United States Senate
Committee on Finance
Hearing to Consider the Nomination of Brent Neiman to be a Deputy Under Secretary of the Treasury for International Finance and Development
Tuesday, October 26, 2021

Questions for the Record

<u>Senator Bob Menendez (D-NJ)</u>

1. As I mentioned in my questioning, I am concerned about the growing trend of the IFIs bowing to Chinese pressure.

   If you are confirmed, how will you go about approaching malign Chinese influence at the IFIs?

   - **Answer: Countering malign influence in the IFIs depends on reasserting American leadership in the IFIs and reaffirming the U.S. commitment to multilateralism, which is a priority for the Biden-Harris Administration. If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress, as well as likeminded partners from other countries, in underscoring this message; reinforcing the importance of the IFIs' commitment to high standards, transparency, and integrity; emphasizing that all shareholders, including the PRC, need to play appropriate roles and fulfill responsibilities in the IFIs; and delivering financing and policy advice to other countries that contribute to increased transparency, sound governance and policies, and increased capacity to counter malign influence.**

2. I also want to ask about how you think the IFIs should be helping developing countries in their post-COVID economic recovery. G20 proposals like the Debt-Service Suspension Initiative and the authorization of IMF Special Drawing Rights are great tools and have helped struggling countries, but it is my belief there is more to be done. I know you, in your role at the University of Chicago, have done research on this very issue.

   - If you are confirmed, how will you use the voice and vote at the IMF and World Bank to ensure that developing countries have more flexibility in their post-COVID economic recovery?

     - **Answer: If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress to promote robust financing and policy advice from the International Financial Institutions to support a strong, sustainable, and inclusive recovery in**

both advanced and developing countries, building on the important measures that the international community has already implemented for COVID-19 response and recovery. If confirmed, I will work with colleagues, as well as likeminded partners, to use the U.S. voice and vote in the IFIs to promote sound macroeconomic and financial policies, good governance, sustainability, inclusion, and private and domestic resource mobilization, while providing development assistance that responds to countries' own needs, challenges, and investment priorities.

- Further, how do you plan on using our voice and vote to counter China around the world, or issues surrounding climate change?

    - **Answer: Countering PRC influence around the world depends on reasserting American leadership in the IFIs and reaffirming U.S. commitment to multilateralism and working with allies, which is a priority for the Biden-Harris Administration. If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress, as well as likeminded partners from other countries, to use the U.S. voice and vote to underscore this message; reinforce the importance of the IFIs' commitment to high standards, transparency, and integrity; promote increased mobilization of domestic and private sector resources; and deliver financing and policy advice to other countries that contribute to increased transparency, sound governance and policies, and increased capacity to counter malign influence.**

      Similarly, I look forward to working with others in the U.S. Government and likeminded partners to use the U.S. voice and vote to promote strong IFI engagement on providing financing and policy advice to support countries in mitigating and adapting to climate change, especially as the IFIs play a key role in meeting our international climate finance commitments. I understand that Secretary Yellen has been actively engaging with the leadership of the multilateral development banks to encourage them to adopt ambitious programs related to climate, stand up new facilities targeting climate change, fully align their operations with the Paris Agreement, and increase mobilization of private finance. If confirmed, I will assist in carrying forward these efforts.

3. During your hearing, you committed to "absolutely and fully engage" with me and my office related to a 10th general capital increase for the Inter-American Development Bank.

If confirmed, what specific steps would you take to advance a 10th general capital increase for the IDB?

- **Answer: I understand that IDB Group shareholders have decided on a process to examine the policy priorities, challenges, and opportunities of the IDB Group and the region, starting with a program of analytical work. If confirmed, I look forward to learning more about the details of this work, which is examining the utility of new capital for the private and/or public sector arms of the IDB Group, including borrowing countries' interest in the various lending instruments of the IDB, and sovereign borrowers' ability to absorb resources. I reaffirm my commitment to engage with you and your office regarding the IDB Group and Treasury's engagement with the region.**

4. During your hearing, you committed to work with me and my office to develop a policy framework in support of a 10th general capital increase for the Inter-American Development Bank, one that address longstanding priorities of democratic governance, climate change, and countering China's engagement in the hemisphere.

    - If confirmed, what steps would you take to work with me and my office to develop a framework of policy priorities to accompany a 10th general capital increase for the IDB?

        - **Answer: If confirmed, and as addressed in question 3, I will look forward to learning more about the details of work underway at the IDB Board, which is examining the utility of new capital for the public and/or private sector arms of the IDB Group, including borrowing countries' interest in the various lending instruments of the IDB, and sovereign borrowers' ability to absorb resources. Any new capital contributions from the United States to the public and/or private sector arms of the IDB Group will require authorization, and I am aware that the Senate has included authorization for a capital increase for the public sector window of the IDB in the China bill. I commit to engaging with you and your office on any policy framework that the Administration might propose as the basis for a request for authorization and appropriations for the private and/or public sector arms of the IDB.**

    - What would be your policies priorities inside negotiations related to a 10th general capital increase for the IDB?

        - **Answer: If confirmed, my policy priority for the IDB Group is to ensure that the IDB Group remains a key partner for the United States and the region in advancing market-driven, sustainable,**

inclusive growth in Latin America and the Caribbean, including through promotion of good governance and transparency, sound policy advice, and adherence to high standards and financial sustainability. I understand that IDB Group shareholders have decided on a process to examine the policy priorities, challenges, and opportunities of the IDB Group and the region, starting with a program of analytical work. If confirmed, I look forward to learning more about the details of this work and reaffirm my commitment to engage with you and your office regarding the IDB Group and Treasury's engagement with the region.

5. What is your assessment of how a 10th general capital increase for the Inter-American Development Bank could complement the Biden Administration's Build Back Better World (B3W) initiative?

    - **Answer: I understand that IDB Group shareholders have decided on a process to examine the policy priorities, challenges, and opportunities of the IDB Group and the region, starting with a program of analytical work. If confirmed, I look forward to learning more about the details of this work. Regardless of any future decisions by shareholders as a result of this work, the private sector arm of the IDB Group can be an important complement to B3W's emphasis on high-quality, private sector-led infrastructure development, given the broader IDB Group's own adherence to high social, environmental and fiduciary standards; emphasis on fostering good governance, transparency, and private sector development in Latin America and the Caribbean; policy advice and financing supporting infrastructure development and investment climate reform; and the strong leadership role of the United States and partnership with the region.**

6. Given the social and economic impact of the global COVID-19 pandemic on Latin America and the Caribbean, what is your assessment of the role that the Inter-American Development Bank can play in support the region's economic recovery from the pandemic?

    - **Answer: The IDB has long-standing experience partnering with countries to strengthen social protection frameworks, foster private sector development, promote equitable access to public services and market opportunities, and build capacity in the public sector. Together with the IDB's collaboration with other partners in supporting equitable and efficient vaccine rollout, these areas are all critical to minimize social and economic scarring from the pandemic and support inclusive and climate-resilient recovery across the region. With many governments in the region needing to restore fiscal buffers in the medium-term, the IDB's contributions to increasing the**

effectiveness of public sectors and supporting private sector-led growth will be particularly important. The IDB should continue to strengthen its focus on governance and transparency in the region.

7. Economic growth and development in Latin America and the Caribbean has long been limited been a deficiency in modern infrastructure.

    - Can the United States help Latin American and Caribbean governments meet those needs solely with the capacity of its development finance institutions?

        - **Answer: I do not believe so. Compared to faster growing regions of the world, most of the countries in Latin America and the Caribbean have low domestic savings and investment. Several feature extremely low tax to GDP ratios. Productivity is relatively weak, and much of the region remains outside of global value chains. The International Financial Institutions and U.S. development agencies provide significant financing and policy advice to regional governments, but it is essential that domestic policies provide an environment that supports international and domestic private sector investment in infrastructure. Bilateral and multilateral development finance institutions can offer incentives to create and implement such policies, but they cannot overcome local political and security obstacles on their own.**

    - What is your assessment of the role that the Inter-American Development Bank could play in helping Latin American and Caribbean nations address infrastructure deficits?

        - **Answer: Development finance institutions, including the IDB Group, can and do provide substantial financing and policy advice for infrastructure projects and to mobilize increased private investment, including through reforms and capacity development to improve the investment environment. However, to meaningfully address the region's infrastructure deficits and improve the investment climate, governments must complement such assistance with sound macroeconomic and financial policies, commitment to good governance and transparency, rule of law, and other efforts to increase savings and investment.**

    - Would a 10th general capital increase strengthen the IDB's ability to help Latin American and Caribbean government's address infrastructure needs?

- **Answer: I understand that IDB Group shareholders have decided on a process to examine the policy priorities, challenges, and opportunities of the IDB Group and the region, including as related to infrastructure development, starting with a program of analytical work. If confirmed, I look forward to learning more about the details of this work. Development finance institutions, including the IDB Group, can and do provide substantial financing and policy advice for infrastructure projects and to mobilize increased private investment, including through reforms and capacity development to improve the investment environment. However, to meaningfully address the region's infrastructure deficits, governments must complement such assistance with sound macroeconomic and financial policies, commitment to good governance and transparency, rule of law, and other efforts to increase savings and investment.**

- If the United States is unable to help Latin American and Caribbean governments address their infrastructure needs, do you assess that the PRC would seek to fill that void? What would be the impact of expanded China's investment and presence in Latin America and the Caribbean for U.S. national interests?

  - **Answer: It is important that the United States restores and strengthens our partnerships in the region and keeps countries from engaging in irresponsible and opaque borrowing, including from the PRC. Through the IFIs and with our allies, we must promote high-quality, private sector-led, inclusive, and sustainable growth and development policies, with particular focus on democratic governance and respect for human rights, anti-corruption and transparency, sound macroeconomic and financial management, and debt management capacity and transparency. We must aggressively contrast these features with poor outcomes experienced in the region, such as the case of Venezuela's engagement with China, which include low quality infrastructures and unsustainable debt burdens. If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress, as well as likeminded partners from other countries, to achieve these goals.**

<u>Senator Mike Crapo (R-ID), Ranking Member</u>

International Capital Flow Measurement

Some of your research identifies relations to work by economist Gabriel Zucman in relation to, for example, "the economic impact of tax havens." With respect to income and wealth tracing, to which some of your work applies, some of Professor Zucman's related analyses have been criticized on the bases of measurement and incorporation of a normative agenda, leading to results that many view as substantially inaccurate and substantially misleading. Some of the work that you have undertaken focuses on "unwinding corporate ownership chains and accounting for offshore issuance in tax havens around the world."

1. Many statistics and measures have shortcomings and advantages relative to the underlying object that those statistics and measures are intended to quantify. Some of your work identifies alternative measures to foreign investment flows and stocks. Do you believe that existing measures, used partly to inform policymaking, with respect to global capital allocations, bilateral investment statistics, and global capital flows, are fundamentally flawed and in need of revision?

    - **Answer: In some recent academic work, my co-authors and I report several measures of bilateral investment exposures generated using methodologies that differ from the residency-based approach that underlies most official statistics. For example, we report a set of bilateral investment exposures that reflects a nationality-based approach as well as a set that reflects the geographic distribution of firms' sales. Depending on the question at hand, standard measures or our alternative measures may be more appropriate to use for analyses. In many cases, analysis can benefit from simultaneously considering multiple available measures.**

2. Do you intend, at Treasury if confirmed to the position to which you have been nominated, to work to alter any of the measures that have been used to date by academics and policymakers with respect to understanding how capital is allocated globally; and, if so, what alternative measures will you be advocating?

    - **Answer: I think economic data and statistics, including those covering how capital is allocated globally, are valuable public goods. These data improve our understanding of the economy and serve as inputs into the design or evaluation of policy decisions. My understanding is that entities that collect or compile these statistics, including groups at Treasury, are continuously thinking of ways to expand and improve upon the usefulness of their economic data, and if confirmed, I would support such efforts.**

Economic Responses to Recessions

In a March 2020 paper for the IGM Forum, you and several co-authors discussed policy responses to the "Covid-19 Crisis." To aid economic recovery from shut-downs, one recommendation was that "…firms might be incentivized to hire aggressively by using a payroll tax cut." In March of 2020, the unemployment rate (U-3) was 4.4%, with a prospect of significant future increases.

3. In the event that there is a future severe economic shock likely to lead to significant unemployment rate increases, do you still consider a payroll tax cut to be a worthwhile policy to consider in response? If not, what has changed your thinking relative to your March 2020 paper?

    - **Answer: A payroll tax cut can stimulate the economy by encouraging consumption and increasing employment. If there were a future severe economic shock, the advisability of employing this form of economic stimulus relative to others would depend on multiple factors, including the nature and source of the shock, the anticipated duration of the shock, and the way in which the shock affected different households or industries. The choice of the optimal form of stimulus would also need to take into account other policies in effect at the time.**

Negotiations in International Forums

The position to which you have been nominated, as your testimony reveals, "…plays a key role in directing Treasury's engagement with other countries, bilaterally and through multilateral institutions including the G-7, G-20, and the IMF." Engagement internationally under the Biden administration related to Treasury's functions has been largely unilateral, with, at best, minimal substantive information being shared with Republican Members of this Committee. On international taxes, for example, Republican input has not been adequately incorporated into the administration's unilateral negotiations. Briefings with staff from Treasury have been void of substantive quantitative analyses that must have been performed before proclamations have been issued about some sort of international "agreement" on global taxation, including ceding of U.S. rights to tax U.S. tax bases. These are important policy decisions that will influence constituencies of Members from both sides of the aisle, and cannot be made unilaterally by one political party.

4. Please identify steps that you would take, if confirmed, to ensure that the Treasury Department, in international engagements, represents Member of Congress from both sides of the aisle.

    - **Answer: I understand that Treasury staff and leaders communicate regularly with Members of Congress and their staffs from both sides of the aisle about key policy priorities, and if confirmed, I will continue to do so to ensure that we**

understand and take into account the range of views across the U.S. Government.

Debt Limit

The debt limit represents a statutory limitation on the value of debt subject to the limit. Increasing the debt limit serves to facilitate fresh borrowing in order to fund past obligations made by Congress and signed into law by the President. Increasing the debt limit or suspending the debt limit for a fixed future period also facilitates increased borrowing to facilitate funding of new obligations made by Congress and signed into law by the President between the date at which the debt-limit increase (or suspension) was made and the date at which the new, higher, debt limit binds (under a suspension, there will be a new, higher limit at the date on which the limit is re-instated). The debt limit, and any changes in probabilities of it being breached, can have domestic and international financial and economic effects, and the position to which you have been nominated would confront such effects.

5. A debt limit increase or suspension is not exclusively limited to increasing debt-issuance authorization that would only facilitate fresh borrowing to pay obligations that have been made prior to the date of the increase or suspension. Do you agree? If not, fully explain why not.

    - **Answer: Increasing the debt limit does not authorize any new spending. It simply allows the government to finance legal obligations made by Congresses and presidents of both parties.**

Legislative Information

6. If confirmed, do you commit to full transparency regarding any proposal put forward by the administration regarding federal debt management, and to ensure that public pronouncements of facts can be judged with reference to written details of the proposals that are available to all?

    - **Answer: Federal debt management would not generally be part of my responsibilities in the position for which I have been nominated. However, if confirmed, I commit to working with this Committee to enable and facilitate the sharing of information. I respect the Committee's need for information and look forward to working with the Committee.**

Inflation

As I mentioned in the hearing, the Biden Administration is planning a massive increase in taxes and spending, to be accomplished unilaterally by one political party through reconciliation. While the size, and indeed contents, of this fiscal agenda are still unclear, I am concerned about the possibility that they will exacerbate inflation trends, which even former Treasury Secretary Larry Summers has described as "disturbing."

In September, the OECD released its Global Economic Outlook interim report. It noted:

> Near-term inflation risks are on the upside, particularly if pent-up demand by consumers is stronger than anticipated, or if supply shortages take a long time to overcome….[A] lasting upward move in inflation from the low rates observed before the pandemic is likely to occur only if wage inflation intensifies substantially, or if inflation expectations drift upwards….[S]izeable increases in wages are occurring in some contact-intensive sectors that have reopened in the United States, such as leisure and hospitality.

The report also indicated that household 1-year inflation expectations in the United States now exceeds 5 percent.

In his town hall last Saturday, President Biden was asked whether he thought current levels of inflation would last into 2022. The president said, "I don't think so. I don't think it will last if -- depending on what we do. If we stay exactly where we are, yes. If we don't make these investments, yes."

7. How will the social spending programs and increased taxes being discussed in the Administration's reconciliation proposals (the "investments") address pent-up demand, supply shortages, wage inflation, and inflation expectations?

    - **Answer: Treasury has stated that the Administration's Build Back Better legislation is entirely paid for due to tax increases on corporations and well-off individuals. As such, the legislation should not contribute significantly to demand pressures and will likely reduce deficits over the long term. The legislation includes investments in climate change mitigation, education, and healthcare that should increase productivity and long-run aggregate supply as well as investments in childcare that should help boost short-run labor supply.**

8. What risks do higher domestic taxes and substantial inflation pose to the reputation of the United States as a good destination for foreign investment?

    - **Answer: The return to investment in the United States is greater when all of our workers are well educated, healthy, and resilient, and when our infrastructure is modern, efficient, and sustainable. The tax increases included in the Build Back Better legislation enable such investments in our workers and the overall business environment and put the U.S. fiscal system on a sounder footing. Further, the agreed changes to the international corporate tax environment will end the global race to the bottom. These steps will strengthen the reputation of the United States as a great destination for foreign investment.**

9. By contrast, what would be the effects on supply-side bottlenecks, inflation, economic growth, and foreign direct investment in the United States resulting from investment in traditional physical infrastructure, such as the Infrastructure Investment and Jobs Act provides for?

    - **Answer: Investment in physical infrastructure will also boost economic potential in the coming years and strengthen the incentives for foreign direct investment in the United States. The Administration has recognized the importance of physical infrastructure and has made those a centerpiece of the American Jobs Plan.**

      However, there are other essential components for boosting economic growth in the long run. Investments in our workforce and increases in labor supply from expanding access to child and elder care are also critically important. For example, women's labor force participation now trails many other advanced countries. The lack of affordable childcare and elder care is likely an important factor driving this. Allowing more workers to participate in the economy can improve the allocation of talent, encourage innovation, and raise productivity.

10. Some argue, based on things like inflation-expectation readings drawn from yield curves, that inflation expectations are contained. There are at least three reasons for caution about such arguments. One is that the process governing changes in inflation expectations, or, more generally, an aggregation of beliefs about the future evolution of economic variables relevant for inflation determination, is not well understood. Second, yield-curve inferences may not provide reliable forecasts. Third, as the financial crisis showed, officials who make claims of containment (e.g., housing troubles prior to the full onset of the financial crisis) may find that the claims are not borne out by subsequent, quite devastating realizations.

    Given that inflation and expectations about inflation are being generated in an unusual, perhaps unprecedented, environment with not-well understood "supply chain" breakage dynamics, should we not be extra prudent and avoid stoking inflationary pressures at this point using massive increases in fiscal outlays, as in the reconciliation bill being considered by one party in Congress, on the heels of already massive fiscal policies that have pumped trillions of dollars into spending, incomes, and savings?

    The U.S. is the best place in the world to do business. It is a prized destination for foreign investment. I want to keep it that way.

    If confirmed, I encourage you to use your position to ensure the U.S. remains the premier destination for international investment.

- **Answer: The Build Back Better proposals are fundamentally different than the American Rescue Plan or earlier relief packages adopted on a bipartisan basis during the pandemic. First, the Build Back Better proposals contemplate spending gradually over the course of a decade, with a substantial component devoted to infrastructure spending which takes time to outlay. Second, these proposals are more than fully paid for, and are estimated to reduce deficits in the long run. Third, the Build Back Better agenda would meaningfully boost the productive capacity of the U.S. economy. Improving transportation infrastructure, building more affordable housing, lowering drug prices, and increasing labor force participation are all disinflationary. These proposals would help ensure that we remain an attractive destination for foreign investment.**

Foreign Exchange Value of the Dollar

11. Do you believe in a "strong dollar" policy and, if so, can you define what that means and how the administration's policies advance such a policy?

    - **Answer: As only the Treasury Secretary should speak on matters of the dollar, let me repeat what Secretary Yellen has stated: the value of the U.S. dollar and other currencies should be determined by markets. Markets adjust to reflect variations in economic performance and generally facilitate adjustments in the global economy.**

12. What do you believe will be the effect on the exchange-value of the dollar of the significant increases in inflation that we have recently seen, and which may persist for a significant future period given ongoing, unresolved supply-chain frictions?

    - **Answer: The dollar has appreciated by roughly 3 percent over the course of 2021, reflecting a wide range of factors including the strength of our economy.**

13. What do you believe is the policy utility of the Exchange Stabilization Fund in stabilizing exchange rates governing the U.S. dollar relative to foreign currencies, and how, if at all, would you use the Exchange Stabilization Fund to execute whatever are the administration's foreign-exchange objectives?

    - **Answer: Over the past 20 years, foreign exchange interventions by the major economies have been rare. When appropriate, Treasury has used the Exchange Stabilization Fund (ESF) to intervene in foreign exchange markets in coordination with the Federal Reserve and with other major partners to stem excess volatility and disorderly movements in foreign exchange markets. The ESF continues to retain its policy utility in this regard.**

<u>Senator James Lankford (R-OK)</u>

1. As we discussed during your confirmation hearing, on August 15, 2021, the Treasury Department froze the Afghan government's reserves held in the United States (mostly in the Federal Reserve Bank of New York), which have an estimated value of as high as $9.5 billion. As a result of this action, the Taliban government has not had access to this reserve capital of Afghanistan's central bank, Da Afghanistan Bank.

    - Under what circumstances would the Administration unfreeze the Da Afghanistan Bank's reserve assets in U.S. financial institutions?

        - **Answer: It is important to note, first, that a U.S. decision on this question will involve other entities, including the Federal Reserve and the State Department. It is too early to say at this time if or when a decision to unfreeze Da Afghanistan Bank's reserve assets will be made. If confirmed, I look forward to working with others in the U.S. Government, Congress, and other stakeholders to examine these issues in more detail.**

    - Under what circumstances would the Administration vote to lift current restrictions on lending to Afghanistan at the World Bank or International Monetary Fund?

        - **Answer: It is too early to say at this time. If confirmed, I look forward to working with others in the U.S. Government, Congress, and other stakeholders to examine these issues in more detail, including to examine options to provide humanitarian support to the Afghan people while preventing the flow of funds to any person or entity seeking to harm the United States.**

2. A big part of your job description will be oversight over U.S. policy and strategy at Multilateral Development Banks and International Financial Institutions (IFI's) such as the International Monetary Fund, World Bank, and Inter-American Development Bank.

    What is your strategy to coordinate the efforts of U.S. Executive Directors at the IMF, World Bank and IDB are in alignment with our broader foreign policy agenda across all multilateral entities?

    - **Answer: U.S. participation in the International Financial Institutions is critical to achieving our foreign policy objectives. I will work closely with our Executive Directors at each IFI to identify opportunities to advance important U.S. foreign policy interests, and I will coordinate their efforts to ensure that we are moving in sync across institutions. My understanding is**

that Treasury International Affairs oversees several processes to coordinate interagency review of IFI projects, programs, and major policy decisions and provide direction to the U.S. Executive Directors on the exercise of the U.S. voice and vote. If confirmed, I will fully support these robust processes and will maintain Treasury's ongoing dialogue with other institutions within the U.S. government, including the White House and the State Department, to ensure that our work in the IFIs reinforces key U.S. policy objectives.

3. The influence of China at International Financial Institutions and other multilateral organizations is well-documented and a top concern of this Committee. It recently came to light that the IMF had elevated China's ranking on the "Doing Business" report, which is the IMF's annual index that measures the business environment in 190 countries and ranks them based on how friendly their investment and regulatory climate.

   What is your strategy to elevating American leadership in the entities within your portfolio? Specifically, how do you plan to leverage US influence and counter China's malign influence at international financial institutions, which is counter to the interests of the U.S. and our allies?

   - **Answer: It is critical that we ensure the integrity of the international financial institutions and the credibility of their analysis and reports. If confirmed, I will work with other key countries represented in these institutions to push for improved governance processes and protections for whistleblowers. I will also work to ensure fair and equal treatment for all members of these institutions, and that all members, including China, fulfill the obligations, appropriate roles, and responsibilities of membership in these institutions.**

4. China is still considered a "developing country" at the World Bank despite exceeding the Bank's own graduation threshold since 2016. In December 2019, the Board of Governors approved the Country Partnership Framework with China, which continues loans to China for an additional five years. China's continued receipt of this development financing from the World Bank frees up other capital it raises through taxation and other means to support its predatory Belt & Road Initiative.

   Will you work to ensure that countries who have exceeded the graduation threshold (currently measured at a country's gross national per capita income level of $6,795) such as China do not receive World Bank financing?

   - **Answer: I believe the PRC meets the International Bank for Reconstruction and Development's criteria for graduation, given its high per capita income, institutional capacity, and ample access to other sources of finance. If confirmed, I will press for the PRC's graduation,**

and will seek to advance this position by working with the U.S. Executive Director, World Bank Management, Secretary Yellen and Treasury colleagues, Congress, and other U.S. agencies, as well as likeminded partners. I understand that as part of the reform commitments accompanying its 2018 capital increase, the World Bank committed to decrease the share of lending going to countries with per capita income above the graduation threshold, more fulsomely identify the constraints to graduation for countries with per capital incomes above the graduation threshold, and better target lending in those countries on addressing the constraints identified. If confirmed, I will encourage the World Bank to adhere to those commitments, in coordination with the U.S. Executive Director and Treasury colleagues.

5. While well-intentioned, I am concerned that an SDR issuance would be counterproductive to two paramount U.S. objectives: stabilizing the economy and countering Chinese influence. Since many developing countries already have high levels of indebtedness to China, this liquidity boost could simply enable them to pay back Beijing what they already owe.

   Prior to supporting additional SDR's, what steps will you take to ensure that borrowing countries will not use some or all of the funds from their SDR issuance to pay back Belt & Road Initiative loans to China?

   - How will you ensure that borrowing countries are forthcoming and transparent about their respective debt exposures to the PRC and other predatory lenders?

     - **Answer: As SDRs are an international reserve asset, any support for a new SDR allocation would be based on an assessed deficit in global reserves, something I do not currently expect based on the global economic outlook. SDRs, as an international reserve asset, are an unconditional source of liquidity, so neither the United States nor the IMF can directly control their use by other countries. However, I will continue to press the importance of IMF support and consultation with countries considering the use of their SDRs and oppose their use to support new unsustainable or irresponsibly contracted sovereign debt obligations, including to China. I will also press the IMF and World Bank to improve public debt transparency practices and debt data disclosure from borrowing countries.**

6. Do you believe the United States should oppose loans to Iran and other state sponsors of terrorism at the IMF and World Bank?

- **Answer: Yes, consistent with U.S. law, the United States should oppose any IFI loans to Iran or other state sponsors of terrorism.**

7. China has increased investments in Latin America as part of its Belt & Road Initiative in an attempt to strengthen its relationships in the Americas and peel away U.S. partners.

   What is your strategy to utilize U.S. influence and leadership at the Inter-American Development Bank to provide an alternative to China's predatory lending to our friends in Latin America?

   - **Answer: It is important that the United States restores and strengthens our partnerships in the region and keeps countries from engaging in irresponsible, opaque, or unsustainable borrowing, including when borrowing from the PRC. To do this, we must reassert American leadership in the IFIs, including the IDB Group, and reaffirm the U.S. commitment to multilateralism, which is a priority for the Biden-Harris Administration.**

     Through the IFIs and with our allies, we must promote high-quality, private sector-led, inclusive, and sustainable growth and development policies, with particular focus on democratic governance and respect for human rights, anti-corruption and transparency, sound macroeconomic and financial management, and debt management capacity and transparency. We must aggressively contrast these features with poor outcomes experienced in the region, such as the case of Venezuela's engagement with China, which include low quality infrastructures and unsustainable debt burdens.

     If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress, as well as likeminded partners from other countries, to achieve these goals.

8. Over the last few months, my Democratic colleagues have proposed trillions in tax increases. I am concerned that such tax increases will discourage growth and investment, and will put U.S. companies and their workforces at a competitive disadvantage.

   - Do you believe that a competitive tax code and a reasonable regulatory environment are necessary for attracting foreign investment to the United States?

     - **Answer: The investment climate surely benefits from a sound tax and regulatory environment, and the return to investment in the U.S. also increases when all of our workers are well educated, healthy, and resilient and when our infrastructure is modern, efficient, and sustainable. The tax increases included in the Build Back Better legislation enable such investments in our workers and the overall**

business environment and put the U.S. fiscal system on a sounder footing. Further, the agreed changes to the international corporate tax environment will end the global race to the bottom. These steps will strengthen the reputation of the U.S. as a great destination for foreign investment.

- How can we ensure that the U.S. remains a prime destination for domestic and foreign sourced investment?

    - **Answer: It is important that we make adequate investments that lead to sustained productivity growth, including repairing roads and bridges, expanding broadband access, investing in the education and training of U.S. workers, from early childhood through higher education, and taking serious actions that respond to the reality of climate change. These sorts of public investments require tax revenue, and the United States raises much less tax revenue as a share of GDP than do most peer nations. Improved infrastructure and well-trained workers are complements to private capital and will help keep the U.S. a prime destination for domestic and foreign sourced investment.**

9. In response to questions from Senator Crapo last week, you said that "When thinking about the destination in the United States for investment, the same things presumably that make it a better destination for foreign investment, make it a better place to do domestic investment." You continued to state that "As you raise taxes, the question is, are your raising them in a way that contributes to the productivity of the workforce, that makes the country's infrastructure better, that invites investment, whether it's domestic sourced or foreign sourced."

   According to the Tax Foundation's preliminary estimates, the legislation marked up by the House Ways & Means Committee in September would have eliminated hundreds of thousands of full-time equivalent jobs and moved the U.S. to 28th place on the International Tax Competitiveness Index. Further, according to the Joint Committee on Taxation, Americans at every income level would have seen tax increases under that legislation.

   Now, under the recently released Build Back Better framework, the Tax Foundation estimates that the recently released legislation would reduce long-run economic output by nearly 0.4%, eliminate roughly 103,000 full time jobs, and reduce average after-tax incomes for many Americans in the long run.

    a. Given that data, are you concerned that these proposals could threaten the U.S.'s reputation as a prime destination for investment, whether foreign or domestic?

- **Answer: Other organizations have much more positive assessments of the growth potential of these sorts of public investments. For instance, a new analysis by Moody's Analytics projected that if the bipartisan Infrastructure Investment and Jobs Act and the Build Back Better Act are enacted, total GDP will increase by nearly $3 trillion relative to the baseline over the next decade. Moody's Analytics estimates that the two historic bills will also raise annual employment over the next decade by an average of 1.5 million jobs. An earlier International Monetary Fund analysis of the American Rescue Plan, the American Jobs Plan, and the American Families Plan –the infrastructure deal and reconciliation bill are based on the latter two – found that the plans would boost the level of GDP by 1% in 2030.**

b. Are you concerned that these proposals, contrary to your statement, would diminish productivity of our workforce and discourage investment – throwing off the balance that you said is necessary?

- **Answer: Given the considerations in my prior answers, I believe these proposals will help U.S. workers and improve the environment for U.S. investment.**

10. Congress has expressed concern in the past about the relatively short term lengths (two years) of the Executive Directors and Alternative Executive Directors at International Financial Institutions compared to Ambassadorships and other comparable political appointments, and whether this short length of service impedes U.S. influence in multilateral fora compared to our competitors. The FY21 appropriations bill directs Treasury to submit a report containing a review of amending the term length for the United States Executive Director and the United States Alternate Executive Director of the World Bank by June 25, 2021, but the Department has yet to do so.

If confirmed, will you commit to A) thoroughly examining all options on this matter and B) ensuring this report is delivered to Congress?

- **Answer: Yes. If confirmed, I look forward to learning more about this issue and consulting further with you and your staff.**

Senator Todd Young (R-IN)

1. Secretary Yellen has been negotiating the OECD "Pillar One" agreement. She has suggested that Pillar One can be implemented without a treaty – and thus without the approval of two-thirds of the Senate.

   Does Pillar One implementation in the United States require Senate ratification of a treaty, yes or no? Please explain your answer in detail.

   - **Answer: I understand that Pillar 1 is subject to ongoing international discussion and what is needed to implement Pillar 1 will depend on the details of those discussions. If confirmed, I hope to work with Congress and my colleagues at Treasury and the State Department to determine the appropriate approach to implementing an agreement.**

2. The United States has been working with G20 countries to provide debt relief to developing countries in the wake of the COVID-19 pandemic. This cooperation is taking place under the Common Framework agreement reached in November 2020 among G20 members. However, China, the world's largest sovereign lender, is not complying with its commitments under the Common Framework. Its existing loans are not transparent and are riddled with loopholes and requirements designed to trap developing countries. One recent report suggests that developing countries now owe over $385 billion in hidden debts to China.[1]

   a. Should anything more be done to ensure China complies with its commitments under the Common Framework agreement?

      - **Answer: I have heard concerns that China is not complying with its commitments. I am also concerned about China's participation in the Common Framework. If confirmed, I will work within Treasury as well as with our partners in the G7 and G20 and the IMF and World Bank to address these issues.**

   b. What are the consequences of China not participating fully in the Common Framework and other debt relief efforts?

      - **Answer: Without China's full and transparent participation in the Common Framework, countries will not be able to receive timely and effective debt treatments to restore debt sustainability. This will compound the current difficulties that low-income countries are**

[1] https://www.aiddata.org/publications/banking-on-the-belt-and-road

facing, including rising poverty levels, increasing inequality and a lack of fiscal space.

c. What are the risks of China squeezing its debtor countries?

- **Answer: My understanding is that China has resorted to various strategies and methods to exert pressure on debtor countries, such as the insertion of non-disclosure and collateral arrangements to maximize Chinese repayment prospects. If I am confirmed, I will work with allies and partners to hold China accountable for practices that could be harmful to debtor countries.**

d. What can be done to pressure China to increase transparency on its overseas lending activities?

- **Answer: If I am confirmed, I will work to push for greater debt sustainability and transparency in various international fora, particularly at the IMF and the World Bank.**

3. The World Bank, IMF, and other development banks have provided hundreds of billions in emergency support in response to the COVID-19 pandemic. Yet most of this has been in the form of loans, which may create debt sustainability risks as interest rates rise. And, of course, multilateral development bank (MDB) funding pales in comparison to the amounts these same countries owe China under obscure and non-transparent terms.

a. How can we ensure that multilateral bank lending is sustainable and does not overly burden developing countries with additional debt they cannot pay off?

- **Answer: The MDBs calibrate the terms and assistance envelope available to countries based on assessments of per capita income, creditworthiness, and debt sustainability, with poorer, less creditworthy countries receiving concessional assistance and the poorest countries with the highest risk of debt distress receiving grants or highly concessional loans. The World Bank regularly produces debt sustainability analyses jointly with the IMF for low-income countries to assess the risk of debt distress. The MDBs also play an important role in collecting and reporting on debt data from developing countries, promoting debt transparency, and providing financial and technical assistance to build debt management capacity in developing countries.**

b. What steps can the United States take to ensure that the World Bank or other multilateral development bank assistance is not used to simply pay off Chinese loans?

- **Answer: The World Bank and other MDBs can play an important role in collecting and reporting on debt data from developing countries, promoting debt transparency, and providing financial and technical assistance to build debt management capacity in developing countries. I understand that the International Development Association (IDA) has a Sustainable Development Finance Policy (and other MDB concessional windows have adopted or are in the process of adopting such a policy) that incentivizes IDA-eligible countries to undertake reforms related to debt management capacity and transparency on an annual basis and in some cases limits non-concessional borrowing. If confirmed, I will advocate for continued focus on this work and strong support for implementing the G20 Common Framework. Similarly, I will work with the U.S. Executive Directors to promote strong internal controls, auditing, and evaluation of MDB projects to help monitor that MDB assistance is going towards its intended purposes and delivering strong development results.**

c. If confirmed, what would be your approach to engaging with China on global debt transparency standards?

- **Answer: If confirmed, I will work with allies and partners, as well as with Chinese counterparts, bilaterally and in multilateral institutions to pressure China to improve debt transparency in line with international standards and practices, including the G20 Operational Guidelines for Sustainable Financing.**

4. On October 16, 2021, when asked by CNN's Jake Tapper whether it sounded tone deaf to suggest that rising prices and empty grocery store shelves are "high-class problems," White House Press Secretary Jen Psaki responded, "A year ago, people were in their homes, 10 percent of people were unemployed, gas prices were low because nobody was driving, people weren't buying goods because they didn't have jobs. Now more people have jobs, more people are buying goods, that's increasing the demand. That's a good thing. At the same time, we also know that the supply is low because we're coming out of the pandemic. And because a bunch of manufacturing sectors across the world have shut down because ports haven't been functioning as they should be. These are all things

we're working through. What people should know is that inflation will come down next year. Economists have said that. They're all projecting that."[2]

a. Based on your considerable experience and expertise as an economist, do you agree with the White House's explanation for the inflationary environment America is currently facing? Why or why not?

   - **Answer: I agree that the pandemic has greatly shifted consumption patterns and disrupted production in a way that has put upward pressure on prices. First, since the start of the pandemic, U.S. households have shifted their consumption away from services and towards goods; demand for goods is still about 10% above pre-pandemic trend. This positive demand shock for goods has resulted in pricing pressures and put stress on international shipping and distribution networks since goods are generally more tradable than are services. Second, COVID-19 outbreaks have shut down some factories and ports in different countries and at different times. This negative supply shock has further added to pricing pressures. Finally, rising commodity prices have been contributing to headline inflation.**

     As more people are vaccinated and treatments are rolled out in the U.S. and around the world, the impact of COVID-19 will hopefully decrease, and this should alleviate both these demand and supply factors. With a global recovery from COVID-19, the composition of demand should shift back towards services and the cessation of shutdowns and return of workers should abate shipping delays and supply shortages. This logic forms the basis for the view that recent measures of elevated inflation will prove temporary. Consistent with this view, monthly core PCE inflation rates have come down sequentially from their peak in April through to September.

b. As described above, the White House stated that "all" economists are predicting a return to normal levels of inflation in 2022. Specifically, when you do you predict inflation will return to normal levels? Please describe in detail the assumptions you made in developing your response to this question.

   - **Answer: My research as an academic economist has not focused on inflation forecasting. Instead, my recent work has emphasized models of international investment, international trade, exchange**

[2] https://www.cnn.com/videos/politics/2021/10/15/jen-psaki-ron-klain-inflation-retweet-tapper-lead-vpx.cnn

rate dynamics, international use of the U.S. dollar, and the differential implications of work-from-home across rich and developing countries. That said, as noted in my previous answer, my best assessment is that the COVID-19-induced shift in demand toward goods and shutdowns of some production has caused inflationary pressures. As such, my view is that as the world recovers from COVID-19, core inflationary pressures will normalize. A quantitative forecast of inflation would also incorporate one's view of the monetary policy reaction function, i.e., how the Federal Reserve will respond to future economic conditions, and the dynamics of inflation expectations.

A new analysis by Moody's Analytics shows inflation reverting back to normal levels in late 2022/early 2023, similar to the timing in forecasts from the IMF's World Economic Outlook and the most recently released median forecast provided by the Federal Reserve.

Senator Ben Sasse (R-NE)

1. If confirmed, will you commit to blocking any assistance or financing by the World Bank, IMF, or Asian Development Bank for Afghanistan, since its government is now controlled by the Taliban, except for humanitarian assistance provided through the UN or other international organizations?

    - **Answer: If confirmed, I look forward to working with others in the U.S. Government, Congress, and other stakeholders to examine these issues in more detail, including options to provide humanitarian support to the Afghan people while preventing the flow of funds to any person or entity seeking to harm the United States.**

2. How does the Biden administration plan to work with the World Bank and IMF to address the challenges posed by the Belt and Road Initiative on a global scale? In your view, are there situations in which the World Bank or IMF should work with Chinese government-backed projects that are part of the Belt and Road Initiative? If so, under what criteria? Do you believe that the World Bank and IMF should coordinate with the Chinese government on assistance to third countries? If so, under what criteria? What are the prospects for closer cooperation between the World Bank and IMF and like-minded infrastructure development finance initiatives, such as the Blue Dot Network?

    - **Answer: Countering PRC influence around the world, including through their Belt and Road Initiative, depends on reasserting American leadership in the IFIs and reaffirming U.S. commitment to multilateralism and working with allies, which is a priority for the Biden-Harris Administration. If confirmed, I look forward to working with Secretary Yellen, our U.S. Executive Directors, and Congress, as well as likeminded partners from other countries, to use the U.S. voice and vote to underscore this message; reinforce the importance of the IFIs' commitment to high standards, transparency, and integrity; promote increased mobilization of domestic and private sector resources; and deliver financing and policy advice to other countries that contribute to increased transparency, sound governance and policies, and increased capacity to counter malign influence.**

      I do not believe that the International Financial Institutions should seek to advance the bilateral foreign policy initiative of any single shareholder.

      The International Financial Institutions should seek to coordinate with China on creditor transparency to understand and report on China's lending to developing countries, including the amounts and terms (including collateral) and the purpose of such lending so as to reduce

risks to debt sustainability, facilitate debt relief where necessary, and avoid duplication of financing to developing countries.

The IFIs can be an important complement to multilateral initiatives focused on high-quality, private sector-led infrastructure development, given their own adherence to high social, environmental, and fiduciary standards; emphasis on fostering good governance, transparency, and private sector development; policy advice and financing supporting infrastructure development and investment climate reform; and the strong leadership role of the United States and our allies in these institutions.

3. Current IMF Managing Director Kristalina Georgieva has been credibly accused of manipulating data to inflate China's standing in the World Bank's 2018 Doing Business survey when she worked at the World Bank. What steps has the Biden administration taken to ensure that the World Bank maintains a transparent and accountable system for awarding contracts to any Chinese government-backed state-owned enterprises or private Chinese companies?

- **Answer: It is critical that the IFIs take steps to ensure their integrity and that we promote strong accountability and transparency. The Biden-Harris Administration is strongly committed to good governance and anti-corruption, including in the governance and management of the International Financial Institutions and through their assistance.**

  If confirmed, I look forward to understanding steps the U.S. government has taken within the World Bank regarding procurement transparency. If confirmed, I will work with the U.S. Executive Director, other U.S. Government officials, and likeminded partners to advocate for implementation of a procurement framework focused on value-for-money over the full lifecycle of a project, rather than awards to the lowest bidder, and greater scrutiny on abnormally low bids; added attention to building contracting capacity and transparency in public financial management in World Bank recipient countries; and enhanced reporting on contract awards for World Bank-funded projects.

  I understand that the U.S. government has tasked agencies to put this into action, and if confirmed, I commit to work with all parts of the U.S. government and the U.S. Executive Directors to do our part to seek to keep forced labor out of MDB-funded projects and to apply rigorous safeguards and standards to prevent human trafficking and forced labor.

Senator John Barrasso (R-WY)

1. The International Monetary Fund (IMF) with the approval of the Biden Administration issued $650 billion in Special Drawing Rights (SDRs) – the largest in history. Instead of helping the most vulnerable nations struggling with the economic impacts of the coronavirus, the funds also went to wealthy nations and rogue regimes. It appears the majority of the allocations ended up going to those countries that need it the least. Media reports indicate that high-income countries received $400 billion of the pot, while low income countries only received about $21 billion.

    a. What was the amount of Special Drawing Rights issued to the United States and what is the current plan for those resource?

        - **Answer: As outlined in the IMF's Articles of Agreement, a general allocation of SDRs is distributed to all members according to their participation, via quota share, in the IMF. Accordingly, the United States, with our 17.43 percent quota share, received 17.43 percent of the $650 dollars billion SDR allocation, or about 79.5 billion SDRs. The United States is currently working with the IMF and other major economies to develop mechanisms to channel a portion of these SDRS to vulnerable countries through IMF-administered trust funds, and the Biden Administration's FY22 budget includes a request for authorization to lend up to 15 billion of our SDRs for that purpose.**

    b. Please provided the amount of funds received by the each of the following countries as part of the Special Drawing Rights: China, Russia, Syria, and Iran.

        - **Answer: As noted above, the IMF is required to distribute SDRs to all of its members on the basis of their quota share in the IMF. Accordingly, China, Russia, Syria, and Iran received about 29.2 billion SDRs, 12.4 billion SDRs, 281 million SDRs, and 3.4 billion SDRs, respectively. China, which already has ample international reserves, has supported efforts to channel SDRs to vulnerable countries. SDRs are not a currency and have limited uses on their own. For a country to use its allocation for fiscal support it must exchange SDRs for a usable currency. The United States retains the right to refuse to voluntary exchange SDRs for dollars with any country.**

2. In June, the G7 urged the International Monetary Fund (IMF) to come up with a variety of proposals to channel Special Drawing Rights. The IMF now is looking at ways to reallocate reserves from higher income countries to developing nations.

a. What are the current mechanisms and proposals being considered to channel Special Drawing Rights?

- **Answer: The Administration has worked closely with the IMF and other major economies to develop mechanisms to allow donor countries to voluntarily channel some of their SDRs to countries in need. One option that already exists for SDR channeling is the IMF's Poverty Reduction and Growth Trust, which provides low-cost (currently zero-interest rate) loans to low-income countries in the context of an IMF-agreed program of structural reforms. Since the start of the pandemic, IMF members have already provided over 17 billion SDRs in new loans to the PRGT to support increased IMF lending to the poorest countries and have pledged an additional 5.3 billion SDRs. The IMF and major countries are also working to develop a new facility, the Resilience and Sustainability Trust, or RST. The RST will be financed by channeled SDRs and will provide longer-term financing to countries to build climate and pandemic resilience. President Biden joined other leaders of the G20 recently in a declaration calling for channeling up to $100 billion in SDRs to vulnerable countries.**

b. What protections are in place to ensure that those resources a country wants to reallocate to low income countries does not go to countries like China, Syria, and Iran?

- **Answer: China has ample international reserves and has no foreseeable need for IMF assistance. IMF lending programs require that countries agree to a program of reforms to address unsustainable policies and structural issues. The regimes in Syria and Iran would be unlikely to agree to this conditionality. Moreover, before agreeing to disburse funds the IMF conducts an assessment of the borrowing member's safeguards to prevent loss or misuse of IMF-provided funds. Given the substantial concerns regarding the integrity of key economic institutions in Syria and Iran, it is unlikely they would pass these assessments.**

c. In your view, what enhanced transparency and accountability measures should be attached to any reallocation effort?

- **Answer: The IMF's proposed RST, which would be financed through channeled SDRs, will require that borrowing countries have a concurrent standard IMF program that includes an agreed macroeconomic framework and appropriate policies. Doing so will**

help ensure that IMF resources are used effectively and provide a strong basis for future repayment. Since the RST will likely focus on lending to enable countries to build resilience to climate and pandemic impacts, the IMF will cooperate closely with the World Bank to establish a robust set of policy measures focused on these outcomes that will accompany the provision of financing.

3. The World Bank stopped funding for projects and halted operations in Afghanistan after the Taliban took control of the country. The International Monetary Fund also suspended payments and access to lending to Afghanistan around the same time. The Biden Administration has also frozen assets of the Afghan central bank that are held in the United States.

    a. Under what conditions, if any, would you recommend the United States support the resumption of International Monetary Fund lending and World Bank aid to Afghanistan under the control of the Taliban?

        - **Answer: It is too early to say at this time. If confirmed, I look forward to working with others in the U.S. Government, Congress, and other stakeholders to examine these issues in more detail, including to examine options to provide humanitarian support to the Afghan people while preventing the flow of funds to any person or entity seeking to harm the United States.**

    b. Under what circumstances, would you recommend allowing the Taliban to access assets belonging to the Afghan central bank held in U.S. banks?

        - **Answer: It is too early to say at this time. If confirmed, I look forward to working with others in the U.S. Government, Congress, and other stakeholders to examine these issues in more detail.**