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THE U.S. AND THE G–20: REMAKING THE INTERNATIONAL ECONOMIC ARCHITECTURE

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CONTENTS

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TUESDAY, NOVEMBER 17, 2009

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 3 p.m. in room SD–419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Cardin, Shaheen, Kaufman, Lugar, Corker, Isakson, and Wicker.

OPENING STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS

The CHAIRMAN. The hearing will come to order.

Mr. Secretary, thank you so much for taking time to be here with us. I know this is a busy time, in every respect, but it's a particularly good moment for us to be thinking about some of the issues in front of this committee that you also deal with. So today, we're pleased to address the future of the G–20, the IMF, the World Bank, and America's role in remaking our global financial architecture.

It's been almost a decade since a Treasury Secretary last addressed this committee. And back then, it was to discuss the IMF and the Asian financial crisis. While those events unfolded far from our shores, in many ways America has been ground zero for a financial crisis today that nearly resulted in global economic collapse. We're not out of the woods yet, but it's not too soon to start rebuilding and rethinking our international financial institutions.

The global economy has changed dramatically, quickly, and profoundly. Twenty years ago, worldwide capital flows were less than 20 percent of what they are today. Ten years ago, much of Asia was in economic disarray. Today, the old order has been shaken up by new realities, emerging powers, and entirely new financial entities. Increasingly, the economic policies of any single nation, no matter how powerful, are inadequate to meet the demands of a world where both risk and capital move globally.

Alongside our financial challenge, we're pursuing new development priorities, such as mitigation and adaptation to climate change, protecting food supplies, empowering women, all of which we increasingly view as fundamental to future security and stability. We need institutions that are designed and equipped to thrive in this changed environment; organizations with stronger multilateral levers, empowered to monitor and protect the global monetary system; and development banks, actively engaged with a new set of priorities consistent with the continuing goal of ending poverty.

When President Obama announced from Pittsburgh that the G–20 would replace the G–8, Singaporean Prime Minister Lee Kuan Yew called it an implicit acknowledgment that the post-World War II order had come to an end. And, indeed, I think that this transformation from G–7/G–8, and then G–8 with various pluses, ultimately to, now, the G–20, is a stark acknowledgment of a fundamental transformation that has taken place in the use of power and in the global decisionmaking process. It's certainly true that the rise of the so-called "BRIC countries"—Brazil, Russia, India, and China—represents a fundamental global economic shift.

Twenty years ago, the President's most important global financial trip would have been to Europe. Today, it is Beijing. Clearly, the developing world needs a legitimate seat at the table so that all of us can better address shared challenges.

We've already begun this process through recognizing the G–20 as the premier economic coordinating forum, and it has made encouraging progress since. A year ago, at the height of the crisis, it convened, for the first time, at the leaders level, and it launched the largest and most coordinated fiscal and monetary stimulus ever undertaken.

My Senate colleagues and I worked to make good on our G–20 commitment last spring to dramatically increase the IMF's lending capacity to contain the crisis. Without legislative action, in keeping with your request, Mr. Secretary, and the President's, the world economy would still be in a much more precarious place.

The International Monetary Fund and its sister organization, the World Bank, must also evolve to reflect this changed world. After World War II, a handful of developed countries understood that an international framework was necessary to avoid repeating the chaos of the 1930s. And so, they put one in place. In 2009, the IMF's and World Bank's continued legitimacy and effectiveness depend on transcending their origins to offer underrepresented countries an increased voice. We need to explore how these changes will affect American interests and how we can lead within these new frameworks.

To be sure, the IMF and World Bank have evolved, responding to the end of the gold standard, incorporating decolonized countries around the world, and eventually taking on board the countries of Eastern Europe. However, as the rate of global economic change accelerates, we need to ensure that our global economic architecture can keep up.

Today, the World Bank and other multilateral development banks are seeking more capital contributions from Member States in order to address the current crisis. These institutions have been vital in protecting vulnerable people in countries and supporting development. This committee has a long history of working with them, and we should be sensitive to their requests. But, we should also be prudent in our response. Capital is flowing back into many emerging markets, and the budgets of many donor nations around the world are strained. We need to ask ourselves, Do these institutions truly need additional funds now? If so, how much is appropriate? And finally, should new funding be provided temporarily or permanently?

Any increase in funding must be coupled with a reevaluation to ensure that these institutions are actually fulfilling their mandate to focus on the world's poor. Our own funds and development spending are limited, and our focus should not be on the needs of middle-income countries.

The G–20 has singled out climate change and food security as challenges demanding greater attention. And I agree. Banks deciding whether to fund major energy projects in developing countries, particularly middle-income countries, should take care not to lock them in to a high-carbon future that will be costly for all of us and especially devastating for the world's poorest nations.

Instead, we must help countries to craft well-balanced energy strategies. Our efforts to address energy poverty and climate change must not work at cross purposes. That means we must persuade our institutions to focus their investments on building energy efficiency and renewable energy capacity in the short run and carbon capture and sequestration and other advanced technologies as they, too, become available.

Secretary Geithner, we know full well the enormous responsibilities that you've taken on at a moment of unprecedented strain and transition. And we very much appreciate the job you're doing and appreciate your taking time to be with us today to answer questions and share with the committee your thoughts about this new architecture and the new rules of the road. We look forward to hearing your thoughts about the G–20 and those other issues shortly.

Senator Lugar.

OPENING STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

Senator LUGAR. Well, thank you very much, Mr. Chairman.

I join you in welcoming Secretary Geithner and thank him for appearing before the Foreign Relations Committee.

As we seek to emerge from the worst economic crash since the Great Depression, we need to consider how the United States maintains its influence, addresses national security deficiencies and provides global leadership in an era when the American economy may not be the overwhelming source of power it once was.

Increasingly, national influence will be determined by whether countries can contribute to solving global problems, or at least, whether they are making themselves indispensible to other nations.

China and other developing economies are demanding a greater say in the management of the world economy through the G–20 and other mechanisms. China's global leverage has increased as it has deliberately positioned itself as a creditor nation with more than 20 percent of the world's current account balance surplus. We cannot depend indefinitely on China investing heavily in United State Government debt. Some thought must be given to how we work with China and other nations to establish a more sensible global balance that depends less on demand by American consumers.

The United States and the G–20 also must rethink the role of the international financial institutions that provide crisis support and assistance to developing countries and emerging markets. As one of the largest shareholders in these institutions, the United States enjoys an opportunity to influence their policies and programs and to ensure that hundreds of billions of dollars are managed effectively and transparently. Are the IMF, the World Bank, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank achieving their missions of fighting poverty, encouraging growth, and promoting democracy? What could the international financial institutions have done differently to help mitigate the current global financial crisis?

Six years ago, I began an examination of the multilateral development banks, focused on ensuring that their financing reached the intended people and projects. I chaired six hearings on the topic that included examinations of individual projects and policies of the respective banks.

In the months to come, the administration is likely to seek substantial capital increases for the banks the chairman has just mentioned. It is important for the success of any such request that the administration fully engage Congress. The administration's $100 billion loan request for the IMF last September came very late in the process of the Supplemental Appropriation Act of 2009. There was no opportunity in the House or the Senate for hearings or authorizing legislation addressing whether the money should have been conditioned on reforms. After the supplemental passed, the President signed the bill with a statement asserting the administration's discretion to disregard the few provisions added by Congress that promoted reform at the IMF.

The United States has strong national security and humanitarian interests in alleviating poverty and promoting progress around the world. That is why the Congress regularly supports appropriations for subsidized loan and grant programs through the multilateral development banks.

But the American people must have confidence that our funds will be managed effectively, efficiently, and transparently. Given our domestic budget and employment situation, it's all the more critical that we ensure that our contributions promote United States interests.

It also is imperative that our government examine capital increases for each bank as a unique request. Each financial institution has its own distinct management challenges. For example, capital increases for the European Bank for Reconstruction and Development must be accompanied by much more information concerning whether wealthy Russian business interests are benefiting from the 41 percent of bank funds that flow to that country. Similarly, capital increases for the Inter-American Development Bank must address how that bank is reforming its practices after its unrealized loss of $1.9 billion in 2008 from its liquid portfolio of cash management instruments.

The World Bank, for its part, has been a leader in addressing concerns about corruption and governance. Among other steps, it regularly publishes the names of contracting companies that have violated World Bank policies.

Given the linkages between our financial sector and that of other countries, we cannot achieve economic recovery in isolation from the rest of the world. In the face of job losses, wealth evaporation, homelessness, hunger and other outcomes, the fabric of many nations will be tested. We have to expect additional political, economic, or even national security shocks. The global crisis is likely to reduce enthusiasm within the United States and beyond for liberalized trade measures that would greatly benefit our country. The United States must continue to offer a clear leadership that ensures the major economies will cooperate on financial restructuring and resist protectionism.

I thank the chairman again for calling this important hearing and look forward to Secretary Geithner's testimony.

The CHAIRMAN. Thank you very much, Senator Lugar. I appreciate your comments, as always.

Secretary Geithner, if you would summarize, and we'll put any full text in the record that you have. And we look forward to your comments and then a good dialogue.

STATEMENT OF HON. TIMOTHY GEITHNER, SECRETARY OF TREASURY, DEPARTMENT OF TREASURY, WASHINGTON, DC

Secretary GEITHNER. Thank you, Mr. Chairman and Ranking Member Lugar, members of the committee. It's a pleasure to be before you today.

This committee has played an indispensable role at critical moments to strengthen America's leadership in the international financial system. This is one of those moments.

As you understand, and as you said in your statements, economic policy is central to achieving our national security and foreign policy objectives. Our capacity to advance and protect our national security interests depends fundamentally on our economic strength at home. But, our economic strength is increasingly dependent on the strength, openness, and stability of the global economy.

Six years ago, the United States played a central role in the creation of the international financial institutions and the multilateral trading system. Today, that system has to be reformed to address the great challenges of our time. And we're now engaged in a process of advancing a set of very consequential reforms that will help modernize these vital institutions and arrangements for international economic cooperation.

As part of these changes, we're placing the G–20 at the center of the cooperative effort. After decades in which cooperation was focused on a small number of the major industrial countries, we've made the G–20 the premier forum for international economic cooperation.

We're working to strengthen the international financial institutions, so they can play a more effective role in promoting our interests in global growth and development. As part of this, we are examining a set of reforms to improve internal governance in the institutions, to provide more focus on core priorities of development, and to strengthen the financial structure of the banks.

We're supporting a set of reforms to the governance structure of the institutions to increase the rights and responsibilities of our major trading partners and the most populous, rapidly growing economies in the world.

We're working to create more effective means of cooperation on financial reforms to help prevent future financial crises. This is why we created the Financial Stability Board as a complement to the existing Bretton Woods Institutions and why we expanded this forum for cooperation on financial standards to include all the G–20 countries.

Now, these reforms to the architecture are critical to advancing U.S. interests. And as you see at the G–20, they have very broad support internationally.

I just want to highlight very quickly, Mr. Chairman, some of the major substantive priorities on the international economic agenda that we face today, although both of you highlighted all of these.

First, is to build a more stable foundation for global economic growth. As the United States saves more as a country, future growth will depend more on domestic demand outside of the United States. During his discussions this week in Singapore and China, President Obama emphasized that the United States and China must be at the center of efforts to put the global economy on a more sustainable and balanced growth path. China has to move to take steps to move away from excessive reliance on exports to domestic consumption-led growth. And, as you saw in the G–20 and in APEC, there is very broad support around the world for this view.

Second, we have to work to enact stronger global financial standards to create a more stable financial system. This is about capital requirements. It's about oversight of critical markets like derivatives. It's about reforms to help manage the failure of financial institutions that operate globally. For all reforms in the United States to be effective, they must be accompanied by stronger standards globally. Otherwise, risk will just move to countries with softer, weaker regulation.

Third, we're committed to playing a leadership role addressing global development challenges. President Obama has proposed support for a major new international initiative to strengthen food security, and, as part of this, we're establishing a multilateral food security trust fund at the World Bank to increase and improve agricultural assistance to low-income countries. Central to this will be advancing new strategies for increasing productivity in agriculture through research and development, through policy reforms, and through investment.

We have to work to address climate change. And we're working in the G–20 to do so in a way that will best promote reforms, not just in the major economies, but in the major emerging market economies. In this context, I particularly appreciate the support of this committee for the World Bank's climate investment funds along with the global environmental facility. We hope these funds can be building blocks for leveraging future U.S. climate investments.

Now, these are just some of the priorities. We're working very hard to try to help rebuild a international consensus around the world and in the United States in support of reforms to open markets for U.S. exports to strengthen the international trading system.

All these challenges require the United States to play a leading role, but we can't solve them alone. We've witnessed, in this crisis, the world come together to enact a very powerful, very effective, coordinated response to avert the worst financial crisis since the Great Depression. And I believe this extraordinary cooperation makes it more likely we're going to be able to advance these longer term reforms.

We're actively engaged now in building a 21st century architecture that will better serve future generations. We do this not just out of idealism, but because of the pragmatic and realistic calculation that our economic and national security interests are often best served through multilateral cooperation.

We look forward to working very closely with this committee on these challenges. And I look forward to answering your questions.

[The prepared statement of Secretary Geithner follows:]

PREPARED STATEMENT OF HON. TIMOTHY GEITHNER, SECRETARY OF THE TREASURY, DEPARTMENT OF TREASURY, WASHINGTON, DC

Chairman Kerry, Ranking Member Lugar, members of the Senate Foreign Relations Committee, thank you for the opportunity to testify today on the role of the Group of 20 (G–20) in the global economy.

This committee has long played a central role in strengthening America's leadership in the international financial system. This role is more important than ever at this moment when global cooperation is critical for promoting America's well-being and our national interests.

In the wake of the most severe global recession in decades, strong American growth will require stronger growth in our trading partners. Moving from a global economy based on U.S. demand to one based on global demand is critical to our domestic efforts to reduce unemployment and increase the wages of middle-class Americans.

At the start of this year, the world confronted the very real risk of a great depression, global deflation, and financial collapse. Over the past year, President Obama has worked closely with G–20 partners to adopt a forceful response to the global financial crisis. U.S. leadership and action, coupled with historic G–20 cooperation and response, has put out the financial fire and restarted growth in private activity. We are now moving from a period of rescue and repair to one of recovery. As growth strengthens and financial headwinds diminish, we will begin the essential process of restoring balance to public finances and fully removing the broad backstop still in place for credit markets.

Cooperation through the G–20 will remain essential as we start to unwind extraordinary measures and put in place the broad framework to achieve a strong, sustainable, and balanced recovery, and implement profound financial reforms at home and abroad.

After the experiences of the Great Depression and World War II, the United States led in the creation of the international financial system that anchored prosperity and stability for more than 60 years. Today, that system must be reformed to address 21st century challenges. The United States again faces an opportunity to help shape a system that ensures better economic potential for future generations in America and around the world. As this committee recognized by organizing today's hearing, the United States will be more effective in achieving our economic goals and our strategic priorities and interests when we work in partnership.

Let me briefly describe how we are working with the G–20 to advance our central objectives: rebalancing the global economy to achieve stronger and more sustainable U.S. growth goals; promoting global financial stability; and forging multilateral solutions to threats such as food insecurity, fragile states, and climate change. To achieve all of these goals, we will need to reform the global financial architecture.

REBALANCING THE GLOBAL ECONOMY TO ACHIEVE STRONG AND SUSTAINABLE GROWTH

As stabilization and recovery take hold, our policy challenge will shift to catalyzing private demand and business investment. This will require continued policy support. We cannot make the mistake of putting on the brakes too early or withdrawing support prematurely. This is why our recovery programs were designed to provide support for growth over a 2-year period, and that is why other governments around the world are committed to continue the recovery now underway, before the G–20 shifts to restraint. At the recent G–20 ministerial meeting in St. Andrews, Scotland, Finance Ministers and Central Bank Governors were united on the central point that growth remains the dominant policy imperative across our countries.

But the financial crisis also showed clearly that previous global economic patterns were unsustainable. To establish a more global foundation for growth and avert future crises of this nature, we must rebalance global demand.

As U.S. consumers save more and spend less in the years ahead, and as our government embarks on a path of fiscal responsibility, emerging markets and economies with large and sustained surpluses will need to shift their growth toward domestic demand and reduce their reliance on exports. Governments around the world will need to accept this basic reality or we will all face slower growth.

Indeed, countries are already redirecting policies along these lines. In the United States, private saving has risen and the U.S. current account deficit has fallen from over 6½ percent of GDP in late 2005 to about 3 percent of GDP at this time. We are seeing domestic demand play a stronger role in recoveries abroad and corresponding reductions in global imbalances elsewhere.

At the Pittsburgh summit, President Obama secured a commitment by G–20 leaders to adopt a Framework for Strong, Sustainable, and Balanced Growth. In St. Andrews, G–20 Finance Ministers and Central Bank Governors set out a detailed process and timeframe for achieving this goal. We asked the International Monetary Fund (IMF) to assist us in a mutual assessment process by evaluating whether policies pursued by individual G–20 countries are consistent with a more sustainable and balanced trajectory for the global economy and, if needed, recommending how policies could be adjusted to improve the global outlook.

Why is this important? In the final analysis, it is up to each of our countries to deliver the policies needed to achieve strong, sustainable, and balanced growth throughout the world. The administration will do its part and looks forward to working with Congress to put our fiscal policy on a sustainable footing when recovery is in place. But the fact that all of the G–20 countries signed up to this detailed process, recognizing that policy formulation in their countries will need to take broader global interests into account to avoid the booms and busts of the past, demonstrates the strong collective resolve to tackle global challenges with the same force that we brought to overcoming the crisis.

Let me assure you, however, that we are not laying the foundation for global rebalancing only in the context of the G–20. Even before the Pittsburgh summit, we were working hard to achieve this goal through the Strategic and Economic Dialogue (S&ED) with China and in our ongoing bilateral discussions. I have had lengthy conversations with my European colleagues about this subject, and I was just in Tokyo for bilateral discussions with the new government ahead of attending the Asia Pacific Economic Cooperation (APEC) Ministerial in Singapore, where there was broad agreement on the need to balance growth.

Open trade and investment policies will be equally important to ensuring future U.S. economic growth, prosperity, and sustainability. Trade will be critical to creating U.S. jobs and ensuring economic dynamism and vibrancy. Importantly, G–20 countries have played an active role by pledging to keep markets open, not to erect protectionist barriers, and not to retreat into financial protectionism.

Together, Congress and the administration have a critical role to play in showing the world that we are serious about critical financial reforms, strong trade and investment, and fiscal consolidation. These policy steps are essential to continuing the strong U.S. role in the global economic system, ensuring strong international confidence in U.S. economic fundamentals, and promoting our Nation's interests. By taking action at home, we must communicate our resolve to ensure that the U.S. economy remains the strongest and most innovative in the world.

Together with the other measures we are taking, these steps will help foster a sustainable global growth path and a strong U.S. economy.

PROMOTING GLOBAL FINANCIAL STABILITY

Next, alongside the growth agenda, we must build a stronger global financial system to prevent and mitigate financial instability wherever it emanates in the international system.

In the wake of the crisis, policymakers and regulators from the United States and across the globe have mounted strenuous efforts to repair financial systems. A strong and welcome consensus exists among G–20 countries on a framework and objectives for building a more stable global financial system. We have agreed on a strategy to put in place stronger constraints on risk-taking across the financial system, to bring appropriate oversight to key institutions, products and markets, such as the over-the-counter derivative markets, to reform the securities markets, and to provide the tools necessary to wind down firms that fail. All of this will make the financial system stronger and better able to withstand future pressures.

But as we saw during the financial crisis, in a world of global capital markets, even the strongest regulatory standards can be circumvented by lax oversight in other financial centers, triggering regulatory arbitrage and a race to the bottom in which everyone loses. Thus, the Obama administration believes it is in the United States interest to work with our G–20 partners and other countries to seek the adoption of high standards by all major economies.

That is why we expanded the Financial Stability Board (FSB) to include all of the G–20 countries.

That is why we are pursuing a vigorous agenda of regulatory reform internationally in parallel with our agenda at home. We are working with the G–20 to subject nonbank financial institutions, credit rating agencies, and hedge funds to greater scrutiny and advancing adherence to international standards across a number of other areas. We agreed at the Pittsburgh summit along with the G–20 countries to build high-quality capital, mitigate procyclicality in financial regulations, strengthen adherence to sound compensation practices in order to foster greater financial stability, improve the functioning of over-the-counter derivatives markets, and address cross-border resolutions and systemically important financial institutions.

The challenge each G–20 nation faces is now to implement this agenda. Here at home, we are working to enact sweeping reforms designed to protect consumers and investors and create a more stable, more resilient financial system. Working with Congress to pass legislation on comprehensive reform of our Nation's financial system is one of my highest priorities.

FORGING MULTILATERAL SOLUTIONS TO GLOBAL THREATS

Let me now shift to the third priority: working with the G–20 to forge multilateral solutions to today's global threats. From Afghanistan and Pakistan to food security and climate change, the Obama administration is committed to revitalizing the multilateral financial institutions to help tackle our toughest global challenges.

The G–20 has strongly supported the central role of the multilateral development banks (MDBs) in the fight against global poverty and as essential partners during this time of financial stress. They serve as the first responders for the global poor and provide a high return on U.S. development dollars. We estimate that for every dollar that the United States invests in the World Bank as paid in capital, $26 of aid are delivered.

As evidenced in Afghanistan, Pakistan, and Iraq—environments that are as critical as they are challenging—the multilateral development institutions play critical roles in addressing some of our most pressing problems, often working side by side with our bilateral efforts, including Treasury's Office of Technical Assistance.

Recognizing that bilateral and multilateral aid work best when they work together, it is critical to focus more attention and resources in order to achieve greater results in the following areas:

Advancing Energy and Climate Security

The President has outlined comprehensive changes in how we use energy, focusing on policies to advance energy and climate security while promoting economic recovery efforts job creation, and driving clean energy manufacturing.

U.S. domestic action, however, can only be part of the solution to our energy security and climate change challenges. We must seek a global agreement with significant action by all major economies. As part of that agreement, developing countries will need financial support to reduce their emissions and create new markets for clean energy technologies, as well as to adapt to the unavoidable effects of climate change.

Climate finance therefore will need to be scaled up significantly but we must do so in a way that is efficient and leverages U.S. investments in the arena of climate.

Because of their central role in financing and assisting countries, we have argued within the G–20 that the MDBs are uniquely positioned to play an important role in helping to transition to a green global economy.

The World Bank will specifically have a central role in contributing to financing the transition to a green economy by assisting countries in integrating climate change concerns into their core strategies. In the context of a new climate agreement, we have argued that a new climate fund should be established at an existing international financial institution to deploy financial resources effectively. We expect such a fund to build on the experience of the Climate Investment Funds (CIF) at the World Bank, which this administration has strongly supported.

While the G–20's work on climate is in its early phases, this fund can provide additional momentum to the U.N. negotiations in Copenhagen in December, as well as ensure that any agreement is implemented effectively.

At Pittsburgh, the G–20 leaders committed to phase out inefficient fossil fuel subsidies over the medium term. This groundbreaking effort will encourage the conservation of energy, improve our energy security, and provide a downpayment on our commitment to reduce greenhouse gas emissions. We believe this step will encourage investment in clean energy sources, promote green growth, and free up resources to use for pressing social needs such as health, food security, and environmental protection. We will follow through on the commitment while also preventing an adverse effect on the poorest by providing them with targeted cash transfers and other appropriate forms of support.

Enhancing Food Security

Over the past year, the global financial crisis put millions more people at risk of chronic hunger and poverty. At the G–20 summit in London, President Obama called for a new approach to food security that includes strategic coordination of assistance, investment in country-owned plans, a comprehensive approach to enhancing agricultural development, and the effective use of bilateral and multilateral institutions and facilities. In Pittsburgh, the President furthered this effort by securing agreement among G–20 leaders to establish a multilateral food security trust fund at the World Bank to scale up agricultural assistance to low-income countries. To advance these efforts, I have been working with Secretary Clinton, Secretary Vilsack, my colleagues in the G–20, the World Bank, and others to advance new strategies for agricultural investments that leverage the resources and expertise of the multilateral organizations, and support accountable, country-led strategies.

Generating Growth in the Most Challenging Environments

As the United States works to stabilize the economies of vital countries, such as Iraq, Pakistan, and Afghanistan, the MDBs have a critical role to play in offering support. From assessing needs to mobilizing donor resources and providing substantial technical and financial support, the MDBs are important partners in places of strategic interest to the United States.

For example, Pakistan—one of the largest borrowers from the Asian Development Bank—will receive nearly $1.6 billion this year and another $1.4 billion next year to finance projects in the energy, transportation, and agricultural sectors. Afghanistan, the largest recipient of grants from the Asian Development Bank, will receive half a billion dollars over 2009 and 2010. In Iraq, the World Bank is implementing programs worth $1 billion in education, roads, electricity, and water. These types of investments help governments meet fundamental human needs which, in turn, give citizens a stake in maintaining a stable political and economic environment.

Supporting Private Sector-Led Growth, Infrastructure, and Financial Access

Additional means of strengthening the potential of the global economy include supporting private sector-led growth strategies and improving access to financial services for the poor. Through the G–20, we are seeking a renewed focus from the MDBs on promoting the business and market environments, including appropriate legal reforms needed for private enterprises of all sizes to thrive. These efforts will in turn strengthen the ability of the private sector in developing countries to foster opportunities for growth.

Improving access to financial services for the poor is also a critical component of this effort. Together with our G–20 partners, the United States has agreed to support the safe and sound spread of new modes for the delivery of financial services to the poor. Also, building on the example of microfinance, the United States and its G–20 partners have asked the MDBs to scale up the successful models of small- and medium-size enterprise financing.

Furthering the Reform Agenda

We are committed to working across the Obama administration and particularly with the State Department and USAID to ensure coherence of this critical development agenda.

Achieving these objectives will require reform from the MDBs. To ensure the effectiveness of U.S. investments in development, we continue to press for institution-wide reforms. Our desired reform agenda includes greater progress on combating corruption; strengthening financial management; improving transparency, accountability, and governance; increasing the capacity to innovate and demonstrate results; dedicating a greater share of resources to the poorest; and seeking better coordination and division of labor among institutions.

Achieving these objectives may also require new resources. As this committee is aware, all of the MDBs are undergoing, or have just concluded, capital reviews as part of a broader strategic repositioning. At a time when resources are at a premium here at home, the United States is carefully reviewing all options. Additionally, to underscore our commitment to poverty reduction, the United States will want to show leadership in MDB discussions on concessional financing for the poorest. We are conducting a thorough review of how best to equip these institutions for today's and tomorrow's challenges, and look forward to working with this committee, as well as with our partners in the G–20, to reach agreement on a set of core priorities, reforms, and resources.

However, to be credible in these negotiations, we must fully honor our previous commitments, which currently surpass $1 billion. I hope this committee will support our requests to pay down our arrears.

REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Reforming the international financial architecture will be critical for advancing these priorities and the cause of multilateralism. An essential element will be to strengthen international institutions and enhance cooperation, while continuing to preserve the strong leadership role of the United States in international forums.

As we continue to shape the G–20 to serve as the premier forum for global economic cooperation, we will also deepen and not diminish engagement though bilateral means such as the S&ED and through regional groupings such as APEC and the Summit of the Americas process.

As this committee knows, the financial crisis clearly demonstrated the central role that the IMF plays in the global system as a crisis responder. Over the past year, the IMF has taken critical steps to strengthen its crisis response by improving the ways it provides needed resources to members—both emerging market and low-income countries—by streamlining conditionality in programs to focus on the most critical actions a country needs to take, and by increasing its capacity to provide precautionary support to help forestall crises, importantly through a new Flexible Credit Line.

I want to thank the chairman, ranking member, and members of this committee for your critical support for the U.S. $100 billion investment in the IMF's NAB. Rapid congressional passage of this legislation at a critical moment in the crisis enabled the United States to play a leadership role in expanding the IMF's supplemental resources through the NAB by $500 billion and restoring financial market confidence at a dark time. The commitment of G–20 members to contribute to the NAB has resulted in contributions from leading emerging economies for the first time.

Looking ahead, the IMF will have a critical role in supporting balanced growth and financial stability. I have already touched on the important assistance the IMF can provide in helping the G–20 countries with the mutual assessment of their economic policies. What we ask of the IMF, and frankly what is needed, is candid, transparent, and independent surveillance to support this process.

In order for the IMF to effectively carry out its post-crisis mandate and to continue to fulfill its role as a crisis responder, the IMF's governance structure needs to evolve to reflect the relative weights and changing dynamics of the world economy. This means giving greater representation to dynamic emerging market and developing countries that are now playing a greater role in the global economy and it also means preserving our strong leadership role in the Fund. Progress was made on this front earlier this decade and, earlier this year, Congress passed legislation to implement those necessary reforms. The G–20 took a critical step in Pittsburgh, committing to a shift in quota share of at least 5 percent to dynamic emerging market and developing countries. G–20 leaders also reaffirmed their commitment to complete the process of reviewing quotas by January 2011.

Similarly, we secured agreement among the G–20 to support a shift of at least 3 percent of the World Bank's voting power to developing and transitioning countries. We expect an international agreement to be reached on this issue in the spring of 2010 at the annual meetings of the World Bank and the IMF. We look forward to working with this committee as those reforms proceed.

CONCLUSION

Ten years ago, the Treasury Department took the lead in creating the G–20 Finance Ministers' and Central Bank Governors' process. We did so in recognition of the changing face of the global economic and financial system and the need to give dynamic emerging market economies a greater role in the system, especially in the wake of the Asia crisis. The G–20 finance process continued, on the whole successfully, during this period. It showed that our countries, despite representing a wide range of cultures, history, and developmental levels, could work together and had common interests in promoting the improved functionality of our economies. A decade later, based on this shared experience, the G–20 countries were well positioned to tackle the challenges of the crisis.

From rebalancing the global economy to preventing financial instability and addressing global threats, we must seek the engagement of partners to achieve our economic goals and objectives and serve our Nation's interests. First and foremost, we are responsible for our own destiny and our job begins at home. But in today's interdependent world, no country is isolated from global events.

The turmoil of the past 2 years has been the worst the global economy has witnessed since the 1930s, and has put the international economic system to the most severe test it has faced since then. By shifting the forum in which we addressed the crisis from a small circle of advanced nations to a broader and more representative table of the world's major economies, we strengthened the foundation for success in taking cooperative action to pull the global financial sector back from the brink.

But the job of building an effective international economic system for the 21st century is far from finished. If the United States is to succeed in building a strong economy for future generations at home and abroad, we must continue to seek the support of our global partners in the G–20 and other forums. Just as the United States led in developing the institutions of today, so must we lead in developing the future foundation for a strong, resilient, and innovative global economy.

Thank you and I look forward to your questions.

The CHAIRMAN. Well, thank you very much, Mr. Secretary, for a quick and comprehensive summary.

One of the things that struck me, as I read the leader's statement, coming out of the G–20 meeting in Pittsburgh and also looking at some of the meetings that have taken place in between, that the response to the crisis, in terms of the stimulus and the global consensus, "We've got to put the stimulus out. We've got to do this investing," was unique and powerful. And it had its impact. But, is it unfair for me to say that the talk of reform and restructuring still remains prospective, in a sense? What I keep seeing in these meetings is, "We must reform this. We've got to strengthen that. We've got to redo this." But, I don't really see that that has yet taken hold. And if so, what are we looking at?

Secretary GEITHNER. I don't think that's quite fair. I think that you can look at three areas to judge whether this consensus on reform is going to have any traction over time. You can look at what's happening on the international financial reform debate. You can see it in the governance structure of the institutions; reforms to the international financial institutions. And you can look at it in this broader framework we call "Framework on Growth."

And if you look at—in financial reforms, for example, there is very detailed negotiations going on right now, in parallel with the work of the Senate and the House, on financial reform here, on a new global accord on capital standards, on how to bring, as I said, more comprehensive oversight to derivatives markets, to the kind of markets that are critical to the way systems work today, and to try to build a framework for helping to manage future financial failures more effectively.

On the international financial institutions, we made a lot of progress on the early architecture of reforms to the governance structure to give more, as I said, voice and responsibility to the major economies.

On the Framework for Growth, you're seeing—even as the recovery takes hold, you're seeing countries put in place reforms that are going to make it more likely this recovery is more sustainable over time, is more balanced. So, just as an example, you see domestic demand in China, in Japan, many of the major emerging markets, advancing more rapidly now. You see the early shape of the recovery reflect this basic pragmatic recognition that, again, as we save more in the United States, demand is going to have to come from domestic sources elsewhere.

So, I think that what you see in the reform agenda is promising. Of course, the test is going to be on what countries actually do over time. But, I think it's very promising, and I think it reflects the basic strategic judgment, which I hope you share, which is that you need to move on the reform agenda while the memory of the crisis is still acute. If you wait too long, you won't have much support. Support will fade.

The CHAIRMAN. I agree completely with that. I'm delighted to hear that those negotiations are making progress. When would you anticipate that they would come to fruition and the structure would be laid out?

Secretary GEITHNER. On all these fronts?

The CHAIRMAN. Yes.

Secretary GEITHNER. Oh, I think it depends a little bit—I'll give you an example. On a new accord on capital requirements for financial institutions—"capital," broadly defined—more conservative liquidity management, constraints on leverage, et cetera, those things which are critical to financial reforms—we set a deadline for agreement, internationally, by the end of next year. And there's very active, detailed negotiations going on right now on the detailed elements of that framework. And our hope is that we—and we all committed to at least a notional deadline of putting in place 2 years after the initial agreement.

The CHAIRMAN. Does what we do on financial regulatory reform at the beginning of next year have an impact on that?

Secretary GEITHNER. Oh, absolutely. I think that we have to be able to set the international agenda on reforms, because we can't have a system without a level playing field, and if all we do is raise standards here, and the rest of the world operates at this standards, it will be bad of U.S. institutions, bad for stability.

For us to set that agenda, to get the world to come with us to higher standards, we have to be—show we can deliver it in the United States. We'll have no credibility if we can't deliver it in the United States. And if we—if the process moves too slowly here, we'll lose momentum internationally, and that'll be bad for our interests.

The CHAIRMAN. I've heard that the reforms with respect to pay are particularly thorny, complicated, whatever. Can you share with us some insight on that?

Secretary GEITHNER. This is a terribly important and terribly difficult issue. There's a basic consensus that we all share, which is that incentives in the financial system created by the—set by the compensation practices, made the institution more risky, help magnify the kind of vulnerabilities that led to this crisis. And to change that, we're trying to do two things. One is to promote legislation that will force companies to submit to their shareholders for a vote how they pay their senior executives. Simple principle. We think it will be very effective. But, we don't think that's enough.

We're also proposing—and you've seen the Fed propose the initial outlines of standards to this—that our supervisors set out broad standards for a compensation structure, and enforce those standards. We think these are a necessary complement of reform. They're not enough on their own, but they'll help make sure that what we do on capital and leverage—will not be undermined by future compensation practices.

We're doing all of that across the system. And, of course, as you've read, we've been very—we've been—we've worked very hard to make sure, for those institutions that took extraordinary assistance from the government—Ken Feinberg is putting in place very, very tough constraints on compensation, just to make sure that taxpayers' money is going to fix those institutions, not to reward, through excessive pay packages, a set of senior executives.

Now, on that basic framework, there is very broad support across the major financial institutions—the major financial systems in Europe, in the U.K. And that's important, because, again, without a level playing field, then these reforms will be ineffective.

The CHAIRMAN. You were just in China. The President is spending his last night there now. They've concluded the talks. How would you characterize the economic outcome with respect to our goals versus accomplishment in Beijing?

Secretary GEITHNER. I think the President made a lot of progress. I think the best test of that is going be—is just to look at what you're seeing, in terms of what China is actually doing, in terms of policies, to shift sources of future growth away from exports, the kind of heavy intensive—heavy industry, intensive—very carbon-intensive growth strategy of the past to a growth strategy that relies more on domestic consumption and investment. And, that's going to take a lot of time. It's going to take a long period of time. It's going to take a lot of reforms. But, the broad strategy of their reform agenda is very supportive of that change. And if you—again, if you look at the shape of the recovery there, you're seeing very promising early signs of shift to that.

Now, China's very important to the United States economically. We want to see more open markets in China, a more level playing field for United States companies that compete in China and compete with China around the world. And it's very important we see financial reforms, broader reforms to their exchange rate system over time that will help reinforce this process toward a more balanced global recovery. This is not just an issue between China and the United States. Important for both of us, but it's pretty important to the global economy.

And on those issues, on climate change, which you read about, on our broad national security priorities, in terms of North Korea and other areas of the world, I think we have a very strong foundation for cooperation. We're not going to agree on everything. Our interests are necessarily going to conflict in the future. But, our basic—the President's basic judgment is, we're going to be more effective at working through those problems if we invest early in a strategic relationship where there's a better mutual understanding of our basic interests and we can work more effectively to advance the things we both care so much about.

The CHAIRMAN. One final question, if my colleague would permit.

The World Bank and development banks have been strongly focused on energy poverty, and ensuring access to electricity for the world's poor. But, that has very, very often—almost always—come at the expense of very high carbon emissions. How would you recommend that the banks reconcile the need to help the world's poorest today with the threat of climate change that's obviously going to disproportionately affect the world's poor?

Secretary GEITHNER. Well, as you've seen the President lay out in the United States—and I know you were playing a leadership role in this—we're going to need to see very comprehensive changes in how countries use energy around the world. Not just here, of course. And we're behind the rest of the world—much of the rest of the world in this. But in the most populous, most rapidly growing economies in the world.

As you said, the institutions, like the World Bank, need to be working in support of those reforms to make sure that growth in those countries is more energy efficient, less energy intensive, less carbon intensive. That means that they need to be supporting reforms that encourage that shift and transition, and need to make sure that the resources they're putting at work in those countries in support of development are not working against these broader objectives to support the global consensus on addressing climate change.

But, I think you're right to emphasize it. Our judgment is there are three critical priorities that have to shape the institutions—what the institutions do. And we need much more focus on these priorities. They are climate change, the broad, green imperatives; they are food security, agricultural development, a classic, traditional emphasis development, where we lost focus as a world, and we're trying to redress that balance; and on supporting the basic institutions that are critical to private markets, private-led development strategies in these countries. Those three core programmatic priorities need to be at the center of what these institutions are doing. And we need to make sure they're doing those—not just that they're focusing on those, but they're doing those more effectively with the types of governance changes that both of you referred to.

The CHAIRMAN. Well, thank you very much, Mr. Secretary. I appreciate the succinct, direct answer.

Senator Lugar.

Senator LUGAR. Thank you, Mr. Chairman.

Secretary Geithner, let me double back to a comment I made in my opening statement in which I said I'm hopeful that, in months to come, the administration will fully engage the Congress—if it seeks substantial increases for these six banks that we have discussed. Now, without quibbling over recent history, the problem that I perceive is, the administration asked for $100 billion for the

IMF last September, for good reasons, which you could further elucidate. However, it came very late in the process of the Supplemental Appropriation Act.

Now, adding insult to injury, after the supplemental passed, someone gave the President a statement to sign with the bill that asserted the administration's discretion to disregard the few provisions added by Congress that promoted reform of the IMF. This in effect gave the administration sort of a blank slate, and while removing Congress from the equation.

This is why your appearance today is very timely. This problem occurred only 5 months ago. But, as we've been discussing today, the United States may or may not seek further increases for the banks. However, given the portfolio of six different situations, even if we decided not to seek increases for some, with others we may feel, in terms of the world financial crisis or recovery, that such increases are necessary.

Finally my hope is that with regard to the timing of the requests, even if there is a short timeframe, you and others who are responsible would approach the chairman and indicate that we don't have much time, saying that "You folks have got to have your hearings, your deliberations, make your suggestions." I think that would be a healthier process, in terms of the intergovernmental relations concerning this issue, knowing, as you know, that we are deeply interested in these banks, as you are. We bear responsibility for appropriating the money and thus really need this level of outreach. Fortunately, life goes on even after one appropriation bill by the administration won't be back again for 3 more years or so. But, even with that being said, do you have any thoughtful comment about this process and, even more importantly, about the future?

Secretary GEITHNER. Senator, let me just say clearly, I absolutely will commit, personally, to consult with the chairman and with you and with the committee before we get to the point where we are going to formally recommend to the Congress a set of broad reforms and any potential increase in resources of these institutions. And you were very gracious in the way you said what you just said. I recognize that the process, earlier this year in the IMF, was not ideal. And we had to do—move very, very quickly in the face of a, as you acknowledged, enormous delicate global financial situation. And I know it was not ideal, would not want to put you through that again. But, I just want to underscore that the actions you made possible were decisive in helping turn confidence.

If you look back and look at when confidence and global economic activity, financial markets, trade stopped falling off the cliff and started to turn, it was around when the world saw the United States acting forcefully, not just to fix our recession, our financial crisis, but to put substantial financial force behind these institutions so that they could do what they needed to do to address the crisis facing the rest of the world. It was decisive. But, I agree with you, it wasn't the ideal way to do things. And I personally commit that we will consult very closely with you before we get to the point where we want to consider any material changes in their basic financial structure.

And I completely agree with you that—and I will not support—I would not support a change in the capital base of these institutions without a fundamental reassessment of their role and without a set of reforms that give us confidence in asking you to use the taxpayers' money to support these institutions.

And I agree with you, too, that we need to look at these institutions individually. They've got different challenges on the management side. They've got different records of using our resources well. They've got different challenges and—but, it's also important to recognize that we have to look at them together. We can't come to you and say, "We'd like you to support this one this year," without, I think, having some sense of what a full package will look like. And that's what we're trying to take a careful look at now.

Senator LUGAR. Well, I appreciate that pledge very much. And, likewise, to the extent that you can furnish to us information, even prior to requests, so that we are all up to date on your appraisal of the six and their situations. I recall visiting with the leadership of the Inter-American Development Bank in support of efforts that my staff and I have made to oversee of use of funds appropriated by Congress to the bank. Now, they had the problems that I've discussed. And they came to us privately and made a pretty good statement, and then followed through. And so, I hesitate even to offer an argument of criticism today, although it was very clearly a rather large loss in their portfolio. Now, all of this occurred outside the dialogue we might have had with the administration, including anybody in the Treasury. Granted, much of it occurred in the last administration, quite apart from your watch. But, I just am grateful for this opportunity and am looking forward to seeing the relationship between you and the committee function much more transparently and efficiently so that we all have the best, most up to date information. I want to see a situation where we're not interviewing the bank presidents while Treasury is off somewhere else, and we're——

Secretary GEITHNER. I would appreciate that.

Senator LUGAR [continuing]. Simply working on the same page.

Now, let me just ask this. Given what we have just indicated, some Americans would ask, "Do we really need these international development banks anymore?" There are many important, crucial relationships being created in the G–20 among Member States who may otherwise not have chosen to work with one another so closely, granted they may be fairly fragile or new or however one wants to characterize them. The increasing importance of the G–20 leads one to question—from the U.S.'s perspective—as to if we are entering into a new era, in terms of international finance, in which these banks that comprise membership and conduct operations based largely on geographical situations make less sense? And, if so, do other nations see it that same way? Or, as you attend these conferences, do most still espouse the same status quo with regard to the banks, however well they've been run, one way or another? I ask this because a lot of our hearings that I cited were with regard to dams that never got built, roads that never happened, money that disappeared. It gave, for the first time, the free press of some emerging nations an opportunity to question their leadership as to, "Where's the money?" But, it also raised questions as to the efficacy of our surveillance of this, our oversight. So, I wonder, in the remaining minute that we have here, what is your prognosis as to the future of the maintenance of all of these institutions?

Secretary GEITHNER. Well, let me just begin by making the basic statement that even if one believes, as I do, that these institutions are critical to our interests as a country, and even if one is daunted by the enormous challenges you see around the world, in terms of poverty, development, et cetera, it's not possible, I think, for us to come to you and ask you to support resources for these institutions without being able to make a very compelling case that those resources will be used effectively and wisely, more effectively than they've been used in the past.

So, I deeply understand they're committed to—it's not enough to assert that the world faces enormous challenges. And it's not enough to assert that these institutions play a central role. We need to be able to demonstrate that there are a set of reforms in place—not just on the horizon, but in place—that give us more confidence these resources will be used effectively.

It was conventional wisdom, I think—and this has been true over time—if you look back 15 years ago, 10 years ago, I would say there was a strong view, held in many circles, that the advent of global finance and the extraordinary growth in private capital flows rendered these institutions irrelevant.

And I think one of the tragic things about this crisis, a crisis that, in many ways, as the chairman said, started here. It wasn't solely our responsibility, but we bear some responsibility for this crisis. This crisis caused enormous damage, and it would have caused much more damage if you didn't have a set of institutions like this in place that could respond very quickly to cushion the blow.

And I think if you look at, again, what's happening with food security, what needs to happen on climate change, if you look at what it takes to put in place the basic institutions around property rights and contracts, around financial systems that are necessary for private-led, market-led development strategies, I think you see a very important role for these institutions, going forward.

But, the critical test, of course, is, Can we demonstrate that these resources are going to be used carefully and effectively? I think they offer the highest return than we've seen on almost any development program of the United States over the last 65 years or so. So, I think there's a good case for that, continuing it. But, we have to meet a high bar, a high and skeptical bar, appropriately skeptical bar, if we come to you again to ask you to increase resources for these institutions.

Senator LUGAR. Well, I thank you for that answer. And as you can tell from our hearing, we're interested in following with you the nitty-gritty of what is occurring in each of the six—without a prejudgment that they should not exist, but we certainly are looking forward to better performance.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lugar.

Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here this afternoon.

Before I get to my question, relative to the topic of this hearing, you'll forgive me, since I don't get to see you on a regular basis, that I will raise another issue with you. And I know, as you've pointed out, that we have seen some stability return to our financial markets, that we're beginning to see some signs that the U.S. economy is growing. But, as you know, jobs and employment continue to be a huge issue. And one of the challenges that I'm still hearing from businesses in New Hampshire, particularly small businesses, is that they are still having a very difficult time getting access to credit.

So, I hear some reports that the administration is working on looking for other ways to help small business with credit, and I would just encourage you to continue that effort, because it continues to be a very big issue for small business. So——

Secretary GEITHNER. I agree with you. You're right. And we are—the President proposed, 3 weeks ago—we're convening a whole range of people from the broader financial community, the small business community, at the Treasury tomorrow—Karen Mills and I are doing that—to examine a range of additional ideas.

Senator SHAHEEN. Great.

Secretary GEITHNER. And you're exactly right, that even with the broad improvement in access to credit, price of credit, you've seen across the financial system, small businesses still face very tight credit terms. And there is a very strong economic case for trying to make sure that we are trying to help mitigate those financial headwinds, that kind of classic credit crunch. The recovery will be weaker if we are not successful in trying to mitigate those things. And we're working on it.

Senator SHAHEEN. Thank you. As you pointed out, if we're going to rebalance the world economy, that means we're going to have to save more and that consumption demand is going to come from other developing countries and developing parts of the world. But, I love the Ex-Im Bank's comment about this, that over 90 percent of markets are outside of the United States, and yet only 1 percent of businesses do business outside of the United States. And, clearly, we've got to change that equation.

So, as you are talking to our G–20 partners, what kinds of initiatives and efforts are you urging so that we can continue to open those other markets to American business?

Secretary GEITHNER. Well, I would focus on just two broad sets of changes. And it's a—you know, it's a very complicated set of reforms you need. One is to make sure that you're seeing, again, growth come from domestic consumption, less from exports, in the future. And that requires, again, a very substantial shift in the broad orientation of almost any economic policy in these countries. And, as you said, you know, we want to see the markets more open, too. This is a—that's a more simple, less complicated set of challenges, but it's a very important part of it.

And, I think, as you referenced—you mentioned, referencing Ex-Im. There are things we can do, too, to try to make sure that American companies have access to finance to compete in those markets, as well. And so, I think that, you know, we need to make sure that we're building support here in the United States for more open trade and so we can be credible in advancing a ambitious agenda for more open markets outside of the United States. And that's an important part of this broader effort to try to shift the source of future growth toward domestic consumption outside of the United States.

Senator SHAHEEN. You talked about financial regulatory reform as being critical, and mentioned executive compensation. What other elements would you like to see when it comes to that reform?

Secretary GEITHNER. I think the most important things are about the basic standards that determine how risky major institutions are. And that's centrally about how much capital—how much reserves, financial reserves you force them to hold against future risk. It's about forcing them to fund themselves more conservatively so they're less vulnerable to runs. It's about trying to make sure that they are less leveraged in the future. And that's something that we have to do in the United States. We have to make those standards more conservative. They need to be higher than they were. And they need to be applied across institutions that serve the basic function of banks. They may not look like banks, but if they're banks, in that basic sense, they need to be subject to those requirements. But, again, for that to work, we need to have a level playing field on capital around the world.

We actually were more conservative than most major economies, in terms of the capital requirements our banks were forced to live with. But, we did not apply those requirements to a bunch of institutions that operated, effectively, like banks—AIG, the major investment banks, whole range of other institutions. And that was a very tragic failure in regulation.

But, outside the United States, the constraints applied on banks were actually less conservative than the United States. I'll just give you an example. Our entire banking system today, including the investment banks, if you count them as banks, is about the same size as GDP—as the overall income the United States produces every year. That number is about five times GDP in the United Kingdom, about eight times GDP in Switzerland, about two to three times GDP in much of continental Europe. And that just illustrates the importance of trying to make sure you do this on a level playing field, because the system won't be stable and it won't be fair if we push requirements up higher in the United States, but don't see standards raised around the world.

Now, there are many other things that are important to do. So, all the stuff we're trying to do on derivatives, on crisis management, to be able to manage failure of these large institutions more effectively in the future, protect the taxpayers, make sure taxpayers aren't at risk in the future, those are things that require complementary reforms outside the United States, as well. So, you need to do these things in parallel.

If we do them here first and then try to get the world to come with us over time, then we're going to be less effective. So, we're trying to do it in parallel.

Senator SHAHEEN. Thank you. And, my final question, you—I think the administration has been successful in going after some of the tax havens that are in existence. And I think that has been very encouraging; the agreement with UBS and some of—the dual track that the administration is on. Can you talk about what your priorities are, going forward, for the next efforts that you see underway?

Secretary GEITHNER. Thank you very much for highlighting this. Very impressive set of changes in just a short period of time. There's been more agreements signed to deal with these problems in the last 10 months than I think were signed in the last 10 years globally. Sweeping changes. With Switzerland and the major havens coming—major—excuse me—offshore financial centers coming in from the cold, makes it much harder for those who want to remain outside. And we want to just build on this momentum. And it's very promising and very important.

Senator SHAHEEN. So, no specifics that you want to point out?

Secretary GEITHNER. Oh, I—you know, just—you'll see more of the same. We want to see more agreements on information exchange with the remaining countries that are still not moving quickly enough. And we would like them to move more quickly. And, again, we've got—I think we've got the momentum with us now. And it's been a sea change, basic regime change, globally, on this. And I think we'll make a lot more progress.

Senator SHAHEEN. So, if Senator Kaufman were here, I'm sure he would want to know if it would be helpful for us to pass the Malta treaty.

Secretary GEITHNER. I'm sure that would be helpful, and I'm sure there are many other things you can do to help reinforce the incentives countries have to try to move with us on this.

Senator SHAHEEN. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

Thank you for your service, Mr. Secretary. I really appreciate your comments referring to banks—individuals that looked like banks but weren't banks, and the disparity between the oversight and accountability in investment banking versus traditional banking.

In fact, I want to associate myself with Senator Shaheen's comments about credit, in terms of small business, in terms of American business. And I do think, because our traditional banking system is as regulated as it is, it is now constricted in the amount of credit it can extend, because of the capital requirements, loan loss reserves, et cetera. So, hopefully, as we bridge ourselves from what you referred to, which I think you're right, from a period of stability to a period of growth again, and that growth is only going to come if that traditional banking system can meet the Main Street small business requirements in the economies. That's kind of a statement, not a question, but I associate myself with what Senator Shaheen said. And I agree totally with what you said. In fact, I think if the investment banking community had been subjected to an annual audit like FDIC does, and the accountability and transparency and tier-one capital requirements at banks, that we might not have had the problem that we had. I don't know if you have a comment on that, but——

Secretary GEITHNER. I agree with you, and you said it well. But, I would note that banks weren't perfect.

Senator ISAKSON. No. No, no. I'm——

Secretary GEITHNER. Lots of banks got——

Senator ISAKSON. It was a relative statement. It was a relative statement.

Secretary GEITHNER. And there were weaknesses in supervision of banks, as well outside banks.

Senator ISAKSON. Two quick questions or observations. One is, tell me what you see this oversight of derivatives to look like.

Secretary GEITHNER. We are trying to do the following key things:

The first is to bring the standardized part of the derivatives market onto central clearinghouses. That is very important. Right now, if you're in this business, you're going to have hundreds, if not thousands, of counterparties, tens of thousands of positions. That risk is all managed bilaterally through that complicated, spaghetti-like structure of risk. It's very, very hard for you to know, in real time, what your exposure to loss would be if a major counterpart, a major firm defaults. If you move the standardized part onto clearinghouses, you reduce that very, very complicated picture to really one number. Much easier for you to assess what your exposure is, your loss is. And that, if done well—if you design the financial protections of the clearinghouse carefully, that will make the system more stable, less likely to see the kind of panic-type dynamics of contagion you saw in this crisis.

Many other things are important, too. I'd say the other most important thing is to try to make sure that the regulatory authorities responsible for market integrity, for preventing manipulation, for protecting investors—they need to make sure that they can go after practices in the derivatives market. So, they need the information and the authority and the tools to police those markets.

Those are the two—that's the simplest way to say the two important things of this. Many other things that are important, too. I think, in some ways, the most damaging failure of regulation that related to derivatives was we let a number of institutions, like the mainline insurance companies like AIG, write huge amounts of protection—insurance contracts—against a fall—the risk of a fall in house prices, for example, without adequate capital to support those. And we need to make sure they hold capital against those commitments. If we do that well, it will make the system more stable in the future.

Senator ISAKSON. Well, that was the basic genesis of the $85 billion call in September on AIG, if I'm not mistaken.

Secretary GEITHNER. AIG being one example. One of the worst examples, but not the only example——

Senator ISAKSON. Right.

Secretary GEITHNER [continuing]. Again, of firms that wrote a huge amount of commitments without capital to back them. Many of those in credit derivatives linked to the real estate market.

Senator ISAKSON. One other question. When you refer to restrictions on compensation, as I understand it, a lot of that has been not so much in the amount, but in the change for maturity over time, versus incentives for 1-year pops to get a big bonus and then you're out of there. Is that right?

Secretary GEITHNER. You got it exactly right. We don't—we do not believe, although a lot of people seem to think this would be just and fair—we do not believe it's appropriate for the government to set limits on amounts of compensation or to get involved in the detailed design of those basic questions. We think that if you—well, you understand that risk.

Senator ISAKSON. Except for longevity.

Secretary GEITHNER. But, we do think—we do think, on the structure of compensation——

Senator ISAKSON. Right.

Secretary GEITHNER [continuing]. The incentives it creates is a very appropriate role for regulation supervision, and we support that clearly. So, as you said, you want to make sure that compensation for senior executives is predominantly paid out in stock, that it vests over time, it's at risk over time, you don't have guaranteed multiyear bonuses, where you get paid independent of the performance of your firm.

Senator ISAKSON. Right.

Secretary GEITHNER. Those are very important changes, and they will align the incentives of managers and executives more with shareholders and with the system as a whole. And that is a necessary, appropriate object of government policy.

Senator ISAKSON. Do you see the threshold on that to be a TARP recipient, or do you think that should apply whether they receive TARP money or not?

Secretary GEITHNER. Those broad reforms, we think, are important across the financial system as a whole. Remember, these are institutions that operate—they play a very critical role in the economy as a whole. They inherently have a lot of risk, and the government has to have in place a set of constraints on excessive risk-taking. And if you let—if you ignore compensation, it will undermine the constraints that a capital requirement is designed to impose.

Senator ISAKSON. On that subject, and I'll conclude, you know, there are corporations that have done their best to make good efforts to be accountable on their compensation. I would encourage you to look at something that happened a few years ago at American Family Life Insurance, in Columbus, GA. Their CEO went to stockholder advice, which, at the time, he caught a great deal of flack——

Secretary GEITHNER. Right.

Senator ISAKSON [continuing]. From competitors for doing so, but, over time, if more of that had taken place, where they were engaged, the accountability basis probably would have worked out a lot better.

Secretary GEITHNER. I completely agree. And we've proposed legislation—the House has passed it—to require say on pay; require companies to submit to their shareholders for a vote——

Senator ISAKSON. It's another form of transparency that works.

Secretary GEITHNER. That is a form of—I think that can help a lot.

Senator ISAKSON. Thank you, Mr. Chairman.

Senator CARDIN. Secretary Geithner, let me follow up on the transparency issue. And let me thank you for your service and note the importance, now, of the G–20. The G–20 certainly provides additional opportunities for us, considering the expanding realities of the world economy, to deal with the management of the world economy. But, we're now dealing with countries where transparency is a lot different than it is in the United States.

Senator Lugar and I have been working to increase America's participation in the Extractive Industries Transparency Initiative to try to have the United States show leadership in this very important area where we think openness and transparency needs to be dramatically improved to help, basically, countries with minimal wealth.

I guess my question to you is, as you see the G–20 playing a more critical role, how do we deal with the transparency issues of governments that don't have a great track record in this regard?

Secretary GEITHNER. I agree with you; I agree with your emphasis on it. I think that initiative is a very valuable initiative, and I would—we would be happy to spend some time with you, thinking how we can work to make it more effective.

It's very important that, alongside that, you see institutions, like the World Bank, following the leadership of the World Bank in promoting reforms in these countries that can reduce opportunities for corruption. And that has been a—frankly, a late focus of those institutions. But, the bank is doing some very important things in those regards. We can build on that—support that. I couldn't agree more with you about the basic emphasis on it. I'd be happy to work with you on how best we can advance that.

Senator CARDIN. Well, thank you. We'll take you up on your offer on the EITI and ways that we could be helpful in dealing with international institutions to leverage their importance to transparency in the participating countries.

I'm curious as to your assessment of whether the G–20 itself would be expanded. We have complaints from emerging and developing countries as to whether there's appropriate attention in the international institutions to their needs. One of the advantages of moving to a G–20 is that it certainly reflects a much broader interest, but there will be concerns as to how rigid the G–20 will be in the future.

Secretary GEITHNER. Right. Well, you've described the basic tension exactly right, which is that, you know, if you make it universal, you won't be able to do anything. But, we've made it a valuable enough forum that people want to come, which is a good test of whether the thing is doing something consequential. We think we've got a basic, stable arrangement now which is pretty representative of the major economies around the world. And, I think we want to have some stability around that arrangement now. If we keep changing the seats at the table—expanding, changing—then, you know, you won't have the kind of continuity of engagement. It will be harder to get these things done.

So, I think that we've got something that broadly works now. It's not perfect. You know, it's got a lot of Europeans at the table, which is slightly anomalous. It's got regions that are somewhat underrepresented, in their views. So, we may find a way to change it. But, I think we need to have a period of stability now.

Senator CARDIN. Let me change the subject, if I might, and talk about a subject that we haven't had much debate on in Congress during these economic times, and that is our national savings rates. We're all interested in trying to create jobs and stimulating our economy. At the same time, we've created a log of debt and a lot of borrowing. We need to get back to policies that encourage domestic economic savings. And part of that is to get our budget into balance. I understand that. But, it also requires policies to encourage Americans to save, policies ranging from very simple things such as financial literacy to some of the recommendations that President Obama has suggested on encouraging additional savings.

I just want to get your view as to where this is on your priority order as we strengthen our economy—getting back to increasing America's savings rates.

Secretary GEITHNER. Again, you said it well, and it is the basic imperative facing our country, among many. It is encouraging to point out that you've seen private savings move from negative to somewhat modestly positive. That's very healthy. That's a necessary, healthy transition for us. At the same time, you've seen the amount we're borrowing from the rest of the world as a share of our economy fall very sharply. Our current account deficit, what measures how much we're borrowing from the rest of the world as a share of our economy, was about 7 percent of GDP at its peak; it's now under 3. That's encouraging, too. It means we're borrowing less from the rest of the world, even though we're facing these enormously high deficits. But, we're going to need to see very, very substantial changes over time in our fiscal position to make sure we go back to living within our means, that people understand that. And, as part of that, trying to find ways to encourage Americans to save more will be important.

Now, I think you're right that you can—education helps, and there are things you can do to the design of the tax incentives we create for savings that might do a better job of encouraging those savings at the margin. I think the most powerful thing that's going to affect behavior on savings in the near term is going to be just the cost of the crisis, the damage caused by a set of judgments made by many Americans that left them with, really, just too much debt. And it's going to take some time for them to reduce the amount of debt that they owe and to get their basic household budget balance sheet into a more stable foundation. That's a necessary change for us to go through. But, it does mean that we're likely to grow at a more moderate rate than we have, coming out of past recoveries. And that's one reason why this is going to feel harder for the average American, for a longer period of time.

But, I think you're also right to emphasize that part of this is going to be what the government does—what the Congress does, what the President does—in terms of moving our fiscal position back to a sustainable balance over time.

Senator CARDIN. I would just point out that when America's economy was growing at a pretty fast rate, just a few years ago, when our national savings rates were, in some quarters, negative during this big boom, Americans said, "Well, we're increasing our savings because of the equity in our homes and the value of increased retirement savings through appreciated values." Well, that's not there any longer. So, I really do think we've had, for a long period of time, a serious problem of Americans saving. The rates have been historically too low for a great economy. And I think when we get our economy back on track, we need to look for structural changes that reward savings. And we'll look forward to working with you as we try to figure out those types of fiscal policies that provide for, I think, a more balanced approach toward national savings.

Secretary GEITHNER. I completely agree with you and like the way you said it. The financial reforms that we're engaged in, working with the Congress on now, will help in that regard, because I think that they will make it less likely that Americans borrow responsibly and aren't left with debts they can't afford, obligations they don't understand. They will help reinforce this broad process of increased savings, as well. But, you're right to emphasize it.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. My pleasure. Sorry I wasn't here to recognize you, but now I'm here to formally unrecognize you. [Laughter.]

Senator Corker.

Senator CORKER. Mr. Chairman, thank you for having this hearing. And, Mr. Secretary, as always, good to see you, sir.

Secretary GEITHNER. As always——

Senator CORKER. Yes, sir.

Secretary GEITHNER [continuing]. Nice to see you.

Senator CORKER. As you can imagine, we're in some pretty intense meetings right now as we're getting ready to work a markup in our own financial regulation, and obviously—and I know there's a lot of harmonization that's been talked about, between what we do and what happens with other major economies. I know you've been working on that, and I know, obviously, we're playing the lead role. And the European Union, I guess, a lead role also. I know a number of other countries aren't playing quite as active a role. But, it seems to be sort of between the two entities there that this is happening. And I know—and this is not a dig—but, you know, we've sort of—you all's proposal has sort of put forth a semi-codification of TARP, where, in essence, there's an ability to use taxpayer moneys. And I don't want to debate that, necessarily. I know we've done it, both publicly and privately.

What are other countries doing in this regard, when it comes to resolution, or at least the UE. What are—EU—what are they thinking in this regard?

Secretary GEITHNER. Let me reassure you, as I've done in the past, that we are not proposing, and I would not support, putting in place the kind of permanent authority like what you made possible in the TARP. Would not be good for the country to do; I wouldn't support it.

The things that are very important for us to have, which we do not now have, are the authority to make sure we can——

Senator CORKER. No, no, I don't want to talk about what we're doing. I'm pretty familiar with all three proposals. What is it that Europe is doing——

Secretary GEITHNER. Yes.

Senator CORKER [continuing]. In that regard?

Secretary GEITHNER. But, I think it's relevant to this, because I think it's important for this foundation of what we want to get them to do with us.

Simple stated, we want to make sure we have the capacity to manage the failure—not preserve—manage the failure of large institutions with less cost than it takes the taxpayer, less damage to the economy. And we need to have some emergency authority to contain the risk of financial panics. Limited authority, carefully circumscribed, to make sure we can draw a circle around the fire and prevent spreading to healthy institutions. Those are the two things we did not have, coming into this crisis. It was a tragic, costly failure, as you understand well. We can't have any—no reform process will be adequate unless it gives us a carefully designed balance of authorities like that. Otherwise, the taxpayer is going to be more exposed in the future and there's going to be more risk of moral hazard. Because, in the end, if you don't have those in place, government is going to have to do what we did last fall, which caused more moral hazard, more cost to the taxpayer to put out the crisis.

Now, many other countries already have those policies in place. Very few are adequate, the way they're designed. Some are better than what we had, but not good enough. And so, we're working to make sure there are complementary changes that provide a better balance between, again, taxpayer protection, moral hazard, stability, crisis tools. And there's no system I've seen, outside of the United States, that I think is fully adequate to the challenges that we're——

Senator CORKER. So, it's not yet adequately addressed, is what——

Secretary GEITHNER. Yes. I don't think it's adequately addressed, no.

Senator CORKER. And let me say, you guys—Treasury has made improvements in what they proposed. I still think there's a pretty gaping loophole that creates a moral hazard. And I think that—and as I've said it to your Assistant Secretary, I think that's where the heavy lifting is, in figuring out how we have some degree of flexibility and not create that moral hazard.

Secretary GEITHNER. I agree with you, the way you put it. I agree with you.

Senator CORKER. But—and I know you all are still coming our way, and there's a lot more to come. And I appreciate that.

Secretary GEITHNER. You coming our way, too, a little bit? It would make it more helpful.

Senator CORKER. I'm—we're working toward that.

Resolution. The resolution piece is obviously—I think we did nothing else here. Nothing else. The most important piece we need to work on. And what are they doing in that regard? I mean, are they relying on bankruptcy courts? Are they creating a mechanism like FDICIA? Have they thought that through yet?

Secretary GEITHNER. Again, I think, my—basically they're behind even where we are today on this. In—most countries have a different regime for banks than they have for companies, because banks are different. They recognize, like we did, that it requires a different set of mechanisms. Bankruptcy, itself, for a financial system, doesn't work, because the run can happen so quickly, you don't have the time to go through that process, and there'll be no willing DIP financer to a financial institution that is mid-run. So, most of the countries recognize that basic distinction and have some basic architecture for resolution of bank-type entities. And most of those countries, like you know, operate as universal banks. So, they don't quite have the same disparity we have between institutions that are narrow banks and big holding companies built around them, or investment banks, or other large, complex institutions that are like the major globally active banks in function, but, in legal structure, are somewhat different. So, they have basic bank-like resolution architecture, in its rudimentary form. It's easier for them, in part, because they have universal banks. But, I don't think any of them really have an adequate structure.

Senator CORKER. Well, again, we're ahead there, as far as——

Secretary GEITHNER. Oh, we're not ahead yet, but I hope we'll be ahead.

Senator CORKER. As far as our thinking goes——

Secretary GEITHNER. Yes.

Senator CORKER. Right. The consumer protection piece. Has the European Union and many of the entities there actually set up a separate entity like is being proposed by the administration? I guess the—all the major bills now have that component, separate from prudential regulations.

Secretary GEITHNER. Good question. And I think it varies across all those economies. And I don't—I can't tell you exactly what looks like the best model out there. But, again, we have a challenge they don't have. Because with the Federal structure of banking in the United States, and with the great diversity of institutions that we allow, provide the consumer credit and mortgages, they have a simpler problem to solve than we do. As you know, in our country, we left that responsibility spread around at least six or seven institutions at the Federal level and 50 or more at the State level. And our judgment is that that system failed miserably, and that we're not going to have an adequate set of protections in place unless we concentrate that accountability and authority in one place, with a better set of standards. But, you know, we want to do that in a way that doesn't constrain innovation, limit choice, allows for competition. That's the hard thing to do.

Senator CORKER. Yes.

Secretary GEITHNER. Hard to get that balance right.

Senator CORKER. And I think—in a separate entity that has rulemaking and supervision and all those things, I think that's an oxymoron. I think you do—you can do that. And that's one area, I hope, that we will work hard to narrow our very, very major differences. I think that——

Secretary GEITHNER. We thought we could run them separately. Well, that didn't turn out so well for the country. And I think that if you separate rulewriting from enforcement, I think the rules are likely to be not that good, because people don't have responsibility for enforcing them. They'll be less well designed. They'll be further away from the market. And I think the basic risk is, the rules will be less effective.

Senator CORKER. And I was actually talking more about reinforcing their role in the prudential—at least in the regulated areas, in the prudential regulators that exist. I don't think we've ever had, you know, somebody that's been approved by the Senate in those positions. I think there are ways that we can get at this without weakening the safety and soundness provisions, and I hope we'll get there.

Let me ask you—let me—it sounds like there's not a lot happening, in the other countries, in the three most important areas. Let me just ask you this. Is—other than the European union, is there—are—in Latin America and other places—is there much thought being given by policymakers there to overall financial reg reform and trying to, quote, "harmonize," with some of the things we're doing here?

Secretary GEITHNER. Let—I think there is a lot of thought, and a lot of support on—particularly on the design of the capital accord, as well. But, an irony in this crisis is, because so many emerging markets had such a traumatic, wrenching financial crisis in the 1990s, they actually put in place a lot of pretty sensible reforms that made their systems much more resilient in the face of this global recession. Now, I'm not saying they are ahead of the United States, but because they had deep crises early, they made—that produced the impetus for a lot of fundamental reforms. And their systems were remarkably resilient and stable, despite the pressures of this recession.

This is really a challenge now. And the sort of frontier of thinking and reform is going to still be in the major financial centers of the world, principally the United States, Europe, and Japan.

Senator CORKER. Secretary, thank you. I tried to stick to the subject matter at hand. There's a lot I know we need to talk about, and I appreciate your testimony today.

Secretary GEITHNER. Thank you very much.

Senator CORKER. Thank you.

The CHAIRMAN. Thank you, Senator Corker.

Mr. Secretary, we'll wrap up here fairly promptly, unless colleagues have a lot more questions.

But, let me try to, if I can, just pin down a few things with respect to the new G–20 structure. I understand that the division of labor is ostensibly that the G–8 will be responsible for foreign policy and the G–20 is going to do the economic policy. But, obviously, in practice, sometimes that line is fuzzy; complicated to draw. So, who is going to decide, in practice, what issue is going to go to G–8 and what is going to go to G–20?

Secretary GEITHNER. Well, could I slightly amend what you said? On the financial area, central banks and Finance Ministries, we're still going to get together as the G–7 occasionally, and as the G–8. And you would expect us to. Because there are important things that, really, we have to keep doing together. And I think there's no reason why that would undermine the broader role we're trying to give to G–20.

The CHAIRMAN. So, the G–7 group of Finance Ministers will continue to——

Secretary GEITHNER. Yes. Now, again, we want to make sure that what we do informally in that group is contributing to and not undermining this broad shift to the G–20 as the center of gravity. But, I think there'll be an important role to be played still, on occasion, by that group of the major economies. As—you know, as you would expect they're—roughly 60 percent of global GDP, a much larger share of global financial activity—they are the major flexible exchange rates in the international financial system. The world looks to those major economies to provide a source of broad stability to the financial system. And there will be an important role that will be played in those—in that forum.

The CHAIRMAN. Are you convinced that the right parties are at the table——

Secretary GEITHNER. In the G–20?

The CHAIRMAN [continuing]. For the G–20?

Secretary GEITHNER. Well, I—again, I guess it—it's the best of the alternatives available today. It's not perfect. And again, if you looked at it today, there are things that seem somewhat anomalous. But, we can't keep reinventing it and changing it. And I think it's—again, it meets that basic pragmatic test; it's better than the alternatives.

The CHAIRMAN. So, can new countries join the G–20?

Secretary GEITHNER. You know, again, our view is that—can't make it bigger without undermining its effectiveness. And we have experimented with various ways to have observers, other people at the table, represent regional for a—that have worked relatively well. So, we'll be pragmatic in that case. But, we want to keep the core membership stable.

The CHAIRMAN. And how do you bring in to the deliberative process the big-decision concerns of folks who are outside of it who play a significant role? Take, for instance, Singapore.

Secretary GEITHNER. Right. Well, Singapore is a good example. Singapore has been at the table in these meetings, at least over the last—the ones I've been part of—representing, in effect, APEC. We've also had a representative of the African Union sitting at the table. We've been very careful to try to make sure we look for practical ways to give——

The CHAIRMAN. Sitting at the table as "plus members," or as——

Secretary GEITHNER. We don't use the word "plus," but they're sitting at the table, have an opportunity to contribute. And, let me just point out, their contributions are very valuable.

The CHAIRMAN. They're not there in the way that people complained with the G–8, for the coffee break, so to speak.

Secretary GEITHNER. No, it's a—no, it's—there from the beginning. They sit there around the table from the beginning to the end of the conversation.

The CHAIRMAN. What future economic issues would you proffer might well be taken up by the G–20 now?

Secretary GEITHNER. They're the ones you've covered. They are about the basic—how we grow as a global economy. They're about the broad trade agenda, climate change, development, financial reforms, basic architecture.

Now, that's not completely comprehensive. There are things we do occasionally, in terms of an issue you care a lot about, in terms of the financial complement to our efforts to counter nonproliferation and terrorist financing. There are lots of other issues that we can do effectively with countries that sit around that table. And we take a pragmatic test in these things, where we've got an important interest that we have to—can only advance with cooperation, we look for the fora that do the best job at building consensus.

The CHAIRMAN. Is the hosting going to rotate, just automatically, through all 20?

Secretary GEITHNER. I've forgotten what the actual rule of rotation is, but we've agreed on the next 2 years, I believe, which is enough for now.

The CHAIRMAN. Now, is there any firewall against the possibility that the entity might evolve into not just an economic entity, but into a political entity?

Secretary GEITHNER. Well, you know, these are now meetings of leaders, not just of Finance Ministers and central bank governors. So, the heads of state of these countries will decide how they want to use their time together most productively. And that balance has changed over time; I'm sure it will change in the future. But, again, if you make it too broad, there's a risk that you diffuse the basic impact of the group.

The CHAIRMAN. That's right.

Secretary GEITHNER. And, I think, for the moment, the consensus is to try to focus on the vague existential economic questions we face.

The CHAIRMAN. Yes. Now, the G–8 was made up of capitalist countries, and the G–20 has mixed economies at the table; you've got state-led capitalists and—I'm not sure you'd call them "pure," but—capitalist countries. How, in your judgment, will this forum impact the way that capitalism and globalization evolves as we go forward here in the century?

Secretary GEITHNER. Well, I think it depends, fundamentally, on how effective we are in bringing to the table not just policies that demonstrate that we are capable of running our country well, addressing the economic challenges we face—our credibility everywhere depends fundamentally on that—but also whether we can bring ideas to the table that will command broad support. We have no capacity—or very limited capacity—to compel consensus on these kind of things. Our effectiveness depends on whether we are bringing broad ideas for addressing these common challenges that other countries see in their interest to support. And on the basic shape of market-oriented economies, we are seeing very, very broad support for the kind of core economic strategies that this President has laid out for our country and globally. And I think what's really remarkable is—again, if you listen to what countries like China, like India, like Brazil are saying about their basic reform agenda—how close it is, in, sort of, basic values and judgment, to many of the things we're trying to do in the United States. Even though our situations are very different, political systems are very different.

The CHAIRMAN. And with participating members representing some of the biggest oil-producer countries, but also have some of the biggest consumers at the table——

Secretary GEITHNER. Right.

The CHAIRMAN [continuing]. Maybe that's beneficial. Maybe it isn't. I'm just trying to get a sense of, How do you anticipate successes in energy security with that mix?

Secretary GEITHNER. Well, you know, you saw the President, in Pittsburgh, get that group of countries, including Saudi Arabia, including countries that subsidize the use of energy—the cost of energy—very, very aggressively and expensively, commit to a broad commitment to phase out, over time, those types of subsidies. So, it is possible, when you get countries like that together, that you can agree to things that are—they can see to be in their collective interest, even if your starting points are very different. That's one example.

And, you know, our interests are going to diverge. It's just that we're a better chance of trying to find areas where we can work together if you sit across the table from each other and try to work through it.

The CHAIRMAN. Does the G–20 need an enforcement mechanism? Is there any discussion of that?

Secretary GEITHNER. I don't think that that's the right way to think about the G–20. You know, as we design a broad political agreement on climate change, as we design these reforms on the financial system, like on capital, there will be things we will do, in terms of commitment, monitoring, incentives for compliance enforcement, that will be appropriate to those individual policy issues. But, I don't think the G–20 should play a role, as an institution, independent of that, with legal enforcement authority.

The CHAIRMAN. Well, Mr. Secretary, I've just been informed we're going to have a vote shortly here. And so, I'm not going to prolong the proceedings. Senator Shaheen, I don't know if you had any additional questions—no additional questions.

Let me just ask, Mr. Secretary, do you have all your people in place yet?

Secretary GEITHNER. I want to thank you for moving so quickly to move out of committee a set of very important senior officials of the Treasury. And thank you for asking. There will be—you'll have the opportunity, as a Senator, to consider the President's nominations of, I think, four or five remaining senior people, and we're hopeful that that will happen——

The CHAIRMAN. Well, it's only November 2009.

Secretary GEITHNER. It's only November, and we do have a lot of time ahead of us still. But, it would be good if they were in place.

The CHAIRMAN. It's just stunning to me that it has taken so long. And I'm sure it's stunning to you, coming out of the private sector. It just—it boggles my mind.

Secretary GEITHNER. Let me tell you, they're great people, though. And I'm very lucky that we have people of this experience and talent willing to come work for the——

The CHAIRMAN. Well, I know you have very talented people coming in, and we look forward to approving them.

But, I do want to say that I think you've done an extraordinary job of responding to some of the largest economic challenges the Nation has faced in a long time, with very few appointees coming in, and that's a credit, frankly, to the professional staff and people who are there anyway. And I think you would agree with me, you've been well served in that regard.

But, I want to thank you also for your answers to questions today. I think you've been concise and precise, and I really appreciate the directness of your answers. I think it's been a very good exchange. We're very appreciative to you.

Secretary GEITHNER. Thank you very—and we look forward to continuing it.

The CHAIRMAN. Look forward to working with you.
Thank you.
And we stand adjourned.
[Whereupon, at 4:25 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. KIRSTEN E. GILLIBRAND, U.S. SENATOR FROM NEW YORK

Secretary Geithner, thank you for coming to testify before us today. The work you are doing with the G–20 is critical for the global economy, and ultimately impacts the jobs and welfare of all of our constituents and the people of other countries.

I look forward to hearing your testimony on a number of issues involved in the work of the G–20—from provisions affecting the capital reserves of financial institutions to potential restrictions on executive bonuses. I am chiefly concerned with three topics.

First, I want to focus on the impact that the new international architecture will have on the U.S. economy. The United States, with New York as its center, is and must remain the global leader in financial services. As we work to reform financial regulatory oversight in the United States, it is essential that this effort be coordinated with international reforms.

The current system represents regulations and associated regulatory bodies created over many decades that failed to reflect the emerging products, pools of capital and institutional forms. In many ways, this lack of a cohesive framework encouraged dangerous investments that ignored risk and exploited regulatory loopholes or international inconsistencies. As we institute reform, it must reflect the global nature of finance.

We must reorder and redesign our oversight bodies and laws to properly reflect a 21st century financial system. Clearly, regulatory reform must reflect a financial system that is no longer rooted in the traditional bank but is global in scale and interconnected in ways that our current regulatory framework never envisioned. It is imperative that greater regulatory oversight in the United States does not create an exodus of domestic industry to points of lower standards internationally or provide other nations with the opportunity to implement protectionist measures.

Second, I hope to hear about Iran. Though not the heart of this hearing, the G–20 has played an important role in President Obama's work on Iran—creating a united front with our allies. Moreover, the Treasury Department deserves a great deal of praise for its own targeted financial sanctions against Iranian institutions and for leading the international community to take similar steps. I support your work and look forward to working with you on these important issues.

Finally, this hearing happens to fall during President Obama's visit to China. Our relationship with China is complex. China is the largest holder of our sovereign debt. Our two countries have an enormous and growing economic relationship. The United States and China are working on a number of global issues from climate change to Iran's and North Korea's nuclear military programs.

I appreciate that in such a multifaceted relationship, it is difficult to isolate any one issue. However, it is imperative to New York and the rest of the country's manufacturers that we address the issue of China's undervalued currency. While China has made efforts to increase the flexibility of its currency and reduce its relative undervaluation against the U.S. dollar, I believe that it should take further steps to ensure the Reminbi reflects a fair and accurate valuation.

RESPONSES OF SECRETARY TIMOTHY GEITHNER TO QUESTIONS SUBMITTED BY SENATOR JOHN F. KERRY

Question. What is the impact on the United States of changing the process for selecting heads and senior leadership of all international financial institutions, as referred to in the Pittsburgh G–20 Communiqué?

Answer. We are committed to ensuring that all the international financial institutions (IFIs) are fully responsive to U.S. interests. For many years there has been a convention that the IMF would be headed by a European, a U.S. citizen would head the World Bank, and a representative from the applicable region would head the various multilateral development banks (MDBs). Many are advocating for a merit-based selection process regardless of nationality. Leadership in these institutions will be a subject of intense discussion in the period ahead and will inevitably be bound up together with broader discussions of reform. We will be sure to consult with Congress on this important issue.

Question. In considering an "open, transparent and merit-based process" for leadership selection in the international financial institutions, how is "merit-based" defined?

Answer. The IMF's Executive Board adopted a candidate profile to guide the 2007 selection of the Managing Director. This profile called for "a distinguished record in economic policymaking at senior levels," as well as other strong managerial and communication skills, ability to build consensus, and a proven understanding of the Fund.

The World Bank's Executive Directors prepared a profile in 2007 outlining the qualities a nominee for President of the World Bank should have that includes: a proven track record of leadership; experience managing large, international organizations; a familiarity with the public sector and a willingness to tackle governance reform; a firm commitment to development; a commitment to and appreciation for multilateral cooperation; and political objectivity and independence.

Question. As the United States currently has a 16.7-percent vote in the IMF, it can block approval of all measures requiring an 85-percent supermajority. How does the administration view proposals from some G–20 members for the United States to give up this effective veto at the IMF, by reducing the supermajority threshold to below 85 percent?

Answer. Changing voting majorities for key IMF decisions is not under serious consideration in the G–20. The administration is not contemplating losing the U.S. veto over certain IMF decisions.

Question. Over what specific areas does the United States have an effective veto at the IMF? In particular, how would the loss of the U.S. veto impact decisions by the IMF to sell its gold reserves or change the principles for determining distribution, valuation, method of valuation and composition of the SDR? Could this proposed change in supermajority voting percentage affect which non-Member States or nonofficial organizations can hold SDRs and under which terms and conditions?

Answer. The United States has veto power over certain decisions with a required majority of 85 percent of total voting power. These include adjustment of quota shares, gold sales, changes in fundamental principles of SDR valuation, allocation of SDRs, prescription of official holders of SDRs, and amendments to the IMF's Articles of Agreement. We are not contemplating a loss in U.S. voting power. Changes in the required majorities for the decisions described are not presently under consideration in the IMF.

The prescription of official holders of SDRs requires 85 percent of total voting power. Private sector holding of SDRs is not allowed. Changing the required majority for the prescription on official holders of SDRs is not presently under consideration in the IMF.

Question. In the Pittsburgh G–20 Communiqué, Finance Ministers were called upon to "consider how mechanisms such as temporary callable and contingent capital could be used in the future to increase MDB lending at times of crisis." Are there temporary capital measures that may be more appropriate to support the MDBs in times of financial crisis than a General Capital Increase and to what degree are these being considered by the administration?

Answer. As part of our overall review of the capital increase requests of the MDBs, Treasury is closely examining alternatives to permanent capital increases to the MDBs. These options are similar to forms of capital seen in the private sector, including preferred capital shares or subordinated debt. As with our general review of the requests, no decision has been made with regard to what may be the appropriate form of capital.

RESPONSE OF SECRETARY TIMOTHY GEITHNER TO QUESTION SUBMITTED BY SENATORS JOHN F. KERRY AND RICHARD G. LUGAR

Question. In many instances, legislation requires that the Treasury consult with Congress before proceeding with a vote or approval of a policy at the international financial institutions. Could you please outline what consultation entails? What steps will Treasury take to ensure adequate consultation is performed?

Answer. I am committed to making sure that Treasury works closely with Members of Congress and their staff to ensure that there is regular consultation in a manner that keeps Congress fully informed of Treasury activities. In the instance of legislative requirements that Treasury consult with Congress preceding a vote or approval of policy at international financial institutions, it is our practice to formally initiate this consultation process with the relevant committees.

RESPONSES OF SECRETARY TIMOTHY GEITHNER TO QUESTIONS SUBMITTED BY SENATOR RICHARD G. LUGAR

Question. Thank you for your thoughtful response to my question about the process followed for the IMF legislation which provided authorization for reforms and appropriations for a $100 billion loan. To confirm, will the administration commit to follow a regular legislative procedure for the authorization and appropriation of future funds for the international financial institutions?

Answer. I commit to consult with the committee before we get to the point where we are going to formally recommend to Congress a set of broad reforms and any potential increase in resources of these institutions. I recognize that the process earlier this year in the IMF was not ideal. We had to move very, very quickly in the face of an enormously delicate global financial situation. I want to underscore that the actions you made possible were decisive in helping turn confidence.

If you look back at when confidence and global economic activity, financial markets and trade stopped falling off the cliff and started to turn, it was around when the world saw the United States acting forcefully, not just to fix our financial crisis, but to put substantial financial force behind these IFIs so that they could do what they needed to do to address the crisis facing the global economy.

Although emergency supplemental appropriations legislation is necessary occasionally, the administration is committed to requesting anticipated program funding, such as funds for the IFIs, in the regular budget. Furthermore, I am committed to making sure that Treasury works very closely with the committee and others in Congress, when we consider future funds for the IFIs.

Question. Will the administration be requesting funds for a quota increase at the IMF as Managing Director Strauss-Kahn has indirectly requested?

Answer. In Pittsburgh, G–20 Leaders committed to a shift in IMF quota share to dynamic emerging market and developing countries of at least 5 percent from overrepresented to underrepresented countries as part of the IMF's next quota review scheduled to conclude by January 2011. We did not make any commitments regarding the size of IMF quota.

At this point, Managing Director Strauss-Kahn has not formally requested a quota increase. We will keep the committee informed as the quota reform discussion moves forward and as we develop our position.

Question. U.S. influence at the international financial institutions is important to our foreign policy. Is the administration contemplating losing the veto on certain policies at the IMF and some of the multilateral development banks?

Answer. No. We are not contemplating losing the U.S. veto over certain IFI policy decisions, which is closely tied to our financial investment in these institutions.

Question. If the United States were to lose influence, what sort of policy responses would the administration consider implementing?

Answer. U.S. influence in the IFIs depends on more than voting power. The United States maintains significant influence in the IFIs as the world's leading economy. The United States also leads by generating sound policy ideas in the IFIs and will continue to do so.

Question. The international financial institutions spend little (less than an estimated 3 percent) on monitoring, evaluation and program/project oversight capacity-building in the recipient country. In comparison, the Millennium Challenge Corporation spends 15 percent on monitoring and evaluation alone. Has the administration used leverage to call for increased oversight within the international financial institutions? What more can the international financial institutions do to ensure that projects have strong monitoring, evaluation, and oversight?

Answer. I agree that the IFIs should be doing more to effectively monitor, evaluate, and provide oversight over their projects and programs. We have been encouraging the MDBs to undertake more impact evaluations, to better measure and attribute the effects of their operations and to assess what works and what does not. In addition, we encourage the independent evaluation units to work with borrowing member countries to help build local monitoring and evaluation capacity. All the MDBs are moving in this direction.

While more needs to be done in this area, it is important to note that the MDBs actually spend more on monitoring and evaluation activities than the statistics demonstrate. MDBs fund these programs through their annual budgets, and the MDB projects themselves also allocate resources to these activities. As such, it is difficult to identify a comprehensive figure that includes all of these expenses.

Question. In the wake of the recession, the United States must be particularly judicious about spending. How would you prioritize future capital increases for the international financial institutions? Which are the best uses of U.S. taxpayer funds?

Answer. We are currently reviewing requests for capital increases at a number of the MDBs and will move forward only on commitments where we are confident that they represent the best use of U.S. taxpayer funds within the context of our overall global development goals. For example, we need to be satisfied that each MDB is fully employing its available resources efficiently and effectively and that each is committed to implementing needed reforms that will focus their missions and improve their effectiveness in accordance with the core principles I laid out at the IDB annual meetings last March. These included an increased commitment to transparency, accountability, and good corporate governance; an increased capacity to innovate and achieve demonstrable results; and greater attention to the needs of the poorest populations.

We are very mindful of the total budgetary impact of potential commitments and will be particularly sensitive to the impact of any capital commitments on our ability to ensure adequate resources for the MDBs' concessional windows. We place a high priority on these concessional windows, which support the poorest countries. I expect to finalize our decisions on capital commitments by the Bank/Fund Annual Meetings next spring.

Question. Please outline the level of U.S. arrears to the multilateral development banks. Why is it important to clear the arrears? How do the arrears affect the ability of the United States to promote change at the multilateral development banks? What is the administration's plan for clearing these arrears?

Answer. The United States has over $1 billion in unmet commitments to the MDBs, including the Global Environment Facility (GEF) and the International Fund for Agricultural Development (IFAD). The bulk of our unmet commitments are to the concessional windows, which provide grants and concessional loans to the poorest countries. Our large arrears undermine U.S. leadership at these institutions, due to significant skepticism of the willingness of the United States to deliver on any initiatives that require significant funding.

Additionally, without funding for IDA15 arrears, the United States will not be able to earn sufficient credits to meet current international debt relief commitments under the Multilateral Debt Relief Initiative (MDRI). Without full funding for arrears to the Inter-American Investment Corporation (IIC) as scheduled, the United States will fail to clear longstanding arrears and will permanently lose capital shares in the institution.

We need the support of Congress for the administration's requests to pay down existing arrears. In addition to raising awareness of the damaging effects of arrears on U.S. leadership in multilateral institutions, it is also important not to accumulate new arrears.

Question. What international financial institution legislative mandates are useful, constructive and promote the interests of the United States? Which are outdated and counterproductive?

Answer. Treasury takes very seriously its responsibility to carry out the legislative mandates that apply to U.S. participation in the six IFIs. At the same time, there are an overwhelming number of mandates—some of which are over 50 years old—that have not been reviewed by Congress for many years.

Treasury appreciates Congress' inquiry in this area and would be happy to present a catalog of these mandates and work with you toward eliminating mandates that are no longer relevant, and streamlining others to better reflect current congressional intent.

Question. Will you commit to reviewing the forthcoming Senate Foreign Relations Committee minority staff report on reform of the international financial institutions and consider integrating the key recommendations?

Answer. Yes; Treasury will review the report and consider the recommendations.

Question. The G–20 has called for a more open, transparent, and merit-based selection process for the leadership of the IMF and the World Bank. Most in Congress would like to retain U.S. leadership at the World Bank. What is the administration's position on how the merit-based selection process should be implemented? Will Americans be considered for the top leadership position in the regional development banks?

Answer. We are committed to ensuring that all the IFIs are fully responsive to U.S. interests. For many years there has been a convention that the IMF would be headed by a European, a U.S. citizen would head the World Bank, and a representative from the applicable region would head the various MDBs. Many are advocating for a merit-based selection process regardless of nationality. Leadership in these institutions will be a subject of intense discussion in the period ahead and will inevitably be bound up together with broader discussions of reform. We will be sure to consult with Congress on this important issue.

Question. The G–20 only includes one African nation: South Africa. What steps is the United States going to take to ensure that G–20 deliberations take into account the views, needs, and interests of small developing countries, particularly in sub-Saharan Africa?

Answer. As host of the G–20 summit in Pittsburgh last September, the United States invited African Union Commission Chair Jean Ping and the New Partnership for African Development Chair, Meles Zenawi (also Prime Minister of Ethiopia), to attend as observers. African Development Bank President Donald Kaberuka was also present as a member of the delegation. The Treasury Department also reached out extensively to African governments and institutions such as the African Union and the African Development Bank to get their views and recommendations as we prepared for the Pittsburgh summit.

In that spirit, Treasury officials met with the African Union Economic Commissioner in August to discuss the African Union's perspective on the financial crisis impact on Africa, and how the G–20's work might affect Africa. Treasury officials took advantage of the AGOA summit in Nairobi last August to reach out to a number of African ministers regarding G–20 plans. Two Treasury representatives participated as observers to the African Committee of Ten Finance Ministers and Central Bank Governors' July meeting in Abuja, where the agenda included developing recommendations for the Pittsburgh summit.

Our outreach to Africa continues as we further develop work coming out of the Pittsburgh summit. For example, the G–20 Financial Inclusion Experts Group is inviting non-G–20 countries to contribute to its work. Among the eight countries that will be invited are three sub-Saharan African countries that have had success in promoting financial access—for both the poor and for small- to medium-sized enterprises—and the African Development Bank will also participate in the group's inaugural meeting.

Question. Some argue that recovery from the global economic crisis must include specific measures to help poor countries, including improved market access for their products. Would you agree? They assert that the administration should consider a proposal to offer 100 percent duty-free, quota-free market access to the least-developed countries. What is your view of this proposal?

Answer. Trade can be a powerful development tool. The United States provides duty-free access to least-developed countries for 83 percent of our tariff lines under our Generalized System of Preferences (GSP) program for developing and least-developed countries, and 91 percent of our tariff lines for least-developed countries covered by African Growth and Opportunity Act and the Caribbean Basin Initiative (CBI). We are particularly open to sub-Sahara African countries—in 2007, over 98 percent of U.S. imports from AGOA-eligible countries entered the United States duty free; much of the remainder can be attributed to the fact that the preference was not claimed on otherwise eligible products.

In the Doha Round negotiations, the United States committed to providing duty-free/quota-free access for 97 percent of our tariff lines during the Hong Kong Ministerial in 2005.

Question. The G–20's London Communiqué asserts a desire to make the global economy "green, sustainable, and inclusive." What does this assertion mean in practice? How does the administration plan to further this objective, and to foster an international consensus on the functions and institutional architecture needed to implement and enforce any climate change agreements?

Answer. The Department of the Treasury believes that the United States should help lead international efforts to facilitate a transition to greener and more sustainable global economy. Given rapid economic growth in many developing countries and the resulting acceleration in their greenhouse gas emissions, it is critical that this transition include all countries, not only the most developed. This transition will require the establishment of a practical and effective international financial framework that can effectively and efficiently scale up and deliver public and private resources to help move developing countries onto more sustainable, lower emission development paths, and increase the deployment of clean energy technologies around the world. We believe that the MDBs and the GEF will have an important role to play in this framework and that some new financial arrangements may be necessary, such as the Copenhagen Green Climate Fund noted in the recently negotiated Copenhagen Accord, as well as increased attention to climate change mitigation and adaptation in core lending activities. The United States is also committed to participating in a strong fifth replenishment of the GEF, which operates the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC).

We are working to facilitate this transition through a range of important international venues, notably by participating in climate talks hosted by the United Nations Framework Convention on Climate Change (UNFCCC), as well as at the Major Economies Forum (MEF), along with Treasury's own efforts in the G–20. Since the G–20 brings together Finance Ministers from the world's largest economies, we believe that it has an important role to play in supporting the Copenhagen Accord and other economic and finance related agreements. For example, Finance Ministers are following through on the recent commitment in Pittsburgh to phase out fossil fuel subsidies, reducing global greenhouse gas emissions by up to 12 percent by 2050. We believe that working in multiple venues and drawing on the expertise of Finance Ministries will help build consensus around the necessary economic policies and financial arrangements to address climate change, as well as the broader elements of any agreement. We will also continue to consult closely with Congress to ensure that any arrangements we develop internationally are acceptable here at home.

Question. The Secretary of the Interior has expressed support for the disclosure by the United States Government of payments received from extraction from Federal lands. Would you support the United States committing to becoming an implementing country of the Extractive Industry Transparency Initiative as delineated in S. 1700, the Energy Security through Transparency Act?

Answer. Treasury has been a strong advocate of the Extractive Industry Transparency Initiative (EITI), which seeks to bring greater transparency to oil, gas, and mining revenues in resource rich countries. The United States has been a supporting country since the initiative was launched, assisting in the efforts of implementing countries through bilateral programs and, recently, our contribution to the EITI trust fund.

Question. During committee staff oversight trips to developing countries, a number of foreign government officials have lauded the efforts of Treasury's Office of Technical Assistance. They asserted that Treasury advisors provided excellent, relevant, and timely advice on issues including budget, tax, and transparency. What more could Treasury's Office of Technical Assistance do to help promote transparency and accountability in resource rich countries so that the billions earned by those countries are effectively utilized for the benefit of their citizens rather than lost to corruption and incompetence?

Answer. Thank you for passing on these appreciations of the effectiveness of Treasury Technical Assistance. Our advisors do their best to help developing and transition countries build capacity to manage public finances well. In order for Treasury Technical Assistance to do more to promote transparency and accountability in resource rich countries, these countries need to demonstrate increased commitment to reform.

Commitment to reform is the essential starting point. Unfortunately, the presence of significant natural resource revenues can undermine commitment to reform. Prospects for success are sometimes better in countries that are still in the process of developing their resource extraction industries. Ghana and Mozambique are examples of countries on the cusp of revenue windfalls where Treasury Technical Assistance has found traction with counterparts. Real commitment to reform is difficult to discern, and one looks to various signaling devices as evidence of commitment. One example is when a government embarks with conviction upon a program of institutional change such as the Extractive Industry Transparency Initiative (EITI), and makes progress in that program. As noted above, Treasury is a strong supporter of EITI.

Assuming commitment to reform, the biggest constraint to increased collaboration between Treasury Technical Assistance and resource rich countries is funding. Requests for Treasury Technical Assistance far outstrip available funds. Increased demands associated with the global financial crisis, together with reports of our effectiveness, have combined to double requests for Treasury Technical Assistance over the last year alone. We will continue to fund high-priority technical assistance activities using our available resources.

RESPONSES OF SECRETARY TIMOTHY GEITHNER TO QUESTIONS SUBMITTED BY SENATOR KIRSTEN E. GILLIBRAND

INTERNATIONAL ARCHITECTURE QUESTIONS

Question. I have heard specific concerns about position limits for commodity futures in the United States would drive business overseas and create a boon for foreign markets. Is that your view? How do we avert this important portion of the financial markets from moving overseas while trying to improve market regulation domestically?

Answer. We share the CFTC's interest in ensuring the fair, open, and efficient functioning of futures markets, and we welcome the CFTC's public dialogue on, and careful review of, the best way to oversee the derivatives markets. We continue to engage with our counterparts both bilaterally and in the G–20 to raise international standards in order to avoid regulatory arbitrage. U.S. regulators are also actively engaging with their counterparts in international standard setting bodies to raise international standards.

Question. The European Union has proposed legislation that would force U.S. alternative asset managers to domicile or open offices in Europe in order to market their funds in Europe. Given the enormous size of the U.S. alternative management industry relative to the EU, this appears to be an effort for the EU to grab market share or advantage EU-based firms. Despite requests from elected representatives and affected firms, we have seen no concrete or public actions from Treasury. Please comment as to how Treasury plans to address this protectionist action from the EU.

Answer. The hedge fund proposal is currently only in a draft form and discussions remain ongoing within the EU. As a result, there are opportunities for the United States and European Union to work together to ensure that we develop consistent standards, and we continue to actively engage with the EU on this issue. Over the past 7 years, Treasury has worked with the European Commission (EC) to bring together key regulators from both sides of the Atlantic to discuss financial market regulatory concerns at the United States-European Union Financial Markets Regulatory Dialogue (FMRD). In the most recent dialogue in October, Treasury raised its concerns with the EU's hedge funds proposal. We plan to follow up on this issue at the next FMRD in early 2010. Treasury officials have also publicly raised our concerns with this proposal in recent speeches.

Question. As we proceed in drafting legislation for financial regulatory reform, it is imperative that we look at coordinating the new regulations—eliminating loopholes, providing for global oversight and creating a level playing field. I would like to know how Treasury will work with foreign governments to achieve this end goal, especially as it pertains to assessing systemic risk, adequate capital reserves, and issues of transparency.

Answer. Maintaining a level playing field while, at the same time, closing loopholes is very important for us, as well as for all of our G–20 counterparts. The Treasury Department has worked actively with foreign counterparts since the onset of the global crisis to strengthen transparency, as well as prudential oversight, risk management, market integrity, and international cooperation.

Treasury is an active member of the Financial Stability Board (FSB), which has been coordinating the international response to the financial crisis. The FSB is well suited for this work because its membership includes finance ministries, central banks, and regulatory authorities from the G–20 countries, as well as the international standard setting bodies and IFIs. The FSB has been monitoring global implementation of the G–20 Leaders commitments, and provides an ideal venue for discussing the issues you identified.

For systemic risk, the IMF, Bank for International Settlements, and the FSB are working cooperatively to develop guidance for the assessment of systemically important institutions, markets, and instruments. The Basel Committee on Banking Supervision (BCBS) is developing tools to improve supervision in this area, and the IMF and FSB have collaborated to identify gaps in information and recommend actions to address them.

On the subject of capital, the BCBS is very aggressively moving forward with proposals to strengthen capital standards for banks, including standards for trading operations, securitization, and leverage. U.S. banking regulators are very active members of the BCBS and will continue to be deeply involved in this work.

The FSB is evaluating work by G–20 Member States, supervisors, and regulators to improve over-the-counter derivative market transparency. The FSB is also developing methods to improve global adherence to international standards and codes, which can help to level the playing field while raising the standards to which we are all subject.

IRAN QUESTIONS

Question. The Treasury Department deserves a great deal of praise for its own targeted financial sanctions against Iranian institutions and for leading the international community to take similar steps. Could you please outline the concrete steps that other nations have taken to isolate Iran's financial system?

Answer. All U.N. Member States are obligated to implement financial measures as identified by the Security Council in a series of resolutions (1737, 1747, and 1803). U.N. Member States are also required to freeze the assets of entities and individuals that have been designated under these resolutions for their involvement in Iran's nuclear and missile programs. Both the European Union and Australia have gone beyond the Security Council resolutions by imposing additional measures targeting Iranian proliferation, to include the designation of Iran's Bank Melli.

In response to the Financial Action Task Force's (FATF) warnings about the risks Iran poses to the international financial system and the FATF's calls for countries to implement effective countermeasures to protect against these risks, a number of jurisdictions have issued advisories to their financial institutions and implemented regulatory measures to ensure enhanced scrutiny of transactions with Iran. In addition to these formal government measures, we have seen many in the private sector, particularly in the international banking community, respond to the risks posed by Iran by cutting off or significantly reducing their business ties to Iran.

This combination of formal government action and voluntary decisions by the private sector to curtail Iranian business has increasingly isolated Iran from the international financial system.

Question. What additional steps are we asking our G–20 partners to take and what is the likelihood that this will occur?

Answer. Financial measures are most effective when imposed as part of a broad-based effort with the support of the largest possible international coalition; as such, we are actively engaging our G–20 partners on the importance of protecting the international financial sector from Iranian illicit conduct by minimizing ties to Iran and applying enhanced scrutiny over Iran-related transactions. Iran's financial footprint in many of these countries has shrunk in recent years, due to formal and informal actions taken by G–20 Member countries.

Treasury will continue to work closely with our partners in the G–20 to maintain awareness of the threat posed by illicit finance emanating from Iran as we work together to respond to the international financial crisis. We will continue working closely with our G–20 partners to implement targeted financial measures specified by the U.N. Security Council, and to apply countermeasures as called for by the FATF in order to safeguard the global financial system.

Question. While I am a strong believer in our dual track strategy, and the fact that this type of pressure is critical to getting Iran to negotiate on its nuclear military program, does the fact that our sanctions regime is tougher than that of other countries put U.S. financial institutions at a disadvantage?

Answer. Iran's use of its banks and the international financial system to support proliferation and terrorism poses a clear threat to the integrity of the financial system. The FATF has confirmed the risks that Iran poses to the international financial system because of its lack of an adequate antimoney laundering and counterterrorist financing regime, and has called on all jurisdictions to implement countermeasures to protect against those risks. The U.N. Security Council has sanctioned one of Iran's state-owned banks, Bank Sepah, and called upon all Member States to exercise vigilance when dealing with any of Iran's banks, particularly Banks Melli and Saderat. The broad recognition of the illicit finance risks posed by Iran has also led major banks around the world to cut off or significantly reduce their Iran-related business. This curtailing of business with Iran has helped to strengthen countries' financial systems and to ensure that they are not tainted by illicit conduct. Preserving the integrity of the financial system is to the long-run benefit of our financial institutions.

RESPONSES OF SECRETARY TIMOTHY GEITHNER TO QUESTIONS SUBMITTED BY SENATOR ROBERT P. CASEY, JR.

FOOD SECURITY

Question. The U.N. recently announced that 1 billion people, one-sixth of the world's population, go hungry. This is an unacceptable number which we, in the developed world, have the power to reduce. G–20 Leaders have reaffirmed their commitment to meeting Millennium Development Goals during the recent summits and have agreed to establish a food security trust fund at the World Bank. What is the status of the implementation of food security programs by the multilateral development banks?

Answer. The MDBs, particularly the World Bank, responded rapidly to the rise in food prices in 2008 and are increasing their levels of assistance for food security in line with the donor community as a whole. We strongly believe that multilateral institutions have a key role to play in addressing the issue of food security given their expertise, strong relationships with recipient governments, and significant financing capabilities.

The World Bank's Global Food Crisis Response Program (GFRP) is a good example of the MDBs' focus on the food security crisis. This program, established in May 2008, will provide up to $2 billion in short-term assistance to reduce the threat that high food prices and rising agricultural production and marketing costs pose to the livelihoods of the world's poor. The money is used to feed poor children and other vulnerable groups, provide for nutritional supplements to pregnant women, lactating mothers, infants and small children, meet additional expenses of food imports, or buy seeds for the new season. GFRP has approved $1,164 million for 35 countries as of October 2009, of which $799.8 million has been disbursed.

The MDBs are also strengthening their support for the investments needed to address food security in the medium and long term. The World Bank recently unveiled a new Agriculture Action Plan and announced its plans to increase its support for the agricultural sector from $4.1 billion annually in FY 2006–08 to between $6.2 and $8.3 billion annually over the FY 2010–12 period—between 13 and 17 percent of total projected World Bank commitments. The African Development Bank is developing an Agriculture strategy, slated for Board deliberation in early 2010. The emphasis will be on agricultural infrastructure and on renewable resources management (including forestry) and climate change mitigation and adaptation. The AfDB's assistance will be aligned with the Comprehensive Africa Agriculture Development Program (CAADP). During the 2010–12 period, the Bank expects lending for agriculture to comprise about 11 percent of its total lending (about $2.8 billion), mostly to support agricultural infrastructure in AfDF countries. On the strength of its Eighth Replenishment, the International Fund for Agricultural Development (IFAD) plans to implement a $3.0 billion program of work over 2010–12, focusing on rural poverty and smallholder agriculture.

Question. In your opinion, is the United States meeting its commitments to the multilateral banks in terms of food security programs?

Answer. The U.S. Global Hunger and Food Security Initiative (GHFSI), which has been developed through a collaborative interagency process, clearly identifies the need to work with and through bilateral channels and multilateral institutions to address the food security crisis.

The United States is working closely with like-minded donors including Spain and Canada, the World Bank and other development institutions such as the International Fund for Agricultural Development (IFAD), the World Food Programme and the African Development Bank to establish the trust fund called for by G–20 Leaders at their summit in Pittsburgh. As part of President Obama's pledge to seek at least $3.5 billion in agricultural development assistance for food security over 3 years, the United States intends to make a significant contribution to the trust fund. Continued U.S. leadership on the fund is critical for its success.

The trust fund, which will be administered by the World Bank and implemented by a number of development institutions including IFAD and the MDBs, will help to finance medium- and long-term food security investments and complement our bilateral food security spending. The fund will be able to invest in a variety of areas to promote food security throughout the supply chain, including rural infrastructure, input markets, social safety nets, nutrition and others. It will support country-led agricultural development plans and work in close coordination with other development partners.

RECAPITALIZATION OF MDBS AND DEBT SUSTAINABILITY

Question. We now know that the impact of the financial crisis, which started in the industrialized world, has also had a severe and alarming impact on low-income countries. According to the World Bank, an extra 55 million people will be forced into poverty this year as a result of the financial crisis. This is on top of the 130–155 million people that fell into poverty in 2008 because of rising food and fuel prices. New assistance to mitigate the effects of the financial crisis in low-income countries has largely been in the form of new loans through the World Bank or other multilateral development banks. What steps are being taken by the United States and other G–20 countries to assure that new loans to low-income countries from the IMF, World Bank, or other MDBs are not going to increase the likelihood of an unsustainable debt burden?

Answer. A vigorous crisis response on the part of the IFIs is appropriate to help mitigate the serious impacts of the crisis on the most vulnerable. However, we are also aware that risks to debt sustainability in low-income countries are increasing, as declines in GDP, exports, and government revenues have led to a deterioration of debt sustainability indicators across low-income countries. Lending by the IFIs to low-income countries is guided by the Debt Sustainability Framework (DSF). This joint World Bank-IMF framework aims to support low-income countries' efforts to achieve their development goals without creating future debt problems.

At the major MDBs, the decision on the composition of financing (the mix of grants and loans) is based on the country's risk of debt distress assessed under the DSF, with countries rated at higher risk of debt distress receiving a greater proportion of their financing as nondebt creating grants. Increased resources from the MDBs in response to crisis needs have been on the terms required by the DSF, e.g., grants-only countries have received more grants.

For low-income countries seeking IMF assistance, the IMF takes into account the risk of debt distress assessed under the DSF when determining access to IMF financing. In response to crisis, the IMF has temporarily forgiven all interest payments coming due on its concessional credit to low-income countries and committed to permanently increasing the level of concessionality of its credit to low-income countries thereafter. However, credit from the IFIs is often only a small fraction of total borrowing by low-income countries. The United States has been very active in our support for the goal of long-term debt sustainability and the importance of responsible lending for non-IFI creditors as well. We will continue working diligently on these issues through the IFIs, the Paris Club, the OECD, the G–8/G–20, and other fora.

Question. Given the limited amount of U.S. resources available for recapitalization of MDBs, grants, direct foreign assistance and debt relief obligations, what are the tradeoffs between providing nondebt creating assistance versus supporting the MDBs to provide new loans?

Answer. As your question indicates, there are several forms of nondebt creating assistance to developing countries, including grants and direct debt relief. A key tradeoff between those types of assistance and MDB capitalization is leverage. The MDBs have made substantial progress in differentiating between countries that are capable of repaying market-rate MDB lending and those that are not. While nondebt creating assistance may be more appropriate in some cases, for example, in low-income countries facing elevated risks of debt distress, when countries are capable of repaying market-rate loans, the leverage of U.S. contributions is substantially increased. For example, while each dollar the U.S. contributes to the World Bank's IDA yields 11 dollars of grants or low-interest loans to developing countries, each U.S. dollar contributed to the IBRD yields over 26 dollars of lending to developing countries.

RESPONSE OF SECRETARY TIMOTHY F. GEITHNER TO QUESTION SUBMITTED BY SENATOR ROGER F. WICKER

Question. Mr. Secretary, thousands of investors in the United States, and hundreds from my State, lost billions of dollars invested in fraudulent certificates of deposit sold by Stanford International Bank. The Antigua and Barbuda government knowingly allowed Stanford Financial to operate a fraudulent scheme there. Do you believe that the U.S. representatives to the IMF and World Bank should use its voice and vote to stop any loan for Antigua until that government cooperates in the ongoing investigation? Since you have influence over the U.S. representatives to the IMF and World Bank, will you take immediate action to communicate that the

United States will do all it possibly can to stop any loan that benefits Antigua and encourage the Antigua government to cooperate in this investigation?

Answer. While Treasury is aware that Antigua and Barbuda is in preliminary talks with the IMF on a Stand-by Arrangement, no such arrangement has been agreed to and Treasury does not expect any vote to be scheduled this year. Treasury analyzes every request for an IMF program on its economic and financial merits. Treasury's assessment would take into account its evaluation of the authorities' commitment to reform and ability to implement an IMF-supported macroeconomic stabilization program successfully. We would also urge the IMF to target improvements in Antigua and Barbuda's financial regulatory capacity as part of any program design.

Treasury is not aware of ongoing talks for immediate financial assistance between Antigua and Barbuda and the World Bank.

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