HEARING TO RECEIVE THE ANNUAL TESTIMONY OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE INTERNATIONAL FINANCIAL SYSTEM

HEARING

BEFORE THE

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HEARING TO RECEIVE THE ANNUAL TESTIMONY OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE INTERNATIONAL FINANCIAL SYSTEM

Tuesday, March 20, 2012

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [vice chairman of the committee] presiding.

Members present: Representatives Hensarling, Royce, Biggert, Miller of California, Capito, Garrett, Neugebauer, McHenry, Bachmann, McCotter, Pearce, Posey, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hayworth, Renacci, Schweikert, Grimm, Canseco, Stivers, Fincher; Frank, Waters, Maloney, Watt, Sherman, Meeks, Capuano, Hinojosa, McCarthy of New York, Miller of North Carolina, Scott, Green, Cleaver, Ellison, Donnelly, Carson, Himes, Peters, and Carney.

Mr. HENSARLING [presiding]. This hearing will come to order.

The purpose of the hearing today is to receive the annual testimony of the Secretary of Treasury on the state of the international financial system.

The Chair would note the very notable absence of our chairman today, Chairman Bachus, who is undergoing a minor surgical procedure. He is expected to rejoin us tomorrow. He regrets his absence.

Pursuant to Rule 3(f)(3) of the Rules of the Committee on Financial Services for the 112th Congress, the Chair announces that the recognition of opening statements will be limited to the Chair and Ranking Minority Member of the full Committee and the Chair and the Ranking Minority Member of the Subcommittee on International Monetary Policy and Trade or their respective designees, for a period not to exceed 16 minutes, evenly divided between the Majority and the Minority.

Without objection, all Members' written statements will be made a part of the record.

The Chair now recognizes himself for 5 minutes for an opening statement.

Clearly, our economy is linked and intertwined with many others, especially Europe's. Almost all agree that Europe's failure to adequately address its debt crisis can adversely affect our domestic economy. The President has gone so far as to say, "The biggest headwind the American economy is facing right now is uncertainty in Europe."

I respectfully disagree. Given current domestic exposures to European debt, hedging strategies in place, and current account balances, I do not believe Europe's problems are as threatening to us as they once were. The greater threat to our economy is that Europe will successfully confront their debt crisis and we will not successfully confront ours.

Although the dollar remains the world's reserve currency, we are beginning to see some chinks in that armor. And although our economy still remains the flight to safety, the question is, for how long? Interest rates remained historically low due to the Fed's tripling its balance sheet. But this massive intervention is just masking true market interest rates that are making it easier for the Administration to service the debt on the Nation's first, second, and third trillion-dollar-plus deficits. Everyone knows our debt is unsustainable, and as economist Herb Stein once famously observed, "If something cannot go on forever, it will stop."

Beyond the unsustainable debt, the Administration has stated that there are some encouraging signs in our economic recovery, and I agree. But after 3 years, there continue to be too many discouraging signs. Unemployment has now exceeded 8 percent for 37 straight months, the longest span of high unemployment since the Great Depression. When one adds in the people who have simply given up and left the labor force, and those who have part-time work yet seek full-time work, the true unemployment rate should actually be considered to be 15.2 percent. According to the World Bank, the ease of starting a business in the United States has now fallen from 4th in the world to 13th. According to the Census Bureau, almost half of the Nation is now classified as either low-income or living in poverty. Gas prices have doubled.

If this too-slow and too-weak recovery had achieved the average growth rates of the 10 previous post-war recessions, GDP per person would be $4,528 higher and 13.7 million more Americans would be working today.

The American people know we can do better. And perhaps more importantly, as they see Europe grappling with their debt crisis, they see no evidence that we are confronting our own. Since the President took office, the national debt has increased 45 percent, from $10.6 trillion to $15.4 trillion, debt held by the public—gross debt, rather. In the budget the Administration just released a few weeks ago, they would add another $11 trillion on top of it.

And what is most ironic as we convene a hearing that will largely focus on the European debt crisis is that when you look at the numbers, the United States has a worse debt-to-GDP ratio than does the eurozone. There is no greater threat to our recovery than our own fiscal trajectory. Unfortunately, the President's approach to Europe appears to be, "Do as I say but not as I do."

Now, the President knows what the cause is. He has said, "The major driver of our long-term debt is Medicare, Medicaid, and our healthcare spending. Nothing comes close." I agree. But there is nothing in his budget to reform, save, and secure these programs.

And I am not the only one to take note. The Los Angeles Times has editorialized, "It is past time for the Administration to lay out a credible plan for bringing the deficit and debt under control. Sadly, President Obama's budget proposal shows that he would rather wait until after the election to have that reckoning."

The Boston Herald editorialized, "President Barack Obama has apparently decided that he is not going to be part of the solution to the Nation's enormous deficit, which would make him, yes, part of the problem."

As we discuss issues facing the eurozone, I want to make two things exceedingly clear: one, we cannot continue to ignore our own unconscionable and unsustainable debt; and two, U.S. taxpayers should not be expected to, and cannot afford to, bail out foreign countries. I am encouraged that the Administration has stated that it does not plan to seek additional funding for the International Monetary Fund (IMF.) But the IMF has announced its intention to further expand its lending activity through bilateral loans. When it does, U.S. taxpayers will be increasingly exposed to greater risk, as the United States has a 17½ percent equity stake in all IMF loan operations.

The IMF is venturing into uncharted territory. Never before has it loaned money to countries on the scale that it has to Greece, Ireland, and Portugal. I hope in our discussion today, the Secretary will shed light on what we can expect the Administration to propose on a long-term plan that will prevent the United States from beginning on the road to becoming the next Greece.

Mr. Secretary, I look forward to your testimony.

I will yield back the balance of my time. At this time, the Chair recognizes the ranking minority member for 5 minutes.

Mr. FRANK. I am pleasantly surprised that in the last 30 seconds of his statement the chairman managed to talk about the subject of this hearing. But most of it was, I think, a somewhat inaccurate partisan attack on the general fiscal policy of the United States.

I remember a time when there were people on the conservative side who accused liberals of taking a "blame America first" strategy and saying everything was America's fault. Apparently that practice has switched sides, because we have a situation in which, as Mr. Bernanke said—people sometimes forget that Ben Bernanke was the single most important economic appointee of President George W. Bush, first at the Council of Economic Advisors, then at the Federal Reserve. And Mr. Bernanke has agreed with President Obama that the European situation is one of the major threats to our being able to continue our recovery.

And at a time when it is generally recognized by economic analysts that America did a better job of dealing with the crisis than Europe, and where America has been helpful in trying to get Europe to move but where there were still serious problems, the chairman said, no, it is America's fault; that Europe should be, apparently, the example for us, even though, if you look at developed-world economies today, America is performing far better than any of the European economies. The European economies are not doing nearly as well in economic growth as we are. But the chairman would rather make a partisan attack on the Administration.

When he does get to the international situation, it seems to me that he gets it very wrong. He does acknowledge that there is some impact from the European debt crisis, but he is somewhat critical of our efforts to deal with it, particularly the IMF. The notion that we should use our voting power on the International Monetary Fund to keep them from participating in a tripartite effort to deal with the European crisis is economic self-destruction.

The fact is that the IMF is playing a very important role. It has been somewhat successful so far in helping. And a decision today that America was going to prevent any IMF participation in an effort to stabilize the financial situation in Europe would have a disastrous effect on the American economy. Now, a disastrous effect on the American economy would also have a negative effect on the President's chances for reelection. Perhaps that mitigates, in some people's minds, the negative economic effect. But the notion that we should try to block the IMF from constructive participation is economic mindlessness.

And then, though, we did talk about the deficit. And, again, the chairman seems to be oddly blaming America first when he contrasts the Europeans' view on debt and their actions to ours. The Europeans have one great advantage with regard to trying to cut their debt: They have outsourced their defense to the United States taxpayer. If the European nations, our NATO allies, the EU members, were spending a percentage of their GDP comparable to ours, their debts would be far greater. And, conversely, if we were to be able to reduce our GDP spending on defense to being only, oh, maybe twice what the average European one is, we would be making greater progress.

The chairman quotes the President saying Medicare and Medicaid are the greatest drivers. I don't recall in exactly what context the President said that, but I think that is wrong. I think that the excessive military spending, which in some cases does more harm than good, such as in the war in Iraq, and which is increasingly I think showing to be futile in Afghanistan, but the United States taking over, as it has since World War II, the defense for Japan, the defense for Germany, the defense for other wealthy nations, that is a major factor. So to talk about the Europeans as models of how to deal with their debt, and to denounce America for higher debt and ignore the fact that a major part of that is that we are carrying their defense, let's join in cutting it.

And I would say on that, I am having a hard time reconciling my Republican colleagues' professions that it is important to cut the deficit and keep taxes the same with a decision to go into Syria, with a decision to get more military involvement earlier in Iran, with a criticism of the President for talking about withdrawing from Afghanistan, with a criticism of the President for getting out of Iraq. I do not understand how many of the Republicans who were critical of the President for not spending tens and tens and perhaps hundreds of billions more on the military over the next few years than he is predicting reconcile that with the notion that we must cut the deficit.

And now, like the chairman, I will close by getting to the subject. We have a very important issue here. There is a debt crisis in Europe that is threatening America. We have the best performing of the developed-world economies, but it is not doing good enough. One of the major threats to that would be a crisis in Europe. I support what the Administration and the Federal Reserve have done to deal with that, and that includes support for the IMF.

Mr. HENSARLING. The Chair now recognizes the chairman of the Subcommittee on International Monetary Policy and Trade for 3 minutes, the gentleman from California, Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman.

Mr. Secretary, it is good to have you here today. It has been a while since we have seen you. Under Secretary Brainard has been very available to us and very informative in helping us on issues.

There is just a concern today. I know you recall when we went through our crisis in 2007, Europe was very cautious in staying over there, and "that was an American problem." We are very cautious in that way, too. The IMF has been very good in giving them technical advice and direction on what they should do to resolve their exposure to the European crisis, but we are concerned that it is not transported over to us. We understand the nexus between trade and the financial services sectors that we have between our countries. But this hearing today is very important because we need to really understand where we are going, where the Administration is going, and where we end up. And we don't want to end up with their debt in our lap. The American taxpayers are very concerned about that. And that is not an accusation; it is just a genuine concern.

I have said all along that this European problem is a European problem. There is no doubt at all that we are connected with them, but we need to insulate U.S. taxpayers from the problem and its being exported over to us. There is a huge interconnectedness between trade and the financial markets, and that is a good reason for this hearing today. And I hope you can give us your objectives and share with us your insight on where you think we are going on that.

There is a serious concern raised in Congress that IMF's resources are going to be used in the eurozone, and if that happens and we are their largest shareholder in IMF, that is going to be used as a bailout for Europe and it is going to be a burden falling back on us. I hope in your comments today you can address that, because that really is a huge concern for us. We are just trying to come out of our crisis. And I am going to restate again, when we were going through our worst time, Europe—and you dealt with it, because I remember reading about your involvement—was very concerned that it not be a European crisis, that it was a U.S. problem, and we need to resolve it ourselves. And this committee has the same belief. Yes, we are concerned about Europe. Yes, we are concerned about their crisis. We want to assist them in any way we can. But the financial burden should not fall back on this country to resolve their problems over there.

Some of the major regulations the Administration is imposing will have the effect of imposing that burden on us, we believe, especially in our financial sectors, because they are not adopting similar policies to what we are adopting over there, and it is going to put us at a real financial disadvantage. The Volcker Rule is a great example. There is not a European country that seems to want to comply with the regulations placed on our companies. And if they don't, what position does that put the American companies at a disadvantage to the European countries in the future?

If we are ever going to get out of the situation we are in today—and we are moving slowly in a recovery—we cannot put the financial services sector at a disadvantage, and I believe the Volcker Rule would do exactly that. So I am hoping the Administration looks at that and says, if imposition of regulations and requirements on financial sector services companies here in the United States are not being looked at in the same way in Europe, and our countries are put at a disadvantage, then something wrong is occurring. And I hope you will look at that in a proactive way and try to help American companies and help the economy.

I see my time has expired. I yield back. Thank you.

Mr. HENSARLING. The Chair now recognizes the designee of the ranking minority member of the subcommittee, Mr. Carney of Delaware, for 3 minutes.

Mr. CARNEY. Thank you, Mr. Chairman.

I am down here, Mr. Secretary. Thanks for coming today. I am eager to hear your perspective on the situation in Europe and, in particular, the threats that situation poses for the recovery here in the United States.

I really have two main questions. The first is, can Greece be put on a sustainable path forward? Greece has had austerity measures imposed on it to address its fiscal crisis, and, clearly, its current fiscal path is unsustainable. But, at best, the benefits of these structural reforms are long-term. And can Greece get over it in the short term, I think is the question.

They have very incredibly difficult political decisions to be made as to whether or not they can and should impose more austerity and what the costs might be to the political situation. We have heard the reports this week about political dissent in Europe.

As a member of the EU, Greece doesn't have one of the main tools that most countries otherwise would have, which is to devalue its currency to grow, to sell outside of the country and respond that way. And so, they seem to be caught in a bind; they have the worst of all worlds. They have the austerity imposed on the people, and yet they don't have the ability to grow out of it with a devalued currency. And so I would be interested in your thoughts on that.

The second concern is the implications of a prolonged crisis on the United States and, in particular, the exposure that U.S. banks have to credit default swaps, Greek debt, and that type of thing. We have had other discussions in this committee and in other venues about that question, and I would be interested in your view of that.

And I would also be interested in knowing your thoughts as to what extent that the reforms of Dodd-Frank have improved our ability to understand those risks and to mitigate against them? Dodd-Frank, as you know, was designed to promote transparency, monitor systemic risk, and ensure that U.S. financial institutions can withstand shocks to the system. The question is simple: Have these reforms enabled us to do that? Have they given us more information? Do we understand the exposure and the systemic risk that exists for major U.S. financial institutions and markets?

Again, I want to thank you for being here today, and I look forward to hearing your views on these particular issues.

I yield back.

Mr. HENSARLING. Secretary Geithner, welcome back to the Financial Services Committee. Without objection, your written statement will be made a part of the record, and you will be recognized for 5 minutes to summarize your testimony.

The Chair wishes to announce for the benefit of all Members that the Secretary has a hard stop time of 12:30. Please observe the 5-minute rule and plan accordingly.

Mr. Secretary, welcome again. You are recognized.

STATEMENT OF THE HONORABLE TIMOTHY F. GEITHNER, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Thank you, Congressman Hensarling, Ranking Member Frank, and members of the committee. Thanks for giving me a chance to come before you today and talk particularly about developments in Europe, but I will also be happy to answer any other questions you have about the United States or the broader global economy.

Europe is, of course, a key strategic and economic partner of the United States, and we have a huge stake—a huge economic stake, and a huge national security stake—in the success of Europe's efforts to contain its crisis. Our economy, as you acknowledged, is gradually getting stronger, but we still face a lot of tough challenges ahead as a country.

As you know, in early 2009, the U.S. and the global economy were facing the clear and present danger of a second Great Depression. And we acted, with the Federal Reserve and with Congress, to pull the U.S. and the world economy back from the edge of the abyss. We successfully stabilized the financial system, and we restarted economic growth.

And over the past 2½ years, despite the crisis in Europe, despite the rise in oil prices early last year, despite the disaster in Japan, despite the huge damage to confidence in the United States caused by the threat of default on the U.S. Government's obligations for the first time in history, despite all those challenges, our economy has grown at an average annual rate of about 2½ percent over the last 2½ years. Over the past 2 years, the private sector has added nearly 4 million new jobs. Private investment and exports are expanding rapidly, much more rapidly than GDP as a whole. And we are seeing quite broad-based strength across the American economy in agriculture, in energy, in manufacturing, and in high-tech.

But of course, looking forward, we still have a lot of work to do to repair the damage caused by the crisis. Unemployment is still very high, as you all know, and the housing market is still very tough. And we still face a challenging and very uncertain global economic environment, with Europe still facing a long and very difficult crisis, and the risks surrounding Iran, which are adding to upward pressure on oil prices.

In that context, the context of oil markets, I just want to welcome very much the statements made by the Saudi authorities over the last couple of days that they will take further action to increase the supply of oil to global markets—a very constructive signal.

China's exchange rate has now appreciated significantly in real terms against the dollar, not just over the past 5 years but over the past 20 months or so. And although they still have a ways to go in achieving a more market-oriented exchange rate that better reflects economic fundamentals, we are seeing very substantial growth in U.S. exports to China.

We have acted with the rest of the world to significantly strengthen and reform the international financial institutions over the past 3 years—IMF, the World Bank, and others. And I want to express particular appreciation for the support of this committee, the bipartisan support of this committee, in those efforts.

We are making a lot of progress—and I would be happy to talk about it in more detail—in strengthening global standards for financial reform, global standards in oversight over the global financial system so that U.S. firms who compete in those markets face a more level playing field even as we put in place tough reforms here in the United States.

Now, a few things on Europe. Over the past few months, with our encouragement and support and with the support of the IMF, Europe's leaders have been making some progress in putting in place a more effective, comprehensive strategy to deal with their crisis.

And this strategy has had four key elements. The first element is economic reforms in the member states to restore fiscal sustainability, to restructure their banking systems, and to improve their competitiveness, boosting their longer-term growth prospects. The second element is institutional reforms, including what they call a fiscal compact, that established stronger disciplines on the fiscal policies, the budget policies of the member states to limit future deficits and the level of debt as a share of GDP. The third element is a coordinated strategy to recapitalize the European financial system, alongside some guarantees for bank funding. And the fourth element is a firewall of funds, of financial funds, to provide financial support to governments that are undertaking reforms so that they can borrow money at sustainable interest rates.

The European economies that are caught up at the center of this crisis have put in place some really very tough reforms over these last 18 months or so. And these reforms have been aided and assisted by very substantial actions by the European Central Bank. And together, those efforts—reform with the firewall and a more active ECB—have helped calm financial market tensions.

But I think it is very important for us all to recognize that Europe is still at the initial stages of what will be a very long and difficult path of reform, and that path of reform, of crisis resolution, presents significant risks to the American economy still.

For these economic reforms in Europe to work, the policymakers in the euro area have to carefully calibrate the mix of financial support they are providing and the pace of fiscal consolidation they are embarking on. And that is important to recognize because the economic reforms will not work without financial support that allows the governments to borrow at affordable interest rates. And if every time economic growth disappoints, if every time economic growth is somewhat weaker than they anticipate, if governments in that context are forced to cut spending and raise taxes immediately to compensate for the impact of weaker growth on deficits, then that would risk creating a self-reinforcing and really defeating, negative spiral of growth-killing austerity.

The most important unfinished piece of this broader financial strategy is to build a stronger European financial firewall, again, as a backstop for the governments undertaking reforms. They are now in the process of reviewing options for expanding the combined financial capacity of their two funds so that they can make it clear to financial markets that they have the resources available on a scale that is commensurate with the needs they might face were the crisis to intensify in the future.

The IMF, as you know, has played a very important role in Europe. The IMF has provided advice on the design of reforms, a framework for public monitoring of progress, and financial support for the programs in Greece and Ireland and Portugal, in partnership with the Europeans, which are assuming the majority of the financial burden, as is appropriate. And those actions, supported by the IMF, have significantly helped limit the damage from the crisis.

And it is very much in the interest of the United States that the IMF is able to continue its efforts in Europe. IMF's resources cannot substitute for a strong and credible European financial response, but they can help supplement those resources, supplement the resources Europe mobilizes on its own.

As you know, the IMF has played a major role in every post-war financial crisis, while consistently returning to the United States and other IMF members any resources they draw on, with interest. We have never lost a penny in our engagement with the IMF, and that is because our commitments to the IMF are backed by a very substantial set of safeguards, including a substantial amount of IMF gold.

However, over the past 18 months, as you know, the European crisis has hurt the American recovery. It has been a drag on growth in the United States and around the world. But Europe has pledged to do what is necessary to contain this crisis. They are making some progress on this path. But they are going to need continued support and reinforcement, and this process is going to take a lot of time.

Thank you, Mr. Chairman. I would be happy to respond to your questions.

[The prepared statement of Secretary Geithner can be found on page 60 of the appendix.]

Mr. HENSARLING. Thank you, Mr. Secretary.

The Chair will yield to himself.

Mr. Secretary, I am certainly heartened by the Administration's statement that you do not intend to seek more resources for the IMF. I remain somewhat confused, though, because 2 years ago there was an agreement on behalf of the Administration to double our quota to IMF.

So the first question is, if you do not plan to seek additional funds now, do you have a timetable in which you will?

Secretary GEITHNER. Excellent question. Let me see if I can respond.

It is true that, first, in the spring of 2009, we joined with countries around the world at that moment of crisis and reached a global agreement to substantially increase the resources available to the IMF in that time of emergency. And then, subsequent to that, we reached agreement internationally on a set of reforms that would change the governance structure of the IMF, adapt it a bit to better suit the challenges facing the world, and to shift a little bit the balance of those resources between what is called the quota resources of the IMF and what is called the new arrangement to borrow, which is like a supplemental reserve fund. And we have negotiated internationally, and we will come to the Congress at the appropriate moment to request authorization for those reforms to take place. But those proposals do not increase the resources available to the IMF.

Now, in the present context, the IMF still has about $400 billion of uncommitted loanable resources available to respond to the challenges of its members. And the IMF has a long history, if necessary, in short periods of time, of mobilizing temporary resources if they need it to respond to a crisis.

We don't see the case for asking the IMF's shareholders to agree to another increase in IMF resources to lessen the burden on Europe. Europe is a very rich continent. They have the capacity to solve this problem. And we don't want to see the IMF's role substitute for—

Mr. HENSARLING. Mr. Secretary, if I could, I thank you for that. As you know, we have limited time here. I would like to get on to my next question.

Sometimes what I consider obvious around here is not obvious to others. We have disagreements with the Administration. Many of us believe that the appointment of Richard Cordray was both unlawful and unconstitutional. Obviously, the Administration has a differing viewpoint. We will set that debate aside.

It also appears obvious to many of us that if the Administration changed its mind and wished to increase U.S. contributions to the IMF, our belief is that you would have to come to Congress to do that.

So my question is, does the Administration have a differing view? Do you have legal authority, outside of coming to Congress, to increase the IMF contribution?

Secretary GEITHNER. No. Under the laws of the land—and I fully support this; I think it is good for this country—we cannot loan money to the IMF without coming to Congress to authorize that increased contribution.

Mr. HENSARLING. The next question then, Mr. Secretary: Setting aside the Federal Reserve's liquidity swap arrangements, in your opinion, does the Administration have any other legal authority outside of the IMF quota to provide any type of grant, loan, loan guarantee, or any other financial assistance to the European countries?

Secretary GEITHNER. I do not believe so.

You are right to refer to the Fed's authority. The Fed has authority Congress provided to provide swap lines and other forms of assistance. Outside that, it is like any matter of spending under the U.S. Constitution. Congress has the power of the purse. You get to decide and you control authority over what type of commitments we can make.

There is, I think, one other exception. Congress has given the President what is called the Exchange Stabilization Fund, which is where we hold the foreign reserves of the United States. And there are authorities we have in that context to act to help provide stability in markets and this kind of thing, but they are not really relevant in this context.

Mr. HENSARLING. Mr. Secretary, notwithstanding the fact that the Administration currently will not be requesting additional funds for the IMF, obviously the IMF has announced their intentions to engage in a number of bilateral agreements, which, as I understand it, would require only a 50 percent vote of the IMF, meaning the United States could not essentially veto such an effort.

But won't the increase in the IMF's bilateral borrowing from other countries to the tune of $500 billion substantially increase taxpayer exposure to the European periphery?

Secretary GEITHNER. Excellent question. And it would depend on how those resources are used, the terms on which they are provided, and the safeguards that attach to them. As you would expect, we would care a lot about making sure that if the IMF were to pursue those agreements, that they were done on terms which would not disadvantage the U.S. financial position in the IMF.

Mr. HENSARLING. Thank you, Mr. Secretary.

The Chair now recognizes the ranking member for 5 minutes.

Mr. FRANK. Since the question of the nomination to head the Consumer Financial Protection Bureau (CFPB) came up, I would like to say that I do agree there was a gross violation of the Constitution involved: That was the refusal by the Republican Senators to allow a confirmation to take place. They did not have any objection to any individual nominee. They announced that because they didn't like the outcome of the legislative process, they were going to hijack the confirmation process to try and extort a change—clearly violative of the constitutional requirement that they treat a nomination on its merits.

Secondly, I do agree that we have excessive American taxpayer exposure to Europe. It is called "NATO." And in 1949, when it was founded, and since then, there have been hundreds and hundreds of billions of dollars, it made a lot of sense. It doesn't make any sense today. And, again, if we equalize defense expenditures between America and our wealthy European allies, our debt situation would be much better. Theirs might be a little worse.

On the IMF, Mr. Secretary, I must say that, given the danger that exists for our economy if the European situation does not continue to be somewhat stable, the notion that we should try to discourage the IMF from participating is hard for me to understand. But I also want to, because I think there is a misunderstanding about the extent to which we have a taxpayer exposure, I am going to ask you in writing to give us a list of how much our contributions to the IMF have cost us in budget terms over the years.

But would you expound? The last time the United States increased our contributions to the IMF, do you know what the net budgetary cost was, according to the Congressional Budget Office?

Secretary GEITHNER. We have had 60-plus years of experience with the IMF through a whole rich variety of crises. And we have never lost a penny of taxpayers' money in that context because the IMF was designed in a way—and we made sure this was the case—that any U.S. taxpayers' exposure would be fully protected.

Mr. FRANK. And that included, of course, substantial intervention in the Asian crisis in the 1990s by the IMF?

Secretary GEITHNER. Throughout the debt crises of the 1980s, the 1990s, and even this crisis—

Mr. FRANK. So, in fact, the IMF, to date, has not had any net negative impact on the American taxpayer.

Secretary GEITHNER. No. And I cannot envision a circumstance in which it would, because we are very careful in terms of what the IMF does.

Mr. FRANK. So if we were try to get the IMF to not do anything, we would be increasing the risk to our economy at no savings to the American taxpayer.

Secretary GEITHNER. I agree. In fact, it would be much worse than that, I think. If the IMF were unable to play its role in this context, then we would face much weaker growth here in the United States, much more risk to our broader financial system, and U.S. exports would be weaker, U.S. businesses—

Mr. FRANK. I would be interested if you would give us, too, the CBO. And I think, if necessary, we should increase our quota, because it makes a great deal of sense. We buy a lot of stability for no net—but I would be interested if you would send along the CBO thing there.

Now, I do want to be honest. The swap between the Federal Reserve and the European Central Bank that was referred to, as I recall, that did have an impact on the American taxpayer. Would you explain what that impact was?

Secretary GEITHNER. On all the Fed programs, the Fed earned a substantial positive return to the taxpayer. I don't know exactly the return on the swap lines. They have been—

Mr. FRANK. But it was a profit for the American Treasury?

Secretary GEITHNER. And a very substantial profit.

Mr. FRANK. So, as a result of the swap, Mr. Bernanke sent you a check?

Secretary GEITHNER. That is correct. He sent it to the taxpayers.

Mr. FRANK. All right. I hope you thanked him for it.

Let me ask you now, Mr. Secretary—as I said before, we had this comparison of the European economies to the American, from the chairman, to our disadvantage. In terms of growth over the last couple of years, what is the comparison between the American and European, even the German, the best performing of their economies? What is the general comparative view?

Secretary GEITHNER. As you pointed out, U.S. growth has averaged, even in this early recovery—early years of recovery, roughly 2.5 percent, significantly stronger than Europe, probably twice the rate of growth in Europe as a whole, though Germany has done relatively well, and of course significantly stronger than Japan.

So it is fair to say that we are far ahead of Europe in dealing with our challenges in the United States, and our economy is looking better on really every measure than, certainly, the average of the major European countries.

Mr. FRANK. Last question: There has been a lot of concern about American banks' exposure to European financial institutions with credit default swaps, etc. If the financial reform bill that was signed into law in 2010 had been signed into law 2 years earlier, would that have had the effect of lessening the concerns we might have today?

Secretary GEITHNER. Absolutely. I believe that if the reforms Congress passed in 2010 had been in place 3 years before, or 5 years before, then our crisis would have been much less severe and we would have been in a much better position to manage the effects of the crisis and contain the damage on the American economy.

But today, because of those reforms and the actions we took to restructure the financial system in the crisis, U.S. banks are in a much stronger position and hold much more capital against the risks they take around the world. And that is a good thing for the United States.

Mr. HENSARLING. The Chair now recognizes the gentleman from California, Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you.

Mr. Secretary, the question has been asked about how in 2010, the Treasury made a commitment to double the quota, and then we have had some responses. But will the Treasury seek congressional authority to transfer funds from the U.S. portion of the NAB to the U.S. quota?

Secretary GEITHNER. Yes, we will.

Mr. MILLER OF CALIFORNIA. So you will be asking to do it in that fashion rather than additional funding?

Secretary GEITHNER. That is right.

Mr. MILLER OF CALIFORNIA. Okay.

In your testimony, you say that the reforms in eurozone countries will take time and won't work without the ability of governments to borrow at affordable rates. And I agree with that. But according to the Wall Street Journal, the Internal Markets and Services Commission of the Euro Commission says that the Volcker Rule could impair the ability of many countries to sell their bonds. And how can European countries borrow at affordable rates when they can't sell their bonds based on the Volcker Rule?

Secretary GEITHNER. You are right, Congressman. A lot of Europeans have expressed concern about that risk. And those are some among the many of the comments the Fed and the other rule writers have received about the initial draft proposed rule. The Fed is in the process of examining those comments.

We, Treasury, although we have no authority over the rules, play a coordinating role in the broader design of the rules. And we are going to take a very close look at how best to mitigate those concerns. And my view is that we will have the ability to do that.

Mr. MILLER OF CALIFORNIA. That is a glaring comment from them. And I appreciate your honesty in it, but the honesty alone sends a true message that there is a really serious problem with the Volcker Rule if it has this type of an impact, when we are looking at trying to assist Europe with the IMF as far as technical expertise, knowing that if we do something like this, it could really set them back. So I hope it is going to be a significant effort on your part to look at that.

It appears that jurisdiction will adopt rules comparable to the Volcker Rule—we have said there. Does the Federal Reserve have any regulatory tasks with implementing the Volcker Rule—perform the assessment of potential job losses that will occur in this country? If we are saying that the Volcker Rule is going to have a huge impact on the monetary system or financial sector system of this country and globally, that has to cost us jobs here in this country. Are you going to look at that too?

Secretary GEITHNER. Maybe I should clarify one thing. I do not believe that, despite the concerns expressed by governments and central banks, that the rule as drafted presents a meaningful risk to liquidity or credit in those countries. But, we are careful people, and we are going to look at all the concerns expressed by these rules. And it is my view that we have the capacity to address those concerns. It is very important we do that.

More broadly, of course, you are right to point out that in all these rules, we have to make sure we find the right balance. We need to create a more stable system in the United States that is good at providing capital to its best use, but we also have to make sure that we do so in a way that doesn't unduly damage the broader health of the American economy. I am very confident that we are getting that balance right. And we are going to be very careful to continue to make sure that, as we take in comments on draft rules, that where there is a case for adjusting a rule, we do that.

Mr. MILLER OF CALIFORNIA. But you used a good word in there, "meaningful risk." And you are in a tough position, I understand that. You are trying to balance many apples at the same time. But when you acknowledge a meaningful risk and we go to say that the eurozone is going to be impacted in their capability to borrow in some fashion because of the Volcker Rule—

Secretary GEITHNER. No, I don't think there is a meaningful risk. But, again, we are careful people, so we will look at any concerns, both by U.S. financial institutions, U.S. businesses, as well as foreign governments, as we look at the comments. I don't think there is that risk, but if there is, we will address it.

Mr. MILLER OF CALIFORNIA. How do you address the Wall Street Journal's comments then, when they said the Volcker Rule could impair the ability of many countries to sell their bonds? And you acknowledged that in some fashion.

Secretary GEITHNER. No, I don't—again, I don't think there is that risk. But it is something that we have the ability, under the law, to avoid.

The way the law is structured, there is a set of safeguards to protect the taxpayer and the system from firms taking risks with the safety net to finance proprietary trading and other activities like that. But the law is also designed to protect market-making and hedging.

So the exemptions—the law requires us to design exemptions for those activities for good reasons. But when you design exemptions, you have to make sure they don't swallow the rule, they don't undermine—

Mr. MILLER OF CALIFORNIA. But let's go back to our financial services sector. If we are saying that they are going to be under the guidelines and requirements of the Volcker Rule, and yet all these other countries are saying, "We are not going to do that because that would put us at a disadvantage," they are admitting a disadvantage, so by the act, in and of itself, we have to acknowledge that our financial services sector would be at a disadvantage.

Secretary GEITHNER. I don't—

Mr. MILLER OF CALIFORNIA. So that would be a meaningful risk to our financial services sector, I would think.

Secretary GEITHNER. I don't think so. But it is a very good point. So let me think about it this way. Obviously, we got the balance in the United States wrong. That is why we had such a devastating financial crisis. So we need to toughen our reforms. So if we move our reforms up here and the world stays here, we have a problem.

Mr. MILLER OF CALIFORNIA. And they are saying they are staying there.

Secretary GEITHNER. Not, not—I am coming to that. So, generally, we are trying to pull the world up to our standards.

Now, they have different systems than ours, and they might be a little different in some cases. And you are right to say that if they stay beneath us, then risk will just shift. We haven't helped the basic problem. But if we respond to that risk by just lowering our standards to theirs, then we will be in a race to the bottom and get ourselves in a big mess again. So it is a difficult balance for us to strike.

But, in general, it is not quite right to say that the Europeans aren't adapting a similar basic framework. They have different systems. The British are doing a much more radical separation of retail from wholesale financial activity—much more radical. And, of course, London—

Mr. MILLER OF CALIFORNIA. I wish we had more time on this one. It is a significant issue.

Thank you.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. McCarthy.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman. And I appreciate the opportunity.

Mr. Secretary, I apologize for not being here for your opening statement, but I did read it.

Recently the Europeans acted to restrict the service of secure financial messaging to the Iranian banks that have been sanctioned by the EU. As a result, the Society of Worldwide Interbank Financial Telecommunications, or SWIFT—and, to be very honest with you, you are going to need to explain that, because a lot of people don't know what SWIFT actually is—will discontinue service to these banks. And I do appreciate what you have been doing on the Department's effort to encourage the EU and the SWIFT to act in this manner.

What do you believe that the impact of this recent sanction action will be? And will there be an effort to mesh the U.S. list of sanctioned Iranian banks with the EU list?

Secretary GEITHNER. The combined effect of these latest sanctions, both to discourage countries from buying Iranian oil, or encourage them to cut back significantly, and to make it much, much harder for countries to pay for their oil from Iran and to pay for other financial activity with Iran, the combined impact of those sanctions is very, very substantial.

Europe has come a long way to matching the much tougher reforms we have had in place for some time. And their support has been very critical, of course, because we can't do this on our own. But we have had much broader cooperation even beyond Europe, because you are seeing Japan, South Korea—

Mrs. MCCARTHY OF NEW YORK. Right.

Secretary GEITHNER. —China, countries around the world really moving with us to tighten up.

Now, we are going to keep looking at ways we can bring more pressure to bear, and we are going to keep looking for what is the most effective balance of pressure we can bring to bear. But I think we are making really substantial, substantial progress. And our hope is, of course, that will alter Iran's calculations about their interests in pursuing a nuclear capability.

Mrs. MCCARTHY OF NEW YORK. Thank you.

Good, I have time. Europe is the biggest trading partner that we have in the United States, and the euro area accounts for almost 15 percent of U.S. goods and services exports. The National Export Initiative has set an ambitious goal of doubling exports by the year 2015, which is right around the corner.

If economic growth in the euro area declines, so will the demand for U.S. products and services. How will we continue on a path to achieving the NEI's export goal with absent or reduced European need?

Because I think people really don't understand how important it is for us here in the United States, for our businesses, for our small businesses. Certainly, on Long Island we do an awful lot of exporting. So how do you see that future coming to—

Secretary GEITHNER. You are absolutely right that Europe has a big impact on the United States because it is so large and because we have such a huge network of trade and financial ties with Europe.

And the effects on us come through a variety of different channels. If they grow more slowly or fall into a recession, then the direct demand for things American companies create and produce is reduced. That hurts us directly. But the effects go significantly beyond that, because when Europe slows, the rest of the world slows, too. So that means growth outside Europe is weaker. That hurts American business exporters. When Europe is in crisis, as we have seen over the last 18 months very painfully, you tend to see stock prices fall around the world. That is very damaging to confidence here and around the world.

And the typical pattern has been when Europe has been in a crisis, this is a good sign of confidence in the United States, but the dollar has risen relative to the euro. And so that is another effect on the United States in this context.

But you are right to say the effects are very significant. It has been one of the major factors that has kept growth in the United

States slower than we would like. It is not the only factor but one of the most important factors. If they are stronger in the future, that will be stronger for us. And that is why, again, it is so important that we encourage them and work with them to help them get their arms around this problem.

Mrs. MCCARTHY OF NEW YORK. And I think that is what the American people need to understand. Because when I go back home, everybody says, why are we giving all this money overseas? But it is actually for our benefit. And being that we do take money in on both projects, IMF, export, it is actually money coming back into our pockets.

Secretary GEITHNER. And no risk to the taxpayer in that assistance because, again, we have—and as does the Fed—very careful safeguards that have been tested over a long period of time through lots of crises in this context. So there is an overwhelming and compelling economic and national security interest we have in working carefully through the IMF and what the Fed is doing to help them manage this crisis.

Mrs. MCCARTHY OF NEW YORK. Thank you. My time is up.

Mr. HENSARLING. The Chair now recognizes the gentlelady from Illinois, Ms. Biggert, for 5 minutes.

Mrs. BIGGERT. Thank you, Mr. Chairman.

And welcome, Secretary Geithner.

Title V of the Dodd-Frank Act created the Federal Insurance Office (FIO) at Treasury. And in conjunction with State regulators and the U.S. Trade Representative, one of their most important missions is to strengthen the international competitiveness of the U.S. insurers and reinsurers. And FIO is to represent the United States in international forums and increase U.S. influence in the development of international insurance standards.

In your opinion, does FIO have adequate staffing and other resources to successfully carry out this international mission?

Secretary GEITHNER. I believe so. But if that were not the case, we would fix it. We have listened carefully to the concerns people have. And I am personally very committed to making sure that office has the resources it needs.

Mrs. BIGGERT. Okay. FIO was required to submit two reports in September and one in January, and they are late. When will we see those reports?

Secretary GEITHNER. You are right, they are late. And they are coming, they are getting closer. We have just been a little busy, and I apologize for the fact they are a little behind. But that is not really a resource question; it is just that they want do it carefully.

Mrs. BIGGERT. Okay. Then I would like to go back to something Mr. Miller was talking about, the Volcker Rule. And I know that there have been associations like SIFMA that have commented, their comment letter dated February 13, 2012, regarding how the Volcker Rule proposal is prohibiting proprietary trading presumptions. And it seems like they are saying it is inconsistent with explicit congressional intent to allow useful principal activity. Could you address that?

Secretary GEITHNER. Again, there have been a lot of concerns expressed about the initial proposed rule. Maybe I should go back a little bit. When the law was passed, Congress required the Treasury Department to put guidance out to rule writers about how the rules should be designed, the regs should be resigned. And that guidance we proposed was met by really quite a lot of support on all sides of the political spectrum.

But when the rule came out, as drafted by those four regulators, as you have seen, there has been a broad set of concern, both sides: too tight, too loose, too weak, too complex. And it is the strength of our system that the way the system Congress has designed, we are required to put these rules out for public comment, and the regulators get to learn things from these rules.

So my view has always been that the stakes in this are very high, and we should take the time necessary to get these rules right. And I think that is certainly the case in this context. So I am sure that the Fed and the SEC and the CFTC and the FDIC are going to carefully evaluate those comments. And I am very confident they have the ability to address those concerns within the way the law is drafted.

Mrs. BIGGERT. Thank you.

One last question: China stands as one of the few major markets to impose substantial barriers to entry for American business, including financial services firms. And though you have stated publicly that the United States needs to level the playing field with China, they continue to have the most restrictive market for financial services in the G-20. And the newly released Development Research Center of the State Council/World Bank report entitled, "China 2030" agrees and calls for significant changes to the Chinese domestic financial system as they become more active internationally.

As the Chinese financial services firms expand into the United States, what steps are you taking to ensure that U.S. financial firms have the same access to China?

Secretary GEITHNER. That is a very important point, which is very important to us. And thank you for highlighting that World Bank report because it is a very sweeping, constructive set of suggestions for reform in China, including opening the financial sector.

I think it is very important that China move further to expand the opportunities for U.S. firms competing in China, alongside what they are doing to let the exchange rate move up. That is a critical part of both a successful reform process in China and it is necessary to be more fair to us.

So we are going to keep encouraging them to move further. We made some recent progress even just over the last 3 months in opening up parts of the insurance sector in China. But we have a ways to go, and we are going to keep at it.

Mrs. BIGGERT. Thank you.

I yield back.

Mr. HENSARLING. The Chair now recognizes the gentlelady from California, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much.

Mr. Secretary, I would like to thank you for being here today.

In your testimony, you said the European financial crisis has already caused significant damage to economic growth in the United States and around the world, and we have a strong interest in a successful resolution of the crisis. And I absolutely agree with you.

And having said that, let me commend you and the Feds for the work that you have done on this extremely important issue and crisis. You have been involved in unprecedented policy consultations, coordination, and information-sharing between political leaders, central banks, and international organizations. And I think that you have represented this country very, very well.

There are two policy initiatives that some of my friends on the opposite side of the aisle have criticized you about. I disagree with them. They were alluded to when you were speaking with Barney Frank. And that is swap lines and the agreement to borrow.

I think it is important for people to understand, as you have said, the Feds even made a little money on the swap lines. But why it—those two initiatives are very, very important, what it does in terms of providing liquidity to the central banks and why we stand to be served well by these two initiatives.

Secretary GEITHNER. Thank you for those questions.

Let me first say on the swaps, Europe has a much larger banking system than the United States, much larger share of their economy. And European banks borrowed a lot of money in dollars before the crisis to lend around the world. And when the crisis hit, because of concerns about the stability of Europe, they lost the ability to borrow in dollars.

Now, of course, the European Central Bank does not run a dollar-based currency system. That is what we do in the United States. And so, faced with that loss of the ability to fund, European banks had to cut lending sharply around the world, even in the United States. And so the swap lines, by providing that access to funding, significantly reduced the need and the pressure on Europe's institutions to cut lending in the United States and in emerging markets around the world where U.S. companies have big stakes and where growth matters to us.

So the swap lines were very, very effective in helping to soften the impact of the crisis on us and on countries around the world, and it would have been much worse for us without those lines. And, as I said, the Feds earned a positive return on those swap lines.

IMF's role is equally important. And what the Congress did in the middle of 2009 in authorizing the IMF to have a much larger emergency capacity was absolutely critical to getting trade around the world restarted, providing financing for countries around the world to borrow so they could buy American products. And we would have been in much worse shape and our economy much, much weaker without those two steps.

Ms. WATERS. I appreciate that.

And, as you have indicated, it certainly is in our best interest to help solve this crisis. I believe that, in addition to the cooperation that has been taking place by all of those interested parties, this is not a bailout. And those who term these initiatives as bailouts don't understand how important these two initiatives are to helping to stabilize this international economy.

So I want to thank you for the work that you have done. And, again, I want to reiterate that I think what you have explained literally helps us to understand, and I would hope helps the other side to understand, why this cannot be termed "bailout," but rather, “cooperation and assistance to make sure that we stabilize the international economy.”

I yield back.

Mr. HENSARLING. The Chair now recognizes the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you.

Mr. Secretary, I think you are on the record as saying that the U.S. contributions to the IMF are secure, the United States has never experienced a loss on any of its commitments, the American taxpayers have never lost a cent from the IMF program. And I appreciate that. But, Mr. Secretary, if you go back and look at testimony that has been brought before this committee and this Congress over the years, those were some of the same comments that were made about Freddie Mac, Fannie Mae, FHA, and the list goes on and on.

And so I think these are unprecedented times that we are in. We would have never thought that the U.S. Government would have had to take the actions it took in 2008. And so I think additional funding or commitments to the IMF are not risk-free. Would you agree?

Secretary GEITHNER. If I could just say, I would never have made the comments you referred to on Fannie and Freddie and FHA. And you are right, people have said all sorts of things in the past about us living in a world with no risk.

But the IMF really is exceptional in how it has been designed. And, as I said, we have 6 decades of experience, through terrible crises, of looking at whether those financial safeguards were tested and how did we do. So I am really very confident that those financial safeguards will protect the interests of the American taxpayer. And I think it would be much riskier for the U.S. economy for us to try to pull the IMF back from helping the needs of its members, whether in Europe or elsewhere.

Mr. NEUGEBAUER. I note in 2009 the CBO, when they were analyzing whether the proposal to increase by $108 billion, they did a net present value risk adjusted and said that the potential cost to the American taxpayers would be $5 billion. What would be your response to that?

Secretary GEITHNER. You are right, and they departed from decades and decades of practice in reaching that judgment, and I do not agree with it and do not share it. But you could think of that as an extreme precautionary balance in that context, and it doesn’t change my basic view that the structure of the IMF’s financial foundation provides very, very strong protections for the American taxpayer.

But, again, you know life is about alternatives, and the question is, would we be better off as a country if the IMF could not act in this basic context? And I think we would be much worse off.

Mr. NEUGEBAUER. But you didn’t paint a very rosy picture about the European situation. And, I think a lot of us think that this is just the tip of the iceberg and not the end of the iceberg. Obviously, if IMF makes additional commitments to that, it increases our risk portfolio.

Secretary GEITHNER. That is a good way to think about the question, and I agree that one should be very realistic about the challenges Europe still faces. A lot of risk is still ahead for them and for us. But the question we face is, what can we do? What can we best do to protect American interests in that context? And I think the things we are supporting, the very prudent, cautious, conservative steps we are supporting, will make us safer.

And I think for us not to take those actions, like the Fed has taken or the IMF, would make the European crisis more risky not just for Europe but for American companies. And that is why we think the path we are on is the right path.

Mr. NEUGEBAUER. I want to kind of follow up with some previous—you are responsible for FSOC, you chair that. And you put out some rules, and you all have been considering it, what significant financial institutions that can cause financial risk to the system. And to your credit, I think you put forth some fairly transparent rules.

But when we look at the international community right now, they are going through a process where they are not being as transparent. And a lot of these entities that are domestic companies that are looking at complying or determining where they stand with you, the international community is not as far along.

So is that process out of whack? And do we need to make sure that—you have heard me talk about harmonization between all of these various rules. Where are we in that process?

Secretary GEITHNER. That is a very good point. You are right that particularly in derivatives, we are really a long way ahead of Europe in designing that basic framework for oversight transparency in the derivatives markets. And the fact that they are behind us creates a bit of a problem because we want to be converged to the basically similar standards.

And that is one of the reasons why the rule writers in the United States have been a little slower than the deadlines established by Congress. In that context, like I think in many others, where they are being a little behind because they want to make sure they maximize the chance for alignment as the European regime takes shape.

But that is a very important question. We are concerned about it, too. And we want to make sure that we bring them along so we don't put U.S. markets at a disadvantage and just have the risks shift.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Maloney.

Mrs. MALONEY. First of all, thank you, Mr. Secretary, for your service.

I want to clarify one of the points. You were talking about the Ex-Im Bank, and you said that it never cost taxpayers absolutely 1 cent. I would like to—

Secretary GEITHNER. The IMF. But that is true of the Ex-Im Bank, too, I believe.

Mrs. MALONEY. Yes, both of them. Have they ever made a profit? And if they do, does it go into the Treasury? Does it go into the General Fund?

Secretary GEITHNER. When the IMF draws on the commitments we make, it pays us interest on those drawings. So, yes, in that sense, it returns our commitments with interest.

Mrs. MALONEY. So these are two programs that are creating stability in the economy and, obviously, in the Ex-Im Bank, creating exports and jobs and helping us build that 2½ percent to a higher percentage GDP. So it sounds like a good investment for the American taxpayer.

I wanted to ask you about, of all things, Libya. Last Friday, I was in Libya with Minority Leader Pelosi, and we were meeting with the transitional government. And there was a great sense of unity, a great sense of purpose, a great expectation for their elections taking place in June. And oil production is up, which is going to help the world economy.

And they were very concerned about Qadhafi, his family members and associates. The great wealth from this oil country was not going to the people or into their infrastructure or investing in any way. So, for 40 years, you don't see any investment for the people of the country. My question is, what happened to this money? Where is it?

The government said they wanted very much to work with you and the American Government and the international community to try to regain and recapture those resources to help rebuild the country and to help with this new democracy.

So I would like to know, are you working in any way, what steps are you taking, what are your plans to help this new emerging democracy?

Secretary GEITHNER. That is an excellent question.

We worked very quickly with countries around the world to freeze the assets of Qadhafi and his associates and the institutions they controlled very, very quickly. And we are now working very, very closely with the Libyan authorities and with those countries around the world to figure out how to recover as much of that wealth they essentially stole as possible.

And what we do know is that there is no meaningful amount of those assets in the United States. The assets that exist reside outside the United States.

Mrs. MALONEY. Did they have any in the United States?

Secretary GEITHNER. I don't think there is any material amount in the United States—not surprising because we have pretty tough protections.

But we believe we have frozen a substantial amount of resources, and now we have to figure out a way to help them recover.

Mrs. MALONEY. About how much? Is it hundreds of billions or—

Secretary GEITHNER. No, I don't think it is that large, in terms of how much we have actually frozen or identified. But it is very substantial relative to the needs of that country.

Mrs. MALONEY. Yes. Also, I have been corresponding with your office and you on the challenges for Americans living abroad. I represent many Americans who are working abroad, and they are reporting that they are having problems gaining access to bank accounts abroad. And I know that we have requested a meeting with your office—you have granted one in April; I want to publicly thank you for that—so that they can work out why they are being denied these bank accounts.

Your office is saying that there is no policy in the American Government that in any way denies American citizens or makes it more difficult for them, but the testimonials that are coming into my office tell a very different story. And I certainly support all of your efforts to improve tax compliance and to determine the ownership of U.S. assets, of foreign accounts. These efforts should not impair or hurt law-abiding American citizens.

And my basic question was really on the fact of the U.S. PATRIOT Act and the foreign bank and financial services. Basically, what are you doing to help accommodate American citizens so that legitimate American citizens are able to access bank accounts abroad? And with more and more people in the world economy, it is becoming a growing problem across the country.

Secretary GEITHNER. That is a very important question. And you are right, there have been a lot of concerns with the impact of this set of laws, particularly the, what we call in shorthand, FACTA and the FBAR rules. And we are working very closely to try to meet the congressional intent in making it harder for American citizens overseas to avoid U.S. taxes without putting undue burdens on their ability to have a bank account, for example.

And we are doing a lot of things to provide more time for banks around the world to adjust and to try to make sure that we are designing the rules in a way that creates a better balance between the important perspective you spoke to of preventing tax evasion but also make it easier for—a lot of Americans live overseas, earn a living overseas, and it is perfectly legal and needs to be possible for them to have bank accounts overseas.

So we have some work to do on that, and I am happy to work with your office and your colleagues on how to make sure we are as responsive as we can be to those concerns.

Mrs. MALONEY. Thank you very much.

Mr. HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, for 5 minutes.

Mr. GARRETT. Thank you, Mr. Secretary.

As you know, Fannie and Freddie, their losses are close to over $200 billion, and this dwarfs all other direct losses associated with the 2008 bailouts.

I believe that number actually would be a lot harder if it wasn't for the work of Mr. DeMarco over at the FHFA and the efforts he has made. I believe that the American taxpayers owe him a debt of gratitude for not allowing some of the various entities seeking to exploit Fannie and Freddie as cookie jars, if you will, to push their own agendas and take money out.

As you know, the Administration has pushed forward its own ideas, some not so effective, some I would say would be counterproductive, as far as housing initiatives. And you recently announced that more may be under way.

A month-and-a-half ago, the President announced HAMP version 2.0, which would seek to force taxpayers to essentially pay for other people's mortgages. And Mr. DeMarco released extensive reports about how taxpayer-paid principal reductions would be a net loser for the GSEs. There is also great concern with those programs about a moral hazard, as well, affecting the taxpayers for paying people's mortgages.

So my question is simply this: Given, I think, the tremendous job that Mr. De Marco has done over at the FHFA, what will the Administration's reaction be or position be if he decides and fails to adopt some of the new provisions of HAMP 2.0 because he believes that it has a tremendous cost to the taxpayers of this country?

Secretary GEITHNER. We have actually been working very closely with Mr. DeMarco. He has a tough job, as you said. And he has been really overwhelmingly supportive of the vast bulk of the initiatives we have proposed to help repair the damage in the housing market.

There are some areas where we disagree a bit. Of course, under the conservatorship mandate Congress designed for the FHFA, the Administration Secretary has no authority over the choices he makes in this area. But where we believe that the interests of the taxpayer and the broader housing market are best served by additional initiatives in this area, then we are going to continue to work to encourage him to adopt those, as we have quite successfully for the last 3 years.

On the issue of principal reduction you referred to, there is a very strong economic and financial case to provide principal reduction in some circumstances where people are deeply underwater and they have faced a hardship like the loss of a job. And that is why you are seeing banks and investors across the market doing principal reduction on a much larger scale in those particular areas. And we think there is a case for the FHA doing it, too, and we are going to work with them on that.

Mr. GARRETT. He has, as I mentioned, extensive reports showing why, in his opinion, it would be a net loss. Do you have a counterpart? Can you send us your extensive analysis, not of the banks but of the GSEs, and how your numbers compare to their numbers, why it would not be a net loss to—

Secretary GEITHNER. Good question. We are exactly in the context of working through that with him. So we want to make sure they are working off the same bases of facts.

Mr. GARRETT. Right.

Secretary GEITHNER. We look with a neutral, independent view about where there is a case for principal reduction and where there is a case for other choices for homeowners. And we are working through that with him.

Mr. GARRETT. Can you provide this office or this committee with those—I will call them reports, to document just where you stand and where he stands on the numbers? I know you are working through it.

Secretary GEITHNER. As—when we—let me say it this way. I would be happy to be responsive to that question and happy to work through where we think there is a good case for it.

Mr. GARRETT. Okay.

Switching gears completely, with regard to the $25 billion settlement agreement that has come out recently, one of the parties that were not at the table, so to speak, were the investors in the RMBS marketplace.

So my first quick question is, why, in your opinion, were they not at the table? Should they have been at the table? And aren't they really a party to this action because they will be the ones that will be hit by it?

Secretary GEITHNER. Good question. And the architects of this agreement, of which I was not one, did spend some time thinking about whether they should try a much more comprehensive settlement, including those investors at the same time, and they decided to do it in stages. But you are right that they and others were left out of that initial process, and that is still to come.

Mr. GARRETT. When you talk about—what does that mean, that it is still to come?

Secretary GEITHNER. There is a variety of efforts under way about how to resolve those separate claims.

Mr. GARRETT. That is a different issue. In other words, already with the settlement that is out there, this will or could affect those investors. And those investors are not just the huge investors, they are the 401(k) plans, the endowments, and what have you, which may represent our parents and grandparents, their pension funds. They were not at the table. But those investors, those individuals have already been affected indirectly or otherwise by this settlement agreement as the banks get the opportunity—or are compelled or encouraged to write down those mortgages.

Secretary GEITHNER. You are asking, have their interests been adversely affected by the fact that they weren't part of that?

Mr. GARRETT. Yes.

Secretary GEITHNER. I don't believe so, but I would be happy to talk to you about that and try to give you some—

Mr. GARRETT. Reason why not?

Secretary GEITHNER. —basis for that judgment.

Mr. GARRETT. All right.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you.

Mr. Secretary, it is good to see you again.

Let me first just pick up where my colleague, Ms. Maloney, had talked briefly about Ex-Im Bank. I know you have been talking a lot about the IMF. But we are faced to—and I think this conversation is going on in the Senate right now, about the reauthorization of Ex-Im Bank at a higher authorization level.

And I was wondering if you could just tell us or describe how the bank helps American companies and workers by providing financing for U.S. exports in countries that have less developed capital markets?

Secretary GEITHNER. Countries around the world subsidize exports. We do it in a way that is very, very careful to protect the taxpayer by forcing Ex-Im to charge companies for the subsidy they get. And that is why over time I think it is true that there has been no record of loss to the taxpayers through these programs.

If we don't do it, then other countries will steal business from American companies, and you will see fewer exports, and less jobs. That would be a mistake for the U.S. economy. If we stop, they will keep doing it. And it is not just Europe, it is China very, very aggressively, and Brazil. All sorts of other countries do it.

So, it makes no sense, it is not rational for us to unilaterally disarm in the hopes that, by doing that, somehow the world will stop. I don't think there is any case for that.

Mr. MEEKS. Thank you.

Now let me jump to Greece quickly, because we know Greece has a negative 9 percent growth rate and significant unemployment. But I believe, looking at some of your written statement, we talk about how we know there have to be some austerity measures, but austerity alone does not do it, and there have to be some competitiveness-enhancing reforms.

Could you discuss, as you did, I believe, in your testimony, some of the kinds of reforms that would allow competitiveness in the Greek economy as opposed to just simply reducing spending?

Secretary GEITHNER. Excellent question.

It is very important for people to recognize that there are, sort of, three basic problems facing these economies. In Greece, and really almost uniquely in Greece, they just let their government get too big, too generous, borrowed a huge amount of money to support that. They and almost the rest of them face a real loss of competitiveness relative to Germany because they make it very hard to start a business, very hard to use the talent of their countries more carefully. And they have financial systems that—we had a terrible crisis in the United States, but their financial systems were much larger, much more leveraged, and much more risky than even what happened in the United States.

So those three challenges of fiscal reforms over time, growth-enhancing economic reforms so that just in a simple way, it is easier to start a business, and financial systems that are brought down to Earth have a little more gravity in them—those things are what is necessary.

And it is going to be a very tough, very long, hard road. And it is important for people to recognize, as you did, that these reforms, which can work against growth in the near term, have to be supported not just by some conditional financial assistance, but those countries that are in a position to do more to support growth should do that. That would make the overall crisis easier to resolve and less risky for them in the world.

Mr. MEEKS. Now, let me—I am trying to combine two questions in the little time that I have left. The first deals with Greece again, about how it relates to or the impact it would have on the U.S. economy if Greece were to default and abandon the euro.

The second, which is a little different question, about Greece but also Italy: Given that the deputy governor of the Chinese central bank recently talked about how they no longer believe they need to allow their currency to appreciate, which means China is going back to try to keep theirs artificially low—so I was wondering what impact would the artificially low Chinese currency have on Europe's ability to, especially in Italy and Greece, be competitive internationally with respect to exports?

Secretary GEITHNER. Those are very good questions.

Greece itself is not large enough to cause a lot of damage to the United States. Greece matters a lot, though, because Greece's crisis hurt confidence across Europe and caused much of the rest of the continent to fall into recession. And if Europe can contain the risk of the Greek crisis spreading, Europe's crisis is likely to be much less damaging to us in the world. And they have the ability to do that.

On the Chinese question, Chinese currency is up about 14 percent in real terms against the dollar since the summer of 2010, I believe, about 40 percent up against the dollar in real terms over the last 5 years. But they have a ways to go. I think by most measures, the Chinese currency is still undervalued relative to the dollar and the currencies of Europe and Japan and other trading partners. And so you are right to remind people that by holding their currency too low, they are making it harder for their other trading partners to grow, including in Europe.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

As I listen to the language, the lingo being used here today, it sounds vaguely familiar to the time in 2008 when we were moving down the road to bail out Fannie and Freddie. I remember Secretary Paulson saying that if we insure 100 percent, we will never have to insure a penny of it. I think you were part of that working group. And now, I am hearing that if we insure Greece and Ireland and all of Europe, it is going to be in our best interest. And now Europe probably is in the category of "too-big-to-fail," and the American consumers are going to have to pay the bill.

I am fascinated with the conversation about the IMF not ever having failed. Just a couple of weeks ago, we had Christine Lagarde, the head of the IMF, here in this room, and she confirmed that maybe we did change loan terms, extend maturity dates, maybe we did change the terms of the loans—all to prevent defaults in the past. And so maybe that idea that we have never suffered a penny loss is a little bit of a rigged game, but we will leave it the way it is.

Basically, I am just seeing that the American taxpayers—Ireland has already bailed out their banking system, so now the government owes what the banks lost. You, back in 2011, made a comment that Fannie and Freddie—when we give these guarantees, it encourages investors to believe that the government is going to bail out bad actions and makes them take risks that maybe they shouldn't be taking. And so I am sitting here wondering abstractly, if we are going to bail out all of Europe, why would they quit taking risks?

Because, see, Michael Lewis in his book, "Boomerang," talks about how in Greece, it is a birthright not to pay your taxes. And why would the American consumer be stuck paying the bill for a country where it is a birthright not to pay your taxes?

Secretary GEITHNER. That is an excellent question. We are not going to put the American taxpayer or the American consumer in the position that they are taking risk—

Mr. PEARCE. Yes, but we are going to—

Secretary GEITHNER. No, we are not—

Mr. PEARCE. With the IMF, every loan at the IMF, if they were under the same rules as loans to the small, independent banks in America, would they still be called sovereign or would they be put under special watch or would the banks holding those be put on a special category?

Secretary GEITHNER. Oh, no comparison between those, again, because of the record of the—remember, the IMF is not just backed by a lot of gold; it is backed by the fact that any loan the IMF makes is senior to any other creditor. And IMF loans come with conditions no bank could impose. These are conditions—

Mr. PEARCE. But still, we have had to write down and we have had to change loan—we have put loans that are in arrears, we changed terms, we extend maturity dates. Now, if I were to change the question just a bit—

Secretary GEITHNER. Again, not a penny of loss to the American taxpayer in more than 6 years of history through all sorts of—

Mr. PEARCE. I understand, but Mr. Paulson guaranteed us that if we would guarantee 100 percent of Fannie and Freddie, that we would never have to pay a single dime. That was his guarantee coming into this Congress in 2008.

Secretary GEITHNER. I doubt he said that, but the situations are totally—they are not comparable in any way.

Mr. PEARCE. I know. It is just that the American consumer is going to get stuck again.

Secretary GEITHNER. No, that—

Mr. PEARCE. I have a vague belief—

Secretary GEITHNER. —it won't happen in this context.

Mr. PEARCE. As we consider people not paying their taxes—it is documented that over 100,000 people working for the Federal Government haven't paid their taxes—it is about a billion dollars. Has the Administration done one thing to start collecting that?

Secretary GEITHNER. I would be happy to provide in writing again to the Congress the range of—

Mr. PEARCE. Could we get a list of the people who haven't paid? Because I would like to put that on my Web page. I really think the American people would like to have that information. Because there is a category of people in this country who believe they are beyond paying taxes, just like they do in Greece. And I think it is one of the things that people are fed up with.

Now, I noticed that in your testimony you talked about Saudi Arabia increasing the output. Why is the United States not increasing its output? In other words, the President is going to my district tomorrow to talk about oil and gas production in the very three-county area where the Fish and Wildlife Service overturned a 6-year collaborative effort to protect the lizard as an endangered species. That lizard has the potential of killing all the oil and gas production in that area, which totaled the surplus—we were in a deficit last year in New Mexico—that three-county area totaled the surplus of $150 million.

Why would the President be shutting down production in this country while he is asking Saudi Arabia to increase production?

Secretary GEITHNER. U.S. production across the country of oil and gas is expanding dramatically and will continue to do so. And that is a good thing for the country.

But, of course, we have to follow the laws of the land and what Congress has passed and the requirements Congress has passed to make sure that production exploration comes with—

Mr. PEARCE. If I could take my time back, I only have about 11 seconds.

The science that was used was steadfastly disproved. Even the BLM said this is a slap in the face, what this other—the Fish and Wildlife Service did. So I would be happy to continue the conversation on that.

Secretary GEITHNER. Could I say one thing, Mr. Chairman? This is very brief. Because this is a very important question.

You raised the concern, Congressman, that when the IMF or Europeans provide assistance to the nations of Europe that it is going to encourage further profligacy in the future. That is an understandable concern. But I would just draw to your attention how incredibly tough the conditions are that are coming with that assistance.

If you look at what Greece, Ireland, and Portugal have done as a condition for those reforms, and if you think of what Italy and Spain are doing now for similar objectives, they are very, very tough reforms. And I think that helps offset the risk you would have and we would all have that if you put money on the table that is going to reduce the incentive for those things.

Mr. HENSARLING. The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. I would like to yield to the ranking member for a few minutes.

Mr. FRANK. I feel compelled to be a little bipartisan and come to the defense of the Bush Administration. There was a previous comment that Secretary Paulson, when Congress accommodated his request finally, after we came to power, to give him the authority to put Fannie and Freddie into conservatorship, he guaranteed that there would be no taxpayer losses. He never did any such thing.

He said that if we passed the legislation in the form in which he asked, it would greatly diminish that likelihood. It was not able to undo past mistakes. It is the case that since 2008, we haven't lost any money, but that is simply not what Mr. Paulson said. He said he hoped that this would be able to stave off the lawsuits, but he never gave anything remotely close to such a guarantee.

Mr. CAPUANO. Reclaiming my time, Mr. Chairman. After that eloquent defense of the Bush Administration, which I am not used to coming from the ranking member, I am kind of thrown off my game a little bit.

Mr. Secretary, I thought today's discussion was supposed to be about the international financial system, so I would like to get to that a little bit. I have heard from some other Members that they think that Europe is basically handling their problems better than we are handling our problems. I guess that is one opinion, and that is fine.

But I would like to ask, in the European problems they have had, have any of the major European countries significantly reduced their tax burden in the last 3, 4, 5 years?

Secretary GEITHNER. I do not believe so, and I think most of them are going rapidly in the other direction.

Mr. CAPUANO. I am under the same impression, but I thought I would ask you. I figured you would know better than I would. I would like to offer for the record a little table that I got from the Organization of Economic Cooperation and Development, the OECD, which is a 50-year-old organization that represents 34 countries, 24 of which are European.

It is a simple table that simply compares the tax burden as a percentage of GDP. And it shows the United States, of these 34 countries, actually ranks 32 of 34. And it shows that one of the countries that allegedly is somehow more competitive than us, Germany, their tax burden is actually 55 percent higher than the United States' tax burden. That is the OECD, not me.

And the United Kingdom, another country that a few weeks ago this committee was debating that they are somehow stealing all our IPOs, they have a 42 percent higher tax burden than the United States. Greece has a tax burden which is 25 percent higher than the United States. Even Turkey's tax burden is higher than ours. The only two countries that have a lower tax burden than ours are Chile and Mexico on this particular list. So I would like to submit that for the record.

And I ask this, Mr. Secretary, because we have heard that if Europe is somehow doing a good job dealing with their issues and all they are doing is one side of the ledger, which is the austerity measures, which is fine, am I wrong to think that the United States has made significant cuts in the last few years through budgets?

Secretary GEITHNER. Yes. Congress reached an agreement last summer to cut more than $1 trillion in spending over the next 10 years. And if you look at what CBO said, for example, about what the impact of the President's proposed policies on the budget, they would reduce our deficits dramatically over the next 5 years to a level where the debt would stop growing as a share of the economy. So we are making progress on those fronts, but we want to be careful to do it in a way that doesn't hurt growth.

Mr. CAPUANO. A balanced approach. My goodness, how unique.

I guess I would like to ask, as a sidenote, those cuts that we have had, do they somehow exempt the IRS from those cuts? Are they exempted from cuts?

Secretary GEITHNER. Congress has been reducing the resources available to the IRS for customer service and enforcement, thus hurting, by all independent measures, the IRS's capacity to collect taxes.

Mr. CAPUANO. So while we are cutting the IRS, we are now demanding that they collect taxes owed to us—which I actually think is a good thing. In my former life, when I actually thought that making money was a good thing, I was a tax attorney. And I was always happy to see the IRS cut, because my clients had less concern, and that was fine by me. So while we are saying, "Cut the IRS," we are saying, "But they should collect more somehow from tax delinquents." I guess at some point someone will educate me as to how that works.

But I want to get back to the European model. Has anybody suggested, that you know of—is there any serious suggestion to increase U.S. taxes to the German model of a 55 percent increase across-the-board?

Secretary GEITHNER. No, we would not support that. No one has proposed that. And—

Mr. CAPUANO. Has anyone suggested that, do you know of, anyone who is a thoughtful and significant person?

Secretary GEITHNER. Not that I am aware of. In fact, even with the President's proposals on tax reform, which, as you know, would raise the tax burden on the top 2 percent of Americans, the effective tax rates on those Americans would still be very, very low compared to those that prevail in any country.

Mr. CAPUANO. My time is running out, Mr. Secretary. Thank you.

And I would just like to thank the gentleman from the other side who suggested by implication that we should adopt the European model and double our taxes. It is amazing to me that anyone would suggest that, even—

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for being here. I can't imagine what it is like to get up 3 or 4 days a month and know you are going to have to come up to the Hill and get a little bit grilled, so I do admire you for the courage and the stamina that you have.

While we are talking about taxes, you had said previously that being an American is a privilege and that wealthy Americans should pay more just for being in America. Do you still believe that?

Secretary GEITHNER. I believe, as does the President, that there is no plausible way for us to address the many economic challenges facing the country, including our unsustainable fiscal deficits, without asking those most fortunate few to pay a modestly higher percentage of their income and taxes. I do believe that, and I think that is very important. I don't see how we make any progress on these sets of things without that.

Mr. WESTMORELAND. So you think that anybody who doesn't want to pay taxes or pay more taxes would be more un-American than—

Secretary GEITHNER. No, no, I wouldn't—

Mr. WESTMORELAND. —somebody who is stepping up to volunteer but doesn't pay?

Secretary GEITHNER. No, I wouldn't say—in fact, nobody wants to pay more taxes. Nobody wants to have to ask them to pay more taxes. But the problem we face, of course, is that if we don't do that, then what are we going to do? Because we can't go borrow a trillion dollars to afford those tax cuts. And if we ask somebody else to pay higher taxes to afford them, that would not be fair.

Mr. WESTMORELAND. But if you look at being governed, I guess, or living in this country, half of the people in this country don't really pay any taxes.

Secretary GEITHNER. That is not really fair, Congressman, because, as you know, it doesn't capture the taxes they pay for Social Security and Medicare. So when people say that share of Americans don't pay income taxes, it is not quite true because Social Security and Medicare are—all Americans pay a portion of their income to cover partial of the costs of those programs.

Mr. WESTMORELAND. But not in regular taxes, correct?

Secretary GEITHNER. Every week their paychecks are deducted, as a share of income, a tax to cover the cost of—

Mr. WESTMORELAND. But at the end of the day, they pay no income tax.

Secretary GEITHNER. No—well, it is true that a small fraction of the poorest Americans—this Congress has decided, and there has been a bipartisan consensus on this for a long period of time—

Mr. WESTMORELAND. So it is not true—you are saying it is not true that half of the—

Secretary GEITHNER. It is not true.

Mr. WESTMORELAND. —Americans do not pay any tax.

Secretary GEITHNER. The only way that is true is if you say somehow the tax we charge Americans against income for Social Security and Medicare does not count as an income tax.

Mr. WESTMORELAND. I am not talking about Social Security or Medicare. I am talking about your Federal income tax that you get and file on a 1040 form.

Secretary GEITHNER. I don't think we are really disagreeing. It is true Americans pay different types of taxes. They pay an income tax, and they pay a tax against income for Social Security and Medicare.

Mr. WESTMORELAND. That is what I am—

Secretary GEITHNER. And most Americans, the vast majority of Americans, pay both those taxes.

Mr. WESTMORELAND. Okay, so the vast majority of them. So you disagree with the statistic that says that half of all Americans do not pay any income tax?

Secretary GEITHNER. I do, because it doesn't count their Social Security and Medicare taxes.

Mr. WESTMORELAND. Okay. Yes. And I think we will—but if you don't count those two taxes, do they pay anything?

Secretary GEITHNER. But why would you not count them? Because they are—

Mr. WESTMORELAND. Because I don't want to count them right now. I am just asking you a question. Let's just have a hypothetical question that you don't count those; do they pay any?

Secretary GEITHNER. You can count them or not, but they pay taxes for those things, those Federal programs, as a share of income.

Mr. WESTMORELAND. Okay.

Secretary GEITHNER. They pay them every 2 weeks.

Mr. WESTMORELAND. All right. Let's go on to something—according to the Treasury Department, Chrysler has paid their bailout.

Secretary GEITHNER. We did take a modest loss on the Chrysler programs, and we will take a loss on the GM programs, too. But the auto industry is—

Mr. WESTMORELAND. What do you consider a modest loss?

Secretary GEITHNER. I don't recall the actual numbers in Chrysler. And, of course, in GM, it depends on how things turn out over time. But both of those companies have hired a huge number of people back to work. They are doing very well. People are buying their cars.

Mr. WESTMORELAND. Let's just talk about Chrysler. What is the modest loss that you think the eventual will be? I am anxious to see what you think is modest.

Secretary GEITHNER. It is done. It is done, and it is booked. Maybe this is a way to think about it: More than fully offset by the more than $20 billion in investment income we earned on the investments in banks. That would be one way to think about it.

Mr. WESTMORELAND. I don't know if I am not asking the question correctly or you just don't want to answer it. But what amount is the government going to have as a loss from Chrysler?

Secretary GEITHNER. Because I don't want to get the number wrong, I would like to give it to you in writing. But it is already a matter of public record.

Mr. WESTMORELAND. Is it close to $1.3 billion?

Secretary GEITHNER. It is probably close to that, maybe a little bit higher.

Mr. WESTMORELAND. Yes, $1.3 billion. That is more than "modest" to me. I don't want to argue with you. But I do appreciate you coming, and you have great experience doing—

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Hinojosa, for 5 minutes.

Mr. HINOJOSA. Thank you, Mr. Chairman.

Thank you, Secretary Geithner, for sharing your testimony today.

Much of the focus of the media, like CNN and Bloomberg, as well as this congressional body, has been on the tremendous debt crisis in Europe. However, substantial lack of economic growth and low GDP also looms large over the economic recovery of the eurozone. In the fourth quarter of 2011, the eurozone's economy contracted, albeit at a slower pace than expected. Some of those countries had their ratings downgraded because of those big problems.

What is your prediction for the duration and the depth of a eurozone recession in 2012? And what sort of drag would a European recession, as they have today, have on the growth of the U.S. economy?

Secretary GEITHNER. Let me start with this. If you think about where things were in the fall of last year, when most of the world thought we were living with the real risk that Europe would suffer a catastrophic financial failure, we are in much better shape today because they have been successful in calming those financial tensions and people are more confident that they are going to do what is necessary to hold the thing together.

But even under the most optimistic scenario of the impact of those reforms, this is going to take a very long time, and growth in many of those countries is going to be very weak for a long period of time. And that is why it is so important—and if it is weak, it hurts us, it hurts the rest of the world, less than we feared, though, 6 months ago. And that is very important. So even though they have a long way to go, we face less risk of damage to the United States and to the global economy because of the cumulative impact of the actions they take.

You are right to focus on the growth prospects. And, I think it is good to—we can hope that now that they have a bit more breathing room, because they have taken off the table the risk of a catastrophic financial failure, maybe they have some more time now to try to focus on things that would improve growth over time, and that would be good for us.

Mr. HINOJOSA. I agree with you, the situation 6 months ago versus today, that we are much better off. But I would like to hear your thoughts about any measures being considered in the eurozone to address the severe unemployment which we understand that that they have, especially in its young people, in countries such as Greece, Portugal, and Ireland.

How concerned are the eurozone leaders about the international financial system and the possible long-term effects of severe social unrest that we see on TV in Athens, Greece; in London; in Italy; in Portugal; and in other European countries? Thousands, thousands out in the street, where they claim that the middle class has shrunk and that the gap between the rich and the poor has expanded. Those are concerns that I have.

Secretary GEITHNER. We share those concerns, and so do the leaders of those countries.

And I think it is important to recognize that the biggest threat to those people still unemployed or at risk of losing their jobs is a financial crisis, Europe allowed to burn. And the necessary, essential, most important action they have to take to reduce the risk of further damage is to do what they have done to cool those financial tensions, because that makes it much less likely that they go into a deep depression.

That is not enough, though. And across Europe—less so in Ireland, which is a very dynamic economy, but certainly in Spain and Portugal and Italy and Greece—they have to make it easier, just as an example, for businesses to be able to start a business and to grow a business, because that is the most likely way they are going to be able to get more opportunity created for those people still out of work. And they have a long way to go in that context.

But they have to do things to cool the financial pressures, make sure they are supporting overall growth in demand, alongside these reforms to help make their economies work a little better over the long run. And it is going to take years and years.

Mr. HINOJOSA. Will the Barack Obama Administration allow us to increase the number of student visas from these European countries to come to the United States and see the way that we are handling this financial crisis, which has been very, very hard for us? I think that education seems to be the solution that works for us, as I believe would work for the European countries.

Secretary GEITHNER. Good question. I would be happy to ask somebody to respond to the specific impact of those visas policies on that objective, but it makes sense.

Mr. FRANK. Would the gentleman—

Mr. HENSARLING. The time of the—

Mr. FRANK. I just want to note—and I appreciate the efficient way you have run this hearing. With the Secretary's timeframe, I just want to note that everybody here on the Democratic side will be able to be accommodated. And I would ask you to please recognize those who have stayed here.

And I just want to advise the Members who were here, I believe we have five more Members, so we will have enough time, and that will be it.

So I would urge you to recognize those five Members. The Secretary will be here until 12:30, so we will be able to get to everybody here who has been good enough to stay.

Mr. HENSARLING. The Chair recognizes the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Thank you, Mr. Geithner, for being here today.

And just to follow up on a couple of questions with regard to the economy of Europe, it seems to me that we have in place a plan. And you say the pressures have been released, or lessened, anyway, from what people thought was going to happen. But, actually, has debt started to decrease at all?

Secretary GEITHNER. Good question, because, as many people pointed out, when growth weakens because of the shocks of the crisis, then that tends to increase the level of debt relative to GDP.

Mr. LUETKEMEYER. Right.

Secretary GEITHNER. But these countries have dramatically reduced the size of their actual deficits and their projected deficits.

Mr. LUETKEMEYER. Okay. So what they have done is actually get their budgets under control, but the amount of the debt has not started to go down because their economies haven't gotten to the point yet where they can start paying down. Is that an accurate statement?

Secretary GEITHNER. In some countries, it is starting to come down. In others, it is going to take a little while for the debt as a share of GDP to start to come down. But the deficits coming down is a necessary path to that.

Mr. LUETKEMEYER. Right. Okay. So at least they have a path to get themselves out of this mess.

What is the impact of gas prices going to be in Europe? Because the Iranians, if I am not mistaken, have said they are going to not sell them any oil. And so, where do you see that going?

Secretary GEITHNER. On gas prices in Europe, when they go up, it is not good, but it has a much less damaging effect even than it has in the United States for a lot of different reasons, about how they tax gasoline in Europe in particular. So, yes, it is not good. But Europe decided on its own to cut off their imports of oil from Iran because they are committed to, as we are, to trying to put as much pressure as possible on that government.

Mr. LUETKEMEYER. Okay.

With regard to the default credit swaps that are there, a lot of our banks here in this country have some of the default credit swap insurance with regard to some of the European countries, specifically Greece. Greece basically is in default, because creditors are being asked to take a haircut on at least 50 or 53 percent or something like that of their bond debt.

What is the impact of that going to be to our banks, our financial institutions here in this country?

Secretary GEITHNER. There will be no material impact. U.S. financial institutions have dramatically reduced their exposure to the countries in crisis in Europe over the last 18 months or so. And they did buy protection against the remaining exposure they had, but that exposure is very, very small.

But any investors around the world that had exposure to Greece going into this exchange will be able to—or at least almost all of them—will be able to take advantage of the protection they purchased through CDS.

Mr. LUETKEMEYER. It is kind of interesting from the standpoint that this situation has been prevalent for at least a couple of years that I have been aware of, and it seems like we are just now allowing the American public to see what is going on here, or they are become becoming more aware of it. And I am kind of curious, why were we not being more out front talking about this over the last couple of years, say, 2 years ago? I am sure your office knew about this and knew the concerns, especially after 2008, and knowing the intricacies of how complicated and how complex the financial world is and how tied together we as the United States and the European financial world is together, how were we impacted here.

Because to me it looks like—we just got done talking about the default credit craps, we talked about the IMF funding, we talked about the swap lines, you talked about directing this and by the banks. They are our direct trade partners. We are connected to those guys in about every way except being a State of the United States.

Secretary GEITHNER. You are exactly right. And this started more than 2 years ago—

Mr. LUETKEMEYER. Yes.

Secretary GEITHNER. —and we have been intensively engaged with the Europeans, with the IMF, with the Fed, with the U.S. financial system, and with countries around the world over those more than 2 years in encouraging them to move more aggressively. And they have moved slower than we would have liked. But we have brought tremendous attention to it so that we were protecting the American financial system and trying to encourage them in ways that didn't put the U.S. taxpayer at risk to try to move more aggressively.

And I wish they had been able to move more quickly earlier, because it did do a lot of damage to us. If you look back to what happened to U.S. growth in 2010 and 2011, if you look back at the moments where growth started to weaken in the United States, it is when Europe was lighting itself on fire.

So I wish it had happened sooner, but we have been very actively engaged. And it feels better now, even though you know it is going to take a while.

Mr. LUETKEMEYER. Okay.

Very quickly, I know that one of the other members of the panel here this morning asked about FACTA. Just a quick question about that. Where do you think this is going? Because I have three quotes here this morning from the Japanese Banking Association, the European Banking Federation, and the Institute of International Finance. All are very concerned that we are going to be impacting international investment with the proposed rules.

I know we are not there yet, but can you just elaborate a little bit on where you think it is going to go?

Secretary GEITHNER. Good question.

Mr. LUETKEMEYER. And are you willing to consider a lot of these implications and minimize us?

Mr. HENSARLING. Mr. Secretary, if you could elaborate quickly.

Secretary GEITHNER. We have acted twice since the law was passed to give people more time to adjust and try to lessen the burden and compliance for the reasons that you stated. And we are going to continue to work very closely with financial institutions around the world and their governments to try to make sure we can meet the tests of the law without an undue burden that would damage other interests of the United States. And I don't think people—people are not confident we are fully there yet, but we are getting closer.

Mr. LUETKEMEYER. Okay. Thank you.

Thank you, Mr. Chairman.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman.

And welcome, Mr. Secretary.

Let me just say from the outset that while this is about international monetary policy, of course we can't leave out what is going on right here at home in the United States. And certainly I want to touch upon the—get a progress report from you and share some information about the heart of the problem that caused this whole problem, which was housing and mortgages and where we are.

And, as you know, I have really been on a mission, myself, and thanks to you and your help at Treasury, in getting folks home safe. In that regard, I do want to say, if you would just tell your Assistant Secretary for Financial Stability, Timothy Massad, that we appreciate the fine cooperation he has given to us, along with Ms. Alvina McHale, the Director of Marketing for Treasury's Homeownership Preservation Office. They helped us last time. And I want you to know we are going back and having the second home foreclosure event in Atlanta, Georgia.

I mention all of this because we were able to save 3,827 homes last time. This time, our goal is 10,000 homes. And we can do this, Mr. Secretary. A lot of things have happened since the last time that I want to talk to you about, and I certainly want to just ask that—whatever you can do to help us to reach that 10,000 goal and to help make this a successful event. It is going to be June 1st and 2nd.

Now, a lot has happened. We know we have some opportunities here to go to the heart of this matter and help many of our struggling homeowners with the writing down of principal. We have had a settlement, Mr. Secretary, as you know, of several billion dollars, but there is a lot of cloud there. We don't know. There are many people, struggling homeowners who say, isn't this to help us? How does it help?

We want to use this event on June 1st and 2nd to really see what we can do to get some of this money out where it helps the most, and we can help reach this 10,000 goal. Georgia, for example, will get $813 million of this money.

I want to ask you, what does this mean? How can we use this money in the billions? And every other State gets their share. But there is a lot of cloud over what it can be used for, what it can't, how our struggling homeowners can get a piece of the action. Please tell us about that.

Secretary GEITHNER. You are going to be able to see a little more detail about what the settlement actually means in the coming weeks, and that will give you a chance.

But alongside that, as you know, we are working very closely with Mr. Ed DeMarco at the FHFA and with Shaun Donovan at the FHA to try to make it easier for people to refinance to take advantage of lower interest rates; to make it easier for people to stay in their home, if they can afford to, by having their payment obligation reduced over time; helping them, if they need to leave their home, to transition to more affordable options. We are tying to get much more support to communities where they are still devastated by the huge number of unoccupied homes across communities, to get more resources into neighborhoods to help stabilize those communities.

We are going to just keep doing everything we can in this context. And we absolutely will work very closely with you at your next event to try to make sure we are reaching more people. The settlement is part of it, but it is not the only thing happening.

Mr. SCOTT. Exactly. Now, let me make sure we are clear here. Some of this money can be used to help write down principal; is that correct?

Secretary GEITHNER. That is correct.

Mr. SCOTT. Very good.

Secretary GEITHNER. The banks, as part of the settlement, agreed that they would have to provide some of the assistance by reducing the balance of principal load by some of their borrowers.

Mr. SCOTT. Very good.

Now, the other area we are emphasizing is here. One of the fastest, if not the fastest growing segment of the homeless population, is our returning veterans. We have set aside a part of this, and we are coordinating with the VA to really structure what we got going that can help veterans stay in their home. It is the height of shamefulness to let our young men and women go and risk their lives and they come back and, as you know, they are struggling with homelessness as well as joblessness.

What specifically are you doing in Treasury to help with that specific problem?

Secretary GEITHNER. You are exactly right. And as part of the settlement and separately from that, we have been working with the VA and with the other housing bodies to make sure that they have a chance to stay in their homes.

And it is even worse than what you described, of course, because we ask our servicemembers to move a lot, and it is very hard to move if your house is underwater.

Mr. SCOTT. Right.

Secretary GEITHNER. So, apart from making sure they are protected against people taking their home when they are serving their country overseas, we want to make sure that it is easier for them to meet their obligations as an armed services member at still a very difficult time in the housing market. And we have a lot more to do in that area.

Mr. SCOTT. And then, finally, HAMP. Is it succeeding? And what are the challenges to making it better?

Secretary GEITHNER. HAMP has helped modify mortgages for roughly a million homeowners now—less than we had hoped, still more to come. But the standards we set in HAMP have helped encourage another 2 million to 3 million loan modifications across the United States. And so, the broad impact of these programs is much larger than the direct programs in HAMP.

One thing that is very important to realize is that we were—

Mr. HENSARLING. Excuse me, Mr. Secretary. The time of the gentleman has expired. If you could submit that answer in writing.

Secretary GEITHNER. I would be happy to do so.

Mr. SCOTT. Thank you, Mr. Secretary.

Mr. HENSARLING. The gentleman from North Carolina, Mr. McHenry, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for returning.

I know we have a lot of discussion about our European exposure, but the question of international harmonization. As you had the FSOC and your role there, has this been a point of discussion and a concern, about the stability of our financial institutions in the United States with our regulators moving much faster than European regulators when it comes to a whole myriad of market regulations?

Secretary GEITHNER. Absolutely, it is the central focus of our discussions in the Council. And I have spent a lot of time directly working with the Fed and the CFTC and the SEC on exactly that basic question.

I am not worried that the fact they are moving more slowly is going to undermine our efforts to get our reforms right in the United States, but we want to make sure there is a level playing field. And so we—and this is true in derivatives in particular, as I said earlier—want to make sure that we are moving with them, not too far ahead of them. Because if we move too far ahead without knowledge of where they land things, we may end up just shifting that risk outside of the United States, and that would be against the intent of the law.

So, yes, we are focused on it, and we are making progress. Europe is actually very close to us on most of the key elements of derivatives oversight, but we want to make sure we are fully aligned.

Mr. MCHENRY. Okay. You mentioned this with derivatives in Title VII, with the extraterritorial application of that. Is it a risk that it would thin out our market, make it more volatile and, therefore, more risky?

Secretary GEITHNER. No, I don't really think so. I think the real concern—think about a world in which we raised our standard up to here and they stayed down here. Then what would happen is a bunch of risk would shift to Europe and the world would be more risky, even if we felt more comfortable in the near term. But I don't see that happening.

I think, again, on the broad strategy of derivatives reform, for example, they have largely embraced the architecture that Congress passed into law in the United States. And even though they are a little slower than us to adopt it and not identical in areas, they are very close, and we want them to be as close as we can.

Mr. MCHENRY. So are you asking the CFTC to work with the SEC more diligently than they currently—

Secretary GEITHNER. Oh, yes. Very good point. We want the CFTC and the SEC to be as close as they can, because if they are different, it is harder for the rest of the world to say, "We are going to be like America." So we are trying to gets the CFTC and the SEC to be aligned where they can be so we are in a stronger position to encourage the world to adopt our tougher standards.

But we are also encouraging the Fed and the SEC and the CFTC to work very closely with the Europeans and with the Asians and with the British to try to make sure that those reforms largely match ours.

Mr. MCHENRY. You mentioned the difference in regulation between Europe and the United States. And if there is that difference for a period of months, you would see a flow out of our markets to theirs. So is it important those dates match up, or is it important that they are close? Can you speak to that?

Secretary GEITHNER. Excellent question. And you are right—

Mr. MCHENRY. I know you have spoken a lot about this, and I appreciate that. This is one area where I think what you are saying is matching up with a very wide, bipartisan group on Capitol Hill.

Secretary GEITHNER. You are right that we have to make sure that if we are ahead of them in implementation, that doesn't create a huge competitive advantage for their European competitors. So we are looking at that.

Now, again, I think based on what we know now, before the crisis, the gap was like this. I think it is much closer on capital, on liquidity, on derivatives, on all the material things that matter to the economics of running a financial business. It is not perfectly there yet.

So, yes, we are going to work to make sure the deadlines for implementation are as aligned as we can, but not at the expense of leaving Americans more exposed to risk than they need to be.

Mr. MCHENRY. Okay.

My colleague asked about HAMP. Many of us have grave concern. I sponsored a bill, and we passed it out of the House, trying to eliminate HAMP because of the impact it has, not on those it is helping, but on the over 50 percent who enter into the program and are left materially worse off by being kicked out of the program and having to pay fines and the accrued interest and penalties for missing payments.

Would you categorize HAMP as a success?

Secretary GEITHNER. Let me just say on this one point—and I would be happy to talk to you in more detail about this. But the performance of modifications under our programs is much better—much better for the homeowner and a much better success rate than the standard outside of those programs. And I am very confident—but it sounds like we should spend some time together on this—that you are better off being in a HAMP program than not, because the depth of relief you get is better. And that is partly why their performance rates on those modifications are so much higher than in the private market.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

And I thank you, Mr. Geithner, for appearing today.

I want to especially thank you for speaking up for hardworking Americans who pay 1.45 percent of their income in taxes and for those who are now paying 4.2 percent for Social Security. It was 6.2 percent, but we have a holiday that will end, and they will pay 6.2 percent at the end of the holiday. And they will do this up to $110,100.

So I thank you for speaking up, because to them it really is an income tax. We can phrase it and frame it, but it is an income tax and they pay it. And we ought to appreciate them for what they pay, just as we appreciate billionaires for what they pay. I think anybody who pays taxes ought to be appreciated.

Somehow we tend to believe that poor people, who are taxed on all of their income, somehow they are not paying as much of what they make in taxes, when in fact, on a percentage basis, they are paying more. Because they can pay the 1.45 percent on all of their income; others will, too. But when it comes to Social Security, if they make, say, $30,000, they are going to pay that 4.2 percent on everything that they make, whereas a person who makes $110,101 will pay it only on the first $110,100. So if you make a billion dollars, you pay it on the first $110,100.

Secretary GEITHNER. It is even worse than that because, as any businessman will tell you, the employer side of the payroll tax comes out of the wages they pay their workers. So the tax to the individual to cover Social Security and Medicare is not just the 6.5 percent after the temporary holiday, it is another 6.5 percent or whatever it is on the employer side, which comes out of their wages.

So it is true to say that the vast majority of Americans pay taxes against their income to help support the broad programs Americans have supported.

Mr. GREEN. Again, I thank you for making these comments clear, because poor people merit some appreciation for the taxes they pay, too.

Continuing along this line—because I really didn't intend to go this way, but I now must continue—a certain billionaire made about $3 billion one year, and I am happy for him. I am proud. It would take a minimum-wage worker about 198,000 years to make that $3 billion. I am happy for the billionaire who made his $3 billion.

But I do think that it is fair for the billionaire who made the $3 billion to pay a fair amount of taxes on it. And I somehow cannot grasp the argument that the billionaire pays too much taxes. How did he become a billionaire if he is paying too much taxes?

Secretary GEITHNER. Nobody likes to pay taxes, whether they are rich or poor. But the stunning thing about the United States today is that the effective tax rate you pay as a share of income is very low historically, particularly for the most fortunate Americans. And so we have proposed, as you know, to raise modestly that effective tax rate on the most fortunate Americans, because we can't afford to go out and borrow the trillion dollars over 10 years it would take to maintain those in place and we are not prepared to cut Medicare to finance those tax cuts.

So, as I said earlier, I don't see a way to solve our Nation's problems, economic and fiscal, without raising that effective tax rate on the richest Americans modestly back to where it was, for example, at periods in our history where we did very well as a country.

Mr. GREEN. Finally, there seems to be a notion afoot that if you cut the corporate tax rate—which doesn't mean that you are necessarily cutting corporate taxes—you are going to get more money in revenue automatically.

Does that automatically happen? If you cut the corporate tax rate—because there is an effective tax rate and then there is the rate that we have, the corporate tax rate—will that automatically bring in more revenue?

Secretary GEITHNER. Not in a material way. Most economists would say, if you did sensibly designed, rate-lowering, base-broadening tax reform, that might have small effects on improving economic growth. But they are very small and do not come close to paying for the cost of a tax cut.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga.

Mr. HUIZENGA. I appreciate that, Mr. Chairman.

And, Mr. Secretary, thank you for being here.

I just wanted to head in a slightly different direction regarding some of our debt and our debt structuring. But, first, I did want to address something one of our colleagues—I just wanted to gently correct her, when she had indicated that Europe is our largest trading partner. It, in fact, is Canada. I double-checked on the U.S. Census Bureau Web site dealing with foreign trade, and year to date, Canada accounts for 16.2 percent of all of our trade, both exports and imports. China is at 14.2 percent. And all of the European nations singularly are in the single digits; collectively, are much more significant than that.

I had run out, actually, to meet with the gentleman who is the chair of the Standing Committee on International Trade, who is a member of parliament, Rob Merrifield, from Canada. And we had a little conversation about this. We talked about what is happening in Canada and with their budgets. They are actually going to be introducing an austerity budget. They have lowered their tax rates. They believe that they are on firm ground. And, certainly, Prime Minister Harper, who has been here and in other places around the world, is looking for those trade partnerships.

So we know that when we are talking about America, we are actually talking about an expanded North American envelope of influence, really. And Canada being so tied directly to Europe, they are also affected by that.

And I wanted to talk a little bit about two things. You were starting to head down a path, and I believe we had run out of time, about the Brits separating their retail versus institutional spending. And you had said it is much more radical, and I just wanted to give you a brief time to expand on that. And then I have a very specific question, as well.

Secretary GEITHNER. I am not sure I can really do justice to their reform, but, broad outlines, what they propose to do over time is to separate the retail deposit-taking activities of their big banks, require them to be very substantially capitalized, and leave the wholesale parts of the banking system separately managed with less regulation.

And they have to choose what is right for them, but I could not conceive of why we would want to adopt that in the United States because we just went through a crisis in 2008 and 2009 where it was caused significantly not really by traditional banking activities, although a lot of banks took too much risk, but because of what happened in the wholesale markets, where there were much weaker capital requirements and much more funding risk. And it was that collapse of the shadow banking system in the United States, the broader wholesale system, that caused so much pressure, so much trauma, so much damage here.

So I say this with respect to them, but theirs is a much more sweeping separation, and I do not think it makes sense for our country.

Mr. HUIZENGA. And I am not saying that it does either. I think the point that you were making earlier, and certainly that I track with, is that there are a number of solutions being talked about out there, and whether it is the Basel discussions and what England is doing and others. And we know there are great differences between Greece and Germany and France and Italy and others within the EU.

Very specifically, though, it has been brought to my attention, looking at our debt structure and looking at the British debt structure, there is a chart out there that I saw that indicated the amount of debt that Great Britain has and when that debt is coming up to be renewed. And they have much more effectively, in my mind, backloaded this. Their 10-year debt window is very different than our 10-year debt window. We have gotten, and maybe you have the exact figures, but it is somewhere around 60 percent, I believe, or 70 percent of our total debt that will need to get refinanced here in the next 36 months at historic, some would argue artificially low, interest rates. And what is going to happen with those?

It seems to me that we need to expand this out. I talked to the former State treasurer in Michigan about this exact issue. And that is how so many of, whether they are States or countries or whatever, have gotten themselves into trouble. We need to lock into these longer-term lower interest rates. Obviously, that is going to have an impact on our day-to-day budgeting.

And if you could comment on that, please.

Secretary GEITHNER. You are right. Thank you for raising that. Extending the maturity of our debt is a sensible, smart, prudent thing to do in this environment, and we are doing it really quite aggressively. I think even over this short period of time, we have moved from an average maturity of, I think, 49 months to, I think, 67 months today. And we are going further, expect to go further.

As you said, it makes sense to do that because we are at a time of exceptionally low long-term interest rates.

So we will keep moving, and we will do it in a carefully balanced way. And you are right that—

Mr. HUIZENGA. Will this Administration be willing to take a short-term higher total—

Mr. HENSARLING. The time of the gentleman has expired.

Secretary GEITHNER. Of course. And it makes sense to do it.

Mr. HENSARLING. The Chair now recognizes the gentleman from Minnesota, Mr. Ellison, for 5 minutes.

Mr. ELLISON. Hello. How are you, Mr. Secretary? Thank you for being here.

I have a question about the Somali remittances. I know your office has been working on this, and I want to thank you for it. You guys have been very responsive.

But could you just talk a little bit about what the Department of the Treasury is doing and might be able to do to help facilitate and come up with a permanent solution for Somalis in America to be able to remit money back to relatives at home?

You are aware of the scenario, I know that. But just for the record, there have been a number of banks that have refused to facilitate the remittances. Perhaps you could take it from there?

Secretary GEITHNER. You are right, and I appreciate you drawing attention to this issue. We are working on it, and we will keep working with you closely on it. But you are right to say it is hard, and we are not having enough impact yet.

The basic problem is that banks are reluctant to do business in parts of the world where they cannot satisfy their obligations under U.S. law to make sure that they are not facilitating the activity of terrorists or other people working against American interests, and that creates some challenges. And it is particularly acute in the context you cite.

So we are going to keep working with you on it. It is very important to try and do it. We are not making enough progress, but we will keep at it.

Mr. ELLISON. I will be continuing to work with you on the issue. And just to just make the point for the record, estimates that I have found show that American Somalis send about $400 million annually in remittances that basically are a lifeline to their families. And so, at a time when we are worried about foreign aid and staving off hunger and starvation, these remittances actually help fill the gap. And I think it is in everybody's interest to come up with some solutions.

Secretary GEITHNER. I agree with you.

Mr. ELLISON. Switching to the housing context, could you talk a little bit about what Fannie and Freddie might do, given that they either own or guarantee about 60 percent of residential mortgages, to look at principal reductions on some of those mortgages in cases where it is advisable?

At this point, the agency that is the conservator for those two GSEs has pretty much said that they are not going to be doing that. And my question is, could they be doing it? And if they could, when can they?

Secretary GEITHNER. We think they can, and we are working to encourage them to do it. And they are working with us.

They have to meet a very tough standard. The law is set. They have to make sure they are working for the interest of the taxpayer, not just to help the housing market. And so they have to be careful about how they do it.

But we think there is a pretty strong economic and financial case for doing it in some cases—not for all homeowners, for some homeowners. We are trying to make that case as convincing and compelling to them. And I hope that we will have a better feel for what they think they are prepared to do in the next couple of weeks.

Mr. ELLISON. Good.

I would like you to talk about the Volcker Rule. It passed; they are in the rulemaking process. But as people debate it in the press, even in Congress, there seems to be a strong emphasis on all the reasons why it can't work rather than the essential importance of recognizing that perhaps a bank that wants to buy, for example, a mortgage-backed security, shouldn't do it with government-guaranteed money and then, when things go wrong, look for the taxpayer to bail them out.

Can you talk about the essential importance of why the Volcker Rule is a good thing and why maybe we should have an eye more toward making it work than figuring out why it can't?

Secretary GEITHNER. We had a crisis caused essentially by some institutions taking too much risk, taking advantage of the safety net where it existed. And, as you know, it caused a huge amount of damage. We are going to be living with the legacy of that damage for a long time to come. So it makes a lot of sense to try to make sure we are doing things to protect against that risk. And the Volcker Rule is part of a broad set of reforms Congress passed to achieve that objective.

But what the law essentially does is say that institutions that own banks shouldn't be able to run internal hedge funds that take a huge amount risk relative to capital because that could put us in a situation where their failures cause too much damage to the innocent.

Now, the law also protected, I think appropriately so, some exemptions for market making and for hedging, things that they need to do in that context for markets to work well. And I am reasonably confident that the rule writers in this context are going to find the right balance. We want to be careful that the exceptions don't undermine the broader safeguards, but we also want to make sure those safeguards achieve what they are supposed to achieve and don't cause other damage to other interests that make—so we have to get the balance right. And we are going to take the time necessary to get that right.

Mr. ELLISON. Thank you very much.

I yield back.

Mr. HENSARLING. The gentleman from Wisconsin, Mr. Duffy, is recognized.

Mr. DUFFY. Thank you, Mr. Chairman.

Thank you for coming in, Mr. Secretary.

Just quickly, so I am clear, it is the role of a Secretary to implement the policies or the priorities of the Administration; is that correct?

Secretary GEITHNER. Yes.

Mr. DUFFY. Okay. I come from the northwest corridor of Wisconsin. It is a larger, rural district. And one of my concerns is the skyrocketing oil prices of late. They have nearly doubled since the President has taken office.

And I guess to you, is it your position that the Administration has supported policies that would actually lower energy costs?

Secretary GEITHNER. I do. I think so over time. As the President has said many times, there is no quick fix to this. And you said prices have doubled, but that is really unfair to history, because they were really low in 2008 because the world was—

Mr. DUFFY. I don't have a whole lot of time, so I want to make—your position is, yes, the Administration is supporting lower gas price policies.

And I just want to run through some quotes that you may recall. In 2008, as the President was a candidate, in San Francisco, in regard to cap and trade, he said, "So if somebody wants to build a coal-powered plant, they can. It is just that it will bankrupt them because they are going to be charged a huge sum for all that greenhouse gas that is being emitted." That was from the President when he was a candidate, which would lead me to have some concern about what his role is in regard to energy.

In regard to his Energy Secretary, Mr. Chu, who also is implementing the policies of the President, in 2008, in an interview with The Wall Street Journal, he said, "Somehow we have to figure out how to boost the price of gasoline to the levels of Europe." And, as you know, they pay $9 a gallon.

Implementing the policies of the President, in 2012, on February 29th, he was questioned by Alan Nunnelee, where Mr. Nunnelee asked if it was his overall goal to get our prices of gasoline lower, to which Mr. Chu responded, "No, the overall goal is to decrease our dependency on oil to build and strengthen our economy." That also doesn't sound like the rhetoric of someone in energy who wants to lower the cost of energy.

And then quickly to give a quote from you, on March 4, 2009, in a budget hearing, you said to Mr. Grassley, "The cap and trade would increase the cost of energy for those types of energies that are particularly carbon-intensive. It does increase the cost of energy, and that is necessary if you are going to change how people use energy."

So we have you, Mr. Geithner, we have the Energy Secretary, Mr. Chu, and we have the President all making comments that would lead the American people to believe that you are not supporting lower energy costs but policies that will actually increase the cost of energy.

Secretary GEITHNER. I don't think it would lead them to believe that. I think the question you asked at the beginning, and I will repeat it again, is that the policies the President is promoting are helping to facilitate a huge expansion in oil and gas production in the United States, a significant reduction in our dependence on foreign sources of oil—

Mr. DUFFY. And let's talk about that quickly.

Secretary GEITHNER. —and a big expansion of our ability to use other sources of energy over time.

Mr. DUFFY. So let's talk about the change of oil production in the United States. Okay, I don't want to talk about private lands or State lands, I want to talk about Federal lands. It is fair to say that from 2010 to 2011 there has actually been an 11 percent decrease in oil production on Federal lands. Is that correct?

Secretary GEITHNER. As you know, I am not the Secretary of Energy, but I would be happy to give you his views on those basic questions. If that would be helpful, I would be happy to do that.

Mr. DUFFY. But you don't contest the fact that, actually, Federal land production on oil has decreased.

Secretary GEITHNER. I just don't know. It is not my thing. But I will say that overall—and this is what matters for the availability of energy—production is rising quite substantially.

Mr. DUFFY. Right. You just said that it is rising substantially, and I would agree with you, it is rising because of private land and State lands that are being opened up to exploration instead of Federal land.

Secretary GEITHNER. But it wouldn't be happening—

Mr. DUFFY. Just quickly, I only have 1 minute left.

Secretary GEITHNER. But it wouldn't be happening if the regulatory tax policies were having a significant disincentive on production.

Mr. DUFFY. In regard to—switching to our budget, or the President's budget, you have indicated that he is supporting tax increases; is that right?

Secretary GEITHNER. Only on the top 2 percent of Americans.

Mr. DUFFY. Okay. And just quickly, I had a chance to review his budget. When does it balance with all those tax increases?

Secretary GEITHNER. What the President's budget does, as CBO just pointed out last week, is over the next 5 years it reduces the—

Mr. DUFFY. When does it balance?

Secretary GEITHNER. Hold on. I will answer your question.

Mr. DUFFY. But when does it balance?

Secretary GEITHNER. Hold on. I am going to answer your question.

Mr. DUFFY. What is the year?

Secretary GEITHNER. The level of primary—

Mr. DUFFY. What year does it balance?

Secretary GEITHNER. —balance is roughly 2016, 2017. To primary—

Mr. DUFFY. Mr. Secretary—

Secretary GEITHNER. —balance in 2016, 2017.

Mr. DUFFY. In what year?

Secretary GEITHNER. I said to primary balance in 2016 or 2017.

Mr. DUFFY. Okay.

Secretary GEITHNER. To primary balance. That is making sure that revenues cover expenditures except for interest. And that is important because it is—

Mr. DUFFY. When does it—

Secretary GEITHNER. —at that level where the debt stop growing—

Mr. DUFFY. So when does it actually balance when you include interest?

Secretary GEITHNER. It doesn't balance in the 10-year window, and that is what we budget for.

Mr. DUFFY. And don't you think we should have some kind of a plan that is going to bring us—

Secretary GEITHNER. Not in the next 10 years.

Mr. DUFFY. Okay.

Secretary GEITHNER. There is no way, no responsible way, to achieve balance in the next 10 years.

Mr. DUFFY. I yield back.

Mr. HENSARLING. The time of the gentleman has expired.

The Chair observes that there are three more Members in the hearing room who have not asked questions. It is our intention to clear these individuals to keep the Secretary on his schedule. If other Members are monitoring the hearing in their offices, don't bother to come; you are too late.

The Chair now recognizes—

Mr. FRANK. And that is a bipartisan disinvitation.

Mr. HENSARLING. The Chair now recognizes the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. As to gas prices, I will comment that about 6 months before President Bush left office, they were as high or almost as high as they are today. The collapse of the worldwide economy in late 2008 dramatically reduced gasoline prices. I don't think that is the strategy we would want to employ, as noble as that goal is.

In addition, natural gas prices are lower than they have ever been. There is a North American market for natural gas, so production on this continent actually can, and has, cut prices. And that allows us to displace the coal while still generating electricity.

And, finally, oil is traded worldwide. There is a worldwide price for oil. And a slight increase in production in North America is not going to change the worldwide price.

A couple of issues about funding small business. If we had member business lending for the credit unions, and if the credit unions had alternative capital, then without Washington risking taxpayer money, we would have capital in the hands of small business.

I thank the Secretary for nodding, but I hope we get nodding here in this committee, because it is a matter that Congress needs to deal with.

Now as to Iran, as you know, Mr. Secretary, I was disappointed early in the Administration when we augmented the IMF with $105 billion but did not demand the suspension of Iran from the IMF. And our action, in effect, created a billion dollars of special drawing rights as the IMF was supplemented.

I would hope that before we do anything else to help the IMF, we insist, at a minimum, that Iran not be given any additional special drawing rights. Perhaps you could comment on that. Or, better yet, that Iran would be suspended. Because it is the purpose of the IMF to help member states when they face a financial crisis, and it is the policy of the United States to create a financial crisis in Iran. So it strikes me as odd that we would participate—that we would be both setting the fire and funding the fire department.

Secretary GEITHNER. Good point, and well said. And I share your view on this.

And I would just point out that the cumulative impact of the range of things that we have done to Iran has been overwhelmingly powerful. We have some more to do, but—

Mr. SHERMAN. You do have some more to do, and that brings me to the next question. We have acted to sanction the Central Bank of Iran and certain other designated banks. Wouldn't it be far more effective if we designated all Iranian banks?

If you forced me to go to change from Bank of America to Wells Fargo or even some lesser-known institution, that would not cause me to change my heartfelt policy. So shouldn't we be designating all banks and then working with SWIFT to exclude all Iranian banks from the SWIFT program?

Secretary GEITHNER. Excellent question. And it is something we are going to keep taking a look at, and if it makes sense to do it, we are going to do it. Of course, for it to work, we have to get the rest of the world do it; it is not about us in this context.

Mr. SHERMAN. The journey starts with us designating them all—

Secretary GEITHNER. Right.

Mr. SHERMAN. —and then trying to persuade Europe to designate them all, or secondary sanctions, which I realize is not the first choice of the Administration.

Secretary GEITHNER. I agree. If it makes sense to do it, we will do it. At the moment, I don't think that remaining gap itself is particularly material to our objectives. But if it becomes so, we will take a look at it.

Mr. SHERMAN. I hope you will answer for the record how many banks remain unsanctioned by the United States or remain participants in SWIFT. And that is a question I have for the record: How many Iranian banks are a part of SWIFT?

I would like to shift now to housing. I guess this might be a question for the record because my time is ending. And that is, Fannie and Freddie are implementing programs that will streamline the short-sale process and reduce the response time to the consumer. Do you agree that it would be prudent for the GSEs to pursue short sales instead of allowing the property to fall into foreclosure? And can you speculate as to or inform us as to why the GSEs have taken so long?

And then the second question for the record is, does it make any sense to hit the GSEs with a 10 percent dividend rate when we have to lend them the money to pay us the dividend? And they are not—I believe in high dividend rates when it is a private institution. We are getting money from somebody else. But taking money out of our right pocket to our left pocket—

And then, finally, does it make sense for us to use the GSEs as a piggybank or a pay-for for non-housing-related programs by increasing the guarantee fee at Fannie and Freddie?

Mr. HENSARLING. The time of the gentleman has expired. The Secretary can submit his answers in writing.

Mr. HENSARLING. The Chair now recognizes the gentlelady from New York, Ms. Hayworth.

Dr. HAYWORTH. Thank you, Mr. Chairman.

Mr. Secretary, referring to the conversation, the exchange that you had with the honorable Member from Texas, Mr. Green, a few moments ago discussing taxes and the fact that it sounds as though you are of the opinion that a certain amount of raising taxes will actually have a net benefit for the economy, for growth.

We look across the country at—obviously we have 50 States that have all their own economic climates, in a sense, and they have their own State tax structures. Can you point to an example among our States in which a higher tax structure or a heavier tax structure has resulted in greater economic growth in those States vis-a-vis others with lower tax structures?

Secretary GEITHNER. I think I can give you a better example, which is that—it is not exactly true, but basically what the President is proposing is to return the effective tax rates that the richest Americans pay to the level that prevailed in the second half of the 1990s. And we have a great national experiment of how well the American economy did in that context. And that was a period of enormous growth for the American economy, very high rates of private investment growth, productivity growth, very profitable time for American businesses and individuals. No material evidence from that period of time that those tax rates at that time were damaging to economic growth prospects. So I think that is the best example.

But another way to think about this—and we are having a national debate about this, and it is a good debate to have—

Dr. HAYWORTH. Right.

Secretary GEITHNER. —is, what would you do otherwise? Because we can't go out and borrow the trillion dollars we need to sustain them. It is unfair to ask people to take that out of Medicare benefits. It is hard to imagine that we should ask other Americans, middle-class Americans, to raise their taxes to protect the rich from higher tax rates. I don't see the basis for doing it. We can't meet the defense needs of the country realistically with those tax rates for the richest Americans.

So it is that reluctant conclusion and the evidence from the 1990s that we think it is better than the alternatives.

Dr. HAYWORTH. I would say, Mr. Secretary, with all due respect, res ipsa loquitur. We don't have an example among our States that suggests that higher taxes work.

I agree with you, we have a tremendous challenge that faces all of us. But I think the solution that meets with praise from both sides—because certainly I am one of those who wants very much to work with you and with all of our colleagues—is growth. As a Republican, I am not against greater revenues for the Federal Government, but I am against higher taxes. We need to grow revenues by bringing more participants into the tax structure.

And, of course, we have just hit a milestone, as you know. Our corporate tax rate is now the highest in the developed world.

So I hope that the Administration is giving careful consideration to the budget proposal that Chairman Ryan is introducing today that does reduce substantially those tax rates. I know the Administration has talked about reducing corporate tax rates and making the Tax Code fairer and flatter. And I thank you for that consideration.

On a separate topic, Mr. Secretary, Basel III. You referred, of course, to restructuring of banks and Europe bank reforms, and Basel III is obviously going to affect our banks, as well, in various ways. There is concern that agency mortgage-backed securities will be considered level 2 capital instead of level 1, even though in this country they have been considered to be equivalent to sovereign debt.

Can you assure our participants that you are going to be working with the regulators to try to make that playing field even, if you will?

Secretary GEITHNER. I can say that I know they are taking a look at it. It is the Fed's authority; it is not mine.

My sense is, from a distance, that those concerns that the capital requirements would have a material adverse impact on, say, the price of mortgages, I don't think those are really justified at this stage. But I know the Fed is looking at it and will keep looking at it.

Dr. HAYWORTH. Thank you, Mr. Secretary.

And, Mr. Chairman, I yield back.

Mr. HENSARLING. I thank the gentlelady for yielding back.

The Chair now recognizes the gentleman from Delaware, Mr. Carney, for 5 minutes.

Mr. CARNEY. Thank you, Mr. Chairman. And I appreciate your managing the hearing today, because otherwise I wouldn't get a chance to ask a few questions of the Secretary.

Mr. Secretary, thank you for coming.

I would like to first publicly thank you for the work that one of your Assistant Secretaries did, Mary Miller, on the on-ramp, the IPO on-ramp bill. I have tried to point out, as we have discussed the bill in this committee and on the House Floor, that it was really out of an effort by the Treasury Department that these ideas emerged. And we appreciate her work on that.

I also want to thank you for your work on the housing issues. I was part of the letter that was led by Ranking Member Frank to you, encouraging Treasury to implement HAMP more like HARP. And I understand that is happening, so there is no need for comment.

I would like to go back to the two questions I raised in my opening statement, and the first is the sustainability of the solution for Greece.

It is hard for me to imagine—you said in your testimony that this is just the initial phase, that severe austerity steps are being taken, economic reforms and budgetary reforms in these countries. And so it seems to me Greece has the worst of all worlds. They can't devalue their currency. They are attached to a currency that is really reflective more of a German economy than their own. And so they are going to kind of continually, as you pointed out in your testimony I think, get into this downward spiral that is forced by the solution.

Could you comment further on that?

Secretary GEITHNER. You are exactly right that a member of Europe has two disadvantages to the choices many other countries face: They don't have their own currency and they can't set their monetary policy independent of the rest of Europe, but they also don't have a mechanism for fiscal transfers that makes the United States work, for example. They don't have that piece that Hamilton put in place in the United States initially to allow transfers to cushion the effects of downturns that affect just part of the continent, not the rest of it. And those two things are big disadvantages.

And you are right to emphasize that Greece is making progress toward sustainability, but whether they get there or not is going to depend hugely on whether they can sustain political support.

Mr. CARNEY. Politically, right? I don't know how—

Secretary GEITHNER. But I think that there are no good choices available to them.

Mr. CARNEY. Right.

Secretary GEITHNER. And—

Mr. CARNEY. So one choice might be exit. What happens in that kind of a situation, where they opt out of the EU?

Secretary GEITHNER. I think that—I know they have spent a lot of time looking at that question, and it is true that the rest of Europe has, too. And I think they have looked at it and concluded that it would be much worse for them, much more expensive, much more costly economically. And I think that is their judgment to make.

So most of the things they are doing, most countries would have to do in their circumstances. If most countries, even if they had their own currency, had dug themselves that deep a hole, they would have to do a lot of these things to bring the government down to Earth and fix the financial system and make it easier to start a business, and to make sure people pay their taxes. Those things would have to happen no matter what. So they are doing things that are necessary, inevitable, unavoidable, and will make things better over the long run for them.

Mr. CARNEY. You said in your statement, also, that the impact on U.S. banks of the write-down of the financing for Greek bonds has had no material impact.

Secretary GEITHNER. No, no material impact.

Mr. CARNEY. What about on the CDS side of it?

Secretary GEITHNER. Again, no material impact.

Mr. CARNEY. And how do you know that? Is there anything—

Secretary GEITHNER. Because the Fed—and it is really their—it really should be directed to them—they have a, really, very good feel today, and partly because of all the reforms that have been put in place for the direct and indirect exposures of the U.S. financial institutions to Greece, for example. So they can judge how large they are. And they are very, very small. The CDS protection that was written was really quite small, too.

Mr. CARNEY. And, finally, Mr. Huizenga went on about the financing of our own debt. And I share the same concern that he has. And I was encouraged that you said you are going to try to restructure.

When I was secretary of finance in the State of Delaware, we were constrained by law, in terms of how that could be structured and that it had to be done kind of evenly over time so that you didn't get into situations where you are kind of betting on the future. It looks like, from where we sit today, you have basically zero interest rates and you have a significant amount of debt financed with short-term bonds, and they are going to have to be refinanced at some point, presumably at higher debt. So at some point, we are going to be penalized, unless we get a better 10-year fiscal plan.

Secretary GEITHNER. And, again, that is why the prudent, responsible, conservative thing to do is to extend the maturity of our debt, which is what we are doing. We have done that really quite significantly just over the last 2½ years, and we have a little bit further to go. But we are closer now, I think, to the average of what most other countries do, and that makes sense for us.

Mr. CARNEY. I am happy to hear that. Thank you again for your service.

Mr. HENSARLING. Mr. Secretary, we thank you for your time and your testimony, and we will allow you to excuse yourself now.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to this witness and to place his responses in the record.

This hearing now stands—

Mr. FRANK. Mr. Chairman, before we close, I just want to acknowledge my gratitude to you for—it is difficult when you have all these Members and a limited amount of time. And I thank you for the fairness and efficiency with which you conducted this hearing.

Mr. HENSARLING. We will accept the gratitude.

This hearing stands adjourned.

[Whereupon, at 12:36 p.m., the hearing was adjourned.]

A P P E N D I X

March 20, 2012

PA-8
3/20/2012

Mr. Chairman, beyond our economic interest in the fate of the Eurozone their current crisis can serve as a useful lesson as we debate the problems of our debts and deficits here at home. As Budget Committee Chairman Paul Ryan often says, our coming debt crisis is the most predictable crisis our nation has faced. If economic predictions were not ringing the bells loudly enough, we need only look across the Atlantic to catch a glimpse of our future. Politicians in Europe failed the test of leadership by promising more than they could afford. It would appear that instead of a tough debate on the size and scope of government, politicians were more about who could deliver the most government services faster and better. We cannot afford to allow ourselves to become so complacent. Currently the United States has higher debt and deficits than Europe. Confronting our own coming crisis will require boldness and a willingness to speak honestly with the American people about how we can avoid the fate of Europe.

Today, the Budget Committee will be releasing its FY 2013 budget resolution. All indications are that it will closely resemble the resolution that passed last year. We will learn the details soon but we do know that the House has been willing to take tough votes that realistically address our coming debt crisis. Many of us have acted on our promise not to doom our children and grandchildren with a mountain of debt. Asking them to pay in the future for what we want today is not just bad fiscal policy, but as Thomas Jefferson explained more than 200 years ago, it is immoral.

We do not have to accept Europe's fate where the consequences of excessive government spending, high taxation and anti-growth policies are on full display. With some political courage and the resolve to finally address the contributors to our coming debt crisis we still have the opportunity to leave the next generation with a country better than the one we enjoyed. If instead we choose politics as usual future generations can only hope that there will be someone willing and able bail them out when the bill comes due.

United States House of Representatives
Committee on Financial Services
Hearing to Receive the Annual Testimony of the Secretary of the Treasury on the State of the International Financial System
March 20, 2012

Congressman Ron Paul
Statement for the Record

Mr. Chairman, I thank you for holding this hearing on the state of the international financial system. The Treasury Secretary has neglected to appear to testify on this topic for several years, so I hope the committee will treat this topic with the importance it deserves during this Congress. It is especially important because of the work the G20 has undertaken on global currency reform since 2008. What role US representatives have played in these negotiations is unknown to Congress, nor do we know what global currency reform initiatives are being discussed. I fear that the G20 negotiations will result in a *fait accompli* that will be forced upon the American people with no opportunity for input or debate

Ever since the closing of the gold window by President Nixon in 1971, the unbacked US dollar has served as the world's reserve currency. No longer constrained by being required to exchange dollars for gold, the US government has been able to fund its fiscal profligacy with trillions of dollars of new money created out of thin air. The only constraint on government spending is the willingness of investors to continue to purchase the Treasury debt issued to fund the government's massive fiscal deficits.

The federal government's fiscal profligacy has caused the national debt to skyrocket to well over $15 trillion. Even with nearly a trillion dollars of daylight under the current debt ceiling, it is highly likely that the federal government will reach this limit before the November elections. Foreign nations, especially our major creditors such as China, are watching keenly to see if Congress is serious about getting spending under control. Foreign creditors hold $5 trillion of Treasury debt, debt which is becoming increasingly devalued as the federal government runs trillion-dollar deficits and the Federal Reserve continues its trillion-dollar quantitative easing programs. Another increase in the debt ceiling would signal that Congress is not serious about reining in spending and would foreshadow a further decrease in the value of the dollar.

Unhappiness at this current state of affairs has led to calls to replace the current global dollar standard with a new global currency system. Many of the proposals work from the assumption that national governments cannot be trusted to manage currencies in a responsible manner, and that only an international organization such as the International Monetary Fund (IMF) can provide a stable global reserve currency. These proposals dig back to the roots of the discredited Bretton Woods system, only instead of resurrecting the flawed gold-exchange standard they propose a version John Maynard Keynes' "bancor", an international fiat currency based on the IMF's current special drawing rights (SDR).

Rooted in discredited economic thinking and a complete disregard for fundamental constitutional principles, the IMF over the years has forced American taxpayers to subsidize large, multinational corporations and underwrite economic destruction around the globe. IMF policies are based on a flawed philosophy that says the best means of creating economic prosperity is through government-to-government transfers. Such programs cannot produce growth because they take capital out of private hands, where it can be allocated to its most productive use as determined by the choices of consumers in the market, and place it in the hands of politicians. Placing economic resources in the hands of politicians and bureaucrats inevitably results in inefficiencies, shortages, and economic crises, as even the best intentioned politicians cannot know the most efficient use of resources. IMF assistance to foreign countries also has a history of funding graft and corruption among repressive regimes that leave their countries with massive debt to Western banks, with no economic progress having been achieved. As bad as the Federal Reserve has been in managing the dollar, I cannot imagine how much worse our monetary system would be with a single global currency issued and managed by the IMF.

Monetary problems come about because of the government monopoly on money issuance. Like any monopolist, government abuses its position and debases the currency it issues. Even inflating the currency supply by a seemingly paltry 2% a year results in a systematic debasement which severely penalizes savers and benefits debtors, including the greatest debtor of them all, the United States government. The ability to issue the currency in which its debt is denominated, combined with the ability to debase that currency so that the debt can be paid off with increasingly worthless money, gives rise to a temptation which no government official can resist.

To return to sound money, we need to return to the monetary system our founders intended. Gold and silver were to be the only types of currency which the states could declare to be legal tender, the government was not given a monopoly on currency issuance, and foreign coin could circulate just as freely as American coin. Rather than further centralizing currency issuance in an unaccountable international organization such as the IMF, currency issuance needs to be decentralized. The free market can provide currency just as it provides every other good. All that is needed is for government to remove the restrictions on private mints. Gold is gold no matter who mints it, and unlike paper money it cannot be created out of thin air. Gold-backed currency serves as the ultimate check on government spending and debt creation. Only by returning to commodity-backed currency can we return to fiscal and monetary sanity and break the cycle of booms and busts brought upon us by the Fed.

In conclusion, Mr. Chairman, this Committee has a great role to play in the future of our monetary system. We need to keep watch over the administration's negotiations with the G20 and vigorously oppose any efforts to force the United States into a new global currency, while simultaneously laying the groundwork for a return to sound money in this country.

Written Testimony of Secretary Tim Geithner
Before the House Committee on Financial Services
March 20, 2012

Chairman Bachus, Ranking Member Frank, and members of the Committee, thank you for the opportunity to testify today on developments in Europe. Europe is a key strategic and economic partner of the United States, and we have an enormous stake in the success of European efforts to restore financial stability and secure growth. The U.S. recovery is getting stronger, but 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.

Since that time, European leaders have taken a series of steps to address the crisis and we are encouraged by the progress to date. We hope Europe will build on that progress with additional actions to calm the financial tensions that have been so damaging to global economic growth and put in place a stronger framework of policies and institutions to make the European Monetary Union viable over the longer term and help the member countries to strengthen economic growth.

The European Policy Response

With our encouragement and the support of the IMF, Europe's leaders have put in place a comprehensive strategy to address the crisis. This strategy has the following key elements:

- Economic reforms in the member states to restore fiscal sustainability, restructure the banking systems, and improve competitiveness and growth prospects;
- Institutional reforms, including the "Fiscal Compact," that establish stronger disciplines on the fiscal policies of the member states to limit future deficits and debt as a share of GDP;
- A coordinated strategy to recapitalize the European financial system, with government guarantees of funding; and
- A "firewall" of funds to provide financial support to governments that are undertaking reforms to help assure access to financing on sustainable terms.

These efforts by governments have been reinforced by a substantial amount of support from the European Central Bank.

The European economies at the center of the crisis have made very significant progress.

The causes of the crisis were years in the making and were very different across the continent.

After the establishment of monetary union in 2000, interest rates across the union fell significantly, with rates converging toward Germany's. This was accompanied by a substantial rise in borrowing. In Greece, government spending and borrowing rose dramatically. In Portugal, Spain, and Ireland private debt expanded. And in all these countries, as well as Italy, the competiveness of the private sector eroded significantly relative to Germany.

With the exception of Greece, fiscal profligacy was not the primary cause of the crisis.

In Ireland and Spain, the governments actually ran fiscal surpluses, while the private sector borrowed too heavily, inflating a housing bubble. Italy's large public debt is a legacy of a different era. By the early 1990s, the country embarked on serious fiscal consolidation, maintaining primary surpluses (i.e. the government's total revenues exceeded total expenditures, excluding interest payments on debt) between 1992 and 2008.

As the crisis intensified, however, public deficits expanded everywhere, and fears of cascading defaults by government, the collapse of the financial system, or the unraveling of the euro itself caused a broader financial panic across much of the continent, with the governments of many countries losing the ability to borrow at sustainable interest rates without support.

Over the course of the last eighteen months, the countries in crisis have put in place very tough and far-reaching reforms to address the underlying causes of the crisis.

Greece has reduced its structural budget deficit, which measures the underlying deficit adjusted for the effects of recession on revenues and expenditures, by nearly 12 percentage points of GDP since 2009, according to the IMF. Ireland, Portugal, and Spain have reduced their structural deficits by between 4.5 and 5 percentage points over the same period. In Italy, where the structural deficit expanded by much less, the government has shaved off 1¼ percentage points of GDP. Each of these governments has further plans in place to move closer to a sustainable fiscal position over the medium term.

These fiscal reforms are only part of the solution. The harder challenge is to address the erosion in competitiveness and restore reasonable rates of economic growth, a challenge made more difficult by the fact that in a monetary union, the member states do not have their own monetary policies or currencies exchanges rates cannot adjust, and in Europe today there is no mechanism for fiscal transfers to help cushion economic shocks.

The five countries at the center of the crisis are also putting in place measures to restore competitiveness. The Italian government has begun to implement reforms to improve the business environment, and developed plans to reform the country's labor laws. Spain has introduced reforms to increase the dynamism of its private sector. Greece, Portugal, and Ireland have also introduced a range of competitiveness-enhancing reforms, including plans for privatization, and labor market reforms and pension reductions.

And these countries are also acting to restructure and repair their banking systems. Spain is restructuring its financial sector, reducing the number of savings banks from 45 to 15. In Ireland, bank recapitalization of €70 billion is now complete and the deleveraging of the system

– which aims to reduce banks' loan-to-deposit ratios by almost 20 percent over three years – is proceeding as planned.

For these economic reforms to work, policymakers in the Euro Area will have to be careful to calibrate the mix of financial support and the pace of fiscal consolidation. The reforms will take time and they will not work without financial support that enables governments to borrow at affordable rates and keeps the overall rates of interest across the economy at levels that won't kill growth.

Economic growth is likely to be weak for some time. The path of fiscal consolidation should be gradual with a multiyear phase-in of reforms. If every time economic growth disappoints governments are forced to cut spending or raise taxes immediately to make up for the impact of weaker growth on deficits, this would risk a self-reinforcing negative spiral of growth-killing austerity.

These economic reforms have been aided by actions by the ECB, which has lowered interest rates, undertaken purchases of sovereign debt in secondary markets, and provided critical funding and liquidity support for the European banking system. Last December, the ECB introduced the three-year Long-Term Refinancing Operation (LTRO) and broadened eligible collateral. Through its two lending operations in December and February, the LTRO has allotted over €1.0 trillion to hundreds of banks.

In addition, the European Banking Authority (EBA) has conducted a series of stress tests with new disclosure requirements for the banking systems of the entire Euro Area and required banks to raise capital and take other steps to build stronger financial cushions against the economic downturn and to reflect the higher risks of the assets they hold. European banks have raised more capital, but they have also been selling assets and cutting bank lending to help meet the new capital requirements, which is adding to the financial headwinds now slowing growth.

European leaders have worked with private bondholders and the IMF to restructure and reduce Greece's government debt. Fears of a disorderly Greek default played a significant role in fueling the fires of the crisis across Europe over the past two years, and Europe's leaders have, as a result, worked to contain the risk of contagion from Greece and to insulate the rest of Europe from the impact of the solutions necessary in Greece.

This mix of economic reform and financial measures has helped calm financial tensions. The cost of borrowing has fallen sharply for Italy and Spain. Concerns about bank funding problems have eased. But Europe is still only at the initial stages of what will be a long and difficult path of reform.

The most important unfinished piece of the broader financial strategy is to build a stronger European firewall to provide a backstop for the governments undertaking reforms. The existing €440 billion European Financial Stability Facility (EFSF) has made commitments totaling €192 billion. Europe's leaders have decided to establish another fund called the European Stabilization Mechanism (ESM) to succeed the EFSF starting in July 2012. They are in the process of reviewing options for expanding the combined financial capacity of these funds so that they can make clear to financial markets that they have the financial resources available on a scale that is commensurate with future needs in the event the crisis were to intensify.

The European financial crisis has already caused significant damage to economic growth in the United States and around the world, and we have a strong interest in a successful resolution of the crisis.

The Euro Area accounts for about 18 percent of global GDP. It is a major source of financing for many emerging economies. It accounts for about 15 percent of U.S. exports of goods and services, but a larger portion of exports of many or our trading partners. When growth slows in Europe, it affects growth around the world. And when the fears of a broader European crisis have been most acute, as they were in the summer and fall of 2011 and during the spring and summer of 2010, financial markets fell around the world, damaging confidence and slowing the momentum of the global recovery.

Our financial system has relatively little exposure to the five European economies at the heart of the crisis, but we have significant financial and economic ties to Germany and France and the continent as a whole.

We have worked very closely with Europe's leaders over the past two years, and with the members of the IMF, to help support a stronger European response to the crisis.

The Federal Reserve's dollar swap lines with the ECB, the Bank of Canada, the Bank of England, the Bank of Japan, and the Swiss National Bank have played a critical role alongside the ECB's direct efforts. European banks borrowed heavily in dollars before the crisis, and many lost the ability to borrow in dollars as the crisis intensified. The Fed's swaps made it possible for Europe's banks to borrow dollars from their central banks, which has helped avoid a more rapid deleveraging, reducing the impact on financial conditions in many countries where European banks had lent heavily.

The IMF has also played an important role in Europe. The IMF has provided advice on the design of reforms, a framework for public monitoring of progress, and support for programs in Greece, Ireland, and Portugal in partnership with Europe, which has assumed the majority of the burden. These actions have helped limit the damage from the crisis to the United States and to economies around the world.

It is in the interest of the United States that the IMF is able to continue to play a constructive role in Europe. IMF resources cannot substitute for a strong and credible European firewall and response, but they can help supplement the resources Europe mobilized on its own.

The IMF has substantial financial resources available today, and it has the ability, as it has demonstrated in the past, to mobilize temporary resources if that were necessary to help contain the damage from a further intensification of the crisis in Europe. For these reasons, we have no intention to seek additional U.S. resources for the IMF. The IMF has played a critical role in every major post-war financial crisis, while consistently returning to the United States and other IMF members any resources – with interest – that it has temporarily drawn upon.

Conclusion

We are encouraged by the progress that our European colleagues have made over the last few months. We hope they are able to build on these efforts in the coming weeks and months to put in place a more durable foundation for financial stability and economic growth. We do not want to see Europe weakened by a protracted crisis. We will continue to work closely with them, and with the IMF, to facilitate further progress.

Organization for Economic Cooperation and Development (OECD)

Table A. **Total tax revenue as percentage of GDP**

	1965	1975	1985	1995	2000	2005	2008	2009	2009 Rank	cf USA
Denmark [1]	30.0	38.4	46.1	48.8	49.4	50.8	48.1	48.1	1	99%
Sweden	33.3	41.3	47.4	47.5	51.4	48.9	46.4	46.7	2	94%
Italy	25.5	25.4	33.6	40.1	42.2	40.8	43.3	43.4	3	80%
Belgium	31.1	39.5	44.3	43.5	44.7	44.6	44.1	43.2	4	79%
Norway	29.6	39.2	42.6	40.9	42.6	43.5	42.9	42.9	5	78%
Austria [1]	33.9	36.6	40.8	41.4	43.0	42.1	42.8	42.7	6	77%
Finland	30.4	36.6	39.8	45.7	47.2	43.9	42.9	42.6	7	77%
France [1]	34.2	35.5	42.8	42.9	44.4	44.1	43.5	42.4	8	76%
Hungary	..	..	..	41.5	39.3	37.3	40.1	39.9	9	65%
Netherlands	32.8	40.7	42.4	41.5	39.6	38.4	39.1	38.2	10	59%
Luxembourg	27.7	32.8	39.5	37.1	39.1	37.6	35.5	37.6	11	56%
Slovenia	..	..	..	39.0	37.3	38.6	37.0	37.4	12	55%
Germany [2]	31.6	34.3	36.1	37.2	37.5	35.0	36.4	37.3	13	55%
Estonia	..	..	..	36.3	31.0	30.6	31.7	35.9	14	49%
Czech Republic	..	..	..	37.6	35.2	37.5	36.0	34.7	15	44%
United Kingdom	30.4	34.9	37.0	34.0	36.3	35.7	35.7	34.3	16	42%
Iceland	26.2	30.0	28.2	31.2	37.2	40.7	36.7	33.9	17	40%
Canada	25.7	32.0	32.5	35.6	35.6	33.4	32.2	32.0	18	33%
Poland	..	..	..	36.2	32.8	33.0	34.2	31.8	19	32%
New Zealand	23.9	28.4	30.9	36.2	33.1	36.7	33.6	31.5	20	31%
Israel [3]	..	..	..	37.0	36.8	35.6	33.8	31.4	21	30%
Spain [1]	14.7	18.4	27.6	32.1	34.2	35.7	33.3	30.6	22	27%
Portugal	15.9	19.1	24.5	29.3	30.9	31.2	32.5	30.6	23	27%
Greece [1]	17.8	19.4	25.5	28.9	34.0	31.9	31.5	30.0	24	25%
Switzerland	17.5	24.4	25.8	27.7	30.0	29.2	29.1	29.7	25	23%
Slovak Republic	..	..	..	40.3	34.1	31.5	29.4	29.0	26	20%
Ireland	24.9	28.7	34.6	32.5	31.2	30.3	29.1	27.8	27	15%
Japan	18.0	20.7	27.1	26.8	27.0	27.4	28.3	26.9	28	12%
Australia	20.4	25.1	27.5	28.1	30.3	29.8	27.0	25.9	29	8%
Korea	..	14.9	16.1	20.0	22.6	24.0	26.5	25.5	30	6%
Turkey	10.6	11.9	11.5	16.8	24.2	24.3	24.2	24.6	31	2%
United States	24.7	25.6	25.6	27.8	29.5	27.1	26.3	24.1	32	0%
Chile	..	..	..	19.0	19.4	21.6	22.5	18.4	33	-24%
Mexico	..	..	15.5	15.2	16.9	18.1	20.9	17.4	34	-28%
Unweighted average:										
OECD Total	25.4	29.3	32.5	34.6	35.3	35.0	34.6	33.8		

n.a indicates not available.

1. The total tax revenues have been reduced by the amount of any capital transfer that represents uncollected taxes.
2. Unified Germany beginning in 1991.
3. The data for Israel are supplied by and under the responsability of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
4. Secretariat estimate, including expected revenues collected by state and local governments.