

1 EXECUTIVE COMMITTEE MEETING
2 WEDNESDAY, MARCH 24, 1993
3 U.S. Senate,
4 Committee on Finance,
5 Washington, DC.

ORIGINAL

6 The meeting was convened, pursuant to notice,
7 at 9:46 a.m., in Room SD-215, Hon. Daniel Patrick
8 Moynihan (chairman of the committee) presiding.

9 Also present: Senators Bradley, Riegle,
10 Daschle, Breaux, Conrad, Packwood, Danforth,
11 Chafee, Durenberger, Grassley, Hatch, and Wallop.

12 Also present: Lawrence O'Donnell, Jr., Staff
13 Director; Edmund Mihulski, Chief of Staff,
14 Minority.

15 [The press release announcing the meeting
16 follows:]

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1 The Chairman. A very good morning.

2 Dr. Summers, are you here?

3 Dr. Summers. Yes.

4 The Chairman. Would you come forward, sir?

5 We thank you for coming back. We have just a
6 brief few moments here before our regular meeting.

7 Some Senators wanted to ask further questions
8 about some environmental matters.

9 Senator Chafee, I know that you are one of
10 them.

11 Senator Chafee. Thank you very much, Mr.
12 Chairman, for reconvening this gathering for Dr.
13 Summers' nomination.

14 And I have some questions here. What bothers
15 me, Dr. Summers, as I read your articles, is it
16 seems to me that you have everything -- and this
17 may be harsh. And obviously you can rebut here,
18 but you have everything on a cost benefit analysis
19 rate of return. You used the term "the test of
20 opportunity cost, the balancing of cost and
21 benefits".

22 And somehow I put you in the category of what
23 Oscar Wilde described as a man who knows the price
24 of everything and the value of nothing, which may
25 be harsh.

1 But there are other things in environmental
2 matters that do not subject themselves to cost
3 benefit analyses. For example, what would do if
4 you get the problem of the rhinoceros habitat in
5 Kenya?

6 I suppose what you would say is, what we have
7 to analyze is how many tourists come to Kenya to
8 see the rhinoceros and what that brings in as
9 opposed to the value of the habitat that is
10 destroyed and turned into farmland. Is that your
11 approach? Am I missing something?

12 Dr. Summers. Senator, to take the case of
13 the rhinoceros, I think it would be a short-
14 sighted and totally inappropriate analysis with
15 regard that the only benefit of the rhinoceros to
16 be some number of tourists that you could quantify
17 being willing to come.

18 There is--and I think a number of
19 environmentalists have made this point very
20 forcefully and effectively--an important existence
21 value associated with these species. And that
22 existence value is quite apart from anything that
23 can be put in purely monetary terms or any
24 monetary measure that can be created.

25 It is a simply wrong, I would argue, not a

1 fair reading of things that I have said in the
2 past, but it would certainly be completely
3 inappropriate to make decisions with respect to
4 species, decisions with respect to habitats in a
5 way that totally focused only on the monetary
6 consequences of it.

7 Very clearly, there is a value to a sunset
8 that goes -- that is totally outside of anything
9 that one can put a price on. And in making
10 decisions, that needs to be recognized.

11 I have argued as an economist that in finding
12 solutions to problems it is important to seek the
13 least cost solutions.

14 If there are alternative ways of reducing
15 pollution in the air, one should do so in the way
16 that consumes fewer rather than more resources.
17 And the cost benefit analysis has a role in that,
18 but the conception -- and I have had in mind when
19 I have spoken about cost benefit analysis in no
20 way confines things to what can be purely measured
21 in monetary terms.

22 Senator Chafee. I am glad to hear you say
23 that because I presume that if you look at Central
24 Park in New York in a cost benefit analysis, there
25 is a far greater return to the city.

1 If you divide Central Park up into lots and
2 have high-rise apartments in it with the incoming
3 taxes that would result, you are thus able to
4 restore New York's Public Library or to provide
5 housing to the elderly.

6 Now, how does your cost benefit analysis work
7 on that?

8 Dr. Summers. Purely pecuniary. A cost
9 benefit analysis would be totally inappropriate to
10 a problem of that kind. It would not be one that
11 I would support.

12 A proper analysis would surely reject that
13 proposal. And it would reject that because --

14 Senator Chafee. How would it reject it?

15 Dr. Summers. It would reject that because it
16 would recognize the very substantial value that
17 the citizens of New York place on having that park
18 is not expressed in any purely monetary -- it is
19 not expressed in any purely monetary way.

20 The Chairman. If I could ask, does the
21 concept of opportunity cost come in here that you
22 can put a value on what will be given up in order
23 to have that?

24 To get back to Kenya, what weight do you put
25 on the fact that the rhinoceros gets to eat the

1 tourists?

2 [Laughter]

3 Senator Chafee. Now, I read your article
4 about the education of women. And I thought that
5 was extremely interesting and the approach you
6 have there. Maybe because it came out the way I
7 wanted it to, I thought it was a fine article.

8 Let me go back to your testimony of last
9 Thursday. And I have a problem with this.

10 This is what you said about that memo that
11 you wrote in the World Bank. "The memo in
12 question was drafted in my office at the World
13 Bank as a comment on a research paper that was
14 being prepared by part of my staff. I obviously
15 reviewed the memo inadequately before I signed
16 it."

17 Now, clearly, I got from that that you did
18 not write it, but some staffer did. Yet, after
19 the memo was leaked -- and I am going back to the
20 year, I believe it was, 1991, you said, quote, It
21 has come to my attention that certain colorful
22 parts of my memo are now achieving wide
23 circulation.

24 This short excerpt unfortunately makes it
25 appear that I am seriously forwarding certain

1 strong arguments, when, in fact, these positions
2 were stated in their existing form as a sardonic
3 counterpoint. End quote.

4 Now, my question to you, did you write the
5 memo or didn't you?

6 Dr. Summers. I did not write the memo. The
7 memo was drafted in my office. I made it clear
8 internally within the bank that the memo had been
9 drafted elsewhere.

10 In fact, my recollection is not certain. I
11 believe that in the clarification, in the note of
12 clarification that I circulated, I actually
13 indicated that the memo had been drafted by one of
14 my staffers and named that staffer, but of course,
15 I take responsibility. I have to take some
16 responsibility for memos that I sign, but the fact
17 is that I did not draft that memo.

18 The Chairman. Dr. Summers, you said first
19 that it was drafted in your office. Then, you
20 said it was drafted elsewhere. What do you mean
21 by somewhere else?

22 Dr. Summers. I am sorry. It was drafted
23 in -- there were a number of assistants in my
24 office.

25 The Chairman. In another office?

1 Dr. Summers. No. In my larger office, there
2 were a number of assistants. And one of those
3 assistants drafted the memo. Since I signed it, I
4 take some responsibility for it and the failure to
5 review it adequately, but I didn't write those
6 words.

7 Senator Chafee. The multilateral development
8 banks which you will be associated with in your
9 new position in the Treasury Department clearly
10 have tremendous influence.

11 And I have seen the effects of this. I went
12 down to Brazil. And there, they built a monstrous
13 dam. Well, the dam was not so high, but the
14 flooding for the dam was incredible.

15 And it has been a failure. It has not
16 worked. There has not been an adequate head, I
17 believe is the correct term, to generate the
18 power.

19 Now, that is the kind of problem you will be
20 dealing with. You will not get into every
21 specific problem, but obviously, you are going to
22 have a lot of influence as the U.S. Representative
23 for that bank or the U.S. official that will be
24 dealing with the bank from our government's point
25 of view.

1 And I would kind of like to get from you a
2 feeling of your approach. You have said that you
3 do not want to be involved. Or you deplore those
4 who chant the mantra of sustainability. Or, as
5 you say, Chanting the mantra of sustainability is
6 not enough, a quote from one of your articles.

7 One of the problems in writing articles is
8 people read them and remember them and research
9 them. And that is a quote from one of your
10 articles.

11 But could you tell us a little bit about your
12 thoughts about this environmental business that we
13 are involved with?

14 Dr. Summers. I think in the article in
15 question, I emphasized that one needed to go
16 beyond rhetoric have analyses that would reach the
17 right conclusion and avoid mistakes like the dam
18 you described, like the dams that have been built
19 in a number of countries.

20 If I am confirmed, I would support the push
21 which has come from the Congress and which I think
22 is entirely appropriate for much greater
23 transparency in the projects of the multilateral
24 development banks so that environmental
25 assessments are made fully available to all

1 interested parties and enough in advance so that
2 they can raise these kinds of questions.

3 I would also support and work towards much
4 greater emphasis on energy conservation, as well
5 as energy production because while one can build
6 dams in a more environmentally sensitive way or a
7 less environmentally sensitive way, it will in any
8 event raise far greater environmental concerns
9 than will an approach that is based more on energy
10 conservation, full cost pricing, measures to
11 support limiting the use of energy.

12 I would also work closely, as the
13 international staff at Treasury have been since
14 January 20th, with many nongovernmental
15 organization groups with great knowledge in these
16 areas and very strong convictions to ensure that
17 their concerns were fully reflected and considered
18 as the U.S. takes positions on particularly
19 projects within the international financial
20 institutions.

21 Senator Chafee. And you would not, as the
22 Journal of Commerce said, I guess it was
23 yesterday, cut off Friends of the Earth?

24 Dr. Summers. Senator Chafee, that was an
25 unfortunate misunderstanding that reflected, I

1 think, a rather expansive interpretation of my
2 sentence that I preferred cooperation to
3 confrontation.

4 I would certainly not cut off access of any
5 group to my office. And, indeed, I have met with
6 quite a number of environmental organizations and
7 extended invitations to many more in the two
8 months since the Administration began.

9 Senator Chafee. Mr. Chairman, I do not want
10 to grab all the time here. And others might have
11 questions. If they do, they can say so. If not,
12 I have one more question.

13 Now, I understand that you --

14 The Chairman. Sir, Senator Durenberger
15 raised his hand.

16 And I should say that Dr. Greenspan is here,
17 although it is not yet 10:00 o'clock.

18 [The questions appear in the appendix.]

19 Senator Durenberger. Mr. Chairman and my
20 colleagues, I just want to make one comment. My
21 colleague, John Chafee has been here longer than I
22 have. He has seen a lot. This is sort of unusual
23 for him. And I compliment him for taking the time
24 and our time and your time to deal with this
25 issue.

1 I, too, thought that that quotation from
2 Oscar Wilde was a little strong. And it certainly
3 is challenging.

4 But on the issue of values, I hope you listen
5 to that and to the question. I am frankly
6 bothered by your response, the business here of
7 taking responsibility or taking some
8 responsibility.

9 Frankly, from my experience, it is not
10 possible to allocate your responsibility as you do
11 among your assistants without communicating to
12 those who depend on you that you have limited your
13 own liability in some way.

14 Those of us who serve in a place like this
15 and a government like this have been through this
16 sort of thing many, many times and have to deal
17 with this all the time.

18 I just happen to be one of a limited number
19 of people who got lied to by Robert McFarland and
20 a whole lot of other people. And the person who
21 encouraged that has never taken responsibility for
22 his action.

23 He saw to it that he limited his liability in
24 a variety of ways. And as a result, we have had
25 like six years of hell in this country because

1 people did not reflect accurately who is
2 responsible for what.

3 So this may be a small thing on the whole
4 scope of things in this country, but I need you to
5 perhaps clarify that particular point by way of a
6 comment that my colleague asked of you for being
7 here and going through them.

8 Dr. Summers. Senator Durenberger, I take
9 responsibility for memos that I sign. I take full
10 responsibility for the error in reviewing that
11 memo that lead to a tremendous amount of concern
12 about my views, about the World Bank's views,
13 about the general development effort.

14 It was a very serious error. And I recognize
15 that I should have done my job better.

16 The Chairman. Just to keep the record clear,
17 you mean an error in judgment?

18 Dr. Summers. Yes.

19 The Chairman. It was not an error in a
20 mathematical calculation?

21 Dr. Summers. It was an error of omission
22 that led to this problem for which I am clearly
23 responsible.

24 Senator Chafee. Mr. Chairman, I know that
25 Dr. Greenspan is here and we want to get to it.

1 Let me say this, Dr. Summers, we want you to
2 succeed. You've got a very important job. You
3 are dealing in areas that have tremendous
4 consequences for this country, particularly in
5 connection with Russia and all your dealings with
6 the multilateral development banks.

7 And we know you are very bright. There is no
8 question about. You have proven that. What we
9 hope is that you will be thoughtful and wise in
10 your dealings with these matters that we have
11 discussed here.

12 And I do not think one mistake dooms somebody
13 forever. We think you've got a great career
14 before you. And the possibilities are certainly
15 outstanding for you as you have shown.

16 But I do hope that, as you consider these
17 matters, you will not think that the mantra of
18 sustainability is just something to be dismissed.

19 Dr. Summers. Senator, absolutely. I have
20 learned a great deal from this experience and from
21 the experience at the World Bank of having had the
22 occasion to think a great deal about environmental
23 questions in a way that I had not previously.

24 And that has made me realize that certain
25 things I thought about insufficiently in the past

1 are absolutely fundamentally important.

2 If I am confirmed, I will do everything I can
3 to repay the confidence that has been shown to me.

4 Senator Chafee. Thank you, Mr. Chairman.

5 The Chairman. May I say, I think that was a
6 handsome and forthcoming statement and all that
7 the committee would ask.

8 And thank you, Dr. Summers. We will at some
9 point this morning when we have established a
10 quorum, we will proceed to have, I think, a very
11 happy consequence. So go in peace.

12 Dr. Summers. Thank you very much.

13 [Whereupon, at 10:05 a.m., the meeting was
14 recessed.]

15 AFTER RECESS

16 [10:27 a.m.]

17 The Chairman. We have a quorum. Would
18 someone propose the nomination of Lawrence Summers
19 to be Under Secretary of the Treasury for
20 International Affairs?

21 Senator Bradley. Mr. Chairman, I propose the
22 nomination of Larry Summers.

23 The Chairman. Is there a second?

24 Senator Durenberger. Second.

25 The Chairman. All in favor say aye.

1 [Chorus of ayes.]

2 The Chairman. Those opposed.

3 [No response.]

4 The Chairman. The ayes have it. The vote is
5 unanimous. We thank you very much.

6 [Whereupon, at 10:28 a.m., the meeting was
7 concluded.]

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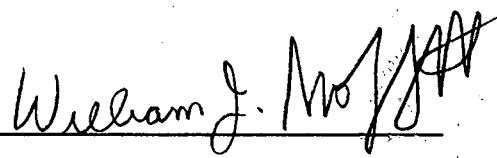
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C E R T I F I C A T E

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2 This is to certify that the foregoing
3 proceedings of an Executive Committee Meeting held
4 before the Committee on Finance on March 24, 1993,
5 were transcribed as herein appears and that this
6 is the original transcript thereof.

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11 WILLIAM J. MOFFITT

12 Official Court Reporter

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14
15 My Commission expires: April 14, 1994