

Secretary Timothy F. Geithner
FY 2013 Treasury Budget Testimony
Senate Committee on Appropriations
Subcommittee on Financial Services and General Government
Wednesday, March 28, 2012

Chairman Durbin, Ranking Member Moran, members of the Subcommittee, thank you for giving me the opportunity to speak about the Treasury Budget.

I. Introduction

Let me start with the broader challenges facing the national economy.

Our economy is gradually getting stronger. Over the last two and a half years, the economy has grown at an average annual rate of 2.5 percent. Businesses have added nearly 4 million jobs over the last two years, including 429,000 manufacturing jobs.

While the economy is regaining strength, we still face significant economic challenges. Unemployment is still far too high, the housing market remains weak, and the overall effects of the financial crisis remain an obstacle to growth. The strength of our recovery will depend in part on events beyond our shores, as we saw last year when U.S. growth was buffeted by headwinds from Europe.

The harm caused by the crisis came on top of a set of deep, preexisting economic challenges, including a long period of stagnation in the median wage, diminished confidence in the ability of children to exceed the economic achievements of their parents, a substantial ongoing shift in the risk and cost of health care and retirement security away from employers and onto workers, poverty rates much higher than in any economy with comparable wealth, and the dramatic erosion in our fiscal position between 2001 and 2008.

The President has laid out a strategy to address these challenges. His strategy entails a carefully designed set of investments and reforms to improve opportunity for middle-class Americans and strengthen our capacity to grow by improving access to education and job training, promoting innovation in our manufacturing sector, and investing in infrastructure.

These critical investments are combined with a balanced plan for restoring fiscal sustainability. The President's Budget reduces projected deficits by a total of more than \$4 trillion over the next 10 years by adding more than \$3 trillion in deficit reduction to the approximately \$1 trillion in savings already enacted through the discretionary caps included in the Budget Control Act (BCA). These savings are sufficient to stabilize our debt as a share of the economy by 2015 and begin placing our debt on a downward path as a share of Gross Domestic Product.

Treasury plays a vital role in helping to shape and implement the President's economic policies, driving reform of the financial system, encouraging lending to small businesses, working to reform the tax system, promoting economic prosperity, and monitoring risk in the financial system.

Treasury is working hard with the Department of Housing and Urban Development (HUD) and with the Federal Housing Finance Agency (FHFA) to repair the housing market. We have active programs to modify mortgages for distressed homeowners so that people can stay in their homes, help states in the hardest hit areas provide both loan principal reduction and payment forbearance for the unemployed, transition vacant homes to the rental market and make it easier for homeowners who are underwater to refinance their loans.

As the President has made clear, more can be done to help, and we urge Congress to consider the President's plan to help homeowners refinance their mortgages to take advantage of lower rates.

Treasury is also working with other agencies, in particular the Department of Education, on a range of ways to help make college more affordable, such as the President's proposal to make permanent the American Opportunity Tax Credit. The Administration is also moving forward with its "Pay As You Earn" proposal to help reduce debt burdens, and the President has called on Congress to stop the interest rate on Stafford loans from doubling in July.

In addition to our core policy functions, Congress has given Treasury a very broad mission, with responsibilities that touch many aspects of the lives of Americans.

Treasury is responsible for raising the resources necessary to fund critical government functions, from national defense to protecting national parks. The Department disbursed over \$2.4 trillion in Social Security benefits, veteran's pensions, and other benefit payments to more than 100 million Americans last year. Treasury delivered tax credits to drive investment in clean energy production and to help families finance college education. We design and enforce the financial sanctions necessary to prevent the spread of nuclear weapons and the financing of terrorism. Our Internal Revenue Service collected the \$2.4 trillion in taxes necessary to fund core government operations. We run the factories that produce every American dollar and coin.

Treasury's FY 2013 Budget proposal supports the President's strategy through key priorities that will strengthen economic growth and make the government more efficient while delivering essential services at lower costs to the taxpayer. The proposal also reflects Treasury's contributions to protect our national security interests and prevent illicit use of the financial system.

Unlike most federal agencies, Treasury's annually appropriated budget is about people more than programs. Salaries and operating costs make up 96 percent of our budget, and most of the rest of our budget is for investments in technology they require to function.

II. Improving Efficiency, Reducing Taxpayer Costs, and Reforming Government

The Treasury Budget request reflects our commitment to deliver core services more efficiently and at the lowest cost to the taxpayer. Our request includes efficiencies, program reductions, and other measures that will produce savings of \$286 million in FY 2013 and additional cost reductions in the years ahead.

Key proposals include the consolidation of the Bureau of the Public Debt and the Financial Management Service. This consolidation will save \$36 million over five years, starting with FY 2014, through management, administrative, and support service efficiencies.

As you know, these bureaus provide the financial infrastructure for the federal government. Both bureaus have successful track records working together on joint initiatives, including a recent Information Technology consolidation, which is projected to save \$129 million over five years. I am confident that they will build on this success by consolidating and improving the delivery of their core services.

The Budget also proposes legislation to provide Treasury with the ability to change the composition of coins to utilize more cost-effective materials. Currently, the costs of making the penny and the nickel are more than twice the face value of each of those coins. In addition to this proposal, Treasury is implementing measures to improve the efficiency of coin and currency production, including improved manufacturing practices and administrative cost reductions, which will save more than \$75 million in FY 2013.

These savings build on a number of steps that the Department has taken during the last three years to improve efficiency and reduce taxpayer costs.

Last December, we announced that we were suspending the production of Presidential dollar coins for circulation. At that time, there were 1.4 billion surplus dollar coins sitting unused in Federal Reserve vaults. These surplus coins will now be drawn down over time. Taking this simple step will save taxpayers \$50 million per year in production and storage costs.

We are also continuing to achieve results in our ongoing paperless initiative, which will yield over \$500 million in savings over five years. These efforts not only improve our internal management but provide modernized services to meet the public demand for more electronic services. In response, we have changed the way we provide services and are achieving savings while providing taxpayers the services they deserve.

To give you an example of this, six years ago, just over half of individual taxpayers filed their returns online. We have worked proactively to increase electronic filing, and today, 77 percent of taxpayers choose to file online. In 2013, it is our goal to get 80 percent of taxpayers to file online, achieving an additional \$8.1 million in savings on top of the \$63.9 million we have saved since 2009.

The FY 2013 Budget for Treasury's operating bureaus is 2.7 percent below FY 2012 and 6.8 percent below our FY 2010 enacted budget, excluding the Internal Revenue Service (IRS). The request for the IRS includes investments in enforcement activities that will contribute significantly to improving voluntary compliance with the tax code and closing the tax gap. For each additional dollar we propose to spend on compliance activities we bring in more than four dollars in additional revenue. The enforcement investments in our request will bring in an additional \$1.5 billion in annual revenue once fully implemented.

III. Economic Growth and Job Creation

We are also supporting small business growth through our Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI). Last year, we provided more than \$4 billion to 332 community banks through the SBLF. Participating institutions estimate that they will increase their small business lending by \$9 billion within two years of receiving the investments. By the end of this fiscal year, we will have provided approximately \$1.5 billion to state programs that support small business lending and investment through SSBCI. States expect these investments to spur at least \$15 billion in new small business financing.

Our \$221 million request for the Community Development Financial Institutions Fund (CDFI Fund) is focused on key community development priorities designed to improve services in underserved communities, including access to healthy food and financial services. Of the total request, up to \$25 million is for the Administration's Healthy Food Financing Initiative, which will support increased availability of affordable, healthy food alternatives in these communities.

The CDFI Fund's core program for financial and technical assistance provides monetary awards to CDFIs, which in turn provide loans, investments, financial services, and technical assistance to underserved populations and low-income communities. In 2010, CDFIs were awarded \$105 million in grants under the CDFI program, which should contribute to \$589 million in community development activity and the creation or preservation of approximately 10,000 jobs.

IV. Protect our National Security Interests and Prevent Illicit Use of the Financial System

Finally, Treasury's financial intelligence and enforcement activities play a significant role in protecting our financial system from threats to our national security. Our funding request for the Office of Terrorism and Financial Intelligence is maintained at \$100 million and reflects our continued efforts to combat rogue nations, terrorist facilitators, money laundering, and other threats to our financial systems and our Nation's security.

The work that this office conducts is far reaching and of critical importance to national security. The sanctions the Administration imposed on Libya were a critical factor in removing the Gadhafi regime, and they continue to add pressure to the regimes in Iran, Syria, and North Korea.

V. Conclusion

Treasury benefits from a talented and dedicated group of public servants. Their work affects the lives of all Americans. They have played a critical role in pulling our economy out of crisis and setting the Nation on a path to recovery.

Our Treasury team helps to protect America's economic interests and national security – so seniors can get their Social Security benefits, families can borrow money to buy a home or send a child to college, and businesses can grow and create jobs. They have worked hard to continue to make Treasury a leaner, more efficient organization that effectively delivers essential services to the American people.

I appreciate the support of this Committee over the past several years in helping to make sure we have the resources to carry out these important responsibilities.