



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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Testimony of the Honorable John W. Snow Before the Committee on Finance U.S. Senate

Chairman Grassley, Ranking Member Baucus and Members of the Committee, thank you for the work you have done and are doing to help the people of the Gulf Coast region survive and recover. And thank you for inviting me to appear before this committee to explore the ways that Congress and the Administration can assist in the long-term rebuilding of the Gulf Coast region.

As a nation, we continue to grieve over the losses experienced by our fellow Americans who made the Gulf Coast region their home. There was a heartrending loss of life and extensive loss of possessions and property. For many survivors, there is nothing left.

The devastation of Katrina and the repeated misery brought by Rita left a scar on this nation. But America is a strong nation and Americans are profoundly resilient. And many are already rebuilding their communities or are anxiously waiting to start. We intend to help them.

People in the region must rebuild their infrastructure, their homes and their businesses. The overriding goal must be that everyone has an opportunity to build a better life for themselves and their families. We look forward to a time when victims can make their own future. Nothing less is acceptable.

It is critically important – and the President has made this clear – that as we help the region, we do so in a fiscally responsible way. The President called upon Congress this week to pay for as much of hurricane relief as possible by cutting spending. And we will work with you to identify offsets that will free up money for the reconstruction efforts.

Economic Background

We have a strong, vibrant economy, and that is going to be critical as we pursue rebuilding efforts. While there is clearly no “good time” to be hit by a devastating natural disaster, we were fortunate to be standing on very solid economic ground, with robust underlying fundamentals, when these terrible storms struck. Our economic strength undoubtedly enhances our ability to deal with this disaster.

With a strong economy, we can better afford to meet any challenge. I know that this committee is keenly aware of that fact, and I appreciate your work to make our economy the strongest and most adaptive in the world. The work that Congress did to pass economy-invigorating tax cuts in 2001, 2002 and 2003 is one of the reasons we are standing on solid economic ground today.

While the President’s tax cuts were designed for the good of the American people in terms of economic growth and job creation, we are reminded today that a strong economy can also serve as a type of shelter against storms – natural or economic – that are beyond our control.

Over the short term, our economy will feel the impact of Katrina and Rita, as jobs, property, and businesses have been lost, and gas prices have edged higher. High fuel prices are a burden on businesses and family budgets.

These terrible storms likely took away from economic wealth in the third quarter, but I am optimistic that rebuilding efforts will restore lost GDP by the first quarter of next year.

We can encourage this rebound even further by preserving the tax cuts that gave our economy the opportunity to grow and put us on the solid footing we enjoy today. Let me be clear on this point: now is not the time to increase the tax burden on the American people. Lower tax burdens encourage innovation, economic growth and job creation – all the things we need to help hurricane-ravaged communities recover and rebuild.

Treasury and IRS Action in the Wake of the Hurricanes

As the topic of this hearing recognizes, well-tailored fiscal policy is an effective tool during times of disaster recovery. In the wake of both Katrina and Rita, the Treasury Department and the IRS took immediate action to provide tax relief to hurricane victims, and also to encourage the charitable giving that is so important to both short and long-term recovery efforts.

We appreciate that the last thing people in the devastated areas needed to worry about, in the days following these terrible storms, is taxes. So we granted tax filing and payment relief to all affected taxpayers. We also waived certain requirements for developers to receive the low-income housing tax credit so that displaced victims, regardless of financial status, could have access to that housing during this time of great need.

In the aftermath of Katrina, it quickly became clear that diesel fuel was needed for rescue and relief efforts. Treasury has therefore provided relief from penalties for highway use of dyed diesel fuel – a type of fuel that had been limited to certain uses for tax purposes – in order to increase availability of diesel fuel.

We've also announced that we'll be providing additional help for business development by giving a priority to applicants from the Gulf region for New Markets Tax Credits. This step will help encourage businesses and investors to come back to the region quickly to create commerce and jobs.

The IRS also assigned thousands of employees to augment the FEMA hurricane victim registration effort and established its own dedicated toll-free disaster number and a special section of their internet web site. So far IRS employees have answered well over 760,000 registration calls for FEMA. They have answered more than 30,000 calls on the special IRS toll-free line for affected taxpayers, and they have filled orders for nearly 180,000 Disaster Relief Kits.

Commissioner Everson and the terrific employees of the IRS have done an outstanding job. I applaud their dedication and thank them for their excellent service to the American people.

At Treasury, we are also making sure that hurricane survivors have access to the financial resources they need, starting with the checks they receive from the government, like Social Security, unemployment payments, and direct disaster assistance. This is an area where cooperation and support from private industry is also helping us get the job done.

We also worked closely with banking regulators, who have asked the institutions they oversee to consider all reasonable and prudent steps to assist their customers' cash and financial needs in areas affected by Katrina and Rita.

Rebuilding: Higher, Better, Responsibly

As the President said in his September 15th address to the nation, the task of rebuilding “will require the creative skill and generosity of a united country” and our vision of the future is not just to rebuild, but to rebuild “higher and better.”

The Administration is committed to helping the region re-build – and we should do so in a manner that is fiscally responsible.

The relief and reconstruction efforts will be costly and are likely to have a short-term impact on the deficit. But these will be one-time costs. And they can be met while also meeting the President's commitment to halve the deficit by 2009.

I appreciated the story that the President told, in his September 15th speech, about a man in New Orleans who had lost his home. When asked by a reporter if he would relocate, the man said, “No, I will rebuild – but I’ll build higher.”

Every party involved in the rebuilding and revitalization of the region – from individuals to businesses to government – must embrace the attitude of that man, an individual who has lost so much but will prevail because he lives by a code of common sense and responsibility as well as all-American optimism.

To spend taxpayer dollars on anything that does not “build higher,” that does not provide essential relief or generate real progress, or that can be washed away by the next storm, would be irresponsible.

While it is impossible, at this point, to assign a dollar figure to the federal rebuilding efforts, we are committed to principled, disciplined spending that is commensurate with the needs of the region.

We must approach with a number of clear goals and be mindful of avoiding moral hazard.

First, we must minimize the exposure of individuals to harm from future disasters. Clearly, the physical disaster protection needs of the region must be met.

Second, redevelopment plans must minimize the future exposure of all taxpayers, in recognition of the fact that the federal government is effectively often the insurer of last resort in large-scale disasters. In other words, we should not set a precedent that the taxpayer is the first-dollar insurer in all disasters

Finally, redevelopment must tap the resources of the private sector and all of the efficiency and innovation that it brings.

Federal Action to Date

As you well know, over \$60 billion has been appropriated to the FEMA Disaster Relief Fund by Congress for the Katrina emergency response. As of last week, \$19.1 billion of the Disaster Relief Fund has been allocated for programs consistent with the Stafford Act and past practice, namely human services (mostly housing assistance), infrastructure, mitigation, operations and administration.

You have also passed tax relief to assist the victims and encourage rebuilding, and I applaud you for these actions. The people of the region are appreciative to the members of this Committee for acting quickly and decisively, and in a bipartisan manner. We look forward to working with you and hope the same spirit and cooperation will produce a second tax bill in the coming weeks.

The President's Proposals

The President has proposed a number of initiatives to spur rebuilding – and a better life – in the Gulf Coast. We look forward to working with the members of this committee to bring these proposals to fruition, and I'd like to outline their basic purpose for you today.

A Gulf Opportunity Zone, or GO Zone, would help local economies devastated by Hurricane Katrina by providing tax relief and loans for businesses and entrepreneurs who invest in the region and create jobs. Small businesses in the GO Zone would be able to double their business expensing from \$100,000 to \$200,000 for investments in new equipment, take advantage of a 50 percent bonus depreciation, and receive tax relief for the building of new structures.

The GO Zone would also make available more funding for loans and loan guarantees for small businesses, including minority-owned enterprises, to get them up and running again.

The Gulf Coast hurricanes were specific and devastating events. But there is an American truism that will apply to the recovery of the area just as it has applied to the incredible growth and success of our country since its inception: entrepreneurship will create jobs and opportunity and help break the cycle of poverty. GO Zones are designed to facilitate that power of entrepreneurship and small business to the Gulf Coast.

The President has also proposed worker recovery accounts to help those who need extra help finding a job – a key to independence and a better life.

Finally, the President has proposed an urban homesteading initiative to provide a new beginning, in the form of a new home, for lower-income hurricane evacuees. Homeownership is one of the great strengths of any community, and it must be a central part of our vision for the revival of this region.

The Federal Role: Getting the Right Balance

The size and the scope of hurricane damage is unprecedented in our history. On an individual level, losses came in the form of homes, jobs and loved ones. Economically, lost income and infrastructure damage have national significance.

That said, it is essential that the Federal government play an appropriate role, but it should avoid taking steps that are excessive. We must tailor our response appropriately.

No one can say with certainty how much it will take to rebuild the region. The Federal government is still assessing the cost of lost infrastructure, for example. State and local governments are still grappling with the most immediate needs; they and community leaders will need time to plan.

How can we draw the lines? Much of that has yet to be determined. We must first be sure we understand the nature of the losses, some of which will be covered by insurance and reserves.

The Administration is seeking a backstop for local and municipal governments, to the extent traditional forms of support such as their own tax base, borrowing capacity, and state aid prove insufficient to provide essential services. We will work with congress to make sure this aid is effective.

For instance, some have proposed guarantees or other backstops of local and municipal bond issuance. In this area, I want to be very clear: while relief is needed, federal assumption or guarantees of localities' debt is highly undesirable and something Treasury would oppose. A federal bailout in the form of Treasury guaranteeing municipal securities could result in a risk premium on Treasury issuance going forward.

Providing a guarantee – a government-sponsored protection of investors – would be an intrusion in the private markets, disrupting the assessment of risk, which is essential to the proper function of markets. More importantly, such a guarantee would do little to put actual money in the hands of those who need it most - the individual victims. We cannot support that.

The Task Ahead

The task ahead is not simple, but America is no stranger to struggle, nor to solutions. We picked ourselves up after 9/11 and other disasters, and we have the will and the resources and the resolve to do so again. It is the spirit of Americans to pick themselves up, to rebuild and to be stronger than ever before.

Let me close by laying out a course of action that I believe will translate to the fiscally responsible rebuilding that I believe we are all committed to.

- Infrastructure that mitigates the future exposure to storm damage.
- Avoid moral hazard by taking steps to promote and encourage prudent future planning including the appropriate role of insurance.
- Avoid damaging the national economy and our financial system.

Thank you, we look forward to working with you, and I look forward to taking your questions.