



Committee On Finance

Max Baucus, Ranking Member

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**Statement of Senator Max Baucus
on the nomination of Hank Paulson to be Secretary of the Treasury
Hearing before the Committee on Finance**

We meet today to consider the nomination of Hank Paulson to become Secretary of the Treasury. Since Alexander Hamilton took the job 217 years ago, this has been one of the most important jobs in America. The Secretary has the potential to lead the American economy.

The great Secretaries have dominated their times. One thinks of Bob Rubin. One thinks of Jim Baker. And we remember our departed Colleague Lloyd Bentsen, sadly taken from us this past season.

Mr. Paulson, you have the potential to join these ranks. As Chairman and CEO of Goldman Sachs, you have led one of the Nation's premier financial institutions. You — more than almost anyone — have seen the effects that the United States Government can have on markets. And you have seen how quickly those markets can judge what we do.

You will have much work to do. The Government has run 300-billion-dollar budget deficits for four years in a row. The balance of trade has been on a roller-coaster ride to extremes. America faces new economic competition from China and India. And the Treasury Department has suffered depressed morale and a diminished policy role. Good luck.

On the deficit, the Government is plainly on an unsustainable path. The administration's budget looks through rose-colored glasses. It ignores the costs of war, the costs of fixing the alternative minimum tax, and the costs of realistic growth for the rest of government.

And like clockwork, people born in 1945 will reach age 62 next year. Baby boomers will begin becoming eligible for Social Security next year. Through a lifetime of work, they have earned their benefits under Social Security and Medicare.

With the zeal of Captain Ahab, this administration has focused solely on entitlement programs to bear the burden of balancing our books. But the numbers just do not add up.

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Let me suggest another option. The Government should collect the taxes that people owe but do not pay. The Government should shut down abusive tax shelters. And the Government should close overly-generous corporate tax loopholes.

The Treasury loses \$300 billion a year in taxes owed but not collected. The cumulative tax gap over the last six years is \$2 trillion. Yet the administration's budget has a plan that it says would raise just \$3.5 billion of that, over ten years. That's one-tenth of one percent of the solution.

Mr. Paulson, you will be able to do something about this. Today, I ask you to pledge to send this Committee in October a credible plan to reduce the tax gap. And on the same schedule, I also ask you for a plan to stem the proliferation of abusive tax shelters and offshore schemes.

Chairman Grassley and I asked the IRS Commissioner, in consultation with Treasury, to submit such a plan by October 1 of this year. I expect that we will have a hearing shortly thereafter. I hope and expect the Treasury Department to be ready to tell the American people how it is going to collect the taxes that are owed.

Despite its flaws, our voluntary tax system is a remarkable tribute to the 85 percent of Americans who pay what they owe and contribute the more than \$2 trillion that helps to fund our society's commitments. And we owe it to the honest taxpayers to simplify the tax laws. We owe it to them to lessen its burdens and remove opportunities for those who want to cheat.

The administration promised tax reform. Then the administration stacked its advisory panel. The panel reported to the Treasury, but we have yet to see the administration's plan. With your tenure comes a new opportunity to work together to modernize our tax system. I reach out my hand to work with you on this.

And on the current account, America is also on an unsustainable path. As the night follows the day, our current account deficits are bringing on a weaker dollar. But our growing trade imbalances risk precipitating a dollar crisis.

You are an acknowledged expert on international finance. I will be interested in your plan for how we can avoid this risk.

And you and I share a belief that America must work to maintain its preeminent standard of living in an environment of increasing competition from China and India. As we have discussed, I have introduced legislation addressing American competitiveness in trade, energy, savings, and research. Education, tax, and health legislation will follow. I will look forward to working with you to advance this important agenda.

You are an acknowledged China hand, having flown there more than 70 times. I will be particularly interested in your take on how we should engage China.

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In the wake of China's much-ballyhooed announcement of its "managed float," China's currency has not appreciated as much as many of us had hoped. And China's relatively closed financial services sector, state owned industries, and weak local brokerages all add concerns.

This administration has spoken with many voices on China. With one voice it talks about China as a military threat. With another voice it talks about China as a responsible stakeholder in the international economic system.

You know China. I hope that you will be able to play a greater role in the administration's China policy formation than prior Treasury Secretaries. And I look forward to working with you in doing so.

Mr. Paulson, with great opportunities come great responsibilities. It is my hope and prayer that your tenure as Secretary will be one that ranks with the likes of Hamilton and Rubin. Frankly, the economy that you have been given requires it. And for the good of the Country, we all hope that you are a very, very lucky man.

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