THE PRESIDENT'S FISCAL YEAR 2014 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JACOB J. LEW

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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CONTENTS

THE PRESIDENT'S FISCAL YEAR 2014 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JACOB J. LEW

THURSDAY, APRIL 11, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to call, at 10:10 a.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
Thursday, April 4, 2013
No. FC–04

CONTACT: (202) 225–3625

Chairman Camp Announces Hearing on the President's Fiscal Year 2014 Budget Proposal with U.S. Department of the Treasury Secretary Jacob J. Lew

House Ways and Means Committee Chairman Dave Camp (R–MI) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2014. **The hearing will take place on Thursday, April 11, 2013, in 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear the witness, oral testimony at this hearing will be from the invited witness only. The sole witness will be the Honorable Jacob J. Lew, Secretary, U.S. Department of the Treasury. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

On April 10, 2013, the President is expected to submit his fiscal year 2014 budget proposal to Congress. The proposed budget will detail his tax proposals for the coming year as well as provide an overview of the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction.

In announcing this hearing, Chairman Camp said, **"The Ways and Means Committee is committed to comprehensive tax reform that eliminates tax loopholes, simplifies the code, and lowers rates. Tax reform that accomplishes these goals can strengthen our economy, create more jobs and allow American workers to start seeing an increase in their paychecks again. This hearing will provide both the Committee an opportunity to review the President's tax proposals and Treasury Secretary Lew the opportunity to describe how the Administration intends to work with the Committee and Congress to pass and enact comprehensive tax reform."**

FOCUS OF THE HEARING:

U.S. Department of the Treasury Secretary Lew will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on**

Thursday, April 25, 2013. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman CAMP. Good morning. The Committee will come to order.

Well, good morning, Mr. Secretary, and welcome to the Ways and Means Committee. The last time you testified before this Committee it was as "Mr. Director," and so please allow me to publicly say what I have already said to you in private, and that is to congratulate you on your new post. And, as you are well aware, this Committee has broad jurisdiction and interacts with many departments and agencies, none more important than the Treasury Department. And, as such, it is my sincere hope that we will be seeing a lot of each other and equally important that our staffs will be working together a lot as we move forward.

On Monday, the front page of the *New York Times* business section read, "Lew to Press for Growth in Europe." And, Mr. Secretary, I appreciate and share your concerns over the fate of the European economy, but I am first and foremost troubled by the growth and lack thereof of the American economy. The simple truth is far too many families are still struggling. They face higher food prices, higher gas prices, and higher tuition prices for their children. Meanwhile, many have had their hours reduced and their wages frozen.

There is no cure-all, but there are real, achievable policies that can strengthen this economy and turn things around for American families; chief among those are fixing our broken, outdated, and complex Tax Code and balancing our budget.

I am sure you will hear from Mr. Ryan and others on the need to balance the budget, which the Administration's budget never does, so I will focus today on the Tax Code. America's Tax Code is broken, and I am committed to working with anyone, Republican or Democrat, to fix it. And that is why I was encouraged the President put forward a plan to tackle a few of the challenges facing our Tax Code in his budget.

But the simple truth is that the President's proposal isn't the real reform we need, and it doesn't go nearly far enough to address the needs of all job creators. The problem with our Tax Code isn't how much money it makes for Washington. In fact, our government is on track to double the amount of money it takes from hard-working taxpayers over the next 10 years, proving that government has all the revenue it needs.

Instead, the problem with the Tax Code is that it costs American families too much, too much in time, too much in money, to comply with it. And, Mr. Secretary, you know these facts: Americans spend over $160 billion each year trying to navigate through the complexities of the U.S. Tax Code. It takes the average American taxpayer 13 hours to comply with the Tax Code, gathering receipts, reading the rules, and filling out the forms the IRS requires. And much of this is due to the fact that over the last decade, there have been more than 4,400 changes to the U.S. Tax Code. That is more than one a day.

Instead of reversing that trend and trying to make the Tax Code work for the American people, this budget adds new levels of complexities and creates new credits and deductions. And, Mr. Secretary, it is our job to make sense of this Tax Code, and I hope you and the President will work with the Congress to deliver real reform to the American people.

Our Tax Code needs to be genuinely user friendly. You shouldn't have to pay a professional to figure out your taxes. The code is so riddled with layer upon layer of complexity that 9 out of 10 Americans don't feel comfortable doing their own taxes, they are forced to either pay a professional or go buy commercial software. Americans should have faith that their government is taxing them effectively and efficiently. Instead, they fear the IRS and the potential of being audited.

Our Tax Code needs to be fairer at a time when American families are just trying to make ends meet. We shouldn't be taking more of their money to bail out Washington's inability to control spending. Let's put an end to the special-interest loopholes and the handouts and use that revenue to create a simpler, fairer Tax Code that lowers rates for all Americans.

And, Mr. Secretary, across this country, people are sick of Washington's gridlock. And that is why I will work with you, the President, Republicans, and Democrats to simplify and fix this broken Tax Code. This budget is the first step. But the American people can do better than what the President is proposing here. It won't be easy, but this Committee, Republicans and Democrats, are willing and ready to do the tough work our constituents sent us here to do.

And we don't have to settle for the same old game of giving Washington more taxpayer money and calling it reform. It has been 27 years since this town cleaned up the code. It is time for us to do our job again. Hardworking taxpayers deserve real solutions and we need to make our Tax Code simpler and fairer for every American. And let's work together to accomplish that.

I want to thank you again for being here. Congratulations on your new job. And I will now turn to Ranking Member Levin for his opening statement.

Mr. LEVIN. Thank you, Mr. Chairman.

Welcome, Secretary Lew. We have to get used to that title since we have always known you with other titles, but mostly by your first name. I am tempted to ask you, when is the first time you appeared before this Committee?

Secretary LEW. The first time I was in this room was probably in 1973 on H.R. 2, pension reform.

Mr. LEVIN. I will go on.

Well, we have enjoyed so much working with you in the past, only one of us I think goes back that far. And we all look forward to working with you in the days ahead.

You are appearing today to discuss the Administration's 2014 budget—that is why you are here—which follows those presented earlier by House Republicans, House Democrats, and Senate Democrats. Clearly, the Administration's budget reflects an effort to open up a search for some common ground. Unfortunately, this has been rebuffed in the responses of the House Republican leadership. The Administration made clear that any search for common ground requires a balanced approach. My guess is the President has used the word "balanced" perhaps more than any other word, for good reason; a combination of budget cuts and additional revenues.

The Republican approach is based on imbalance. The tax cuts the Republicans propose in their budget would leave a $5.7 trillion revenue gap. Yet they have never provided specifics on how they would fill it.

What we know is that it would almost certainly require eliminating or dramatically cutting tax provisions that have been vital to middle- and low-income families, including the mortgage interest deduction and the exclusion for employer-provided healthcare.

Their budget reaffirms their plans also to turn Medicare into a voucher program and to repeal the benefit provisions, if not the revenues which they propose keeping.

In its budget, the Administration has also come forth with some further ideas on business tax reform. And in doing so, it has highlighted that while lower rates are important, they must not come at the expense of critical investments that American enterprises need to thrive and to succeed.

I hope that foundation in the theme of tax equity, among others, will guide us as we face the challenge of tax reform; tax reform based on reality, not mainly on rhetoric.

The imbalance in the response from House Republicans is further illustrated, even as we hear today the testimony of you, by their unwillingness to appoint conferees to consider the budget bills passed by the House and Senate in conjunction with the Administration's budget. This continued Republican embrace of a budget deadlock is all the more worrisome, if I might say, as the sequester continues to unfold and as the debt ceiling once again approaches.

Indeed, it was made all the more worrisome by the House Republican hearing yesterday that focused on the debt ceiling in terms of the possibility of prioritizing our obligations, obligations all emanating from congressional actions. We cannot continue on this dangerous path.

Hopefully, this hearing will serve as a constructive opportunity to embrace a different path.

I yield back.

Chairman CAMP. Thank you very much, Mr. Levin.

Again, it is my pleasure to welcome Secretary Jack Lew back to the Committee on Ways and Means. We look forward to your testimony. The Committee has received your written statement. It will be made part of the formal record.

And, Secretary Lew, you are recognized for 5 minutes.

STATEMENT OF THE HONORABLE JACOB J. LEW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Secretary LEW. Thank you very much, Mr. Chairman, and thank you, Mr. Chairman, Ranking Member Levin, for your gracious welcome here today. It is an honor to appear and to present the President's budget for next year. And I sit here, as the Chairman noted, surrounded by four decades of memories of many important occasions when bipartisan cooperation has moved the country forward in the best interests of the American people. And I sit here today looking forward to continuing in that tradition this year and in my current role.

Our economy is much stronger today than it was 4 years ago. But we must continue to pursue policies that help to create jobs and accelerate growth. Since 2009, the economy has expanded for 14 consecutive quarters. Private employers have added nearly 6.5 million jobs over the past 37 months. The housing market has improved. Consumer spending and business investment have been solid and exports have expanded.

But very tough challenges remain. While we have removed much of the wreckage from the worst economic crisis since the Great Depression, the damage left in its wake is not fully repaired. Families across the country are still struggling. Unemployment remains high. Economic growth needs to be faster. And while we have made substantial progress, we must do more to put our fiscal house in order.

At the same time, political gridlock in Washington continues to generate a separate set of headwinds, including harsh, indiscriminate spending cuts from the sequester that will be a drag on our economy in the months ahead if they are not replaced with sensible deficit reduction policies.

This is my first opportunity to appear before you as Treasury Secretary and discuss from this vantage point how we need to confront these difficult challenges. But this is far from the first budget I have worked on. In my experience, a good budget offers practical solutions to problems of its time. The President's budget does that by making the investments that will drive a growing economy and by reining in our deficits responsibly so we can replace the across-the-board cuts immediately and restore fiscal stability over time.

A good budget must also be grounded in reality. And this budget deals squarely with the world as it is now and as it will be in the future. It reflects the need for compromise to find a path that could command bipartisan support, and it recognizes issues of major consequence: like the fact that our demographics are shifting with the retirement of the baby boomers, the number of retirees is growing; like the fact that millions of Americans are living in poverty today; like the fact that wages and incomes for middle class Americans have not improved for more than a decade; and that, despite the significant strides through the Affordable Care Act, healthcare spending remains a key driver of long-term deficits.

This budget is animated by the simple notion that we can and must do two things at once: Strengthen the recovery in the near term while reducing the deficit and debt over the medium and long term.

This has been the President's long-standing approach to fiscal policy. And when you compare the trajectory of our economic recovery with those of other developed countries in recent years, it is clear why the President remains so committed to this path.

As the Chairman noted, I just returned from meetings in Europe. And it is clear that in countries where austerity measures were implemented too quickly, those economies have stumbled. Ours is a different story. Notwithstanding the need to do more, our economy continues to expand with the support of growth-oriented economic policies, even as we make meaningful progress to reduce the deficit. And it is important to bear in mind how meaningful that progress has been.

In the last few years, the President and Congress have come together to hammer out historic agreements that substantially cut spending and modestly raise revenue. When you combine these changes with savings from interest, we have locked in more than $2.5 trillion in deficit reduction over the next 10 years, and today, we are putting forward policies that will lower the budget deficit to below 2 percent of GDP and bring down the national debt relative to the size of the economy over 10 years.

We restore the Nation's long-term fiscal health by cutting spending and closing tax loopholes, taking a fair and balanced approach. The budget achieves this balanced approach through very specific steps, such as reforming agricultural subsidies and eliminating tax preferences for companies that move operations and jobs overseas.

At the same time, the budget incorporates all elements in the Administration's offer to Speaker Boehner last December, demonstrating the President's readiness to stay at the table and make very difficult choices and find common ground. Consistent with that offer, the budget includes things the President would not normally put forward, such as means testing Medicare through income-relating premiums and adopting a more accurate but less generous measure of inflation, known as chain CPI. It includes these proposals only so we can come together around a complete and comprehensive package to shrink the deficit by an additional $1.8 trillion over 10 years and to remove fiscal uncertainty that has dragged on economic growth and job creation.

This framework does not represent the starting point for negotiations. It represents a fair balance between tough entitlement savings and additional revenues from those with the greatest income. The two cannot be separated and were not separated last December when we were close to a bipartisan agreement.

This budget provides achievable solutions to our fiscal problems, but as crucial as these solutions are, we have to do more than just focus on deficit and debt. Now, I know the significance of balancing the budget, and I will not take a backseat to anyone when it comes to fiscal responsibility. Under President Clinton, I helped negotiate the groundbreaking agreement with Congress to balance the budget. As director of OMB, I oversaw three budget surpluses in a row, and worked with many on the left and the right on our plans to pay off our debt. It will come as no surprise that I was profoundly disappointed to see those surpluses squandered.

But that does not mean we should make deficit reduction our one and only priority, not when our world demands that we both confront our fiscal challenges and make targeted investments to propel broadbased growth. So in addition to ensuring that we have sound fiscal footing, this budget lays out initiatives to fuel our economy now and well into the future. Every one of these initiatives is paid for in our deficit reduction package, meaning they do not add a dime to the deficit.

As the President explained in the State of the Union, the surest path to long-term prosperity is to strengthen the middle class. This budget does that by zeroing in on three things: Bringing more jobs to our shores; making sure American workers have the skills needed to do those jobs; and making sure hard work amounts to a decent living.

To generate more jobs in the United States, we focus on growing our economy by making it more competitive. The budget launches advanced manufacturing hubs around the country, invests in research and technology, and cuts red tape to expand domestic energy production, including clean energy and natural gas. It also puts people to work right away repairing our deteriorating roads, railways, bridges, and airports so our economy can compete in the future.

We have made considerable headway over the last few years to improve education and worker training. And we can go even further by helping students acquire the skills that today's economy demands. That means joining with States to give every child a solid preschool education. It means reconfiguring high schools so students can get the high-tech, high-wage skills businesses need. And it means making college more affordable.

Finally, the budget would help lift communities hit the worst by the recession, and it would adjust the minimum wage so that full-time workers are not stuck in poverty. The proposals I just outlined are part of the President's framework for growing our economy and cutting our deficits. And as this budget shows, we do not have to choose between the two, and we must not. We can adopt a powerful jobs and growth plan, even as we embrace tough reforms to stabilize our finances. This is the way a budget will make our economy stronger and help create jobs now and in the future.

Before I close, I just want to say that the debate we are engaged in is very important. It is part of a complex sorting-out process that will determine our Nation's future. But everyone on this Committee knows that the path before us is going to be a struggle. It will require difficult decisions that will directly affect the daily lives of millions of Americans, entrepreneurs and immigrants, soldiers and veterans, the young and the elderly, the working poor and the very well off. And it matters that we get this right.

With that in mind, I come here today optimistic about what we can accomplish. I believe we can find common ground to stop the unnecessary standoffs and manufactured crises; that we can come together to forge an agreement to right our fiscal ship and that we can make the compromises that are necessary to meet our obligations to future generations.

Thank you, Mr. Chairman, and I look forward to answering your questions.

[The prepared statement of Secretary Lew follows:]

EMBARGOED FOR DELIVERY
UNTIL 10:00 AM ET, APRIL 11, 2013

Statement of Secretary Jacob J. Lew
Committee on Ways and Means
U.S. House of Representatives
April 11, 2013

Chairman Camp, Ranking Member Levin, and members of the committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2014 Budget.

The President's Budget is based on a belief that an agreement to achieve balanced deficit reduction is consistent with making – and fully paying for – targeted investments critical to continued economic growth and job creation. The Budget includes the President's compromise offer to Speaker Boehner to reduce the deficit by an additional $1.8 trillion, in addition to the more than $2.5 trillion already enacted, and fully pays for all new initiatives to ensure that they do not add to our deficit burden.

I. Introduction

The United States economy has made substantial progress toward recovering from the worst financial crisis since the Great Depression. Despite significant headwinds – both as a result of the crisis and from other temporary shocks – the economy has grown at an average annual rate of just over 2 percent over the last three and a half years. We have seen steady improvement in the labor market, where private sector employers have added nearly 6.5 million jobs since the trough of the labor market in February 2010. The housing market, which had been a significant drag on economic growth throughout the recession and into the early stages of the recovery, is now gaining upward momentum.

While our economy is stronger today, more work must be done to help create jobs and accelerate growth. Even though the unemployment rate, at 7.6 percent, is at its lowest level in four years, it is still too high. Too many Americans are still struggling to find work. Despite recent improvements in the housing market, many families remain underwater on their mortgages and credit-worthy borrowers continue to have trouble getting the financing they need to buy a home or refinance existing mortgages. Although corporate profits are at an all-time high, America's middle class continues to struggle.

The President's Budget addresses these challenges in a way that builds on the momentum of the economic recovery. It takes a credible approach to bringing our deficits down to a sustainable level; at the same time, it makes important investments to help build a foundation for sustainable economic growth. These proposals are based on the conviction that an agreement is within our reach, and that it is also possible to achieve *both* our fiscal goals and our long-term priorities.

While deficit reduction is necessary to put our nation on a sound fiscal course, we have to bear in mind that the recovery remains fragile. Cutting spending too deeply or too soon would harm the recovery in the near term, undermining our shared fiscal goals and our ability to make necessary investments for growth over the long term.

The proposals in the Budget are *targeted* at growth and opportunity – cutting where we can and investing where we will see the strongest return, both now and into the future. Specifically, the Budget calls for increased investment in innovation and infrastructure to make the United States a more attractive place for job creation. It introduces initiatives to bolster education and worker training so Americans have the necessary skills to compete in a global economy. And it puts forward policies that are designed to give all Americans the opportunity to share in the benefits of economic growth. These measures will help grow and strengthen the middle class, which has been the key engine of prosperity in the United States. Additionally, they are fully paid for, so they will not add to the deficit.

Ultimately, the central challenges addressed in the President's Budget – strengthening growth now, investing in our future, and putting our nation on a sound fiscal footing – complement and depend on each other. Investing in our economy today will help us grow in the future and that, in turn, makes our fiscal challenges considerably more manageable. Committing to a credible path for deficit reduction today allows for investments that enhance our long-term growth.

II. Balanced Deficit Reduction

When the President came into office four years ago, he inherited a large fiscal deficit – projected to be more than 9 percent measured as a share of the economy before any of his policies were enacted. As the economy has been healing, both the expiration of cyclical spending and a pickup in economic growth have contributed to a more sustainable path for the country's finances.

Over the past two and a half years, we have made considerable progress in reducing the size of the deficit, which fell to about 7 percent of GDP in FY 2012 – the fastest pace of deficit reduction over a similar time frame since just after WWII. Moreover, following current policy, the deficit will continue to decline over the next 10 years, owing to a mix of spending cuts and tax reforms including $1.4 trillion in spending cuts to discretionary programs (as a result of both the Budget Control Act of 2011 and other appropriations bills enacted since 2011), as well as over $600 billion in revenue from the American Taxpayer Relief Act of 2012. Taking into account interest savings, this amounts to more than $2.5 trillion in deficit reduction over the 10-year window, not including savings from winding down the wars in Iraq and Afghanistan. But we need to do more to ensure that our long-term fiscal outlook continues to improve.

We must continue to achieve deficit reduction in a balanced way. It must include entitlement reform and spending reductions. We must also pursue tax reform that closes loopholes and addresses deductions and exclusions that allow the wealthy to pay less in taxes as a percentage of income than many middle-class families. Individual tax reform must be coupled with reform of the U.S. business tax system to enhance American competitiveness, lower rates, broaden the tax base, and level the playing field for companies without losing any revenue. All told, these initiatives constitute a balanced approach to deficit reduction. Such a balanced approach does not force unnecessary cuts to education, energy, and medical research and does not endanger Medicare and Social Security.

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UNTIL 10:00 AM ET, APRIL 11, 2013

The President's Budget takes this balanced approach with additional spending cuts and increased revenues through tax reform. These policies will reduce the deficit to roughly 1.7 percent of GDP by the end of the budget window and put the nation's debt on a declining path, reaching 73.0 percent of GDP by 2023.

The additional $1.8 trillion in deficit reduction proposed in this Budget comes from closing tax loopholes and reducing tax benefits for those who need them least; continued health care reform; savings from mandatory programs; additional cuts to discretionary spending; and savings from using a more accurate measure of inflation, plus the reduced interest payments resulting from lower borrowing.

The most important pieces of the compromise offer made by the President include:

- **Tax Reform:** $580 billion in additional revenue from tax reform that closes tax loopholes and reduces tax benefits for those who need them least and that will support the creation and retention of high-quality jobs.
- **Health Savings:** $400 billion in health savings that build on the health reform law and strengthen Medicare.
- **Other Mandatory Savings:** $200 billion in savings from other mandatory programs, such as reductions to farm subsidies and reforms to federal retirement contributions.
- **Discretionary Savings:** $200 billion in additional discretionary savings, with equal amounts from defense and non-defense programs– that is $200 billion below the Budget Control Act spending caps that were lowered even further by the American Taxpayer Relief Act of 2012.
- **Consumer Price Index**: $230 billion in savings from switching to the use of chained-CPI.
- **Interest Payments:** Almost $200 billion in savings from reduced interest payments on the debt and other adjustments.

I will address each of the key elements of the President's compromise offer, all of which are in the Budget.

Components of Balanced Deficit Reduction

Tax Reform

As a first step toward balanced deficit reduction and tax reform, the President proposes enacting two individual tax reform measures that would raise $580 billion by broadening the tax base for high-income taxpayers, and ensuring that the very wealthy pay federal tax rates at least equal to those paid by middle-class Americans. The first measure sets a 28 percent maximum rate at which upper-income taxpayers could benefit from itemized deductions and certain other tax preferences to reduce their tax liability. The second puts in place the Buffet rule, which requires those individuals with incomes over $1 million to pay no less than 30 percent of income after charitable contributions in taxes. At the same time, the Budget includes business tax reform that will provide greater certainty and improve global competitiveness while preserving the revenue collected today.

Health Care Reform Savings

The President's Budget builds on the health care cost savings driven by the Affordable Care Act by reducing excess payments for health care services and supporting reforms that boost the quality of care. The Budget also includes structural changes that will help encourage Medicare beneficiaries to seek high-value health care services, while preserving the basic structure and promise of the program. These actions would save an additional $400 billion.

Other Spending Cuts and Savings

The Budget calls for a total of $400 billion in additional discretionary and non-health mandatory spending cuts over the next 10 years. Savings in mandatory programs outside of health care include reforms to agricultural subsidies and federal retirement benefits as well as from a variety of smaller savings initiatives across the agencies.

The budget includes an additional $200 billion in spending cuts, split evenly between defense and nondefense spending. On its current trajectory, discretionary spending is projected to decline to its lowest level as a share of the economy since the end of the 1950s; the discretionary cuts included in the President's offer to Speaker Boehner would push discretionary spending even lower. The President's cuts are coupled with targeted investments that are imperative to growth and opportunity, such as early childhood education.

In addition, the Budget includes additional savings of $230 billion by changing the standard measure of inflation used to adjust spending programs and the tax code from the standard CPI to a chained CPI, coupled with protections for the most vulnerable. The chained CPI is a more accurate measure of inflation in that it does a better job of reflecting the substitution of goods in response to relative price changes.

III. Strengthening the Middle Class by Investing in the U.S. Economy

In addition to the proposals to stabilize our finances, the President's Budget offers a number of policies aimed at making targeted investments to promote long term growth. These policies make domestic job creation more attractive by increasing investment in innovation, infrastructure, and manufacturing. The Budget also offers policies to increase access to and the affordability of education and job training programs. At the same time, it includes proposals so that the gains from these policies can be shared by all Americans.

Promote Greater Competitiveness in Global Markets

A number of proposed initiatives are designed to enhance our ability to sell American-made goods and services to the rest of the world. The Budget increases funding for agencies involved in trade promotion and trade financing so that these agencies can help the United States achieve the goal set in 2010 by the National Export Initiative (NEI) to double U.S. exports over a five-year period. In addition to the NEI, the Budget prioritizes completing ongoing trade negotiations – such as the Trans-Pacific Partnership – and opening new negotiations – like the Transatlantic

Trade and Investment Partnership with the European Union – to help strengthen trade ties with the Asia-Pacific region and the European Union, respectively. In addition, more resources for trade enforcement will help make sure that our workers and businesses exporting their products and services overseas are operating on a level playing field.

Currently, the U.S. corporate tax system provides incentives for companies to relocate operations abroad by allowing them to reduce their tax liability. The President's Budget changes that by reforming the corporate tax system to encourage domestic job creation without losing any revenue. Part of that effort will include removing deductions for moving production overseas and providing a new tax credit for firms that bring foreign operations back to U.S. soil.

Investing in Innovation, Infrastructure, and Manufacturing

As global markets become more open and as economic activity abroad continues to strengthen, it is crucial that U.S. firms and workers remain on the technological frontier. That is why we need to invest in Research and Development (R&D), infrastructure, and our manufacturing base. These investments will help foster job creation, raise living standards, and keep our nation competitive in a global economy.

The President's Budget increases funding for non-defense R&D investment to $70 billion, a roughly 9 percent increase over its 2012 level of $64 billion. These investments are targeted to areas most likely to unleash transformational technologies that will create the businesses and jobs of the future. History has shown that federal support for R&D has helped spur new technologies, including the internet, global positioning systems, and clean energy.

Similarly, federal investments in public infrastructure projects, such as the national highway system, have led to significant gains in our nation's productive capacity. In recent years, however, work to maintain and improve public infrastructure has failed to keep pace with the rate of deterioration and obsolescence. As CEOs tell me every time we meet, our aging infrastructure has become a detriment to our future growth prospects, and modernizing infrastructure must be a national priority.

The President meets this obligation by directing $50 billion toward infrastructure upgrades and repairs. And to get started on the most urgent projects as quickly as possible, the Budget would create a "Fix it First" program that puts people on the job right away to clear out the backlog of deferred work on highways, roads, bridges, transit systems, and airports. But taxpayers need not shoulder the entire cost of these projects: the President's Budget calls for a Partnership to Rebuild America. This program helps leverage private investment in infrastructure by starting a National Infrastructure Bank as well as by enacting America Fast Forward bonds, which help facilitate and reduce the cost of financing new projects. These initiatives will help lay the foundation for long-term economic growth and also help generate new high-quality middle-class jobs today.

Growing our manufacturing sector also generates new, high-quality middle-class jobs. The Budget makes a one-time down payment of $1 billion to establish manufacturing innovation hubs in various regions around the country. The Budget also includes funding to launch

Manufacturing Technology Acceleration Centers oriented toward improving supply-chain efficiency. Finally, the Budget prioritizes investments and initiatives to make the United States a world leader in clean energy.

Investing in the American Workforce

If we want to make America more competitive in the global economy, we must equip America's workers with the high-tech skills that the 21st century requires.

The Budget takes a number of steps to help Americans acquire these skills. It proposes to work together with states to make high-quality preschool available to every four-year old in America. It rewards school districts that develop new partnerships with colleges and employers, and focus on science, technology, engineering, and mathematics (STEM) so that high school students are better prepared for the jobs of tomorrow. And it expands access to higher education by making college more affordable. The Budget makes the American Opportunity Tax Credit – which helps students pay for college expenses – permanent. At the same time, it reaffirms the Administration's strong commitment to the Pell Grant program, which provides grant assistance to low- and moderate-income students and provides a mechanism to keep interest rates for student loans from rising – at a time when market rates are low.

In addition to investing in education, the Budget strongly supports training and employment programs to help workers gain skills and find new jobs or careers. One specific focus is on modernizing, streamlining, and strengthening government delivery of job training services. The Budget proposes a Universal Displaced Worker program that would reach over 1 million workers per year with a set of core services, combining the best elements of two more narrowly targeted programs. In addition, starting in fiscal year 2015, the Budget provides $8 billion for the Community College to Career Fund; this Fund supports state and community college partnerships with businesses, thereby enhancing the skills of American workers.

Strengthening the Middle Class

Investing in U.S. firms and workers is critical to maintaining competitiveness, but it is also important to make sure that all Americans have an opportunity to benefit from the resulting economic gains.

To this end, the President's Budget includes tax proposals that are geared toward rebalancing the tax code in a way that eases the burden on the middle class, including closing specific loopholes that benefit only a small group of the wealthiest Americans. The Budget also contains a number of proposals designed to build ladders of opportunity so that hard work is rewarded and inequality and poverty are reduced.

The Budget creates a Pathways Back to Work fund to make it easier for workers, particularly the long-term unemployed, to remain connected to the workforce and gain new skills for sustained employment. The Budget would also increase the minimum wage to $9.00 an hour by the end of 2015 and index it to inflation thereafter.

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Taken as whole, the policies put forth in the President's Budget enhance America's competitiveness and, in doing so, create a healthy environment for fostering a strong, growing middle class – a key engine for sustainable economic growth in which hard work is rewarded and every American has an opportunity to advance and succeed. At the same time, we maintain our commitment to our most vulnerable citizens and to our seniors.

Moreover, these new policy initiatives are fully funded, so that the Budget is able to make essential investments in the nation's future while also reducing the deficit.

IV. Conclusion

In summary, the U.S. economy has made significant progress toward recovering from the worst financial crisis since the Great Depression. However, it is important to recognize that we should be doing more to secure the recovery, create jobs, and improve the future prospects of the nation.

We have made significant gains in the labor market, but unemployment remains unacceptably high at 7.6 percent and too many Americans are still looking for work. Congress has already passed some parts of the American Jobs Act. We can further support the recovery in the private sector by passing the rest. Similarly, activity in the housing market appears to be gaining momentum, but we need to do more to support credit-constrained families who want to buy a house or refinance their existing mortgage.

The President's FY 2014 Budget, by including the components of the President's December compromise offer to Speaker Boehner, reiterates a commitment to coming together around a balanced plan to reach more than $4 trillion in total deficit reduction over the 10-year budget window. At the same time, it prioritizes growth-oriented policies that are designed to enhance U.S. competitiveness and strengthen the middle class, ensuring that the resulting economic gains can be shared broadly among all Americans.

In conclusion, it is important to note that this framework does not represent the starting point for negotiations. It represents a fair balance between tough entitlement savings and additional revenues from those with the greatest incomes. The two cannot be separated, and were not separated last December when we were close to a bipartisan agreement.

This is my first opportunity to appear before you as Treasury Secretary, but this is far from the first budget that I have worked on. There is no doubt that this is a serious proposal at a serious time. There is a path to a bipartisan agreement that moves the country forward. This budget deals with the world as it is now and as it will be in the future. It makes difficult choices. It includes a powerful jobs and growth plan. And it is the right course of action for our nation and our economy, and a path for bipartisan agreement to move the country forward.

Thank you. I look forward to taking your questions.

Chairman CAMP. Well, thank you, Mr. Secretary.

I am interested in making the Tax Code work for families, instead of the special interests here in Washington. And I am interested in fixing this Tax Code so families struggling to get by and maybe save a little for their college education can do so. And this budget talks about reforming the Tax Code for corporate America, but it does not talk about reforming it for families and individuals. I think we can do better.

For example, there are 15 different tax breaks for higher education, including nine for current expenses, two for past expenses, four for future expenses. The IRS publication on tax benefits for education is 90 pages long. This isn't a Tax Code designed for working families; it is a Tax Code designed to make money for accountants and tax planners. Don't you think we should make some sense of all of this and help working families?

Secretary LEW. Mr. Chairman, I totally agree. And the President's budget has in the past called for individual tax reform as well. The President has laid out principles to guide that. I think that the idea of tax simplification, broadening the base, is very important. The President has put it in the context of a fiscal plan where I think we have, you know, a number of objectives that have to be achieved at the same time.

We have to get our fiscal house in order. As part of that, we need to raise more revenue. And we think the tax reform ought to produce that ability to both raise revenue, simplify the Tax Code, and make it so that ordinary people don't need to have complicated, hours-long processes or go to accountants for simple tax forms. You know, I participated in 1986 in tax reform. I know how hard it is to do. And I look forward to working with you on a bipartisan basis to get that done.

Chairman CAMP. And I was pleased to see the Administration taking more concrete steps toward tax reform in this budget. And, again, I look forward to looking with you and the President to make the code simpler and fairer for families and individuals and to help strengthen the economy.

And when I talk to middle class Americans in Michigan, back home in my district, they are frustrated by the current state of the Tax Code. And, I mean, rightly so. They don't understand the complexity. And they may not know that there have been 4,400 changes over the last decade, but certainly they know that there have been a lot of them.

And it just seems unfair to me that the Tax Code forces Americans to spend over $160 billion to comply and 6 billion hours—almost 13 hours per person. That is the average taxpayer. I mean, every year, complying with the code is more expensive, more costly. And particularly when you look at the very tight margins small businesses are on, I mean, this is a huge cost to them. And, frankly, it should be their time and money, not the IRS'. And I commend the Administration for proposing revenue-neutral tax reform in the bill. But, again, don't you think individuals and families deserve a tax reform that makes the code simpler and fairer for them, too?

Secretary LEW. Mr. Chairman, I believe that we need to do both individual and business tax reform. And in the context of overall tax reform, to be clear, we do not think it can be revenue neutral.

We think that there needs to be additional revenue to help get our fiscal house in order. And the budget calls for $580 billion of additional revenue.

On the business side, our goal has been very clear. I could not agree with you more that we need to really go at all of the special provisions, the deductions, the credits that complicate the business tax system. We need to enable ourselves to lower the rates, so that our statutory rate could be more competitive with the rest of the world. Our goal in business tax reform is really to stimulate economic growth and job creation. And I don't believe it can be separated from overall tax reform. I think if you look at the decisions that small businesses make, even how to organize, whether to be a partnership or a corporation, it makes a big difference what their relative treatment in the individual and business tax systems is.

So, just intellectually, one has to look at it as a whole. I think that this is a big challenge. This is something that will require Democrats and Republicans standing shoulder to shoulder, because every one of the provisions that we would eliminate to broaden the base has people and businesses that support it. And, you know, that is a process that could only be done through bipartisan cooperation.

Chairman CAMP. All right. Thank you.

Mr. Levin.

Mr. LEVIN. Thank you. When you look at business tax reform, the President's budget suggests that we need to maintain certain provisions that relate to manufacturing and entrepreneurship.

But I want to focus, Mr. Secretary, on the gridlock in Washington today—you are the Treasury Secretary—and what the consequences are. So, just briefly, I want to start with the sequester. Are you concerned?

Secretary LEW. Congressman, I think that the sequester is very bad policy. You know, it was designed to be bad policy, to motivate both sides to come up with a more sensible plan to achieve deficit reduction. And I think one thing we can be sure of is when you go out of your way to design bad policy, you can produce bad policy.

The effect of the sequester is not anything that anyone should choose. They are senseless across-the-board cuts. If you look overall at the impact, at a time when we should be worrying about growing the economy, it takes roughly a half percent of GDP growth out of the economy. So it is not good policy in terms of the impact of the individual cuts. It is not good policy in terms of the overall impact on the economy.

I do believe we need to have a long-term, sensible path of deficit reductions. The President's budget reflects that. It has to be balanced, there has to be shared sacrifice. And the sooner we do it, the better. I think if you look at the series of deadlocks that we have had over the last few years, each one has led to a loss of confidence in the economy, each one has caused individuals and businesses making decisions on whether to invest and grow their businesses and hire to worry about, was government going to cause there to be headwinds that made that not the right time to make an investment decision? I think government should be helping, not hurting, in the economy recovery, and replacing the sequester with a sensible, balanced plan would do that.

Mr. LEVIN. And it should be done now?

Secretary LEW. The sooner the better. We don't have an economic emergency in terms of deficit right now. Our budget makes clear that we need to be on a path over the next 10 years. The cuts this year are not what matters so much as the reliable path over 10 years. The sooner we get the sequester out of the way, the sooner the economy will be relieved of the burden of that half-percent cut in GDP, and the sooner programs that people depend on will get back to normal.

Mr. LEVIN. So let me ask you about another piece of this gridlock, the debt ceiling. It is going to once again be bumped into. And there was a hearing yesterday about prioritization as to the debts we pay. Could you give us the Administration view on how we handle the debt ceiling?

Secretary LEW. Congressman, I think the President has been clear that there is no choice but for Congress to extend the debt limit. The debt limit does not commit any new spending. All the debt limit does is it permits the government to pay the bills that Congress has authorized to be incurred. And from the beginning of our history, the United States has always paid its bills. So there is no way to pick and choose about paying your bills without being in default on one or another obligation. So the only answer is to extend the debt limit, which is what we expect Congress will do.

Mr. LEVIN. Lastly, you referred to growth, and there was some reference to your trip to Europe and your concern expressed there about their continued, I think at times, rigid embrace of austerity. So why is there a major jobs component within the President's budget?

Secretary LEW. I think if you look at the experience we have had in the United States and compare it to Europe, we have had a stronger recovery because we got our financial system under control; we put measures in place quickly to deal with the depth of the recession, and we have done our fiscal consolidation, our deficit reduction over time. I think that is a proven path. It is something that—we are experiencing growth that is too low and growth in jobs that is too slow. But it is much more than the general experience in Europe and in much of the world.

I think that we need to grow the economy, create jobs, and get our fiscal house in order. And that is a message I brought with me in the meetings I had earlier this week. I think there is a softening in some sense in Europe. They started out a couple of years ago not worried about the impact of very high unemployment as much as we thought they should be. I think there is a growing concern in Europe that it is a serious structural problem. We start out with that understanding in the United States. We think that 7.5 percent is a high unemployment rate. Double-digit unemployment rates are unthinkable, and you have to have policies to deal with that.

Mr. LEVIN. Thank you.

Chairman CAMP. Mr. Johnson is recognized.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Secretary, I realize you are time constrained, so on some of these questions I would like you just to answer yes or no, if you don't mind.

With respect to securing Social Security's future, in his book, "*The Predictable Surprise*," retirement expert Syl Schieber said, "If we fail to act, we threaten the prosperity of younger generations, a prospect your former boss, President Clinton, said would be horribly wrong and unfair." And I appreciated that comment. That was 15 years ago, though.

And that said, I am encouraged that the President's budget took a first step toward protecting Social Security for today's workers by including the chained consumer price index to calculate the annual cost-of-living adjustment. Do you think this is a more accurate way of measuring inflation?

Secretary LEW. I think, as I indicated in my opening comments, Congressman, there—it is something we are prepared to do as part of a balanced deficit reduction package. Technically, it can be justified, but it does have an impact in terms of reducing rates of increase and benefits.

Mr. JOHNSON. Long term, yes. I hear a lot of talk from AARP and others that using chained CPI cuts benefits. Is that true? And I think it does.

Secretary LEW. It reduces the rate of growth in the cost-of-living increases by about 3⁄10 of a point.

Mr. JOHNSON. Basic benefits are not cut.

Secretary LEW. The underlying benefits are not cut.

Mr. JOHNSON. Right. Benefits still grow each year that there is inflation.

Secretary LEW. There is no doubt that we have not supported any measure that would cut the basic benefit.

But I don't want to be misunderstood. A reduction of the rate of growth has an impact. And it is something that is very significant. And I appreciate your recognizing that in your opening comments.

Mr. JOHNSON. We do.

Secretary LEW. It is very significant. The provision imposes a——

Mr. JOHNSON [continuing]. Long term, it reduces the Social Security deficit by just 10 percent. It is not immense. Does the President plan to close the remaining 90-percent cap, or is he just going to pass the bill to our grandkids? And is he serious about fixing Social Security?

Secretary LEW. The President's made clear over the last several years that he would very much want to work with Congress on a bipartisan basis on a long-term plan to make Social Security sound for the long term. He has laid out clear principles that guide that. And we would look forward to working with the Congress on that. I think it is important for all of us to remember that in dealing with Social Security the fundamental goal has to be protecting Social Security, and getting it out of the context of the budget to have a long-term discussion is probably a good idea.

Mr. JOHNSON. I happen to agree with you.

Next week, the Subcommittee on Social Security will hold the first hearing in the hearing series announced by Chairman Camp on the President's and other bipartisan entitlement reform proposals. And that hearing will focus on the chained consumer price index, eliminating double-dipping with respect to unemployment and disability benefits. And I am deeply troubled the President's budget includes no proposal to prevent the 21 percent across-the-board cut disability insurance beneficiaries face in 2016, just 3 years from now.

The Social Security Subcommittee has held seven hearings over the last year on the disability insurance program, and I hope you will work with us to secure the future of that vital safety net.

And under current law, a person can receive both disability and unemployment at the same time. And that isn't right. I don't know how someone can be able and available to work and also be unable to work due to disability. So today I am going to introduce a bill to stop people from receiving disability benefits at the same time they are receiving unemployment benefits. And in his budget, the President proposes to stop this, too, and I look forward to working with the Administration to get this bill signed into law.

Thank you for your time.

I yield back, Mr. Chairman.

Chairman CAMP. All right. Thank you.

Mr. Rangel is recognized.

Mr. RANGEL. Thank you, Mr. Chairman.

Thank you.

Congratulations, Mr. Secretary.

In New York, we live in two different worlds, especially in the borough of Manhattan; we have the world of wealth and riches, and then we have the inner cities of poverty and despair. And I just can't believe at a time of a national crisis that those that are doing so well are protected and those that—that are not doing well at all, it seems to be we are moving backward.

With all due respect to the President's calculating the chained CPI, at the end of the day, benefits that would be received under the existing system would be reduced. And yet we are living, I think, at a time where the stock market—is it now presently at an all-time high?

Secretary LEW. It has been.

Mr. RANGEL. And would that not apply to the incomes of the chief executive officers? Is it true that they are getting paid millions of dollars for the work that they are doing? I mean, you would know this better than most people.

Secretary LEW. Mr. Chairman, I don't follow day-to-day corporate salaries.

Mr. RANGEL. I know. But, generally speaking, for a corporate leader and the holder of our economy to receive $2 million or $3 million, it doesn't raise any eyebrows. Having said that, everyone knows it. Everyone knows it.

And it just seems to me that when we take a look at the Republicans' budget, that would indicate that at a time through all of this crisis, we still find unemployment going down, we still find minor increases in employment, that we would say, now is the time to stop spending, now is the time to cut Federal programs.

Now, cutting doesn't mean you are saving money. But at a time that we are trying to come back with the economy, that world that you spent a little time in, in the private sector, where are their voices? If these people are not working, have no disposable income and cannot buy, then small business cannot sell. And where are they? They are not complaining about a tax increase, but they are certainly not involving themselves in trying to resolve this issue that we found ourselves in.

So I don't know what happens when you get out there, but do you hear from the private sector in terms of how we can break this gridlock?

Secretary LEW. Congressman, you know, I have to say that in the debate that we had at the end of the year last year, I had numerous CEOs tell me directly that they thought we should have the rate increases that went into effect. They were not at all—it wasn't just that they weren't opposing it; they were more comfortable having the issue resolved that we go back to the rates because they were embarrassed by the argument about whether or not they could afford the tax rate that was enacted in January.

I think that—you know, going forward, it is going to be very important for the business community to stand up for the kind of balanced approach we are talking about. Because they care about the end result, which is having the deficit and debt be sustainable, and they care about economic growth. We certainly are making the case for the budget in every sector that we can, including in the business world.

And I think the underlying problem that you identified is one that is kind of central to what drives our budget. The disparity of income in this country is a real problem. It is a real problem.

Mr. RANGEL. Mr. Secretary, when we talk about increasing the minimum wage, the private sector's voice is heard so loud it is deafening about what would happen if the lowest people on the economic ladder get an increase in the minimum wage. I don't know what benefits my Republican friends get out of such a small number of Americans receiving so much profit, so much income, and they are willing to whisper to you that they are prepared to make some sacrifice for the good of the Nation, and yet they don't know how to communicate this.

I mean, it is totally unbelievable. With all of the money that they spend on K Street, the people in the middle of my district, they don't have people that come down here to protect their interests, not even a fair, equitable way to determine how we are going to cut money from them from Social Security.

But, having said that, do you respond when the people tell you that, you know, the President's right, we should be paying more, we should be involved in this deficit ending?

Secretary LEW. Well, I actually heard quite a lot from the business community at the end of the year supporting the kind of balanced approach we are proposing. I think they are a little confused by the budget debate in Washington these days. I mean, when I talk to business leaders now, they don't know if there is still the chance of a bipartisan agreement, or if it is completely on the sidelines. One of the things the President's budget is saying is there is space in the sensible center for a budget agreement. And I hope that will invite those who care to come off the sidelines.

Mr. RANGEL. Give us the names of those cooperative corporate leaders. I will bring them up here, and we will see what we can do.

Chairman CAMP. Time has expired.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman CAMP. Mr. Brady is recognized.

Mr. BRADY. Well, it is not exactly a profile in courage that big business leaders were willing to raise taxes on the small businesses in America and not exactly a courageous move, by any measure.

You know, this budget is not fair to taxpayers. The President's budget never has to balance, so Washington never has to live within its means. It is not fair to seniors. The President refuses to save Social Security or Medicare for its own sake, for the seniors, rather than attach all these unrelated provisions that have nothing to do with those important programs. And it is certainly not fair to the unemployed, those who can't find a breadwinner in their family, because this recovery has been the weakest in modern times. We are missing 4 million jobs because of the growth gap that is getting bigger. Food stamps, since the recession bottomed out, Americans are more likely to be forced to the food stamp line than to actually walk into a company that has offered them a new job.

And those who have given up hope and just dropped out of the workforce—we have gone backward to Jimmy Carter days—I don't think this budget is fair to them because it stays the course on just very weak, poor economic leadership.

Looking toward those areas where there may be common ground, tax reform and saving Social Security and Medicare, I think there is a path forward. I don't think we ought to close loopholes so the government can spend more; we ought to close loopholes so we can have higher taxes for everyone, families, small business, big business, as well.

And so I have three questions for you, Mr. Secretary.

And, like Chairman Camp, I welcome you back to the Committee, and I appreciate the work you have done in the past. I think you can bring a valuable work ethic to this whole effort.

My first question is, will you commit to sitting down with Republicans today, starting now, to fix the broken Tax Code this year?

Secretary LEW. Congressman, we are already working to provide technical support for both the House and the Senate as you do your work.

Mr. BRADY. So that closer—so you, Mr. Secretary, the point man for the President on tax reform, are you willing to sit at the table and stay at the table to finish fundamental tax reform this year?

Secretary LEW. Congressman, in the context of our overall fiscal plan, we have a disagreement on whether or not we need to raise revenue. That is a legitimate disagreement. We are going to have to work our way through that. In the context of a fiscal plan that solves our deficit problems, we very much want to engage on tax reform.

Mr. BRADY. Is that closer to a yes, that you will come to the table and stay there?

Secretary LEW. I have always——

Mr. BRADY. Closer to a no?

Secretary LEW. I have always been prepared to talk, and I remain prepared to talk. But I would also like to be very clear, I can't paper over what is a significant difference.

Mr. BRADY. The question isn't that there are differences; we have different ideas. The question is, will you commit to coming to the table now to resolve those differences?

Secretary LEW. We have always been prepared to talk with this Committee and other committees about the important business before us. Nothing is more important than getting our fiscal house in order. And as part of that, tax reform is a very important part.

Mr. BRADY. Could you possibly be more vague at this point?

Second question: Will you commit to fixing the broken Tax Code for families and small businesses as well as for big businesses?

Secretary LEW. Again, as I responded earlier, we are very much supportive of both individual and business tax reform. We think they need to move together, and we would like to work with you to do that this year.

Mr. BRADY. And so your point is we should not do—the White House's point is we should not do corporate tax reform alone, that we need fundamental reform, authentic reform for families and small businesses as well?

Secretary LEW. Congressman, you are asking questions about small business. Small businesses have to make the decision whether they organize under the corporate tax laws or as partnerships under the individual tax laws. I don't know how we create a situation where they can make a sensible decision if we don't deal with it——

Mr. BRADY. But the government's role is not to tell businesses how they organize.

Secretary LEW. No, not at all.

Mr. BRADY. And so many of them file as individuals. So my question is really simple: Will you commit to authentic tax reform, fix this broken code for small businesses and families as well as big businesses?

Secretary LEW. So, Congressman, I am trying to answer with some precision. Small businesses do make their own decisions how to organize. One of the reasons they organize as partnerships is that our statutory rate is so high on the business side. So as we go through business tax reform, that will change the decisions that many of them make.

Mr. BRADY. Ten seconds: Will you commit to saving Social Security and Medicare for its own sake?

Secretary LEW. I have for 40 years believed in Social Security and Medicare——

Chairman CAMP. Mr. McDermott is recognized.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

We have been buried in this tsunami of propaganda that the problem here is there is too much spending and there is not enough tax relief for the people at the top. Hedrick Smith of the *New York Times* has written a book called, "*Who Stole the American Dream?*" You sat here through almost all of this, because it started in 1971. And he chronicles the process by which we have done that. And in the process, over the 30 years, the middle class has been hollowed out. Their incomes have been stagnant. Their job prospects are diminished. And their retirements are less secure. It has been a long time coming, what we have today. But the big start was under Reagan, with the disastrous Reagan cuts of 1981 that favored the wealthy, it never trickled down on the rest of the country. Reagan introduced a trend of emptying out the middle class pockets, and it has really gone on. In the 1980s, say, and 1990s, 401(k)s were popularized and pensions were ended, and for many, many people in this country. So the retirement security of Americans is deeply, deeply underfunded. Banking deregulation started in the 1990s, along with the Reagan creation of the sub-prime, sub-prime, high-interest rate housing loans that started us into the disaster of 2007. The disastrous 2001 and 2003 Bush tax cuts have given us the chunk of the deficits—a big chunk of the deficits.

Now, in this country, if you play by the rules and you work hard, you are running in place, you are running in place; you are not getting ahead, and you know your kids aren't going to do as well as you did. That is what the American people think today.

There is some stuff in this budget which I like. There is investment in the future; that is, in worker retraining, the infrastructure bank, money to end the sequester.

I worry about our healthcare history in the long run if we don't continue to invest at the National Institutes of Health. People get Ph.D.s; we don't make the advances. We simply allow Singapore and other countries to take it away from us. And so that whole question of investment gets lost in all this talk about corporate tax reform. We lower the rates on corporate taxes, we come down to 15 percent on capital gains, where are we? The middle class is being destroyed in this country.

Now, what I want you to do is imagine that we are a bunch of workers from Ohio, out of work for a year. What would you say about this budget that would be aimed at letting them understand that the President is charting a new course to save the middle class, which they feel is being crushed—they can't educate their kids, they are losing their houses, they haven't been working for a year, and they are looking for some hope?

Secretary LEW. Congressman, I would say there is much in this budget that I would point to, to that working family, from our commitment to education from early childhood through higher education, to make sure that every child has a chance to have the skills to compete in the economy that they are going to grow up in.

Mr. MCDERMOTT. That is a long-term thing. Give me something——

Secretary LEW. It starts right away.

Mr. MCDERMOTT. Give me something I can see tomorrow.

Secretary LEW. For early childhood education, it starts right away. We can't wait until people are 22 to ask if they have the skills they need.

Our infrastructure proposals are to jump start infrastructure spending. I can make the case for infrastructure on so many levels. When I talk to CEOs, one of the first things they usually say to me is, we are worried about our infrastructure. Our airports, our water ports, our roads, our bridges, we are not going to be able to compete in the 21st century. Well, those are jobs today. To rebuild our infrastructure is not way off in the future; it is something we need to start immediately.

Mr. MCDERMOTT. Our Republican colleagues resisted all the President's efforts or almost all the President's efforts in infrastructure creation a couple years ago. Explain to me how you are going to finance it, and how it can work. How will it work?

Secretary LEW. Well, obviously, it has to be in the context of an overall fiscal plan. We have to show we are on a path in the long term, medium and long term, for bringing our debt and our deficit under control. Our budget has made it clear that when you make the tough decisions, you afford to do that.

In addition to everything else we are doing in this budget, we are also ending a second war. And as we do that, we are freeing up resources. And we would say that as we end the war in Afghanistan, we need to invest here at home; as we end a war in Iraq, we need to invest here at home. And we have a budget that brings the deficit down to below 2 percent of GDP in the 10th year and invests in building our economy and creating jobs today.

Chairman CAMP. All right. Thank you.

Mr. Tiberi is recognized for 5 minutes.

Mr. TIBERI. Growing up in a working family from Ohio, my colleague from Washington State is really trying to engage me in a little dialogue here, and I am not going to take the bait.

But I will remind him that back in 2010, Mr. LaHood testified at the time opposed to a gas tax with respect to infrastructure. But I am not going to go there. I don't want to take my time today away from the Secretary. Thank you.

And I am going to be in a learning mode here. The first question I have for you is, and you may not know the answer to this, but if you could have your staff get back to me and try to be constructive. It has come to my attention from some folks in Ohio that the IRS is seeking to impose a ticket tax on transportations of people in the air for management services. And they are reinterpreting, last year, reinterpreting a law that was passed during the Nixon Administration. And my understanding is, if you look at this, they are legislating rather than administering. And, clearly, in my opinion, overstepping their authority as a regulatory agency.

The IRS argues that the new interpretation is correct and that the tax has been due all along. Does "all along" mean since 1970? I don't know. But I am concerned about it. And I would like to have your staff maybe communicate with us on what you believe the IRS is doing and if it is correct.

Secretary LEW. Congressman, I would be happy to look into it.

Mr. TIBERI. Thank you. And I don't want to put you on the spot. But it is an important jobs issue in not just Ohio but all over.

I, along with my colleague, Mr. Kind, who I don't think is here, are cochairing a group on retirement savings. And in the President's budget, for the very first time, there appears a provision that I would like to learn more about, and see if you could maybe comment on it. It deals with retirement savings. It deals with, it appears, capping the amount of dollars that an individual can have in a retirement account, in terms of tax benefit in a retirement account, and it appears it caps the revenue stream in retirement at $205,000, cumulatively at $3 million. My question is now—and I am trying to learn, I am not being critical—thinking back to my own TSP that didn't have $3 million in it, but thinking about what happened in 2007, between 2007 and the end of 2008, and I am sure it represented, my account represented what happened to most every American, the value of that account, based upon the stock market collapse in 2008, significantly went down. So if you are 58 years old and you are not retired for 10 years and the stock market is high and you have $2.9 million, do you stop saving to avoid this for retirement? Do you worry about, well, is the market going to go way up at this point, or could it go way down? And it could go from $2.9 million to $1.9 million in a matter of months, based upon the experience we saw. How do we—and I include myself in this—how do we manage, administrate a program like this to make sure that it is done without any penalties being created or encouraging people to take an early withdrawal to avoid some sort of penalty if they go over the $3 million? I am just thinking about where this is coming from in terms of administering it. I think I know the politics of what you are trying to get to, but I am concerned about those impacts.

Secretary LEW. Congressman, retirement savings is a hugely important issue. And for the average working family, unfortunately, retirement savings are more like $50,000 to $70,000 than $3 million. So for the average working family, they are so far from that $3 million level, that they probably, listening to this conversation, would wonder what we are talking about.

Mr. TIBERI. Mr. Secretary, I get it. My dad has a sixth-grade education, came to America, and for my entire lifetime, starting as a kid, talked about saving for retirement. But what our task force is up here for is to try to encourage everybody to be self-sufficient. And what I don't want to do as a policymaker is send the message, we are going to go after somebody who is trying to be self-sufficient and create another trap for them or penalty for them. I am just trying to figure out, how do we administer that?

Secretary LEW. So we have for a long time looked at ways we could encourage more people to participate in savings, and we have a proposal that we would hope would be part of the conversation that would have automatic enrollments, so that people opt out instead of opt in. This is a simple behavioral change that we think would very much improve the likelihood of people saving early and through their careers.

The provision here, it really reflects a judgment that there should be tax incentives up to a certain point. But beyond that, we certainly encourage people to save beyond that. The tax incentives have to be looked at in the context of the tradeoffs. And to save for your retirement with tax benefits, a limit of $3 million seemed like a reasonable place to draw the line so that we are encouraging the vast majority of Americans to save as much as they possibly can.

Chairman CAMP. All right. Time has expired.

Secretary LEW. Thank you.

Chairman CAMP. Mr. Lewis is recognized.

Mr. LEWIS. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I just want to take an opportunity to thank you for your many years of service, not just to the Congress, but to our country.

And, Mr. Secretary, the unemployment rate in the city of Atlanta is at 8 percent. So, as you can guess, many people in my district, like people all around our country, are very much focused on jobs.

Since first being elected, President Obama has made it very clear that we need to invest in jobs and job creation. Would you tell us how this budget reflects the Administration's continued efforts to create jobs and help people get back to work?

Secretary LEW. Congressman Lewis, thank you for the very kind comments.

This budget is all about growing the economy and creating jobs. In its kind of macro sense, it is about taking the steps we need to this year and over the next 10 years to make sure that there is the best environment for job creation that we can produce. That is getting our fiscal house in order, yet providing the support that is needed to make sure that we have educated workers, we have an infrastructure that is sound and that serves the needs of the future as well as the past, and we need to get started with that right away. We have incentives for manufacturing, and we have tax proposals that would encourage investment in the United States and not the shipping of jobs overseas. So I think, overall, if there is a single theme that ties this budget together, it is about being able to say that we are doing exactly what you are asking: We have a path for economic growth. We have a path for job creation. And we have tools in place to make that happen today and in the future.

Mr. LEWIS. Mr. Secretary, in spite of all of the problems that we faced in our country during the past few years, some people have done very well and others have been left out and left behind. Can you tell us what is in the budget that is going to help those that have been left out and left behind?

Secretary LEW. I think that the disparity of income in this country is a very significant problem. And we have to deal with it at both ends. We have to deal with it at the end of those who are struggling by creating the ladders of opportunity to give them the ability to get the education they need and have the skills for the jobs that they deserve. When they go to work, we need to make sure that they get a living wage. Anyone who works full time should be above poverty in this country, which is why the President has put a proposal in his budget to raise the minimum wage.

I think, at the high end, we very much need to make sure that as we put in place the policies that will put our fiscal house in order, that we raise revenues from those who are most able to afford it because they have the greatest income. I think, overall, this is a budget that doesn't instantaneously fix a problem that has been decades in the making, but it moves it very much in the right direction. And, frankly, the action taken in January was the most significant step in that direction, by raising the top tax rate, really in a generation.

Mr. LEWIS. Thank you very much.

I yield back, Mr. Chairman.

Chairman CAMP. Thank you.

And, at this point, I am going to go two-to-one. So I will start with Mr. Reichert. You are recognized for 5 minutes.

Mr. REICHERT. Thank you, Mr. Chairman.

Mr. Chairman, my Subcommittee on Human Resources will be holding a hearing next week on unemployment insurance. And so I want to focus on—I have one question related to unemployment insurance, but also want to use it as an example of a comment that you made earlier that people, including corporations and small businesses, are confused about the budget and our process here and also sort of lack understanding as to really what is going on.

Secretary LEW. That is probably something on which we can all agree.

Mr. REICHERT. You are right, including myself. So I have two documents. This is, I guess, part of what really creates a little bit of confusion. First, a document from the White House, and then I have a document from the Department of Treasury. And these seem to be in conflict, to me. So the President's budget has a proposal that would more than double the wage base on which Federal employment taxes are applied, from $7,000 to $15,000. Correct?

Secretary LEW. Correct.

Mr. REICHERT. All told, as displayed in your budget documents, this would increase revenue by $51 billion over 10 years. I note that these tax increases would take the form of higher Federal and State payroll taxes, which in my opinion are taxes on jobs. My question is this: Why do you think a summary document prepared by the White House says that that same policy strengthening the solvency of the Unemployment Insurance Trust Fund reduces spending by 50 billion? Can you clarify this discrepancy, this sort of conflict, for myself and the rest of the folks here in the room?

Secretary LEW. Congressman, I would have to take a look at those two charts. I don't want to pretend to be familiar with the comparison, and I couldn't read it from this distance. The policy on unemployment insurance is one the Administration has advocated for a number of years. It would restore the base for the unemployment tax to where it was in the Reagan years, just adjusting it for inflation. That is the essential policy.

Mr. REICHERT. Excuse me, just for a moment. So the $7,000 to $15,000 increase, is that a tax hike?

Secretary LEW. Well, the rate——

Mr. REICHERT. The rate reduction. Forget what this says. What is your opinion?

Secretary LEW. The rate doesn't change. What it does is it puts in place—right now, we have an unemployment——

Mr. REICHERT. Does it increase taxes? Yes or no.

Secretary LEW. Well, it increases the base of income——

Mr. REICHERT. I just want a yes or no answer. Does it increase taxes——

Secretary LEW. It pays for unemployment that is not now properly funded. And I think the reason for the confusion——

Mr. REICHERT. By increasing taxes?

Secretary LEW. It raises the base to Reagan levels.

Mr. REICHERT. Increasing taxes. But the White House is saying it is reducing spending. I am confused.

Secretary LEW. The categorizations of these issues has been——

Mr. REICHERT. So I can look forward to an answer that would clarify this for me.

Secretary LEW. I will be happy to get back to you.

Mr. REICHERT. I want to move on to—you have used the term "fiscal house in order" several times here today. What does that mean to you, getting our fiscal house in order? Briefly, please.

Secretary LEW. Congressman, I think that the challenge we face is to get our budget on a path to having the deficit and the debt as a percentage of our economy at a point where it is sustainable, which means the economy is growing faster and we are not——

Mr. REICHERT. What percentage would you say that would be?

Secretary LEW. You know, our budget gets the deficit to less than 2 percent of GDP in the 10th year. Our goal originally was 3 percent, so we——

Mr. REICHERT. Sure, but your budget doesn't balance.

Secretary LEW. You asked me a different question. You asked what——

Mr. REICHERT. Does the—but does——

Secretary LEW. It does balance in an out-year, not in the 10-year window——

Mr. REICHERT. Okay.

Secretary LEW [continuing]. Quite a ways out. The challenge of balancing the budget——

Mr. REICHERT. The budget does not balance within 10 years——

Secretary LEW. No. It——

Mr. REICHERT [continuing]. Is that correct?

Secretary LEW. We have a—the deficit is 2 percent of GDP——

Mr. REICHERT. Can you explain to me—I want to be in a learning mode just like my friend from Ohio. Can you explain to me and the folks around the country why it is so important for families to balance their checkbook, balance their budget—they didn't see a deficit, you know, an emergency ahead, but they lost their homes—but the Federal Government doesn't have to balance their budget, they can continue to spend, and you don't see an emergency down the road with the deficit?

Secretary LEW. Congressman——

Mr. REICHERT. I don't understand. People are trying to understand this at home.

Secretary LEW. Congressman, as I said in my opening remarks, I spent a big part of my career balancing the budget, creating a surplus. I understand how important a balanced budget and a surplus is. I also know that in the period before President Obama took office——

Mr. REICHERT. Well, why is it important, though, for folks at home to balance their budget——

Secretary LEW [continuing]. A deep, deep deficit was created.

Mr. REICHERT. Excuse me. Why is it important for people at home to balance their budget but it is not important for the Federal Government to balance their budget?

Secretary LEW. Now, I can't——

Mr. REICHERT. That is what people don't understand, sir.

Secretary LEW. Families and government——

Mr. REICHERT. My time has expired.

Thank you, Mr. Chairman.

Chairman CAMP. All right.

Secretary LEW. Mr. Chairman, could I respond just very briefly to the question?

Chairman CAMP. Yes.

Secretary LEW. Thank you.

Families and governments are fundamentally in different positions. And governments around the world are measured by the standard of whether or not they can afford to service the debt that they have undertaken. And the measures that are used to determine whether they can afford it are reflected in our budget, and we meet them.

I totally agree with you, we should be on a long-term path toward pursuing more deficit reduction and balance. What I am saying is, if you try to get there too fast, you do more damage to the economy, and you would end up making less progress, not more progress, in terms of reaching the goal.

Chairman CAMP. All right.

Dr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Secretary LEW. It is good to be here.

Mr. BOUSTANY. The President's 2014 budget requests an 18.4 percent increase for the Department of Treasury and its programs. And this includes a $1 billion increase, annual increase, for the IRS budget. You know, we found information just a few weeks ago about an IRS studio, production studio, "Star Trek" videos, things of that nature.

Now, as the economy continues to sputter, families across America are having to make deep, painful cuts in their own household budgets. And, at the same time, we are borrowing a lot of money. We are borrowing a dollar for every—for every dollar of spending, 60 cents is borrowed.

So, with this in mind, are there any other cuts under Treasury that you could put forth other than what is in this? I mean, the budget is proposing increased spending.

Secretary LEW. Congressman, the bulk of the increases that are in the Treasury budget are really in IRS enforcement. I think that one of the goals this Committee has traditionally shared with the Treasury Department is making sure that our tax laws are effectively enforced and that we have a fair system where all taxpayers are treated alike. And there is an understanding that if you don't obey the tax laws——

Mr. BOUSTANY. Well, I fully understand that, but, at the same time, we are concerned about, on one hand, the IRS comes to us and wants more resources, and yet we see obvious waste on the other hand.

Secretary LEW. Congressman, I am aware of the situation you are describing. I think we have made clear that action has been taken to make sure that doesn't happen again.

You know, across government there is a need to, I agree with you, tighten our belt and not do things that don't look like they make sense. I spent a lot of time, when I was at OMB and as chief of staff, doing that across the government. I will continue to do that as Secretary of the Treasury.

But I don't think that it is right to confuse that with the need to have IRS agents on the job. And that is what our—where most of our budget is——

Mr. BOUSTANY. I understand the need for enforcement, but——

Secretary LEW. Yes.

Mr. BOUSTANY [continuing]. I guess my question is, are there other areas within Treasury that you could come forward with some proposals for cuts? I mean, obviously, there are some. I mean, what about this production studio? I think it costs $4 million a year. It has been—there may be—are there others?

Secretary LEW. We are obviously taking a look at that particular item. But I would point out that, you know, one of the things that we do to try to control costs in the government is do more business remotely and not have people travel when they don't need to. One of the ways you do business remotely is through video activities. So we have to be careful that we don't cut off the ability to do the kind of work that gives us the ability to operate more efficiently.

I am happy to take a look at that, along with other things. But I don't think you would want to have every meeting be in person in a city if somebody can sit in a studio and talk to 500 people——

Mr. BOUSTANY. I understand that, but we are going to continue to conduct oversight to make sure these dollars are being used appropriately.

Secretary LEW. I appreciate that.

Mr. BOUSTANY. Also, you have mentioned growth quite often. And Mr. Brady was asking questions about our views on tax reforms versus what we see from the Administration and the budget proposal.

And one of the things I get concerned about is an approach where certain pockets of money, in the form of tax provisions, get pulled out to increase spending rather than really looking at tax reform. We really do have an historic opportunity to embark on tax reform, where we look at everything with the idea of lowering rates and promoting American competitiveness.

For instance, as I look—let's just take the oil and gas expensing provisions, which have been in the President's budget continuously year after year after year. The impact of this is going to be pretty strong in the oil and gas exploration production at a time when we are seeing a shale gas revolution. If these were to be put in place without actual reductions in tax rates, I think you are going to kill the shale gas revolution—a source of job growth, a source of American competitiveness, new sources of exports.

So there is a little bit of an inconsistency here. And I would just urge that you reconsider in the administration working with us on real tax reform that looks at everything with the idea of simplifying, making that code much fairer for everybody concerned, lowering rates, and really focusing on American competitiveness.

Secretary LEW. Congressman, as I said earlier, I really do think that there is a common goal to broaden the base and lower corporate business tax rates. I think that we have a thriving industry now in the shale area. I think that the incentives that were put in place for a nascent oil industry are probably not what they need to be to thrive. We should work together on this as we go forward.

Mr. BOUSTANY. And one last thing. In the transportation bill that was passed last year, there was statutory language about reporting on a plan for our ports and dredging. That is not in the budget——

Chairman CAMP. Time has expired. Respond in writing.

Mr. BOUSTANY. I would ask that you respond to me in writing on that issue.

Secretary LEW. I would be happy to.

Mr. BOUSTANY. Thank you.

Chairman CAMP. Mr. Neal is recognized.

Mr. NEAL. Thank you, Mr. Chairman.

I had resolved when I came in not to say anything in partisan response, but the last two speakers cause me to state an obvious fact, and that is that our Republican friends are always in favor of balancing the budget when there is a Democratic President. And to have heard the last two speakers go on about how we arrived where we are with these deficits is to miss the point that they didn't say anything during the preceding 8 years. And I think that bears noting, as well.

Now, your DNA is in the legislative branch of government. You worked for Tip O'Neill and you worked for Joe Moakley. You know how to make a deal. You worked for the only President who has balanced the budget four times since the end of World War II. You understand precisely how this is done. And I think that ought to be acknowledged, as well, today.

In February, you raised concerns, or the Department of Treasury raised concerns, about an EU proposal to implement a new financial transaction tax in 11 eurozone countries. And in its current form, that will harm U.S. investors. It is more and more likely that some eurozone countries will implement a very broad-based FTT sometime next year. This proposed tax is intentionally designed to have a broad global reach. It would result in multiple levels of taxation, and the effective rate, as you know, could be much higher than advertised.

Can you update the Committee on what Treasury is doing to protect U.S. investors from this European tax? And could you also update the Committee on your recent conversations, Mr. Secretary, as you traveled to Europe?

Secretary LEW. Congressman, yeah, we have made a different decision as an Administration than many others in Europe are making. We have a financial responsibility fee that has been in our budget. We think that is a better way to raise revenue from the financial services side. And, you know, we have made that point both here and in conversations overseas.

I think the design element that you are describing is a very troubling one. What other countries decide to do in their borders is their business. So we can disagree about the best way to tax domestic financial services, but it is not an acceptable policy, from our perspective, for other countries to create a tax that has an extraterritorial reach and would levy a tax on a transaction in the United States.

When I had my meetings earlier this week in Europe, I made that point very clearly to a number of European officials, both in the European community in Brussels and in meetings with finance ministers, making it clear that, you know, we found that to be unacceptable and we will continue to make that clear. So we are engaged with them, they understand our view, and we will continue to do so.

Mr. NEAL. Thank you.

And, Mr. Secretary, I am pleased that you included the auto-IRA bill in the budget that I worked on for many, many years. And a word of thanks to Treasury for recommending another item that I worked on for 14 years, to kill AMT.

So it takes time around here to get these things done, but the auto-IRA proposal, I think, is superbly positioned to help with some of the issues that were raised by some of our friends on the other side, as well.

Secretary LEW. I totally agree.

Mr. NEAL. A reminder that it is endorsed by The Heritage Foundation. I am still waiting for a Republican to sign on to my bill. And, in addition, it has broad bipartisan consensus that it would address some of these issues.

Could you speak to the auto-IRA proposal, as well?

Secretary LEW. Yes. I think the auto-IRA proposal is a very good idea. It is something that doesn't require that anyone participate in an IRA. It just shifts the decision point, do you opt in or do you opt out.

We think that, you know, if you make it an opt-out, which is what auto-IRA would do, there are an awful lot of people who do not start saving very early in their careers who will do so. And if you save when you are 24, 25, all the way through, you build up a much more substantial nest egg for your retirement because of compounding over the years. You never can catch up for the early years that you were out of retirement saving.

So I think it is a very good idea. It is something that we have put in our budget and we continue to advocate. And perhaps in the context of tax reform, it is something that would have the ability to actually be given serious consideration.

Mr. NEAL. Well, the other part of the auto-IRA that has particular appeal is that I think insurance agents, community bankers, and credit unions, even though they are small accounts, they would like the opportunity, with the potential to expand business down the road, to sell that very concept.

Secretary LEW. Sure.

Mr. NEAL. And another word of thanks on the savers credit. That is very important to me. I have worked on that for many, many years here, and I am pleased to see that you have paid attention to that again in the budget.

Thank you, Mr. Secretary.

Secretary LEW. All right. Thank you.

Chairman CAMP. Thank you.

Mr. Roskam is recognized.

Mr. ROSKAM. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Mr. Secretary, you said something in your opening statement that jarred me, and I wanted to confirm that you actually used this language because it seemed internally inconsistent with some of the other themes.

So, during the opening statement, you generally laid out a theme of, look, I am Jack Lew, I have this experience and this background on a bipartisan basis, and I have been successful in other tasks in the past in bringing groups together. And that is a good attribute, and it is an attribute that we all admire and we aspire to.

Now, that bipartisan language is in contrast, it seems to me, with this statement. You said, “It is important to note that this framework,” the White House framework, “does not represent the starting point for negotiations.”

So here is the challenge. It is very declarative. It sounds as if there has been some revelation that you have had that we haven’t participated in. And you are making a declarative statement that this is a precondition for negotiations?

Secretary LEW. No, that is not what I said.

Mr. ROSKAM. Well, you did say——

Secretary LEW. I said it is not a starting point. I didn’t say it was a precondition.

Mr. ROSKAM. Well, so what do you mean by——

Secretary LEW. Sure. I am happy to——

Mr. ROSKAM [continuing]. Saying, “It is important to note that this framework does not represent the starting point for negotiations?”

Secretary LEW. I think the last 2½ years have represented a lot of movement from the starting point. I certainly have the wear and tear to show for it, and I think others do, as well. We are not at the beginning of the process. This budget reflects where the President was after 2 years of negotiation. And in December, we were perhaps one or two turns of the wheel away from an agreement. It didn’t come together, but that doesn’t mean we shouldn’t keep trying.

What I was saying and what I believe very strongly is that it would be very counterproductive to treat this somehow as if it is kind of the beginning of the conversation, as if the last 2½ years had not happened. And——

Mr. ROSKAM. Okay. I understand that.

Secretary LEW [continuing]. To separate the parts would be a very unconstructive response.

Mr. ROSKAM. I understand.

Secretary LEW. We are doing very hard things, and we are asking for others to do very hard things.

Mr. ROSKAM. At the end of the year, the President was making the argument about a consensus around protecting middle-class taxpayers from a tax hike. And he basically said, look, since we both agree on that, let’s take them off the table. And you remember that argument.

Secretary LEW. Uh-huh.

Mr. ROSKAM. It was a very compelling argument, a very successful argument.

What is different about that argument with the notion of, if there is consensus on both sides of the aisle around your proposed changes on Social Security, why not move forward on that in the same spirit, with the same approach, and with the same goal?

Secretary LEW. Look, I think they are very different policies.

Mr. ROSKAM. Why?

Secretary LEW. There was a broad bipartisan agreement that middle-class taxpayers should not pay higher taxes. We are not saying we want to raise this chained CPI issue. We are saying we are prepared to do something very hard, and in a package with additional revenues to solve our deficit problems, we would do it.

It is very different. We all wanted to prevent taxes from going up on middle-class workers. I am not going to sit here and say I want to do the chained CPI, and I don't think most of the Members of this Committee would. We may feel we need to as part of a balanced plan, but I sat through 2 years of meetings where I have heard one after another leader on your side say chained CPI has to be part of a budget agreement.

The President put that in in December. He has kept it in because he would like to reach a bipartisan agreement. But it has to be connected to solving the whole problem, including more revenue.

Mr. ROSKAM. The long-term discussion on Medicare is a discussion that continues to, I think, get everybody's attention. And yet your predecessor gave a presentation to the House Budget Committee, it was February of last year, where he basically—you know, it was one of those moments of clarity, frankly, when he said, look, we don't have a long-term proposal, but all we know is we don't like yours, meaning the House budget proposal. That was his language, not mine.

You are basically doing the same thing now as it relates to Medicare; isn't that right? Because at the end of office, when the President leaves in 2017, according to the trustees, they say, look, this solvency only goes out another 7 years after your time in office. So isn't that exactly the same thing that Secretary Geithner was doing?

Secretary LEW. I am not familiar with the exact comments Secretary Geithner made. I——

Mr. ROSKAM. I will get to you. I didn't overcharacterize it.

Secretary LEW. I will describe our policy, if I could, in my own words, which is: You know, since the enactment of the Affordable Care Act, we have seen substantial reduction in the rate of growth of healthcare spending. With the implementation, we will see more.

The President has put in this budget $400 billion of Medicare savings, including some very difficult provisions like income-related premiums, which are really means-testing measures, and——

Mr. ROSKAM. That is all well and good, but the trustees say 2024, right?

Secretary LEW. And, you know, there is no doubt, as the President has said many times, we have more work to do after, but that is not a reason not to do this now. And we probably don't agree on——

Mr. ROSKAM. Do what now?

Chairman CAMP. All right. Time has expired.

Secretary LEW. The policy the President has proposed.

Chairman CAMP. Okay.

Mr. ROSKAM. I yield back.

Chairman CAMP. Mr. Gerlach is recognized.

Mr. GERLACH. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for testifying today.

I wanted to focus on your comments regarding the R&D investment issue. You state in your testimony on page 5 that the President's budget increases funding for nondefense R&D investment by roughly 9 percent over the 2012 level.

How does the President's budget propose to do that?

Secretary LEW. Congressman, this is the first year in a long time where I wasn't responsible for the appropriation account, so I am going to have to probably defer to my colleagues at OMB to go through all of the specific increases in R&D in the budget.

But I can tell you, the pattern of increases is that we have very much put resources into energy and energy-efficiency research. We have very much put resources into biomedical research, into core basic research. We also have proposed making, you know, the tax credits for R&D permanent. So we have a balanced set of approaches.

We think that R&D is the key to American competitiveness in the future and have, for the entirety of this Administration, been pushing very hard to try to increase R&D as a share of what we do.

Mr. GERLACH. We have a manufacturing working group ongoing here in the Committee, and my colleague, Mr. Roskam, and, on the Democrat side, Congresswoman Sanchez, have been holding a number of meetings about a variety of issues involving manufacturing, including research and development.

And one of the things we heard in our meeting on research and development was how the IRS many times contests the efforts by a company to get an R&D credit in a particular tax year, where they have to constantly battle the IRS to justify that innovative work, that research work, to establish that they, in fact, are entitled to that credit.

Would it be possible for you to acquire information for us that would demonstrate how many times, how many cases the IRS really contests the efforts by companies to take the R&D tax credit and where the company then has to take an appeal of that process, of that initial determination, where that company ends up being successful and, in fact, is entitled to that R&D tax credit, so that we can get a better sense of it is not only the permanency of the rate or what the rate itself is, but how hard it is for these companies to have to go through the rigamarole to actually get the credit to begin with, from a bureaucracy standpoint?

Can you help gather that data for us and see if there is some way that, not only with the rate itself, but also with the language in the statute as to when and how you get the credit, how that could be made more simple, more commonsense, and more usable by companies so that they, in fact, can feel comfortable moving forward with research and development, which is what we all want to see happen in our domestic economy?

Secretary LEW. Congressman, I am happy to look into that. I don't have the numbers——

Mr. GERLACH. Yeah. I understand.

Secretary LEW [continuing]. At my disposal today.

I agree with you, we ought to make the administration of the Tax Code such that taxpayers and businesses trying to make decisions can have clarity and understanding. At the same time, we have to make sure that there is compliance with whatever requirements we have.

I am happy to take a look at it.

Mr. GERLACH. Thank you, sir.

I yield back. Thank you.

Chairman CAMP. Thank you.

Mr. Becerra is recognized.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much, and congratulations to you.

Secretary LEW. Thank you.

Mr. BECERRA. I am glad you clarified, once again, that some of these provisions in your package are part of a previous negotiation with Republicans, Speaker Boehner in particular, to try to resolve our fiscal issues in a balanced way.

And I know you have mentioned in the past that there are proposals by Republicans to include a chained CPI, which is a different way of calculating the cost of living for anything from Social Security benefits to veterans benefits to the Tax Code, and how much people pay on their taxes would be impacted by the so-called chained CPI.

Some $230 billion is saved by moving toward the Republican-proposed chained CPI, so let me ask a couple of things. My understanding is that by going to the chained CPI, you would end up cutting benefits earned by seniors who paid into the Social Security system, you would cut benefits earned by veterans for their retirement, you would cut benefits earned by disabled veterans who are receiving veterans disability compensation.

And if that is not accurate, will you please, or Treasury please, forward to me a response that would refute or explain how those payments to seniors, veterans, and disabled Americans will not be cut? I wish that we could go into detail, but I know I would run out of time if we did.

Secretary LEW. Congressman, can I respond to that just briefly?

Mr. BECERRA. No, I would like to—if you could respond in writing, because I know there has been a lot of discussion and I will run out of time, because I have several questions to ask about the chained CPI. It is very disturbing that the folks who are going to get hit hardest, the $230 billion that you save in the budget from moving toward a chained CPI is by impacting seniors, veterans, and middle-class Americans.

The next area is on the tax side. About half of the savings, half of the savings of $230 billion in savings you get by moving toward the chained CPI, aside from the cuts to earned benefits to seniors and to veterans and disabled Americans, is by raising revenues, raising taxes.

And most of that, my understanding is, is a revenue hit, a tax increase for families who are middle-class or below. In fact, my understanding is that, unless things have changed, the biggest impact by the tax increase caused by the chained CPI hits families who are earning somewhere between $10,000 and $20,000 because they would be pushed up into the higher brackets faster.

And so, as I look at my district, the median income in my district is about $38,000. The median income of the national American family, so not just my district but everywhere in America, if you take the median income of American families, it is about $53,000.

Now, I know the President fought very hard to protect middle-class taxpayers, $250,000 and below. And, obviously, the middle of America is way below $250,000. And we ended up, after compromise with our Republican colleagues, at $450,000 in income which would be protected from any of the Bush tax cuts expiring. So, certainly, anyone within $53,000 in income would be within that $450,000 cap.

Yet the person who makes $450,000 in income will see a very small hit from the change to a chained CPI when it comes to what they pay in taxes, whereas the person earning $53,000, the middle of America, will see a much greater increase in their taxes. And, certainly, folks in my district, who earn on average, in the median, $38,000, will see a substantial increase in their taxes as time goes on if you were to move to the chained CPI.

Now, I have heard you say that the President isn't a fan of moving to the chained CPI without a big, balanced approach. But the facts are—and, please, in any letter you write to me, please refute that, in fact, middle-class Americans, especially those who are earning $38,000 like folks in my district, will not see a tax increase which, my sense is, certainly is within the $250,000 in income that the President said was the threshold for protecting Americans from any tax increase.

My final comment is this. And you are a Social Security trustee. In the 77 years that Social Security has been in effect, Americans, from way back then until now, have contributed $13.9 trillion in their taxes to the Social Security system. We have also seen those contributions earn $1.6 trillion in interest earnings by being saved in the trust fund. The total—and I will end, Mr. Chairman, with this. The total amount that has been spent in benefits for Americans is $12.8 trillion. The result is a $2.7 trillion amount that has never been used by Social Security. Yet the chained CPI gets so much of its savings by hitting beneficiaries under Social Security who earn those benefits by paying into them.

So I very much would like a response, if you could, in writing as to how you would explain or refute that seniors, veterans, and disabled would not be asked to pay more by getting fewer of their earned benefits?

Mr. BRADY [presiding]. Mr. Secretary, if you would respond in writing to Mr. Becerra, that would be wonderful.

Secretary LEW. I would be happy to do that.

Mr. BRADY. Mr. Buchanan.

Mr. BUCHANAN. Thank you, Mr. Chairman.

And I want to thank you, Mr. Secretary. And thank you for your service——

Secretary LEW. Thank you.

Mr. BUCHANAN [continuing]. And congratulations.

Let me just mention, one of the things that we like to talk about is the challenges that we have today. Everybody brings a different background. I had been doing business for 35 years before I got here. But one of the things—I had a chance to go over to China in the late 1980s. And I think about, in terms of the Clinton era, we were growing at 4.9, almost 5 percent a year. You remember that? We are under 2 percent.

To me, we are looking to blame each other and looking at what has happened in the last 10 or 12 years, but the world has changed. I was in Beijing in 1989. I saw the reality there. I have seen what is happening with India. It has become much more of a global economy. How much of these factors are the realities that we are dealing with today?

And I am concerned that people don't realize that the world has changed, it is a global economy. We have to help our businesses to be more successful.

And I will give you one more point on this, and then I would like to get your response.

I met with the Minister of Trade in January. He and I think the Vice Premier in two separate meetings told me the same thing: We want to grow our economy 20 million jobs a year. That is what we have been averaging; that is what we are looking for for the next 5 or 7 years.

So I think Japan has been, obviously, a big factor, but China and India have been coming online the last 10 or 20 years. And I am a blue-collar kid. I have watched what has happened in the Midwest in terms of manufacturing. But, to me, that is one of the biggest issues that we are not taking into account, that the world has changed. We have to help our businesses be more successful.

So what are your thoughts on that?

Secretary LEW. Congressman, I agree totally that we have to compete in an increasingly global and competitive world.

You know, I was in China a couple weeks ago, and I made the very strong case that we need to be able to compete in a fair way, having our businesses have access to their markets. And they also need to restructure their economic approach to increase demand in China and to shift some of the focus from, really, anticompetitive support of old industries to contributing to demand. I mean, it is good for the U.S. economy for demand to grow in China and in Europe.

Mr. BUCHANAN. Yeah. Let me just say, I have met with—they have a delegation there, you know, of a chamber of 4,500 members. I had a chance to meet with many of them. So we need to do more——

Secretary LEW. Yeah.

Mr. BUCHANAN [continuing]. In terms of our government to help our businesses be more competitive there. They need to open up their markets more. I agree with you there.

Secretary LEW. I met with about 20 representatives of U.S. businesses in China and asked them what we could do to be helpful to them. I agree with you, we have to make the case. And we have found it slow, that you don't get everything you argue for, but you do make progress when you engage on these issues. And we need to compete on the world market.

Mr. BUCHANAN. Yeah. Let me just mention a couple other things. I co-chair the Committee for Small Business, Passthrough Entities, and Medium-sized Businesses. Two things: When you look at small businesses, how do you define that? Just quickly, because I don't have a lot of time, but I want to get your definition of what a small business is.

Secretary LEW. There are a lot of different ways of drawing the line. You know, sometimes it is by number of employees, sometimes it is by total gross amounts of sales.

Rather than get into where exactly to draw the line, I think I would like to emphasize——

Mr. BUCHANAN. Okay. Well, let me—let me move on. I just want to say one thing. In terms of startup businesses, I don't know what that number is, but that is something we have to do everything we can to make sure we have proper tax incentives or incentives to have people start up. I hear they are down about 20 or 30 percent, in terms of any kind of startup in entrepreneurs. So that was one factor. They want more simplification of the Tax Code, more certainty of the Tax Code.

And then I want to ask you another question. That was just a general comment. One of the things that we are talking about and the President has mentioned—I thought I heard two different numbers, 25 and 28 percent, in terms of corporate tax rate. Now, as someone that is one of the co-chairs heading up and dealing with businesses in terms of passthrough entities, I am concerned we don't leave small businesses and medium-size businesses behind. They are effectively at 43, 44 percent.

How do we lower the rates to 25 or 28 ideally, eliminate some of the loopholes, and not leave behind a lot of our folks that generate a lot of the jobs in America that happen to be in that tax bracket? Because I can tell you, talking to a lot of friends, they would just all become C Corps. Because what has happened, the evolution, my background, is we would start out with C Corps, then we went to S Corps, and then we went to LLCs.

So, how do you deal with lowering the rates on C Corps without dealing with small/medium-size businesses, most of which are passthrough entities that compete in the same industries?

Secretary LEW. I am not sure I can answer it in 15 seconds.

I mean, one of the reasons we need to broaden the base and lower the rates on the business side is to not have such a skewed set of decisions as businesses choose how to organize. We need to also look at reform on the individual side. And we would look forward to working on a bipartisan basis on that.

Mr. BUCHANAN. What I would just have you suggest to the President is have him understand there are a lot of businesses that have 50 to 100 employees that are paying at the much higher bracket.

Thank you, Mr. Chairman.

Mr. BRADY. Thank you.

Mr. Smith is recognized.

Mr. SMITH. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for your time here today.

I guess perhaps building off of those comments from my colleague, I mean, I met with some bankers back home in my hometown, locally-owned banks. Three bankers were present. Two of them pay under subchapter S, and one pays under C Corp Tax Code. And yet, you know, there would be reform for one but not for the others, even though, I think, it is roughly half of all private-sector employment in the U.S. that exists in passthrough entities that pay tax under the individual rate.

Could you expand on that, perhaps?

Secretary LEW. Obviously, individuals and businesses choose how to organize based on the tax system and based on the comparison of individual passthrough kind of organization or under the corporate system.

One of the reasons that so many firms have organized as pass-throughs is that we have high statutory rates, and a lot of the deductions and credits on the business side are so targeted at large firms that they are not really relevant to the startups that you are talking about.

This is obviously a complicated set of issues, and the relationship between them is very important. But, you know, we want to work together on making the business Tax Code make more sense.

We want to work together on tax reform on the individual side, as well, to make it simpler. And, I mean, the thing that I think we have universal agreement on is that it is just too complicated. We have done an awful lot in this Administration to encourage small businesses and small-business investment. I can't say it is simple. I mean, for a small business looking at what they have done, it helps them, but they need to go to accountants and lawyers to take advantage of it.

We should get to a place where we have a simple Tax Code where people sitting down trying to do business can look at how they can do their business and not have to have all the costs and time of the complicated compliance. If we simplified the business Tax Code and lowered the rate, I think that would help a lot.

Mr. SMITH. Okay.

Shifting gears a little bit to international tax, and we know that U.S. companies—and it is a good thing—that U.S. companies have done well marketing their products overseas. They have generated some profits and some cash, and they basically park that overseas because of a very punitive corporate Tax Code, which I think corporate tax reform would help address. Yet, I am still skeptical that, without some further changes, we still would not be able to see U.S. companies invest that cash that they generated overseas back in the U.S. economy.

Would you disagree with that, or would you make some proposals to suggest or to offer an incentive for U.S. companies to bring that cash back into our economy?

Secretary LEW. Well, we are finding more and more that as companies look at the overall pluses and minuses of investing in the United States versus investing overseas, they are deciding to invest in the United States, because of our workforce, because of the ease of doing business in the United States, and, notwithstanding our political problems, the greater stability in the United States versus most other places in the world.

So I think we are making progress. In the budget, we have proposals that would have incentives to create jobs in the United States in manufacturing, that would have disincentives for offshoring jobs. As we lower the tax rate and the differential and statutory rates between the United States and other countries is reduced, that will help.

I think this is a challenging area. We have seen efforts in the past that were designed to bring money back. They didn't really serve to increase investment; they just cut taxes. And I think our goal here is to grow the economy, grow employment. And we look forward to working together and getting that done.

Mr. SMITH. Okay. Thank you.

I yield back.

Mr. BRADY. Thank you.

Mr. Doggett is recognized.

Mr. DOGGETT. Thank you very much, Mr. Secretary.

You know, of the many Americans who are out there right now getting their taxes ready to file next week, I doubt there are very many that think they will be able to pay a mere nickel on the dollar. But, as you know and as your comments were just referring to, there are many of America's largest corporations that continue lobbying you, the Administration, and this Congress to let them pay a nickel on the dollar in taxes on a significant portion of their earnings.

I was pleased with your response just now and with President Obama's comments here in the Capitol on March 14th that, as to this so-called repatriation, we have looked at the math and it just doesn't work. And it will, as your comments suggested, never work in terms of creating jobs, as it failed in 2004, though it may help to pad executive pay and corporate share buy-back programs, that type of thing.

I am also pleased to see that you continue to include in your budget rejecting that idea for your budget, the repatriation notion, but you have included in your budget a number of measures that address unjustified international corporate tax avoidance. I believe you have incorporated earnings-stripping provisions about companies that have earnings here in the United States but they strip them to the Caymans or some other nontax jurisdiction.

You have pointed to the problem of corporations that develop patents and intellectual property here but then it is owned and assigned abroad, with payments having to come for some of the very intellectual property that was developed here in America.

You have referenced the problems of corporations reducing their income because of the way they allocate interest expense on income they don't actually take right now.

On those three and other items in your budget, do you continue to find a number of areas of unjustified corporate tax avoidance on the international level?

Secretary LEW. Congressman, we do try to close down the areas of tax avoidance that we see. We have put some of them in our budget. We look forward to working with the Congress on a bipartisan basis to do more. You know, there shouldn't be an incentive to move U.S. jobs overseas.

Mr. DOGGETT. As you know, one of the problems in that regard is that, over a 3-year period, 30 Fortune 500 companies devoted more of their moneys to lobbying this Congress than they did in paying taxes to the Treasury. Some have a negative tax rate. Many of our largest corporations are paying effective tax rates that are single-digit.

You are aware and I believe the Treasury is involved in the comments recently of the top finance ministers in Germany, in France, and in the United Kingdom calling for cooperation among the G–20 countries to deal with this problem of corporate tax avoidance. We want to be competitive. We want every American company to be competitive, but not just to be competitive in terms of corporate tax avoidance, where we seem to be the world's leader at the moment.

I have several pieces of legislation that attempt to implement some of these budget provisions and to go a bit further than what I view as rather modest revisions. The concern I have, Mr. Secretary, is that while I think some adjustment in the statutory rate is appropriate to reduce it, that you devote every cent of that reform right back to the corporations.

We know the history this very year is that in the fiscal-cliff negotiations and the law that was finally approved, corporate America didn't contribute a dime. In fact, some corporations got major tax cuts out of the fiscal-cliff negotiations.

Isn't it reasonable to expect corporate America, having paid such low effective rates, to contribute a little to closing the budget gap and to the cost of our national security?

Secretary LEW. Congressman, our budget and our policy very much states that we think there ought to be a more fair distribution of tax burden. Raising the top rates was a part of that. Having individual tax reform that raises revenue by limiting the value of deductions for high-income individuals is part of it.

I think that when you look at the difference between business and corporate tax reform, the beneficiaries of great corporate income and wealth are the same people who are in the very highest tax brackets. We have elected to try to do business tax reform in a way that will really enhance investment in the United States and job creation, and we have done the revenue raising on the individual side. I am not sure that they are different people who are paying the taxes in the end, because corporations pay out, you know, to their shareholders and they tend to be going mostly to people in those top brackets.

Chairman CAMP [presiding]. All right. Thank you.

I know that we just have a few more minutes, and I will try to get to as many people as possible.

Tomorrow, with Secretary Sebelius, we will start up where we left off today. So we will start with those Members who did not get a chance to question today tomorrow.

Mr. Schock is recognized.

Mr. SCHOCK. Thank you.

Mr. Secretary, thank you for being here.

First, I would like to bring up the issue of the estate tax. You know that the current rate is 35 percent on all estates over $5 million. This was the result of the agreed-to legislation of the fiscal-cliff deal. Many of us in this chamber, myself included, who voted for that fiscal-cliff deal did so not because it was perfect, but for the sake of consistency, for the sake of allowing small businesses and farmers to be able to put that issue to rest and focus on growing the economy and growing their business.

Why did the Administration choose to revisit this issue, in my view, to go back on what we had agreed to just months ago, and only add to the uncertainty of America's small businesses at a time when, quite frankly, we need them focused on growing their businesses and not worried about losing what they have and the rules changing once again?

Secretary LEW. Congressman, I appreciate the question. And we obviously did change estate taxes in January. It was a difficult negotiation. It was one in which we made clear we thought that the estate tax provisions were too generous. We agreed to them. And we are sensitive to this question of, kind of, the speed at which change is made.

I don't think we have ever had tax policy that is made for all time. And in an area like the estate tax, where it has been heavily debated, we thought that after 5 years it was time to revisit. And our proposal is not for next year or the year after, but it essentially says that in 5 years, when we revisit a number of other issues, we ought to also revisit the estate tax. And we don't propose a massive increase in the estate tax. We go back to rates that were in place, you know, in the 1990s.

It is an area where I know there is disagreement on both sides of the aisle, within each side of the aisle. We would look forward to working with you. We very much agree that we need to handle our tax discussions in a long-term way to create certainty. I think, of all the planning horizons, you know, the estate tax does not affect investment decisions the same way other provisions in the Tax Code do. We don't——

Mr. SCHOCK. Would you—may I ask, wouldn't you agree, though, that a business' decision on what they invest or don't invest is tied precisely to what their presumed liability might be if and when they have to pay an estate tax?

Secretary LEW. I think that most business decisions are based on what the value of that decision is to the business. The goal is to grow the business and to grow the income of the business. And I don't think it is a disincentive to grow your business that sometime in the future, at the point when there is a passing, that the estate tax may be different. I think that is different from things like current tax rates, deductions, credits that are in the time of the investment.

Mr. SCHOCK. Thank you.

Another question is about this retirement income. I am particularly interested in this because I thought I was doing the right thing. At the age of 14, I opened my IRA and put in what was then the maximum of $2,000. This body then passed the Roth IRA, in which I had been putting the maximum of $5,000. And if I am lucky enough to earn the same rate of return as my counterparts who at the time were working for States and the Federal Government and receiving those actuarial returns of 7 to 8 percent, in 30 years I should have in excess of $3 million to retire from.

Why is the Administration so opposed to Americans like me who want to save with our own money for our own retirement from doing so?

Secretary LEW. Congressman, I think you may be the one person who beats me in starting earlier with IRAs. I was about 17 or 18 when I started.

I applaud people starting early. We are not at all discouraging people. We are, on the contrary, encouraging people to start and stay in the pattern of saving for their retirement.

The question of what the maximum amount is comes down to the hard choices we have to make in a Tax Code, in a budget where there are hard choices. In a time when most Americans look forward to retiring with well under $100,000 of retirement savings, $3 million is quite a high target.

This was an attempt to make balancing decisions. We don't—you still can save for retirement without getting the extra tax break. And I think people who have seen the value of compounding on their savings will continue to do so.

Mr. SCHOCK. Doesn't this put private-sector employees at a competitive disadvantage from public-sector employees?

Secretary LEW. I am not sure how you mean that.

Mr. SCHOCK. Well, you are saying that I can continue to save as a private-sector employee with my own dollars, I will just have to pay taxes on, in essence, the annuity or the nest egg over $3 million. But if I am a public-sector employee, for example, in the State of Illinois, that same employee, a public school teacher or a public firefighter, whose income in 30 years may be in excess of $200,000, when they retire, in essence, their annuity will be in far excess of $3 million and will be able to have accrued that annuity at tax-deferred rates.

Secretary LEW. Comparisons between savings plans and pension plans are very hard to make. Obviously, the pension plan doesn't have the kind of survivorship rights that a plan like an IRA or a 401(k) would have. I would actually have to look at that in more detail to make the comparison. I can't, off the top of my head——

Mr. SCHOCK. All right.

Secretary LEW [continuing]. Do it.

Chairman CAMP. Time has expired.

Mr. SCHOCK. Okay. Thank you.

Chairman CAMP. Ms. Jenkins is recognized.

Ms. JENKINS. I thank the Chairman for yielding and for holding this hearing.

And we thank the Secretary for being here.

Secretary LEW. It is good to be here.

Ms. JENKINS. The President continues to embrace a worldwide system of taxing income, which potentially subjects overseas income to double taxation. And this, despite the recommendations of his jobs council, his export council, and Simpson-Bowles to adopt a territorial system.

We are the last major industrialized country with a worldwide system. Having the world's highest corporate tax rate and being the only major industrialized country with a worldwide tax system, it hurts our competitiveness.

I know many details remain, but are you willing to consider a shift toward a territorial system?

Secretary LEW. Congresswoman, I actually think the choice is not so stark as one or the other. Our system is a bit of a hybrid already, and our proposal for a global minimum makes it more of a hybrid.

We would welcome the conversation of how to set the dial in the right place so that it has the right incentives without losing revenue that we can't afford to lose. I think that there is a solution in the middle here that, if we work together on a bipartisan basis, we can find.

Ms. JENKINS. Okay. We will look forward to that.

And then I wanted to follow up on a question from my colleague, Representative Reichert, when he asked if your budget ever balanced and you said, yes, in an out-year. What year does the budget balance?

Secretary LEW. I believe in our out-years, it is in the 2050s. It is quite a while away. It is not in the 10-year window.

And we think that the attempts to reach balance in this 10-year window force the kinds of choices that we think are not right for the economy, that wouldn't grow jobs. And it would be unfair to retirees and Medicare and other people who would lose their ability to count on Medicare as a guaranteed benefit.

So these are hard choices. We need to get to a place where our debt is sustainable, where we meet the internationally accepted standards of what it is that an economy can have as far as a deficit and a debt as a percentage of GDP.

And then we need to keep working together. You know, in the 1980s and the 1990s, we didn't reach balance in one shot. It took year after year——

Ms. JENKINS. Well, is it safe to say that under the President's budget, in our lifetime we will never stop spending more money than we take in?

Secretary LEW. I am not going to sit here and estimate either of our lifetimes.

Ms. JENKINS. You would be 100 years old, and I would be pushing that. So is that safe to say? I don't intend to live to be 100.

Secretary LEW. I think the question is not when we hit balance. It is when do we have our budget in a place where it is affordable, where we can pay our bills, and where the economy——

Ms. JENKINS. And that is not in our lifetime.

Secretary LEW. And the economy is——

Ms. JENKINS. In——

Secretary LEW. No, no, I think it is. I think the economy would——

Ms. JENKINS. Then, why wouldn't the budget reflect that?

Secretary LEW. No, I guess what I am disagreeing on is, defining reaching balance in this short-term window——

Ms. JENKINS. I define it as——

Secretary LEW [continuing]. Is different. Yeah.

Ms. JENKINS [continuing]. Not taking—not spending more money than you take in in any one year.

Secretary LEW. Yeah.

Ms. JENKINS. And that, according to the President's budget, is 2055.

What date do you think it would be before we pay off the debt that we owe?

Secretary LEW. You know, when I left the White House——

Ms. JENKINS. Wait. Just a second. Is there a date that you could give me?

Secretary LEW. I would have to look it up, but, obviously, it would be——

Ms. JENKINS. So we don't know.

Secretary LEW [continuing]. Very far in the future. We want a path for paying down the debt.

Ms. JENKINS. Would you recommend that businesses, small businesses in my district do business this way, to rack up debt and have no clue when they can pay it off?

Secretary LEW. Governments are different than businesses. Governments are able to pay their debt if they maintain a growing economy and if they are able to keep current with that. I am——

Ms. JENKINS. How can you say——

Secretary LEW. I am probably the only person in this room who can say he balanced the Federal budget. I believe in a balanced budget. I didn't believe in the policies in 2001, in 2003, and through 2008. They——

Ms. JENKINS. Do you have kids?

Secretary LEW [continuing]. Created a deficit.

Ms. JENKINS. Do you have kids?

Secretary LEW. I have two children, yes.

Ms. JENKINS. Okay. I do, too. How do——

Secretary LEW. I have grandchildren, as well.

Ms. JENKINS. How do you explain to them that you are not willing to pay for the things that we are enjoying today, that you are just going to send them the bill?

Secretary LEW. I am proud that I have spent almost 40 years of my life trying to get our fiscal house in order, and I balanced the Federal budget and ran a surplus three times.

Ms. JENKINS. But you are not willing to balance the budget in your lifetime?

Secretary LEW. I think we inherited a situation with a deep deficit, an economy that had no bottom, it was in free-fall. We have stopped that, we are growing, we are making progress. But we have to be honest with the American people. It is going to take a long time before we can actually reach the goal of a balanced budget again because we started so far behind. We are making good progress.

Ms. JENKINS. Well, we started in the same place and were able to budget——

Secretary LEW. I would be happy to have a——

Ms. JENKINS [continuing]. For balancing in 10 years.

Secretary LEW. I would be happy to have a debate on the policies it takes to get there. I don't think the American people will accept those policies because they are not good for the country.

Ms. JENKINS. Well, I think they show huge growth in the economy, a better GDP growth rate, and a higher employment rate than the President's proposal.

Chairman CAMP. All right.

Ms. JENKINS. But we will look forward to the debate.

Secretary LEW. I look forward to working with you.

Chairman CAMP. The time has expired.

Mr. Larson is recognized.

Mr. LARSON. Thank you very much, Chairman Camp. Thank you for this hearing. Thank you for the way that you have conducted the business on this Committee, with Mr. Levin as well.

And what an honor to have Jack Lew here. And I think the previous questioner just has to spark this question. I believe it was under your leadership, as well, that the entire Federal debt would have been paid off by 2009. And I think that was in your lifetime. Is that not correct?

Secretary LEW. Yeah. I don't remember the exact year, but it was very much in my lifetime.

Mr. LARSON. And so the policies, of course, that led to us going into a situation where we have wars, never before in our history, that weren't paid for——

Secretary LEW. Yeah.

Mr. LARSON [continuing]. Tax cuts that weren't paid for, and a Medicare portion unpaid for, and then a serious financial crisis that led to an enormous recession have caused us to be in this situation. Is that a fair assessment?

Secretary LEW. Congressman, it is a fair assessment.

I think, as you know, when I left OMB in January 2001, we projected a surplus of $5.5 trillion over the next 10 years. There were a series of decisions that were made that caused that surplus to go away. We then hit a terrible recession, and our fiscal cannon, instead of being loaded, was emptied out.

So we got to the position we are in because of a combination of policy decisions and economic conditions. And we need to work together to get back on a path to a sustainable deficit and then keep working, because, ultimately, we should do more.

Mr. LARSON. And we all want to see us deal with the deficit, and we all want to see that happen in as timely a way as we can without placing the burden on the backs of beneficiaries of our system.

Now, on one side, we hear this all the time, that we have a group of people that would like to shrink up government so small they could drown it in a bathtub. The people that they are drowning, of course, are the recipients of Social Security and Medicare, veterans, and the disabled, people that we would like to help, especially in these very difficult times and especially people who have served their country with honor.

It would seem to me that in the Administration's application of its budget, it takes that into consideration. And it especially takes that into consideration with the care and need to make sure that we are not going into an austere climate that would balance this on the backs of beneficiaries.

That is why I want to ask you this question, and I think it is important, because the President continues to reach out time and time again. For some of us, it doesn't seem logical, because he is met with resistance time and time again. I appreciate the President's optimism. I am an optimist, as well.

I would like to see us be able to grow this economy, but we haven't seen the willingness to invest in our infrastructure or innovation. And so we are more than skeptical when the President lays out proposals for CPI and the other side seems to say, yeah, we will take that, but we don't want to take any of the balance that has to go along with that.

If that kind of attitude prevails, what will the President do?

Secretary LEW. Congressman, I think the President has been very clear. He put some very tough things in this budget, consistent with the offer he made to the Speaker in December, because he very much believes it would be the right thing to have a sensible, balanced agreement that has both sides doing difficult things. He is not prepared to do something like chained CPI outside of the context of a balanced approach.

And I think that we are so close in terms of the positions the President has articulated and what we have heard over the last 2 years of what you need to reach an agreement in that sensible center, that I am still going to be an optimist, and I am going to push forward, as the President will, to try to get this done.

But I don't want there to be any misunderstanding. And that is why I said in any opening statement, it is not a starting point; we have been at this for over 2 years. And it would be a mistake to treat it as if you can just take one piece out of it and reach an agreement.

Mr. LARSON. One last thing I would add just as a comment, no need to respond, but Social Security and Medicare, specifically, are not entitlements. This is insurance that people pay for. You just go to your paycheck, everybody in America, and check that out. It is insurance that you pay for.

Tell us you need to make an adjustment. Tell us we need to pay more. Tell us there are different actuarial assumptions that would lead to that. Let's get behind the science and math that will allow us to reach that apex. But it is not an entitlement; it is insurance.

Chairman CAMP. All right. Thank you.

And Mr. Paulsen for the last questions of this morning.

Mr. PAULSEN. Thank you, Mr. Chairman.

Mr. Secretary, I remember when the President gave his State of the Union speech back in 2011. And I was actually really encouraged that he mentioned at that time the need for corporate tax reform, in particular. And he has mentioned it and reaffirmed it in several more State of the Union speeches; in fact, moving now to having this revenue-neutral component on some business tax reform, which I think is great. And I look forward to working with you on that.

I just want to follow up on one clarification, because you mentioned earlier in your testimony about making sure that, you know, we want to have a Tax Code that is simpler, fairer, and more competitive. And you mentioned earlier about small businesses having to hire accountants and attorneys and work through a very cumbersome and complex Tax Code. I hear about that all the time in Minnesota on a very regular basis.

And I just want to get a better sense, do you believe that component of having more comprehensive tax reform should include more small businesses and/or families, individuals as a part of that comprehensive discussion, or should they be left separately? Because the revenue-neutral component now, as I understand it, is only on the corporate side but not including small business.

Secretary LEW. Congressman, I have tried to be clear. We think both sides of tax reform are important, individual and business tax reform. Obviously, businesses choose to organize either one way or the other, and they really need to know what the world in each side of the Tax Code looks like.

So we look forward to working together on a bipartisan basis. But it has to be in the context of a fiscal plan, and we believe that is only going to work if we raise some additional revenue out of tax reform.

I think it is an amount of revenue consistent with discussions we were having last year. You know, last year, there was a fairly broad, bipartisan—well, at least Republicans were saying you could do a trillion dollars of revenue by base-broadening. We didn't do any of the base-broadening. So $580 billion ought to be achievable with base-broadening.

Mr. PAULSEN. Well, I know there is going to be opportunity. I just want to make sure that small business is not left off the table and they will be included as a part of that discussion. Because they are just as competitive as large corporations, obviously, in promoting their sales and income and expanding their operations.

Secretary LEW. Well, we have, from the beginning of this Administration, worked as hard as we can to promote incentives for small businesses. There have been 18 separate provisions. Tax reform should very much address the needs of small business. And if we can do comprehensive tax reform, as I hope we can, I look forward to working with you on that.

Mr. PAULSEN. Good, good.

And I want to follow up on one other point, because, again, I was elected the same year the President was elected, in 2008. And I came in with open eyes, critical of my party for raising the debt, for raising spending, and our deficits. So there is bipartisan blame, and there has to be a bipartisan solution if we are going to fix these problems.

But my concern is with the new budget. And I haven't looked at all the details, but it does seem to be a little bit of a reaffirmation of past budgets that have been proposed by the Administration that do accelerate spending and don't really deal with some of the deficit issues or the balancing issues until much later in the out-years.

And so I just think we need to get ahead of it sooner. Do you share that——

Secretary LEW. Well, I think this budget is actually structurally different. And we may not agree on every aspect of it, but we have the deficit-reduction plan that is what the President offered to the Speaker in December. We do have additional investments. We pay for them; everything is paid for. If we can't agree on how to pay for them, we can't do the investments. We understand that. We are going to make the case that the pay-fors are correct. And we are in an environment where, if we get on the path for a sustainable budget where the deficit and the debt are coming down as a percentage of GDP, we are going to have to pay for things that we do after that.

So I actually think it is a different approach. If you look at the baseline, there is no doubt that there is growing spending in the baseline because it is no news that the baby boom is approaching retirement. Much as many of us would like it to be otherwise, each year we are a year closer. And the fact is, as the baby boom retires, there is going to be a huge increase in the number of people on Social Security and Medicare. And unless we take away their entitlement to those benefits, that insurance that they have paid into, spending will go up.

Mr. PAULSEN. Now, you spoke earlier, too, about reducing deficits to a certain percentage of GDP. But, on the other hand, debt is continuing to rise, and it is rising as a significant percentage of GDP.

What is the appropriate level of our debt? Do you think there is a debt crisis coming our way if we don't take action?

Secretary LEW. The President's budget would actually turn the corner and bring down both the deficit and debt as a percentage of GDP. We would bring the deficit down to below 2 percent of GDP. We would bring the debt into the mid-70s and stabilize.

That is a huge difference, between growing and growing over 100 percent. And I think that is why it is so important that we work together on this.

Mr. PAULSEN. Let me ask this: Is it your view—the President said in the middle of March, on the 13th, he said, "We don't have an immediate crisis in terms of debt. In fact, for the next 10 years, it is going to be in a sustainable place." Is that your view, we are in a sustainable place for the next 10 years?

Secretary LEW. Well, I think we have proposed policies that would ensure that we get there.

Mr. PAULSEN. Okay.

Thank you, Mr. Chairman.

Chairman CAMP. All right. Thank you very much.

And thank you very much, Mr. Secretary. We very much appreciate your time. And I and all the Members of this Committee look forward to working with you in the months ahead.

Secretary LEW. Thank you, Mr. Chairman. I look forward to working with you and the other Members of this Committee as we go forward.

Chairman CAMP. Thank you.

And, with that, this hearing is now adjourned.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]