

U.S. DEPARTMENT OF THE TREASURY

Press Center



Testimony of Secretary Lew before the Senate Appropriations Subcommittee on Financial Services and General Government

3/3/2015

WASHINGTON - Chairman Boozman, Ranking Member Coons, members of the Subcommittee, thank you for giving me the opportunity to appear before you today to discuss Treasury's Fiscal Year 2016 Budget.

As we meet here this morning, our economy and our country have made considerable progress that we can all take pride in. By almost every metric—from job creation, economic growth, and deficit reduction to manufacturing, exports, and energy independence—America has come a long way. The fact is, in 2014, we saw the best year of job growth since the 1990s, and over the past five years, America's businesses have created nearly 12 million new jobs—the longest stretch of sustained private sector job growth in our nation's history. Our economy continues to expand, with healthy growth in 2014 and forecasts projecting above-trend growth for this year. We continue to outperform our trading partners, many of which are still struggling to recover from the global economic crisis. American exports set another record last year for goods and services sold overseas, and this record was largely driven by small businesses. And our deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year.

These achievements underscore America's enduring economic strength, and the continued progress we can make with the right policies and bipartisan cooperation. The President's budget is a blueprint for Washington to work together. It not only lays out a path to find common ground, it puts forward sensible solutions to make sure every American who works hard has a chance to get ahead.

This budget knocks down barriers for working families so things like child care, mortgage payments, and a college education are more affordable. It modernizes our job training system, fuels research and development, and repairs our roads, bridges, and ports so more companies will invest, locate, and hire in the United States. And it reforms our tax system so we can eliminate special-interest loopholes, strengthen the middle class, and level the playing field for businesses.

At the end of 2013, policymakers came together on a bipartisan basis to partially reverse sequestration and to pay for higher discretionary funding levels with long-term reforms. We have seen the positive consequences of that bipartisan agreement for our ability to invest in areas ranging from research and manufacturing to strengthening our military. We have also seen the positive consequences for the economy, with an end to mindless austerity and manufactured crises contributing to the fastest job growth since the late 1990s. The President's Budget builds on this progress by reversing sequestration, paid for with a balanced mix of commonsense spending cuts and tax loophole closers, while also proposing additional deficit reduction that would put debt on a downward path as a share of the economy.

Meanwhile, the President has made clear that he will not accept a budget that reverses our progress by locking in sequestration going forward. Locking in sequestration would bring real defense and non-defense funding to the lowest levels in a decade. As the Joint Chiefs and others have outlined, that would damage our national security, ultimately resulting in a military that is too small and equipment that is too old to fully implement the defense strategy. It would also damage our economy, preventing us from making pro-growth investments in areas ranging from basic research to early childhood education and our nation's infrastructure. As the President has stated, he will not accept a budget that severs the vital link between our national and economic security, both of which are important to the Nation's safety, international standing, and long-term prosperity.

As part of the President's approach, Treasury's budget request will allow the department to carry out its vast responsibilities efficiently and effectively. Treasury plays a key role in shaping and implementing the President's economic policies. Today's request will allow the department to promote economic prosperity, fiscal responsibility, and a resilient financial system even as it advances our national security objectives and bolsters stability at home and abroad. The Treasury Department touches the lives of nearly every American through our work to responsibly manage the government's finances, streamline and reform the tax system, fuel lending to small businesses, spur economic development in struggling communities, advance our strategic interests, make Social Security payments, and produce and modernize our nation's currency.

Since President Obama took office, the Treasury Department has had to marshal its resources to confront deep domestic and global challenges, and we have consistently met our obligations efficiently and at the lowest cost to the taxpayer. Treasury's Fiscal Year 2016 budget continues to achieve savings and fund vital programs alongside strategies that will make the department more effective. The

request includes strategic investments in improved taxpayer services, enforcement, and technology at the Internal Revenue Service (IRS); funding for select high priorities such as implementing the Digital Accountability and Transparency Act of 2014; and increasing the availability of healthy food options for low-income communities via the Healthy Food Financing Initiative.

Investing in a high-performing Internal Revenue Service

Despite the IRS's critical role of collecting more than 90 percent of the federal revenue, Congress has continually reduced funding for the agency over the last five years by a total of \$1.2 billion or 10 percent. A sustained deterioration in taxpayer services combined with reduced enforcement activity could create serious long-term risk for the U.S. tax system, which is based on voluntary compliance.

The Fiscal Year 2016 Treasury Budget includes a \$1.3 billion increase within the discretionary caps to begin restoring taxpayer services to acceptable levels. Funds are also included to continue major IT projects, which aim to protect taxpayer information, modernize antiquated systems, continue development of a state-of-the-art online taxpayer experience, and build efficiencies throughout the agency. Finally, funds are included for initiatives that are critical to full and effective IRS implementation of legislative mandates including the Affordable Care Act and the Foreign Account Tax Compliance Act.

In addition, the Budget includes \$667 million -- financed by a proposed program integrity cap adjustment for enforcement initiatives — that provide a high return on investment. This proposed cap adjustment funds strategic investments that will help close the tax gap and return \$6 for every dollar invested, once fully implemented in Fiscal Year 2018. This multi-year effort is expected to generate \$60 billion in additional enforcement revenue at a cost of \$19 billion, thereby reducing the deficit by \$41 billion over the next ten years.

Treasury's request includes substantial investments to help strengthen taxpayer services and to adequately fund tax enforcement to make sure all taxpayers play by the same rules.

Increasing transparency in federal financial management

The Treasury Budget also includes funding for efforts to increase transparency and accountability in federal financial management and to implement the Digital Accountability and Transparency Act of 2014 (DATA Act). The DATA Act requires additional federal spending data to appear on USA Spending.gov as well as the establishment of government-wide financial data standards for any federal funds made available to or expended by federal agencies and entities receiving these funds.

Strengthening the economy and creating job opportunities

The Treasury Budget request makes key investments that will help spur economic growth and job creation and increase financial access and capability for local communities and small businesses, while boosting confidence in the safety and soundness of the U.S. financial system.

Our request includes \$233.5 million for the Community Development Financial Institutions (CDFI) Fund, which promotes economic development investments in low-income communities. The Budget proposes to extend the CDFI Bond Guarantee program through Fiscal Year 2017, to provide a source of long-term capital to financial institutions that support lending in underserved communities. Of the total request, \$35 million for the Healthy Food Financing Initiative will support the growth of businesses that improve the availability of affordable, healthy food options in low-income communities.

The Treasury Budget also supports small business growth through reauthorization of the State Small Business Credit Initiative (SSBCI). From Fiscal Year 2011 to Fiscal Year 2013, SSBCI programs in all 50 states supported over \$4.1 billion in loans and investments to 8,500 small businesses across the country — creating or saving more than 95,000 American jobs. To continue our support for state economic development agencies' work to boost lending to small businesses, the Budget proposes a new investment of \$1.5 billion for SSBCI. This additional funding would be awarded in two allocations, with \$1 billion awarded on a competitive basis to states best able to target local market needs, promote inclusion, attract private capital for start-up and scale-up businesses, strengthen regional entrepreneurial ecosystems, and evaluate results. An additional \$500 million will be allocated to states according to a need-based formula. A new authorization of the SSBCI program will keep local economic development efforts strong and allow states to continue to support small businesses, job creation, and leverage greater levels of private lending and investments.

Treasury also proposes an authorization of \$300 million for Pay for Success projects that demonstrate measurable outcomes, resulting in greater federal savings and programmatic efficiency.

Protecting national security interests and preventing illicit use of the financial system

Treasury's financial intelligence, sanctions policy, and enforcement activities play a significant role in protecting our financial system from threats to our national security.

The Budget proposes \$109.3 million for the Office of Terrorism and Financial Intelligence (TFI) to oversee and marshal Treasury's intelligence, enforcement, and economic sanctions functions in support of U.S. national security policies and interests. Our funding request reflects Treasury's continued efforts to combat rogue nations, terrorist facilitators, money laundering, drug trafficking, and other crime as well as other threats to our nation's security. These efforts include disrupting the Islamic State of Iraq and the Levant's (ISIL) finances, enforcing sanctions against Iran, implementing sanctions against Russia in support of Ukraine's stability, and enhancing global financial transparency.

Treasury's request also includes \$113 million for the Financial Crimes Enforcement Network (FinCEN) to support Treasury's efforts to safeguard the financial system from illicit use, combat money laundering, and support national security interests through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

Supporting international assistance programs

Finally, while not under this subcommittee's jurisdiction, I also want to note that Treasury's request on its International Programs aims to promote our national security, open new markets for U.S. exporters, and address global challenges such as food insecurity, the environment, and poverty. Treasury proposes to increase the U.S. quota in the International Monetary Fund (IMF) and simultaneously reduce, by an equal amount, U.S. participation in the IMF's New Arrangements to Borrow. The Administration believes that a strong and well-resourced IMF is in the U.S. vital interests. Our priority has been and remains to secure Congressional support as soon as possible to implement the 2010 reforms. The immediate ratification of these reforms is essential to modernizing the IMF's governance and bolstering its ability to respond to urgent international crises — and will preserve the United States' influence in the institution without increasing our financial commitment. Failure to ratify will hurt our national security both today and in the future.

Furthering Wall Street Reform, Consumer Protection and Financial Stability

Reforms like increased capital standards and limits on excessively risky practices, among others, are transforming the way Wall Street operates, strengthening our financial system and making it more resilient. In the coming year, Treasury will continue to work with the federal agencies to finalize efforts in areas such as compensation reform. Likewise, through the Financial Stability Oversight Council, we will continue to work across the member agencies to assess risks to financial stability and work to mitigate them where needed. Going forward, we must remain vigilant to potential new threats to the stability of the financial system, constantly monitoring how risks change and evolve.

Conclusion

The Fiscal Year 2016 Treasury Budget reflects key investments needed to create economic and job opportunities, protect our national security interests, and the integrity of the financial system, and manage and reform the U.S. government's federal financial management and tax systems.

The Treasury Budget plays an important role in the President's Budget, which aims to bring middle class economics into the 21st Century. It is carefully designed to make our economy stronger while maintaining a responsible fiscal course. What is more, it is an opportunity for bipartisan cooperation to achieve meaningful reform that will help hard-working Americans share in our economic gains.

In closing, I want to thank the talented team of public servants at the Treasury Department. They are dedicated to the work of the department and committed to the American people. I am proud to represent them here today, and on behalf of these hard-working men and women, I want to say how much we appreciate the support of this Committee.

Thank you, and I look forward to answering any questions that you have.

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