

CONFERENCE REPORT ON H.R. 4328,  
DEPARTMENT OF TRANSPORTATION  
AND RELATED AGENCIES APPROPRIATIONS ACT, 1999

SPEECH OF

**HON. MARSHALL "MARK" SANFORD**

OF SOUTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, October 20, 1998*

Mr. SANFORD. Mr. Speaker, I rise in opposition to this bill for a number of different reasons. Fundamentally, I rise because this Omnibus Bill validates the idea that we are running surpluses in Washington, when in fact, by any normal accounting standards, we are not. This year we will borrow \$100 billion from the Social Security Trust Fund that will, in turn, yield what Washington calls a surplus. This bill will take \$20 billion, one-third of that "protected surplus" and spend it, and yet doing so would break the President's commitment to saving every dime of the surplus for Social Security. If Congress is unwilling to pass the tax cut, and I took the President at his word because we want to save this so-called surplus for Social Security, how can we possibly take that money and spend it? I do not think we can and that is fundamentally why we should vote against this bill.

It, as well, establishes a horrible precedence of going over budget. When people back home write an overdraft on their checking account, they have to pay the finance costs. They are normal repercussions for families or businesses when they exceed a budget, and yet Congress just creates a new category called Emergency Spending and says, "Oops," and moves on. \$20 billion is hardly an "oops" by the definition passed to me from people along the coast of South Carolina. Even what has been thrown into this emergency category is a stretch by any imagination. The Inman Report, in 1985, listed 126 embassy facilities that should be improved to thwart attack. Forty buildings were improved upon, the rest were left as they are. While the attacks this year in Africa were tragic, they were hardly an emergency in that the possibility has been talked about for over 13 years. Similarly, the Y2K problem, of which billions are in this bill, is certainly a great problem, but not an emergency. CONNIE MORELLA and STEPHEN HORN have held numerous hearings on the Y2K problem facing this Nation. There are other examples like that, and in fact, within the embassy section \$100 million is there for a Capitol Hill Visitor Center. The Capitol Hill Visitors Center has been the subject of much debate over the last 2 years. How a topic of conversation for 10 years becomes an emergency, I do not quite understand.

Finally, this bill offers sham offsets and sham reforms that I do not think pass the litmus test of common sense. The offsets are peculiar. For instance, in this bill, the Federal Government takes over the pension fund liabilities of the District of Columbia. The District of Columbia now invests in conventional investments like stock and bonds, and will take those assets, sell them in the marketplace and use that money to pay for current spending and call that an offset. Meanwhile, we ignore the fact that the pension one day will have to be paid as people retire. That is not really an offset, that is picking up a liability and yet we call it "offset" in this bill.

Similarly with the IMF, while it has a real expenditure of \$18 billion, which I think is basically disguised foreign aid, its reforms are no more than fig leaves in substance. We had a very small amendment that would simply list IMF expenditure like every other expenditure in the Federal Government. My own leadership, for some odd reason, yielded to the views of the Executive Branch and prevented this reform. I think it makes sense because right now if the Federal Government buys 100 thousand acres of land in Wyoming or buys a new Federal building, it is viewed as an expense. However, if we invest \$18 billion in the IMF, it is viewed as picking up an asset as we pick up the drawing rights. Most people I know would much rather have as collateral 100 thousand acres in Wyoming or the Federal building in Georgia than drawing rights for a loan made to the Soviet Union. In fact, the last \$4 billion the IMF sent to the Soviet Union, by all accounts, has been squandered. There are other reasons this bill does not make a lot of sense. Particularly, the fact that we are not seeing what we are voting on. The idea of voting for something you can't see is, I think, a particular disservice to your constituents that you represent in Washington and I think it is a gross act of mismanagement to fund a third of all government spending in a process that is jammed into a 2 or 3 week time frame. I don't know of any businesses that could survive if they operated in this fashion.

For these reasons, it's validating a surplus when we do not have one, setting a precedent of going over budget, incorrectly defining non-emergency spending as emergency, and its sham offsets say to me that a "no" vote is a vote that makes common sense. It is also one that does not rob from the Social Security Trust Fund, which I thought was something that the Democrats and the President were serious about.

IN MEMORY OF EBEN TISDALE

**HON. ANNA G. ESHOO**

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 21, 1998*

Ms. ESHOO. Mr. Speaker, I rise today before the House to celebrate the life of a most distinguished citizen and incomparable professional, Eben Tisdale, who passed away on October 18, 1998.

Eben Tisdale was the dean of high technology advocates in Washington, D.C. He served as Hewlett Packard Company's Government Relations Director in Washington, D.C. since 1984, and is credited with giving the industry a needed daily presence on Capitol Hill. Tisdale joined Hewlett Packard following five years as Vice President of the Scientific Apparatus Makers Association in Washington, D.C.

In the 1970's, Eben helped create the Semiconductor Industry Association and the Electronics Association of California. He is also credited with convincing the high technology industry that it needed to establish a strong presence in Washington, D.C.

Eben Tisdale was a mentor for countless individuals associated with high technology issues in Washington, D.C. today. Eben was in a class by himself—a top professional, an excellent strategist, a loyal friend and a first-

rate human being. He is survived by his wife Ann, a son Anthony and a daughter Jessica.

Mr. Speaker, I ask all my colleagues in the House of Representatives to join me in expressing condolences to Eben Tisdale's family, and to commemorate his extraordinary service and contributions to the well being of our nation.

GEORGE SOROS DISCUSSES THE  
INTERNATIONAL FINANCIAL SYSTEM  
AT BANKING COMMITTEE  
HEARING—U.S. ACTION AND ASSISTANCE IS ESSENTIAL

**HON. TOM LANTOS**

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 21, 1998*

Mr. LANTOS. Mr. Speaker, last night this House approved the Omnibus Appropriations Act which included funding for the International Monetary Fund (IMF). Earlier this month, the IMF and the World Bank held their annual meetings here in Washington, D.C., against a backdrop of international financial turmoil and serious concern about the economies of a number of key countries in the world and about the ability of the international financial system to deal with the crisis. The IMF has not been successful in resolving the economic problems in East Asia and in Russia thus far.

Just a few weeks ago, Mr. Speaker, George Soros, the international financial genius, appeared before the House Banking Committee to issue a somber warning to the Congress of the United States—Unless Congress is willing to support the IMF and take supportive action in dealing with the faltering international financial system, the disintegration of the global capitalist system will have dire consequences for the United States economy because we are at the center of that system. We cannot by and do nothing while other countries face economic crisis.

The instability and enormous losses that have been suffered on Wall Street in the past few weeks are just the latest indications of the scope and gravity of this crisis. While this initial impact upon our own country has been limited so far to our financial markets, the consequences of further deterioration would be felt throughout our economy with consequences that would be felt by all Americans.

Mr. Speaker, George Soros told the Banking Committee that the Congress has an extraordinary responsibility and obligation to assure the success and the continued viability of the IMF and the international financial system. Mr. Soros also told the Committee that "I am convinced that the attitude of the Congress was already an important element in the failure to deal with Russia" with all of the serious consequences that could bring.

Mr. Speaker, I regret that there was destructive dithering and dallying on the part of the leadership of the Congress earlier this year, but I welcome the fact that the essential funding for the IMF was included in the Omnibus Appropriations legislation that we adopted last night. This important reversal in policy is in no small part due to the thoughtful and weighty arguments that George Soros advanced in testimony he presented at the Banking Committee hearing a few weeks ago.

I ask, Mr. Speaker, that Mr. Soros testimony before the House Banking Committee be placed in the RECORD, and I urge my colleagues in the House to give it the thoughtful consideration that it clearly deserves. The matters that he discussed, which are of great significance for all of us in this body, have not been resolved. Further important decisions await the Congress, and George Soros' thoughts are important for all of us as we consider our nation's economic future.

TESTIMONY OF GEORGE SOROS—COMMITTEE ON BANKING AND FINANCIAL SERVICES, SEPTEMBER 15, 1998

This hearing is very timely because the global capitalist system which has been responsible for the remarkable prosperity of this country in the last decade is coming apart at the seams. The current decline in the US stock market is only a symptom, and a belated symptom at that, of the more profound problems that are afflicting the world economy. Some Asian stock markets have suffered worse declines than the Wall Street crash of 1929 and in addition their currencies have also fallen to a fraction of what their value was when they were tied to the US dollar. The financial collapse in Asia was followed by an economic collapse. In Indonesia, for instance, most of the gains in living standards that accumulated during 30 years of Suharto's regime have disappeared. Modern buildings, factories and infrastructure remain, but so does a population that has been uprooted from its rural origins. The Japanese banking system is in deep trouble. The world's second largest economy just reported an annualized 3.3% decline in economic activity for the second quarter. Currently Russia has undergone a total financial meltdown. It is a scary spectacle and it will have incalculable human and political consequences. The contagion has now also spread to Latin America.

It would be regrettable if we remained complacent just because most of the trouble is occurring beyond our borders. We are all part of the global capitalist system which is characterized not only by free trade but more specifically by the free movement of capital. The system is very favorable to financial capital which is free to pick and choose where to go and it has led to the rapid growth of global financial markets. It can be envisaged as a gigantic circulatory system, sucking up capital into the financial markets and institutions at the center and then pumping it out to the periphery either directly in the form of credits and portfolio investments, or indirectly through multinational corporations.

Until the Thai crisis in July 1997 the center was both sucking in and pumping out money vigorously, financial markets were growing in size and importance and countries at the periphery could obtain an ample supply of capital from the center by opening up their capital markets. There was a global boom in which the emerging markets fared especially well. At one point in 1994 more than half the total inflow into US mutual funds went into emerging market funds.

The Asian crisis reversed the direction of the flow. Capital started fleeing the periphery. At first, the reversal benefitted the financial markets at the center. The U.S. economy was just on the verge of overheating and the Federal Reserve was contemplating raising the discount rate. The Asian crisis rendered such a move inadvisable and the stock market took heart. The economy enjoyed the best of all possible worlds with cheap imports keeping domestic inflationary pressures in check and the stock market made new highs. The buoyancy at the center raised hopes that the periphery may also re-

cover and between February and April of this year most Asian markets recovered roughly half their previous losses measured in local currencies. That was a classic bear market rally.

There comes a point when distress at the periphery cannot be good for the center. I believe that we have reached that point with the meltdown in Russia. I am not making any predictions about the stock market, but I am ready to assert that we have reached that point. I have three main reasons for saying so.

One is that the Russian meltdown has revealed certain flaws in the international banking system which had been previously disregarded. In addition to their exposure on their own balance sheets, banks engage in swaps, forward transactions and derivative trades among each other and with their clients. These transactions do not show up in the balance sheets of the banks. They are constantly marked to market, that is to say, they are constantly revalued and any difference between cost and market made up by cash transfers. This is supposed to eliminate the risk of any default. Swap, forward and derivative markets are very large and the margins razor thin; that is to say, the value of the underlying amounts is a manifold multiple of the capital employed in the business. The transactions form a daisy chain with many intermediaries and each intermediary has an obligation to his counterparties without knowing who else is involved. The exposure to individual counterparties is limited by setting credit lines.

The sophisticated system received a bad jolt when the Russian banking system collapsed. Russian banks defaulted on their obligations, but the Western banks remained on the hook to their own clients. No way was found to offset the obligations of one bank against those of another. Many hedge funds and other speculative accounts sustained large enough losses that they had to be liquidated. Normal spreads were disrupted and professionals who arbitrage between various derivatives, i.e.: trade one derivative against another, also sustained large losses. A similar situation arose shortly thereafter when Malaysia deliberately shut down its financial markets to foreigners but the Singapore Monetary Authority in cooperation with other central banks took prompt action. Outstanding contracts were netted out and the losses were shared. A potential systematic failure was avoided.

These events led most market participants to reduce their exposure all round. Banks are frantically trying to limit their exposure, deleverage, and reduce risk. Bank stocks have plummeted. A global credit crunch is in the making. It is already restricting the flow of funds to the periphery, but it has also begun to affect the availability of credit in the domestic economy. The junk bond market, for instance has already shut down.

This brings me to my second point. The pain at the periphery has become so intense that individual countries have begun to opt out of the global capitalist system, or simply fall by the wayside. First Indonesia, then Russia have suffered a pretty complete breakdown but what has happened in Malaysia and to a lesser extent in Hong Kong is in some ways even more ominous. The collapse in Indonesia and Russia was unintended, but Malaysia opted out deliberately. It managed to inflict considerable damage on foreign investors and speculators and it managed to obtain some temporary relief, if not for the economy, then at least for the rulers of the country. The relief comes from being able to lower interest rates and to pump up the stock market by isolating the country from the outside world and squeezing short sell-

ers. The relief is bound to be temporary because the borders are porous and money will leave the country illegally; the effect on the economy will be disastrous but the local capitalists who are associated with the regime will be able to salvage their businesses unless the regime itself is toppled. The measures taken by Malaysia will hurt the other countries which are trying to keep their financial markets open because it will encourage the flight of capital. In this respect Malaysia has embarked on a beggar-thy-neighbor policy. If this makes Malaysia look good in comparison with its neighbors, the policy may easily find imitators, making it harder for others to keep their markets open.

The third major factor working for the disintegration of the global capitalist system is the evident inability of the international monetary authorities to hold it together. IMF programs do not seem to be working; in addition, the IMF has run out of money. The response of the G7 governments to the Russia crisis was woefully inadequate, and the loss of control was quite scary. Financial markets are rather peculiar in this respect: they resent any kind of government interference but they hold a belief deep down that if conditions get really rough the authorities will step in. This belief has now been shaken.

These three factors are working together to reinforce the reverse flow of capital from the periphery to the center. The initial shock caused by the meltdown in Russia is liable to wear off, but the strain on the periphery is liable to continue. The flight of capital has now spread to Brazil and if Brazil goes, Argentina will be endangered. There is general panic in Latin America. Forecasts for global economic growth are being steadily scaled down and I expect they will end up in negative territory. If and when the decline spreads to our economy, we may become much less willing to accept the imports which are necessary to feed the reverse flow of capital and the breakdown in the global financial system may be accompanied by a breakdown in international free trade.

This course of events can be prevented only by the intervention of the international financial authorities. The prospects are dim, because the G7 governments have just failed to intervene in Russia, but the consequences of that failure may serve as a wake-up call. There is an urgent need to rethink and reform the global capitalist system. As the Russian example has shown, the problems will become progressively more intractable the longer they are allowed to fester.

The rethinking must start with the recognition that financial markets are inherently unstable. The global capitalist system is based on the belief that financial markets, left to their own devices, tend towards equilibrium. They are supposed to move like a pendulum: they may be dislocated by external forces, so-called exogenous shocks, but they will seek to return to the equilibrium position. This belief is false. Financial markets are given to excesses and if a boom/bust sequence progresses beyond a certain point it will never revert to where it came from. Instead of acting like a pendulum financial markets have recently acted more like a wrecking ball, knocking over one economy after another.

There is much talk about imposing market discipline but, imposing market discipline means imposing instability, and how much instability can society take? Market discipline needs to be supplemented by another discipline: maintaining stability in financial markets ought to be the objective of public policy. This is the general principle that I should like to propose.

Despite the prevailing belief in free markets this principle has already been accepted and implemented on a national scale. We

have the Federal Reserve and other financial authorities whose mandate is to prevent a breakdown in our domestic financial markets and if necessary act as lenders of last resort. I am confident that they are capable of carrying out their mandate. But we are sadly lacking in the appropriate financial authorities in the international arena. We have the Bretton Woods institutions—the IMF and the World Bank—which have tried valiantly to adapt themselves to rapidly changing circumstances. Admittedly the IMF programs have not been successful in the current global financial crisis; its mission and its methods of operation need to be reconsidered. I believe additional institutions may be necessary. At the beginning of this year I proposed establishing an International Credit Insurance Corporation, but at that time it was not yet clear that the reverse flow of capital would become such a serious problem and my proposal fell flat. I believe its time has now come. We shall have to establish some kind of international supervision over the national supervisory authorities. We shall also have to reconsider the workings of the international banking system and the functioning of the swap and derivative markets.

These issues are beyond the competence of Congress. There is, however, one issue which is very much within its purview. That is the request to authorize an increase in the capital of the IMF. I am aware that Congress was greatly influenced by the testimony given by George Schultz opposing such an increase. I hope my remarks will serve to contradict that testimony.

George Schultz argued that it is better if markets are allowed to look after themselves than if they are looked after by regulators. There is an element of truth in his argument: regulators do make mistakes. The IMF approach clearly did not work, otherwise we would not find ourselves in the current situation. But that does not mean that financial markets can look after themselves. Everybody looking out for his or her self-interest does not lead to equilibrium but to what Alan Greenspan called irrational exuberance and afterwards panic.

George Schultz inveighed against the moral hazard of bailing out irresponsible investors and speculators. Here he has a valid point. Bailouts did encourage irresponsible behavior not so much by speculators—because we know that we have to take our lumps when markets decline—but by banks and other lenders who could count on the IMF coming in when a country got into difficulties. The IMF imposed tough conditions on the country concerned but it did not impose any penalties on the lenders. This asymmetry in the treatment of lenders and borrowers is a major source of instability in the global capitalist system and it needs to be corrected. It has to be a focal point in the soul searching that the IMF must undergo, but I am glad to say that the IMF is learning fast. In its \$2.2 billion program in Ukraine, it is imposing a new condition: 80% of Ukraine's treasury bills have to be "voluntarily" rescheduled into longer-term, lower yielding instruments before the program can go forward. This is a long way from the Mexican bailout of 1995 where the holders of Mexican treasury bills came out whole.

The moral hazard now operates in the opposite direction; in not enabling the IMF to do its work when it is most needed. Congress bears an awesome responsibility for keeping the IMF alive. I am convinced that the attitude of the Congress was already an important element in the failure to deal with Russia. As you probably know I have foundations in many of the formerly communist countries. Some of these countries are badly hit by the fallout from the Russian collapse.

Countries like Moldova and Romania have no one else to turn to but the IMF. The IMF is perfectly capable of assisting them. It would be tragic if it ran out of resources.

Replenishing the capital of the IMF will not be sufficient to resolve the global financial crisis. A way has to be found to provide liquidity not only at the center but also at the periphery. I believe there is an urgent need for the creation of Special Drawing Rights which can be used to guarantee the rollover of the already existing debt of countries which receive the IMF's seal of approval. If there is no reward for good behavior, meltdowns and defections will multiply. But such radical ideas cannot even be considered until Congress changes its attitude towards international institutions and the IMF in particular.

So far our stock market has escaped relatively unscathed and our economy has actually benefited from the global crisis but make no mistake: unless Congress is willing to support the IMF, the disintegration of the global capitalist system will hurt our financial markets and our economy as well because we are at the center of that system.

#### A SPECIAL TRIBUTE TO THE PUTNAM COUNTY VIDETTE ON THE OCCASION OF ITS 125TH ANNIVERSARY

**HON. PAUL E. GILLMOR**

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 21, 1998*

Mr. GILLMOR. Mr. Speaker, it is my pleasure to rise today to pay special tribute to a truly outstanding organization from Ohio's Fifth Congressional District. Today, Wednesday, October 21, 1998, the Putnam County Vidette will be celebrating the joyous occasion of its 125th Anniversary.

Mr. Speaker, the Putnam County Vidette, a widely-circulated weekly newspaper in Columbus Grove, Ohio, is the source of a great deal of information for its readers in and around the Putnam County area. The Putnam County Vidette has been sending the community updated news coverage and insight on county, State, national, and international events for the last 125 years.

During that lengthy period, the readers have come to know that the Putnam County Vidette is a true icon in the reporting field, offering high-quality and accurate reporting on myriad stories, profiles, and news-making events. In a time when the media is under a constant microscope, the Vidette is a true asset to the community in which it circulates.

Mr. Speaker, Ohio's Fifth Congressional District is by far one of the largest districts in the State stretching more than 150 miles across northwest Ohio. My district is scattered with dozens of daily and weekly news publications. In my years of service, I have found the Putnam County Vidette to be of the finest quality and of the highest reporting standards. The dedication and attention to detail from the staff of the Vidette have certainly elevated the Vidette to a plateau of excellence.

Mr. Speaker, public officials have the good fortune to work with news organizations on a daily basis. As we work to improve the quality of life for the constituents we are elected to represent, the media is charged with the responsibility of covering our message and accurately reporting that information to the read-

ers and listeners. The Putnam County Vidette, for 125 years, has done a marvelous job covering events affecting the Putnam County area. It is my pleasure to stand before the House to offer my thanks and congratulations for those fine efforts.

Mr. Speaker, I would urge my colleagues to stand and join me in paying special tribute to the Putnam County Vidette, for 125 years of reporting excellence, and in wishing the Vidette continued success in the future.

#### OSHA REFORM IN THE 105TH CONGRESS

**HON. CASS BALLENGER**

OF NORTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 21, 1998*

Mr. BALLENGER. Mr. Speaker, over the past three years, Republicans in Congress have worked to reform the Occupational Safety and Health Administration (OSHA). For too long OSHA has been marked by burdensome and over-reaching regulations and unfair enforcement. It has employers as foes rather than as partners in improving worker safety and health. Not only has OSHA's approach made it one of the most disliked agencies in the whole federal government, but also study after study has shown that OSHA's approach has been generally ineffective in improving safety and health in the workplace.

I am pleased to report that we have been able to make some progress in reforming OSHA, though much more needs to be done. Three bills amending the Occupational Safety and Health Act were signed into law during the 105th Congress. What makes this more remarkable is that in the 28 years since OSHA came into existence, there has been only one other change made to the law, and that was the penalty increase enacted as part of a tax and revenue increase bill by the Democrat Congress in 1990.

The first change we made requires OSHA to provide consultative services to small businesses. A small business that requests a consultation and then corrects the violations would not receive any citations or fines, and would not be inspected for at least one year, unless there was a serious accident or a complaint was made to OSHA. These consultations would be provided through state agencies, not by OSHA directly. My own company has participated in the consultation program run by North Carolina OSHA, and I am pleased that we were able to authorize consultation services as the first "program" amendment to OSHA. With increased funding and availability, this consultation program—in which the government works with employers and their employees to improve safety and health in the workplace—can be an excellent model for further changes in OSHA.

The second change we enacted this year addresses a fundamental problem with OSHA enforcement. During most of the years of OSHA, under Democrat Congresses, OSHA was measured in terms of enforcement: how many citations were issued? How many and how large were the penalties against employers? Individual inspectors and their supervisors were evaluated by the same criteria; raises and promotions were based on how many citations and penalties they issued. So