EMBARGOED UNITL DELIVERY
As Prepared for Delivery

Secretary Timothy F. Geithner
Opening Statement
Senate Committee on Appropriations
Subcommittee on Financial Services and General Government
June 9, 2009

Chairman Durbin, Ranking Member Collins, members of the Subcommittee, I appreciate the opportunity to testify before you for the first time as Treasury Secretary on the President's Fiscal Year 2010 Budget request for the Department of the Treasury.

While we see some initial signs of economic improvement and the financial system is beginning to heal, our country faces very substantial economic and financial challenges.

President Obama and his Administration are working to meet these challenges by getting Americans back to work and getting our economy to grow again; by restoring fiscal discipline to ensure a sustained recovery, and by making the long-neglected investments in health care, energy and education needed to enhance America's global competitiveness and produce more balanced, sustainable growth over the long-term.

Treasury's Key Priorities

To achieve these goals, we are repairing and reforming our financial system so that it works for, not against, a recovery that serves all Americans.

To restore growth and meet our fiscal goals, we are redesigning and bolstering enforcement of our tax code so that it is both fairer and more efficient.

To advance our interests globally, we are working with other nations to promote economic recovery and financial repair, and to ensure more open markets for U.S. business.

And to protect the country, we are deploying all of the tools at our disposal to exclude terrorists, proliferators, and other illicit actors from the international financial stage, and thereby secure our financial system and combat threats to our security.

The Fiscal Year 2010 Budget that you have before you will allow Treasury to pursue these core missions assigned to the Department by the President and the Congress. The $13.4 billion request includes a $676 million, or 5.3 percent, increase over enacted 2009 levels.

Of this increase, $14 million would go to bolstering the staffs of our Domestic Finance and Tax Policy offices, which are at the epicenter of Administration efforts to support rigorous analysis and implementation of revenue policy and to redesign and improve our tax policies and tax code.

Some $137 million would be devoted to more than doubling our Community Development Financial Institutions (CDFI) Fund to ensure that the benefits of our financial repairs reach beyond our major banks and businesses to help economically distressed communities. These communities were underserved by our financial system even before the current crisis, and have been deeply hurt by the job losses and business failures that the crisis has spawned.

A total of $332 million would be devoted to new Internal Revenue Service (IRS) enforcement efforts, including $128.1 million to add nearly 800 new IRS employees to combat offshore tax evasion and improve compliance with U.S. international tax laws by businesses and high-income individuals. Another $130 million would go to bolster the security of the IRS information technology, improve the efficiency of its business systems and upgrade its fraud detection capabilities.

Although not directly under the jurisdiction of this Subcommittee, our Budget also includes funds to meet our international obligations to help us in mounting a global response to the crisis and in creating mutually reinforcing growth around the world.

As we seek these additional funds to respond to our nation's troubles, we have cut back on some programs that are either ineffective or that we believe can be safely delayed.

For example, while the Earned Income Tax Credit (EITC) continues to be one of the most effective anti-poverty programs that the Federal government administers, the Advanced EITC, a related program which provides benefits in advance of filing a tax return, has been prone to exceptionally high levels of error and low use by those eligible for it. Accordingly, our Budget proposes to end this latter program for savings next fiscal year of $125 million.

Similarly, even as we seek to increase capital investment for the IRS, our Budget would reduce the Department-wide capital investment account by 65 percent for a savings of $17 million.

The Treasury Budget would reduce the number of international economic attachés from 20 to 16, saving $2 million next fiscal year. It would absorb a portion of our non-pay inflation through more efficient use of contracting and other cutbacks, saving $18 million. It would take advantage of the growth of efficient electronic filing of tax returns to reduce the IRS processing budget by $8 million next fiscal year.

Given we have had control over the budget for fewer than five months, the reductions that I have just described represent a first attempt to do more with less. As we begin work on the Budget for Fiscal Year 2011, Treasury has prepared itself for a more rigorous assessment of its spending.

I have already issued guidance to Treasury senior staff that says, in part: "To afford any new investments, we will have to take new approaches to solving old problems. I expect each bureau and policy office to identify opportunities for innovation that will transform how Treasury fulfills its missions in order to both improve performance and reduce cost."

In addition, the President has announced his intention to nominate Dan Tangherlini to be our Assistant Secretary for Management and Budget. Consistent with the President's mandate, I will look to Mr. Tangherlini to scour the Treasury's budget for efficiencies and cost savings. He comes to the job with an impressive track record of working on budget, management and performance issues with District of Columbia Mayor Adrian Fenty, and I am convinced that he will bring the same results-oriented approach to the federal government.

Repairing and Reforming the Financial System

The President has assigned the Treasury to repair key sectors of our economy so that they help revive growth and produce broadly shared prosperity.

The Treasury has been working to repair and reform every major element of our financial system, and to fill gaps in the system so that it benefits all Americans.

Last month, federal banking supervisors announced results of the stress tests that we asked them to conduct on our 19 largest financial institutions. The aim of these assessments was to ensure that these institutions have sufficient capital buffers to absorb the losses that they could suffer under worse-than-expected economic conditions and continue to make the loans necessary to sustain recovery.

The clarity and transparency provided by the tests has helped improve market confidence in the banks, making it possible for them to collectively raise nearly $90 billion through private equity offerings, bond issuances without government guarantees and sales of business units.

On housing, Treasury is working with HUD to bolster our housing markets by helping to drive down mortgage interest rates and by assisting responsible homeowners to refinance into more affordable mortgages or modify their at-risk loans to avoid preventable foreclosures.

In terms of the non-bank financial sector, Treasury is working to revive critically important securitization markets for both new and old asset-backed securities.

We have begun to boost new consumer and business lending by re-starting the markets for asset-backed securities that financed almost half of all lending in this country before the crisis. There were more securities of this type issued the four months after we launched our effort than in the preceding nine.

Additionally, Treasury is about to join with private investors in seeking to restart the markets for legacy mortgage loans and securities that are now stuck on bank balance sheets, keeping these institutions from making new loans to families and businesses.

As we have made repairs to the financial system, we have understood that repair alone is not enough. We must also reform the system so that it is less prone to crises of the dimensions that we now face.

In the next few weeks, we will outline a comprehensive plan of reform that will include systemic risk regulations to ensure that no large and interconnected firm or market can take on so much risk that its failure could destabilize the entire financial system. The plan calls for bolstering consumer and investor protections. And it will streamline our out-of-date regulatory structure so that our regulatory system matches the size, shape and speed of our modern financial system. Together, these changes will help prevent another crisis of the magnitude that we have just lived through, and give the government new tools to better cope with similar problems should they occur in the future.

In addition to the financial system, Treasury is helping to ensure that the nation has a viable auto industry in the future. We are working with General Motors and Chrysler to make sure these companies make the changes necessary to again prosper. As President Obama has said “we cannot…must not…and will not let our auto industry simply vanish.”

The resources for administering key elements of both our financial and auto repair efforts were authorized by the Emergency Economic Stabilization Act.

These activities are being handled by our Office of Financial Stability (OFS), which is focused on ensuring that TARP funds serve the public purpose of economic and financial stabilization; that they are fulfilling this purpose in ways that protect taxpayers; and that we can provide a clear account to the Congress and the American people about the effectiveness of the funds’ use.

In order to administer TARP and ensure compliance by TARP recipients, OFS has had to quickly assemble a substantial staff. OFS staffing levels, which were at 88 when I arrived in office, had risen to approximately 165 by the end of last month and are expected to rise to 225 by next fiscal year. The office’s budget for next fiscal year will total $262 million, a 6 percent decline from the current fiscal year’s $279 million. The change is largely due to a decline in estimated spending on contracts as part of the program’s initial start-up.

While TARP is proving effective at improving the immediate stability of the financial system, the scope of the issues that this Administration and this Department face extend beyond TARP to include striking the delicate balance between intervention and allowing market participants latitude to operate; devising a new financial regulatory structure for the future; and working through the tough problems of what form our government-sponsored enterprises, Fannie Mae and Freddie Mac, should take as we emerge from this difficult period.

All of these issues fall to Treasury’s Office of Domestic Finance, which, together with OFS, is having to operate on new policy terrain, tackling problems that the country has not faced in generations and for which we have few guideposts in our immediate past.

That is why the workload of the Office Domestic Finance has already expanded greatly, and is all but certain to expand still further. And it is why we are seeking to modestly increase its size and bolster its expertise in several critical areas.

Our Budget requests an additional $8.7 million for the office to add 26 full-time equivalent (FTE) positions to the staff. This represents a 26 percent increase from the office’s current fiscal year staffing of 101.

The additional funds will be used to create two new Deputy Assistant Secretary positions, one for housing finance, small business and consumer issues, and a second for capital markets. These two new officials will lead teams that will perform the economic and institutional research necessary to ensure that we understand all of the policy options in each of these areas and choose the most effective ones for solving our problems.

As we seek additional funds for Treasury, we must also seek them for the front-line institutions that will sustain our economic recovery and ensure that its benefits are broadly shared.

Our Budget would more than double the resources of the Community Development Financial Institutions (CDFI) Fund to $243.6 million. The fund’s mandate is to help low-income, economically distressed communities that were poorly served by our financial system even in economic good times, and – although they had nothing to do with causing current conditions – have been significantly hurt by the economic and financial fallout of the crisis that we now face.

The $136.6 million, or 128 percent increase in funding, would allow this program to support financial institutions in making job-creating investments and in providing access to capital in communities that are often considered too risky for mainstream financial institutions to serve. By targeting lenders and borrowers in these communities, the Fund would help some of our most vulnerable populations weather the crisis and benefit once recovery is underway.

The aim of the fund is to make sure that we provide distressed communities with more than simply government grants and aid. We must also build the capacity of their local financial institutions to ensure that capital is flowing to homebuyers and businesses so that they can finance their own economic futures. Since its inception in 1994, the fund has directed nearly $1 billion to distressed communities, and allocated $19.5 billion in tax credits through its New Markets Tax Credit program.

Financial institutions funded through the CDFI program make loans to small businesses and micro-enterprises and take equity positions in them. They provide mortgages to low-income homebuyers, and finance developers of low-income housing and community facilities, such as charter schools, health clinics and child care centers.

One example can be seen right here in the Anacostia neighborhood of Washington, DC. City First Bank – a local CDFI – and Charter Schools Development Corporation partnered to provide a $13.3 million New Markets Tax Credit for the Thurgood Marshall Academy, the city's first charter school focused on law, serving 360 students in grades nine through twelve and achieving a 100 percent college acceptance rate for its first three graduating classes.

Historically, the CDFI program has been heavily oversubscribed and has had to turn away qualified applicants. For example, in the current fiscal year, the program for CDFI financial and technical assistance awards is budgeted at $55 million, but it expects to receive applications for more than $500 million in funding.

Redesigning the Tax System for Fairness and Efficiency

The President has asked Treasury to redesign and bolster enforcement of our tax code so that it supports growth, sets the stage for our return to a sustainable fiscal path, and accomplishes these goals in a manner that is fair, efficient and supportive of our society's broadest goals.

To make good on the President's assignment, our Budget requests a modest increase in funding for Treasury's Office of Tax Policy and more substantial increases to expand IRS enforcement activities and to improve its information technology.

Treasury has moved quickly in implementing the more than 30 tax provisions of the President's economic recovery plan. Treasury also has played an integral role in designing the tax provisions of the President's Fiscal 2010 Budget, and it will play a similar role in implementing these.

The President has made clear that he will not seek any major revenue increases until 2011 when the recovery should be firmly in place. He has, however, been equally clear that once recovery is underway, we must get our fiscal house in order or risk having government borrowing crowd out productive private investment. Treasury and the White House will work with Congress to make the tax changes that are necessary to reduce deficits and to do so in a manner that is fair to all Americans.

As part of our efforts to make sure that the tax system is working for recovery and is operating fairly, we have designed new policies to curb the use of off-shore tax havens, close the international tax gap, remove tax incentives for companies to shift jobs overseas, and replace these incentives with ones that encourage creation of jobs at home.

Our tax work on the recovery plan, the Fiscal Year 2010 Budget, and these international tax issues are just the beginning of an ambitious agenda for this Administration.

On health care, the President has made clear that the road to fiscal discipline and to solvency for Medicare and Social Security runs through overall health care reform. Although much of the cost of the President's reform plan will be covered by savings from the system, we will need to design programs to cover some of the costs in ways that are fair to all Americans and do not harm the economy. Treasury is deeply involved in this effort and in the related work to expand coverage and improve our health care system in other important ways.

On retirement and economic security, Treasury and, in particular, the Office of Tax Policy, is taking the lead in developing and actively working with Congress to flesh out the initiatives proposed in the President's budget to help enhance retirement security and savings for the half of working Americans who have no retirement provisions beyond Social Security. These proposals would make it easier for people to save for their own retirement, either through their workplaces or on their own, and would move us toward universal retirement savings coverage.

On climate change, Treasury is already working closely with Congress to design the auction mechanisms that will be needed to implement the Administration's greenhouse gas cap-and-trade program.

Our Office of Tax Policy has been deeply involved in all of these issues from the outset of the Administration. Like our Office of Domestic Finance, its workload already has substantially increased and is certain to grow as the health reform, retirement security and climate change debates get underway in earnest.

At the moment, the Office of Tax Policy's career staff includes 30 lawyers and 44 economists as well as support staff for an overall staffing level of 93. This is lower than its usual complement of over 100 professionals.

Our Fiscal Year 2010 Budget would increase the office budget by $4.9 million to add 15 full-time equivalent (FTE) positions in order to increase overall staffing to 108, and would therefore represent a return to historical norms. The additional staff is needed to perform analysis and revenue estimates for new policy proposals, conduct research for, among other things, congressionally mandated studies, and develop regulations and guidance for new legislation.

The vast majority of the new funds that we request in this Budget are for improving the enforcement efforts and the information technology of the IRS.

As I have said, $332 million would go to new IRS enforcement efforts, including $128.1 million to improve international tax compliance. The balance of these funds would be used to support three critical programs: 755 employees to increase examinations of tax returns for businesses and high-income individuals; 300 employees to expand the IRS document matching program, which compares tax returns to other forms such as W-2s and 1099s; and an additional 491 employees to improve collection operations and build two new IRS automated collection center sites.

Turning to IT, our Budget requests a $90 million increase in funding to protect taxpayers' personal records from the increasing number and sophistication of Internet-based attacks. With these funds, the agency will deploy state-of-the-art, automated tools to improve record access management, risk assessment and system auditing. This effort would address concerns noted in the past by both the Government Accountability Office and the Treasury Inspector General for Tax Administration.

Our Budget also requests an additional $18 million for systems to help the IRS return review program detect noncompliance and fraudulent refunds, and a $22 million increase to continue modernizing the agency's core taxpayer account database and modernized the e-File web-based platform.

Reengaging with the World on Economic Issues

The President assigned Treasury to ensure that this country reengages with the world, not just on issues of war and peace, but also on the current crisis, and on issues crucial to our common economic futures.

This is a global crisis. Recovery here depends on recovery abroad. We are working closely with other major economies to put in place the fiscal stimulus and make the financial repairs necessary to ensure U.S. and global recovery.

The U.S. is seeking to mobilize the financial resources of the better-off nations to help the emerging and developing economies that have been especially hard-hit by this crisis. We are doing this for more than simply humanitarian reasons; as recently as last fall, these economies accounted for fully 42 percent of all U.S. exports.

Last month, the President and leaders of the other G-20 nations agreed on the need to make more than $1 trillion in financial resources available to support global growth and trade.

Those funds include our commitment of up to $100 billion for an expanded New Arrangements to Borrow, a permanent back-up mechanism that provides the International Monetary Fund with supplemental resources to help emerging markets and developing nations weather the crisis.

As part of our effort to rekindle global growth for the sake of our own recovery, we are seeking to meet our past and present financial commitments to the multilateral development banks that help emerging and developing countries.

Although the funds to do this are not directly within the purview of your Subcommittee, I mention them to illustrate how Treasury's entire budget is tailored to let us fulfill the missions that the President has set out for us. Our budget request includes $2.5 billion for international programs, most of which would serve to meet our past and present commitments to the multilateral development banks.

Our financial reform effort in the United States must be matched by similarly strong efforts elsewhere in order to succeed.

Conclusion

Before I end, let me say a word about the Department's staff. I have the honor of leading a team of smart and dedicated individuals who are working to make our government more effective and our society fairer, who are following a long tradition of debating policies fearlessly on their merits, doing what is right and not what is expedient, and drawing on the best ideas and expertise that are available. They are performing an incalculable service to our country in these challenging times, and I am immensely grateful to them.

The Department of the Treasury is responsible for promoting the nation's economic prosperity and protecting its financial security. We advance our interests around the world through the strength not only of our economy but of our ideas.

This President and Treasury have already begun the hard work of recovery and reform. Our Fiscal Year 2010 Budget will allow us to pursue these critical goals, and deliver the balanced and sustainable growth that the American people seek and deserve.