



Prepared Statement of Senator Chuck Grassley
Finance Committee Hearing on Timothy Geithner for Treasury Secretary
Wednesday, Jan. 21, 2009

Today, we perform one of the most important functions of this committee -- we examine the qualifications of the man nominated to be the next Treasury Secretary, Mr. Timothy Geithner. Yesterday I was heartened to hear President Obama say, "What is required of us now is a new era of responsibility..." For President Obama, that era of responsibility will begin in his cabinet, and I look forward to helping facilitate that.

I come into this hearing with a profound sense of concern and worry for the future of our financial system. Of course most people are worried about a financial crisis these days, but my worry has been deepened by my dissatisfaction with the decisions made to alleviate that crisis, and by what I have learned about certain people entrusted to make those decisions.

On October first of last year, I voted for the Emergency Economic Stabilization Act of 2008, which created the Troubled Asset Relief Program, or TARP. It was not an easy decision to support that legislation, but I believed that something needed to be done, and legislation important to many taxpayers, and to Iowans specifically, was added to the TARP bill.

However, last Thursday I voted against allowing the Secretary of the Treasury to access the second half of the \$700 billion in bailout funding. Instead of using the first payment of \$350 billion to purchase troubled assets, as the name Troubled Asset Relief Program suggests, the money has been erratically and arbitrarily distributed in a monstrous act of government intervention and ownership over our financial markets.

In addition to the TARP program, taxpayer dollars are on the line in the bailouts of Bear Stearns and AIG. The Federal Reserve has loaned money to three Special Purpose Vehicles ("SPVs"), which are all limited liability companies that used the Fed funds to purchase troubled assets. Maiden Lane I accepted residential and commercial loans as well as derivatives, including credit default swaps from Bear Stearns in connection with its purchase by JP Morgan.

In similar deals related to the AIG rescue, Maiden Lane II holds residential mortgage-backed securities while Maiden Lane III holds the collateral debt obligations purchased from the credit default swap counterparties. It would seem that the Fed's investment in these SPVs is based on a valuation of assets that was conducted, in all three cases, by Blackrock Financial, which also, I understand, now manages these assets.

I championed the need for a Special Inspector General for the TARP and supported the various congressional oversight duties, including the mandate for GAO reports on the program, which at least sheds some light on the activities and transactions under the TARP. Similar transparency and oversight of the bailouts conducted outside of the TARP is also needed.

In addition to these concerns about how the TARP and other bailouts have been managed to date, we have to consider what we have learned about the nominee's tax history. The nominee's troubled tax history was made public last week in a bipartisan Finance Committee document.

I ask unanimous consent that the committee staff memorandum, released to members on Tuesday, January 13, 2009, along with supporting documentation, be printed in the hearing record.

Since the report was issued, additional questions have arisen specifically about the nominee's failure to pay self-employment taxes on his International Monetary Fund income reported on his tax returns for the years 2001 through 2004. The press has documented many of these questions.

Mr. Chairman, I ask unanimous consent to enter five articles and editorials into the hearing record. Over the past few years, this committee has spent a lot of time examining the tax gap. It is the difference between what taxpayers legally owe and what they actually pay. The nominee has been found to be a tax gap participant. In addition to failing to pay self-employment taxes while working for the International Monetary Fund, the nominee's returns contained other irregularities that added up to his owing a total of \$48,268 in taxes and interest to the IRS.

When asked by staff and members of this committee to explain these irregularities, the nominee has offered many excuses that range from statements that he should have known to exclamations that if only his accountants had warned him, he would have done the right thing.

A troubling fact has emerged. An IRS audit in 2006 yielded a demand by the IRS that the nominee pay self-employment taxes for tax years 2003 and 2004. The nominee paid the taxes due for those years. During the audit, it became clear that the same liability existed for the nominee's 2001 and 2002 returns. The IRS, however, was barred by the statute of limitations from collecting the taxes due for those years.

Shortly after then-President-elect Obama expressed an intent to nominate him, on the advice of the transition team, the nominee amended his 2001 and 2002 returns, and paid the amounts owed. Furthermore, the nominee received a tax allowance from the IMF to pay the difference between the “self-employed” and “employed” obligations of his Social Security tax.

In considering this nomination, this committee has a difficult road to travel. There are some who believe that the nominee’s actions can be explained as simple and common mistakes. To some he is possibly the only man for the job of healing our fractured economy.

His involvement in building and implementing the TARP gives him unique insight into how we have gotten to where we are today. To some he isn’t merely the best choice, but the only choice.

On the other hand, we need to consider how much the nominee’s tax history could reflect on the secretary of the Treasury. As secretary, the nominee would be in charge of the IRS. If confirmed, would the nominee be able to effectively lead his department? How much does his troubled tax history reflect on his judgment as a decision-maker? These are some of the issues this committee must consider.

So, I ask the nominee, are you the general, drawing on your financial sector expertise, who will marshal the financial troops and assets of the Treasury Department to lead our nation to prosperity? Or are you the general, with this troubling tax episode in your past, who will lead the nation’s tax policy and administration system? These are the two key questions we face today. Mr. Geithner, I look forward to your testimony and hope you can resolve these questions.