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Geithner Says China Manipulates Its Currency

Comments Suggest Harder Line on Trade

By Lori Montgomery and Anthony Faiola
Washington Post Staff Writers
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As Timothy F. Geithner moved closer yesterday to confirmation as Treasury secretary, he signaled a more confrontational approach toward China, bluntly stating that the new administration thinks Beijing is "manipulating" its currency and it will act "aggressively" using "all the diplomatic avenues" to change China's currency practices.

China's control of the value of its currency, the yuan, has been a friction point for years, with some economists saying Beijing has kept its currency artificially low to keep the prices of its goods cheap and generate trade surpluses. That has led to a global capital imbalance, as American consumers borrowed and spent and China became the United States' largest foreign creditor.

The Bush administration warned China about its currency practices but did so with a relatively muted voice. Geithner's words -- which came in written comments to the Senate Finance Committee -- suggested that President Obama is prepared to challenge China far more vigorously.

His statement echoed Obama's campaign vows to take a harder line on China's trade policies, although he said the immediate emphasis should be on shoring up the faltering U.S. and Chinese economies.

Geithner pointed to new data from Beijing showing that growth slowed sharply in 2008 and said a further slowdown in China could delay recovery from the global downturn. "The immediate goal should be for us to convince China to adopt a more aggressive stimulus package as we do our part to try to pass a stimulus package here at home," he said.

Geithner's comments are almost sure to anger China, which has bristled at less aggressive comments by outgoing Treasury Secretary Henry M. Paulson Jr. Answering U.S. charges, China in the past has countered that lax regulation and faulty policies are to blame for the U.S. crisis. It has cautioned that China should not be made a scapegoat in a time of crisis.

It remains unclear, however, whether the Obama administration intends to go one step further and declare to Congress that China is manipulating the yuan to gain an unfair trade advantage. Such a move could spark punitive action and countermeasures from China.

"It was very interesting to see that Geithner has stated that China is manipulating its currency," said Eswar Prasad, a senior fellow at the Brookings Institution. "Things are going to get quite heated on the China-U.S. front this year. This statement was clearly a shot across the bow, signaling that this administration does not plan to mollycoddle the Chinese."

Geithner's comments to the Senate Finance Committee came just before the panel approved his nomination as the next Treasury secretary, despite concerns about errors on his tax returns in recent

years.

The committee, by a 18 to 5 vote, agreed to send Geithner's nomination to the full Senate, recommending that he serve as Obama's point man on the sagging economy and the nation's collapsing financial system. A vote on Geithner's confirmation has been scheduled for Monday evening.

Although most of Obama's nominations have sailed through the Senate, his choice of Geithner to serve in this critical Cabinet post has been delayed by embarrassing revelations about Geithner's failure to pay a portion of his taxes from 2001 to 2004. In addition to running the \$700 billion emergency rescue program for the banking system, the Treasury secretary manages the nation's finances and oversees the Internal Revenue Service.

Geithner has apologized for what he called "careless mistakes" during the years he worked as policy director at the International Monetary Fund, an international institution that does not automatically withhold taxes for its employees. A 2006 IRS audit informed Geithner that he had failed to pay self-employment taxes in 2003 and 2004. While he was being vetted by the Obama team in November, they pointed out he had made the same errors on his 2001 and 2002 returns. All told, Geithner has paid \$42,702 in back taxes and interest.

Most Democrats and many Republicans have defended Geithner, the president of the New York Federal Reserve, calling his tax problems insignificant considering the talent he would bring to the Treasury as it responds to the battered banking sector.

But some Republicans say Geithner's tax errors reveal larger character flaws. He faced tough questions from several Republican members of the Senate Finance Committee, five of whom voted against him: Charles E. Grassley (Iowa), Jon Kyl (Ariz.), Jim Bunning (Ky.), Pat Roberts (Kan.) and Mike Enzi (Wyo.).

Grassley, the panel's senior Republican, said he received a message from a constituent expressing concern about the nomination: "If the man cannot handle his own finances," the constituent wrote, "how is he going to handle the country's?"

Geithner won the support of other Republicans on the committee, however, and Democratic leaders say they expect Geithner to easily win confirmation by the full Senate.

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