

# U.S. DEPARTMENT OF THE TREASURY

## Press Center



## Testimony of Treasury Secretary Henry M. Paulson, Jr. Before the U.S. House Appropriations Subcommittee on Financial Services and General Government

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**Washington, DC-** Chairman Serrano, Ranking Member Regula, and Members of the Subcommittee. Thank you for the opportunity to appear before you today to discuss the President's Fiscal Year (FY) 2008 Budget for the Department of the Treasury.

I am pleased to be here today to provide an overview of the President's Budget for Treasury in FY 2008. The President's FY 2008 Budget reflects the Department's budget priorities and dedication to promoting economic growth and opportunity, strengthening national security, and exercising fiscal discipline.

The \$12.1 billion request focuses resources on key programs necessary to promote economic growth, fund the activities of the federal government and effectively fight the war on terror. The request is \$523 million above the amount provided by the FY 2007 funding level, a 4.5 percent increase. By collecting the revenue due to the federal government and working to reduce illicit threats to the financial system, the Department of the Treasury contributes to the financial integrity of the United States.

Treasury has a primary role as steward of the U.S. economic and financial systems, including the role of the U.S. as an influential participant in the international economy. Treasury promotes financial and economic growth at home and abroad. Treasury also performs a critical and far-reaching role in national security. The Department battles national security threats by coordinating financial intelligence, targeting and imposing sanctions on supporters of terrorism, narcotics traffickers, and proliferators of weapons of mass destruction, improving the safeguards of our financial systems, and promoting international relationships to combat the financial underpinnings of terrorist and other criminal networks.

Managing these complex tasks requires expanded capabilities. Fully funding the President's FY 2008 Budget request will allow the Treasury Department to continue and improve its ability to study, recommend, and support initiatives that strengthen the U.S. economy, create more jobs for Americans, and enhance citizens' economic security. The Department will actively work to protect the security of pensions, reform Social Security, and improve the federal income tax system by providing timely, usable, and comprehensive analyses that advance the policy process.

### Promoting Economic Growth, Security and Opportunity

The Treasury Department works diligently to fulfill its role as the Administration's chief economic advisor. We strive to provide the President with the best information available on a broad range of domestic and international economic issues. Treasury's Offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance support this role through the provision of technical analysis, economic forecasting, and policy guidance on issues ranging from federal financing to responding to international financial crises. The Treasury Department supports policies that stimulate U.S. economic growth, strengthen and modernize entitlement programs, and minimize regulatory burdens while ensuring the safety and soundness of financial institutions.

The FY 2008 Budget request funds Treasury's efforts to promote domestic and international economic growth through financial diplomacy. Treasury stimulates economic growth and job creation by working to open trade and investment, encouraging growth in developing countries, and promoting responsible policies regarding international debt, finance, and economics. Treasury supports trade liberalization and budget discipline through its role in negotiating and implementing international agreements pertaining to export subsidies. These agreements open markets, level the playing field for U.S. exporters, and provide effective subsidy reductions that save the U.S. taxpayer millions of dollars annually. Since 1991, cumulative budget savings from these arrangements are estimated at over \$10 billion. The growth of these activities makes it necessary to enhance policy coordination and resources through the addition of regional experts. Treasury's FY 2008 Budget request provides additional staff to support key policy dialogues around the globe. These experts will enhance policy coordination on international matters and will support key policy dialogues with priority countries like China.

Treasury also remains committed to protecting the homeland from international investments that may threaten our national security. The Committee on Foreign Investment in the United States (CFIUS) is an interagency group responsible for investigating the national security implications of the merger or acquisition of U.S. companies by foreign persons. One of my key responsibilities as Secretary is to chair this

committee, and to make sure that the interagency CFIUS process performs as efficiently as possible. As foreign investment in the United States has increased, so has the number of cases reviewed by CFIUS. As a result, the FY 2008 Budget request provides additional resources to support Treasury's investigations of foreign investments.

The President's FY 2008 request for Treasury also includes \$28.6 million for the Community Development Financial Institutions (CDFI) Fund. CDFI Fund's mission is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States. In order to ensure that the CDFI program continues to operate in the most efficient and effective manner, Treasury is proposing to phase out the CDFI Bank Enterprise Awards (BEA) program in 2008. There is no evidence that the BEA program improves economic development, and we believe that the program's goals are better served through other CDFI Fund activities.

### **Strengthening National Security**

The sponsorship of terrorism and potential acquisition of weapons of mass destruction (WMD) by rogue regimes and non-state entities represent grave threats to U.S. national security and the security of all free and open societies. Terrorists, WMD proliferators and other non-state threats require support networks through which money and material flow. The Treasury Department draws on financial and other all-source intelligence, and also works to utilize its unique regulatory and law enforcement authorities, to combat national security threats and safeguard the financial system.

The Department's Office of Terrorism and Financial Intelligence (TFI) provides financial intelligence analysis, develops and implements systems to combat money laundering and terrorist financing, administers the Bank Secrecy Act, and administers and enforces the U.S. Government's economic sanctions programs.

Treasury exercises a full range of intelligence, regulatory, policy, and enforcement tools in tracking and disrupting terrorists' support networks, proliferators of weapons of mass destruction, rogue regimes, and international narco-traffickers, both as a vital source of intelligence and as a means of degrading their ability to function. Treasury's actions include:

- Freezing the assets of terrorists, proliferators, drug kingpins, and other criminals and shutting down the channels through which they raise and move money;
- Cutting off corrupt foreign jurisdictions and financial institutions from the U.S. financial system;
- Developing and enforcing regulations to reduce terrorist financing and money laundering;
- Tracing and repatriating assets looted by corrupt foreign officials; and
- Promoting a meaningful exchange of information with the private financial sector to help detect and address threats to the financial system.

The FY 2008 President's Budget will enable Treasury to enhance these capabilities. Treasury requests funding for investments to further the Department's national security mission in three critical areas. First, this budget, if enacted, will enable Treasury to expand its capacity to identify potential national security threats and to enforce U.S. policies to counter those threats. Next, Treasury will enhance the information technology and physical infrastructure of TFI and its component bureaus and offices to improve data security, access, and quality. Finally, the Budget would provide funds to help integrate TFI's Office of Intelligence Analysis into the broader Intelligence Community.

Specifically, this request includes an additional \$5.3 million to respond to emerging national security threats, provide strategic policy coordination in regions key to the fight against terrorist financing, and to enhance implementation of sanctions against state sponsors of terrorism and WMD proliferation. The request also includes \$8.1 million for infrastructure and information technology projects to enhance data access, security, and quality, including construction of a Sensitive, Compartmented Information Facility (SCIF), stabilization and maintenance of the Treasury Foreign Intelligence Network, and the Critical Infrastructure Protection program. Finally, \$1 million is requested for initiatives to further Treasury's integration into the broader intelligence community.

The Financial Crimes Enforcement Network (FinCEN) is responsible for administering the Bank Secrecy Act (BSA). The FY 2008 Budget request provides funding to strengthen recovery capability for mission-critical information technology systems and emergency operation capabilities; and improve information technology planning and oversight.

### **Managing U.S. Government Finances**

The Treasury Department manages the nation's finances by collecting money due the United States, making its payments, managing its borrowing, investing when appropriate, and performing central accounting functions. Key priorities in managing the government's finances include maximizing voluntary compliance with tax laws and regulations, continually improving financial management processes, and financing the government at the lowest possible cost over time. The FY 2008 Budget request provides the funding necessary to properly administer these functions.

#### **Collecting Taxes**

Collecting taxes in a fair and consistent manner is a core mission of the Treasury Department. Treasury's priorities in tax administration are enforcing the nation's tax laws fairly and efficiently while balancing taxpayer service and education to promote voluntary compliance and reduce taxpayer burden. In an effort to maximize tax compliance, the FY 2008 Budget includes \$11.1 billion for the IRS, which is an increase of \$498 million above the amount provided in the FY 2007 funding levels.

The FY 2008 Budget request provides funding to enhance coverage of high-risk compliance areas, as well as to address the tax gap,

which represents the annual difference between taxes owed and taxes collected, including a multi-year research effort that will provide continuous feedback on noncompliance. Enforcement will focus on critical reporting, filing, and payment compliance programs, and highlight abusive tax avoidance transactions and high income individual examinations involving pass-through entities (e.g., partnerships and trusts). The IRS will also continue to reengineer its examination and collection procedures to reduce audit time, increase yield, and expand coverage. As in FY 2006 and FY 2007, the Administration proposes to include IRS enforcement increases as a Budget Enforcement Act program integrity cap adjustment.

The IRS will continue efforts to improve services offered to taxpayers, primarily focusing on those outside of traditional telephone access. For example, the FY 2008 request provides funding to expand the Volunteer Income Tax Assistance program. The IRS will also implement the Taxpayer Assistance Blueprint, a five year strategic plan to deliver taxpayer service; a collaborative effort of the IRS, the IRS Oversight Board, and the National Taxpayer Advocate.

Finally, the FY 2008 request will allow the IRS to make critical IT infrastructure upgrades. IRS will continue to invest in technology, process improvements, and training to achieve consistent quality service with reduced costs. The Budget also includes funding for the IRS's Business Systems Modernization program, which is designed to provide IRS employees the tools they need to continue to administer and improve both service and enforcement programs.

The President's Budget also includes a number of legislative proposals intended to improve tax compliance with minimum taxpayer burden. Once implemented, it is estimated that proposals will generate \$29 billion over ten years. These proposals are presented in detail in the FY 2008 Department of the Treasury Blue Book. The legislative proposals fall into four categories: expand information reporting, improve compliance by businesses, strengthen tax administration, and expand penalties.

Treasury's Alcohol and Tobacco Tax and Trade Bureau also collects excise taxes on alcohol, tobacco, firearms, and ammunition. In FY 2006, the Bureau collected \$14.8 billion in excise taxes, interest, and other revenues on these products and also regulates the manufacture of alcohol and tobacco products.

#### Ensuring Efficient Fiscal Service Operations

The FY 2008 Budget request provides the funds necessary for Treasury to meet its responsibilities as the federal government's financial manager.

Treasury's management of the federal government's finances includes making payments, collecting revenue, preparing public financial statements and collecting delinquent debt owed to the federal government through the Financial Management Service (FMS). Treasury oversees a daily cash flow in excess of \$58 billion and disburses 85 percent of all federal payments. The Department is working to improve its payments and collections processes by moving toward an all-electronic Treasury. In FY 2006, Treasury issued 742 million electronic payments including income tax refunds, Social Security benefits, and veterans' benefits. Treasury is also encouraging Social Security and Supplemental Security Income recipients to switch to Direct Deposit through the Go Direct campaign. Direct Deposit represents a cost savings to the federal government, and consequently to the American taxpayer, of 80 cents per transaction compared to a check payment.

Treasury's Bureau of the Public Debt manages all of the public debt, which includes marketable securities, savings bonds, and other instruments held by state and local governments, federal agencies, foreign governments, corporations, and individuals. To improve debt management and offer better customer service, Treasury offers TreasuryDirect, an electronic, web-based system that electronically issues securities to retail customers and enables investors to manage their accounts on-line.

The Budget also includes three legislative proposals for FMS that are estimated to save the federal government over \$3 billion over ten years. These proposals will allow the government to trace and recover federal payments sent electronically to the wrong account, eliminate the ten-year limitation on the collection of delinquent non-tax federal debts, and remove the disincentive for the IRS to refer tax debts to FMS for collection.

#### Strengthening Financial Institutions

One of the principal objectives of the Treasury Department is to enable commerce. The Department is responsible for the safety and soundness of national banks and federally-chartered savings associations. The Treasury Department also produces the coins and currency needed for commerce, and guards against counterfeiting and other misuse of our money. While the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the U.S. Mint (Mint), and the Bureau of Engraving and Printing (BEP) are funded through direct annual appropriations, their contribution to Treasury's mission cannot be understated.

Treasury, through OCC and OTS, maintains the integrity of the financial system of the United States by chartering, regulating, and supervising national banks and savings associations. In FY 2006, OCC and OTS oversaw financial assets held by these financial institutions totaling \$8.1 trillion.

The Mint and BEP are responsible for producing the nation's coins and currency, respectively. In FY 2006, the Mint and BEP produced 16.2 billion coins and 8.2 billion paper currency notes, respectively. The Mint issued five new quarters for the 50 State Quarters program and BEP introduced the new \$10 currency note into circulation. Also, despite significant increases in the price of metals, the Mint was able to return \$750 million to the Treasury General Fund in FY 2006.

## **Managing Treasury Effectively**

Treasury is committed to using the resources provided by taxpayers in the most efficient manner possible. The Department will drive improved results through decision-making that considers performance and cost. The Treasury Department strives to serve its stakeholders in the most effective way while working to leverage resources across the Department and across government.

Funding requested in Treasury's Departmental Offices and Department-wide Systems and Capital Investments Program (DSCIP) is sought for building a strong information technology infrastructure, ensuring that Treasury remains a world-class organization that meets the President's standard of a citizen-centered, results-oriented government.

The DSCIP account funds technology investments to modernize business processes throughout Treasury, helping the Department improve efficiency. In FY 2008, Treasury requests \$18.71 million for ongoing modernization and critical information technology infrastructure projects, and for investment in other new technologies that will improve efficiency and service to the American people. The budget request includes:

- \$6 million to begin work on a Treasury-wide Enterprise Content Management System. The initial system will meet the business requirements of the Office of Foreign Assets Control and the Financial Crimes Enforcement Network;
- \$2 million for the continued stabilization of the Treasury Secure Data Network; and
- \$4 million to improve Treasury's FISMA performance, strengthen the Department's overall security posture, leveraging the President's Management Agenda, including the E-Government initiatives, across the Department.

This budget request also includes funding for the Office of the Inspector General and the Treasury Inspector General for Tax Administration. These offices play important oversight roles in the overall management of the Department and the fair administration of the nation's tax laws.

## **Conclusion**

Mr. Chairman, thank you again for the opportunity to come here today to discuss with you and the Committee the President's FY 2008 Budget request for Treasury. I look forward to working with you and the members of the Committee in ensuring that Treasury maximizes its resources and funding so that the American people can be assured that their tax dollars are being used in the most effective way possible. I would be more than happy to answer any questions.