

**Hearing on the President's Fiscal Year 2016 Budget Proposal with U.S.
Department of the Treasury Secretary Jacob J. Lew**

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS

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WITNESSES

The Honorable Jacob Lew
Secretary, United States Department of Treasury
Witness Statement [[PDF](#)]

**Hearing on the President's Fiscal Year 2016 Budget Proposal with U.S. Department
of the Treasury Secretary Jacob J. Lew**

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met, pursuant to call, at 10:03 a.m., in Room 1300, Longworth House Office Building, Hon. Paul Ryan [chairman of the committee] presiding.

Chairman Ryan. All right. The committee will come to order. The hearing will come to order.

Welcome to the Committee on Ways and Means hearing. This is not the Agriculture hearing. Welcome to the Committee on Ways and Means hearing on President Obama's budget proposal with our United States Treasury Secretary, who is sitting far away down there, Secretary Lew. Our hearing room is under construction. So these are the temporary quarters for us. So we are not necessarily used to the room.

Before we get started, I want everyone to please be advised that members may submit written questions to the Treasury Secretary to be answered later in writing. Those questions and your answers will be made part of the formal record.

We also understand that Secretary Lew has a hard stop at one o'clock. So I am going to run this tight so we can get to as many people as possible, but wherever we cut off, we will start with that member in the queue the next time we pick up with the next hearing, just to make sure, just to try and play it fair like that.

So Secretary, I want to say something. We got your budget yesterday. I have got to say as a former budget chairman, I am a little miffed. Four years in a row, which was when I was chair of the Budget Committee, 4 years in a row, you are late with your budget, and the minute I leave, you produce it on time. What gives?

In all seriousness, the one positive thing I would like to say is that the budget is finally on time. And to those of us in the budget world, that clock means a lot. It sets the tempo for Congress. It means a lot of things, and so congratulations on finally giving us a budget on time.

That said, the irony wasn't lost on me that the administration submitted their budget on Groundhog Day, because it is the same thing every year, even a little worse. You have raised taxes by \$1.7 trillion over the past 6 years. Now you want to raise them again by \$2.1 trillion. You want to tax savings and investment in small businesses. Sooner or later, you are going to start looking for money in the couch cushions.

So I just want to take an opportunity here to make something really clear. We are not going to raise taxes on the American people. They are working harder and harder to get ahead and they are falling behind. Wages are stagnating, they deserve a break, not another tax increase. The last thing this economy needs is another whopping tax increase. The kicker is, with even all of these tax increases, you don't even balance the budget, not even in 10 years, because you don't get spending under control.

So I am disappointed in this proposal, but as far as I am concerned, I would rather spend time not focusing on our differences. Let's instead try and find some time and a way to see if there is some common ground. I think there may be some opportunities to do that.

First thing that comes to my mind is trade. We all agree that trade is good for America, because more trade means higher pay. And so our top priority is to put in place Trade Promotion Authority. To get the best trade deals possible, we have to be in the best position possible, and that is what TPA helps us do. So I will be interested to hear how the administration is helping us get TPA across the finish line.

Next, we have got to fix this broken Tax Code. We want to fix it for everybody, but with this administration, in the past, we haven't had very high hopes, but you have gradually, grudgingly taken a few steps, in my opinion, in the right direction, though in my opinion, also you need to move it a little farther.

For years you talked about fixing the Tax Code for corporations but not for families and small businesses. More recently after this committee's constant insistence that tax reform cannot give an unfair advantage to big public companies over closely-held, family-owned businesses, the administration is now finally talking about helping small businesses as well. Even though your specific proposals have been far from adequate, at least it is a step in the right direction.

Now the administration is taking a few more baby steps in the right direction by proposing a few ways to simplify the Tax Code for middle class families. So it is progress, not a lot, but we will take it. So I would be interested to hear what you have to say about tax reform. If we can find common ground, we need to explore it, but I will tell you right now, what the President is proposing for small businesses organized as pass-throughs, you know, sole proprietorships, partnerships, S corporations, it just doesn't go far enough. It just doesn't cut it. Small businesses, they are the engine of our economy, and this committee is not going to do just anything. This committee is not going to leave them behind. This committee has to make sure that they are part of the solution.

The Tax Code has to work for everybody, especially families and small businesses. We need to make it simpler, we need to make it fair, and we need to make it flatter. We need to make it more globally competitive. We need to create more jobs. That is the way to create jobs and build a healthy economy. So we want to work with this administration. We want to explore common ground. We have got two big opportunities here potentially on tax and on trade, and so we would like to get this done. Let's see if we can find a way of working together, and with that I would like to yield to the distinguished ranking member, Mr. Levin.

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

Welcome, Mr. Secretary. As the chairman said, you are further away. We will try to make this more personal, though.

I wanted to start on a personal note to recognize the fact that someone who has served as our staff director on Health, Cybele Bjorklund, this is her last hearing. I don't know where Cybele is. Are you here?

Ms. Bjorklund. I am here.

Mr. Levin. You are back here. Cybele, thank you for all of your work.

Again, welcome, Mr. Secretary. This administration first presented a budget to Congress 6 years ago. Back then in the months of February and March of 2009, just weeks after President Obama took office, the economy lost more than 1.5 million jobs; the most in any 2-month period since World War II. Today the economy has experienced significant growth with 58 consecutive months of private sector job gains. Over the past 4 years, the U.S. has put more people back to work than Europe, Japan, and all of the world's major advanced economies combined. That is hardly a "stagnant economy." Republicans try to minimize that dramatic turnaround, but is instructed to revisit what their party's presidential nominee in 2012 promised to achieve by the end of his first term in office. Mitt Romney said, "I can tell you that over a period of 4 years, by virtue of the policies that we put in place, we would get the unemployment rate down to 6 percent and perhaps a little lower."

Today, nearly 2 years before that deadline, the unemployment rate has dropped to 5.6 percent. The ongoing challenge that we confront, a challenge that has persisted for the last three decades, dating back to the Reagan years, is how to ensure that middle class families are not left out of the growth of our economy that is now being experienced and will be experienced in the future.

The President's budget takes direct aim at that challenge. It includes proposals to support working families by making child care more accessible, guaranteeing paid sick leave, and making permanent extensions of vital provisions, including the EITC, the Child Tax Credit, and the American Opportunity Tax Credit. It combines changes in the

international tax structure and provisions for the long-term needs of our Nation's infrastructure. It closes tax loopholes that predominantly benefit a select few.

These proposals are not envy economics. They are everyone's economics. They are not the economics of envy. They are the economics of working for all, not just the very wealthy. Through a fiscally responsible replacement for the sequester, the President's budget would allow us to invest in education, medical research, and other domestic priorities, as well as provide the resources, Social Security, Medicare, and the IRS need to serve the American people, and would provide for the ever-changing needs of our military as it confronts new challenges.

I hope the Republicans give these and other proposals presented within the President's budget, Mr. Chairman, the full and serious consideration that they deserve.

One of the many outstanding issues in the trade Pacific negotiations, currency manipulation, is mainly in the purview of Treasury. Over the past decade, currency manipulation by foreign governments has resulted in an increase in unfairly traded imports into the U.S. It has made it more difficult for U.S. exporters to compete in foreign markets. It has cost us millions of middle class jobs. TPP includes a number of former currency manipulators, such as Japan and other countries, are discussing TPP who have been in the past manipulating their currencies, including China, Korea, and Taiwan. Each of these countries is party to the IMF, which already prohibits currency manipulation, and has developed deadlines to define when it occurs. The problem is that the IMF lacks any enforcement provision. That is why I propose taking the existing IMF guidelines and building on them so they can be addressed through TPP.

I have heard concerns that the U.S. monetary policy might be at risk if we put such a provision in the TPP. The IMF guidelines clearly spell out that U.S. monetary policy, including quantitative easing, is not currency manipulation. The first factor is protracted large-scale interventions in currency markets, and the U.S. has not engaged in that. The second factors have in it an excessive-amount of foreign exchange reserves. I could go through each factor, but suffice it to say, that the IMF has explicitly supported each round of U.S. quantitative easement since the great recession. U.S. monetary policy would not be put at risk by addressing currency through TPP.

I look forward to discussing with my colleagues, Mr. Chairman, on a bipartisan and bicameral basis, and with the administration, how to include a strong and enforceable currency manipulation provision as well as tackling the other major outstanding issues in TPP that I outlined late last month in a document that I called A Path Toward an Effective TPP Agreement.

Thank you, Mr. Secretary, for your dedication and your service to our Nation for many years, going back to the days when you were still much younger working for Tip O'Neill, and I am very happy to welcome you back before this committee.

Thank you, Mr. Chairman.

Chairman Ryan. Thank you. Thank you, Mr. Levin.

Secretary Lew, thank you for your time today. Your entire written testimony will be included in the record. If you could try to summarize it in 5 minutes so we can -- because we know you have a hard stop at -- try to summarize it in 5 minutes so we can get to our questioning, we would appreciate it. The time is yours.

**STATEMENT OF HON. JACOB LEW, SECRETARY, UNITED STATES
DEPARTMENT OF TREASURY**

Secretary Lew. Thank you very much, Chairman Ryan, Ranking Member Levin, members of the committee. It is good to be with you here this morning to discuss the President's budget, and Mr. Chairman, I know this is the first time I have appeared since you have taken over the gavel of this committee. I congratulate you and look forward to working together on a bipartisan basis to get things done.

A year ago, President Obama said that 2014 would be a breakthrough year for our economy, and the evidence is now clear that over the past 12 months, America has made great strides. We are seeing real progress in job creation, economic growth, family wealth, energy independence, manufacturing, exports, retirement accounts, the stock market, healthcare costs, graduation rates, and the deficit. The fact is our businesses created nearly 3 million jobs last year, the most jobs in any year since the late 1990s. This capped off roughly 5 years of jobs growth, the longest stretch of jobs growth in our Nation's history, and the creation of 11 million new jobs.

In addition, the unemployment rate dropped to its lowest rate in 6-1/2 years, and our economy continued to expand with healthy growth in the second, third and fourth quarters of 2014 and forecasts projecting above-trend growth in 2015.

From a global perspective, we continue to outperform our trading partners, many of which are still trying to climb out of the vast hole created by the global economic crisis. At the same time, with the Affordable Care Act in place, about 10 million Americans now know the financial security of health insurance and healthcare prices rose at their lowest rates in decades.

The automobile industry continued its rebound in 2014, even as we marked the official end to the auto industry rescue, and American taxpayers recovered more money than we invested.

Finally, thanks to the administration's all-of-the-above energy strategy, we moved closer to energy independence than we have been in decades, and gas prices fell, providing a shot in the arm for families and small businesses. So today our Nation has turned the corner on a number of fronts. As we know, this resurgence has not reached every

American. For too many hard working men and women in this country, it is still too hard to get ahead and earn enough to raise a family, afford child care, pay for college, buy a home, and secure retirement.

The President's budget meets these challenges by offering real solutions to grow the economy, strengthen the middle class, and make paychecks go farther.

This budget is built around the basic idea that hard work should pay off. It is practical, not partisan, and it lays out clear steps to reign in spending and eliminate wasteful tax breaks so we can reduce taxes for working families as well as many businesses and manufacturers.

What is more, this budget replaces the across-the-board cuts from sequestration and makes sensible investments to increase our economy's competitiveness while maintaining a responsible fiscal path.

As we know, not long ago some were predicting that the President's policies would explode our deficits. A little history, though, makes clear the opposite is true. In the 1990's when I was budget director, I oversaw three budget surpluses in a row, and we were on a path to pay down our national debt, but when this administration took office in 2009, there was a very different reality. After years of runaway spending, including tax cuts for the most well off and two wars that were not paid for, and then the financial crisis, our deficits reached a post-World War II high. The President moved to right our Nation's fiscal shift. With his balanced economic approach, the agreements forged with Congress and a growing economy, the deficit has fallen by almost three-quarters, the swiftest downward arc since the period of demobilization following World War II.

The deficit is projected to decline even further in the next fiscal year, and today we are putting forward a plan to lower our deficits to about 2 1/2 percent of GDP over the 10-year budget window.

Our Nation's improved financial footing has occurred even as Congress was able to undo a portion of sequestration in recent years, replacing these cuts with more sensible and balanced savings. Still nothing has been done to address these dangerous cuts in 2016. Without Congressional action, vital funding for our national defense and key priorities like education, infrastructure, and research will be severely cut back.

The President's budget provides a path to eliminate sequestration which achieving the President's longstanding commitment to a responsible and balanced fiscal approach. In other words, it charts a specific way forward to not only keep our fiscal house in order, but to also create room for pro-growth economic policies which are needed to keep our Nation stronger in the future.

One pro-growth strategy of tax reform is to restore basic fairness and efficiency to our system. By scrapping loopholes and tax breaks that reduce the taxes for the most fortunate Americans but do not help our economy, we can provide critical tax relief for

the middle class and those struggling to join the middle class. Our economy should work for everyone, and everyone should shoulder their fair share to maintain our Nation's fiscal health.

This budget also places a serious focus on achieving bipartisan business tax reform so that America is the best place in the world for businesses to locate, grow, and create the kind of good high-paying jobs that support middle class families.

This plan shows how members of both parties can reach a common ground and realize the shared objectives of simplifying the system, removing wasteful tax preferences and distortions, and lowering tax rates so that we no longer have a system in which some businesses pay nothing while others pay the highest rates in the developed world. It is time to stop rewarding corporations and industries that have the best lobbyists and most creative accountants, and start strengthening businesses that build, hire, and invest here in the United States.

It is also time to make inversions, a loophole that allows U.S. companies to lower their taxes after they buy foreign businesses a thing of the past, and this budget does that. A more fair and efficient tax system will help create good middle class jobs and grow our economy.

We know that with business tax reform, there will be one-time transition revenues. The President wants to use some of these one-time revenues to make long overdue repairs to our Nation's roads, bridges, ports, and airports. The need to rebuild our infrastructure is irrefutable, and that is why this budget tackles our infrastructure challenges by creating an extended period of sustained funding for a 6-year Surface Transportation Bill and starting an innovative new bond program that will ignite more public/private partnerships in cities and States across the country.

Of course, keeping our comeback on track, building on the momentum we have made and making it possible for every American to get ahead is going to require strategies that are both bold and effective, and that is what this budget is about. It proposes a series of targeted investments that have been proven to make a difference. It invests in education by expanding student loans, strengthening tax incentives, and making community college free for those who earn it. It invests in America's workers by starting apprenticeship grants, enhancing job-training programs, and boosting the Earned Income Tax Credit. It invests in working families by increasing the Child Care Tax Credit, providing tax relief for families when both parents are holding down jobs, and allowing more working Americans to earn paid leave. It invests in retirement security by making it easier for employees to automatically save for the future, and businesses to provide 401(k)s to their employees, and invests in innovation by creating more advanced manufacturing institutes, starting cutting-edge medical research initiatives, and bringing broadband access to more communities.

In concert with these pro-growth strategies, this budget calls on Congress to send measures to the President's desk that will help our economy now and far into the

future. This includes raising the minimum wage, fixing our broken immigration system, and passing Trade Promotion Authority.

The strategies I have described are part of the President's plan to help improve the lives of millions of hard-working Americans while meeting our responsibilities to future generations. The task before us now is to put political brinksmanship aside and find areas of compromise and common ground, and I am certain that we can get this done.

I look forward to working with each and every member of this committee so we can deliver for the American people, and I look forward to answering your questions today.

Thank you very, much.

Chairman Ryan. Thank you, Secretary.

Chairman Ryan. There are basically four areas I wanted to get into. I just added one to it from your testimony.

The sequester. As the author of the last agreement, bipartisan agreement to provide sequester relief, you know, I think the formula we reached in that bipartisan budget agreement in the last session was the right precedent, and so what was that precedent? It was that we understand that the mandatory side of the ledger book, the autopilot spending, is what is really not under control, is the source of our debt crisis coming in the future, and needs to be reformed.

So what Patty Murray and I sat down to do was to find an excessive amount of savings on the mandatory side of the ledger book to pay for some sequester relief, and to fix the caps for the various concerns that I think on both sides of the aisle people have, but the precedence was you had more spending reductions through mandatory entitlement reforms resulting in net deficit reduction which also got us some sequester relief.

So we all know it is a show stopper to say let's, you know, raise taxes to pay for some sequester relief. The precedent was set, which is we need to do mandatory reforms so that we can do two things: (1) Relief from the sequester through smarter spending cuts in other areas of government, and (2) contribute on the net to some deficit reductions. So I would just argue strongly, we got a good formula in place, we have a good precedent, it has bipartisan origins, let's try and stick with that formula.

Secretary Lew. Mr. Chairman, if I might.

Chairman Ryan. Yeah.

Secretary Lew. I think that the agreement that you and Senator Murray reached was important and it is one of the reasons that we have been operating in a more normal way these last 2 years and one of the reasons the budget could be on time this year.

Chairman Ryan. Yeah.

Secretary Lew. So I think working together is important. We obviously present our view of the best way to do it in our budget, and we need to work on a bipartisan basis to try and reach agreement.

Chairman Ryan. Yeah, and my whole point is let's stick with the formula that we have because it worked before, and I think it is the best way to go forward.

Second, I want to ask you about pass-throughs. I am glad you say business reform instead of corporate, which is a good step in the right direction. Mind you, that, and I know you know this, but 80 percent of American businesses aren't corporations. They are pass-throughs. They file their taxes as individuals, sole proprietorships, LLCs, you know, Subchapter S.

The issue that I think is of greater concern these days is that, unlike the big public companies with a lot of cash on their balance sheets, the ability to borrow at historically low interest rates, the post Dodd-Frank closely-held businesses have found it really hard to obtain credit these days as banks have restricted lending. So we have a cash flow issue. They need cash flow from their current operations just to meet payroll, just to keep people working, but our current broken Code makes it harder for them to do that. Your budget takes some baby steps in the right direction. I note Section 179. I think there is some common ground there on expanding that. We will be doing that, marking this up tomorrow, but other proposals like expanded cash accounting are only right now helping small C corporations and don't do much for the vast majority of small businesses organized as pass-throughs.

So will you work with us to explore more areas in trying to help these closely-held family businesses that we think of as pass-throughs to help figure out their expensing issues? Because in this post Dodd-Frank world, they have even tighter credit.

Secretary Lew. Mr. Chairman, I believe that our proposals reflect our commitment to making tax reform work for small businesses. We have called it business tax reform on purpose because we think of it as both corporate and small business tax reform. We have put into our plan a number of things to simplify taxes for small businesses to make it possible to take deductions more easily and more quickly, and to lower the tax burden for many small businesses.

A lot of different kinds of companies organize as pass-throughs. Some of them are mom and pop businesses. Some of them are very large companies that look more like corporations. We look forward to working on a bipartisan basis to see what we can do to help real small businesses get the kind of relief that they need.

Chairman Ryan. Big or small, it is where most of the jobs come from, and so let's -- all I am saying is I don't think there is enough in this proposal to do justice to what needs to be done. So let's keep working on that.

Transition, I wanted to just get you down on the record on this idea of tax reform financing highways. Your point, just to be clear, is not to support a one-time repatriation holiday such as we did in, I think, 2004, 2005, but only as a means to permanent transition to a new, I think you call a hybrid system, only under that kind of a scenario do you see tax reform as part of the solution to the highway trust fund issues. Is that correct?

Secretary Lew. Well, Mr. Chairman, we have pointed out many times that we think that the one-time repatriation holiday created a kind of perverse incentive. It created an incentive for companies to keep their income overseas until the next repatriation holiday.

We think that the right answer is to have real tax reform to change the structure so that companies bring their income home. Frankly, so they invest their income wherever it is most economically efficient. The idea of tax reform is to have the efficiency and economics of a business determine where you invest, not the Tax Code, which is skewing decisions in a way that is inefficient.

We believe that what we have proposed in terms of the international hybrid system will create that. We think that the toll charge that we have put in is the right way to have a transition, and we do believe that the one-time revenue from the toll charge can fund the highway -- the infrastructure program in a very effective way.

When you talk to business leaders in this country, the two things -- the three things that I hear most often are, one, we need to reform our Tax Code; two, we need to build our infrastructure so our economy can grow; and, three, we need to do immigration reform. We can take care of two of three at the same time here.

Chairman Ryan. Yeah. So I would take issue with probably the rate and the style of hybrid that you are doing, but putting that point aside, it is a move in a constructive way. We have these -- obviously have it -- see it differently, but it is for a permanent conversion to a permanent new system.

Secretary Lew. Right. Right.

Chairman Ryan. Okay. Last question I want to ask you is about EITC. I think the data is pretty clear that the EITC is effective. It is effective at moving people from poverty into the workforce. It is effective at lowering barriers that are in front of a person who wants to get into the workforce, but it is also a program that is known to have a high degree of fraud. It is known to have a high improper payment rate. A lot of people say: "Well, just give the IRS more agents and they can fix that." I think that is an insufficient answer.

Will you work with us to try and figure out how we can clean up the management and the structure of the EITC so that we can get at this exceptionally high improper payment rate, and are there ideas you have about how it could be restructured and reformed so that it truly goes to those who are really truly supposed to get it and not to others?

Secretary Lew. Mr. Chairman, I totally agree with you on the importance of the EITC as a bridge to work and to get families back to work in a way that makes good sense. It has been a bipartisan commitment from its inception, and I look forward to working with you to strengthen the EITC. I also agree that compliance needs to be improved. We do have resource constraints. I don't think they can be dismissed. The underfunding of the IRS does make it very challenging in many areas to put the resources that are needed into compliance. So I hope we can work together to make sure the IRS gets the resources that it needs.

You know, every year the IRS recovers or prevents about \$2 billion of improper EITC claims, and between 3 and \$4 billion in total revenue through EITC-related compliance activities. We need to do better. We look forward to doing better, but it is related to the resources available. We hope there are the resources to do it properly.

Chairman Ryan. Okay. So my point for asking, though, is I think we -- many of us agree that there are other populations that this reform could be applied to, say childless adults. Let's see if we can make the reforms pay for these improvements. So if we can contain it within itself, I think that would be an enormous step in the right direction, and that too could perhaps lead to a bipartisan common ground success.

Secretary Lew. Well, we very much look forward to working together on the childless adult provisions. It is something that I think would fill an enormously important gap in the current system. I don't know whether the cost would be covered by it, but I would be happy to look at it and work with you.

Chairman Ryan. All right. Thank you.

Mr. Levin is recognized.

Mr. Levin. Thank you. Mr. Chairman, you and I have had a few discussions about these issues, and all of us want to do more of that. So if I might, I want to ask a broader question of the Secretary briefly, but let me just mention about pass-throughs. I think it is one of the major challenges to tax reform, as you indicated, and I think it has to be looked at comprehensively. We are going to mark up 179 and other bills tomorrow, and I think it is a mistake to take that outside of tax reform, unpaid for, permanent.

Mr. Secretary, you have expressed your view on this before. Do you want to just comment briefly on that approach?

Secretary Lew. Congressman, we have consistently opposed taking these items one by one and making them permanent in an unpaid-for way, even provisions that we approve of and that there are part of our plan. I think that Section 179 should be addressed. It should be expanded in the context of business tax reform, and I think that if we can have real progress on business tax reform, that would be a way to get it done in a way that takes the issue off the table for the future and removes the uncertainty that goes with short-term extensions, which is where we end up if we don't have business tax reform.

Mr. Levin. Thank you. Mr. Chairman, also in terms of international taxation, the Secretary has mentioned how I think totally unsuccessful the repatriation was before, and what the administration has come up with is a kind of a hybrid system, and I think we need to get away from the labels and look at how it might work, and let me just say briefly, as we continue dialogue, I think we need to look at EITC in terms of its implementation. I think IRS help is not the only factor, but I think, as the Secretary said, cutting revenues appropriations for the IRS is not the way to go. You can't get tax enforcement when you cut down the IRS appropriation.

Mr. Secretary, if you would, I have almost 3 minutes, would you use them -- you talked about in your statement about middle class economics. Just tell us if you would briefly sum it up, what is the vision of this administration when it presents its budget? What is it all about?

Secretary Lew. Mr. Congressman, I appreciate the question. We have put a lot of thought into how to design a budget that would address the challenge of making sure that our economy works for middle class families, for families that are trying to break into the middle class. We have identified what we think the real obstacles and burdens are. It includes education opportunity, it includes child care burdens, it includes the challenge of saving for retirement. We have put in place a series of provisions that we think will make a real difference to make it possible for middle class families to get ahead.

We have an economy that on the whole is growing at a much better rate than most of the rest of the developed world, but we are seeing within the United States that it is not an economy where there is broad opportunity as there should be. I think that the provisions in this budget provide a first step to solving that.

You know, some of the characterizations of this budget have, I think, been a bit off. It is not about being against one group and for another group. It is about making the system work for everyone, and the truth is we have distortions in our tax system that allow those with the most wealth and the most income to avoid paying taxes on the same basis that all of us pay taxes on.

Let me use an example of stepped-up basis and compare it to the way we pay taxes on IRAs and 401(k)s. For anyone who needs to use the assets that they have built up for their retirement, you pay income tax on that when you take it out in your retirement. If you never need to get access to your savings, to your accumulated earnings, you can pass it on to tax free. That is not right. Our system ought to treat all earnings in a similar way, and that is what our proposal does. It is not against anyone, it is for everyone.

Mr. Levin. Thank you.

Thank you, Mr. Chairman.

Chairman Ryan. Mr. Johnson.

Mr. Johnson. Thank you, Mr. Chairman.

You know, welcome, Mr. Secretary. As you know, you are also serving as the managing trustee for Social Security, and I would like to, if we can get a quote up on the screen, direct you to it. However, this is what Obama had to say when he was first elected. "What we have done is kicked this can down the road. We are now at the end of the road and not in a position to kick it any further. We have to signal seriousness in this by making sure some of the hard decisions are made under my watch, not someone else's." That is President Obama in January 2009. You know, we have to signal seriousness, and my question to you is: Do you agree what the President said then? Yes or no.

Secretary Lew. You know, Congressman, I think that if you look at the condition of the Social Security Trust Fund, it is in stronger shape now. A strong economy helps drive that, and I think the President has many times said that we need to deal with the long-term problems in a bipartisan way, but we do have a little bit more time to do that. What we have proposed is a budget that will build a foundation that will actually help Social Security. Even our immigration policy, for example, would have the effect of lengthening the life of the Social Security Trust Fund. So we think that we have improved the conditions of Social Security --

Mr. Johnson. Well, I am going to have to disagree with you because the shortfall has doubled from 5.3 trillion to 10.6 trillion while you guys have been in office, and that means Social Security can't pay the promises it has made.

My next question, just for the record, do you agree that Social Security finances have continued to deteriorate since Obama took office? Just yes or no.

Secretary Lew. Well, Congressman, you know, I think if you look at what has happened in these years, as we all knew, the baby boom was going to hit retirement age, and the baby boom retirement is underway. So I think if you look at the trends in Social Security financing, one has to take account of the fact that it was an entirely predictable turn that the reserves would start getting used to pay benefits.

Mr. Johnson. Well, if you know that, then why didn't you make a real plan to fix it?

Would you agree that the disability program is in trouble? Yes or no.

Secretary Lew. Well, Congressman, disability is a bit of a separate issue from the old age fund. I would just say that as someone who was involved in the 1983 Social Security reform, we did a lot to fix Social Security's foreseeable shortfall. The problem is that money was spent along the way because we ran deficits for other purposes. So I don't think it is as question of what happened in the window of time of this administration. It is actually what happened before.

The disability fund is approaching its exhaustion date. We have proposed a number of reforms in disability. I think that there is a broad view that there is going to need to be some reallocation of trust fund -- the taxes between the trust fund to deal with this issue in the intermediate term.

Mr. Johnson. Well, let's talk about reallocation. You used that word. Reallocation is actually about taking money that would have gone to a retirement and giving it to the disability program. Is that true or false?

Secretary Lew. Well, reallocation would move revenues from one part of the one trust -- one trust fund to another.

Mr. Johnson. Sounds like we are continuing to kick the can down the road. We have got to work today to strengthen and preserve Social Security.

Mr. Secretary, will the President actually follow through on the words he said back in 2009 and actually do something on his watch?

Secretary Lew. Well, Congressman, I think that if you look at the history of the last several years, the President has been prepared on a number of occasions to have the conversations that have to happen on a bipartisan basis to deal with Social Security in the long term. They did not reach the kind of end that led to an agreement. I think right now we are looking at an economy that would benefit greatly from us working on the things where we can reach bipartisan agreement, and we do have a bit more time to deal with the long-term issues. I am not going to say they don't need to be addressed, but they need to be addressed in an environment where there is a bipartisan atmosphere that is, you know, conducive to it. Let's make some progress on the things --

Mr. Johnson. So you are saying that the President will actually do something on his watch to fix this system?

Secretary Lew. Well, I think if we do immigration reform, that would be a big step, and we look forward to working together on that.

Mr. Johnson. You know, Americans depend on Social Security, and they are paying hundreds if not thousands of dollars a year into Social Security and want and need and deserve better.

Mr. Chairman, thank you for holding this hearing, and I look forward to working with you on this important issue.

Chairman Ryan. Thank you. Thank you.

Mr. Rangel is recognized.

Mr. Rangel. Thank you.

I understand Mr. Johnson said the President can do something by himself on his watch, and I am going to advocate that he be more aggressive in that area.

Having said that, though, welcome. It is so difficult for me to look at you, Mr. Secretary, and not thank you of you as the kid that used to work for Tip O'Neill, but you certainly make those of us that serve the government proud of your service.

I don't see how -- I am so pleased to hear that the chairman and you and most all of us agree that there is a possibility in the area of trade and the area of tax policy that there is a possibility that we can find some area that we can agree with.

Now, both of these issues, as important as they are to the country, we need to get votes for these things, and it is difficult for some of us to go into the community and say we are for tax reform or we are for trade when people are really talking about what does it mean to me? How is this going to affect my future? What disposable income will I have? Will I have any pension benefits? Will I have something to send my kids to school? Can I get a house? Can I pay the rent? It would seem to me that we always allocate jobs with trade, and certainly we can negotiate the trade -- the tax bill so that we can be fair as it relates to what used to be called the middle class, but I don't see the jobs in this bill, and it is probably difficult to pinpoint exactly who the winners and losers would be in a trade bill.

It probably will improve the ability of all of the countries involved to improve their economy, but to find out where are these jobs going to be. Because if we can do this, Mr. Secretary, we get rid of all of this Republican and Democrat and free trade of business. People want to know if it is good for the country, how it is going to be good for me?

It seems to me that if we do have a good trade bill, that we will need infrastructure in order to support that trade bill. I don't see how anybody, regardless of their party, can go to our mayors and our governors and not say that infrastructure is a part of trade.

The other thing is also education. Whatever benefits we get, we have to have a workforce prepared to meet the new economic challenges, if not for the current workforce, for those that will be coming into being.

Now, I wish the administration would be able, and Republicans as well, to try to give some of us a package so we are not talking in theory, but we are talking about jobs, and if the Republican majority can see its way clear in the Congress to attach education, job training, infrastructure to a trade package, I can assure you that trade would mean a heck of a lot more to our constituents than just something that foreigners are dealing with with our President. If we can get that concept that the President accepts it and it is a part of the trade agreement, then, of course, I don't see any objection of giving the President the authority to negotiate a trade agreement, meaning that those things are going to be in it. But I find it very difficult for us to say we are giving the President the authority to

negotiate, and when the negotiations are complete, all we have is up or down and no input.

So I don't know how much time you have to respond, but whatever it is, I do believe that trade and tax reform could bring us together for the country, for our party, and certainly to improve the image of our Congress.

Secretary Lew. Look, Congressman Rangel, the basic reason that we support Trade Promotion Authority and good treaties is because we think it grows the U.S. economy and it grows the middle class jobs in this country. You look at the growth in the future, the growth is in emerging economies. It is in the Pacific. It is in areas where other countries are going to be exporting into those markets. We need to be exporting into those markets too.

TPP was designed to be an agreement that would drive standards up. The United States is already more open than most other countries. We already have higher labor standards and environmental standards and other important safeguards. By having an agreement where we make our high standards a mutually agreed set of high standards, and by having a world in which we have access to the growing markets, I think it will grow the U.S. employment base and create opportunities for middle class families to have a better future. None of this is a given. It requires negotiating hard. Trade Promotion Authority is actually something that puts guidelines on the administration to help drive things in the right direction, and in the areas that I have just described, it presumably will address those issues.

It is our job, then, to come back with an agreement that delivers, and we are not going to bring back an agreement that we can't defend as growing the economy and middle class jobs. I think that is the real reason to pursue them.

Chairman Ryan. Thank you.

Mr. Brady.

Mr. Brady. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. As you know, next month the Supreme Court is scheduled to hear arguments on whether or not the IRS overstepped its authority when the agency issued regulations extending Affordable Care Act Premium Assistance Tax Credit subsidies for coverage purchased through the Federal exchanges. The court is expected to announce its decision sometime before the end of June.

Can you tell me if the Treasury Department or the IRS is doing anything to prepare for the possibility that the court might rule against the IRS?

Secretary Lew. Congressman, let me start by saying that the Affordable Care Act is working and the tax credits are working. Millions of Americans now have access to affordable healthcare coverage.

Mr. Brady. But the court will not be ruling on that aspect, the ACA, beyond specifically the IRS ruling.

Secretary Lew. We believe that we have -- our lawyers have made the arguments, the Justice Department has made arguments that we think are compelling to the court, and we look forward to a positive ruling, but the thing that we just have to recognize is --

Mr. Brady. But, Mr. Secretary, I don't want to interrupt, but I want make sure we understand. I am not asking for a prediction on the court ruling, but in the possibility that the court will rule for the plaintiffs, what planning is the Treasury Department or the IRS doing to deal with that type of ruling?

Secretary Lew. Congressman, there is no question but that an adverse ruling would strip millions of Americans of healthcare coverage due to the loss of the tax credits.

Mr. Brady. So you would be, based on that, starting the work now to prepare for that ruling. Correct?

Secretary Lew. Congressman, what I am saying is the premium tax credits are an essential part of the Affordable Care Act.

Mr. Brady. Sure.

Secretary Lew. That if they were removed, there would be serious disruption in health insurance markets in many States.

Mr. Brady. And to ensure that there is not serious disruption, is IRS or Treasury planning now to deal with the ruling in the other direction?

Secretary Lew. What we are doing is we are continuing to implement the law, the law as it was written, which was to make sure that all American people had access to this.

Mr. Brady. Let me ask, as Treasury Secretary today, are you, in effect, guaranteeing the Supreme Court will rule for the IRS in this case?

Secretary Lew. What I am doing, and what we across the administration are doing is implementing the law as it was written to provide health insurance for the American people.

Mr. Brady. Are you -- I get the impression you are very confident they will -- in effect, are you guaranteeing that they are going to rule for the IRS and therefore you have to do no planning --

Secretary Lew. I leave to the Justice Department to make our legal cases in court. They have made, I think, a compelling case.

Mr. Brady. But you certainly would not guarantee that today?

Secretary Lew. I am sorry. I would not guarantee what?

Mr. Brady. You certainly would not guarantee the Supreme Court ruling for the IRS.

Secretary Lew. Well, I would never presume to speak for the Supreme Court.

Mr. Brady. No, no, and I agree because there is a possibility they may rule for the plaintiffs. I guess my question to you is that should that occur, Republicans are already working to develop a thoughtful plan and a thorough plan to offer these millions of Americans choices to have affordable high quality health care. We are doing that work ahead of time. Is Treasury or the IRS doing the same type of work?

Secretary Lew. Congressman, this issue, as you know, is currently before the court. I can't comment on the pending litigation.

Mr. Brady. Well, I am not asking about the litigation --

Secretary Lew. We are confident of our interpretation.

Mr. Brady. -- Mr. Lew, I am asking about planning in the possibility they might rule otherwise because, as you admitted, you can't guarantee the outcome, so are you planning for that?

Secretary Lew. We are confident that our interpretation that Americans in every State are eligible for premium tax credits will stand, and I have indicated that --

Mr. Brady. Sure. But a moment ago you admitted that you can't guarantee the outcome. So let me ask this: As Republicans work toward a thoughtful, thorough plan to address that ruling, will the White House work with us in that eventuality, or will you refuse to work with Republicans in dealing with that ruling and the millions of Americans that could be impacted?

Secretary Lew. Congressman, the oral argument hasn't taken place. A ruling is months away. I have indicated that if there were a ruling that took away the premium tax credit from a significant number of people, it would be very disruptive.

Mr. Brady. Right. And in that case, will you work with Republicans in crafting a solution for those Americans so they can have high quality affordable health care? This is simple. Will you work with us or refuse to work with us?

Secretary Lew. I think that it is a mistake to think that there is a simple solution.

Mr. Brady. Oh, I am not suggesting there are simple solutions.

Secretary Lew. The Affordable Care Act was designed to be based on premium --

Mr. Brady. Will you work with us or refuse to work with us?

Secretary Lew. Well, I am indicating our view that it is -- it would be a serious disruption. You know, we obviously will look at what proposals are made, but I am not going to prejudge what the court does.

Chairman Ryan. Thank you.

Dr. McDermott.

Mr. McDermott. Thank you, Mr. Chairman.

Mr. Lew, I applaud the President's efforts to support the middle class. All through this bill, whether you are talking about sick leave or Social Security or Medicare or student debt, the President has made proposals.

What my colleague from Texas is posing is that if your next-door neighbor takes a bulldozer and knocks down your house, do you have a plan to rebuild your house, and it is about as unreasonable a posit of an idea I have ever heard. The Republicans, in 5-1/2 years have not proposed any alternative to the ACA. In fact, this afternoon at 1:30, they are going to bring a bill out on the floor to repeal it for the 55th time.

Now, it seems unreasonable to put -- to waste your time planning for something. If they have something they want to bring forward, they can lay it on the table in the Ways and Means Committee or in the Energy and Commerce Committee or somewhere else. They have never put anything on the table.

Now, I want to talk a little bit about the proposal to the President to close the loophole that Gingrich put in the Subchapter S collection of Social Security taxes. Could you explain to me -- my understanding is that if you have an S Chapter -- or Chapter S corporation, you don't have to pay your employment taxes. So you don't pay for Medicare. You don't pay for Social Security. Now, when you get old, you get 65, are you eligible then to go in and get Social Security and get Medicare on a program to which you haven't paid one single dime?

Secretary Lew. Well, Congressman, first, if I can respond on the point you made about the bulldozer. I have tried to indicate that the degree of disruption would be enormous. I also think it is important for us to recognize that what we should be working together on is how to make it more affordable and more possible for Americans to get health care, and we have always been open to working on that. I think the American people are tired of the debate about repealing the Affordable Care Act and they want to hear more about how to make it work.

Mr. McDermott. I agree.

Secretary Lew. And on the question about eligibility for Medicare, there obviously is a significant issue. You know, the proposal that we have in our budget would tax all earnings of professional service Subchapter S corporations as labor earnings. The taxpayers would get Social Security and Medicare based on what they paid in. So we think that would address the underlying issue.

Mr. McDermott. So those people are not now eligible for receiving benefits if they don't pay in?

Secretary Lew. I believe they are. They pay in, but they don't pay in as much as they would. I mean, the question here is not whether they are eligible for benefits but whether they are paying in on a fair basis.

Mr. McDermott. I think it raises \$74 billion for the trust fund.

Secretary Lew. I believe the issue is more a question of whether they are making the payments that are associated with the incomes that they have.

Mr. McDermott. Yes. I would like to raise a question about student debt. Can you give me any reason why students can't renegotiate their loans? If they took a loan out at 9 percent from a bank, why does it have to stay at 9 percent for the rest of their life? On my house, I have renegotiated my loans three, four times, bringing it down to a lesser rate. Why can't students do that?

Secretary Lew. Congressman, we have looked at this issue and worked with the Congress to come up with proposals that would give students more flexibility in terms of how to manage their student debt.

Obviously, the student loan programs are designed to give very favorable access to credit, but the rates are not always at a level that feel competitive with what would be available if there were --

Mr. McDermott. But the prime interest rate --

Secretary Lew. -- a different kind of creditworthy borrower there in the market.

I think the challenge here is to work through these issues to make sure that students know all of the options that they have to repay their debt in a more affordable way, to consolidate their loans, to go through the process of having their payments --

Mr. McDermott. Did you understand the financial system when you were 20 years old?

Secretary Lew. Well, the financial system was simpler when I was 20 years old. But probably the answer is not as much as I should have.

Mr. McDermott. Thank you.

Chairman Ryan. Thank you.

Mr. Nunes is not here. Mr. Tiberi. On to Mr. Reichert. Is he -- oh, there he is.

Mr. Reichert. Thank you, Mr. Chairman.

Secretary, welcome.

I think most of us are hopeful that the administration is willing to work with us on tax reform, and I am hearing you say that you are. That is good news. From Mr. Brady's questioning, though, I took away from your lack of an answer to his question as to whether or not you will work with us depending upon the Supreme Court's decision -- that lack of a "yes" or "no" answer indicates to me that there is an unwillingness there, and I am hoping that that doesn't transfer over into tax reform and other issues.

I want to focus on the small-business passthrough question. And you made some comments that I find interesting compared to the language in the budget, so I just want to get to the bottom of it.

Hardworking Americans deserve a Tax Code that works for them, not them working for the Tax Code. You would agree with that, I am sure. They need to have that consistency and that certainty in the Tax Code so they know and can plan for their businesses, which gives them the security in having that knowledge and hope for the future and their family and the success of their business.

So when you say that you are willing to work with us in the 179 expensing area, can you explain to me why in your budget you did so little in that area for passthrough entities? Why didn't you do something a little bit more bold to begin with, if really that is the way you and the President felt about passthroughs and small businesses?

Secretary Lew. Well, Congressman, I think that we have done a number of things in the budget that will help small businesses and passthroughs, not just with 179 --

Mr. Reichert. But my question, sir, is, why didn't you do more? I think you agreed --

Secretary Lew. Well, we --

Mr. Reichert. Just a moment. You agreed with the chairman when you said, yes, we could do more and we will work with you. My question is, why didn't you do the "more" part first?

Secretary Lew. You know, Congressman, we put forward what we think is a good package. If there is a desire to do more, we are open to ideas that would do more. So I

think that the challenge here is going to be to come up with ideas that actually work and that don't have unintended consequences --

Mr. Reichert. So the question that I asked you are not going to answer?

Secretary Lew. Well, I --

Mr. Reichert. I asked you why you didn't --

Secretary Lew. I will be perfectly candid. And I have said this privately to the chairman. This is a complicated area. This is an area where I think it will actually benefit all of us --

Mr. Reichert. Okay. So --

Secretary Lew. -- to work together in a bipartisan way.

Mr. Reichert. -- can I get you to reaffirm that you will work with us to --

Secretary Lew. Yeah. I have said that we will --

Mr. Reichert. Okay.

Secretary Lew. -- work together on it.

Mr. Reichert. Great.

So tomorrow, as Mr. Rangel and I think Mr. Levin referred to, seven bills will be marked up tomorrow in the area of S corporations and making some of those tax extenders permanent. I don't want to talk about the permanency issue; I just want to talk about the policy.

So you said you agreed with the policy. Can you give me an example of how these small-business measures and legislation could be expanded? Because that was your statement a little bit earlier; you said they should be expanded. Can you give me an example of how you might expand S corporation --

Secretary Lew. Well, we have taken up to \$1 million the amount that could be expensed in a single year. For most small businesses, that is an enormous benefit. It would put all of the --

Mr. Reichert. But could you give me an example of how --

Secretary Lew. I just gave you an example.

Mr. Reichert. Further.

Secretary Lew. Yeah.

Mr. Reichert. You have already said that. Give me a little bit more.

Secretary Lew. I am here to present our budget. You are asking me to present things that we will work on in the future. Obviously --

Mr. Reichert. I thought you might have some ideas.

Okay. My last question would be: You know, recently, this year, we adopted a rules package that requires CBO and JCT to perform a macroeconomic analysis of major legislation. Does Treasury have a dynamic model?

Secretary Lew. You know, both Treasury and JCT take account of economic factors that --

Mr. Reichert. Does Treasury have a dynamic model? Do you have one?

Secretary Lew. I mean, our -- yes.

Mr. Reichert. Yes. Okay. Thank you. Good. That was easy.

I yield back.

Chairman Ryan. Keeping on easy, that is nice.

Mr. Lewis is recognized.

Mr. Lewis. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today, and thank you for all of your great and good work over the years.

Mr. Secretary, I want you to make it plain and crystal-clear. If the Republicans today repeal the Affordable Care Act and later the Senate repealed the act, the President is saying he is going to veto it, but maybe he has changed his mind and will not veto it, maybe he just says, I am not going to veto it --

Secretary Lew. He has not changed his mind.

Mr. Lewis. Okay. What would happen -- what would happen to the hundreds, thousands, and millions of people who have the Affordable Care Act now?

Secretary Lew. Well, Congressman Lewis, because of the Affordable Care Act, we have millions of people, almost 10 million people, who have health insurance coverage that they didn't have. And the challenge of providing the kind of security that a family only

knows when it has health insurance has taken us decades to accomplish. We would take a step back to the time when those families do not have that kind of access to health insurance and the kind of security that flows from it.

So I think it would be a very bad situation. It is why the President would veto a measure that would repeal the Affordable Care Act.

Mr. Lewis. Well, thank you very much, Mr. Secretary.

Can you explain, what does the President's budget do to help more Americans prepare and save for their retirement?

Secretary Lew. I am sorry. I couldn't hear your question, Congressman.

Mr. Lewis. What is in the budget -- can you explain what is in the budget that would help more Americans save and prepare for their retirement?

Secretary Lew. So, Mr. Lewis, one of the things we have done in our budget is created incentives for employers to cover their workers in 401(k) plans, made it easier for them by giving them tax benefits for the administrative cost of setting up a plan, for matching contributions that employees make.

You know, we have built that on top of the proposal that we started last year, starting the myRA program, where individuals will be able to start with a very safe, easy, starter retirement account.

We, for years now, had proposals to go from a system where employees opt into retirement to one where they have to opt out. We know from behavioral economics that that would work to get many, many more people covered.

So I think we have a quite robust set of proposals. And I think it is something that, if we could work together on a bipartisan basis, would make an enormous difference as we look ahead to a generation that is going to need retirement savings for a sound future.

Mr. Lewis. Well, are we saving more or saving less?

Secretary Lew. Well, you know, I think as a country we are obviously -- our savings rate is improving as our economy has improved, but we need to see middle-class workers saving more for their retirement. I think if you look at the distribution of retirement savings, the average amounts that most middle-class workers have is not really enough for them to rely on. You have to kind of strip out of the averages what the very large retirement accounts do to the averages.

And we are concerned about what working families are doing to take care of their own future. And we have tried to put in place the kind of tax incentives to move that process forward.

Mr. Lewis. Well, thank you, Mr. Secretary.

I yield back, Mr. Chairman.

Chairman Ryan. Thank you.

Mr. Boustany?

Mr. Boustany. Thank you, Mr. Chairman.

Welcome, Secretary Lew.

You know, there has been a lot of talk about helping middle-class, working families, small businesses, affordable health care, and so forth. But I have a real concern about an action that Treasury took in September of 2013 when you issued a regulation penalizing the use of health reimbursement arrangements by employers as a means of financially assisting their employees to purchase health insurance plans on the individual market.

I mean, why would Treasury institute this kind of a draconian penalty on small businesses that are struggling, as we have heard earlier?

Secretary Lew. So, Congressman, we have obviously moved through the Affordable Care Act into a system where there is an established way for plans to be put forward and for workers to have access to coverage. And we are working hard to implement it, to make sure that it is easy for small businesses to take advantage of and for workers to participate in. I --

Mr. Boustany. But there are complications with this, and the penalty amounts to 10 times the fines that would be imposed on larger businesses. In other words, a large business under the employer mandate will be subject to a \$3,000 annual fine per employee, but yet, if you totaled up the penalty of \$100 per day per employee for these small businesses, we are talking about \$36,500 per employee for a small business. That seems to belie the sentiment that you are trying to help small businesses and working families.

Secretary Lew. Well, Congressman, our objective and the objective of the Affordable Care Act is to make sure that affordable health care is available to all, and I believe that the provisions that you are referring to are not consistent with that. I would be happy to follow up with you.

Mr. Boustany. Why, thank you. This deserves serious attention, because I am hearing from small businesses that are seeing very high premium increases, up to 40 percent over last year's premium increases, in my district, and yet we have this. So we really need to work on this.

If I can get back to the budget for a moment, the budget revives the Federal unemployment surtax. And in case Members don't recall, this was a temporary tax

created in the 1970s, and it has outlived its purpose in the 1980s, and that was to recover the cost of UI extended benefits paid in the 1970s.

This program, this tax, stuck around for a long time. We finally ended it in 2011. And yet the administration now wants to revive this temporary tax in the -- it is in the budget. Why? What is it going to be used for?

Secretary Lew. Congressman, for a number of years now, we have been putting forward proposals to try and make sure that the unemployment system is on sounder financial footing. We have put forward our ideas of how to accomplish that. We think it is an important objective. And we would look forward to working together in a bipartisan way to know that the unemployment system is on sound financial footing going forward.

Mr. Boustany. Well, we will work with you on that, and I hope we can get to some resolution.

And, finally, with the remaining time I have, you won't be able to answer the question I have for you, but it relates to Treasury's role in developing the model BIT with regard to our -- and specifically with regard to our negotiations with China. This has got to be a top priority.

I would be very interested in getting a full understanding of what Treasury is doing with regard to that development and our negotiations with China and, likewise, with India. Because the President just announced with Prime Minister Modi that we will resume negotiations on a high-standard bilateral investment treaty. And we seem to be miles apart from India, even on basic definitions of "investment."

So there is not much time left. Do you want to talk about it? But I would like a detailed answer in writing.

Secretary Lew. I am happy to get back to you in more detail, but in the minute that I have let me just take a quick shot at it.

I have been deeply involved in the discussions with China through our strategic and economic dialogues. It is a very important conversation because, if it concludes successfully, China will raise itself to standards that will help in a lot of ways in normalizing and improving trade balances and --

Mr. Boustany. Well, it empowers their reformers.

Secretary Lew. It empowers their reformers to make the changes internally, and it stops them from doing things in international markets that cause --

Mr. Boustany. Right.

Secretary Lew. -- unfair advantage.

Mr. Boustany. So I understand the rationale, but what I would like is a detailed summary of where we are with this.

Secretary Lew. Right. And they are just taking the very first step, very shortly, putting out their first cut at what is the list of industries that would not be open to foreign investment.

Mr. Boustany. The negative list, yeah.

Secretary Lew. The negative list. That will be an important indication of the seriousness. And we look forward to seeing it and taking a step forward from there.

Mr. Boustany. Well, I am following this very, very closely, and I would like to stay in contact as to the progress.

Secretary Lew. Be happy to.

Mr. Boustany. Thank you.

I yield back.

Chairman Ryan. Thank you.

Mr. Neal?

Mr. Neal. Thank you, Mr. Chairman.

Mr. Secretary, a word of congratulations on your EITC proposal. Mr. Ryan and I have spent some conversations already about this.

And a reminder that much of the fraud that is determined in EITC has much to do with the lack of professional standards for tax preparers. We have had extensive conversations in the past with Mr. Camp's staff, and there seems to be at least some consensus on that, as well. And if we are to apply the logic of not paying for things based upon what we are to do tomorrow with 179, perhaps we should just expand EITC and not have it paid for.

Thanks again, as you acknowledged the auto-IRA that Mr. Tiberi and I have worked on. I thought we were close in the last session. We almost got there. And I hope, when we consider that half the people that get up and go to work in America every single day are not in a retirement plan, that we could consider more opportunities to expand retirement savings.

A word of congratulations on the New Markets Tax Credit Program and expanding that. That is an inducement to sound investment in urban areas across the country. And Alan Krueger was a terrific advocate of that, along with Build America Bonds, which worked quite well during those years. There was not an airport that was expanded, for

members of this committee who have one, that did not use Build America Bonds for that very purpose.

Now, after pointing out that there are many avenues of agreement here and plaudits that the administration deserves, given your history in Massachusetts and having worked for Tip and cheering for the New England Patriots, I think that we could also acknowledge that the proposal that the administration has offered, Jack, on graduate medical education is a huge deal for us in Massachusetts.

You do, I think, deserve some credit in the administration for the lowest inflation rate as it relates to health care in the past 50 years. And ACA has to receive some acknowledgement for that. You obviously are attempting to preserve and improve Medicare for future retirees as well as those who are receiving it now.

But I would carefully suggest that on graduate medical education, that that is a huge plus for America. It helps to set us aside. The Pacific Northwest has Boeing and Microsoft. Those of us in Massachusetts, we have graduate medical education. And I hope the administration will treat it with the same regard that they do other initiatives that have been proposed.

I think \$16 billion, in terms of a cutback, is a bit over the top, and I hope that you will have due consideration for the proposal that you are offering and to review it and really to set it aside. It is a big economic plus for those of us in New England.

And I will give you the next 2 minutes to talk about the proposals as I have outlined them.

Secretary Lew. Well, Congressman, let me start with the points you made about the New Markets Tax Credit and the Build America Bonds.

We obviously agree very much that they have made a huge difference. We have a new form of Build America Bonds that we are proposing to take them forward to the next level. And we, obviously, would propose continuing the New Markets Tax Credits, which I will point out were also a bipartisan creation --

Mr. Neal. Exactly.

Secretary Lew. -- at the end of the Clinton administration with Speaker Hastert. So we can do things together on a bipartisan basis to create real opportunity in this country.

Obviously, the issues regarding Medicare savings are always difficult. Our budget has repeated the proposals from past budgets, where we have \$400 billion of savings in Medicare. They are all hard, and, as always, we look forward to working with Congress to, you know, develop a path forward.

You know, we put it in as part of a comprehensive approach to deal with our fiscal challenges. And I think that, you know, we would view the kind of entirety of the package as the way to see what we are putting forward.

This is an issue that I know is of particular concern in Boston and Massachusetts and in New York, and we would look forward to continuing the conversation.

Mr. Neal. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman Ryan. Thank you.

Mr. Roskam?

Mr. Roskam. Thank you, Mr. Chairman.

Mr. Secretary, thanks for your time today.

You are here commenting on the President's budget, and the agency that will collect the money to enact our next budget is the Internal Revenue Service. They are tasked with collecting over \$3 trillion, as you know.

You made an argument that one of the things that they need is more resources, and let's set that aside for a moment. The other thing they need is a reputation. They need a reputation as calling balls and strikes. They need a reputation as being a fair agency. So resources and reputation are at the foundation for any tax collection that is going to have integrity.

I thought it was interesting that in your remarks and in your writing testimony you didn't talk about the reputation of the Internal Revenue Service and the damage that has happened in the past couple of years.

Back in the summer of 2013, when you were asked on national television, you dismissed it -- that is my word, but you were fairly dismissive, in that you characterized it as a "phony scandal."

Now, this committee made a referral to the Attorney General last year, and I assume you have read the referral letter and the supporting documents, haven't you?

Secretary Lew. I have seen it.

Mr. Roskam. And, in light of that, you wouldn't characterize this as a phony scandal, would you?

Secretary Lew. Congressman, I am happy to discuss the reputation of the IRS and these issues.

I think that the IRS is doing an extraordinarily effective job under very difficult circumstances, where they have been underfunded and not given the resources to do one of the most important jobs that any government does: running its revenue service.

I have acknowledged from the beginning that the actions that took place with regard to the issues that are of concern there were very bad. And they involved a small number of people at the IRS. We took immediate action to discipline the people involved, to make sure that the supervisors who were responsible are no longer there.

And I think if you look at the way the IRS is managed under very difficult circumstances, we are, with less resources, processing tax returns efficiently. We are using the online tools as much as possible to fill in for where we don't have people to answer the phones. And we are processing refunds in a timely way. I --

Mr. Roskam. But, Secretary, to dismiss this down to, you know, just, "There were some bad actors" -- here is my question: What have you done to prevent a Lois Lerner 2.0 situation?

So think about it. Lois Lerner was the person who put together a panel of three senior career employees that had to be the threshold before an audit could happen. Lois Lerner was then the person that went around that very safeguard that she structured. She said in an email, where she really was quite aggressive with one of her employees -- and this is after two times this three-person panel had said, "look, we are not going to pursue it."

She writes then, "I reviewed the information and thought the allegations in the documents were really damning, so wondered why we hadn't done something with the org. As I've told you before, I don't think your guys get it."

Mr. Secretary, what is it that you have done -- other than calling this a phony scandal on national television, what have you done to make sure that Lois Lerner 2.0 is not possible?

Because to simply say, well, it is just a small group of rogue employees, or, frankly, in your other interview, when you said, well, no political employees were behind this, that is just hiding behind an adjective. You know that there are only two political appointments at the Internal Revenue Service. One is the Director, and one is the GC.

Secretary Lew. Congressman, I think if you look at the inspector general report that came out, we followed all the recommendations of the inspector general report. We have made clear that the behavior at issue there was unacceptable, it cannot happen again. We have a new Commissioner, new senior officials, who are very much aware of the fact that it is their responsibility to make sure things like that don't happen.

So I actually take issue with the notion that we have dismissed it. We haven't dismissed it. It is one thing to take actions in response to what happens with a small number of people in a large agency. It is another thing to condemn the whole agency, which is what I believe many are doing, and that is wrong.

Mr. Roskam. Well, I don't think there is a condemnation of the entire agency, Mr. Secretary, but I think that when the administration essentially comes before this committee for years and said there is no problem and then senior members of the administration are dismissive, don't you understand how that is --

Secretary Lew. Yeah. I don't --

Mr. Roskam. -- corrosive and insidious?

Secretary Lew. -- believe we are being dismissive. I disagree with that.

Mr. Roskam. Oh, when it is characterized as a phony scandal, that is dismissive.

Secretary Lew. I think it is --

Mr. Roskam. That is: Off with you, be lively, we have got this under control, we don't want to hear it anymore. There is nothing more than dismissive than calling it phony.

I yield back.

Chairman Ryan. Thank you.

Mr. Becerra is recognized.

Mr. Becerra. Thank you, Mr. Chairman.

Mr. Secretary, great to have you with us. Thank you very much.

And can I start by just saying, again, thank you. You have heard it already. The Earned Income Tax Credit, I think that many of us see that, right now, while the middle class and what I call the aspiring class, those that want to get to the middle class, as they continue to get squeezed, they see everything working well in the economy for corporate profits and at Wall Street, but they haven't yet seen their paychecks grow the way they would like.

Thank you for speaking to those families in the middle who have been working hard. They have been more productive than American workers in the past. They just want to see their paychecks grow. And so the Earned Income Tax Credit for those working families is going to be helpful.

Your proposal, the President's proposal, for an expanded child credit for working families who have kids, who aspire to see them go to college, that is going to help.

And can I just applaud you and the President and the team for focusing on child care. I am fortunate. My three daughters -- two of them are already in college, one on the way -- we are there. But I know there are a whole lot of families back home who are wondering how they are going to get there. They have to make sure their kids are first taken care of. So the dependent care credit for those who have kids and want good daycare, good ability to take care of their kids while they are working, that is critical. And so thank you for the work that you are doing there in that regard.

How many families does the President estimate will be helped by these credits that are going to middle-class and aspiring families in America? The child tax credit, the Earned Income Tax Credit. Are we talking thousands? Are we talking --

Secretary Lew. No, millions. I don't have the exact number, Congressman, but it is many, many millions.

Mr. Becerra. Yeah. And I think what we are saying to those millions of Americans who are striving to stay in the middle class and ultimately go beyond the middle class is, this is going to help you launch because you will get good child care if the two of you are going to work, you will have an opportunity to get some support if you are working but not making a whole lot of money but you are still working. You are doing it the way we want people to do it.

I want to touch just briefly on something that was raised earlier with regard to Social Security because it concerns me. Today, there are about 160 million Americans who are paying into Social Security. They have what we call the FICA deduction, right, the Federal income contribution allocation, that is deducted. It is part of another acronym, OASDI, Old-Age, Survivors, and Disability Insurance.

That is what is Social Security is. It is all lumped together. If you work and you reach retirement age, you get Social Security. If you work, become disabled on the job, if you paid into Social Security, you get Social Security even though you are disabled, or your family does. You die, but you have paid into Social Security? Your survivors get Social Security. It is insurance for the family.

I don't think any American works and pays into Social Security and says, ah, I only want my money to go into retirement, or, hey, I know I am in a risky job, I only want my money for Social Security to go into disability. In fact, 11 times this Congress -- not this Congress right today, but Congress over the years, with the administrations, whatever administration it has been, we have worked to make sure that we always have the money allocated for the disability side of Social Security, the survivor side of insurance for Social Security, or the retirement side of Social Security.

But all of a sudden, we see this crisis being manufactured by those who say that, of the \$3 trillion that Social Security has in its trust fund, that none of it can be made available for Americans who worked hard but became disabled or for their families. Eleven times over the years, Congress, with the administration, has worked to make sure that we always make sure, of the money that is out there in the trust fund, it goes out to those Americans who worked and paid into the OSDI fund.

And so I hope that we don't tell the 59 million Americans who today are receiving Social Security, 11 million of them disability insurance under Social Security, that they are in jeopardy of losing their money because someone wants to manufacture a crisis and say, of the \$3 trillion the trust fund has, that we can't make that available to Americans because some technical glitch here in Washington is preventing us from moving forward to do what we have done in the past 11 times on a bipartisan basis, to make sure Americans get their Social Security, whether it is retirement Social Security, whether it is disability Social Security, or whether it is because you died and now your survivors need their Social Security. I hope that we don't play that game.

And, finally, with the last moment I have, I just want to mention, Mr. Secretary, I hope this administration, as we move forward in trade, that we don't leave out currency manipulation as something we attack. The last thing we need to do is send a signal that we are going to allow governments to cheat by manipulating their currency. If we are trying to get to the companies in those countries to not cheat, the last thing --

Chairman Ryan. Time of the gentleman has expired.

Mr. Becerra. -- you can do is allow countries to cheat by manipulating their currency.

Chairman Ryan. Time of the gentleman has expired.

Mr. Becerra. With that, I yield back. Thank you, Mr. Chairman.

Chairman Ryan. Maybe with somebody else's questioning you can get into those issues, but in the interest of everyone's time, Mr. Buchanan is recognized.

Mr. Buchanan. Thank you, Mr. Chairman.

And I want to thank the Secretary for being here today.

As I mentioned to you a little bit earlier, Mr. Secretary, the number-one issue in our district and I would say a lot of Florida is the idea of dysfunctionality. When we serve a lot of our constituents, that is the biggest thing that they are passionate about and concerned about. So, one of the things I am hopeful that in the next 6 months, this year, we can work together on a bipartisan basis for the importance of the American people.

I am concerned with the budget where we are looking at raising taxes another \$2 trillion, more debt of another

\$8 1/2 trillion, and a budget basically that never balances. We are an aspirational society. You know, if you work hard and play by the rules, anything is possible in America. I don't want to punish one group over another group. I will also mention that President Kennedy mentioned, "A rising tide lifts all boats."

And one of the questions I would have for you: When you talk to various experts, they talk about, if we could focus on growing the economy, instead of 2 percent, 2 1/2, growing it 4 or 5 percent -- China is at 8 to 10 percent. But if we can get back to what we did in the 1990s, we could fix a lot of the challenges that we have in America, a lot of the problems we are talking about go away.

Why can't we, or shouldn't we be asking ourselves, on any of these proposals, any of these policies we are putting forward, does this grow the economy? How would you respond?

Secretary Lew. Congressman, I think that is the right question.

First, on your point about working together in a bipartisan way, I couldn't agree more that it would be a good thing for the country and the American people would feel a lot better about Washington and the future of the U.S. economy if they could see us working well together. It has a lot to do with confidence.

I saw it in the 1980s when we had a divided government. I saw it in the 1990s when we had a divided government. And you talk about the growth in the 1990s. We were making important policy decisions in a bipartisan way for much of that period of time.

So I think that to focus on each of the individual items is important, but, ultimately, our goal has to be growth. Because if it becomes a question of, how do we cut our way to prosperity, there is no answer to cut our way to prosperity. There is no answer for any society, how do you cut the way to prosperity.

Mr. Buchanan. Let me ask to be clear. You are committed and the administration is committed to working with us this year to get tax and trade ideally done?

Secretary Lew. Correct.

Mr. Buchanan. Okay.

The second thing I wanted to mention, because it was in your comments, about people need to pay -- some people need to pay more of their fair share, the taxes now for medium or small businesses, many of them, when you add State and Federal together, it is almost 50 percent. I have seen it was 49.6 percent, lower in Florida, but in California it is higher. Then you have additional taxes on there.

Where is your sense of fair share? We are looking to take the cooperate rate, ideally, from 35 to 28 or 25 percent. But yet many of these businesses -- that is the world that I

have lived in -- these are the folks that are growing the jobs. They might have 100 jobs, but you can't take 50 percent of what they earn because they would have nothing left because the balance of their money stays in to grow their inventory, to add employees, and make additional investments.

So what is your sense of what is fair?

Secretary Lew. Well, you know, Congressman, one of the reasons we take up to a million dollars the amount that a small business can deduct in depreciation right when they make an investment is exactly to encourage that kind of behavior, having it be advantageous to invest in your business, to invest in your workers.

I think that --

Mr. Buchanan. But if you have a business -- let me just say, let's take it \$1 million to the \$2 million range, got 150 employees -- we have a lot of those all over Florida -- are you saying that government should take half of the next million? Is that what you are saying?

Secretary Lew. Well, look, it is hard to respond to a hypothetical. I don't know what the effective tax rate in the --

Mr. Buchanan. Well, that is the tax rate. It is 49.6 across the country, I think.

Secretary Lew. The effective tax rate for most businesses is lower than their marginal rate, and you have to look at the entire numbers --

Mr. Buchanan. If you look at the number of businesses, you are right. But there are a lot of businesses that create a lot of jobs in the country that might have 300 employees, 200 employees. I don't look at them as even a medium-sized business; they are still categorized as a small business. But to take half of their money is not right.

Secretary Lew. So, look, to the extent that companies make the choice how to organize, either as a passthrough or as a C corp, you know, if it is economically advantageous to organize as a corporation, that is an option that is available. Companies that are choosing to be on the individual side obviously see benefit in being organized as an individual company. And we have to kind of look at --

Mr. Buchanan. My point is I think --

Secretary Lew. -- what all the factors are.

Mr. Buchanan. -- we need to work on a bipartisan basis together --

Secretary Lew. We do.

Mr. Buchanan. -- to address that.

Secretary Lew. Yeah. Fundamentally agree with the point that we want the burden on small businesses to be easier and lower. And, you know, we think we have put some ideas forward that advance that, and we are open to working together on this issue.

Chairman Ryan. Thank you.

Mr. Doggett?

Mr. Doggett. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

Am I correct that, while the administration strongly supports a one-time mandatory tax of 14 percent on profits that corporations claim to have earned offshore only as a part of comprehensive corporate and business tax reform, that the administration continues to strongly oppose any standalone measure similar to the voluntary repatriation that was approved back in 2004?

Secretary Lew. We don't believe that the 2004 voluntary repatriation worked. It ended up costing a lot of money, it didn't increase investment, and it put in place an incentive to store income overseas, waiting for the next tax holiday.

We think we have proposed the right way to deal with this and think that we are now in a conversation where we can maybe do this the right way.

Mr. Doggett. So a one-time repatriation of the type some have talked about really doesn't provide a good source for transportation or anything else. It is a revenue-loser, not a revenue-gainer, unless you do it, as you recommend, as a part of comprehensive business tax reform.

Secretary Lew. Yeah. I think if you have estimates that show that a provision loses revenue, it is hard to call it a revenue-raiser.

Mr. Doggett. Exactly.

And your written testimony refers to some of the manipulation that some of these multinationals have engaged in. Indeed, as you know, there are a number of studies that have been made of that. One in tax year 2008 suggested that, while five tax havens had half a percent of the world's population, that almost half of American corporate earnings claimed to have been earned offshore were claimed for those five countries.

Another in 2013 suggested that somewhere between \$55 billion and \$133 billion of profits earned in the United States had been shifted abroad and that over half of these claimed offshore profits were located in six tax havens.

Isn't it true that a substantial amount of these alleged offshore earnings were actually earnings of operations that occurred here within the United States?

Secretary Lew. Well, Congressman, it is hard for me to comment on individual circumstances like that, but let me take it up one level and say that, globally, the issue of legal tax avoidance has led to the erosion of the tax base. And it is an enormous concern, not just to the United States but worldwide.

I mean, it is wrong for countries to have a race to the bottom, with, you know, zero or close-to-zero tax rates to be a magnet for these kind of activities. It is also wrong for us to have a tax system that has the highest statutory rate in the world that drives businesses to look for these havens.

We need to reform our broken system to make it work, to end inversions, to end the push. Other countries need to change their system and raise their standards. It is hard for us to get other countries to do what they need to do if we don't do what we need to do.

And I think the business-tax-reform discussion we have is something that will empower us in the world stage to try to get other countries to do the right thing, as well.

Mr. Doggett. I hope that it will if all elements are actually adopted and strong anti-abuse provisions are included, as you suggest.

Now, your selection of this 14-percent rate, I know that that is considered onerous by some of those multinationals that don't believe they need to pay the Treasury any more than they pay their CEO or their lobbyist to ensure that the laws remain like they are and don't feel they have any real responsibility to pay for the cost of our national security from which they benefit so much.

But it seems to me that telling corporations they pay less than a nickel and a dime on a dollar of profits that have really been earned in the United States is rather generous. It is better than the nickel that was done in 2004, a little higher than the 9 cents that Dave Camp recommended last year, but it ought not to be the opening bid. It ought to be the floor in looking at this whole issue.

And, of course, all these corporations, if they really pay taxes abroad, under your proposal they are entitled to a credit for that.

Secretary Lew. Right.

Mr. Doggett. The stateless income to which you refer --

Secretary Lew. Correct.

Mr. Doggett. -- that has been hidden from taxes everywhere, that is an example of corporate tax avoidance that we need to put a stop to and not reward.

Secretary Lew. Congressman, I totally agree that we need to make sure that we end up with a toll charge that is set at a reasonable level. We have proposed 14 percent. I know it is a little higher than some other proposals, but I think the credit for taxes overseas brings the effective rate down considerably.

You know, we have proposed a pro rata credit because it is at such a reduced rate, so it would be roughly 40 percent of the taxes paid. If you use the example of a firm that has a billion dollars in accumulated earnings and has paid \$100 million in foreign tax, you know, they would get \$40 million credit and they would end up paying \$100 million, or 10 percent. So even the 14 exaggerates the impact on most firms.

Mr. Doggett. Thank you.

Chairman Ryan. Mr. Smith?

Mr. Smith of Nebraska. Thank you, Mr. Chairman.

Thank you, Secretary Lew, for being here with us today.

Let me begin with a very quick question. Do you believe that the estate tax is double taxation?

Secretary Lew. No.

Mr. Smith of Nebraska. No. Okay.

Back in April of 2013, you and I had a constructive and, I think, a thoughtful exchange on business tax reform versus comprehensive tax reform. And, at the time, you said, and I quote, "We want to work together on tax reform on the individual side, as well, to make it simpler. The thing that I think we have universal agreement on is that it is just too complicated," end quote.

In light of what you said 2 years ago, I certainly want to raise for you some concerns I hear regularly from constituents about the stepped-up basis and the estate tax.

It is obviously no secret that we have fundamental disagreement on the level of the estate tax. I believe it is a double taxation, and you disagree with that. That is fine. A lot of us would prefer zero estate tax, and we know the administration would actually, I think, probably prefer a higher estate tax.

But one thing I am consistently finding and certainly being told by farmers and ranchers and small-business owners is that, while dealing the estate tax is certainly challenging, it isn't anywhere near the administrative nightmare removing the allowance for stepped-up basis would cause.

And so, as an example, when a family passing on the agricultured land which has been held for decades has to calculate capital gains, the family could face multiple challenges, which only begin with finding the value of land bought so long ago, determining purchase values for multiple tracts purchased in different times, and determining whether any land was sold off prior to inheritance.

And so such a proposal is certainly the opposite of tax reform. In fact, it only makes compliance more difficult.

Have you or anyone at the IRS looked into what the added compliance time and costs of this provision would be?

Secretary Lew. Congressman, I am happy to get back to you on what the estimates on the compliance would be. But I think that the design of the provision that we have put in our budget was really very much to make it easier for taxpayers, not harder for taxpayers, to comply with. There are exemptions that are quite generous. There are 15 years to make the tax payments that are due so that it would not result in a forced sale. And we think that for the vast majority of assets which, you know, are subject to stepped-up basis, things like stocks and bonds, those questions are a little bit simpler to answer.

On real estate, obviously, we currently have a system where ultimately you have to know what your basis is in real estate. I don't know why it would be more complicated in stepped-up basis than it is in other contexts, but I am happy to follow up with you.

Mr. Smith of Nebraska. Okay. Well, I appreciate that. And the feedback I get from constituents is that it would certainly add to the complexity.

I would also like to touch on another provision in the President's budget, the financial fee on certain banking institutions. Has the Treasury or any other department in the administration studied the effect that this proposed fee would have on the availability and cost of credit for families and businesses in the marketplace?

Secretary Lew. Congressman, we have looked at what it would mean in terms of its percentage impact. It is obviously a fairly small fee, just in terms of the size of it on their total basis.

And it is designed to have an effect that would be complementary with many of the reforms that we have made that make our system safer and sounder. Right now, we have a system that is heavily weighted toward leveraged exposure. This would make it a bit more costly to have leverage, but it would not make it prohibitively costly. And we think that will lead to a safer financial system.

We also think that when you look in the context overall of tax reform, there are other benefits that would go to financial firms, and, net, it is a fair and a good policy.

Mr. Smith of Nebraska. Shifting gears just a little bit, on extenders. And the temporary extenders that have taken place extended roughly 2 years at a time unpaid for in the past. Is that accurate?

Secretary Lew. It has sometimes paid for, sometimes not. Often not.

Mr. Smith of Nebraska. Often not. Correct. I agree with that.

And could it be, I think, a good idea, as well, to extend those on a permanent basis? Would that not be more intellectually honest to take a few of those and make them permanent rather than just continually extend unpaid for on a so-called temporary basis?

Secretary Lew. That is exactly what we propose.

I mean, as somebody who has worked in tax policy in various ways for 35, 40 years, it is hard to defend provisions that come and go and that have deadlines that pass, and it makes it hard for businesses to know what to expect and how to plan. You end up enacting things retroactively that can't possibly affect the behavior that was made in a rational way.

We do that, we pick and choose, and we pay for it in the context of tax reform.

Mr. Smith of Nebraska. Okay.

Secretary Lew. And that is what I think should be the basis of our bipartisan conversation.

Mr. Smith of Nebraska. Thank you, Mr. Chairman.

Chairman Ryan. Thank you.

Mr. Thompson?

Mr. Thompson. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being here.

And I, too, want to add my appreciation to you and the President for submitting a budget that attempts to really focus on the middle class. While I agree with my friend from Florida that businesses across this great country are very, very important, they do a great service, they provide great products, the truth of the matter is it is those consumers, largely in the middle class, who are the job creators in this country. If there is no middle class, then there is nobody to buy all the great things that our businesses sell and manufacture. All the business stuff just goes out the door. So it is important that we do focus on the middle class.

And no more better place to do that is through investment in infrastructure. So we may disagree with how we get there. You have taken a very important first step in recognizing the need to invest in the critical infrastructure that keeps everything going across the country.

I have a couple of questions I would like to ask, a little more specific stuff. One is on something that has come to my attention called a cash-rich split-off. And you are smiling, so I am assuming you know what it is that I am talking about. I think it came to light when Yahoo was going to buy Alibaba. Where they take low-basis asset and stock and exchange that for a line of business in cash to avoid any gain in appreciation.

And that sounds a lot like that legal tax avoidance that you were talking about, or another term, a great, big, huge loophole. Is this something that you are looking at? Does it need legislation to close that loophole, or is it something that can be done administratively?

Secretary Lew. Well, Congressman, I obviously can't comment on what a specific company may or may not do with regard to its tax planning or transactions. But, under current law, a company can split off component parts on a tax-free basis as long as there is an active business in each part. But if there is such a spin-off, the firm would be liable for capital gains if the firm sold the shares involved.

So I would have to know more about the transaction. I don't know off the top of my head whether there is any administrative issue here, but I am happy to follow up.

Mr. Thompson. Well, it is something I plan on looking into, and I would appreciate it if we could get your shop to help us better understand it and figure out how we in fact close that loophole.

Also, I agree with my friend from Massachusetts that the New Markets Tax Credit is extremely important. And I would like to know if you have given any thought about including the BRAC status as a criterion in the 2015 applications?

I think it is important to recognize that BRAC has been responsible for a lot of areas to experience severe economic downturn. And there have been some examples of closed military bases that have really added to positive economic growth through creative means. And I would think that the New Markets Tax Credit would be a great place to go. So I would like to get you guys to look at that, as well.

Secretary Lew. Congressman, I am not aware of any discussion regarding BRAC eligibility, but I am happy to take it back and look at it.

Mr. Thompson. Thank you so much.

And then, also, LIFO -- and we have had this discussion before -- last in, first out. The proposal in the budget is a little disheartening, not only because it is a LIFO, which is very, very disruptive in general, but, specifically, in this proposal, you have a retroactive

provision in there, if I understand it correctly. So, if enacted, it would go back decades and take back money that was generated through a tax policy that was on the books and legal.

This would devastate not only small family businesses but the employees that they employ today. This has shut businesses down, some of those in my district that you are very well aware of.

And is there a reason for the retroactivity? I can understand a LIFO forward, but going back just seems terribly unfair and destructive.

Secretary Lew. Congressman, there has been a discussion about the proper accounting standards for a long time. And, obviously, the attempt is to, as part of tax reform, come up with a better, more fair, efficient approach. I am happy to look at the impact of the retroactivity on the firms that you are concerned about, but the goal was to fix what is broken in our Tax Code. It is obviously not to cause undue burden.

Mr. Thompson. Okay. Well, I look forward to working with you on it.

Thank you.

Chairman Ryan. Thank you.

Ms. Jenkins?

Ms. Jenkins. Thank you, Mr. Chairman.

Mr. Secretary, thank you for coming over today to testify on the President's budget.

I would like to draw your attention to the proposal on page 53 of the budget, where the President proposed --

Secretary Lew. I don't have a budget in front of me, so if you could tell me what is in page 53?

Ms. Jenkins. I would be happy to. It is where the President proposes a tax on future 529 college savings account distributions.

When the President proposed this tax 2 weeks ago, I was shocked to see him target these very popular plans. I was equally relieved when he withdrew his proposal last Tuesday, but, apparently, he changed course too late to remove it from the budget proposal.

Then, the next day, the administration spokesman made a confusing statement that inferred that the President was only withdrawing the 529 tax provision due to political pressure and that he still stands behind the tax as good policy.

So, Mr. Secretary, can you please clarify for our committee, first, does the President still support the concept of a tax on 529 plans, and does he believe that this tax would be good policy? And, second, can Congress expect to see the President try to revive this 529 tax again?

Secretary Lew. So, Congresswoman, just to be clear, the White House indicated quite clearly that the President is not going to be pushing for this provision. It was obviously already in the budget.

And I think the comment on policy is not saying that -- it is something they were pushing, that it was causing a lot of distraction. There is an important discussion to be had here on many tax issues, some of them regarding education, that would provide real opportunity for middle-class families. Clearly, it wouldn't have gone in the budget if there wasn't a solid policy reason for it. And I think the comment was to say that it is something that really does, you know, largely benefit more affluent people. And it is something that, in the context of a plan to make middle-class college education affordable, there is a basis for.

He is not pushing it. We are not pushing it. It was never a key part of our plan. It is not a huge dollar impact on the whole budget. And I don't think there should be any confusion on the issue.

Ms. Jenkins. Okay. So he still thinks it is good policy, but for political reasons going to withdraw --

Secretary Lew. No --

Ms. Jenkins. -- the proposal.

Secretary Lew. There is a lot of things that one can justify on policy grounds that don't go forward.

Ms. Jenkins. Okay. Thank you for somewhat of a clarification on that confusion.

Now I would like to just briefly discuss H.R. 529, which I introduced on a bipartisan basis with Congressman Ron Kind from Wisconsin last week.

And I have been a champion of 529 plans for a very long time, since I was a State treasurer back in Kansas. And this is the third Congress that we have introduced this legislation. And it strengthens 529 plans in order to make them more attractive to middle-class folks across the country who simply want to save for their kids' college education.

And this bill, in particular, makes some commonsense enhancements to 529 plans that will allow students to purchase a computer with their 529 plans. It allows funds to be

redeposited without penalty if a student withdraws from school for any reason. And it removes some outdated administrative paperwork requirements.

So, Mr. Secretary, what is your take on this legislation? And do you agree with us that these 529 plan improvements will help middle-class folks save for their college expenses? And will the administration support the bill?

Secretary Lew. Congresswoman, I am happy to look at the proposal and get back to you. Obviously, with 529s on the books, we would look forward to making sure that they work as effectively as possible. I am not familiar with the details of the legislative proposal but would be happy to look at it and get back to you.

Ms. Jenkins. Okay. Well, I look forward to working with you. Thank you.

I yield back.

Chairman Ryan. Thank you, Mr. Larson.

Mr. Larson. Well, thank you, Mr. Chairman, and thank you Mr. Lew, for your service to the country, and thank you, Mr. Chairman for this very productive hearing. On a spontaneous note in observing my colleagues that meet today on this committee, and we all know that Congress operates at about a 9-to-11 percent approval rating, we have one of the icon figures in American industry, the most ambitious gentleman I propose that in the spirit of what Mr. Camp did last year and, Mr. Chairman, your initiatives in turning -- in keeping with keeping this committee open and on pace that we continually have Johnson and Lewis forums where not only are there for the committee, but we invite other members of Congress who would be interested and as a way to restore what we all know individually is the great strength of this committee and the opportunity for us to work across the aisle with one another.

We had several issues that were explored today, and in rapid order, I think first with respect to infrastructure, Mr. Chairman, we had several letters that were sent last year with respect to making sure that we had hearings on infrastructure and discussed the tax aspects of this as well. Separately, Mr. Blumenauer also sent a letter, and I know that that is at the core of putting people back to work in this economy. I hope we can continue down that line. Maybe that could be the start of a Johnson/Lewis discussion and forum on infrastructure.

Also, Social Security, as was brought up by Mr. Johnson, there is a proposal out there that provides a tax cut and tax relief for seniors that is paid for. I hope all members will consider this proposal as a way in which we can solve this problem into the next century that is paid for.

Third, the Affordable Care Act, you know, with respect to, you know, whatever is going to come on the floor tomorrow, I think it is long overdue that we recognize that a proposal put forward by the Heritage Foundation and adopted successfully by Governor

Romney is something that we all can work together on for the benefit of the American people.

And of course, with respect to currency and trade, I know that the administration will adhere some of the concerns that were raised there.

And lastly, Mr. Lew, I believe you were asked a question earlier about dynamic scoring and didn't have an opportunity to fully answer the question. I wanted to provide you with a few moments if you could to expand upon your thoughts on dynamic score.

Secretary Lew. Thank you very much, Mr. Larson. You know, the question of how we score legislation is obviously inherently a technical and complicated one. You know, we have established practices that are meant to be as accurate as possible, and the risk of going from something that is known to be the most accurate to something that has all kinds of uncertainty in it, and it is something we worry greatly about because I think there is a shared concern that we not blow a hole in our budget because our estimates are wrong.

So there is some element -- I was asked if there is any dynamic scoring in the Office of Tax Policy and Joint Tax Committee scoring today. There is some, but if one goes further and uses assumptions that drive the numbers in a way that may not turn out to be correct, we will all regret it after the bills actually get added up, and I didn't want there to be -- I don't want there to be any misunderstanding of what our position is on -- we agree with current scoring rules. We have always been open to alternative measures and to understanding what the kind of up side and down side risks are, but to use those to make decisions that have real consequences is very different.

Mr. Larson. Well, thank you, Mr. Chairman. I know that Mr. Neal also makes the point on several different occasions is where we apply dynamic scoring to, and if we are going to look at dynamic scoring, we have to make sure that we are willing to apply that, and it may be that it is a very sound practice. I am not an economist, but what do we apply it to? And I think it can be applied equally across the board to have the same effective results, and, lastly, to the chairman as well, and the last couple of weeks have been painful with Green Bay and everything else like that, but I wanted you to know that I took no personal, you know, things, and I wanted to -- we got this picture that we wanted to provide you, and I will give it to you, Mr. Chairman. It is a --

Chairman Ryan. I can't see it from here. Describe it.

Mr. Larson. It is a picture of Tom Brady, and I think once we --

Chairman Ryan. With objection, it shall not be included in the record, so at least the Seahawks now know how Packer fans feel.

Mr. Larson. But we will pass this up.

Mr. Levin. I think his time has expired.

Chairman Ryan. Yeah, his time has expired.

Mr. Schock is recognized.

Mr. Schock. Thank you, Mr. Secretary. Thank you for being here.

As you know, the Federal debt limit will expire on March 15th. Do you know roughly what our debt limit will be on or about March 15th when our debt limit is set to expire?

Secretary Lew. Well, I don't have an exact estimate right now. Obviously, we are several -- two months' of data away. I think that the challenge of funding our government is one that we fundamentally make when we make decisions on what our tax and spending policy is.

Mr. Schock. Do you know roughly --

Secretary Lew. Not when the debt limit is --

Mr. Schock. Sure. When March 15th rolls around, have you and your staff begun looking at how long you will be able to use extraordinary measures beyond that point?

Secretary Lew. Yeah, we have obviously started looking, but I won't be able to answer that question with clarity until we get through tax season and we know what our cash balances are in tax season.

Mr. Schock. Well, that is going to be a problem, because March 15th is the deadline. Tax season is April 15th.

Secretary Lew. Yeah, I -- there is -- you know, all --

Mr. Schock. Are you saying you are not going to know until April or March?

Secretary Lew. All the public estimates, you know, CBO's estimates, show that we have some period of time. You asked me how long it goes? I don't think we have any kind of a crisis on March 15th. I can't tell you exactly how long it goes, and that is what I thought you were asking.

Mr. Schock. Okay. Yeah.

Secretary Lew. It is the outer limit, not the initial period where the question comes in.

Mr. Schock. Okay. Can you get back to us on a rough estimate?

Secretary Lew. Yeah. We will, as we always do, stay closely in touch with the committee as our understanding develops of what the projections look like. We think it is important for Congress to have clarity on this and we will remain --

Mr. Schock. Likewise. Thank you.

Following up on a letter that I sent to you last January, it was so-signed by 17 members of the Ways and Means Committee dealing with FATCA, I am still having trouble understanding why Treasury wants FATCA to regulate non-financial, non-cash value insurance. Can you update members of the committee, at least the 17 of us here that signed that letter, on the status of your agency's deliberations regarding the relationship between non-financial products and FATCA?

Secretary Lew. You know, Congressman, the -- our goal in FATCA, and really now an international goal, because FATCA has been adopted pretty much as an international norm, is to make sure that there is the kind of transparency that permits tax authorities to see where there is behavior that is evading tax systems and to get accurate reporting on offshore accounts.

You know, we believe that the proposals we have made, the law and the proposal we have made advance that. I would be happy to follow up with you on the specific issues with regard to the entities you have described.

Mr. Schock. Okay. Look forward to doing that.

Finally, year in and year out the administration comes forward with a budget, and part of the framework is always the desire to make our corporate tax reform more competitive. You have laid out a benchmark of I think 28 percent, ideally 25 percent for manufacturing. But I will tell you when I am back in my district, the frustration is not just among employers with the Tax Code and the complications -- complexity of the Tax Code, it is really with individuals, and if there is one message I heard from my constituents after the Camp draft came out last year, it was that they, as individual taxpayers, were excited at the prospect that 9 out of 10 of them would be able to do their own tax return on a single piece of paper, take a standard deduction, and be done.

Why is the administration not equally energized, motivated, and deliberative about ensuring that not just our Tax Code is simplified and made easier for corporations and manufacturers, but also for individuals? Is the administration willing to work with us on creating a competitive individual tax reform?

Secretary Lew. We very much agree with the goal of simplifying the Tax Code. A number of our proposals were designed to take provisions like the education provisions and simplify them. There is always a tension between things being simple and them not being reflective of the complexity of the different situations that the provisions apply in. You don't want to have cliffs in the Tax Code. The way you avoid cliffs is through provisions that tend to be more complicated. So there are good reasons for some of the

provisions not being totally simple, but the goal of simplifying as much as we can is one that we share.

Mr. Schock. Okay. I look forward to that.

I would just offer up as we both share the goal of helping those who have been left out of an economic recovery, the administration continues to talk the minimum wage, and I would just point to the President's home State, where I am a Congressman, we have raised the minimum wage four times in the last 10 years. Each year we have raised the minimum wage the percent of people living in poverty has gone up. The percent of people unemployed has gone up, and Illinois now leads the Midwest in percent of people in poverty and percent of unemployment, and I think we need to look at a different strategy here at the Federal level, and I would harken back to the days of JFK when he cut taxes and the percent of people living in poverty went down and the percent of people making a living wage went up, and I hope that we can embrace a JFK strategy with this Congress and this President.

Thank you.

Chairman Ryan. Thank you.

Mr. Blumenauer.

Mr. Blumenauer. Thank you, Mr. Chairman.

Mr. Lew, thank you for being here. I appreciate your reference to Congress not hollowing out the IRS so that we can actually administer programs and save taxpayer money and give them better service. I think that is something we need to focus a little attention on.

I also appreciate the fact that you are here as somebody who knows what a balanced budget looks like. If memory serves, you were at OMB for when we had three consecutive years of budget surpluses. So you have some unique authority as an administration spokesperson in being able to help guide these conversations and give some perspective.

I think you were also on the staff of Speaker O'Neill back at a time when there were some interesting policy initiatives where you played a key role where we were able to come together, look for some long-term perspective, and make a difference, even bridging the gap between President Reagan and Speaker O'Neill famously working together.

I have appreciated your offering up some I think complex and timely series of proposals, many of which I find appealing and look forward to a deeper dive, and I appreciate that the administration continues to call for infrastructure investment.

Based on my limited contact with the President and watching, I sincerely believe he is investing intellectually, politically in rebuilding and renewing America.

Some of the policies that have come forward to try and support that have been difficult to achieve. I was struck -- actually I read an op ed by my colleague from Ohio, Mr. Renacci, that really talked about approaching this in a comprehensive fashion. Something that needs to be sustainable. It needs to be adequate to cover the job. It needs to revisit the user pay principle. That has been something that is -- that provides us with sustainability.

Now, President Reagan in 1982 called out a challenge to Americans in his Thanksgiving Day address calling on Congress to come back and actually more than double the gas tax, because we hadn't raised the gas tax in 23 years. The President pointed out, and this was a user fee that would be able to deal with deteriorating American infrastructure and move us forward in the future. It is a speech I think almost any of us could give today. Members of Congress, the President, I wish we -- only it is 22 years since we have raised the gas tax instead of 23.

I was curious if, based on your experience with Speaker O'Neill and Ronald Reagan, who were able to come forward to deal with the serious problem with American infrastructure on a bipartisan basis and raise the user fee, if, by any chance your proposal is not embraced unanimously by Congress and it moves forward and is enacted into law, if you have some thoughts about what we might be able to do moving forward to support the coalition that ranges from business to labor, truckers to AAA, environmentalists, local government, contractors, who all agree, as expressed in The Washington Post editorial again today, amidst the crying need and falling gas prices, if there isn't something that could be done to deal with a user fee adjustment.

Secretary Lew. Congressman Blumenauer, I know that you and I have discussed infrastructure for many years, and you have a passion for rebuilding this country that we share. I think if you look back at the 1980s, we found a pathway for bipartisan agreements on important issues; 1983 Social Security reform, 1986 tax reform. And it was also during the Clinton administration in 1997 we had the balanced budget agreement, bipartisan balanced budget agreement.

I think that what we have put forward in our plan to use the one-time savings from tax reform to fund infrastructure has all of the ingredients about being something that could become a basis for a bipartisan agreement. We deliberately came up with an approach that we thought would provide that opportunity.

Obviously, if Congress has other ideas, we will look at ideas that come forward, and we will work with Congress to find a way. What we have to do is meet our needs to invest in infrastructure in this country, because it is doing a disservice to future generations to leave behind a crumbling infrastructure. The way to build a better future is to think ahead and build it today.

Mr. Blumenauer. Great. I hope you will consider that as a fallback in case your proposal --

Chairman Ryan. Thank you. Time of the gentleman has expired.

We are not going to do two to one. So for the people on the Republican side of the aisle, we will do Paulsen, Marchant, then we will go over to Mr. Pascrell.

So Mr. Paulsen is recognized.

Sorry. He is gone. No, he is not.

Mr. Marchant is recognized.

Mr. Marchant. Thank you, Mr. Chairman.

Secretary, I would like to discuss a couple of issues with you that I hear about every time I go back home and have a town hall meeting.

In reading the Congressional Budget Office projection of Budget and Income Outlook 2014 through 2024, it appears that we will end up this 2014 with about a \$492 billion deficit, and then about 469, a little less than that, in 2015, but in 2022 through 2024, we will be back to \$1 trillion a year deficits, and this is very upsetting to the people that I represent. It is very upsetting to all of us on this panel.

Does this budget that the President has prepared and presented to us change the trajectory of that debt? Does it change the trajectory of the size of government? Does it do anything to return us to a balanced budget, or does it end up in 10 years being back at a trillion dollars a year?

Secretary Lew. Congressman, if you look at the deficit as a percentage of our economy, it is a percentage of GDP, we maintain it through the period 2025 in the mid 2s. 2-1/2 percent is where it ends up.

Obviously our economy is growing and 2-1/2 percent of a larger number is a larger number, but the measure of whether we are making progress and maintaining the progress, I believe, is looking at the deficit as a percentage of GDP.

Mr. Marchant. So the goal of the administration and the Treasury is to not balance the budget or diminish the debt that we already have, but to maintain a percentage of GDP?

Secretary Lew. No. Look, I think our goal is to grow the economy and to find the right balance between fiscal policies that keep us on a sustainable path and give us the ability to invest in the future and make sure that we have a growing economy. The real answer is to have a growing economy.

I believe we have presented a plan, a framework, for doing that. I think that if you look at when we hit what is called primary balance when the only deficit is related to servicing past debt, it happens, you know, in this period, and then there is still need to focus on the future. I am not saying that this is the end of the discussion on fiscal policy.

I think if you look over the last few years, we have done a tremendous amount to reduce the deficit as a percentage of GDP. It is a fraction -- it is a quarter of what it was.

Mr. Marchant. Define primary balance for the people that are out there listening to this.

Secretary Lew. The question is what is driving whatever deficit you have, and if the only deficit is interest on past debt, that is different than if you are building up new expenses by buying new things or paying for new things, and we hit that point in this window where the only deficits we have are attributable to servicing prior debts.

I am -- that is not the same as balance. I would not suggest that it is balance, but it is something that is used as a test of fiscal sustainability because the situation is under control if you are in primary balance.

Mr. Marchant. The other thing I want to discuss with you, as you know, I am from Texas, and we in Texas and in the entire West believe that the oil and gas industry was one of the most critical things in industries that took us out of this last recession, provided good jobs, and now we open this budget up and find out that the oil and gas industry, which admittedly has had some setbacks in the last 2 months, is going to have a 9-1/2 billion -- a \$95 billion additional tax bill in this budget.

Can you give me explanation for why the administration would feel like that that would be a great reward for this industry for its performance in this economy, and how it could possibly handle that kind of additional tax burden in the current scenario?

Secretary Lew. Congressman, the energy revolution has done a tremendous amount to drive our economy forward, and energy prices go up and down and there will be, you know, natural, you know, tendencies for the industry to grow in some periods more than in others.

We don't believe that the Tax Code should be driving activity in a way that makes investment in energy as specially treated as it is right now under current law. We don't think that it is necessary for there to be profitable businesses in the energy area. Obviously, this is a moment where lower energy prices are creating special pressures which we are very sensitive to. There is going to be a regional impact, but over time we have seen that, you know, letting the market forces work, you know, is better than having a Tax Code that drives investment.

Chairman Ryan. Very enlightening. Thank you.

Ms. Black.

Mr. Marchant. You probably misspoke.

Chairman Ryan. Yeah. Did you mean you don't think there ought to be profitable businesses in this area?

Secretary Lew. No. I said I don't think that we need to current tax provisions for there to be profitable businesses.

Chairman Ryan. Okay. I think you did misspeak.

Secretary Lew. If I misspoke, let me correct that. I was speaking to the tax provisions not to -- we support --

Chairman Ryan. It didn't come out the right way.

Secretary Lew. We support a strong and thriving energy, industry, and we wish them to be profitable.

Chairman Ryan. Ms. Black.

Mrs. Black. Thank you, Mr. Chairman, and thank you, Mr. Lew, for being here, and we always have to watch when we say something and get at little twisted tongue, because we will obviously have that come back to us.

Secretary Lew. I appreciate the opportunity to clarify.

Mrs. Black. I want to come back to 2 years ago when you were before this committee and we were talking about the budget and about the balance, and I want to go back to a couple of things that were said in here, my colleague from Texas talking about balancing the budget. As a matter of fact, we see in this budget that we are going to increase our spending by \$2.4 trillion over the next 10 years. We are going to add \$8.5 trillion in debt, to our current debt, and I know that you cannot tell us what that might look like here as we look at the debt limit, but I will be very interested to see what that is going to turn out to be, and then we are going to increase Federal spending by \$240 billion in just this next year.

So when you talk about in both your written comments and your verbal comments that you gave us, you talk about this being a balanced fiscal approach. In my life with my parents and teaching me what is a balanced fiscal approach is not to have a lot of debt, and when I look at what we are leaving for the future of our children, having not a lot of debt is also very important.

So I am very concerned about us not getting to balance, and that was a big part of the conversation we had 2 years ago is that the President's budget did not ever come to a balance, and you mentioned about growing the economy, but if we see that the debt that we owe and there is an increase in interest rates, we are not going to be able to sustain, no

matter how much growth we have, in paying back our debt. So I am very concerned about that.

I want to go to one other thing that you said in your opening comments about the economy increasing job creation, and I want to do like Paul Harvey says, the rest of the story, because the rest of the story is more than just looking at unemployment.

I want to read to you a clip that is out of MarketWatch which was published on January the 9th, and they said, The U.S. added 252,000 jobs, which is absolutely great that we are adding jobs in December, and the unemployment rate fell from 5.6 to -- fell to 5.6 from 5.8, but the hourly wages declined and more Americans dropped out of the workforce. So when we talk about unemployment rate, that really is not the true number that we should be looking at. As a matter of fact, they end their article by saying, "Yet the labor work force participation rate dropped by .2 percent in December to 62.7 percent, matching the post recession rate and the lowest level that we have seen since 1978."

So when we talk about having a good economy, and as you report, I think we do have to be very careful about how we use numbers, because these policies that are being set forward don't show us that we are having an increase in the middle class value of their life by having decreased wages, a third of the people who could potentially be working not in the workforce, and this is very disturbing.

There are policies that are set by this administration that do affect this, and I think we have to be careful as you chronicle what is happening and what sounds to be such a cheery thing to really say what the truth is.

Now I am going to get to my final question here, and I know I am not leaving you a lot of time, but there is so much to talk about, and that is what I hear in the frustration by the people back in my district. In particular, in their savings for their children's future in education and also their retirement. And as you know, we had an opportunity to work across the aisle. Congressman Davis and myself worked on the tax breaks -- the loophole -- or excuse me. The complicated Tax Code having to do with education taxes, 15 different education tax breaks in the Code, 90 pages in the IRS for the instructions. We put out a plan that was passed here in the House. It did not move forward in the Senate, and in the very little time that I am leaving you to respond, will you assure us that the President will work with us in this particular area, because education is becoming much more expensive, and we would love to have a conversation to have him consider the proposals that we put forward that we think are very commonsense and very good proposals that allow the middle class to actually use the Tax Code to help them in educating their children. Thirty seconds I am leaving you. I apologize.

Secretary Lew. I am not sure how to address all those issues in 30 seconds, but I will talk fast.

We have tried to be very prudent in our assumptions about interest rates in our budget. We are assuming that between 2020 and 2025, interest rates will be, you know, roughly, you know, 4-1/2 percent. They are now, you know, much lower than that. So we have built into our forecast the assumption that interest rates will go up over this period of time.

The challenge of paying down our debt is one that is going to take a long time. As long as we are maintaining the current deficit projections and we can invest in a growing future economy, we think we have the best chance of having the kind of strong future. And then the chairman is telling me I am out of time so I can't get into the other issues.

Mrs. Black. Could Mr. Chairman just have him acknowledge that he will work with us on this education tax?

Secretary Lew. Yes.

Mrs. Black. I would appreciate it.

Secretary Lew. We obviously have a robust set of proposals in here in education.

Mrs. Black. Thank you.

Secretary Lew. We hope you will work with us and we will work with you.

Chairman Ryan. I am doing this for your one o'clock.

Mr. Pascrell.

Mr. Pascrell. Thank you, Mr. Chairman, and thank you, Secretary, for your service.

As you know, the budget does talk about a lot of investments. It is a proposal. The investments I am talking about like the Child Care Tax Credit, we have introduced legislation along those lines, as well as the new Second Earner Tax Credit, improvements in our education tax incentives.

So you propose paying for these middle class investments by closing tax loopholes and -- which primarily benefit the more wealthy Americans who have been doing pretty well for themselves.

Now, just during this current recovery, not just during this current recovery, but over the past 30 years, while the average Americans wages have been stagnant, think of where it would have been if we didn't have a stimulus package or the ACA as an example.

Now, my friends on the other side, and I don't use that as being a wise guy, despite their recent newfound commitment to the problem of income inequality, have predictably cried class warfare. They are up to it again.

Our chairman, Mr. Ryan, who we are counting on to bring us together in this committee, said this Sunday on Meet the Press regarding the administration's budget, "What I think the President is trying to do here is to again exploit envy economics. This top down redistribution doesn't work. We have been doing it for 6 years. Look, it may make for good politics. It doesn't make for good economic growth."

Now, Secretary Lew, you served in the Clinton administration back in the early '90s. Do you remember that big fight over the tax increase? We have had some big fights over that policy. Ultimately taxes on the wealthy were increased. Meanwhile, at the beginning of the Bush administration, we tried trickle down through huge tax cuts for the folks at the very top of the income spectrum.

Can you compare the economic growth in the performance of our country in those time periods following the implementation of the respective tax policies? And what I am specifically talking about is the GDP between 1993 and 2002 in which the average was 3.68 percent --

Secretary Lew. Longest period of uninterrupted growth in American history.

Mr. Pascrell. Thank you. And 2003 to 2007 which was 2.79 percent. Would you just give us a quick synopsis?

Secretary Lew. Yeah. Congressman, I think we have seen through experiments testing these policy theories and we saw in the 1990s that the tax policies that were put in place with the, you know, charges that it would destroy the economy had the opposite effect. We saw the economy boom.

In early 2000 we saw -- 2001, 2004 we saw huge tax cuts that were promised to have the benefit of driving economic growth. We ended up on the edge of an economic -- in an economic disaster with those tax policies in place.

Mr. Pascrell. And in party of austerity didn't pay for any of this. Did it?

Secretary Lew. It didn't pay for it.

Mr. Pascrell. Okay. Let me ask you a second question.

Secretary Lew. I was going to say we had one more experiment, and it was January 2013. We agreed to go back to the tax rates that were in effect in 1990, and our economy is growing now.

Mr. Pascrell. Do you believe the administration's policies over the past 6 years have exacerbated income inequality in this country, or would income inequality be worse if it not were -- if it were not for the policies like the Affordable Care Act and the Recovery Act and the stimulus package, et cetera?

Secretary Lew. I think that the problems of income inequality have been developing for decades. If you look at the actions taken since 2009, if our economy was still in recession, it would be way worse for working people. We have a recovery that has created 10 million jobs. That is good for working people. We have seen the Tax Code revise so that some of the inequity in term of the top rates has been fixed. We have seen benefits extended to working families through things like the Earned Income Tax Credit and the Child Care Credit. So I think we have taken important steps, but with that said, we still have a very deep underlying set of challenges to deal with, which is why the President's budget this year embraces these issues and comes forward with a program that won't solve all the problems. It will put things in the right direction, and I think it is a very important time for us to make decisions to --

Chairman Ryan. Thank you. Thank you.

Mr. Reed.

Mr. Reed. Thank you, Mr. Chairman, and thank you, Mr. Secretary for being here.

And to open up I want to recognize the work that we have done together in regards to revitalizing the American Manufacturing Innovation Act that got signed into law at the end of the year. We worked in a bipartisan manner to get that done, and I did that working with the other side and with you in the White House, because there are millions of hard-working families that are going to benefit from that legislation.

So I offer my line of questioning along that vein, and I think my colleague from California, Mr. Becerra, articulated something that I have a lot of trouble with. When he talks about the Social Security Disability Trust Fund, something you and I talked about a year ago, and he says that we are trying to contrive a manufactured crisis to split Americans apart in regards to this crisis that truly is the crisis, the bankruptcy of the disability trust fund, I find that offensive.

I also find his comments to be representative of the old guard, the old school mentality, that there is \$3 trillion of Social Security money that is supposedly the Federal government's to raid, to bail out a failing disability trust fund. I think that is wrong, because you are taking from Social Security retirees the money that they put into the Social Security Trust Fund that is to go to them, and I think you and I both agree, reading your budget, as you said in your budget, "The administration will oppose any measures that weaken the Social Security system."

How does taking Social Security retiree money from one trust fund that is already distressed and bailing out the disability trust fund somehow strengthen overall Social Security retiree trust fund? Does that not weaken it? Yes or no.

Secretary Lew. Well, Congressman, over the years there have been many transfers. I remember in the 1980s when old age --

Mr. Reed. Mr. Secretary, over the years, that is old school. There is a new generation of leaders down here in Washington, D.C. that say we cannot do old school, because you have already raided the trust funds. You have already taken from the trust funds, and you have put them in the position where they are on the path to bankruptcy. We need to do better than that, and I think you are committed to it. I will give you the benefit of the doubt. When I read your budget and you are talking reforms in regards to get the disability community back to work, when you talk about continuing disability reviews to make sure that those that are truly catastrophically disabled get the benefits that the disability trust fund is designed to get to, I think there is sincerity here that you want to get to a solution. Is there not?

Secretary Lew. No, it is very sincere, but Congressman, if I could just answer your question, there are no policies that could take effect fast enough to deal with the disability insurance shortfall other than an interfund transfer, and it is the way we made sure that Social Security's old age fund didn't go bankrupt when we were working on Social Security --

Mr. Reed. I so appreciate that. So you are putting on the table, if I am hearing you correctly, that there are other pots of money other than Social Security retirees' money that is in the Social Security Trust Fund that are available through an interfund transfer that could be utilized to take care of the disability trust fund --

Secretary Lew. Well, you have the old age survivor and disability trust funds. Those are kind of your options.

Mr. Reed. So the White House is not aware of any other funds that are out there that could be tapped into in order to bail out the disability trust fund?

Secretary Lew. Well, if you are just going to reallocate the tax rate, that is where the allocation --

Mr. Reed. I understand that is the payroll tax rate reallocation, and that is the status quo. That is the old school. Are there not new ideas that could be put on the table --

Secretary Lew. Look, I think there are new ideas in our budget in terms of making sure that the review process is done properly, making sure that we have program integrity. I do believe that we have to look at the short-term needs of the disability trust fund and have a short-term solution and not expect things that will have perhaps long-term benefit that could solve the problem that is much closer.

Mr. Reed. Well, and I appreciate it, and then are one of those solutions that you talk about in getting the disabled community in a position maybe to potentially get back in the workforce. It is in your budget. I think we share that commitment. Is that fair to say.

Secretary Lew. Yes, but we also have to accept that there is large number of people who are disabled who are not able to work, and we have to have a system that is there for those people that --

Mr. Reed. And I think we would agree for the catastrophically permanently disabled, the trust fund, that is what the intention is, and I would agree with that sentiment on it.

So when we talk about potentially getting the disabled community in a position to harmonize the goals of getting people back into Main Street, back to work, I am interested also in your budget proposal that says, "Using evidence and evaluations to drive innovation and outcomes." So on that workforce development component of getting people from the disability trust fund that are capable of working back to work, Mr. Secretary, what would you propose as the evidence and evaluation criteria that we could utilize to achieve what is a mutual goal of working together to achieve that outcome?

Secretary Lew. I think that we need to have the system set up to encourage people to go back to work. We also have to have a system that is there for people who are not able to go back to work, and I would look forward to following up with you. In 2 seconds I can't do much more than that.

Mr. Reed. All right. I look forward to that. I would be interested in your criteria in judging that type of reform.

Chairman Ryan. Thank you.

Mr. Davis.

Mr. Davis. Thank you, Mr. Chairman.

Mr. Secretary, let me thank you for being here.

Chairman Ryan. Danny, turn your mic on.

Mr. Davis. All right. I applaud the President's budget for its focus on supporting working families through the expansion of the Earned Income Tax Credit, improvements to the EITC, and substantial assistance to cover costs of caring for children.

When I cochaired the Education and Family Tax Working Group with Representative Black, both conservative and progressive policy experts agreed that the EITC has strong evidence of encouraging work and alleviating poverty. The central recommendation from stakeholders for improving the EITC was to address the limited utility of the credit

for childless workers and noncustodial parents which I promoted strongly through my fatherhood deal. These programs helped Chicagoians, Illinoisians, and Americans.

I also commend the budget for strengthening depressed communities by permanently reauthorizing the New Market Tax Credit, and exemplar of public/private partnership, as well as by investing in promise zones and critical infrastructure efforts.

A vital element of the budget is the restoration of a small amount of the sequester cuts which experts predict will strengthen our economy through hundreds and thousands of jobs.

I also want to take a moment to support the increased funding for the Internal Revenue Service. Republicans have insisted on cutting its funding by about a billion dollars in the last few years. However, these funds are needed to provide services to taxpayers such as critical tax help to low-income families and to ensure that tax cheaters pay their fair share.

As many of us are, I am seriously concerned about protecting and strengthening the middle class, but I am also concerned about another category of individuals called the poor, the working poor. Individuals whose economic boats are perennially stuck at the bottom, and for generations in their family they remain.

Can you tell us what this budget will do to help lift those individuals out of poverty and into the coveted middle class that we all value so greatly.

Secretary Lew. Congressman, we entirely share the goal of making sure that the ideal of the middle class remains available to all and becomes available to all, and it is not one policy. It is a combination of things, obviously starting with the minimum wage. Raising the minimum wage is very important, but making sure that families have access to things like the child credit, to the Earned Income Tax Credit is equally important, and making sure that there is access to education so that young people grow up with the tools to have the kind of opportunity that can get them the kind of middle class jobs in the future.

So I don't think there is one simple solution. We put together a variety of proposals that together we think will make a big difference. We have proposed a way to pay for it in a way that is consistent with a responsible fiscal policy, and we think that the time is now for debate on these issues.

Mr. Davis. I seriously agree with much of what I find in this budget, and again, commend you and your colleagues and the President for working on it, and Mr. Chairman, I yield back.

Chairman Ryan. All right. Thank you.

Mr. Kelly.

Mr. Kelly. Thank you, Mr. Chairman. Mr. Secretary, thanks for being here.

What I want to address, and I know we have been talking about different aspects of the budget, but let's talk about a budget in general. You have done a lot of budgets. Did you have --

Secretary Lew. More than I care to count.

Mr. Kelly. And I understand that. In the private sector we always have to put budgets together every year, but it is increase -- it really -- there is a lot of weight on us to make sure they balance, and that somehow we have revenue to cover what our intended expenses are.

When you are -- have discussions with the President, and I am not suggesting that the President has a lot of fingerprints on this budget, have you ever discussed with him the growing deficit?

Secretary Lew. Well, first of all, the President is deeply involved in the development of this budget and in all budgets, and I think that that is appropriate. It is his policy. You know, he has I think over the years shown a determination to fix a very broken fiscal path. We have got an enormous amount of progress that we have made, and we are making more progress in the 10-year window of this budget. I think that the --

Mr. Kelly. But in your position, the deficit, we -- you talked today about how we have been able to cut the deficit.

Secretary Lew. Yeah.

Mr. Kelly. This year the President is projecting a \$4 trillion spend. Right? And in revenues they are going to come in somewhere around 3 trillion. Now, back home where I come from, you use start to use figures like that, the zeros go off the chart. So I tell them, listen. It is like somebody who makes \$30,000 a year spending \$40,000 a year, going home and saying: "Honey, no problem. Go out and spend 40 grand this year because I am going to make 30 grand." And she says: "Well, gees, you told me last year to go ahead and spend more than you were bringing in and it would be all right."

The annual deficit is adding to our long-term debt at a rate that is totally unsustainable. As a person that has done budgets all your life, you can't look at this and think of this as a really -- as a real budget. This is a Christmas wish list that nobody could possibly fill.

Secretary Lew. Well, Congressman, I actually don't agree. I mean, I --

Mr. Kelly. Well, Mr. Lew, listen. I am not going to get into a debate whether you agree or not. There is no way in -- there is no way in heck anybody can sit back and say that deficit spending year after year after year makes sense. There is just no way. No. There

is no way you can defend that. Nobody that ever looked -- took an economy course or economics course would say: "Yeah, just keep spending money you don't have and somehow it is going to be all right."

Do you know that by 2025 just the interest on our debt is going to be 785 billion. That is billion with a B. There is no way anybody would look at this model and say: "Makes sense to me."

Now, we talk about how well we are doing as a country. We are the healthiest person in the sick ward. There is nobody in the world that can look at the way we have been spending money. I am talking collectively, globally, and say: You know what? We are on the right path, and I don't care if you are Greece or you are in the United States. The only difference is the number of zeros in deficit spending that add to long-term debt that make us unsustainable. There is just no argument for that, sir.

My question is, when you talk to the President with your background, and certainly with his acumen, and I don't know how much business acumen is there because nobody would present this budget with a straight face and say: This is the path forward. That just can't be done.

Have you had that discussion?

Secretary Lew. So, Congressman, I think if you look at the improvement in our fiscal position over the last 6 years, it is tremendous.

Mr. Kelly. Compared to the rest of the places around the world. I understand that.

Secretary Lew. No. Compared to ourselves.

Mr. Kelly. No, it is not. It is not. Listen. You and I both know that if it wasn't for the energy --

Chairman Ryan. Order. Order. I would encourage the gentleman to let the Treasury Secretary answer the question.

Mr. Kelly. Listen. I would like to have order, Mr. Chairman, but let me tell you this. We continue to have this ring-around-the-rosie conversation that somehow things will get better if we just keep spending more money and have no way to actually raise the revenue to pay it. We can't even get to the point we can pay down the principal. All we are doing is making interest payments. There is just no logic to doing that. It is totally illogical, sir.

Secretary Lew. I am happy to try to offer an answer if you --

Mr. Kelly. I would appreciate it because I have been sitting here for 5 years and --

Chairman Ryan. And you have got a minute and 16 seconds to do it.

Secretary Lew. Having presented three balanced budgets with surpluses actually in my time as OMB director, no one is going to -- I am not going to take second seat to anyone in terms of caring about responsible fiscal policy. I think if you look at where our budget was, where our economy was when this President took office, it was in terrible shape, and it is now in healthy shape. I think that we have to look now at what do we do to build a foundation for future economic growth, and I agree there is a need to continue --

Mr. Kelly. Okay. I just want to point something out.

Secretary Lew. But we now have a --

Mr. Kelly. Excuse me. Listen. I just want to point something out. Since the President took office, household incomes -- now, please, we should stop using the term "middle class" because it is kind of reflect that we a higher class and a lower class. Middle-income families have taken -- they are making \$2,380 less than when the recovery started. That is a drop of 4.4 percent. When you get into the Hispanics, the Blacks, the female-headed families and other young, they fare far worse under the Obama plan than anybody else. Black households' median income has plunged 11 percent since the recovery. Hispanic households are off 4-1/2 percent. For single moms, median household incomes has dropped 7-1/2 percent. For those households with three or more children, it fell even more to 9.2 percent. We keep using this talking to point to how we are going to help the middle class, let's talk the real thing. It is middle income people. They have to have more money. We cannot continue to drive this debt higher and think that somehow there is a rosy picture at the end.

I thank you for your time. I appreciate your service, but honest to God, we got to get this thing fixed.

Chairman Ryan. Thank you.

Mr. Renacci.

Mr. Renacci. Thank you, Mr. Chairman, and thank you, Secretary Lew, for being here.

You know, I was thinking when my colleagues were talking about you working with Tip O'Neill and that timeframe, I was actually thinking about the fact about my life. I had just graduated from college. I was from a blue collar, union family, and I decided that as someone in the middle class I was going to work toward upward mobility, and I started my own company at a very young age.

The one thing I can tell you back then, that was very important is that I realized if you work hard and did the right thing you could achieve the American dream, but I also realized back there the government wouldn't get in your way, and I look back at the days when Tip O'Neill and the President were working together to get some things

accomplished, and I hope at some point in time we can do that going forward, because I do want to look at that 24-year-old some day and say: You can do the same thing. You can work toward upward mobility, because we talk so much about it, but factually we get in the way too often, and that is one of the problems I have with some of the budgets.

Now, I will say there are some things in the budget that I am glad to see there, and I am hoping that we can work together, but we talk so much about middle class -- middle class economics, and the President uses that term to describe his approach to tax policy changes. You know, the idea, of course, is that his proposal was designed to benefit hard-working middle class Americans, which I always look back and say that was me at one point in time. The idea behind this approach I really believe is a good one.

As the committee has addressed just a few weeks ago, many middle class Americans are still struggling. While the economy has shown some signs of recovery, too many continue to find that their paychecks are shrinking while costs are rising. Considering the focus of the President's claims to put on reducing taxes for the middle class, I was surprised by a study on the distributional effects of the President's proposal published by the Tax Policy Center.

Mr. Chairman, I ask that the study titled Distributional Effects of the President's New Tax Proposals published by the Tax Policy Center be included for the record.

Mr. Lew, according to the Tax Policy Center analysis --

Chairman Ryan. Without objection.

[The information follows: [The Honorable Jim Renacci](#)]

Mr. Renacci. -- the middle quintile of the earners with a household income of about 60,000 would actually face an average Federal tax increase of about \$7. In fact, the middle 60 percent of earners would see almost no effect on their Federal taxes as a result of the President's middle class economics.

Considering the results of this independent study, can you explain the claim that these policies are really aimed at providing relief to the middle class?

Secretary Lew. Well, Congressman, you know, I look at the work of the Tax Policy Center frequently. I think that over time, they have done a lot of good work. I think in this case, their analysis is just not based on the best data available, and I think the analysis that we have done at Treasury is better.

I think that they are looking at a few provisions like the financial services fee and stepped-up basis incorrectly in terms of tracing how it is going to flow through to families that are middle class families. I think technically it is not correct, and I think in terms of the data, we have data that shows that it is not correct.

Mr. Renacci. So you are disagreeing with --

Secretary Lew. I disagree with the analysis here. Obviously when you put policies in that have demonstrable benefit to middle class families, that is what reflects what you are trying to accomplish. I don't think the financial service fee or stepped-up basis is going to end up flowing down and hurting those middle class families the way that analysis suggests.

Mr. Renacci. Okay. I know I have limited time. I want to switch over to something that is important.

Treasury issued anti-inversion rules in the fall. As a result, Medtronic announced that instead of using foreign cash to acquire Covidien, it would borrow and take on more debt to finance the acquisitions, meaning more leverage and more interest deductions in the United States and actually less profits. Chiquita Brands had to scrap their planned inversion and instead got acquired by Brazilian investors, closing down their North Carolina headquarters and eliminating hundreds of U.S. jobs.

These are consequences of an ill-conceived inversion -- the ill-conceived inversion rules, and now this budget doubles down with even more inversion proposals that will just make the U.S. companies less competitive and more attractive acquisition targets for foreign companies and competitors.

Is this what you intended to happen and did you consider these success stories of the new rules?

Secretary Lew. You know, Congressman, I think the real answer is tax reform. We have a broken Tax Code that is driving companies to do things that we think may be legal but they are wrong. It is wrong to change your address just to avoid paying taxes while you get all the benefits of doing business in the United States.

We made clear at the time that we did not have administrative capacity to completely address the inversion issue. It would require tax reform to take away the incentive and also anti-inversion provisions. We look forward to working with Congress to accomplish tax reform to really address this.

Mr. Renacci. I appreciate that. I know, I am running out of time, and I do agree tax reform would correct this, but are you saying that the anti-inversion rules are not working?

Secretary Lew. No. I think the anti-inversion rules we put in are working partially, which is what we knew they would do. They don't completely solve the problem.

Chairman Ryan. Thank you.

Mr. Meehan.

Mr. Meehan. Thank you, Mr. Chairman, and, Mr. Secretary, thank you for being here, and I also want to express my appreciation for the administration's attention to graduate medical education. I think it is not just a question of what it may do for regional economies, but the idea of us being able to train this next generation of medical professionals.

We are talking about the cost of education here, and it is just -- it is mind boggling to think about people graduating 3- and \$400,000 in debt, and it goes back to another issue, and I think this is something that I am seeing when I am talking to people in my district consistently, and you talk about increasing the ability for people to be able to pay for education, and we keep trying to find ways to redistribute dollars to do this, but let me ask you a question, because there is a significant investment in education by the Federal Government and by the policies of the Federal Government, nonprofit institutions for the most part, tax incentives of various sorts. So with such a critical role, what is it that you are doing to hold down the increasing cost of education?

Secretary Lew. You know, Congressman, most of that is not in my purview as Treasury Secretary, but I do have a deep interest in this and have worked across the administration. So I can tell you that there are things that we are doing to make it clear to families and to students what the cost of education will be, what their choices are, what the track record of schools is in terms of giving the kind of education that is likely to lead to the kind of options that we all want for our children to have, and I think it is very important that we not just deal with the student loan piece of it, but we also deal with the structure of how education is marketed and made available to students. Students should see what their choices are. They should understand what the benefit of different options is, and they should also understand the cost of getting deep in debt. We have too many schools that are enrolling students and not keeping them even in to finish their degree, and those students end up in debt with no degree.

Mr. Meehan. Yeah, but we have a great deal of schools which are stretching families who appreciate the very great difficulty which you identified in almost a market-based economy in which people are trying to get the best education they can for the children. I mean, you know yourself, you are a Harvard University graduate. It could be about \$225-, \$230,00 for a family, and that is pretax income. So I go back again. Here is one of the problems. Those very same institutions, you are talking to me about the responsibility on the parents and the families to be looking at these and making decisions. I am asking about what responsibilities you are putting on the institutions themselves. I was trying to look for factors that may be influencing the cost of education, and, you know, the cost for a private university has more than doubled since the 1970s when I went there, and I suspect somewhere around the time you may have attended college. For public universities proportionately, it has tripled.

Now, at the same time, and I was looking at a statistic, the amount of staffing has grown exponentially. In 1975, there were 446,000 college professors and 268,000 administrators of all types. In the middle of the last decade, there were 675,000 professors and 750,000 administrators of their various types. We have seen a dramatic

explosion in this educational complex in which this bureaucracy has become a food frenzy, and the American families are paying for it. The very same people who you are looking at right now about -- who are making those investments oftentimes they are the ones that are dipping into their retirements to meet these exorbitant fees.

So what are we doing with the leverage that we have to begin to compel these institutions which already benefit as nonprofit institutions to say that there is -- if you want to have the benefit of government-subsidized tuition and other kinds of things, then you must demonstrate the capacity -- you are doing it in health care. Why aren't you doing it in education?

Secretary Lew. Well, Congressman, by starting with transparency and empowering families, individuals, to make decisions, that actually puts pressure on the university system to take that very seriously.

I agree with you, costs have been rising too rapidly. I think that it is not an easy thing to address because there is a kind of irreducible minimum of the number of people it takes to teach groups of 20 and 30 people, and even with the move towards, you know, high technology, ultimately contact with teachers still matters. Universities have become more complicated places. They have a complicated a variety of things they do. It is not my area, obviously, of current expertise. The Department of Education is looking hard at these issues, and I am sure they would be happy to follow up.

Mr. Meehan. Thank you.

Chairman Ryan. Thank you.

Mr. Smith.

Mr. Smith of Missouri. Thank you, Mr. Chairman.

Mr. Secretary, as I have been sitting here listening to your presentation and also a lot of questions, I am reminded of a Congressman from Missouri of a speech that he gave in 1899. It was Congressman Willard Vandiver, and what he said, and he said, "I come from a State that grows corn and cotton, cockleburs and Democrats. You're frothy eloquence neither convinces me nor satisfies me. I am from the Show Me State and you have got to show me."

And I am asking in this budget that you presented to us how the policies that is implemented in this budget helps rural America. Whenever you look at the statistics of rural America, where less than -- well, 97.9 percent of all the counties in the United States has not rebounded from the recession, and you are seeing that 60 percent of rural counties have decreased in population in the last year, what policies in your budget helps rural America rebound from this economy?

Secretary Lew. Well, Congressman, obviously agricultural policy is not primarily my responsibility, but our Department of Agriculture has been working with Congress to put in place programs that we think are very beneficial to rural America. I know that the efforts that the Department of Agriculture has made to bring investment into rural America have been very successful. I have collaborated with the Department on some of their business efforts. You know, I actually think if you look at the economic performance of rural areas, they have done considerably better than your description. Again, it is not my core area, but I would be happy to follow up with you and look at the data that you are looking at and the data that I have seen, because it has been, I think, for a lot of rural communities a better period than you just described.

Mr. Smith of Missouri. I would love to compare that. But let's talk about a policy that has been discussed, one that you have proposed and that is increasing the estate tax and the death tax. This is something that is extremely detrimental to the farmers and small business owners, at least in my congressional district.

If you look at the Bootheel of the State of Missouri, those seven counties are the -- have some of the best farmland in the entire State of Missouri and in the country. Those seven counties produce more than a third of all agriculture production for our State. The average per acre of a farm there is roughly \$8,000. The average family farm is 441 acres.

Do you realize that underneath the policies that you are proposing that every one of those average family farms in the Bootheel of Missouri would be devastated by your proposal of the estate tax that would almost -- almost count to about 57 percent of a tax on their inheritance, which as you -- maybe you don't know this, but almost 85 percent of all the values of farms is within their equipment and their farmland. They don't have a lot of -- a lot of liquid assets. So, if they have a 57 percent tax increase, they are going to have to sell their farm, which is eliminating a small business, which is destroying heritage. Would you explain that to me?

Secretary Lew. Well, Congressman, as we have looked at the estate tax over the years, we have agreed to have high thresholds so that real family farms would be large -- many would be exempt.

Mr. Smith of Missouri. So the average family farm, I said, is 441 acres. 441 acres times \$8,000 would go over your 3-1/2 million exemption. So I am saying that an average family farm does not even qualify underneath your proposal right now.

Secretary Lew. So, Congressman, I think that the goal of both our estate tax and our stepped-up basis proposals are to make sure that we don't have large appreciation of assets that essentially go untaxed for all time.

Mr. Smith of Missouri. So they need to pay taxes double and triple and basically --

Secretary Lew. No. Not double and triple.

Mr. Smith of Missouri. This is why the statistic I said earlier about 60 percent of counties in rural America are decreasing in population, because they experience a Tax Code that promotes them to sell their family farm to move to the city. And I believe that this is so unfortunate. And these policies have to be stopped, and this is a war on rural Americans. It is a war on the middle class.

Secretary Lew. I would be happy to follow up with you, Congressman, and look at some of the numbers you have described and numbers that we have --

Mr. Smith of Missouri. I would love that.

Secretary Lew. -- reviewed. I actually don't think the impact is as broad as you have described it. I am happy to follow up.

Mr. Smith of Missouri. Let's get together. Thank you, Secretary.

Chairman Ryan. Thank you.

Mr. Holding.

Mr. Holding. Thank you, Mr. Chairman.

Mr. Secretary, America is a great country because of our people. Our people are aspirational, entrepreneurial, and intuitive. And I am sure we could agree on that.

Secretary Lew. I think we can.

Mr. Holding. But when the American people see a budget which proposes more than \$2 trillion in spending, more than \$2 trillion in additional tax, more than \$8 trillion in additional debt, a budget that never balances and, at the end of the day, you end up with bigger government and bigger debt, I don't think the intuition of the American people says that that is a success. And I don't think they look upon it as, you know, this is the way forward to ensuring that America is the greatest Nation for our next generation.

I believe I am the last person, so I am going to follow up on a couple of other members' queries. First, following up on Dr. Boustany's, the question to you about the theft of intellectual property in China. I know that you have been involved and take an interest in this, and you raised it with the Chinese. Obviously strong intellectual property rights, incredibly important to our economy. It is perhaps one of our largest and most productive assets as Americans.

If you could just take a brief moment and talk about what the administration is doing to address theft of our intellectual property by the Chinese. I was in China recently, and I can tell you that I was singularly unimpressed with their efforts to prevent theft of intellectual property.

Secretary Lew. Congressman, I have raised this issue at the highest levels of the Chinese government. I think they understand that they need to take more action in this area. They have certainly indicated that they understand it is an issue. You know, the reality is they, for a long time, denied that they had a problem. And, you know, now they have a system that is, at least, starting to deal with it. We have to be relentless in pushing our view forward on this. We have to make clear that if China wants to be the world leader that it aspires to be, it has to play by the basic rules that the rest of the world plays by. And it is not limited to intellectual property. I make the case to China on currency. I make the case to China on market access. I make the case to China on competitiveness.

I think it is in our interest for there to be a healthy China, and it is in China's interest for there to be a healthy United States, but it has to be on fair terms. It can't be --

Mr. Holding. Right.

Secretary Lew. To the question on the bid came up, one of the places for us to pursue these issues is in the context of the bid discussion. Because if they can't get to meet the world standard, they can't get a bid.

Mr. Holding. All right. And you would also agree that, you know, the United States -- our intellectual property laws are probably the gold standard --

Secretary Lew. Yeah.

Mr. Holding. -- you know, around the world and that is why innovation is such an important part of our economy --

Secretary Lew. Absolutely.

Mr. Holding. -- the companies, what we innovate here.

Secretary Lew. And, in fact, if I could interrupt, Congressman. I have said to them, if you want your economy to do well in the future, you need to encourage innovation and you can't do that unless you respect intellectual property rights.

Mr. Holding. Right. So you would also agree that, in the current TPP negotiations, and as we consider TPA, that we should be very mindful of addressing intellectual property protections when we negotiate with other countries and don't dumb-down our own standards here in the United States to meet standards of countries where innovation and advancement in things like biologics, you know, are nowhere in comparison to the standards -- the innovation that we have in this country. Correct?

Secretary Lew. Congressman, I think that we have to pursue a high-standard discussion in a number of areas, intellectual property is one. But worker standards is another. Environmental standards is another.

And I heard a number of questions earlier about currency. And let me just say we take the issues of currency very, very seriously. We do it in the G-7, in the G-20, in our bilateral discussions. And we look forward to working with Congress to figure out how to talk about it in the context of --

Mr. Holding. Good. A few other quick hits.

Congressman Smith of Nebraska asked you if you thought that inheritance tax was a double taxation, and you said that you didn't think it was. So I assume that you agree with me that it is actually a triple taxation. Would I be correct in that assumption?

Secretary Lew. No, sir.

Mr. Holding. Okay. For the record, I am going to send you a follow-up question or two on FATCA, the --

Secretary Lew. Be happy to look at that.

Mr. Holding. With the renunciation rates going through the roof, really at the highest levels we have ever seen, I believe it is abhorrent that the American government is pursuing regulations and policies that would encourage Americans to renounce their citizenship. So I want -- I will submit a follow-up question.

Secretary Lew. Thank you.

Mr. Holding. Thank you.

Chairman Ryan. Well --

Secretary Lew. Mr. Chairman, you run a tight ship.

Chairman Ryan. We really try. 12:57.

Anybody want to talk for a few minutes?

Mr. Levin. No, thank you, Mr. Chairman. We have to eat lunch.

Chairman Ryan. We have to eat lunch.

Thank you, Secretary Lew, for appearing with us today.

I want members to be advised that they may submit written questions to be answered later in writing and that will also be reflective and included in the record for this hearing. We kept a tight ship. We got you on time, and the hearing is adjourned.

[Whereupon, at 1:00 p.m., the committee was adjourned.]

[Public Submissions for the Record](https://waysandmeans.house.gov/wp-content/uploads/2016/10/20150203FC-SFRs.pdf) <https://waysandmeans.house.gov/wp-content/uploads/2016/10/20150203FC-SFRs.pdf>