps, addressing what a lot of people think is usually the real problem, and that is a liquidity problem. It is not a solvency problem as much as a liquidity problem. I know the President in times past has, I believe, suggested or talked about a credit facility, a rapid credit facility.

I know Martin Feldstein had an article last year discussing that in some ways to perhaps get away from requiring them to immediately do such substantial fundamental reforms, which we all need and we know in the long run they are going to have to do, but to

address just the emergency part of it and have some facility to do that with.

Is that something that is on the President's agenda, or yours? Do you think that analysis or that criticism is a valid one?

Mr. SUMMERS. Senator, battlefield medicine is never perfect. One can certainly look back at what happened. There are a lot of issues that are worth discussing.

I think the balance that you face is that, as you suggest, these crises do have a liquidity crisis, bank run, financial panic kind of element. Responding to that element has to be part of the solution.

At the same time, I think we have to be enormously careful about any arrangement in which any international organization, and certainly not we ourselves, took on some kind of unlimited commitment, lender of last resort type commitment, with respect to countries whose policies we could not control. That is the concern with proposals that start from the premise that these are all just liquidity problems.

The contingent credit line proposal which is part of our efforts to modernize the IMF by providing a kind of contingent financing based on strong conditions does, I think, respond to a portion of that problem.

But I would caution with respect to the proposals to treat this just as liquidity that the way in which many of these countries got to their problem was they had a significant amount of reserves and the economic policies they were pursuing led to the depletion of those reserves. Simply providing more finance would probably lead to the depletion of more of that finance. That is why policy conditionality is important.

Senator THOMPSON. So you think it would be difficult to get away from the necessity right in the beginning to try to affect the underlying structure problems of banking, legal system, and that sort of thing?

The criticism there, of course, has been that when you do that and come down with too heavy a hand, you destroy confidence internationally in the market, in the local situation there. So I guess what you are saying is, it is, indeed, all a balancing act. You have to judge each situation on its own. I am looking for a policy that might run through all of this in some way.

Mr. SUMMERS. I understand. My own view is a centrist balancing view that says that you both have to counteract the panic/liquidity element, and part of creating the confidence that is necessary to do that is making clear that there is a commitment to change in what has been there before. If you seek just to come down and not to respond to the liquidity element, you risk simply making the panic worse and the situation spiraling out of control. That is why I think we need an IMF.

At the same time, if, as some suggest, you concentrate only on the provision of liquidity, I think you get into all the problems of, too big to fail, moral hazard, and all of that.

So I think, while it is not elegant, that it is difficult to escape the conclusion that you need to make a balancing test case by case. That is what the G-7 finance ministers tried to articulate in terms of the principles that Senator Grassley and I spoke about.

Senator THOMPSON. My time is up. Thank you very much.

The CHAIRMAN. Senator Kerrey?

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

Well, Secretary Summers, I, like many other members have already said, appreciate very much that you are willing to accept the President's nomination. I expect that you will be confirmed by the Senate. I certainly intend to support your confirmation. There is not much upside here after the performance of Secretary Bentsen and Secretary Rubin.

I will say to you, in regards to being a professor, there was a lot of skepticism about whether or not a politician would do a very good job as Secretary of Treasury. In Nebraska, there was a lot of concern about somebody from Wall Street being Secretary of the Treasury as well.

My guess is, the concern about you being a former professor will decline based upon your performance as well, and I appreciate very much your willingness to do it with a relatively short period of time left in the President's term. I appreciate Stu Eizenstat's willingness to serve there as well.

Mr. SUMMERS. Thank you.

Senator KERREY. I would say to you, Mr. Summers, I think there are going to be a number of really tough challenges, especially as we go into a Presidential campaign.

I put at the top of my list, trade. The Trade Ambassador's Office is going to have a WTO listening session a week from Saturday out in Carney, NB. I think it is Peter Scher that is going to go out there on behalf of the Trade Representative. I think Mr. Scher is going to get an earful, people that are skeptical about whether or not trade is working.

I am an advocate of liberalized trade. I think it does present us with the clearest pathway to lift our standard of living and to do the same for the rest of the world. But it is getting harder. I would just urge you to assign Mr. Eizenstat some time to give to making the case, as well as making certain that our trading partners comply with agreements.

The Europeans are saying that they do not care what the WTO panel says. They are not going to allow American beef into their market. We have got to make them pay a price, otherwise not only will they not change, it is not likely that at least people in Nebraska are going to continue to support free trade policies.

Likewise the Mexicans are backtracking on sugar, they are backtracking on dry, edible beans. It may not be a big deal for many people, but it is a big deal for me. It undercuts our ability to be able to sustain support for, I think, trade policies that demonstrably, as you made reference to in your opening statement, give us the best hope of increasing our standard of living.

So it is not a question, Mr. Summers. I just urge you to dedicate some time early on, because I know going into a Presidential campaign year, there is a temptation for us to take the wrong course of action just to satisfy sort of a short-term demand from the audience.

I fear that good trade policies are slipping away from us, and I just hope you will dedicate some time, dedicate some of your time or some of Mr. Eizenstat's time, to making this case.

Now, let me reinforce as well what the Chairman said about the IRS board. The IRS board has power under the law. In the absence of having that IRS board, the IRS is not functioning as well as it would with that board. It has power to examine budgets and participate not only in a budget recommendation, but working with Congress and all of the various committees to try to make the IRS more efficient.

So you indicated that you are going to do what you can to get those names over, and I hope that we get the best board that we possibly can and get them in place as quickly as possible because the law gives them the power that, without them in place, they cannot execute that power.

Mr. Summers, I would like to follow up and take my green light to talk about Social Security. You said that you are committed to carrying forward in the best way possible. The President submitted some suggestions in his budget as to how to solve this problem.

Let me respectfully say that you and I have a different educational background. Your educational background is more superior than mine. However, this is not rocket science. There are not a lot of options when it comes to Social Security. Many public policy problems are really complicated; this one is not. It is not complicated.

Now, just yes or no. I understand the President is against a tax increase, is that correct? The administration's position would be, we are not for raising the payroll tax.

Mr. SUMMERS. That is right. Payroll tax rates. That is right.

Senator KERREY. All right. So we take that option off the table. We are not going to raise the payroll tax. That is correct?

Mr. SUMMERS. Payroll tax rates.

Senator KERREY. You are not going to raise the payroll tax rate. I will leave it at that. I will not waste time splitting hairs on that one. So we are not going to raise the payroll tax rate. That means, under current law, according to Social Security actuaries, in 2034 there is going to be a 25 to 33 percent reduction in benefits. Would you agree with that?

Mr. SUMMERS. That is the magnitude of gap. That is right. Yes.

Senator KERREY. So if you are under the age of 45, you can expect, under current law, 25 to 33 percent cut in benefits.

Mr. SUMMERS. If no adjustments are made.

Senator KERREY. If no adjustments are made. And since we have agreed that we are not going to adjust the tax rate, we have got to adjust the benefit structure. Is that true?

Mr. SUMMERS. There are other possible changes, such as those that the President has laid out, both in terms of changes in investment policy and in terms of augmenting the trust funds.

Senator KERREY. Well, let me assess the President's proposal to you and see if you agree with it. Starting about 2012, 2013, the cash that goes out to pay benefits is going to be greater than the cash coming in to the Social Security trust fund. So what we have to do, is we have to take assets that the trust fund owns—in this case, non-negotiable Treasury bonds—and we have to convert them into cash. Agreed?

Mr. SUMMERS. Yes.

Senator KERREY. So the Social Security trust owns bonds and it has to convert those bonds into cash. What will the source of cash be starting 2012, 2013?

Mr. SUMMERS. Under the President's—

Senator KERREY. No, no. Under current law. Under current law, where will we get the cash to pay Social Security beneficiaries 13 years from now?

Mr. SUMMERS. From the remainder of the budget.

Senator KERREY. No, no. Mr. Summers, you have to convert non-negotiable Treasury bonds into cash. Treasury bonds are not cash, as you know. They are an asset. You have to convert them into cash. What is the source of the money to convert them into cash?

Senator MOYNIHAN. Larry, it is taxes.

Senator KERREY. Yes, sir. It is income taxes and it is corporate income taxes. We are going to use the general revenue. We have to use general revenue taxes to convert those bonds into cash and to pay Social Security beneficiaries.

So from 2012 to 2034, over a 20-year period, about \$1.5 trillion of individual income taxes and corporate income taxes will be used to supplement the payroll taxes to pay Social Security beneficiaries.

Now, we have got a heck of a problem already with our budget in discretionary spending. We are having a heck of a time getting this big, fat foot of ours into the little shoe of our spending caps already. If we go home and do nothing with our budget, we do nothing with our budget at all, we are going to reduce net interest from \$218 to \$85 billion, but we are still going to be struggling to fund all of the discretionary programs, the demand that is there. So we have a problem already.

It seems to me, Mr. Summers, that what is going to happen is, I have got \$1.5 trillion of individual income taxes and corporate taxes that, right now, we use to pay for defense and non-defense spending, and we are going to use it to pay Social Security beneficiaries. Have I got that figured out right?

Mr. SUMMERS. Broadly. One would hope—

Senator KERREY. This is not broadly. This is a financial transaction. I have got to convert an asset to cash and I am going to do it with individual and corporate income taxes.

Mr. SUMMERS. With those taxes, if we are successful, and I think this is something we agree on, in reducing public debt, you will have smaller interest—

Senator KERREY. Mr. Summers, if you cannot get this one figured out, I withdraw my easy statement of confirmation here. Again, I went to a land grant college; you have got a Ph.D. behind your name. This is not difficult to figure out. I have non-negotiable bonds. I have got to convert them into cash. Unless I get Saudi Arabia or somebody else to do it, it is going to be American income tax and corporate income taxpayers.

Mr. SUMMERS. That is right.

Senator KERREY. That is right?

Mr. SUMMERS. That is absolutely right. Yes.

Senator KERREY. All right. So I am going to use individual income taxes and corporate taxes, \$1.5 trillion worth, to pay Social Security beneficiaries, from 2012 to 2034. Yes? The President's proposal makes it worse. The President's proposal is that he will in-

crease that from about \$1.5 trillion to almost \$5 trillion because you take this surplus and you convert it into an asset.

So the Social Security trust fund will have a larger asset and will be using more individual and corporate income taxes to pay for Social Security beneficiaries. That is the President's answer to the problem: take the current problem that we have of using more individual and corporate income taxes to pay Social Security beneficiaries, and consider it to be a virtue. That is how I see it. Is that not true?

Mr. SUMMERS. We would see it differently.

Senator KERREY. I think you cannot see it differently, Mr. Summers. I have great respect for you, but you can see it differently only if you put political lenses on. You cannot see it differently. It is a simple financial transaction. The trust fund owns an asset. The asset must be converted to cash.

The President is proposing to give the trust fund even more assets. He calls it saving Social Security, but he dedicates and gives more assets to that trust fund. That means we are going to have to use more individual and corporate income taxes to convert that asset into cash.

Mr. Summers, I hope that the other members who have asked you to do it, I hope you can persuade the President to put a specific proposal on the table. We know he is against payroll tax increase, rate increase. There are a limited number of things that can be done. This is not a difficult policy issue. The question is, are you willing to make the selection, are you willing to make the choices and stand up there and say, these are my choices?

I hope the President will make those choices and go to the American people and say, it may be difficult, you may not like it, there are alternative proposals out there, but we have got to solve this problem, otherwise Social Security is not solvent for all American beneficiaries.

Senator GRASSLEY. Mr. Chairman, could I make a comment to you, please?

The CHAIRMAN. Well, we are running late. Senator Nickles has a special request he wants to make.

Senator NICKLES. Mr. Chairman, one, I want to compliment Senator Kerrey for the comments he just made. Yesterday in the committee mark-up on the trade bill, my vote was cast by proxy incorrectly. I ask unanimously consent to change the vote in opposition.

The CHAIRMAN. Without objection, it is so ordered.

Senator NICKLES. Thank you, Mr. Chairman.

The CHAIRMAN. The next, is Senator Mack.

Senator MACK. Thank you, Mr. Chairman. I am somewhat tempted to yield my time to Senator Kerrey. [Laughter.] But I am not going to do that, which is probably not surprising.

I want to welcome Mr. Summers to the hearing. I look forward to voting in support of your nomination.

Mr. SUMMERS. Thank you.

Senator MACK. I want to say, further, that while you and I will disagree a number of times on policy positions, that I do look forward to working with you. I think that you have earned the respect of this committee and, for that matter, the markets as well. So, again, I look forward to working with you.

But I want to make one further statement, and then maybe get into a couple of questions. The statement is related to the tax issue.

You basically have laid out a situation of a paid-for tax. That is an interesting choice of words which I just fundamentally disagree with. The scenario that you have established basically says there will be no tax relief. There are several reasons for that.

One, is there are not specific program changes for Social Security and Medicare on the table. Senator Kerrey's points clearly reflect that. So if we take the position that says, no, there will be no tax relief until this, in fact, happens, I will guarantee you that the Congress will spend a great majority of those dollars sitting around Washington waiting for those program changes to come in place.

So it is very clear that that is the political position that the administration has chosen, and I understand that. We will debate that over the next several months.

But I want to now focus back on some of the issues that are important to the committee, and important to you as well. As you know, some people have said in the past that the Treasury Department advised Mexico, Thailand, and others to devalue. Some have even gone to say that you were part of that. I am not engaging in that this morning.

What I would want to hear from you is, what is your attitude with respect to advising countries about devaluing, and are there circumstances under which you would advise a country to devalue?

Mr. SUMMERS. Senator, there are great controversies among economists about all of the questions of exchange rates, as you and I have discussed. I think my own view would be that there are circumstances where countries will prudently choose to treat the exchange rate as a price and allow it to be flexible and float, and there are circumstances under which countries will choose to make exchange rates a promise and hold it fixed.

One thing I think we probably can all agree on, is that when they make it a promise, it is a promise that should not be broken. So, devaluations are never good things or things to be encouraged.

There are circumstances in the world that have arisen in the past. For example, in Britain, in 1992, and no doubt in some places will arise in the future, when countries find themselves unable to maintain an exchange rate that they have been pegging simply because, given the overall policy environment they have pursued, they run out of reserves and run out of the capacity to provide people with foreign exchange.

When that takes place, it is not a matter of a choice that anybody makes or advice that anyone gives, the exchange rate will adjust. But those are certainly situations to be deplored, not situations to be encouraged.

Senator MACK. All right. Thank you.

I want to connect, I guess, to another comment Senator Kerrey made, the trade issue. We are going to be faced with a steel quota bill in the Senate probably before too long. I should probably hear from you, what is the administration's position with respect to that?

Mr. SUMMERS. The administration opposes the steel quota bill, not because we do not fully share the concern about the steel work-

ers and the steel companies who have been affected by what has happened in recent years. Those are major concerns and I certainly share the impulse behind Senator Kerrey's comments on that, that we all, if we are going to support open markets, have obligations to make an open market system work for American workers.

But my concern would be the retaliation consequences, the consequences for other parts of the economy that, while I think this is a very real problem that has to be addressed, and is being addressed, that is not the approach that the administration supports.

Senator MACK. And you would urge a veto of the legislation, if it were to pass?

Mr. SUMMERS. We would strongly oppose that. It is not my place to get into the different possibilities, but it is very clearly not the right way forward. I believe the President's senior advisors, as a group, have made their position clear on that.

Senator MACK. All right. I am not going to pressure you on that point. But let me continue on with the trade issue a little bit more. In a recent Foreign Affairs magazine, Fred Bergsten wrote, "America obviously needs a currency correction to help reduce its trade deficit in light of the lag between exchange rate shifts and trade flows. The administration must hope that it will come sooner rather than later. The results, especially for industrial workers, would be shown before the 2000 election."

Previous Secretaries in both parties in the past, not Secretary Rubin. I think Secretary Rubin has an outstanding record with respect to the dollar. But previous Secretaries have tried to talk down the value of the dollar in order to influence our trade balances. Do you think this is appropriate, or should the dollar be left alone to reflect the pursuits of price stability by the Federal Reserve?

Mr. SUMMERS. I believe a strong currency is very much in our National interest. That has been our policy at Treasury and will continue to be our policy, if I am confirmed as Secretary. I might just say again, as I have said many times before, that, in my view, no nation can devalue its way to prosperity.

Senator MACK. Again, I appreciate that strong statement as well.

Let me just go back to a more specific tax issue. You once said that efforts to cut the estate tax are selfish. Do you still feel that way?

Mr. SUMMERS. No, I do not, Senator Mack. What I said was wrong. After I said it, I acknowledged that it was wrong. I think it was wrong because it is never a good idea, in these kinds of policy debates, to impugn motive.

It was wrong because there are legitimate concerns that small businesses, that farmers have around the estate tax. I was pleased to be able to work with the process and with members of this committee on the 1997 tax legislation that provided some important relief, and that allowed the base on that tax to be phased upwards over time.

Senator MACK. Again, I appreciate that. Do I take it that there is some room then to work further on this issue?

Mr. SUMMERS. We all have our budget priorities, but certainly I look forward, if confirmed, to working closely with the members of

this committee and the Congress on the full range of issues that we face.

Senator MACK. I thank you very much for your responses to my questions. Again, I emphasize that I do seriously look forward to working with you. I think you will do a great job.

Mr. SUMMERS. Thank you very much.

The CHAIRMAN. Senator Baucus is next, but he has kindly yielded to the Leader, who is here. Senator Lott?

Senator LOTT. Thank you, Mr. Chairman. Thanks to all my colleagues, especially Senator Baucus, for allowing me to go out of order. Because of that, I will be brief.

First, Mr. Chairman, obviously, this is a very important hearing for a very important position. I thank you and the committee for having it in a timely manner.

Congratulations on your nomination for this very important position. We have worked together in the past, and I look forward to having that opportunity in the future.

Because of the importance of this position, that was one of the reasons why I wanted to work out the problem we were having with holds on nominations. I am pleased that, through reasonable cooperation from the White House and Senator Inhofe, we were able to get that matter worked out yesterday, which could have been a problem for you, Mr. Summers, as well as other nominations.

Several of the things I wanted to ask about have been touched on, and I am very pleased with that, so I will not repeat them. Except that, you helped my feelings with what you said on the death tax. I was very unhappy at the time with how you described that issue.

I still think it is the most indefensible of all taxes. But I realize that you have got to look at not only the policy, but also the impact on the overall budget. I understand that, but we will look forward to working with you.

I want to emphasize again the point that Senator Kerrey was making. The President has proposed a Social Security accounting change, but he has not submitted a Social Security reform plan to Congress.

A number of the members of this committee, Republicans and Democrats, have proposed specific reform plans. We have tried to show our good faith by preserving S. 1 for that plan. It is pretty hard to be saying, do not cut taxes until we save Social Security, if you do not propose a plan to do just that. So, I will be looking forward to seeing your involvement in the development of such a plan.

I do think that the administration needs to make very clear their position on the steel quota bill, because that bill will be voted on in the Senate next week. It is not clear that they are opposed to that. I feel an obligation to have a cloture vote, but I would hope that a cloture vote would not succeed. Your position is the correct one, and I hope the administration will make that very clear to the members of the Senate, Republicans and Democrats, before we vote on that issue next week.

Now, one issue that I do want to ask you to respond specifically to that apparently you have not been asked about yet, is the ques-

tion of IMF decisions and how those decisions are made, particularly with regard to Russia, although there are concerns about IMF and other countries.

But in Russia, there had been economic conditions that were supposedly required to be helpful to Russia. You had a long list of about six things that were going to be required. Russia was supposed to run a primary surplus of 2 percent of GDP in 1999 to raise revenues by 2 percent of the GDP, right on down the list, including improved bankruptcy regulations and collecting taxes that were owed.

First of all, is that still the administration position? Are you pressing for these conditions to be met, and are any of them going to be met?

Mr. SUMMERS. Senator, the conditions that you referred to are embodied in the IMF program. The IMF, with our support, has made it clear that meeting those conditions is a prerequisite for receiving financial support from the IMF.

We certainly hope that the Russians will take the necessary economic steps, because these commitments that they have made in their letter of intent to the IMF are important for creating a possible foundation for a return to economic growth in Russia.

I might just add that one other crucial area of conditions in the IMF program is the provision of a satisfactory accounting to the IMF on the ways in which their funds have been used in the past, and more generally the way in which the Central Bank has handled the monies at its disposal. That is something that, as a major shareholder, we will certainly be looking for very closely before any actual financial support could be provided.

Senator LOTT. Well, in July, I think it was, of last year, the IMF gave Russia \$11.2 billion as part of a new loan. Much of it, \$4.8 billion that was immediately released, ended up, indications are, in Swiss bank accounts of prominent Russians.

There are all kinds of rumors about how these loans were handled, that they were used to help Russia with their military efforts in Chechnia. There have been very unseemly rumors about this loan, or loans, being used as leverage to get Russia to act in concert with us in other areas.

I would like to get you to comment, one, on is it true, is IMF relaxing conditions at a time when we have reason to believe that they have abused their loan in the past? And is there any connection between loans being approved and foreign policy goals of this administration?

Mr. SUMMERS. Mr. Leader, there are the concerns with respect to the past loan, which is why we in the IMF are insisting on the audit that I described. We would not, under any circumstances, support a relaxation of conditionality for foreign policy objectives, as we believe that IMF programs have to be based on sound judgments about what the right economic strategy in any country is.

I would emphasize that the IMF program under consideration in Russia is a program in which the IMF would provide financing for a portion, but not the whole, of the money that Russia owes the IMF over the next period.

The financing would be provided in such a way that there would be the assurance that there would be no possibility of the leakage

of any of the funds that the IMF provided into the wrong places rather than supporting the repayment of the obligation that is coming due.

Senator LOTT. Well, since I promised to be brief, I will just stop with this comment and allow the time to go on to others. I am very concerned about IMF and how they use their conditions. I have been concerned about the U.S. involvement in those IMF loans, and I have been, frankly, concerned for some time about exactly your role in those.

I do not see it as a problem with your confirmation, but I am looking forward to having you come back before this committee and talking with us in greater detail about how we deal with IMF and their policies, what happens to those loans, and how we just deal with them.

So, with that, I will yield the time, Mr. Chairman. Thank you very much, Senator Baucus.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Mr. Chairman, thank you. Senator Rockefeller has a very imminent appointment, and I will defer to Senator Rockefeller. I think Senator Bryan, who is following me also, is agreeable. So, from the Senator from Nevada and I to the Senator from West Virginia.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. I thank my colleagues very, very much for that courtesy.

Secretary Summers, I am delighted that your family is here. They must be very proud of you. They should be. We have had occasion to talk and we have discussed the steel question, and you understand that I cannot possibly proceed on this without that question.

First of all, you should know that I have the highest respect for you. I think you are a remarkable person. The question of, why should we support you because you have taught, strikes me as odd. It involves thinking. You have been heavily involved in carrying out international as well as national responsibilities, and I think you are superbly qualified for this.

It is true that you did say to this committee at one point that we should not become the world's dumping ground. My question revolves around that. There is the Trade Act of 1974 that was negotiated by this Congress, that was signed off by the White House, it is the law of the land, it is the way we carry out our trade, it is the concept of fair play.

We discussed yesterday the idea of, in football, you have rules so other people do not get hurt, and that is why football works. Those rules stay the same. People understand them, they are predictable, and so we carry on.

Unfortunately, we are really the only country that plays by those rules. Hong Kong was wide open. How they are now, I am not quite sure. Their status has changed. But we have become a dumping ground for steel. That is not only an international trade law problem, but also a tremendous human problem, which you have I have discussed, to which you have responded.

So I would like just to get a sense. I will be proceeding with the quota bill. I know perfectly well that you do not support that. I also

understand that what will be allowed in the way of imports of steel in that bill will go up to as high as 23 percent, which will be more than any other time in the last 30 years, with the exception of 4 years, those being in the last several.

So how do you look upon a rules-based system of international trade, where the United States does not, as you have said to this committee, become a dumping ground for products which are traded, but which are traded illegally because of dumping or subsidies?

Mr. SUMMERS. Senator Rockefeller, as part of an open markets approach that tries to make trade and open markets work for all American workers, all of us have an obligation to stand up for U.S. trade law, U.S. trade law with respect to dumping, U.S. trade law with respect to foreign subsidies, U.S. trade law with respect to surges of imports, even if they do not have their roots in dumping or in subsidies. We have an obligation to find ways of doing so as strongly and as effectively as possible.

With regard to steel, I would note that, while we clearly have a long way to go in this area, in the first 4 months of this year, total steel imports were less than they were not just last year, where there was a surge because of the Asian crisis, but less than they were in 1997.

In a number of key categories and key countries—hot-rolled steel, Japan—the reductions have exceeded 90 percent. There are 30 some cases that are pending and being resolved as rapidly as possible. The ITC reached a significant judgment with respect to Japanese steel within the last 10 days.

So I think there is no question that the distress and the problem that has been created here deserves a vigorous and strong response. The only question is finding the response that is effective with respect to this problem that does not carry with it risks of job loss and dislocation in other spheres, such as might be caused by policies that would invite retaliation or that would be, in a broader way, disruptive of markets.

But I want to assure you, and I want to assure your constituents, that there is a very clear understanding, and I think as both Senator Kerrey and Senator Mack said, that one of our major priorities over the next 18 months has to be finding ways to make the trading system be something that is workable and effective, not just as abstraction about systems, but as something that is making people's lives better in this country.

Senator ROCKEFELLER. In closing, and I again thank my colleagues, if you take the first quarter of 1999 as compared to the first quarter of 1998 when the imports were at an all-time high, the total decrease in steel imports is only 5 percent. That is very, very minimal.

So the question I would then just have you answer, and I think you would answer it positively, is you would agree that we have to do better, that we have to take our trade laws seriously, that you will work for that and try to find a way to follow law, that we enforce our trade laws and that you will be behind that effort?

Mr. SUMMERS. Absolutely.

Senator ROCKEFELLER. Thank you. And I thank my colleagues.

Senator CHAFEE. Senator Baucus?

Senator BAUCUS. Thank you.

Mr. Summers, I think that you and Chairman Greenspan and Secretary Rubin have done a tremendous job. I think the world has had tremendous confidence in the three of you, and I expect the world will continue to have this same level of confidence in the next team of Greenspan, Summers, and Eizenstat.

Clearly, all three of you are very solid, you are very bright, you are perceptive, you are patient. You are the right kind of public servants for the job. You are among the best, and I fully expect that, when you are confirmed and begin to serve as Treasury Secretary, the markets will realize that, the world will realize that, and will then deal with the various problems as they come along.

You have a very exalted, high, important position. In the line of Presidential succession, only the Secretary of State precedes you. You deal with trade ministers, finance ministers around the world, attend economic summits. It is pretty rarefied stuff.

If you would, though, I would like to take you to a town meeting in Montana, or a senior citizens meeting in Montana. A lot of people in America really do not know much about the Treasury Secretary, do not know what he or she can do to help their lives.

But a lot of people in our country are having a tough time, even though the stock market is at an all-time high, executives have very high bonuses, high compensation packages. A lot of Americans are doing well, but there are a lot who are not doing so well.

Let us picture a farmer, a rancher, or a housewife who has a couple of jobs, say a nurse who is trying to make ends meet. What do you say to her, what do you say to them when they ask you at a town meeting in rural America, what can you, Mr. Secretary, do to help improve our income to help our lives?

Mr. SUMMERS. If you would give me the opportunity, Senator Baucus, I would be pleased at some appropriate occasion—

Senator BAUCUS. You are invited.

Mr. SUMMERS [continuing]. To visit your State and meet your constituents. I would say to them that they have an enormous stake in all of us in Washington and all of us around the country managing our economy in a way that causes us to grow and be as strong as possible, because everything we are able to do as a country, whether it is meeting our social welfare obligations or providing relief to families, starts from our National capacity and the strength of our economy.

I would say to them that I believe we need a government that has a place and knows its place, that is working to meet needs. I am proud, while at the Treasury Department, to have been part, working with this committee, of providing the means for assuring that there is funding available for everyone who wants to go to junior college, to 13th and 14th grade, to have that opportunity; that we have expanded the capacity of people to save, with Chairman Roth's leadership, for their retirement.

The essence of national economic policy is not an abstraction of the national economy, but that it is trying to create an economy that is as strong and as effective in providing opportunity for people everywhere.

Senator BAUCUS. I think some of the concerns people have, though, is that the markets and economy today is so globalized and so market-driven, there is such competition among companies

worldwide, it lowers their margin, maybe increases their volume. It has very much increased productivity in America, there is no doubt about that. I think that is one reason valuations are so high in the market.

But there are other people who are either laid off or who just do not have the wherewithal to save in any significant way who are really trying to make ends meet. A lot of single moms. There are a lot of single moms in this country, and more than I think most Americans would like to admit.

So, I understand what you are saying about the economy generally as an aggregate basis, on an average basis. Sometimes we deal with the tyranny of the averages, the tyranny of the aggregates, and all that. There are a lot of other people who just have a hard time seeing or feeling that the points that you made, as valid as they are, really directly affect them.

Mr. SUMMERS. Let me answer in a somewhat different way, Senator Baucus, by just touching on some of the things that we have done at the Treasury Department that would bear on those single moms.

A small number of them are caught up in situations where people are looking to collect taxes from them with respect to mistakes they did not make, and the innocent spouse relief this committee worked hard to include in the IRS reform bill will put them in a very different situation than they would be before.

We are working at the department, as we work on the whole question of debt collection, to facilitate the Federal role in child support enforcement, because in this age of the Internet and remarkable information technology, it is remarkable how much—more than half—of child support, that is owed, is not collected because the people cannot be found.

We worked with this committee in support of the \$500 a child tax credit 2 years ago. Our budget includes—and whatever else we do on taxes, I think we should do this—the basic child care credit that can support that single mom as she goes off to work.

One of the things that, with Secretary Rubin's leadership, we have been proud of at the Treasury Department is setting up the so-called CDFI, Community Development Financial Institutions program. That is a government-style acronym, but what it means is someplace that is focused on putting money back into communities.

We met with some of the recipients of grants from that program and heard about how it is there loaning. It lent \$1,000 to a woman so that she could make changes in her basement so that she was able to run a child care center for eight children.

She told us about how she had decided to charge for six of the children, and for two children who were in that community whose parents could not pay, she just let them come along with the other children.

I think these are the kinds of things that we in government have to work to do, but at the same time, and this is the balance, I think it is also important to understand that our ability to do those things will depend on whether there is a strong economy.

We can never do those things or grow the size of the government in ways that will stop us from having a strong economy. I have

been all over the world a lot in the last few years and have seen what happens when you do not have a strong economy. That is important to remember, too.

Senator BAUCUS. You are right. Clearly, it is both. I would just encourage you and your people to sometimes stop and just go to rural America, the hinterlands, and be with folks and get a sense of things. After all, without being too melodramatic about it, they are our employers, the people we are all working for.

So, it is a combination of making the economy strong, I very much agree, to provide the resources so it will enable us to do the things we want to do, but it is also getting a sense of what people want done just by being with people. Thank you.

The CHAIRMAN. Senator Bryan?

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

Let me join with my colleagues, Mr. Summers, in thanking you and your family for your continued public service. We appreciate the talents that you bring to this very important office.

I would like to continue a dialogue that you and I have had on several occasions dealing with the administration's support of a proposal to sell a portion of the IMF gold reserves. While I am sympathetic to the ostensible objective, that is, we want to provide some kind of debt relief to the heavily indebted poor country, the HPA countries, but my objection is not mine alone. It is joined by Senator Daschle, Senator Reed, Senator Johnson, Senator Enzie, Senators Creybolt, Bennett, Allard, and others, and many in the House.

As you know, after the President, in March, expressed his support for this proposal, the price of gold dropped by \$10. I have a little chart here that I apologize for it not being larger, Mr. Chairman, and to our distinguished witness. But this, in effect, represents what gold prices have been this year.

At the start of the year, they were up above \$290 an ounce. During the course of the year, they have kind of moved up and down. Then on March 16, you see that precipitous drop down by \$10. Then you see the next precipitous drop is when Great Britain announced a plan to sell its reserves. That was a further drop. This chart goes only to June 4, which reflects a price at about \$262 an ounce.

When you and I talked last, it was over \$270 an ounce. Yesterday, the report in the Business Press indicated it was \$259.10 an ounce.

Now, my objection is, in part, two-fold. One, there are 41 countries that I think have been identified for debt relief. Of those 41 countries, a substantial number—about 14 and perhaps even larger—are either currently involved in the export of gold or have the potential.

The estimate has been that they have lost, in their own export earnings, about \$150 million. So I think the proposal, ill-considered, in my judgment, is counterproductive in terms of what it seeks to accomplish. I am going to talk a little bit more about that in just a moment and give you a chance to respond.

The other concern is domestic. The United States is the second largest gold producer in the world, as you know. The State that I am honored to represent is the largest gold producer in the Nation

by far and above. It also happens to pay to those who are employed in that industry among the highest wages in America, including a full range of fringe benefits. So, these are very substantial jobs.

Already in my own State, 1,000 jobs have been lost as a consequence of this. And although I know you and others have argued, and I respectfully disagree, that this is really just a small amount that is being proposed, some 10 million ounces, as I understand the most recent proposal, nevertheless, the psychology has depressed that price even further.

Recently, the World Gold Council produced a report and it analyzed each of the countries that you and others, and for good reasons, want to help in terms of their debt relief. This is a compelling document in terms of how counterproductive that, in fact, will be in terms of the people we all want to help. Compound that, if you will, Mr. Summers, with the fact that it is devastating the domestic gold producing industry.

So a couple of questions, if I may, and then I will yield back the balance of my time. My understanding is that the debt that we are talking about of these countries is somewhere in the neighborhood of \$220 billion. Is that a number that you are comfortable with?

Mr. SUMMERS. The total debt.

Senator BRYAN. The total debt.

Mr. SUMMERS. Not the amount that is being considered.

Senator BRYAN. The total debt. All right. The total debt. And what the proposal is, as I understand it, is to sell 10 million ounces and then take the difference between the market value and the book value, invest those proceeds, and the interest that would be derived from them, a portion, not the whole amount, would be allocated to debt reduction.

Now, the calculation that I have, assuming that the sale generates \$2.7 billion, which I think is a questionable assumption based upon the declining price of gold, less the book value of about \$.42 billion, is that the net profit from those sales would be \$2.3 billion. In an annualized 5 percent rate, you are talking about \$116 million a year. If 40 percent of that interest is allocated to debt relief, we are talking about \$46 million a year.

Again, I profess no expertise in either the old math or the new math. That was not a subject in which anybody ever commended my scholarship. If my numbers are off, let me give you an opportunity to respond, Mr. Summers, to that.

Mr. SUMMERS. I am not able to respond in detail to the calculations that you made. Perhaps we can follow up afterwards.

I would just make these points. First, while there is a very large volume of debt generally, in many ways the centerpiece of this problem is the debt that the poorest countries owe the IMF, because the IMF is a preferred creditor and that is debt which, frankly, has been serviced, whereas some of this other debt is simply not being paid. So, with respect to, what is the center of the problem that is under discussion for the African countries, it is really the debt with respect to the IMF.

Second, that debt to the IMF could be very substantially treated by the mobilization of what is a very small fraction of the IMF's gold resources, and those are the internal resources of the IMF that are available in order to meet this problem.

That recourse to gold has come after I think it has become clear that the capacity of the IMF to mobilize funding from a range of bilateral sources, frankly, including the United States, has simply proven not to be there for this particular purpose, so that is why this is happening.

I would commit to you that the department will work with the IMF in every way we can to assure that the mobilization of resources does not have a meaningful impact on gold prices.

I would suggest to you that there is even the prospect that, if the uncertainties that surround this issue can be ended with a quite modest set of IMF holdings, it might actually be constructive from the point of view of the gold market.

I would only say to you that we have examined, and will continue to examine, the impact of this on the countries that are affected, but would note that Trevor Manuel, the finance minister of South Africa, which has a very strong stake in gold production, obviously, but also a very strong stake in the economic future of Africa, has very strongly endorsed the proposals for relief of the most highly indebted countries in this way.

Senator BRYAN. If I could just interrupt, because my time is running out. We have heard a lot about the concept of proportionality. If the numbers that I have given are correct, namely, \$46 million, and let me just give you an opportunity, if you have another number that you believe represents that, please share it with me. I know that you have not had an opportunity to see my calculation here, but do you happen to have a number that you can give me?

Mr. SUMMERS. I do not have a different number to cite.

Senator BRYAN. Let us assume for the sake of argument that it is \$46 million, or thereabouts. I mean, in terms of the impact that it has had on the global gold market and the potentially devastating impact that it has had on the gold mining industry, as well as the potential harm to those countries that we are trying to assist, I would ask that you consider that.

Second, I would ask you to review the report that was just released today from the Gold Council which does an analysis of each of those countries, their debt situation, and what the impact would be on them.

Finally, may I say with great respect, it ain't gonna happen. It requires the consent of Congress, and it is not going to happen as long as this Senator and some of the rest of us are here in Congress. The fact that it hangs out there continues to have a depression on the market effect.

I thank you, and I will be pleased to be supporting your confirmation, notwithstanding our disagreement on this issue.

Thank you very much, Mr. Chairman.

Mr. SUMMERS. Thank you very much.

The CHAIRMAN. Senator Graham of Florida, please.

Senator GRAHAM. Thank you, Mr. Chairman. I want to join in the applause for the nomination that the President has made of you, Larry, and hope that this committee will quickly confirm your nomination. I think it is important that there not be a hiatus in this important position.

We have seen in the last few weeks where nuances more subtle than a delayed confirmation of a nominee to be Secretary of the

Treasury have had significant effects on the confidence on the market, and we do not want to create another chapter in that period by delayed and positive confirmation of your nomination.

My only criticism is, I wish your children had not left earlier. They were such an engaging group of young people; it was a joy to watch them. I hope that my grandchildren might have an opportunity to become their friends.

I have questions in a couple of areas, if I have time to do so. The first, is in the area of what I call fiscal discipline. In his State of the Union address in 1998, the President stated the proposition that we should not use any of the surplus, and I assumed that he meant the integrated surplus, until we had assured the solvency of Social Security for three generations, which I would define as the year 2075.

Then in the 1999 State of the Union, he restated that proposition and added that we should also not use any of the surplus until we had secured the future of Medicare.

The first question is, is that the standard that the administration will use in evaluating Congressional action on fiscal matters this year?

Mr. SUMMERS. Where we in the administration believe we should go with this is exactly where you suggested, Senator Graham, to achieve long-term solvency in the way you suggest with respect to both Social Security and Medicare.

Senator GRAHAM. The Social Security standard is an actuarially determinable one. What would be the quantification of the Medicare solvency? What would be the standard that would be used to determine whether whatever the Congress had done met the Medicare solvency expectation of the President?

Mr. SUMMERS. I think it would probably not be best for the process for me to try to draw lines in the sand here today, Senator Graham. But I would refer you to the President's State of the Union address where he talked about the extension of solvency past 2020 as being a crucial objective.

I think there is no question that, given the size of the challenges that we face and given how fast health care is changing, that we do need to look to modernize Medicare benefits, to reduce debt, and increase solvency as much as we possibly can.

Senator GRAHAM. I would just comment on that, that while that standard focuses on the Part A, the hospital side of Medicare, and that is an important aspect, that I would hope that, when the President releases his Medicare reform proposal, he would have as part of that what his standards are for the total Medicare program.

The second area of question, is retirement security. Senator Bob Kerrey asked a number of questions about the Social Security program. I think it is important that we not lose sight of the fact that we have three, not one, legs to our retirement security stool, with Social Security being one, employer-based pensions being a second, and private savings being the third.

I think, whether we like it or not, the fact is that Social Security has been a declining share of that three-legged stool and is likely to continue to be a declining share. So that, to me, focuses additional emphasis on what we are going to do about the other two legs of the retirement security stool. I wonder if you might have

some comments as to what you think we ought to be doing on the area of particularly employer-based pensions.

Mr. SUMMERS. Senator, I think there are a number of important steps in that area which have as their common theme broadening the eligibility and broadening the use of employer-provided pensions.

Proposals that the administration and this committee have worked on for simplifying and universalizing pensions for small businesses, for providing for credits for education and the promotion of these instruments, for allowing payroll deductions for IRAs to make it easier to encourage workers to contribute to those vehicles, all seem to me to be important steps.

I believe the President's USAs proposal will also work indirectly to support the employer-based system by providing matches for individual contributions to 401(k) plans and other savings vehicles.

I think the key priority with respect to our employer-based system, frankly, is broadening the reach of those who have the opportunity to collect the benefits and receive the incentives that it provides. I would like to see a larger portion than the current, I think it is, 20 percent that go to the vast majority of families with incomes below \$100,000 a year. I think it is focusing on universalizing those benefits that would be my principal priority.

Senator GRAHAM. I am pleased to hear your agenda, which I think is very much on point. I would hope that, in the next few weeks as we start to get serious with what the fiscal priorities are going to be in this Congress which are likely to set a pattern for the near future, at least, that we do not lose sight of the importance of having this area of total retirement security as a major part of that fiscal policy. And I know our Chairman, from his long involvement in this area, that he would share that sense.

The CHAIRMAN. Absolutely.

Senator GRAHAM. Let me just, in my remaining time, turn to a third topic. That is, the hemisphere. As a result of initiatives such as Summit of the Americas and the North American Free Trade Agreement, there has been great expectation with our neighbors within the hemisphere that there would be a hemispheric move towards freer trade. There has been a lot of resistance to that.

I wonder if you could tell me, what would be some of the ideas that you might have as the next Secretary of the Treasury as to where we ought to be doing in terms of hemispheric trade, and what would be some of your recommendations as to how the resistance to that expansion could be moderated?

Mr. SUMMERS. Senator Graham, there are a number of measures before the Congress, CBI, in particular, that would certainly be constructive for the hemisphere as a whole, and I think it is an important thing to move forward with.

Beyond that, I think our ability to make progress with the hemisphere as a whole—and I very much share your commitment on that—will depend upon where we go on the broader trade questions and will depend upon our capacity to build support for an open market approach. This is very much connected to the fast track debate. That requires us to make the case in as strong a way as we can that trade is not an abstract good, but something that very concretely benefits all Americans.

I might just say that economic integration with our hemisphere is, as you and I have discussed many, many times, something that goes beyond trade agreements. It goes when we facilitate trade through Customs, when we work, as we are working very hard, on tax treaties, when financial integration is supported by the spread of international banking institutions, when we are successful in encouraging, as we have been through IMF and World Bank programs, unilateral reductions of various kinds of quotas and trade barriers. But I certainly share very much your sense of the importance of economic integration in our hemisphere.

Senator GRAHAM. Thank you, Mr. Deputy Secretary. I hope, soon, to eliminate the first word of your title.

Mr. SUMMERS. Thank you.

The CHAIRMAN. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Welcome, Secretary Summers. It is good to have you here. I want to say for the record, I strongly support your confirmation. You have been part of an economic team that has created a truly remarkable record of achievement.

When you came into office, we had a \$290 billion deficit. Now we have a \$110 billion surplus. When you came into office, we had a debt that was 49 percent of our gross domestic product. That has been reduced to about 41 percent of our gross domestic product.

When you came into office, Federal spending was running at 22.5 percent of our gross domestic product. That has been reduced to 19.5 percent. Created 18.7 million new jobs with the economic policy that was put in place.

We have got the lowest unemployment in 29 years, the lowest inflation in 30 years. The real wage growth is the highest in 20 years. That is a remarkable record, and you deserve a significant part of the credit.

So I think anybody who talks about who is qualified here to be Secretary of the Treasury, somebody that has been part of a management team that created that kind of track record, is qualified. In fact, highly qualified. So, I think your confirmation is going to go through here very quickly, and it should.

I would like to turn for a moment to the question Senator Kerrey was asking. Senator Kerrey was making the point, when we get to 2014, actually the year that the latest figures would indicate we start to run a cash flow deficit in Social Security. We are going to have a surplus that year. Is it not a fact that the surpluses that we have generated provide the funding for Social Security at that point?

Mr. SUMMERS. Yes, it is.

Senator CONRAD. Is it not further the point that, in fact, we have been borrowing from Social Security in the past, and now we will be in a situation in which the general fund will start to repay Social Security some of those past borrowings?

Mr. SUMMERS. That is exactly right. It is part of Social Security's becoming, to a greater extent than it has been in the past, a prefunded program.

Senator CONRAD. Precisely the case. I think what has been lost here in the conversation, perhaps, this morning is, the fact is, because you have been part of a dramatic transformation in the fiscal

condition of the country, we now forecast over the next 10 years a \$2.6 trillion surplus. \$2.6 trillion. When the reestimate is done, I believe that will be somewhat increased, maybe as high as \$2.7 trillion of surpluses over the next 10 years, and \$1.8 trillion of that would be Social Security.

It seems to me, Mr. Chairman and members of the committee, we are in a position to think seriously about a program that might do something like the following: take that \$2.7 trillion of projected surpluses over the next 10 years, dedicate every penny of the Social Security surplus to Social Security, that would be \$1.8 trillion, and that would still leave us with \$900 billion.

A simple program of one-third, one-third, one-third, might work well. One-third to strengthen Medicare, one-third for tax relief to reduce the unfairness in the current tax system, and one-third for high-priority domestic needs like education and defense.

I think we could construct here, and probably reach conclusion quite quickly, on an overall program that might make some sense for the country. It just seems to me that, when we are talking about running \$2.7 trillion of surpluses over the next 10 years, that we are in a position to do things we could not even have considered before you helped put in place a fiscal structure that has really rescued this country. So, I want to thank you for that.

I would like to turn, with the time I have remaining, to the trade deficit question. While we have made enormous progress in eliminating the budget deficit and we are making progress on reducing the national debt, we still have a problem of a growing trade deficit. In fact, I understand we may have an announcement that we have got a record trade deficit for this month.

First of all, I was meeting with a newspaper editor back home and he told me, trade deficits really do not matter. Could you give me your perspective on that? Do trade deficits matter, and if so, how?

Mr. SUMMERS. I think, along with the low personal savings rate—and they are related—the trade and current account deficits are our other major imbalance in our economy. I think it does matter in a number of respects. It matters because it is never as good to be spending borrowed money. It matters because of the dislocations it brings to important sectors of the economy, particularly manufacturing and farming. It matters because of pressures that it engenders. I think it is something that is very important for us to address.

My belief is that addressing it effectively really is a combination of two primary elements. One, is promoting growth and more open markets abroad, because I think it is, frankly, much healthier to address it by promoting our exports than by compressing our imports. That is why, particularly at this moment, the agenda of promoting growth in the rest of the world seems so important to us.

The second crucial part of addressing this is the question we have been discussing quite a bit today of increased savings, where, as kind of a tautology, the current account deficit is the difference between the amount we save as a country and the amount we invest as a country. We want to do the same amount of investment or more, it is just we do not want to be borrowing to finance it. The

only way we are going to get there is by working to increase our savings.

So I am very concerned about the trade and current account deficits, and believe the best way to address them is by promoting growth, more open markets, competitiveness of American products abroad, and by working to increase our National savings rate.

Senator CONRAD. Let me just say that, with the surpluses that we now project, \$2.6 trillion in the most recent estimate, but I believe that is going to be increased when the reestimate is done this summer, probably in the range of \$2.7 trillion over the next 10 years, if we are to dedicate every penny of the Social Security surplus to Social Security and do something like I suggested, a third for tax relief, a third to strengthen Medicare, a third for high priority domestic needs, the third that would go to tax relief, it would seem to me that a significant chunk of that ought to be as an incentive for savings. Would that make sense in terms of what you have outlined?

Mr. SUMMERS. I have tried to be clear on the President's position with respect to tax relief. I am not sure the framework that you are describing, Senator Conrad, would make the kind of contributions to long-term solvency that the President believes are very important before we start committing the surpluses.

But, leaving that aside, certainly the President's emphasis on the USAs proposal speaks to the fact that something we see as very, very important, with whatever is done in the tax area, is looking to the whole question of promoting personal savings.

Senator CONRAD. Let me just say, on the question of solvency, what I am talking about here, obviously if you put every penny of Social Security surplus to Social Security and you provide another \$300 billion of non-Social Security surplus to Medicare, that helps extend the solvency of Medicare, which I think is critically important and a goal the administration shares.

I thank the Chairman, and I thank the witness. I look forward to enthusiastically supporting your confirmation.

Mr. SUMMERS. Thank you.

The CHAIRMAN. Senator Murkowski?

Senator MURKOWSKI. Thank you, Mr. Chairman.

Good morning, Mr. Summers. Although, it is afternoon, now. I am pleased to see your family here. I noted your two daughters, twin girls. I am somewhat fascinated with twins because I am the grandfather of two identical twin girls who are 6 years old. I cannot tell them apart.

However, Harry, I noticed, was quite detached from the historic moment that his father and family are participating in. [Laughter.] And promptly wiggled himself out of the seat and was doing things that younger boys do.

I think you and I first came together on a little dispute about an issue called tessabonos with Secretary Rubin. I had great concern that we were bailing out the private sector. You pointed out that we were assisting the recovery of the economic and fiscal structure of Mexico.

As it turned out, in spite of the fact that I was supported by a couple of Senators, D'Amato, one, we were unable to prevail. I think it is fair to say that you and Secretary Rubin proved that you

were on a correct path. Much to your credit, that situation has worked itself out.

However, I am concerned a little bit about a couple of other areas that have come up in this discussion. One, was Senator Bryan's discussion about the situation with regard to gold. It seems to me that what we are doing here, is we are selling, as a part of IMF, gold to help the highly indebted countries, in a sense, pay down their debt.

That, of course, benefits the accounting and the books of the International Monetary Fund. On the other hand, there are countries like South Africa, which probably is the lowest cost producer of gold, under working conditions that we would not put up with. You are aware of their deep mines and the working conditions there.

They just keep producing the gold and are not too concerned about the price. It seems to me that you have got a situation where you are selling your collateral, if you will, as the collateral goes down.

It is like the Veterans Affairs, that may have several hundred homes that they have foreclosed on, but they are fearful of sharing with a realtor a realtor's fee to sell the homes because they would lose more money if they paid the fee.

It seems to me that this structure that we seem to be hell bent on is driving the price of gold down, is helping the low-cost producers like South Africa who really do not care, and I just wonder what you feel the role of the Treasury Department is as you look at, traditionally, gold as a reserve holding of governments. This is my case in point. We are driving the price down by this policy. It is an issue of supply and demand, is it not?

Mr. SUMMERS. Let me just say, as far as the IMF gold is concerned, that I do not think anybody who is financially prudent who holds an inventory of anything ever wants to sell it in a way that depresses the price, whether it is houses, whether it is coffee, whether it is gold.

Certainly, as shareholders with the IMF, I think we have an obligation, since that gold is a major asset of the IMF, to insist that it manage itself in a way that is financially prudent and that does not degrade the value of what is a major asset that it holds.

Certainly, the only context in which we would support gold sales would be a context in which, given the way in which they are phased, given the ways in which they are managed, given who the transactions are with, the IMF's gold sales would not have an appreciable impact on the market for gold.

It is our judgment, and I know there is controversy about this and it is something that we will continue to monitor. We are committed to not having the IMF have significant impact on the gold market. The forces that are operating on the gold market are broad forces of a kind that dwarf any impact of this possible IMF move.

Senator MURKOWSKI. Yes. But it is a sell-off. There is a sell-off. The reserves are being sold, so the price is coming down.

Mr. SUMMERS. There is the possibility of a phased over a long interval, limited sell-off. It is a judgment of what the impact is, and we will obviously continue to monitor this situation.

Our support would only be for a sale that was designed in such a way that we could be convinced that there would be no meaningful impact on the gold market because, as you say, it would be wrong to meaningfully impact the gold market.

Senator MURKOWSKI. Well, I think Senator Bryan pointed out that it has gone down from \$290 to \$259, or thereabouts. It would seem to me, if you phase the sell-off, then you have less impact than dumping.

My second question is along the same lines, U.S. Law 22 U.S.C. does not allow the U.S. to approve sales of more than 25 million ounces of IMF gold without Congressional approval. Are you aware of that?

Mr. SUMMERS. Yes.

Senator MURKOWSKI. Somebody is nodding their head out there. That is a good sign that I am on the right track.

In any event, since more than 25 million ounces have already been sold, when is the administration going to send this up to the Congress?

Mr. SUMMERS. Senator, we are certainly aware of the obligation for there to be Congressional approval before we could support this sale, and with respect to the legislative mechanics, I will have to come back to you.

Senator MURKOWSKI. All right. But you intend to conform with that.

Mr. SUMMERS. Yes.

Senator MURKOWSKI. I am going to move over to China for a minute. When the Chinese Prime Minister Zhu came to Washington in April, I think our negotiators had done a pretty good job. They have done as good a deal as anticipated, and perhaps better than some had thought, as we look at the accession into the World Trade Organization.

But we lost an opportunity, in my opinion. We lost it because the President backed off, very frankly. As a consequence of that, I am curious to know whether you feel that the individual who was promoting that, Zhu Rongji—he had to go back to China without a deal. He is one of the individuals who I think has sought to bring reform to China in a very positive way. He returned empty-handed. Then, I think to make it worse, our negotiators released the deal, which embarrassed him even further.

Do you have any comment on that? Why did we let that opportunity slip through our hands? Now I suppose we are going to go back and try to rebuild it, but it may cost us something in comparison with what we have.

Mr. SUMMERS. Senator Murkowski, with respect to the past events, I think the judgment of all of us who were involved was that it was important not to conclude a final agreement until we really had all of the necessary conditions, including a number of important protocol issues, in place and they were not fully there at that time.

But certainly as the President has made clear, he very much wants to see China in the WTO, but in the WTO on commercially appropriate terms. That is something that the Chinese want to do—

Senator MURKOWSKI. I expected you to duck the question a little bit, and you have.

Let me just conclude by saying that I think, as has been referred to the \$2.7 trillion surplus, that a Republican-controlled Congress also had something to do with it to allow the administration to have the tools it needed, and gave them a little guidance and direction. I would simply make that point for the record. I intend to support your nomination, and I wish you well. I am particularly pleased to see your family here today. Good luck.

Mr. SUMMERS. Thank you.

The CHAIRMAN. Next, is Senator Robb.

Senator ROBB. Thank you, Mr. Chairman. The moments of this exquisite torture that we call the confirmation process now dwindle to a precious few. I see, with the return of my colleague Senator Nickles, you may not be entirely finished with my questions, but at least you can see that well-known light at the end of the tunnel.

I am delighted to see that your two daughters have returned, presumably having had lunch, and now ready for the afternoon activities. We will soon afford you the opportunity to do the same.

Let me say that, in view of the fact that most of the areas have been covered quite thoroughly in many cases, these hearings tend to be something of a Rorschach test. We place an individual in the confirmation chair, then all of us use that opportunity to explore individual interests or to demonstrate our own preferences.

I will take advantage of that only briefly, and I will not really pose a question. I would like to simply comment. It may be in anticipation of your last inquisitor, at least in part. That has to do with the description or definition of a paid-for tax cut.

I hope that you will illuminate us a little as to what you refer to as a paid-for tax cut, having had that term denigrated somewhat in what I believe is the mistaken belief that it stands for something else.

Let me say, first of all, thank you for the time that we have spent together, as you have spent with all of the members of the committee. We have all had an opportunity to thoroughly examine a variety of interests and broad policy questions in some narrower and more parochial views.

I would only, as one of the certified representatives, or at least perceived to be, of the troglodyte branch of the Flat Earth Society with respect to fiscal discipline and responsibility, I would hope that you would resist some of the overtures that we will certainly present to you, to depart from what I think is a well-intended announcement position to continue to try not to, at the very least, spend or appropriate, or provide tax relief from, funds that have not yet presented themselves for distribution by Congress in whatever form.

That has been a part, certainly, of some of the advice that our colleagues here have offered, but in many cases we have used a number of years of collective projections, and the anticipation of even more to come, to give us an opportunity to begin spending, cutting taxes, whatever the case may be before that money is safely in hand. Of course, all of those projections, rosy though they may be, and expected to become even rosier in the near term, are projections and not yet money in the bank.

So I would simply, as one who is very much committed to attempting to deal in a systemic way with the two programs that we have discussed, the two principal programs, both Social Security and Medicare, recognizing that it is unlikely that we are going to do so in a meaningful way this time around, that we will try to continue to husband whatever resources might be available for future solutions.

To the extent that you are comfortable in doing so at any point, providing as much of what might be described as legislative language to address what are at this point conceptual frameworks for addressing the two most serious challenges that face us in the near term.

So, with that little repetition of what you know is a view that I have had for a long period of time and a willingness to work with all of our colleagues in coming up with packages that respond to all of the legitimate needs but with a very strong emphasis on what I would call the fiscally responsible approach to that question, I could not be more pleased with your nomination. I look forward, with all of my colleagues, to a speedy confirmation and to working with you on all of the challenges that face us.

I commend the President on picking someone who has enormous confidence and a good, solid working relationship already established, and has indicated in picking Stu Eizenstat that he is going to have a very solid team with whom all of us can work, and I look forward to it.

With that, Mr. Chairman, I thank you. I thank the distinguished Ranking Member. I yield back any time remaining to me.

The CHAIRMAN. Thank you, Senator Robb.

I believe we are to the last one. Senator Nickles?

Senator NICKLES. Thank you, Mr. Chairman. I apologize. I have been in and out a couple of times, but I saw a lot of people and I needed to do a couple of other things.

But, welcome, Mr. Summers.

Mr. SUMMERS. Thank you.

Senator NICKLES. Let me be very quick. I know you are very tired, and your family has shown great patience, and I compliment them for it as well. I believe maybe Senator Mack questioned you on this, but I told you I was going to ask you about it.

In the Washington Post on April 22, 1997, dealing with estate taxes, here is a quote: when it comes to the estate tax, there is no case other than selfishness.

Do you have any comment on that?

Mr. SUMMERS. I do. What I said there was wrong. I made clear that it was wrong soon afterwards. It is always wrong, I think, to impugn motives in these kinds of policy debates. Certainly, there are a set of very legitimate concerns around the estate tax, and particularly its impact on small businesses and on farmers.

I was pleased to be able to work as part of the process at the Treasury Department when this committee, working with others in the Congress, was able in the 1997 tax bill to provide for estate tax relief.

Senator NICKLES. Let me just touch on that. I accept your apology, or your statement that it was wrong. I happen to have very strong feelings on this, so you will know where I am coming from.

I am a third generation in a business. We are trying to pass it on to our kids. Right now, the estate tax rates are 55 percent of the net value of the estate, which is \$3 million. Uncle Sam wants 55 percent.

So if you have done fairly well in the business, you are trying to pass it on to your kids, that is kind of hard to do if the government comes in and says, hey, we want 55 percent.

A lot of businesses do not have the cash. Kids want to keep in the business and want to stay in the business, but the only way they can pay that kind of estate rate of 55 percent—and it is 39 percent if it is a taxable estate of \$1 million.

We have done all right. We have increased the exemption, but we have not done anything with the rates. So if you have a taxable estate of \$1 million, sorry, kids, you have to sell the business to pay estate taxes. That is wrong.

Some people propose, we will eliminate the taxing event of death and make the taxing event when whoever inherits the property sells it. Of course, then it would be taxed at capital gains. Do you have any thought on that process, that some of us are sponsoring that type of legislation?

Mr. SUMMERS. I am not familiar in detail with that proposal. I certainly do recognize that, particularly as in the example you suggested, where you have an asset that does not readily generate cash and it is passing within a family, that there can be very difficult circumstances.

Senator NICKLES. I would like for you to look at it.

Mr. SUMMERS. It is important to look at. We all have our budget priorities, but we will certainly look carefully at that proposal.

Senator NICKLES. Thank you.

Let me ask you just a couple of other quick questions. You are supportive of GATT?

Mr. SUMMERS. Yes.

Senator NICKLES. The General Agreement on Trade Tariffs.

Mr. SUMMERS. Yes.

Senator NICKLES. The steel quota bill, which has passed the House, is in violation of GATT. We will be voting on that at some point in the Senate. I understand that the President has stated that he would veto that, is that correct?

Mr. SUMMERS. That is the recommendation of his senior advisors, yes.

Senator NICKLES. All right. If you are Treasury Secretary, you are going to be a senior advisor. Will you be recommending to the President that he veto the steel quota bill?

Mr. SUMMERS. Yes, I will.

Senator NICKLES. There is also a bill that we are working on presently that will have loan guarantees for steel, \$1 billion, \$500 million for oil and gas, guaranteed loans will be up to 100 percent to be made by the Secretaries of Treasury, Commerce, and Labor. Do you think that is a good idea?

Mr. SUMMERS. I have not studied the particulars of that proposal closely and the administration has not taken a position on that particular piece of legislation. There is clearly a very real concern about steel workers and about steel communities.

There is also a concern that has to be balanced with respect to government's function in the economy. As I say, I am not familiar with the details and the administration has not taken a position on that.

Senator NICKLES. I am assuming you will be? You may well be the banker. Right now, the legislation—and I hope to change it—proposes that the Treasury Secretary be one of a three-member board that would be approving these loans.

Have you looked at the experience that the government had in the late 1970's with a similar program? Let me just urge you to look at it. It was a disaster.

Mr. SUMMERS. Absolutely.

Senator NICKLES. There was a 77 percent failure rate amongst the steel loans that were guaranteed by the Federal Government in 1978 and 1979. A 77 percent default rate. I will help you look at it. I will inform you. Those were 90 percent loan guarantees. I am just informing you. I have serious questions on how smart of a policy that is.

I have great respect for you as a banker, but I am not sure you are better than the bankers that would be putting their own money at risk. I question putting taxpayers' money at risk. When we did it 20 years ago, it was a failure, by anybody's definition.

All firms ended up in bankruptcy anyway, and the government ended up losing 77 percent of the money that was loaned in the steel loan guarantees, which, I might mention, were 90 percent loan guarantees, not 100. This proposal before us is 100 percent.

So I would hope that you would look at it. I do not have time in my questioning, and I know that you are tired. I stated earlier that I wanted to echo Senator Kerrey's comments on Social Security. I think the administration has been very deceitful in stating that they wanted to protect Social Security by basically putting a bunch of IOUs.

I do not know if I would say the Treasury, but the President's budget takes money out of Social Security in direct contradiction to his statement that he made in his State of the Union address 2 years ago: let us not spend one dime of this Social Security money, let us save it, let us not spend it, let us not give it away in taxes. Frankly, the President has a lot of spending proposals that basically use about \$158 billion of Social Security taxes over the next 5 years and says, we are going to save it by crediting more money. We are going to put in more paper IOUs, which, frankly, does not pay checks. You cannot pay checks with those IOUs.

Senator Moynihan was right. You are either going to have to raise taxes or you are going to have to issue more debt. So the administration's Social Security proposal has been largely rhetoric and very misleading with the numbers, and we need to solve the Social Security problem. We need to. That is, the administration and those of us in Congress, because we have a big problem. Demographically, we have a train wreck coming, both in Medicare and in Social Security. Congress cannot solve it alone, neither can the administration.

But you do have something going for you in the fact that you have got Pat Moynihan, Bill Roth, and you have a lot of members, Democrats and Republicans, in this committee that are willing to

tackle those two big problems this Congress. Frankly, we are making a serious mistake, the administration and Congress, if we do not work together this year, this Congress, to get some things done. The problems will only be worse 2 years from now. Maybe that would postpone it beyond this administration, but I think that is irresponsible and we really should work towards saving Social Security.

I believe, towards some type of a capitalized account, with some personal savings accounts, would have a lot of appeal for workers all across America. I would hope that we would come up with a capitalized system, not just an unfunded promise with great big IOUs that, frankly, our kids are going to have to pay for.

So, with that, Mr. Chairman, I know my time has expired. I appreciate Mr. Summers coming before us today, and I look forward to working with him in the future.

The CHAIRMAN. One more time, Mr. Summers. Senator Gramm?

Senator GRAMM. Mr. Chairman, thank you very much. I am going to get another shot, so to speak, at Larry before the Banking Committee. A lot of jurisdiction in the Banking Committee comes under the Treasury Department, so I do not want to use a lot of time today. But there are a couple of points that have been made that I want to hit on.

Let me first say, Mr. Chairman, that I have had an opportunity for about 20 years to be involved in government. I have had a chance in government to work with some really smart people. But the one thing I can clearly say about Larry Summers is, when he says, I get it, he gets it.

We have had very few people serve in high public office in this country that have the intellectual ability that Larry Summers has. I personally believe that being smart is not the be all and end all, but other things being the same, it is a benefit. [Laughter.]

Mr. SUMMERS. *Ceteris paribus*.

Senator GRAMM. Right. Now, I want to hit on three points. The first, is just a comment and an appeal. The whole debate concerning the budget has always had a kind of a phony element in it, unfortunately, because you are projecting into the future and nobody knows what is going to happen in the future. People have made assumptions to sort of benefit the case they wanted to make.

I think in the last year that we have gone even over that line. I remember a hearing we had where Mr. Lew, the OMB director, was before this committee and it really was a disgrace. I want to urge you, you are going to have more influence on economic policy and the language that we use to debate it than anybody other than the President.

It is very important that we not use the most able people in the administration to try to confuse the facts. It is very important, on these issues like Social Security and Medicare, that we basically try to talk to each other and try to agree on the facts, and then debate policy. I want to strongly urge you to try to be an influence.

I think, especially in the last year, and I am not saying we have not been moving in this direction, but we have gotten to the point now where somebody makes up, in my opinion, and it is subject to being criticized and being biased, with a political substitute for a

policy and then we have tremendous intellectual ability squandered in trying to defend it rather than debating the issue.

Whatever you can do, especially on these two big issues, to work with us so we agree on the facts and then we can debate the issue itself, it would be a great contribution to the debate and I would appreciate it.

Now, my two questions. My concern on trade is a little bit different than Bob Kerrey's, even though our views are very similar on trade, I am proud to say. My concern is, since World War II we have had kind of a bipartisan agreement.

Nobody has ever written it down, but it has existed, except for a very short period of time, and I will mention that, where neither party tried to use trade as a political issue by demagoguing it because it is so important.

Only in the last two or three weeks of the Bush-Dukakis campaign and the whole post-war period has the fundamental issue of trade ever been a Presidential campaign issue. Both parties, even though one or the other might have benefitted, refused to go down that road. I am concerned that that is not going to be the case in this race.

In fact, I am not following the Democrat primaries, but I served with Bill Bradley and I have a very high regard for Bill Bradley. But if there is one thing I know about Bill Bradley, and it is the thing I admire about him the most, he is an honest-to-God free trader. I do not quite know how this debate is occurring with Gore and why people are with Bradley against Gore on the trade issue. Presidential campaigns get confused.

But here is the question. Clearly, at some point you are going to have to stand up and say that trade is a good thing for the American economy as people begin to sort of get into this debate about, could we benefit by engaging in protectionism, either on a broad basis or a selective basis? There may be tremendous political pressure on you to just keep quiet about it.

I just want to ask you a question, if you are ready to stand up and defend the benefits of trade to the American economy and its workers in general.

Mr. SUMMERS. Yes, I am. As I do that, I am also prepared to stand up to try to make trade as positive a force for as many Americans as absolutely possible. I am for enforcing the U.S. trade law and the protections that it provides to ensure that trade is fair.

But, absolutely. I think that the openness of our markets has been critical to our success not only in terms of the export jobs that have been created, but also in terms of the pressures that an open international economy have provided in helping us to keep the remarkably low rate of inflation we have enjoyed in recent years, which is part of what has enabled this to be a protracted economic expansion. But if we are going to maintain support for it, we also have to make sure that it works for all workers.

Senator GRAMM. Well, I understand that. It does come to a point, however, where you have got to either be for trade or not. I appreciate that comment.

My final question, Mr. Chairman, is I have tried to take a long, hard look at the Asian financial crisis. I think I have read every-

thing that Bob Rubin has said on the subject, both here and when he has been abroad.

I want to congratulate him for letting you be the leader on so many issues which has put you in a position, I think, to come in as an experienced Secretary of the Treasury. I think a lesser person might have been jealous of the attention and power that someone working for them might have had. I think it is a real compliment to Bob Rubin, and let me say so.

I do not know what is being said, for example, to the Japanese political leaders behind closed doors, but too often what I read in the paper is that there is sort of a problem of an absence of aggregate demand. If we could come up with some way of getting Japanese workers to spend more or getting more invested, that somehow it would solve the problem. I guess, as I look at it, and I would like to get you to take the rest of my time telling me how you look at it, the Asian financial crisis is a classic case of failure of crony capitalism.

The Japanese have among the best workers in the world, the most thrifty workers in the world, and they have squandered the products of their labor and their thrift by having an inefficient system to allocate capital. It is dominated by politics and special interest.

In my opinion, there have got to be fundamental reforms to solve the problem, not just some kind of stimulus and demand. Now, I do not know that I am right, but I would like to know your views on that subject.

Mr. SUMMERS. Senator Gramm, let me concentrate on responding to your question about Japan. I, in a broad way, share your emphasis with respect to the Asian financial crisis.

I think, with respect to the challenges that Japan faces, it is really a case of, if you like, two blades of the scissors, where you need both. I think if Japan is going to continue to enjoy significant growth over time, as Prime Minister Obuchi and many in Japan have recognized, it is going to be important to deregulate, to open up their economic system to allow market forces to operate, to allow capital to flow to the highest, and not the most friendly, and not the best connected use.

I think it is going to be important for shareholders to have more of a genuine voice in how companies operate, and I think allowing the play of market forces to operate is absolutely essential for Japan to achieve the kind of prosperity it can. I think that is increasingly the view of Japan, and it is something that Prime Minister Obuchi has stated.

I also think, though, that within any given economic structure, there is a question of the fraction of the potential of that structure that is being achieved. If you look at rates of unemployment in Japan, where you look at fractions of unused capacity in Japan, I think most who look at it are led to conclude that there is a shortfall of demand right now.

That shortfall of demand is having a significant impact on the rest of the global economy by reducing the demand for imports from the United States and from Asia, and by leading to, in some cases, the sale of Japanese products at artificially low prices or

prices that would not be so low without these circumstances in other countries.

So another part of the solution to Japan's issues has to be, as we have stressed in our policy dialogue with Japan, the importance of domestic demand-led growth. But the emphasis on domestic demand-led growth is always a statement, or should always be in my view, that it is an important aspect of the situation and should never be treated as something that denigrates the importance of the broader structural solution, because I agree with what I think is the premise of your question, that there is no alternative, for economic success, to working through the many structural issues.

Senator GRAMM. Thank you.

Thank you very much, Mr. Chairman.

The CHAIRMAN. The way I would put it, the Japanese people need to learn how to consume, become consumers. The American people need to learn how to be savers.

Senator MOYNIHAN. Mr. Chairman, now I believe we hear next from Pamela and Ruth, who are going to let us know what they think of what they have just heard. [Laughter.]

The CHAIRMAN. Are you ready to testify, young ladies? [Laughter.]

Senator GRAMM. Mr. Chairman, is it not encouraging that Larry can have such beautiful children? [Laughter.]

Mr. SUMMERS. Some apples fall far from trees.

The CHAIRMAN. Well, I guess I will have to look at your children. [Laughter.] This brings us to the end of the hearing. It is my intent, if all goes well, to have the confirmation vote on your nomination on Tuesday, June 22, hopefully at 10:00, if we have a quorum.

Senator MOYNIHAN. And I suspect it is going to be very close to unanimous. Congratulations.

Mr. SUMMERS. Thank you very much.

The CHAIRMAN. We appreciate having you here today.

Let me just remind members, at least the Ranking Member, that the committee will convene this afternoon in Senate Dirksen 215 at 2:00 for a Medicaid hearing.

The committee is in recess.

[Whereupon, at 1:06 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF LAWRENCE H. SUMMERS

Chairman Roth, Ranking Member Moynihan, members of this Committee, I am grateful for the opportunity to appear before you again, today in connection with my nomination to be Secretary of the Treasury. I am greatly honored by the trust in me that the President has demonstrated by nominating me to follow in the distinguished tradition at Treasury of Lloyd Bentsen and Bob Rubin.

For the past six and a half years, I have served at the Treasury Department. From 1993 until 1995, I served under Secretary Bentsen as Under Secretary for International Affairs, where my focus was on international financial issues. For the past 4 years, I have served as Secretary Rubin's deputy. In that capacity I have participated in the formulation of the Administration's economic and budget strategy and worked on Treasury priorities—ranging from debt management, to protecting the nation's borders—as well as continuing to work actively on international issues.

It has been an immense privilege for me to work with President Clinton and the other members of his economic team, with the Federal Reserve, with this Committee and with others in Congress to put in place a core economic strategy for this country. That strategy has been based on macro-economic stability and achieving fiscal discipline. It has been based on making critical public investments, particularly investments in people, in education especially. It has been based on a recognition of America's interest in open markets and stable growth around the world.

Mr. Chairman, while important challenges remain and we in the United States can never afford to be complacent, the strength of the American economy in recent years stands out. Powered by the initiative and enterprise of the American people and our market system we are enjoying the lowest rates of inflation and unemployment in a generation. We have seen the restoration of American economic leadership around the world. And most important of all, for the past several years we have seen the fastest growth in real earnings of American workers in 25 years.

We can all acknowledge the remarkable contribution that Secretary Rubin has made to our economy over the past six and a half years. At Treasury the right course has been set. Our challenge will be to carry on.

If confirmed as Secretary I will focus on five priority objectives:

- First, maintaining a strong economic strategy, based on continued fiscal discipline and the use of this moment of opportunity to address the long-term problems facing Social Security and Medicare.
- Second, ensuring that a strong economy translates into growth in the living standards of American workers and their families, and that no part of this country or group of Americans is left behind.
- Third, building the strong, stable and growing global economy on which American prosperity and security ultimately depends, while at the same time working to ensure that global integration benefits American workers, farmers and businesses.
- Fourth, striving to ensure that the American financial system is as safe, competitive and efficient as possible in meeting the needs of American consumers and businesses.
- Fifth, supporting the tradition of excellence and integrity in the career staff of the Treasury Department and its Bureaus that I have come to so much admire during my six and a half years at the Department.

Mr. Chairman, it has been by privilege both as Under Secretary and as Deputy Secretary to work with this committee on many issues. If confirmed I look forward

to working even more closely with you in the future and with others in Congress on the full range of challenges that we face.

Thank you once again, Mr. Chairman, for bringing me before this committee.

Now I would be pleased to respond to any questions that you or members of the Committee may have.

The White House,

JUN - 7 1999

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To the

Senate of the United States.

I nominate

Lawrence H. Summers, of Maryland,

to be Secretary of the Treasury, vice Robert E. Rubin.

WILLIAM J. CLINTON

A. BIOGRAPHICAL INFORMATION

1. **Name: (Include any former names used.)**
Lawrence Henry Summers
2. **Position to which nominated:**
Secretary of the Treasury
3. **Date of nomination:**
June 7, 1999
4. **Address: (List current residence, office, and mailing addresses.)**
5409 Falmouth Road
Bethesda, MD 20816

Department of the Treasury
1500 Pennsylvania Avenue, Room 3326
Washington, D.C. 20220
5. **Date and place of birth:**
POB: New Haven, Connecticut
DOB: 11-30-54
6. **Marital status: (Include maiden name of wife or husband's name.)**
Married to Victoria Perry Summers
7. **Names and ages of children:**
Pamela M. Summers DOB: 6/12/90
Ruth P. Summers DOB: 6/12/90
Harry C. Summers DOB: 7/29/93
8. **Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)**
Ph.D, Harvard University, 1975-1979, awarded 1982
S.B., Massachusetts Institute of Technology, 1971-1975, degree awarded May, 1975
Harriton High School, 1968-1971, diploma awarded June, 1971
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.)**
8/11/95 to Present Deputy Secretary of the Treasury
Department of the Treasury
Washington, D.C. 20220

4/1/93 to 8/11/95 Under Secretary of the
Treasury for International Affairs
Department of the Treasury
Washington, D.C. 20220

1/93 to 4/93	Senior Deputy Assistant Secretary of the Treasury for International Economic Policy Department of the Treasury Washington, D.C. 20220
1/91 to 1/93	Vice President and Chief Economist The World Bank 1818 H Street, N.W. Washington, DC 20433
7/83 to 1/93 (on leave 1/91 to 1/93)	Nathaniel Ropes Professor of Political Economy Harvard University Cambridge, MA 02138
7/79 to 1/91	Research Fellow National Bureau of Economic Research 1050 Massachusetts Avenue Cambridge, MA 02138
9/82 to 6/83	Domestic Policy Economist Council of Economic Advisors Old Executive Office Building Washington, DC 20500
9/79 to 9/82	Assistant Professor of Economics Massachusetts Institute of Technology Cambridge, MA 02139

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.)

None other than those listed above.

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.)

1989-1993: Director, Thermo Energy Systems, Waltham, MA – an energy conversion company
1989 - 1990: Consultant for American Express, Goldman Sachs, Kodak, and NBC

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

Fellow of Econometric Society
Fellow of American Academy of Arts and Sciences
Member of Council of Foreign Relations
Member of American Economic Association

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.

Served as an economic advisor to Michael Dukakis in 1987 and 1988.

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

None

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

John Bates Clark Medal – Given by the American Economic Association every two years to outstanding economist under age 40.

Alan Waterman Award – NSF Outstanding Scientific Achievement

David Wells Prize – Outstanding Ph.D. Thesis Harvard University

National Tax Association, Outstanding Thesis Award

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

Author of the Book, Understanding Unemployment, MIT Press, 1990; co-author of Reform in Eastern Europe, MIT Press, 1991; and Editor of the series Tax Policy and the Economy, MIT Press, 1987-1990 editions. Also author of more than one hundred articles – see attached resume.

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.)

In my positions at the Treasury Department, I have given numerous speeches over the years on many different subjects. On many occasions, I have a prepared text, but on other occasions I have spoken without prepared text. Attached are copies of my public speeches from the past six months. For speeches prior to then, please see Treasury's web site: <http://www.treas.gov/press/releases/archive.htm>

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

As Deputy Secretary of the Treasury and Under Secretary of the Treasury for International Affairs, I have had broad experience in assisting and working with the Secretary of the Treasury in the formulation and execution of policies encompassing the full range of issues facing the Department.

Prior to joining the Treasury Department, I have had extensive experience in teaching, writing, and practicing in the general area of macroeconomics and international economics at Harvard University and the World Bank.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

Not applicable.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No.

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No.

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

I testified before the FCC on behalf of NBC in connection with the financial interest syndication rules during 1990.

4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

I do not foresee any potential conflict of interest. Should any potential conflict issue arise, I will consult promptly with the Treasury Ethics Officials.

5. Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

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

No.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

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

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.

REPONSES TO QUESTIONS SUBMITTED BY COMMITTEE MEMBERS

Senator Roth

Question: In March, this Committee had a discussion with another Administration representative on the complexities of using surplus dollars to buy down the public debt while at the same time extending the life of the Social Security and Medicare trust funds through 2055 and 2020 respectively. While it may be possible to make this work on a spreadsheet, I have difficulty believing that in reality this proposal will benefit the public debt or the trust funds. How would you convince me otherwise?

Answer: When the President released his State-of-the-Union framework for Social Security and Medicare reform last February, he pledged that we would consult widely and on a bipartisan basis, and incorporate the best ideas going forward. I believe that the revised Framework recently released by the Administration reflects this commitment. Of particular relevance to the issue you raise is the fact that, in the revised framework, the on-budget account is projected to remain in balance in each and every year, throughout the 15-year period covered by the framework. We hope and believe that this should fully address concerns about accounting such as the ones you express.

As for benefiting the public debt, I would note that the essence of the President's approach -- both in its earlier form and in the recently revised version -- is debt reduction. Indeed, under the revised version just released, the debt held by the public would be extinguished by the year 2015. This illustrates the pressing urgency in achieving bipartisan consensus around the need to come together for the sake of protecting the surpluses now in prospect.

Question: The President's chief Social Security proposal would in effect commit about \$20 trillion of income tax revenues after 2032 to Social Security. How is this proposal responsible fiscal policy? Why wouldn't this proposal put a huge burden on taxpayers of the future -- our children and grandchildren?

Answer: The essence of the President's proposal is debt reduction. Over the next 15 years, the President proposes to eliminate the debt held by the public. This would be a dramatic development, given that debt held by the public currently equals about 50 percent of our annual GDP. It is also a crucial step to be taken in preparation for the retirement of the baby boom generation.

Beginning in 2011, the President further proposes to transfer the interest savings associated with the Social Security related debt reduction to the Social Security system.

I would note two further points in this regard. First, the President's proposal does not expand the obligations of the Social Security system. Instead, it enhances the ability of the Trust Fund to meet its existing obligations, which are defined by the benefit promises embodied in current law.

Second, the long-run projections from OMB and CBO already assume full payment of current-law Social Security and Medicare benefits. This implies that enhancing the legal capacity of Social Security and Medicare systems to meet their obligations would not cause those long run projections to deteriorate from their current very favorable positions. In fact, current projections show unified and on-budget surpluses extending many, many years into the next century, indicating that we have the fiscal capacity to meet these obligations for a long time to come

Question: Some economists suggest that the Japanese economy is suffering from a lack of aggregate demand because, at least in part, the Japanese people are saving rather than spending their incomes in anticipation of retirement. Do you agree with this diagnosis? If so, although today Americans have a record low personal savings rate and our economies differ in important respects, could the United States suffer similar economic problems as our population ages? Could Social Security reform protect economic growth, and, if so, how?

Answer: In and of itself, savings are not bad for economic growth, either for Japan or for the world. The problem is inadequate aggregate demand, which can exist at all levels of savings. The Japanese people have traditionally had a high household savings rate. Analysts have pointed to a number of factors that affect Japanese households' savings behavior, including demographic shifts related to the rising median age of Japan's population, the Japanese Government's well-publicized concerns with respect to its fiscal position and increasing indebtedness, and, more recently, the Japanese people's increasing uncertainty with respect to the employment outlook. There is no consensus among analysts with respect to the comparative importance of these factors in savings decisions.

Social Security reform is an important component of the Clinton Administration's strategy to promote continued economic growth. The President's proposal increases government saving (by retiring publicly held debt) and thus, the national saving rate, thereby lowering interest rates and raising economic growth. Under the President's plan, debt held by the public would fall to about 7 percent of GDP by 2014 -- the lowest level since the United States entered World War I -- and would be completely retired before 2020.

Question: Secretary Rubin has written two letters to the Congress outlining his objections to the Senate Social Security lock box bill because of new limits on publicly held debt. Why wouldn't the Administration's Social Security proposal create similar problems? Under current law, the debt ceiling would not need to be raised for at least ten years. However, under the Administration's proposal, the debt ceiling would need to be raised in 2001, and would have to be increased 50% by 2009.

Answer: The Senate lock box bill would create a new debt ceiling in addition to the existing limit. With two debt ceilings rather than one, the likelihood of bumping up against a debt limit increases significantly.

The Social Security Trust Fund will exhaust in 2034 under the assumptions in the most recent Trustees report. For this date to be extended, the Trust Fund must receive additional "Treasury special bonds" and/or some other assets. Many proposals for extending this date -- including the Administration's proposal -- would indeed result in an increase in the number of "Treasury special bonds" held by the fund. Such an increase will automatically move the amount of debt subject to the existing statutory limit closer to the ceiling.

Stable Currencies

Question: It concerns me that effective trade agreements of late have been overwhelmed by terrible currency management overseas, impoverishing our trade partners and weakening domestic support for trade, particularly NAFTA. In a recent newspaper article, you were quoted as saying, "Experience suggests that nations can't devalue their way to prosperity." Is that the advice that Treasury has been giving other countries? As Secretary, how do you intend to promote the benefits of a stable currency to our economic partners around the world?

Answer: Our advice to economic partners around the world is that sound fundamental policies aimed at low and stable rates of inflation, prudent fiscal budgets, and fair and efficient tax systems, are the best route to prosperity and stable currencies. We have led by example over the past six years, in which America has enjoyed strong and steady growth with very low inflation and a record budget surplus.

Both for countries with flexible rates and with fixed rates, a sustainable exchange rate requires sound underlying monetary and fiscal policies. When a country chooses to peg its exchange rate, it must be willing, as necessary, to subordinate other policy goals to that of fixing the rate. The failure to do so - for example, by keeping interest rates too low while depleting foreign exchange reserves, or by running large fiscal deficits - invites a forced devaluation.

Our Administration is working with other countries to reduce the likelihood of financial crises and severe currency instability, and to improve the mechanisms for dealing with crises when they do occur. That initiative includes defining and encouraging better policies in both borrowing and lending countries, reforming the international financial institutions, and refining the ways in which we provide official support to countries facing financial crises.

Fast Track Negotiating Authority

Question: I think that the Seattle negotiating round is critically important for the U.S. and world economy, and the opportunity for passage of trade negotiating authority for the President may again arise prior to the election year. Should such a situation occur, will you commit to expend the necessary political capital to pass fast track?

Answer: The President is committed to finding a bipartisan consensus to renew fast track trade negotiating authority, and I share this commitment. Such authority, which every President has had since its creation in 1974, enables U.S. trade negotiators to pursue the nation's market-opening objectives as effectively as possible.

We should set aside ideology and work on a bipartisan basis to draft a balanced bill in this regard.

What is most important is to keep the world economy moving forward and thereby extend the remarkable run of strong economic growth in our own economy. Trade negotiating authority is an important tool for creating this growth and raising the living standards of the American people. The Administration is prepared to work with all sides to achieve this authority.

U.S. Current Account Deficit

Question: What are your views on the U.S. current account deficit? If the financing of the trade deficit is private and voluntary because the rest of the world wishes to invest here, do you think that the deficit can be an engine of growth and prosperity?

Answer: U.S. trade and current account deficits have been growing in recent years as the U.S. economy experiences strong growth and job creation while our major trading partners, such as the Asian emerging market countries, Japan, Latin America and Europe have been in recession or have been growing more slowly. While the Asian economies may be turning around this year, it will take some time before the rest of the world returns to robust economic health.

Current global trade and current account imbalances also reflect the abundance of investment opportunities in the United States, with high levels of business investment in our economy in part supported by capital inflows from foreign investors. The United States has been able to grow more rapidly and create more jobs because of our ability to attract investment capital.

We have been working to strengthen growth abroad by encouraging policies to revive domestic demand-led growth in Europe and Japan and by supporting adjustment and reform policies in Asia that will allow these countries to return to solid growth. It is also important that we maintain sound domestic policies, including budget surpluses. In addition, we should continue our efforts to open foreign markets to U.S. exports.

U.S. Dollar Policy

Question: What are your views on U.S. dollar policy? Given the dollar's strengthening over the past three years as measured by market signals of exchange values to other major currencies and commodity prices, do you think it would be appropriate to shift official U.S. policy from a "strong" dollar to a "stable" dollar?

Answer: A strong currency is very much in the U.S. national interest. As I indicated at my hearing, I intend to hold to the Department's policy on exchange rates.

Mexico 1995 Crisis

Question: Do you think that Mexico in 1995 was "forced" to devalue because of a large current account deficit? In retrospect, do you think that Mexico should have avoided the massive inflation and skyrocketing, long-lasting interest rates that resulted from the devaluation by defending the peso peg to the dollar and removing pesos from circulation with central bank assets?

Answer: Mexico's current account deficit in 1994, at \$30 billion or 7% of GDP, was inconsistent with the willingness of foreign investors to finance it, and was therefore one of the root causes of the forced devaluation at the end of the year. During the course of the year, Mexican authorities responded to the balance of payments shortfall by selling reserves, while also accumulating high levels of short-term dollar-indexed debt. That response only postponed, but did not solve, Mexico's problems.

If Mexico had responded sooner to the deteriorating balance of payments situation, it may have been able to achieve a more gradual adjustment, with less depreciation, lower inflation, lower interest rates, and less economic pain. A key element of that response would have likely entailed removing pesos from circulation when it was forced to sell foreign reserves, which would have contributed to a rise in interest rates. That in turn would have tended to make Mexican assets more attractive and facilitate the financing of the current account deficit. However, by December 1994, reserves had fallen to \$6 billion, Mexico had accumulated a massive overhang of short-term tesobono debt indexed to the dollar, and it had lost the confidence of foreign investors.

International Economic Recommendations

Question: Much of the world is still mired in recession, and this negatively impacts the U.S. in numerous ways, from loss of exports to national security. There was a disturbing worldwide trend over the past two years to respond to mild economic difficulties with massive tax increases and inflation. Can you assure me that the international economic recommendations Treasury might offer will mirror what we are striving to achieve for promoting economic growth at home, namely lower tax rates, a stable currency, and free trade?

Answer: Our efforts to respond to crises are aimed at limiting contagion, restoring market confidence and hence--most importantly--preventing economic instability overseas from threatening our economic interests at home. We do not see any conflict between our priority of seeking greater prosperity for Americans and our goal of increasing prosperity abroad. Shared global prosperity is clearly in the U.S. interest as it will create a more stable global environment and a faster growing market for U.S. exports.

I can assure you that our advice to foreign partners stresses the importance of free trade and sound fundamental policies, including the lowest tax rates that are consistent with prudent budgets and the effective provision of public services, including a safety net for the most vulnerable.

IMF Advice: Growth and Austerity

Question: Do you agree that U.S. international economic policy should change to recommend the policies that we have followed, placing more emphasis on economic growth rather than austerity? Do you agree that the IMF has failed in its advice and should focus less on eliminating trade and budget deficits and more on encouraging capital investment and economic growth?

Answer: History shows that runaway fiscal deficits ultimately crowd out investment and destroy economic growth. The U.S. experience of the past 6 years demonstrates that robust growth rates and very strong capital investment are fully consistent with a turnaround from budget deficits to budget surpluses.

However, I would agree that fiscal deficits are not always the cause of economic and currency crises, and this is one of the lessons of the recent financial crises in Asia. In this regard the Asian crises were quite different from the Russian and Brazilian crises. We have seen in the recent experiences of these countries that in some cases they face financial problems that go beyond the fiscal elements and involve national financial systems and the ways in which those systems intermediate flows of capital. The IMF has always reviewed its programs on an ongoing basis, and to its credit, it moved quickly to adjust fiscal targets for Asian crisis countries to accommodate fiscal deficits consistent with an early return to sustainable growth rates.

Question: A few weeks ago, the Finance Committee reported the Affordable Education Act of 1999, a bill that provided additional tax incentives to help American families cope with increased education expenses. At that time, Secretaries Rubin and Riley wrote a letter threatening to recommend a veto of that legislation and, referring to the education IRA, indicated that no further expansion of education savings measures was necessary. While the letter referred specifically to education IRAs, is the Administration so strongly opposed to the expansion of qualified tuition plans? Are there any enhanced education savings measures that the Administration will support?

Answer: The Administration shares your goal of making higher education more accessible and affordable. Over the past several years, we have worked together to pass several tax incentives for higher education, including the Hope Scholarship credit, the Lifetime Learning tax credit, student loan interest deductions, and extensions of the exclusion for employer-provided educational assistance under section 127. This year's budget provides a further extension of section 127 and eliminates the 60 month limit on student loan interest deductions. With respect to qualified state tuition plans specifically, the Administration worked to clarify the tax-free treatment of the plans and to provide tax-free inside buildup on participants' investments in the plans.

In the last few years, we have met with your staff and other Congressional staffs to discuss issues regarding proposals to further the tax incentives for education saving in qualified state tuition plans. We would be happy to meet with you and your staff to discuss these issues further.

I look forward to working with you on this and other proposals to make higher education more accessible and affordable for all Americans.

Question: Last year, I proposed to accelerate the 100% deductions for self-employed workers and to remedy the inequity for workers whose employers do not provide health insurance. The Administration's budget does neither... Does this mean that the Administration is content with our health care tax policy in these two areas?

Answer: No, the Administration is firmly committed to expanding health insurance coverage. The Health Insurance Portability and Accessibility Act (HIPAA) guaranteed that workers covered by employer health insurance plans could continue to purchase health insurance at low group rates when they change jobs, even if they or their families have health problems. We worked with Congress to give States flexibility to design programs to provide health insurance coverage for children in low-and moderate-income families.

We worked with Congress to provide for full deductibility of health insurance for self-employed workers, currently scheduled to be fully phased in by 2003. We would not object to making full deductibility effective sooner if the proposal were included in a package that reflected other priorities in a fiscally responsible way.

With respect to workers whose employers do not provide health insurance, our Budget proposes a tax credit to encourage small businesses to join purchasing coalitions in order to provide new health insurance coverage for their workers. Many uninsured workers work for smaller employers, who are less able to provide health insurance benefits than larger employers. Health purchasing coalitions provide an opportunity for small employers to purchase health insurance for their workers at reduced cost and to offer a greater choice of health plans than is currently available to employees of small businesses.

Question: At a recent Finance Committee oversight hearing on the Customs Service, witnesses repeatedly emphasized the need for an adequate level of funding to meet the agency's rapidly growing workload and related law enforcement needs. Yet, disturbingly, Customs' resources have lagged behind those of other enforcement agencies for years, experiencing a decline in real terms since fiscal year 1994.

In its fiscal year 2000 budget, the administration proposes to fund over 25% of Customs' personnel through new user tax revenues. It is generally accepted that Congress will not approve such a tax increase. Consequently, is there a specific alternative plan to make up this funding in the likely event that the tax increase is not enacted?

Answer: I am deeply committed to helping Customs in their important work. Customs has a vitally important and extremely difficult set of missions. It must protect our borders against smuggling and illegal traffic, while at the same time facilitating the smooth flow of commerce. We ask a lot of the Customs Service. In return they deserve our support.

Customs needs to modernize its information systems, continue to make headway in the war on drugs and help keep cross-border traffic flowing. All of this costs money. I think we all recognize, however, that we face a difficult budget environment and must be realistic about the limits of our resources given the budget limitations we face.

The Administration's proposal included a mix of direct appropriations and user fees that was designed to help us move forward on all of these fronts. What is essential is that Customs be funded at the program levels in the President's budget.

The final decision on how to meet these needs must, of course, lie with the Congress. I will be happy to work with all members to find reasonable alternatives to achieve our mutual goals.

Question: What are your objectives with respect to reform of Medicare, which is a major and ever-growing entitlement program that is also facing the influx of the baby-boomer generation starting in about 2012? In this context, how would you propose to bring the design and financing of the Medicare program into the 21st century, balancing social commitments to beneficiaries, while minimizing tax burdens on the working population?

Answer: The Administration will be announcing its Medicare reform plan later this month and thus it would be premature for me to provide specific details in advance of its release. The Administration proposal will be consistent with the principles that the President outlined earlier this year. It will improve Medicare's ability to provide affordable, quality health care to the over 39 million elderly and disabled beneficiaries it serves. It will modernize and strengthen the program by making it more competitive and instituting the best market-oriented practices of the private sector. To truly modernize the program, it will provide for a meaningful prescription drug benefit. Lastly, it will include the President's proposal to dedicate a portion of the surpluses over the next 15 years to strengthening the financial status of the program, eliminating the need for drastic cuts later, including excessive increases in out-of-pocket costs for beneficiaries and unwise reductions in provider payments.

Question: As Secretary of the Treasury, by law, you will serve as the Managing Trustee of the Board of Trustees overseeing the Social Security and Medicare Trust Funds. With respect to Medicare, the 1999 report on the status of the Trust Funds states, in part, that "despite the improvement in the financial outlook of Medicare, the projected increases in medical care costs still make solutions to Medicare's financing problems more complex than those for Social Security..." and that "the system still faces major financial shortfalls because program costs are increasing much faster than the rest of the economy."

What do you perceive your responsibilities as the Managing Trustee to be with respect to addressing these major concerns? How do you propose to develop economically effective and viable solutions that can gain public acceptance? What are specific ideas that you think should be considered by the Congress now and in the longer-term to address these issues?

Answer: As Chairman of the Board of Trustees of the Medicare Trust Funds, it would be my responsibility to monitor the financial status of the Trust Funds very closely and, along with the other Trustees, provide objective and non-partisan information regarding our findings. The institution of the Trustees is very important, and I would regard the stewardship of that institution as an important element of my service as Secretary, if I am confirmed.

Separately, I would look forward to participating as a member of the President's economic team in the development of policies and proposals to address the long-term shortfalls in both the Medicare and Social Security systems. A crucial aspect of my efforts will be to work with the Congress on a bipartisan basis for the enactment of such proposals. The Administration will be announcing its Medicare reform plan later this month. This plan will include detailed and specific ideas for Congress to consider.

Question: Currently Medicare and Social Security benefits are paid mostly from trust funds that are funded by specific payroll taxes. Are you familiar with the history of why Medicare and Social Security were established in this way? Do you have any concerns that current proposals of transferring dollars from the general revenue fund to the trust fund blurs the distinction between the two and could perhaps render the concept of trust funds meaningless?

Answer: Historically, Social Security has been funded mainly from payroll taxes. However, throughout its history, the Part B portion of Medicare has been largely funded from general revenue.

At a time when we are enjoying the best economic performance in a generation, the President has proposed that we take advantage of our favorable fiscal situation and put Social Security and Medicare on a sound footing for the long term. Specifically, the President has proposed a limited and prudent addition of general revenues, related to the amount of debt reduction that we achieve as a result of pursuing his program. The majority of funding for both Social Security and Medicare will continue to come from payroll taxes. It is important to reiterate that the President's proposal to commit additional resources to these two programs does not expand the obligations of the programs; instead, it better positions them to meet their existing obligations.

Question: Since the Treasury bonds that will be deposited into the Medicare and Social Security Trust Funds will not be tied to an actual surplus but will instead be tied to an anticipated surplus, there is of course no guarantee that the money will be there when the time comes to redeem these bonds. Perhaps the Congress would be more receptive to the President's transfer proposal if he were to offer a default mechanism for redeeming these bonds if in fact the surplus did not materialize. What would your recommendation be for such a default proposal?

Answer: Any effort to save Social Security necessarily involves making long-range projections about the future of our economy and its effect on the budget. Throughout this Administration, our economic projections have proven safe and conservative: economic growth has been consistently higher and the budget outlook consistently better than our original forecasts.

In the State of the Union address, the President proposed that we lock in amounts for transfer to the Trust Funds which are not contingent on the actual size of the surplus. Even if the actual surpluses turn out to be less than projected, we would still be better off having saved the surpluses now for use in the future, rather than having committed them now for short-term uses. In particular, the higher economic growth that would be associated with saving the surpluses will make it that much easier to handle the future burden of an aging population. We will be willing to entertain alternative mechanisms, but the bedrock principle is that we maintain fiscal discipline and take concrete steps to prepare the nation for the demographic shifts projected to begin in force about a decade from now.

Question: The President has indicated that he will use his sequester authority under the Budget Enforcement Act if Congress tries to use surplus funds for new benefits. The President's threat could likely discourage Congress from creating a pharmaceutical benefit for Medicare beneficiaries in the future. As a Medicare trustee, how would you advise the President on this matter?

Answer: The President believes it is time to add a drug benefit to Medicare, and that this should be done in the context of broader reforms of the program. The exact details of the financing structure will be announced with our plan. It would be premature for me to describe those details because final decisions have not yet been taken, but I can assure you that the President is committed to putting forward a fiscally responsible plan.

Question: Have you estimated what the equivalent payroll tax increase would be if the President were to shore up the Medicare trust fund for the same amount of time as does the proposed 15% transfer of surplus dollars?

Answer: The Administration did not consider the alternative of an increase in the payroll tax rate because that approach would impose a heavy burden on lower-wage workers who are least able to afford a tax increase. We believe that dedicating a portion of the budget surplus to Medicare represents a more equitable approach to providing the additional financing that the program will need in the years ahead, even if it is reformed significantly. For this reason, a formal estimate has not been obtained of what increase in the payroll tax rate would be required to extend the solvency of the Part A Trust Fund for as long as the President's surplus transfer proposal would.

Senator Jeffords

Question: Mr. Summers, I have a copy of a memo attributed to you while you worked for the World Bank in 1991. In the memo you advocate World Bank support for migration of "dirty industries" from developed countries to lesser developed countries. That memo you make the following statements:

"I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable."

"I've always though that under-populated countries in Africa are vastly UNDER-polluted."

"Only the lamentable facts that... the unit transport costs of solid waste are so high prevent world welfare enhancing trade in air pollution and waste."

1. Can you briefly address the content of the memo, specifically your comments on the economic benefits of pollution transfer to less developed countries regardless of health and environmental effects?
2. By disconnecting the benefits of industry seen by more developed countries by concentrating the pollution in less developed countries, won't the incentive to generate cleaner technology be diminished?
3. In the memo, you dismiss the arguments against the transfer of pollution to less developed countries – including for moral reasons, social concerns and the intrinsic rights to certain goods – could you explain this?

Answer: Let me begin by saying, as I did at the time of the incident, that the memo you refer to was a mistake - one that I regret. The memo in question was drafted as a comment on a research paper that was being prepared by part of my staff. As drafted, the memo sought to clarify the economic logic in the research paper by using some rather inflammatory language, not to make any policy recommendation. Clearly no responsible person would favor exporting waste to poor countries.

I strongly believed then, and still do, that it is critical to encourage developing countries to develop strong policies to protect their environments, not only for quality of life reasons, but also because a strong environment is also critical for longer-term growth. Since coming to Treasury I have worked with my colleagues to encourage the multilateral development banks to strengthen their environmental practices. I believe we have achieved substantial progress in this crucial area. Clearly, the economic benefits of industrialization and growth should not be separated from the environmental consequences.

Senator Hatch**Korea Semiconductor Subsidies**

Question: Mr. Summers, I understand that as a result of the economic crisis in Korea, we are beginning to see some consolidation in the Korean semiconductor industry through the purchase of DRAM manufacturer LG Semicon by Hyundai Electronics.

These two companies have borrowed enormous sums of money and have benefitted from big subsidies from the Korean government that helped to create an industry almost totally dependent on export markets. Now these same companies are asking the Korean government and government-owned banks to bail them out by providing them debt restructuring in the form of debt-equity swaps, principal and interest grace periods and fresh loans.

This committee has taken a tough stand on curbing subsidies, passing strong WTO subsidy provisions in the 1994 Uruguay Round implementing legislation. We must not allow foreign governments to continue to provide subsidies of any sort, even when they are veiled through so-called private banks.

We just helped the Koreans get back on its feet through International Monetary Fund (IMF) loans. I think it would be bad policy if we permit the Korean government to provide a financial safety net for its semiconductor industry, instead of having them play by market rules as our producers have to do.

Mr. Summers, how do you plan to prevent this from happening?

Answer: I take seriously your concerns about government intervention in on-going restructuring efforts. The Treasury Department continues to monitor the progress of corporate workouts in Korea through our contact with the U.S. embassy in Seoul, International Financial Institutions (IFIs), and the private sector. The Subsidies Enforcement Office at the Department of Commerce also plans to monitor individual restructuring programs for WTO-inconsistent subsidies. In Korea, the Financial Supervisory Commission (FSC), the independent regulatory agency charged with overseeing the workout process, reviews each workout program for its consistency with the new laws and regulations adopted as part of the IMF and World Bank reform programs.

The Administration believes that firms or industries should not benefit from debt restructuring in a manner that would run counter to international obligations and limits imposed by the World Trade Organization Agreement on Subsidies and Countervailing Measures. I have emphasized to the Korean government that any actions it takes in this area must be both transparent and consistent with its international obligations.

At the APEC Finance Ministers' meeting in May of this year I raised this issue personally with Korea's then-Minister of Finance and Economy Lee Kyu-Sung and urged that restructuring policies remain consistent with Korea's international obligations.

We recognize the government's role in Korea's state-owned banks and involvement in the commercial banking sector has been of particular concern. We have urged that the Korean government affirm that state-owned banks will not provide preferential treatment targeted to industries or firms.

To this point we have no indication that the Korean government has given preferential treatment to specific industries or companies under the workout process. With respect to the merger between LG and Hyundai, creditor banks have not completed a debt workout deal, and Hyundai claims that none is needed. The Korean government has assured us on several occasions that they would not provide subsidies to encourage the deal.

I believe that such workouts are an important part of the process of restoring growth and domestic demand in Korea. To implement needed restructuring, in July 1998, the Korean government, with the assistance of the World Bank, reached a Corporate Restructuring Agreement (CRA), which established a framework for restructuring the 6th through 64th-ranked chaebol, and other medium and large companies. The top five chaebol are to restructure based on their Capital Structure Improvement Plans (CSIPs) submitted in December 1998. The general provisions of the CSIPs include focusing on "core" businesses, halving the number of subsidiaries, reducing debt/equity ratios to below 200 percent by end-1999, and reducing cross-guarantees. In 1998 the top five made substantial progress on the fourth point by eliminating cross-guarantees across unrelated business lines, which contributed to a 70 percent reduction in total cross guarantees outstanding to 6.3 trillion won. The Korean government has also increased pressure on these conglomerates by limiting their access to credit both through regulatory means as well as pressure on banks to threaten the chaebol with withdrawal of credit.

Senator Robb

Question: Under Section 3004 of the Trade Act of 1988, The Department of the Treasury is required to submit to the Congress an annual report – with semi-annual updates – on currency manipulation by U.S. trading partners.

Can you tell us what has been recent Treasury practice in regard to this requirement?

Can you tell us if Treasury has identified U.S. trading partners engaging in currency manipulation? When? Which countries?

Answer. Treasury has submitted reports covering the entire period from the beginning of the reporting requirement through October 31, 1998. The most recent Annual Report to Congress on International Economic and Exchange Rate Policy, covering the period of November 1, 1996 to October 31, 1998, was submitted on January 22 of this year. We realize that, in recent years, some reports have not been submitted in a timely manner and have covered periods in excess of six months. We are developing a reporting format designed to minimize delays in the submission process.

The following is a list of the findings of Foreign Exchange Reports regarding currency manipulation by U.S. trading partners.

FINDINGS IN FOREIGN EXCHANGE REPORTS, 1991-1999

Report	Finding
January 1999	No manipulators.
February 1997	No manipulators. Monitor China's bilateral trade balance
August 1996	No manipulators. Monitor China's bilateral trade balance
December 1995	No manipulators. Encourage China, Taiwan and Korea to liberalize capital controls; encourage Asian countries concerned about inflation to provide for greater exchange rate flexibility as part of the adjustment process; monitor China's current account surplus and bilateral trade surplus.
August 1995	No manipulators. Monitor China, Taiwan and Korea. Continue to engage Korea and Taiwan to liberalize financial sectors. China should liberalize foreign exchange regime.
December 1994	No manipulators. Continue to seek removal of Korea's and Taiwan's capital and foreign exchange controls. China must commit to liberalizing access to foreign exchange for current account transactions.

July 1994	China identified as manipulator, based on segmentation of and restricted access to foreign exchange market. Taiwan and Korea are not manipulating.
November 1993	China identified as manipulator, should eliminate foreign exchange restrictions. Taiwan not manipulating, but continued adjustment is needed with respect to current account and bilateral trade surpluses. Korea is not manipulating, but foreign exchange and capital controls hinder market forces.
May 1993	China is manipulating and should eliminate foreign exchange restrictions. Taiwan is no longer manipulating, but should eliminate restrictions on capital and foreign exchange. Korea is not manipulating.
December 1992	China and Taiwan are manipulating, Korea is not.
May 1992	China and Taiwan are manipulating, Korea is not.
November 1991	No countries found to be manipulating.
May 1991	Korea and Taiwan are not manipulating. Treasury will discuss exchange policies with China.

Dollar Purchases by Foreign Countries

Question: Several U.S. trading partners have been accumulating dollars at a rate which exceeds normal or prudent reserve requirements for the purpose of artificially depressing their currencies. Can you tell us whether Treasury has examined this situation? Does Treasury monitor dollar purchases by foreign countries? Are their normative guidelines which Treasury uses to determine what might be "excessive" or "normal" dollar purchases?

Answer: We monitor foreign claims on the United States through the collection of international capital statistics. However, we do not apply normative guidelines. Clearly, some foreign monetary authorities hold substantial amounts of U.S. assets. However, we do not apply normative guidelines to purchases of U.S. assets by foreign authorities. Recently, many of the countries about which concerns regarding competitive depreciations were expressed have faced market-induced downward pressures on their currencies due to a lack of confidence about their macroeconomic policies.

Japan Currency Manipulation

Question: Japan is one country which seems pretty straightforward about retaining a value of its currency relative to the dollar which favors the competitiveness of its export sector. Does Treasury have any plan to look into possible currency manipulation – within the meaning of Section 3004 – by Japan?

Answer: The United States' major industrialized trading partners all maintain essentially flexible exchange rate regimes against the dollar and none maintains capital controls. For example, the value of the yen fluctuated significantly over the past year and is currently greater than its value at this time last year. The major industrialized countries occasionally intervene in exchange markets, as do the U.S. monetary authorities, often as a part of a broader consensus among the G-7. We will continue to be attentive to the possibility of currency manipulation in any country.

Euro Weakness

Question: Since its introduction, the euro has weakened considerably, and there is mounting speculation that it too may become a relatively weak currency to support the competitiveness of European exports. Is Treasury monitoring this development? Are there on-going discussions on this point?

Answer: The Treasury watches global markets on a daily basis. We regularly discuss with our G-7 partners developments in these markets, including trends in the major currencies. The United States has been quite clear in all forums that other major countries need to follow policies which will promote and support domestic demand-led growth.

Openness of Japanese Markets

Question: It appears that the Administration's international financial policy is not well integrated with its trade policy. In the case of opening up Japan's market to competitive U.S. products, what leverage has Treasury used since the onset of the Asian financial crisis in support of U.S. trade objectives in that country?

Answer: Since Japan's economy began to contract in 1997, the U.S. Treasury Department has been pressing Japan to take the strong steps necessary to restore domestic demand-led growth, which is in the interest of the United States, Asia, and the rest of the world. Since early 1997, we have met with Japan at the finance ministers' level about a dozen times -- more than with any other G-7 partner -- and have maintained even more frequent contacts at the sub-cabinet level and below. In these meetings we have urged Japan to use all available tools to help restore domestic demand-led growth, including substantial, sustained macroeconomic stimulus; to keep working to restructure its banking system; to make progress on structural reform; and to increase the pace of opening its markets.

Treasury has actively promoted the Administration's efforts to open up Japan's market to competitive U.S. products. Treasury staff participates in USTR-led trade discussions with Japan, including our bilateral Enhanced Initiative on Deregulation and Competition Policy. Treasury frequently consults with Japan's Ministry of Finance on the development and implementation of measures relating to the deregulation of Japan's financial services sector, which is an important component of this initiative. These efforts center around the implementation of the U.S./Japan Financial Services Agreement and Japan's "Big Bang" financial sector deregulation program. Treasury staff also participates actively in USTR - led market access negotiations.

Treasury will continue to press Japan on our market-opening agenda.

Question: It is clear that an important underlying cause of the Asian financial crisis was unrestrained financing of massive and economically unsustainable capacity expansion in a range of manufacturing sectors, including autos, shipbuilding, steel and papermaking. What type of mechanisms are in place at Treasury to monitor lending activities by the IMF and other multilateral institutions, and domestic and foreign export credit agencies, to ensure that strict economic criteria are used in lending activities in Asia and other developing countries?

Answer: Treasury Department staff in cooperation with the offices of the U.S. Executive Directors at the IMF and the multilateral development banks (MDBs) carefully monitor lending activities by those institutions. Such monitoring takes into account input from other U.S. government agencies such as the State Department, the Office of the U.S. Trade Representative, the Commerce Department, and the Department of Labor.

A major objective of such monitoring is to ensure that lending by the international financial institutions is based on criteria that support sustainable economic development. We review project loans of the MDBs, in particular, to determine whether the projects being financed may benefit from official subsidies, and we make our views known to management and either abstain or vote no on the proposed financing.

In cases where governments in the past have heavily subsidized certain industries the Treasury Department monitors IMF and MDB programs intensively. For example, under Korea's reform program Treasury has maintained close contact with the staffs of the IMF, World Bank and the Asian Development Bank and has received on numerous occasions assurances from them that none of their disbursements have been used to subsidize any particular industry. We augment this information with that received from our embassy in Seoul, other U.S. government agencies, Korean economic officials, and other international financial institutions that have been monitoring developments in the Korean economy.

In addition, IMF and MDB programs often include reforms designed to enhance the market-orientation of the corporate and financial system and root out preferential treatment to specific sectors.

Treasury also has lead responsibility within the United States Government for the development and implementation of international trade finance policy. Treasury has worked hard within the OECD to promote market-based rules for official trade finance. Also, Treasury has sought to limit trade distortions arising from foreign concessional financing competition through the implementation and aggressive enforcement of rules for "tied aid."

Senator Chafee

Question: I have introduced legislation, along with Senator Baucus and several other members of the Finance Committee, that imposes an excise tax on structured settlement purchasers. It closely follows the proposal included in the Administration's budget.

At a hearing earlier this year, a representative from the American Banking Association raised a concern that this proposal would apply to certain transactions that they undertake in the ordinary course of their business. I am interested in addressing their concerns so long as any revision does not create a loophole that would allow factoring companies, or anyone else for that matter to continue to prey on structured settlement recipients.

I would be interested in getting your thoughts on this matter as well as working with your proposal work.

Answer: The goals of your bill and the budget proposal are the same - to end the practice of certain factoring companies acquiring, for a discounted lump sum, the stream of future payments from a structured settlement of an injured person. The budget proposal was not intended to apply to ordinary business transactions other than these or similar factoring transactions. We look forward to working with your staff and all interested parties in crafting language that carries out the goals expressed in your bill and the Budget while addressing legitimate concerns regarding the effect upon ordinary course of business transactions that are not the intended target of the legislation.

Question: The Administration has advanced several measures designed to improve the economic base of our nation's urban areas. I have introduced legislation, the Historic Homeownership Assistance Act, that would also be a valuable tool in this effort. It provides a tax incentive for the rehabilitation of historic homes, many of which are located in the same areas that your proposals are designed to help.

Answer: I look forward to reviewing your proposal. As you know, we are committed to finding innovative ways to promote growth and opportunity in our nation's inner cities and distressed rural communities. Homeownership strategies can play a critical role in community revitalization.

Senator Monyihan

Question: Yesterday the Bureau of Labor Statistics reported a zero inflation rate for the month of May. An accurate CPI would show negative inflation. At the beginning of last year there were two months of zero inflation.

Are we about to enter a period of deflation?

And if so what are the consequences of deflation?

Answer:

- The zero inflation rate in May followed a 0.7 percent CPI increase in April. Both results were statistical extremes. Over the last 12 months, the CPI has risen 2.1 percent. This is up from 12-month rates averaging closer to 1.5 percent during 1998 and the early months of this year. The consensus of private economic forecasters is that the CPI will rise 2.1 percent in 1999 and 2.3 percent in 2000 on an annual average basis.
- Hence it seems very unlikely that we are about to enter a period of deflation. A deflation with serious consequences for the overall economy is usually associated with a collapse in demand. The United States economy, however, is currently enjoying extraordinarily strong growth, low unemployment and high consumer confidence.
- The most important objective with respect to inflation is that it remains low and stable. The legislative and executive branches can best promote low, stable inflation by maintaining the fiscal responsibility that we have all worked so hard to achieve.

Senator Rockefeller

—Question: What are your views on foreign governments intervening in the currency markets to keep their exchange rates weak in order to maintain massive trade surpluses with the United States?

Answer: We believe it would be inappropriate for any country to manipulate exchange rate levels in the hope of gaining a competitive advantage. Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 requires the Treasury to analyze annually the exchange rate policies of foreign countries, in consultation with the IMF, and to consider whether countries manipulated the rate of exchange between their currency and the dollar for purposes of preventing effective balance of payments adjustments or gaining unfair comparative advantage in international trade. The Secretary of Treasury is required to undertake negotiations with those manipulating countries that have material global account surpluses and significant bilateral surpluses with the United States, unless there would be a serious detrimental impact on vital national economic and security interests.

As reported in the most recent Annual Report to Congress on International Economic and Exchange Rate Policy, released January 22, 1999, Treasury undertook a broad review of the performance of major trading partners of the United States and concluded that none of them had manipulated their exchange rates under the terms of Section 3004 during the period from November 1, 1996 to October 31, 1998. We will continue to monitor all countries for evidence of currency manipulation.

Question: Imports of steel from Korea more than doubled in 1998 from 1997, 3.4 million tons compared to 1.6 million tons and doubled from 1st Quarter 1998 to 1st Quarter 1999, 436,000 to 877,000 tons. Since Treasury opposes the quota bill, what actions can we take to shield the steel industry from surging imports caused by government currency manipulations?

Answer: We take the concerns of the U.S. steel industry and its workers very seriously. The rapid increase in steel imports has created significant hardship for many steelworkers and communities. I am committed to continuing the vigorous enforcement of our trade laws that has cut imports to pre-crisis levels and to working with workers, industry, and members of Congress to address unfair trade practices and subsidization around the world.

Our plan includes an active monitoring program involving: an early release of data long sought by the steel industry; a subsidies monitoring program at Commerce; and a review of foreign government involvement in the steel industry by USTR. The data show that our plan is beginning to work. Prices in the U.S. are starting to increase and inventories are falling. Steel imports for the first five months of 1999 are at 1997 levels, despite the recent monthly increase. Hot-rolled steel imports are 21 percent below 1997 levels. We have:

- Encouraged our trading partners to do more to absorb steel imports from countries that have been affected by the financial crisis;
- Told Japan, including at the President's recent meeting with Prime Minister Obuchi, that Japan's steel exports must return to pre-crisis levels. Further reductions in steel imports from Japan are necessary and must be sustained;
- Agreed to act on an expedited manner to review the ITC's recommendations on the types of Section 201 relief to provide to the steel wire rod industry (ITC has until July 12th); and
- Investigated over 60 antidumping and countervailing duty case since 1998 filed on steel from the EU, Japan, and Korea; decisions are due by the end of the summer.

Senator Thompson

Need to improve performance management

Question: At the request of the Governmental Affairs Committee and others, GAO recently analyzed the Treasury Department's fiscal year 2000 performance plan under the Government Performance and Results Act (GPRA). According to GAO, Treasury's plan has improved little if at all from last year's version and will be of limited use to the Executive branch and congressional decision-makers. What will you do as Secretary to ensure that Treasury develops a more useful plan?

Answer: Treasury is committed to implementing the Government Performance and Results Act (GPRA). Beginning with the FY 1997 budget, we integrated both our Annual Performance Plan and Annual Performance Report into our budget justifications, thus ensuring that performance data and funding requests are presented in tandem and readily available to congressional decision-makers.

Treasury continues to refine its performance plan and measures, striving specifically to present measures of program results and improve our planning process to strengthen the link between performance and budgeting. As this iterative process continues, we continue to make improvements to make the plan more useful. For example:

- We have developed a new budget formulation process focused on using our strategic plans and priorities to guide the development of the budget. The process incorporates reviews of bureau program performance and progress toward achieving results in considering resource requests.

We are currently piloting a web-based performance reporting system which will allow for frequent reporting of performance data from all of Treasury's bureaus. This system will bring current information to the fingertips of senior policy officials to help track performance more regularly and systematically.

We have added a mandatory GPRA element in all SES performance standards. This element addresses program performance as measured by the published performance targets.

We continue to work with each bureau to improve their measures and promote a balanced set of measures that consider business results as well as customer and employee satisfaction.

We were pleased to note that GAO highlighted the Internal Revenue Service's budget as an example of how information traditionally contained in a budget justification could be effectively combined with performance information.

We share your interest and concern about GPRA and will continue to work to ensure that Treasury remains focused on improved management, improved accountability, and improved results.

Need to resolve long-standing, high-risk problems

Question: In January of this year, GAO issued its latest "high-risk list" of the federal activities that are most vulnerable to fraud, waste, abuse, and mismanagement. Five of these 26 "high-risk" problem areas - almost 25 percent - are located at the Treasury Department. Four of the five relate to IRS. All of these five problem areas have been on the GAO high-risk list since at least 1995.

What will you do to resolve these long-standing problem areas or at least make a dent in them?

Answer: Treasury is committed to diligently pursuing all avenues to improve management of government resources to eliminate waste and fraud. We remain extremely focused on these efforts, and are working to improve systems and accountability to ensure that we properly manage the taxpayer dollars for which we are responsible.

When problems and issues are identified, such as appearing on the GAO high-risk list, we take them seriously. We have plans in place to address each of these high-risk areas, and each is receiving priority attention from senior management.

The Department's high-risk areas referred to are: 1) addressing the year 2000 computing challenge; 2) resolving serious information security weaknesses; 3) ensuring major technology investments improve services; 4) providing basic financial accountability; and 5) reducing inordinate program management risks. We have made significant progress in each of the areas. Let me provide some examples of what Treasury is doing in this regard:

- The Y2K challenge has been one of our highest priorities for some time now, and we will have all of our mission-critical systems Y2K compliant by the century rollover, including IRS' systems.
- Systems security is considered one of our top management control problems within the Department. The Financial Management Service developed a comprehensive plan to address systems security weaknesses, and has already completed more than half of the 78 required corrective actions.
- IRS' investments in technology have, and will continue to have, a high level of scrutiny by Departmental and IRS senior management. Recent management and organizational changes made since the passage of the IRS Restructuring and Reform Act of 1998, are expected to greatly enhance oversight over the massive systems overhaul being conducted under the PRIME contract.
- To establish financial accountability, the Department and IRS are working with the General Accounting Office, the Treasury Inspector General for Tax Administration, and Treasury Inspector General to complete action plans developed to address problems surfaced in financial statement audits of the IRS. Many short-term solutions are planned for implementation in fiscal years 1999 and 2000, while several longer-term solutions to revenue accounting problems are being addressed under the PRIME systems contract.
- Regarding program management risks, many additional internal controls have been put in place by IRS over the past year, especially to prevent fraudulent refunds. Particular emphasis has been placed on preventing fraudulent Earned Income Credit claims.

We will be happy to provide any additional information to you and your staff on the progress we are making and look forward to continuing to work with you in addressing the GAO's concerns.

Need for specific performance commitments to address high-risk problems

Question: Both Congress and OMB have repeatedly stressed the need for agencies to establish specific GPRA performance goals to deal with their major management problems. This is the best way to demonstrate their commitment to resolve these problems and their willingness to be held accountable. However, according to GAO, Treasury's FY2000 performance plan contains no goals or measures to address any of its four high-risk problems at IRS. Why is that? Will you establish such goals in Treasury next performance plan?

Answer: Treasury takes the government planning process seriously and is continually working to improve its performance goals and measures. We are particularly committed to making progress on the high-risk areas identified by GAO and are working to better define goals and measures for these areas. Let me give you some examples of the progress we have made in this regard:

- To address the area of management and technical weaknesses in systems modernization, the IRS awarded a PRIME contract for its major systems modernization program and hired a new Chief Information Officer with extensive private-sector background in systems management. The use of a PRIME contractor to serve as the developer and integrator for the IRS represents a significant departure from past IRS practices, and will lead to improved systems to overcome problems. In addition, the Commissioner set up a management structure with an Executive Steering Committee with representation from Treasury. GAO, OMB and TIGTA have been invited to these meetings.
- To address financial and management control issues, the IRS has just recently appointed a new CFO who will focus on improving financial management and overcoming high risk problems. This individual has an extensive background in automated financial systems and control issues.

We are developing goals and measures to focus on high-risk problems. Specifically, we are enhancing the format for Treasury's Annual Performance Plan for FY 2000/FY2001 to have a section addressing those challenges and high-risk areas identified by GAO and TIGTA. For each area identified, the plan will provide a brief description of how the problem is being addressed and identify major milestones. We also hope to have all of these linked to specific performance measures.

We look forward to working with you and your staff in this area and will keep you advised of our overall progress.

Question: Congress enacted legislation last year aimed at providing IRS the authority to share taxpayer data with the Department of Education to help deter over \$100 million in fraud and overpayments in the Pell Grant program. Now we hear from the Education Department that negotiations with IRS to share this data have bogged down.

Will you get to the bottom of this apparent impasse and let us know what needs to be done so we can finally stop this fraud?

Answer: The Department of Treasury and the IRS are presently engaged in discussions with the Department of Education and the Office of Management and Budget regarding options for accomplishing our mutual goal of reducing fraud in the Pell Grant program.

Also, the Treasury Department is presently conducting a study of Internal Revenue Code section 6103 mandated by Congress and is considering issues related to disclosure of tax return information to federal agencies as part of this study. The study is due in January 2000. (Under current law, the Internal Revenue Service can only disclose tax information to the Department of Education if such disclosure is authorized by I.R.C. section 6103. Section 6103 provides that tax information is to be kept confidential unless the taxpayer consents pursuant to section 6103(c) or disclosure is permitted by some other specific provision of the Internal Revenue Code. Disclosures not authorized by section 6103 may be subject to civil and criminal penalties under the Code.)

Under current law, two Code provisions specifically authorize disclosures to the Department of Education. They are I.R.C. 6103(m)(4) and (l)(13). Under section 6103(m)(4), the IRS may provide the Department of Education, upon written request, the mailing address of taxpayers who owe an overpayment of Pell grants or who have defaulted on student loans administered by the Department of Education for the purpose of locating such taxpayers to collect such overpayment or loan. Under section 6103(l)(13), the IRS may provide the Department of Education, upon written request, certain tax information to carry out its Income Contingent Repayment Program. These two provisions do not address disclosures to determine eligibility for financial assistance.

The Higher Education Act Amendments of 1998 added a provision to Title 20 authorizing the Department of Education to confirm with the IRS four discrete items of tax information for the purpose of verifying information reported by applicants on student financial aid applications. This provision, however, did not amend the Internal Revenue Code, nor did it amend section 6103 of the Code, and thus does not operate as an exception to I.R.C. 6103. Accordingly, there is no present disclosure authority which specifically authorizes the release of tax information to the Department of Education for the purpose of verifying the eligibility of applicants for Pell grants.

We are committed to doing what we can to combat fraud, and will continue to work the Department of Education and the Office of Management of Budget on this important issue.

