
Congressional Oversight

To underscore the role of Congress in oversight and to bolster Treasury's incentive to take its reports seriously, the Exchange Rates and International Economic Policy Coordination Act of 1988 established that "the Secretary shall appear, if requested, before both committees to provide testimony on these reports." The record of congressional follow-up is summarized in appendix table 5A.1. The banking committees have been more interested in holding hearings on the reports in some periods than in others. From 1988 to 1994, the committees convened 13 hearings, but from 1995 to 2001, the committees held no hearings specifically on the reports. Between January 2002 and June 2007, 11 follow-up hearings were held, nine by the banking committees and two by the House Ways and Means Committee. Thus, congressional committees or their subcommittees have held a combined total of 24 sets of hearings on 26 days since 1988. When the exchange rate issue was salient, committees sometimes held more than one hearing on the same report. Of the 35 reports Treasury submitted, committees held hearings on 15 of them, less than half, with the Senate Banking Committee far more active than its House counterpart.

Congressional oversight on international monetary and financial policies has been broader than simply follow-up on the Treasury reports per se. Committees also held hearings on particular issues, crises, and international organizations that were related to but went beyond the focus of the exchange rate reports. At least 22 hearings were held on the financial crises in Mexico, Asia, Russia, and Argentina. Committees also have held several additional hearings on Chinese exchange rate policy. More broadly still, Congress held at least 73 hearings during 1989–2007 that

addressed currency and exchange rate matters in significant measure as part of oversight focusing mainly on international trade, international economics, and international relations. Oversight on these related matters diverted time and energy from the exchange rate reports in both the Treasury and the Congress and accounts in part for the absence of direct follow-up on the reports during 1995–2001.

Party control of the chamber also helps to explain the hiatus in follow-up hearings during 1995–2001. Under Democratic control, Senators William Proxmire (D-WI) and Donald Riegle (D-MI) chaired the Senate Banking Committee during the early years of these reports. Republican Senators Alfonse D’Amato (R-NY) and then Phil Gramm (R-TX) succeeded them as chairmen of the banking committee in the 104th, 105th, and 106th Congresses. On the House side, Representatives Fernand St. Germain (D-RI) and Henry Gonzalez (D-TX) chaired the banking committee under Democratic control. They were replaced by Republican Representative James Leach (R-IA) in 1995 and then Representative Michael Oxley (R-OH) in 2001. The Republican chairmen in both chambers showed little interest in follow-up hearings on the exchange rate reports. Senator Paul Sarbanes (D-MD) resumed the hearings before the Senate Banking Committee when he assumed the chairmanship in the 107th Congress (2001), but the House Committee on Financial Services, as it was renamed, remained in Republican control and conducted comparatively little follow-up on the reports.

The substantive focus of these hearings evolved accordingly. During the early years, members of Congress questioned Treasury officials closely on their findings of manipulation. Their discussions sometimes appeared to be choreographed “good cop, bad cop” routines, wherein the committee members would press Treasury to in turn press the newly industrialized economies for appreciation in the expectation that the Asian press would duly report these encounters in the target countries. During the early period, Treasury officials supported the reporting and oversight process. Secretary Nicholas F. Brady and Undersecretary David C. Mulford praised the reporting process. But their successors were (considerably) less supportive. By the late 1990s, the tardiness of the report became a source of friction when Senator Sarbanes rebuked the Treasury sternly for failure to meet the statutory deadlines (US Senate 1999, 22–23).

During 2002–07, China and its exchange rate regime dominated the hearings. Members repeatedly sought explanations as to why Treasury refused to cite the country for manipulation, prodded officials for the criteria they used when deciding, and were largely unsatisfied with the responses (see the section on China in chapter 4). Thomas Mann and Norman Ornstein (2006) have prominently criticized the Republican Congress for failing to exercise oversight of the executive branch during the two terms of President George W. Bush. But on the issue of Chinese exchange rate policy, Republican and Democratic Congresses have scruti-

nized administration policy. Congress has been particularly active over the last two years.

Underscoring the concern across committee jurisdictions, the international subcommittees of the House Ways and Means, Financial Services, and Energy and Commerce Committees held a joint hearing on currency manipulation in May 2007. Multicommittee oversight can help draw linkages between trade, exchange rates, and macroeconomic policy (Destler and Henning 1989, 155–57). It is also worth noting that members and committees have exercised oversight in ways other than hearings, such as through letters and conversations between the chairmen and other members, as well as with the secretary and other Treasury officials.¹ Although it is more difficult to evaluate, nonhearing oversight can be important.

Frustrated by Treasury, Congress turned to tactics that had proved fruitful during the standoff with the Reagan administration in the mid-1980s. The hearings helped to raise public awareness and a case for action on currency manipulation. Congress used the budget process and the GAO to extract more clarity from Treasury regarding its stance on China. Furthermore, members pressed beyond reporting requirements and manipulation provisions of the 1988 Act by proposing bills to (1) restrict Treasury's discretion in these circumstances, clarify the concept of manipulation, or transfer these tasks to another agency; and (2) introduce trade measures to compensate for the undervaluation of the renminbi. Appendix table 5A.2 presents an overview of the bills submitted to the 110th Congress.² Both of these types of proposals have ratcheted up the pressure on the Paulson Treasury to drive a harder bargain with its Chinese counterparts.

Did Congress play its role in the accountability process effectively? Did it follow up promptly, ask the right questions, and deliver consequences in the instances when Treasury did not report promptly or substantively? When trade issues were prominent, particularly involving countries that manipulated their currencies, members of Congress were fairly diligent in their oversight of Treasury on exchange rates; when trade issues have not been prominent, members have largely neglected the reports. Democrats followed up more diligently than their Republican colleagues as chairmen. Members of Congress have typically been

1. See, for example, the February 9, 2007 letter from House committee chairmen (Representatives Rangel, Levin, Dingell, and Frank) to Secretary Henry Paulson urging him to address the weakness of the Japanese yen at a finance G-7 meeting. See also the December 14, 2006 letter from the chairman and ranking member of the Senate Banking Committee (Senators Dodd and Shelby) to Secretary Paulson pressing for Chinese currency reform and increased market access for American companies.

2. See also Hufbauer and Brunel (2007). For discussion of present trade politics, see Destler (2007). For earlier bills, see Hufbauer, Wong, and Sheth (2006).

reactive, rather than proactive, exhibiting the “fire alarm” rather than the “police patrol” pattern of oversight (McCubbins and Schwartz 1984, Epstein and O’Halloran 1995). They have sometimes, but not always, asked the right questions.

Congress has dropped the ball with respect to two substantive issues in particular. First, it has given far too little weight to the relative values of the key currencies (e.g., the dollar-euro rate during 1999–2000) and the value of the dollar on an effective basis. Second, its oversight of the emerging-market currencies, which are emphasized, has not given due consideration to *overvaluation* as opposed to undervaluation. The Mexican peso and Asian financial crises demonstrated that overvalued currencies also pose important risks for the US economy.

Appendix 5A

Table 5A.1 Congressional hearings on exchange rate reports, 1988–2007

No.	Date	Title	Chamber and committee	Treasury witnesses	Outside witnesses	Members attending	Subjects of questions
1	May 5, 1989	First Annual Hearing on International Economic and Exchange Rate Policy	Senate Banking, 101st Congress, 1st Session	Nicholas F. Brady, secretary; David C. Mulford, undersecretary for international affairs	None	Riegle (D-MI), Sarbanes (D-MD), Dixon (D-IL), Kerry (D-MA), Garn (R-UT), Heinz (R-PA), Bond (R-MI), Roth (R-DE), and Pressler (R-SD)	<ul style="list-style-type: none"> ▪ Jurisdiction (Super 301; GATT) ▪ Other than exchange rate manipulation ▪ Impact on agriculture ▪ Net foreign debt ▪ Antidumping actions ▪ Capital market liberalization (Japan)
2	May 12, 1989	Currency Manipulation	Senate Finance, Subcommittee on International Trade, 101st Congress, 1st Session	David C. Mulford, undersecretary	Allan I. Mendelowitz, GAO; John Williamson, IIE; and C. Fred Bergsten, IIE	Baucus (D-MT)	<ul style="list-style-type: none"> ▪ Progress on negotiations with Korea and Taiwan ▪ Integrate trade with currency negotiations? ▪ Distinction between currency undervaluation and trade barriers
3	October 31, 1989	Treasury Department's Report on International Economic and Exchange Rate Policy	House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy, 101st Congress, 1st Session	David C. Mulford, undersecretary	Manuel H. Johnson, Federal Reserve; Stephen Cooney, NAM; Robert Morris, USCIB; C. Randall Henning, IIE; Robert Solomon, Brookings; and John Williamson, IIE	Fauntroy (DC), LaFalce (D-NY), Leach (R-IA), McCandless (R-CA), Neal (D-MA), Saiki (R-HI), Ridge (R-PA), Kennedy II (D-MA), McMillen (D-MD), Hoagland (D-NE), Flake (R-AZ), and Pease (D-OH)	<ul style="list-style-type: none"> ▪ Trade deficit, budget deficit ▪ Germany's trade surplus ▪ Strong dollar policy, yen-dollar, Deutsche mark-dollar ▪ Issue Treasury obligations in other currencies? ▪ Benefits of coordinated intervention ▪ "Manipulation" of the dollar ▪ Exchange Stabilization Fund (ESF) ▪ Treasury–Federal Reserve cooperation on intervention
	November 16, 1989	Deterioration in the Current Account Balance: The Efficacy of Intervention					

Note: Hearings listed in this table are devoted in substantial measure to Treasury's exchange rate reports. Congressional committees also conducted a number of hearings that examined exchange rates and their impact on external balances and macroeconomic conditions but that did not specifically address Treasury's reports. The hearings listed here are thus a subset of a larger group that constitutes oversight of exchange rate policy broadly defined.

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Table 5A.1 Congressional hearings on exchange rate reports, 1988–2007 *(continued)*

No.	Date	Title	Chamber and committee	Treasury witnesses	Outside witnesses	Members attending	Subjects of questions
4	November 16, 1989	Review of the Treasury's Second Annual Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 101st Congress, 1st Session	David C. Mulford, undersecretary	Manuel H. Johnson, vice chairman, Federal Reserve	Sarbanes (D-MD) and Heinz (R-PA)	<ul style="list-style-type: none"> ▪ Negotiations with Korea ▪ Tie manipulation to trade talks with Korea? ▪ US, German, and Japanese interest rates ▪ Domestic inflation and dollar policy ▪ OECD versus G-7 and IMF as forums for policy coordination
5	April 19, 1990	Department of the Treasury's Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 101st Congress, 2nd Session	David C. Mulford, undersecretary	Horst Schulmann, IIF; and Edward L. Hudgins, Heritage Foundation	Sarbanes (D-MD), Heinz (R-PA), Dixon (D-IL), and Shelby (R-AL)	<ul style="list-style-type: none"> ▪ Impact of German unification ▪ Depreciation of yen ▪ Japanese capital controls ▪ Why China not cited in report ▪ Effectiveness of G-7 meetings
6	May 9, 1990	Proposed US Participation in the European Bank for Reconstruction and Development (EBRD), and Update on Exchange Rate Report ^a	House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy, 101st Congress, 2nd Session	David C. Mulford, undersecretary	None	Fauntroy (DC, chair)	<ul style="list-style-type: none"> ▪ Trade deficit ▪ Impact on jobs
7	August 14, 1990	Review of Treasury Department's Conduct of International Financial Policy	House Banking, Subcommittee on Development, Finance, Trade and Monetary Policy, 101st Congress, 2nd Session	David C. Mulford, undersecretary	Allan Mendelowitz, GAO; Alan Meltzer, Carnegie-Mellon University; Anna Schwartz, NBER; Martin Mayer; and Christopher Whalen, Whalen Co.	Gonzalez (D-TX)	<ul style="list-style-type: none"> ▪ Subsidy to Mexico through Brady Plan (zero coupon bonds) ▪ "Back-door schemes" through less developed countries' debt initiative and use of ESF ▪ Amendment to ESF statute ▪ Jurisdiction over management of foreign exchange reserves

8	May 16, 1991	Treasury Department's Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 1st Session	David C. Mulford, undersecretary	C. Fred Bergsten, IIE	Sarbanes (D-MD), Riegle (D-MI), and Dixon (D-IL)	<ul style="list-style-type: none"> ▪ Foreign versus domestic policy goals ▪ China: manipulation versus most-favored nation (MFN) status ▪ Strong dollar ▪ G-7 interest rates (especially Japan compared with the United States) ▪ Korea's and Taiwan's capital restrictions
9	November 12, 1991	Department of the Treasury's Report on International Economic and Exchange Rate Policy: 1991	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 1st Session	David C. Mulford, undersecretary	None	Sarbanes (D-MD)	<ul style="list-style-type: none"> ▪ Korea, Taiwan, China ▪ Manipulation definitional issues ▪ Global economic growth ▪ Trade deficit ▪ Europe versus the United States on trade with China
10	May 12, 1992	Treasury Report on Exchange Rates and International Monetary Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 102nd Congress, 2nd Session	David C. Mulford, undersecretary	None	Riegle (D-MI), Sarbanes (D-MD), Dixon (D-IL), Graham (D-FL), Sanford (D-NC), Wirth (D-CO), Mack (R-FL), Domenici (R-NM), and Kassebaum (R-KS)	<ul style="list-style-type: none"> ▪ Korea, Taiwan, China ▪ Trade surpluses and internal reforms ▪ Brady debt reduction ▪ Enterprise of the Americas Initiative ▪ Russia Stabilization Fund and General Arrangements to Borrow
11	May 25, 1993	Treasury Department's Biannual Report on International Economic and Exchange Rate Policy	Senate Banking, Subcommittee on International Finance and Monetary Policy, 103rd Congress, 1st Session	Lawrence H. Summers, undersecretary	None	Riegle (D-MI), Mack (R-FL), and Sasser (D-TN)	<ul style="list-style-type: none"> ▪ China: manipulation versus MFN ▪ Russia: currency board? ▪ China: Super 301 and/or Ex-Im Bank war chest? ▪ Fair Trade in Financial Services Act (Japan) ▪ Recession in Europe, Japan

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Table 5A.1 Congressional hearings on exchange rate reports, 1988–2007 *(continued)*

No.	Date	Title	Chamber and committee	Treasury witnesses	Outside witnesses	Members attending	Subjects of questions
12	May 26, 1993	Small Business and the International Economy: Conditions for Operating at Home and Abroad	House Committee on Small Business, 103rd Congress, 1st Session	Lawrence H. Summers, undersecretary	None	LaFalce (D-NY), Meyers (R-KS), Ramstad (R-MN), Poshard (D-IL), Talent (R-MO), and Huffington (R-TX)	<ul style="list-style-type: none"> ▪ Impact of exchange rate on small business exports ▪ NAFTA ▪ Export-led versus domestic demand-led growth in Japan ▪ Japanese versus US current account ▪ China: manipulation versus MFN
13	July 21, 1994	Treasury Department's Spring 1994 Report on International Economic and Exchange Rate Policy	Senate Banking, 103rd Congress, 2nd Session	Lawrence H. Summers, undersecretary	None	Riegle (D-MI), Sasser (D-TN), D'Amato (R-NY) ^b , Bond (R-MI), Mack (R-FL), Domenici (R-NM), and Sarbanes (D-MD)	<ul style="list-style-type: none"> ▪ China: manipulation versus MFN ▪ US interest rates and capital account development ▪ NAFTA ▪ Decline of yen
14	May 1, 2002	US Department of the Treasury's Report to Congress on International Economic and Exchange Rate Policy	Senate Banking, 107th Congress, 2nd Session	Paul H. O'Neill, secretary	Richard L. Trumka, AFL-CIO; Jerry J. Jasinowski, NAM; Bob Stallman, AFBF; C. Fred Bergsten, IIE; Ernest H. Preeg, Manufacturers Alliance; and Steve H. Hanke, Johns Hopkins University	Sarbanes (D-MD), Bunning (R-KY), Johnson (D-SD), Miller (D-GA), Corzine (D-NJ), Akaka (D-HI), Gramm (R-TX), and Ensign (R-NV)	<ul style="list-style-type: none"> ▪ Jobs ▪ Foreign holdings of Treasury securities ▪ Importance of the concept of the current account balance ▪ Manipulation definitional issues ▪ Dubai communiqué: need a new Plaza agreement? ▪ Domestic saving rate and capital account

15	October 1, 2003	China's Exchange Rate Regime and Its Effects on the US Economy	House Financial Services Committee, International Subcommittee, 108th Congress, 1st Session	John B. Taylor, undersecretary for international affairs	Rep. Mark Green (R-WS); Rep. Phil English (R-PA); Grant D. Aldonas, undersecretary, Department of Commerce; Franklin J. Vargo, NAM; and Morris Goldstein, IIE	King (R-NY), Biggert (R-IL), Paul (R-TX), Manzullo (R-IL), Ose (R-CA), Kennedy (R-MN), Murphy (R-PA), Barrett (R-SC), Maloney (D-NY), Sanders (D-VT), Hooley (D-OR), and Emanuel (D-IL)	<ul style="list-style-type: none"> ▪ Jobs, interest rates, consumer prices ▪ Foreign holdings of Treasury securities ▪ HR 3058 (China Act): tariffs equal to the margin of manipulation ▪ Renminbi value and US exports ▪ Timetable for floating ▪ China's capital flows
16	October 30–31, 2003	US-China Economic Relations and China's Role in the Global Economy (Panels 1 and 2)	House Ways and Means Committee, 108th Congress, 1st Session	John B. Taylor, undersecretary	Gregory N. Mankiw, CEA; Josette S. Shiner, Office of USTR; Douglas Holtz-Eakin, CBO; Loren Yager, GAO; and Robert A. Rogowski, US International Trade Commission	Thomas (R-CA), Crane (R-IL), Rangel (D-NY), Levin (D-MI), Shaw (R-FL), Houghton (R-NY), Dunn (D-AL), Tubbs-Jones (D-OH), English (R-PA), Foley (R-FL), Becerra (D-CA), Pomeroy (D-ND), and Tanner (D-TN)	<ul style="list-style-type: none"> ▪ Why no reference to Japan in report? ▪ Trade deficit ▪ Timetable for floating ▪ Foreign holdings of Treasury securities ▪ Efficacy of tariff legislation ▪ Impact of manipulation on manufacturing jobs ▪ Relationship between nominal and real rates
17	October 30, 2003	Treasury Department's Report to Congress on International Economic and Exchange Rate Policies	Senate Banking, 108th Congress, 1st Session	John W. Snow, secretary	None	Shelby (R-AL), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Sarbanes (D-MD), Dodd (D-CT), Reed (D-RI), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), Stabenow (D-MI), and Corzine (D-NJ)	<ul style="list-style-type: none"> ▪ China: interim one-off revaluation versus flexibility? ▪ Schumer-Graham proposed 27.5 percent tariff on China imports ▪ China: internal reforms ▪ Reports more prescriptive? ▪ Super 301, multilateral response (IMF, WTO)?

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Table 5A.1 Congressional hearings on exchange rate reports, 1988–2007 *(continued)*

No.	Date	Title	Chamber and committee	Treasury witnesses	Outside witnesses	Members attending	Subjects of questions
18	May 26, 2005	Report to the Congress on International Economic and Exchange Rate Policies	Senate Banking, 109th Congress, 1st Session	John W. Snow, secretary	None	Shelby (R-AL), Bennett (R-UT), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Hagel (R-NE), Sarbanes (D-MD), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), and Stabenow (D-MI)	<ul style="list-style-type: none"> ▪ Trade deficit and jobs ▪ State Department authorization bill amendments (China) ▪ Renminbi linchpin for the region? ▪ HR 782 and S 796 (to amend Tariff Act of 1930 and clarify currency manipulation in Omnibus Act of 1988)
19	May 18, 2006	International Economic and Exchange Rate Policies	Senate Banking, 109th Congress, 2nd Session	John W. Snow, secretary	None	Shelby (R-AL), Bennett (R-UT), Allard (R-CO), Bunning (R-KY), Crapo (R-ID), Dole (R-NC), Schumer (D-NY), Bayh (D-IN), Carper (D-DE), and Johnson (D-SD)	<ul style="list-style-type: none"> ▪ Trade deficit and jobs ▪ Manipulation definitional issues ▪ Fuel exporters and current account deficit ▪ Budget deficit ▪ China's internal reforms to boost domestic demand?
20	January 31, 2007	Department of Treasury Report on the International Economic and Exchange Rate Policy and US-China Strategic Economic Dialogue	Senate Banking, 110th Congress, 1st Session	Henry M. Paulson, secretary	Richard Trumka, AFL-CIO; Michael Campbell, NAM; Albert Keidel, Carnegie Endowment for International Peace; and C. Fred Bergsten, IIE	Dodd (D-CT), Shelby (R-AL), Carper (D-DE), Sununu (R-NH), Bayh (D-IN), Bunning (R-KY), Brown (D-OH), Bennett (R-UT), Reed (D-RI), and Allard (R-CO)	<ul style="list-style-type: none"> ▪ Trade deficit and jobs ▪ How to measure progress on currency issue; specific steps ▪ Chinese holding of US debt ▪ Is manipulation a subsidy? ▪ Dispute resolution at WTO ▪ Long-term structural problems in China ▪ Impact on agriculture and high-tech sectors

21	March 28, 2007	US-China Economic Relations	Senate Finance, 110th Congress, 1st Session	None	Charles Schumer (D-NY); Lindsey Graham (R-SC); Stephen Roach, Morgan Stanley; Eswar Prasad, Cornell University; Morris Goldstein, IIE; and John Makin, AEI	Baucus (D-MT), Bunning (R-KY), Stabenow (D-MI), Smith (R-OR), and Grassley (R-IA)	<ul style="list-style-type: none"> ▪ Manipulation definitional issues ▪ Liberalization of capital flows and financial-sector reforms ▪ Real effective undervaluation of renminbi ▪ IMF inaction over currencies ▪ Design of international code of conduct on exchange rate policy ▪ Lack of focus on Japan
22	May 9, 2007	Currency Manipulation and Its Effects on US Business and Workers	House Ways and Means Committee, Trade Subcommittee; House Energy and Commerce Committee, Trade Subcommittee; House Financial Services Committee, Technology Subcommittee, 110th Congress, 1st Session	Mark Sobel, deputy assistant secretary, international monetary and financial policy	Stephen Claeys, Department of Commerce; Daniel Brinza, assistant USTR; and Donald L. Evans, former secretary, Department of Commerce	Levin (D-MI), Rush (D-IL), Gutierrez (D-IL), Ryan (R-OH), Heger (R-CA), Stearns (R-FL), Sherman (D-CA), and Brady (R-TX)	<ul style="list-style-type: none"> ▪ IMF to improve exchange rate surveillance ▪ Use annual review process in the WTO to address manipulation ▪ Is manipulation a subsidy? ▪ China's domestic effects from undervalued renminbi ▪ Manipulation definitional issues ▪ China's broader financial reforms ▪ Jurisdiction within administration
23	May 23, 2007	US Economic Relations with China	Senate Banking, Subcommittee on Security and International Trade and Finances, 110th Congress, 1st Session	None	Morris Goldstein, IIE; Robert S. Nichols, Financial Services Forum; David Hartquist, China Currency Coalition; Patrick A. Mulloy, George Mason University; and John W. Nolan, Steel Dynamics, Inc.	Bayh (D-IN), Bunning (R-KY), and Casey (D-PA)	<ul style="list-style-type: none"> ▪ Impact on manufacturing sector ▪ Impact of Chinese practices on other East Asian countries ▪ Is manipulation a subsidy? ▪ WTO, IMF, or unilateral approach to manipulation? ▪ Manipulation versus misalignment ▪ Chinese foreign direct investment and portfolio investment in the United States ▪ Domestic demand in China

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Table 5A.1 Congressional hearings on exchange rate reports, 1988–2007 *(continued)*

No.	Date	Title	Chamber and committee	Treasury witnesses	Outside witnesses	Members attending	Subjects of questions
24	June 20, 2007	The State of the International Financial Services System	House Financial Services Committee, 110th Congress, 1st Session	Henry M. Paulson, secretary	None	Frank (D-MA), Bachus (R-AL), Gutierrez (D-IL), Paul (R-TX), Maloney (D-NY), Waters (D-CA), Royce (R-CA), Shays (R-CA), Ackerman (D-NY), Campbell (R-CA), D. Moore (D-KS), Garrett (R-NJ), Watt (D-NC), Bachman (R-MN), Green (D-TX), G. Moore (D-WI), and Davis (D-TN)	<ul style="list-style-type: none"> ▪ China's capital controls and financial sector liberalization ▪ Manipulation of renminbi and definitional issues ▪ Costs versus benefits of trade remedies against manipulation ▪ Decline of the dollar ▪ US versus foreign saving rates ▪ Foreign national and China's holdings of US debt

a. Devoted mostly to discussion of the EBRD.

b. Senator D'Amato did not appear but submitted a prepared statement.

Table 5A.2 Exchange rate bills submitted to the 110th Congress, 1st Session, January–December 2007

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
1	Dodd (D-CT), Shelby (R-AL), Bayh (D-IN), Bunning (R-KY), Carper (D-DE), Brown (D-OH), Casey (D-PA), and Stabenow (D-MI)	S 1677	June 12, 2007	Senate Banking	<p>Title: Currency Reform and Financial Markets Access Act of 2007</p> <p>Synopsis: To recognize and remedy currency manipulation by China and other countries, promotes Treasury's role in enhancing the competitiveness of US financial services firms.</p> <p>Reporting requirements: Requires the Treasury to submit a detailed plan of action to the Congress within 30 days of a finding of manipulation; requires the Treasury to annually monitor and report to the Senate Banking and the House Financial Services Committees on market access barriers for US financial services firms, to identify challenges, and to develop plans to address those barriers; requires the Treasury's initial report to include the status of the US-China Strategic Economic Dialogue (SED) as it relates to financial services firms. This would become the only congressionally required report on the progress of the SED.</p> <p>Manipulation: Clarifies the definition to identify countries that have both a material global current account surplus and a significant bilateral trade surplus with the United States and that have engaged in prolonged, one-way intervention as currency manipulators. Abandons intent as material to the finding of manipulation.</p> <p>Sanctions: Requires Treasury to file a World Trade Organization (WTO) Article XV case if manipulation is not remedied within 300 days; the Treasury must immediately seek International Monetary Fund (IMF) consultations when manipulation is found; and requires Treasury to use its voice and vote at the IMF accordingly. President can waive requirement to pursue WTO case if vital economic and security interests are threatened.</p> <p>Comment: (1) Provides for an expedited joint resolution of disapproval by Congress, led by either the Senate Banking or House Financial Services Committee, when Treasury declines to cite manipulation; (2) Alternates the secretary's testimony on reports between the House Financial Services and Senate Banking Committees.</p>

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Table 5A.2 Exchange rate bills submitted to the 110th Congress, 1st Session, January–December 2007 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
2	Baucus (D-MT), Grassley (R-IA), Schumer (D-NY), Graham (R-SC), and others	S 1607	June 13, 2007	Senate Finance	<p>Title: Currency Exchange Rate Oversight Reform Act of 2007</p> <p>Synopsis: To provide for identification of misaligned currency, require action to correct the misalignment, and for other purposes.</p> <p>Reporting requirements: Creates a new body, an Advisory Committee on International Exchange Rate Policy, with which Treasury must consult during the development of its report.</p> <p>Manipulation: Two categories of currencies: (1) a general category of “fundamentally misaligned currencies,” and (2) a select category of currencies for “priority action” whose misalignments are caused by policy actions of the issuing government.</p> <p>Sanctions: (1) Immediately upon designating a currency as fundamentally misaligned, the Treasury shall initiate bilateral consultations to redress. For currencies designated for priority action, Treasury shall also seek the advice of the IMF and the support of third governments and shall oppose changes in IMF governance that benefit the designated country. (2) If the government issuing a currency for priority action has not adopted remedial measures within 90 days, the following measures shall be taken: (a) reflect currency undervaluation in dumping calculations for products of the designated country, (b) forbid federal procurement of its goods and services (unless the country concerned is a member of the WTO Agreement on Government Procurement), (c) request the IMF to engage the country in special consultations, (d) forbid Overseas Private Investment Corporation financing or insurance projects for the country, and (e) oppose new multilateral bank financing for projects. (3) After 360 days: (a) US Trade Representative (USTR) shall request consultations with the issuing government in the WTO and (b) the Treasury shall consult with the Federal Reserve, other monetary authorities, and the IMF on remedial intervention.</p> <p>Comment: (1) The president could waive countermeasures for inaction, with justification, if they would harm US national security or the vital economic interest; however, Congress can disapprove the waiver; (2) The banking and finance committees of both houses could hold hearings on the exchange rate reports with the secretary; (3) Would repeal the exchange rate provisions of the 1988 Act, replace them, and eliminate the word “manipulation.”</p>

3	Bunning (R-KY), Bayh (D-IN), Casey (D-PA), Levin (D-MI), Snowe (R-ME), and Stabenow (D-MI)	S 796	March 7, 2007	Senate Finance	Comment: The same as HR 782.
4	Dorgan (D-ND), Brown (D-OH), and Graham (R-SC)	S 571	February 13, 2007	Senate Finance	<p>Title: None provided</p> <p>Synopsis: To withdraw normal trade relations treatment from, and apply certain provisions of title IV of the Trade Act of 1974 to, the products of China.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: No change.</p> <p>Sanctions: Proposes a withdrawal of normal trade relations treatment from China.</p> <p>Comment: Normal trade relations treatment may be extended to products of China only in accordance with the provisions of sections 401 to 409 of the Trade Act of 1974.</p>
5	Rockefeller (D-WV)	S 364	January 23, 2007	Senate Finance	<p>Title: Strengthening America's Trade Laws Act</p> <p>Synopsis: A bill to strengthen United States trade laws and for other purposes.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: Title III, section 302: treatment of exchange rate manipulation as countervailable subsidy under title VII of the Tariff Act of 1930; section 771 of the Tariff Act of 1930 is amended to include the definition of exchange rate manipulation.</p> <p>Sanctions: Exchange rate manipulation therefore pursuant to dispute settlement in WTO, amendments to which are proposed in title I of the law, inter alia containing establishment of a congressional advisory commission on WTO dispute settlement.</p> <p>Comment: Title II modifies criteria for designating and revoking the nonmarket economy country status. A country found to be engaged in exchange rate manipulation may have status of a market economy, a nonmarket economy, or a combination thereof.</p>
6	Stabenow (D-MI)	S 1021	March 28, 2007	Senate Finance	<p>Title: Japan Currency Manipulation Act</p> <p>Synopsis: To address the exchange rate misalignment of the Japanese yen with respect to the US dollar, and for other purposes.</p> <p>Reporting requirements: Every 180 days, the Secretary of the Treasury shall submit a report on currency intervention by the government of Japan</p>

(table continues next page)

Table 5A.2 Exchange rate bills submitted to the 110th Congress, 1st Session, January–December 2007 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
6 <i>(cont'd)</i>					<p>with respect to the dollar and other currencies since 2000, and on any efforts to create exchange rate misalignment since March 2004; for each incident described in the report, a justification should be provided for lack of activity mandated under (1) Exchange Rates and International Economic Policy Act of 1988, (2) title III of the Trade Act of 1974, and (3) section 2102(c) of the Bipartisan Trade Promotion Authority Act of 2002; every 180 days, the secretary shall report to the Senate Finance Committee and House Ways and Means Committee on progress toward decreasing and eliminating the misalignment of the yen with respect to the dollar.</p> <p>Manipulation: “Exchange rate misalignment” means the undervaluation of the yen as a result of the protracted large-scale currency intervention by or at the direction of the government of Japan.</p> <p>Sanctions: Secretary, in consultation with the Council of Economic Advisors, shall initiate consultation with the government of Japan; call for the special meeting at the IMF; in case of intervention, the Secretary shall take immediate action unilaterally, bilaterally, or multilaterally.</p> <p>Comment: Proposal for a joint United States–European Union plan to address the misalignment of the yen, by raising the issue at each meeting of G-7 finance ministers and G-7 leaders until the misalignment is removed.</p>
7	Stabenow (D-MI), Graham (R-SC), and Levin (D-MI)	S 445	January 31, 2007	Senate Finance	<p>Title: Trade Prosecutor Act</p> <p>Synopsis: To establish the position of trade enforcement officer (TEO) and a Trade Enforcement Division in the Office of the USTR, to require identification of trade enforcement priorities, and for other purposes.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: Citing the country as a manipulator under section 3005 of the Omnibus Trade and Competitiveness Act of 1988 qualifies as a priority foreign country trade practice to be addressed by the TEO.</p> <p>Sanctions: TEO to seek satisfactory resolution with the country or countries engaging in manipulation under the auspices of the WTO, pursuant to a bilateral or regional trade agreement to which the United States is a party or by any other means. A satisfactory resolution may include elimination of manipulation or providing for compensatory benefits.</p>
8	Camp (R-MI) and Jones (D-OH)	HR 1278	January 3, 2007	House Ways and Means	Comment: The same as S 445.

9	Davis (D-AL) and English (R-PA)	HR 1229	February 27, 2007	House Ways and Means	<p>Title: Nonmarket Economy Trade Remedy Act of 2007</p> <p>Synopsis: To amend title VII of the Tariff Act of 1930 so that the provisions relating to countervailing duties apply to nonmarket-economy countries, and for other purposes.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: No change.</p> <p>Sanctions: Section 701 of the Tariff Act of 1930 is amended to make nonmarket economies acceptable for countervailing duty cases; section 771 is amended to allow the use of alternative methodologies for administrative authority to calculate the benefits conferred with respect to countervailable subsidies in China; if conditions prevailing in China are not available as appropriate benchmarks, conditions and terms outside China (those of the WTO) are to be used.</p> <p>Comment: Provides that a determination by the administration to revoke a country's nonmarket economy status must be approved by Congress in the form of a joint resolution, to be considered under expedited procedure and without opportunity for amendment; requires the US International Trade Commission to conduct a study of Chinese government intervention practices and to update the report annually until 2017.</p>
10	English (R-PA), Hayes (R-NC), and Reynolds (R-NY)	HR 321	January 9, 2007	House Ways and Means	<p>Title: Currency Harmonization Initiative Through Neutralizing Action Act of 2005</p> <p>Synopsis: To require the secretary of the Treasury to analyze and report on the exchange rate policies of China and to require that additional tariffs be imposed on China's products on the basis of the rate of manipulation of the rate of exchange between the renminbi and the US dollar.</p> <p>Reporting requirements: Annual report by the Treasury to House Ways and Means and Senate Finance Committees about the exchange rate policies of China.</p> <p>Manipulation: No change.</p> <p>Sanctions: Manipulation-neutralizing tariffs (above).</p>
11	Kaptur (D-OH)	HR 1958	April 19, 2007	House Ways and Means	<p>Comment: The same as S 571.</p>
12	Ryan (D-OH), Hunter (R-CA), and 31 other cosponsors	HR 782	January 31, 2007	House Ways and Means	<p>Title: Fair Currency Act of 2007</p> <p>Synopsis: To amend title VII of the Tariff Act of 1930 to make exchange rate misalignment by any foreign nation a countervailable export subsidy, to apply countervailing duties to nonmarket economies, to amend the Exchange Rates and International Economic Policy Coordination Act of 1988 to clarify the definition of manipulation, and for other purposes.</p>

(table continues next page)

Table 5A.2 Exchange rate bills submitted to the 110th Congress, 1st Session, January–December 2007 *(continued)*

No.	Sponsors	Bill no.	Date introduced	Committee of jurisdiction	Substantive measures
12 <i>(cont'd)</i>					<p>Reporting requirements: Modest change, inclusion of “fundamental misalignment” definition.</p> <p>Manipulation: Adds the concept of “fundamental misalignment,” defining it as a “material sustained disparity between the observed levels of an effective exchange rate for a currency and the corresponding levels of an effective exchange rate for that currency that would be consistent with fundamental macroeconomic conditions based on a generally accepted economic rationale.” Treasury would negotiate with countries that manipulate or have fundamentally misaligned currencies.</p> <p>Sanctions: Fundamental misalignment would become countervailable under Title VII of the Tariff Act of 1930; misalignment is to be considered with respect to market disruption under chapter 2 of title IV of the Trade Act of 1974; officials must oppose changes to the governance of international financial institutions that benefit a country whose currency is designated as manipulated.</p>
13	Ryan (D-OH), Hunter (R-CA), and 64 other cosponsors	HR 2942	June 28, 2007	House Ways and Means	<p>Title: Currency Reform for Fair Trade Act of 2007</p> <p>Synopsis: A bill to provide for identification of misaligned currency, require action to correct misalignment, and for other purposes.</p> <p>Reporting requirements: Modest change, inclusion of “fundamental misalignment” definition</p> <p>Manipulation: Substitutes the concept of “fundamental misalignment,” defining it as a “situation in which a country’s prevailing real effective exchange rate is undervalued relative to the country’s equilibrium real effective exchange rate, and the Secretary determines that the amount of the undervaluation exceeds 5 percent and has consistently exceeded 5 percent in the 18-month period preceding the date of the calculation of the amount of the undervaluation.” Treasury would designate misaligned currencies for priority action if they satisfy certain criteria, including intervention.</p> <p>Sanctions: Fundamental misalignment under this definition becomes countervailable under title VII of the Tariff Act of 1930; the margin of undervaluation could be included in the calculation of antidumping duties; would provide for countervailing duties against nonmarket economies; USTR to request consultations in the WTO; opposes any international financial institution governance changes that benefit a designated country, among other countermeasures.</p> <p>Comment: Establishes an Advisory Committee on International Exchange Rate Policy.</p>

14	Spratt (D-SC) and Myrick (R-NC)	HR 1002	February 12, 2007	House Ways and Means	<p>Title: None provided</p> <p>Synopsis: To authorize appropriate action if the negotiations with China regarding its undervalued currency and currency manipulation are not successful.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: No change.</p> <p>Sanctions: Imposes an additional duty rate of 27.5 percent ad valorem on any article imported into the United States that is the growth, product, or manufacture of China unless the president certifies to Congress that (1) China is no longer manipulating the exchange rate between its currency and the US dollar in order to prevent an effective balance of payments and gain an unfair international trade advantage; and (2) China's currency is valued in accordance with accepted market-based trading policies.</p> <p>Comment: Directs the secretary of the Treasury to begin negotiations with China for adoption of a market-based currency valuation system.</p>
15	Tancredo (R-CO)	HR 571	January 18, 2007	House Ways and Means	<p>Title: None provided</p> <p>Synopsis: To require additional tariffs be imposed on products of any nonmarket economy country until the president certifies to Congress that the country is a market economy, and to direct the secretary of the Treasury to deposit the amounts generated from those tariffs into the Social Security trust funds.</p> <p>Reporting requirements: No change.</p> <p>Manipulation: No change.</p> <p>Sanctions: Imposes additional tariffs on any article that is the growth, product, or manufacture of a nonmarket economy country and is imported directly or indirectly into the United States: (1) a rate of duty of 5 percent ad valorem during the first year, and (2) additional duty of 1 percent ad valorem in each succeeding year.</p> <p>Comment: "Nonmarket country" applies to Albania, Armenia, Azerbaijan, Belarus, Cambodia, China, Georgia, Kyrgyzstan, Laos, Moldova, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Vietnam, Cuba, and North Korea; and any other country the president determines is a nonmarket country as defined in section 771 of the Tariff Act of 1930; China shall not be construed to include Taiwan.</p>
16	Knollenberg (R-MI)	HR 2886	June 27, 2007	House Ways and Means, House Financial Services	<p>Comment: The same as S 1021.</p>

