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Geithner urges action on economy and bailout program

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By Mark Felsenthal and David Lawder

WASHINGTON (Reuters) - President Barack Obama's nominee for Treasury secretary, Timothy Geithner, told Congress on Wednesday forceful action was needed to combat the U.S. recession and he vowed to overhaul the government's \$700 billion financial rescue program.

"Our test is to act with the strength, speed and care necessary to get our economy back on track," Geithner said in testimony prepared for delivery at a Senate Finance Committee hearing.

The panel has jurisdiction over his nomination, which must be approved by the full Senate. He is expected to win confirmation, barring a major misstep at the hearing.

Geithner told lawmakers, many of whom are upset at how the Treasury-administered financial rescue program has been run, that the Obama administration would require banks receiving government money to document increased lending.

"We have to fundamentally reform this program to ensure that there is enough credit available to support recovery," he said.

Geithner, currently president of the New York Federal Reserve Bank, pledged measures to ensure credit flows to consumers and businesses, but he stopped short of offering specifics on how that might be done.

U.S. stocks fell sharply on Tuesday and bank shares were hammered over concerns about mounting losses. Deteriorating credit quality has hamstrung banks' ability to lend and attract private capital.

The new administration is considering further steps to shore up the banking system, including the possibility of having the government take bad assets off banks' books, according to people familiar with the thinking of the Obama team.

While Geithner made the case for an aggressive fiscal stimulus to help lift the recession-mired economy, he said the government would have to turn its attention to getting its finances in order once the crisis passed.

PRESSING QUESTIONS

The committee, which meets at 10 a.m. to hear Geithner's testimony, was expected to press the nominee for more specifics on what the administration might be considering doing to clean up the banking system.

Panel members were also likely to question him sharply over his failure as an International Monetary Fund official to pay tens of thousands of dollars in U.S. taxes, and how that squares with taking the job that includes responsibility for U.S. tax collection.

Many senators, however, have said Geithner is well-qualified for the top Treasury post and have show little appetite for slowing his nomination at a time of crisis.

"At this point I have not come to any conclusion that there's a massive drive within the Senate to keep him from being confirmed," the top Republican on the Senate Finance Committee, Sen. Charles Grassley, told Reuters.

"One way or the other -- either he is our secretary of Treasury or he isn't -- he or somebody else needs to be in there very quickly," Grassley said. The committee is expected to vote on Geithner's nomination on Thursday.

TESTED BY CRISIS

As the head of the New York Fed, Geithner has been a key participant in government efforts to prop up financial markets. Lawmakers were expected to explore his role in connection with the failure of investment bank Lehman Brothers, which intensified the global credit crisis.

Geithner also played a central role in decisions to organize an orderly sale of failing investment bank Bear Stearns and to shield insurer American International Group from collapse. Geithner, a protege of former Treasury secretaries Robert Rubin and Larry Summers, had earned trouble-shooting credentials dealing with financial crises in 1990s.

He is seen by many as an effective intermediary between the U.S. central bank and Wall Street. His nomination reassured markets that there would be continuity in efforts to revive the economy and protect the banking system from collapsing.

But the revelation that he had to pay \$42,702 in back taxes and interest cast a shadow over his nomination. Members of the Senate Finance Committee have persistently urged the Treasury to be more aggressive in collecting unpaid taxes.

(Editing by Tom Hals)

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