PRESIDENT'S FISCAL YEAR 2013 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY TIMOTHY F. GEITHNER

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

FEBRUARY 15, 2012

Serial No. 112–20

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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WEDNESDAY, FEBRUARY 15, 2012

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

The committee met, pursuant to call, at 10:05 a.m., in Room 1100, Longworth House Office Building, the Honorable Dave Camp [chairman of the committee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Chairman Camp Announces Hearing on the President's Fiscal Year 2013 Budget Proposal with U.S. Department of the Treasury Secretary Timothy F. Geithner

Wednesday, February 15, 2012

House Ways and Means Committee Chairman Dave Camp (R–MI) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2013. **The hearing will take place on Wednesday, February 15, 2012, in 1100 Longworth House Office Building, beginning at 10:00 A.M.**

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

BACKGROUND:

On February 13, 2012, the President is expected to submit his fiscal year 2013 budget proposal to Congress. The proposed budget will detail his tax proposals for the coming year as well as provide an overview of the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction.

In announcing this hearing, Chairman Camp said, **"With the unemployment rate above 8 percent for the last three years, it is clear that our economy is still far too weak and the Administration must change course if we are going to truly get America working again. This hearing will provide the Committee an opportunity to review the President's proposals, especially his policies that would make the Tax Code more complex and our companies trying to compete around the globe less competitive.**

FOCUS OF THE HEARING:

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, February 29, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman CAMP. Good morning. I want to thank everyone for being here this morning, especially our honored guest, Treasury Secretary Timothy Geithner.

Before we get started with our discussion of the fiscal year 2013 budget, I do want to take a moment and recognize Reginald B. Greene, as he has been known to all of us who come to this room as Reggie. Today marks Reggie's 30th year with this committee. In those 30 years Reggie has guided many members, myself included, in the ways of this committee. His subtle but strong manner and direction has kept this committee running like a finely tuned machine. Reggie's professionalism and demeanor have been a hallmark of his service, and he is appreciated by all who serve on this committee. So Reggie, thank you for your continued service, your dedication to this committee, and to the House, and our Nation.

Again, welcome Secretary Geithner. It is good to see you and to have you before this committee, and I look forward to your testimony today. Since our first hearing of the 112th Congress, the Ways and Means Committee has spent countless hours focused on comprehensive tax reform that will strengthen our economy and get Americans working again. I am proud of the progress that we have made so far. I realize there is much more work to do.

In our hearings focused on tax reform, there has been one common theme from our witnesses: enthusiastic support for making the Tax Code simpler and fairer so that we can transform the code from one that hinders to one that helps economic growth and spurs a climate for job creation.

Unfortunately, much of what we heard from the President in his State of the Union address and what we see here in the budget points to the opposite. Instead of focusing on tax reform that can create jobs, the budget is replete with proposals that will take more money away from employers, investors, and savers. And all told, there are nearly $2 trillion in tax increases, many of which have appeared year in and year out despite the bipartisan and bicameral rejection of those policies. Those tax increases include pushing the top rates close to 45 percent.

I understand the President's claim that everyone must pay their fair share, but what I don't understand is how raising taxes on investors and small businesses accomplishes that objective, and I certainly don't understand how that is supposed to help get Americans back to work.

Mr. Secretary, you know the facts. The bottom half of earners in this country pay no Federal income taxes. Meanwhile, the top 10 percent of earners pay 70 percent of all income taxes, which includes many small businesses that are critical to job creation. And now you want people to pay more, taking as much as 45 percent of everything they earn. And it seems to me that in America, no matter how much money you make, the Federal Government should not be able to take nearly half of your income, especially not on top of all the other local, State, and gas taxes that you pay.

I would also note that this budget more than triples the tax on dividends. This massive increase in the top tax rate on dividends marks a significant departure from prior budgets, when the President had proposed to raise the dividend rate, quote, only to 20 percent. It is also worth noting that because dividends are paid out of income that has already been taxed at the corporate level, and then are taxed again in the shareholders' hands, this proposal would push the total Federal tax rate on dividends to 64 percent.

Equally telling are the policies absent from this budget. For the last several years, Mr. Secretary, you have appeared before this committee, and we have discussed in private the possibility of some sort of comprehensive tax reform coming out of the Treasury Department. But as someone joked to me the other day, it looks like we will see a unicorn before we see this administration put out a comprehensive tax reform plan.

I understand it is an election year and playing Washington's age-old game of promising favors to special industries and special interest groups is a tried and true plan. But, Mr. Secretary, in less than 2 months, the United States will have the highest corporate tax rate in the industrialized world at 39.1 percent. This dubious distinction makes it that much more challenging to attract businesses to hire and invest here at home where we need the jobs. Simply put, this budget, coupled with the inaction of this administration on tax reform, has left U.S. companies and their workers at a competitive disadvantage in the global marketplace. It is an advertising campaign that says to job creators, "Don't invest in the United States, invest somewhere else."

Clearly, there is much work to be done on the tax reform front, but we must also focus sometime during today's discussion on our debt and deficit. The fiscal year 2013 budget is the highest budget deficit ever proposed and fails to deliver on the President's promise to cut the deficit in half by the end of his first term. We have had countless commissions, committees, and panels tasked with finding solutions. I have served on some of those. Independent economists have found that debt loads greater than 90 percent of GDP could result in the loss of up to a million jobs. We aren't at 90 percent. Our debt is now at 102 percent of GDP, and this budget proposed to keep the national debt at a level that exceeds the size of the entire U.S. economy every single year into the future. A budget that drives debt and deficits even higher will only weaken our economy and further put at risk the 13 million Americans who are currently out of work.

And with that, I will now yield to Ranking Member Mr. Levin for the purposes of an opening statement.

Mr. LEVIN. Thank you, Mr. Chairman. Welcome, Mr. Secretary. I guess it won't surprise anybody to say that I had a very different reaction to your testimony, and I know that you will have a chance to respond to our chairman.

Indeed, Mr. Secretary, as I read your testimony rather late last night, my basic reaction was this: that as you sit here before us, you and the administration stand tall. The economic policies of the administration are working. Much more improvement in our economy is necessary, but what the critics cannot escape is that there has been improvement, and the administration policies importantly contributed to this improvement.

You inherited an economy losing 700,000 jobs a month. The administration was not afraid to adopt a policy that stated clearly that in the short term, the principle must be growth. Assisted by a variety of government programs, private employers have added more than 3.7 million jobs in the last 2 years, and the rate of unemployment has dropped measurably. As your testimony indicates, there remain substantial challenges and potential dangers, but the administration is sticking to its guns.

The deficit must be and is being addressed, taking into account that in the immediate term there must be a continued emphasis on growth, which is also essential for attacking the longer-term deficit; thus, an emphasis on improving education and training and investing in infrastructure and research and development, all of which require an active public role and an active public-private partnership.

Likewise, assisting the further strengthening of manufacturing is in your testimony. It is often heard that the government should not pick winners and losers. When that rhetoric is applied blindly, it blindsides American businesses and workers. It led some to oppose government assistance to help the American automobile industry get back on its feet, not to run that industry, but to allow it to keep running. This administration should be proud that it had the courage to persevere despite all the naysayers.

Your testimony makes clear that we still have a considerable way to go to put our economy back on its feet fully, to increase the flow of jobs, to assist the American middle class to again move up the ladder, to make sure there is shared responsibility, fairness and support for entrepreneurship in our Tax Code, and to ensure continued increased growth and a major attack on our serious budget deficits.

We should act on these challenges, acknowledging, and I emphasize this, that against difficult odds, the administration has moved us forward towards achieving these goals. Thank you, Mr. Chairman.

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

Again, I would like to welcome back Secretary Geithner. Thank you for your time today. Thank you also for getting us your written statement in time for us to review it before the hearing, and it will be made part of the formal hearing record. You are recognized now for 5 minutes, and you may begin when you are ready. Thank you.

STATEMENT OF THE HONORABLE TIMOTHY GEITHNER, SECRETARY, UNITED STATES DEPARTMENT OF TREASURY, WASHINGTON, D.C.

Secretary GEITHNER. Thank you, Mr. Chairman, Ranking Member Levin and Members of the Committee, thanks for the chance to come before you today and talk about the President's budget.

Our economy today is gradually getting stronger, but we have a lot of work ahead of us still. Over the last 2½ years, despite the financial headwinds from the crisis, despite the severe cutbacks by State and local governments, despite the crisis in Europe, despite the increase in oil prices we saw last spring, despite the tragedy in Japan, despite all those shocks and headwinds, the economy has grown at an average annual rate of 2½ percent. Private employers have added 3.7 million jobs over the last 23 months, private investment in equipment and software is up by more than 30 percent, productivity has improved, exports across the American economy, from agriculture to manufacturing, are expanding rapidly, Americans are saving more and bringing down debt levels. The financial sector is in much stronger shape, helping to meet the growing demand for credit and capital.

Now, these improvements are signs of the underlying resilience of the American economy, of the resourcefulness of American workers and businesses, and the importance of the swift and forceful actions we took alongside the Federal Reserve to stabilize the financial system and to pull the economy out of the worst economic crisis since the Great Depression.

But, as I said, we still face very significant economic challenges, particularly for households and families. Americans are still living with the acute damage caused by the financial crisis. The unemployment rate is still very high, millions of Americans are living in poverty, still looking for work, suffering from the fall in the value of their homes, and struggling to save for retirement or for college education.

For these reasons, the President's budget calls for substantial additional support for economic growth and job creation alongside longer-term reforms to improve economic opportunity and to restore fiscal responsibility.

I applaud congressional leaders for yesterday's progress towards extension of the payroll tax cut and emergency unemployment insurance. These measures will be crucial to supporting millions of Americans and the broader economy as a whole, but there is more we can do.

We will continue to encourage Republicans in Congress to join with us in supporting additional actions to cut taxes for workers and businesses, to preserve the jobs of teachers and first responders, to put construction workers back to work, to help more Americans refinance their mortgages to take advantage of lower interest rates. But beyond these immediate steps, the President's budget calls for a long-term strategy to strengthen economic growth and opportunity while reducing our fiscal deficits to more sustainable levels.

Now, the conventional wisdom in Washington is that the debate we begin this week on the President's budget does not matter because Congress is too divided to legislate this year, but this is a very important debate to have, and it is important to have that debate now. It matters because this is a fundamental debate about economic priorities, how to increase growth and opportunity, how to strengthen health care and retirement security, how to reform our tax system, and how to live within our means. We must govern with limited resources. We have to make choices about how to use those resources more wisely, particularly given the millions and millions of Americans that become eligible for Medicare and Social Security over the next few decades.

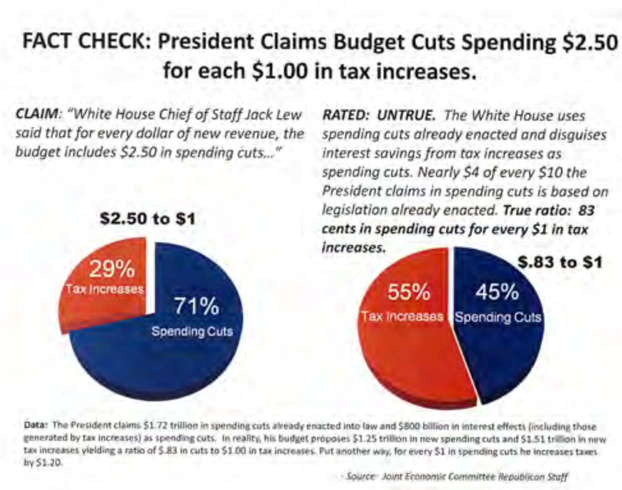
Any strategy to address these challenges has to answer a few fundamental questions. How much do we have to cut in terms of future deficits? Which programs should be cut, preserved, or expanded? How should we share the burden of deficit reduction?

Let me explain how we propose to answer those questions. The President's budget would reduce projected deficits by roughly $4 trillion or $3 trillion on top of the caps and cuts in the Budget Control Act. Overall, the President's budget would lower the deficit from just under 9 percent of GDP in 2011 to around 3 percent of GDP in 2018. Reducing the deficit to that level would stabilize the overall debt-to-GDP ratio in the second half of the decade, putting us on a path to fiscal sustainability, and putting us in a much better position to address—to confront the remaining challenges we will still face in future decades as more Americans retire.

Under this budget, discretionary spending is projected to fall to its lowest level as a share of the economy since Dwight Eisenhower was President. The President's plan would also slow the growth of spending in Medicare and Medicaid, both through the Affordable Care Act and the additional proposals we have in the budget on Medicare and Medicaid. But as we reduce spending, we have to also protect investments that are critical to expanding economic growth and opportunity, and that is why the budget makes targeted but important investments in education, innovation in manufacturing, and infrastructure.

Now, in order to achieve this balance, significant savings but some room for investment to improve growth and opportunity, we are proposing to raise a modest amount of additional revenue through tax reform. The President's plan includes $2.50 of spending cuts for every dollar of proposed revenue increases.

[The insert of Secretary Geithner follows:]



Secretary GEITHNER. Our proposal for tax reform would raise taxes by roughly 1 percent of GDP. The revenue increases are focused on the top 2 percent of American taxpayers, not the remaining 98 percent. Focusing these revenue proposals on the top 2 percent, those who have fared the best in the last decade of financial excess, is far better for the economy and more fair to the American people than cuts of an equivalent magnitude to Medicare benefits, to infrastructure, or to other programs that support our most vulnerable.

We propose tax reforms that raise revenues because we do not believe it is possible to meet our national security needs, to compete effectively in the global economy, or to preserve a basic level of health care and retirement security without some increase in revenues as part of a balanced deficit reduction plan. Although we illustrate in the budget a range of specific tax changes that could be added to the present tax system to generate the necessary revenue, we think the best approach, though, is to get there through comprehensive tax reform. We have laid out a broad set of principles for tax reform to make the system more simple and more fair and better at encouraging investment here in the United States. You can hear a little bit more from us on this topic on the corporate side in the coming weeks. I look forward to discussing those proposals with you then.

Now, I know there are Members of Congress who are critical of these proposals and would prefer a different strategy, and you should judge our plan, as I know you will, against those alternatives. Some of you have suggested that we should cut deeper and faster, with more severe austerity now, but that approach in our judgment would damage economic growth, would reverse the gains we have achieved in getting more Americans back to work, and would push more Americans into poverty. You cannot cut your way to economic growth. For the United States today, given the challenges we face, severe austerity now is not a growth strategy.

Some have suggested also we try to restore fiscal balance without raising any additional revenue from anyone, or even by cutting taxes further. To do so, it is very important to recognize this—to do so, would entail deep cuts in benefits for retirees and low-income Americans, cuts to investments in education and innovation that would hurt growth and opportunity, and cuts in defense spending that would damage our national security interests. So we will not support those alternative strategies.

I want to emphasize again, Mr. Chairman, if you do not support raising this modest amount of revenue through tax reform, then you have to ask yourself: Who are you going to ask to bear the burden that would fall on basic benefits of retirees or on our national security capacity if you don't or are not able to find additional revenues?

Now, the President's budget includes very tough reforms but with a balanced mix of spending cuts and tax reforms. It preserves room for us to make investments that will improve opportunity for all Americans, and help make economic growth stronger in the future. It protects our basic commitments to retirement security and health care for the elderly and the poor, it provides substantial immediate help for the average Americans alongside reforms to restore fiscal responsibility over the long run. This plan will not solve all the Nation's challenges, but it will put us in a much stronger position to deal with those challenges.

I would be happy to try to answer your questions.

Chairman CAMP. Well, thank you. Thank you very much.

[The prepared statement of Secretary Geithner follows:]

Embargoed Until 10:00 a.m. EST, February 15, 2012

Statement of the Treasury Secretary Timothy F. Geithner
Committee on Ways and Means
U.S. House of Representatives
February 15, 2012

Chairman Camp, Ranking Member Levin and members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2013 Budget.

I. INTRODUCTION

Three years after the worst financial crisis since the Great Depression, our economy is gradually getting stronger. The decisive actions we took to combat the financial crisis, combined with the President's policies to restart job growth and support the economy, have helped lay the foundations for continuing growth. Over the last two and a half years, the economy has grown at an average annual rate of 2.5 percent, exceeding growth in the year prior to the recession. Private employers have added 3.7 million jobs over the past 23 months, including more than 400,000 manufacturing jobs. Growth has been led by exports, which have grown 25 percent in real terms over the last 2 ½ years, and by business investment in equipment and software, which has risen by 33 percent during the same period.

While the economy is regaining strength, we still face significant economic challenges. Unemployment, at 8.3 percent, is still far too high, and the housing market remains weak. The damage inflicted by the crisis presents continued difficulties for consumers and businesses alike. In addition, the debt crisis in Europe and the slowing of major economies elsewhere in the world present potential impediments to our economic growth.

The harm caused by the crisis came on top of a set of deep, preexisting economic difficulties. In the years leading up to the crisis, the average middle-class family saw few gains in income, productivity growth slowed, and the fiscal policies of the previous Administration turned record budget surpluses into substantial deficits.

In my testimony, I want to outline the President's strategy for addressing these immediate and underlying challenges. This strategy entails a carefully designed set of investments and reforms to improve opportunity for middle-class Americans and strengthen our capacity to grow, combined with reforms to restore a sustainable fiscal position.

The Budget proposes three specific steps to boost growth and secure the United States' position as the most competitive economy in the world.

- Improving access to education and job training, so that our workers are the best prepared in the world for the jobs of the 21st century.
- Promoting manufacturing and innovation, with a particular focus on research and development and jumpstarting advanced manufacturing, so that the United States remains the world's most competitive economy and firms create well-paying jobs here at home.

- Investing in infrastructure, in order to create job opportunities now and enhance productivity in the long run.

Under the President's plan, these critical investments are combined with a balanced plan for deficit reduction. The Budget reduces projected deficits by a total of more than $4 trillion over the next 10 years by adding more than $3 trillion in deficit reduction to the approximately $1 trillion in savings already enacted through the discretionary caps included in the Budget Control Act (BCA). These savings are sufficient to stabilize our debt as a share of the economy by 2015 and begin placing our debt on a downward path.

More than two-thirds of the total deficit reduction is achieved through savings in entitlements and other spending programs, and discretionary spending is projected to fall to its lowest level as a share of the economy since Dwight Eisenhower was President.

These significant cuts are phased in over time to protect the economic recovery. Cutting spending too deeply or too soon would damage the economy in the short-term, impede our ability to make necessary investments for long-term growth, and achieve deficit reduction at the expense of the most vulnerable Americans, including seniors and the poor.

In order to achieve a sustainable fiscal position, we must combine these cuts with savings achieved through reforms to our tax code that make it simpler, fairer, and more efficient.

Sustainable deficit reduction requires the right combination of policies: we must have a tax system that collects revenue fairly and supports growth and investment, but does not place undue burdens on families and businesses; spending cuts and entitlement reforms that reduce expenditures but do not harm the economy or the most vulnerable Americans; and investments that give us the ability to grow but do not misallocate valuable government resources.

The central challenges addressed in the President's Budget—strengthening growth now, investing in our future, and putting our nation on a sound fiscal footing—complement and depend on each other. Investing in our economy will help us grow and make our fiscal challenges more manageable. Locking in credible deficit reduction, in turn, will make room for investments that enhance our long-term growth.

II. Investing in Our Competitiveness

Education and Training

An educated and skilled workforce is critical for the United States to compete in the global economy. We once led all advanced economies in the percentage of our population that graduated from high school and college, but today we are not providing enough Americans with the educational skills they need. America has fallen to 16th among advanced countries in the proportion of young people with a college degree, and many Americans of all ages need further education and training in order to succeed in today's economy.

Embargoed Until 10:00 a.m. EST, February 15, 2012

The Budget takes a number of steps to make sure that higher education is attainable and affordable. The President has increased the maximum Pell Grant by 20 percent to $5,635, and in academic year 2010-2011, Pell grants supported the educational aspirations of 9.3 million low- and moderate-income students, who received $35.6 billion in grants, an average of $3,831 for each student. This year's Budget maintains the expanded maximum Pell grant of $5,635 through FY 2013.

Moreover, as part of the bipartisan December 2010 tax compromise, the President extended through 2012 the American Opportunity Tax Credit (AOTC) he created as part of the Recovery Act. The AOTC is projected to provide nearly $19 billion in credits to over 9 million families this year. This year's Budget proposes to make the American Opportunity Tax Credit permanent, so it can offer up to $10,000 in tax credits over a four-year college career.

In addition, the Budget provides $8 billion for the Community College to Career Fund in the Departments of Labor and Education to support State and community college partnerships with businesses to build the skills of American workers. A $12.5 billion Pathways Back to Work Fund will also help jump-start America's economy by putting thousands of long-term unemployed and low-income Americans back to work and helping them gain skills for the jobs of the future. The Budget also provides support for a new initiative designed to improve access to job training across the nation and make it easier for those looking for work to access help in their communities and online.

Innovation and Manufacturing

As the global economy becomes more and more advanced, it is crucial that U.S. firms and workers remain on the cutting edge. Investment in research and development (R&D) creates good jobs for American workers, raises living standards, and keeps our economy competitive.

Private businesses are likely to underinvest in R&D, because they cannot capture all of the gains from their investment. A substantial portion of the benefits, however, accrues to the broader business community or the public at large. Federal investments in research and development have played an important role in spurring the internet, global positioning systems, and clean energy.

Though private sector investment in R&D has continued to grow, when the President took office, public investment in R&D was near its lowest levels in half a century as a share of the economy. The FY 2013 Budget proposes a number of important investments in R&D:

- The Budget includes $141 billion for Federal R&D – investments that will promote the development of a variety of high-priority technologies, from next generation robotics to nanotechnology to improved cybersecurity. The budget also keeps spending on the National Institutes of Health steady at $31 billion.
- Of this, the Budget provides $2.2 billion for Federal advanced manufacturing R&D, a 19 percent increase over 2012.

- The Budget proposes simplifying, expanding, and making permanent the Research and Experimentation Tax Credit, to provide a crucial incentive for businesses to invest in R&D.

Another key part of creating good-paying jobs for American workers is to make sure that our manufacturing sector remains on the cutting edge. The Budget includes several key investments to support manufacturing:

- The Budget sets aside $149 million in the National Science Foundation, an increase of $39 million above the 2012 enacted level, for basic research targeted at developing revolutionary new manufacturing technologies in partnership with the private sector.
- The President's Advanced Manufacturing Partnership invests in a national effort to develop the emerging technologies that will create high-quality manufacturing jobs. For example, the Budget includes $21 million for the Advanced Manufacturing Technology Consortia program, a new public-private partnership that will develop road maps for long-term industrial research needs and fund research at universities and government laboratories directed at meeting those needs.
- The Administration also supports a range of investments and initiatives to bring about a clean energy economy and create jobs for the future, especially manufacturing jobs. For example, the Budget provides $290 million to help meet the goal of doubling the pace of energy intensity improvements across America's industries over the next decade, as well as funding to double the share of electricity that comes from renewable energy sources by 2035.

Infrastructure

Our nation's aging infrastructure is a drag on growth and productivity. In order to compete in the global economy, American businesses require a world-class infrastructure. In the long-run, a modern infrastructure lowers costs for both businesses and individuals. And there is tremendous short-term value as well—according to the Congressional Budget Office, infrastructure investment is one of the most efficient job-creation programs available. With more than 2.2 million fewer construction workers on the job than at the pre-crisis peak, and with interest rates at historically low levels, now is the right time for greater public investment in infrastructure.

- The President's Budget provides funding for crucial infrastructure investments. Specifically, the Budget proposes investing $476 billion over the next six years in our nation's surface transportation system, which builds upon our proposal to immediately invest $50 billion to help workers get back on the job. The savings achieved through our orderly drawdown of forces in Iraq and Afghanistan will pay for these investments, with the other half of those savings used to reduce projected deficits.
- The Budget also calls for the creation of a National Infrastructure Bank, a bipartisan idea that will leverage private capital with more flexible financing so that we can build worthwhile projects efficiently and effectively, based on their merits.
- The Budget also provides significant new investments for the modernization of public schools and community colleges so that those who attend have access to a safe environment with modern technology.

- Finally, the President has proposed a national effort through the $15 billion Project Rebuild to put construction workers back to work rehabilitating and refurbishing hundreds of thousands of vacant and foreclosed homes and businesses, which will also help counteract the effects of blight on home prices in affected neighborhoods.

III. Continuing to Build Fiscal Sustainability

When President Obama came into office he inherited an annual budget deficit equal to 9.2 percent of GDP. Moreover, there was a need for additional steps to stop the economy's free fall, and so Congress and the President enacted the American Recovery and Reinvestment Act and other short-term programs, which temporarily added to the deficit. The expiration of this recession-related spending, economic growth, and the spending cuts mandated by the BCA, including both the approximately $1 trillion in spending caps and the $1.2 trillion that is to occur through sequestration, by themselves are projected to reduce the deficit to 3.7 percent of GDP by 2018.

However, between 2018 and 2022 the deficit under this baseline budget would actually start rising again, reaching 4.7 percent of GDP in 2022. The President's Budget therefore goes beyond the additional $1.2 trillion in deficit reduction required by the BCA, identifying additional spending cuts and revenue raisers that reduce the deficit by over $3 trillion over the next 10 years, while paying for the policies to strengthen growth and invest in our future.

By identifying savings far greater than the BCA, the Budget allows us to meet the BCA's goals while replacing the sequester's $1.2 trillion in damaging, arbitrary cuts with more responsible—and more substantial—reductions. We believe this is the right approach. As the President has made clear, it is not acceptable to simply repeal the sequester without a responsible combination of policies to replace it—policies such as the ones outlined in this Budget.

Overall, the President's plan lowers the deficit from just under nine percent of GDP in 2011 to around three percent of GDP in 2018, after which it stabilizes through 2022.

Our fiscal situation is improved by the fact that taxpayers are being repaid for many of the investments made in banks under the Troubled Asset Relief Program (TARP). We estimate that investments made through TARP bank programs, for example, will return more than $20 billion in gains to taxpayers.

Spending Cuts

Meaningful deficit reduction requires serious cuts to government spending. This will not be easy, but the President's Budget identifies areas where cuts are necessary, while protecting the most vulnerable Americans and investments in our future. As described below, President Obama proposes to reduce spending by reorganizing the government, cutting discretionary spending consistent with targets set forth in the bipartisan BCA, and reforming entitlements.

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Non-security Discretionary Spending

The $1 trillion in savings from the discretionary spending caps mandated by the BCA, which the President signed into law, reflect the hard choices that need to be made in order to meet our obligation to building a fiscally sustainable foundation. Achieving these cuts will not be easy and will require us to continue to make tough choices.

The President's Budget meets this challenge, identifying more than 200 cuts, consolidations, and savings proposals. This is on top of the ongoing effort by the Administration to make government more efficient by reducing administrative overhead costs, reforming the government purchasing process, and embracing competitive grant programs. The Budget makes these cuts in a way that asks all to shoulder their fair share.

The President has also asked for the power to reorganize the executive branch to cut out needless duplication, enhance the efficiency and effectiveness of government programs, and improve service delivery. The President has already proposed consolidating into one department the business and trade components of the Department of Commerce, the Small Business Administration, and several additional agencies to better support our nation's economic growth through trade, entrepreneurship, and innovation.

As a result of these cuts, non-security discretionary spending will fall to just 1.7 percent of GDP in the final year of the Budget horizon, as compared to approximately 3 percent this year.

Discretionary Defense Spending

Just as we must reprioritize our non-security spending to meet the challenges of the new economy, we must also rethink our defense spending in light of the evolving global environment. The conflicts our military confronted over the past decade are winding down: our troops have exited Iraq, operations in Afghanistan are increasingly being turned over to the Afghan people, and we have dealt a devastating blow to al Qaeda by eliminating Osama bin Laden and other leaders. This provides us with the opportunity not simply to cut spending, but rather to take the hard lessons learned from the past decade of conflict to create a military that secures the safety of the United States while taking into account the more fiscally constrained environment in which we are operating.

Over the next year, the overall defense budget, including overseas contingency operations reductions, will be down by 5 percent from the 2012 enacted level. On January 5, the President announced the Defense Strategic Review (DSR), which will set priorities for our national defense over a longer period. The review is designed to provide us with a leaner, more technically advanced fighting force, better designed to address the threats of today's world. In particular, the strategy calls for strengthening our presence in the Asia-Pacific region, along with continued vigilance in the Middle East and North Africa. We will also continue to invest in our critical partnerships and alliances, including NATO.

The DSR is designed to reduce defense spending over the next 10 years by $487 billion relative to last year's Budget, which will slow the growth of defense spending. The President's Budget will allow us to make significant and thoughtful reductions in defense spending without implementing the damaging path of the BCA sequester.

Mandatory Spending

Achieving fiscal sustainability in the long term will require changes to mandatory spending programs. The President is proposing $270 billion in savings over 10 years in mandatory programs outside of health care. This includes the modernization of the pay and benefits of federal workers and the military, and increasing the efficiency of our agricultural support programs. The Budget also proposes increasing the retirement security of American workers by giving the Board of the Pension Benefit Guaranty Corporation (PBGC) the authority to gradually adjust the premiums it charges pension plan sponsors, as well as a proposal to restore solvency to the unemployment insurance program. Together, these latter two proposals would reduce the federal deficit by more than $60 billion over 10 years.

However, as the population ages and health care costs continue to rise, one of the biggest challenges in addressing our long-term fiscal sustainability results from projected spending on health programs due to aging of the population and excess health care cost growth.

The Affordable Care Act (ACA) was a significant step toward controlling health care spending. According to analysis from the Congressional Budget Office, the ACA is estimated to reduce the deficit by more than $100 billion from 2012 to 2021 and by more than $1 trillion in the second decade. It is projected to reduce Medicare's average annual growth by 1.5 percentage points. One of the most important steps we can take right now for long-term deficit reduction is to implement the ACA fully and effectively.

Still, more needs to be done. The Budget therefore proposes an additional $362 billion in health care savings over the next 10 years, through better administration and innovation, strengthening program integrity, aligning payments with costs of care, and strengthening provider payment incentives to improve quality of care. The Budget also includes structural changes that will help encourage Medicare beneficiaries to seek high-value health care services.

Tax Reform

While the proposed spending cuts are an important component of reducing our deficit, the President has recognized that we cannot responsibly address our fiscal situation without raising additional revenue. As a share of GDP, tax revenues from 2009 to 2011 were at their lowest level as a share of the economy since 1950. Our current tax code is inefficient and filled with loopholes. We need a tax system that is simpler and more efficient, one where businesses and individuals play by the rules and pay their fair share. Comprehensive tax reform will strengthen our competitiveness, promote fiscal sustainability, and restore fairness.

As the President has emphasized, these reforms should follow a set of key principles. They should be fiscally responsible, so that the tax code promotes jobs and growth while collecting appropriate levels of revenue. The code should be simpler, combining lower tax rates for individuals and corporations with fewer loopholes and carve-outs—which will increase efficiency so that businesses compete based on the products and services they provide, not the tax breaks they are able to collect. And finally, it should be fair, so that middle-class Americans are not carrying more than their fair share of the tax burden.

Individual Tax Reform

As with corporate tax reform, for individual reform the best path would be to enact comprehensive tax reform that meets the principles the President laid out last September and revisited as part of the State of the Union. The key to these reforms is fairness.

The individual income tax cuts of the last decade were tilted toward the wealthy and have contributed to tax revenues falling to near their lowest level as a share of GDP in 60 years. As we consider individual reforms, families with incomes under $250,000 should not see a tax increase. But the most fortunate Americans, the wealthiest 2 percent, must contribute a greater share of their income in order to correct the imbalance in our system. And in keeping with the Buffett Rule, high-income families should not face tax rates that are lower than those faced by middle-income families.

As we move to consider these reforms, the Budget presents a path that raises the appropriate amount of revenue within the context of the current tax system. The President's Budget proposes a number of steps in line with his tax reform principles, including:

- Allowing the high-income 2001 and 2003 tax cuts to expire;
- Setting a maximum 28 percent rate at which upper-income taxpayers could benefit from itemized deductions and certain other tax preferences to reduce their tax liability; and
- Eliminating the carried interest loophole that allows some to pay capital gains tax rates on what is essentially compensation for services.

These steps in the direction of a reformed system would reduce the deficit by about $1.5 trillion over the next 10 years and would set in motion the process of broader reform.

Corporate Tax Reform

Right now, the United States has one of the highest statutory corporate tax rates in the world, but the large number of loopholes and special interest carve-outs means that effective tax rates vary widely by industry, even by company, and allow some corporations to avoid paying income taxes almost entirely. Even though our statutory corporate tax rate is among the world's highest, the corporate tax revenue we collect, as a percentage of GDP, is relatively low for advanced economies.

There are too many tax provisions that favor some industries and investments and benefit only those who receive them, rather than society as a whole. This creates problems beyond forgone revenue: it forces some businesses to carry a larger share of the tax burden than they would under a more equitable system, and it also hurts overall economic growth by distorting incentives for investment and job creation.

Soon, the Administration will release a framework for reforming the corporate tax system. This proposal will lower the maximum statutory rate, limit the ability of firms to shift profits to low-tax jurisdictions, eliminate tax expenditures that have no positive spillovers to society as a whole, and bring a sense of permanence to various provisions in the corporate income tax code. In short, it will help level the playing field for businesses and allow the government to collect needed revenue while promoting economic growth. The President's Budget proposals, if implemented, would move the existing corporate tax code in the direction of these principles but would not eliminate the need for deeper reforms.

III. Conclusion

In today's testimony, I have outlined the President's plan for addressing our substantial economic challenges through the combination of targeted investments, spending cuts, and tax reform.

In closing, I want to emphasize that bolstering economic growth in the long run and controlling our deficits both depend a great deal on us taking strong steps to support the economy right now.

A common mistake in the wake of financial crises is for governments to withdraw support for the economy too soon. Though recent economic data has been somewhat promising, we have a long way to go to fully recover from the worst shock to our economy since the Great Depression. Failure to act in the face of these challenges is one of the biggest threats to our economy ahead in 2012 and 2013. There are two key areas where Congress can provide immediate, meaningful support:

First, Congress should extend the payroll tax cut and emergency unemployment compensation set to expire at the end of this month. These extensions will put more money in the pockets of American families at a time when they need it most and will help support the broader economy. Private sector economists estimate that if these programs are not extended through the end of 2012, it will shave about half a percentage point from our GDP this year. After a fourth quarter of 2011 in which government cutbacks took nearly 1 percentage point off of GDP growth, we cannot afford to further undermine our support for the economy. And the savings to families are significant: if extended, the tax cut alone will save $1,000 this year for the typical household earning $50,000, while the extension of emergency unemployment insurance will prevent 4.5 million UI claimants who are looking for work from losing benefits, helping them and 8.3 million people living with them over the next 10 months.

Second, we must continue to work together to support the housing market, whose weakness is a stress on millions of families and a drag on overall growth. To this end, the President recently announced new policies designed to aid the housing market, including broad-based refinancing for responsible homeowners that would save the typical family $3,000 a year. We are also working with the FHA and FHFA to take a range of steps to improve access to mortgage credit, and the FHFA also recently launched a pilot program to convert foreclosed homes into rental properties.

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Finally, Congress should consider the plan set forth by the President, first in the American Jobs Act, and now in the Budget, to create jobs and strengthen our economy. The President's Budget cuts taxes for American workers. It cuts taxes for small businesses, so they can hire more people, and cuts taxes for businesses that add employees. It protects the jobs of teachers, police, and firefighters. And it puts construction workers back to work on much-needed projects. There are 13 million Americans looking for work. We have an obligation to them.

Implementation of these short-term steps will help strengthen the economy as we enter the next fiscal year. The President's Budget for FY 2013 provides a path forward that will help our nation grow now and in the future. These are important proposals. They are balanced proposals. And they will help make our economy and our nation stronger.

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Chairman CAMP. I appreciate both in your written and oral comments that we are going to look for something, particularly on corporate tax and some time. The President has been mentioning this in a couple of remarks, particularly since his 2011 State of the Union speech a year ago. But we keep hearing details that the President wants to lower rates and broaden the base, and that those details are just around the corner. And I realize we are waiting a little longer for that in your testimony, but why isn't comprehensive tax reform part of the President's budget, or even corporate tax reform part of the President's budget?

Secretary GEITHNER. Well, as I said, and I think you have to acknowledge, I think we are going to have to get to comprehensive tax reform, individual and corporate. I don't really see a way to meet the Nation's challenges effectively without doing that. You are going to hear a lot about concerns people have with how you would raise additional revenue under the current tax system. That is a good case for tax reform. So it is coming. It is inevitable, it is necessary, and we can't keep putting it off.

What we are trying to do is lay the foundation for that debate, and it is going to be a tough debate for us to have, by laying out specific elements we think we are going to have to see on the individual side to make it more fair. And you are going to see us in the next couple weeks lay out the core elements on the corporate side. The corporate side is important, too, because we want to improve incentives for investing in the United States.

So we will have a chance to begin that debate with you, and we are going to give you a fair amount of texture, although not a fully articulated set of proposals because we want to preserve some room to come together on this. I think you are going to find, although we are going to start in a different place from you, we are going to start tougher from you on a set of key provisions. There is, I hope, more room for common ground on this, and we need to use this opportunity now to start to lay the foundation for the fundamental changes ahead.

Chairman CAMP. On July 7th of 2010 you were on CNBC's Kudlow Report, and you said, and I am quoting, "We are going to make sure that we keep at 20 percent the existing rates on dividends and capital gains, we think that is good policy," end quote.

And this budget takes top marginal rates on dividends, as I said in my opening statement, to roughly 45 percent, and when you include the PEP and Pease limitations and the new 3.8 percent investment tax scheduled to go into effect next year, it is pretty high numbers. So, do you still believe that 20 percent on dividends is good policy?

Secretary GEITHNER. Well, you are right that in the President's proposals to the supercommittee in September we, as part of that comprehensive strategy, we did propose to restore the tax treatment of dividends for the top 2 percent to the rates that prevailed in the last years of the Clinton administration, which is to ordinary income, that is correct. And we did that because we found, as we were putting together a comprehensive deficit reduction plan, we were going to—we were putting $360 billion of Medicare, Medicaid cuts on the table over 10 years, very substantial cuts, hundreds of billions of dollars to other mandatory programs, and deep cuts in defense spending, that as part of a balanced package we had to find ways to do more revenues. That is why we proposed that.

But I want to say one thing, Mr. Chairman, just to go to your opening comments. You are right that we are proposing to raise the effective tax rates on the top 2 percent of Americans. You are absolutely right. We are proposing to do that. We are not doing it because we like doing it. We are doing it because to not do that requires us to find $1.5 trillion in additional savings from, again, either Medicare benefits, low-income programs, infrastructure investments, or national security. So one way to think about this, is it fair to ask 98 percent of the rest of the country to bear the burden of that $1.5 trillion, 1 percent of GDP in revenues, that we are proposing to achieve by raising the tax rate on the top 2 percent of Americans?

Chairman CAMP. I don't think those are the only choices available to us. I think obviously tax reform that creates economic growth and prosperity is another way and should be part of this mix. You mentioned, quote, the "fair share" and the President talks about it as well, high-income earners paying their fair share. The top 3 percent pay as much as the other 97 percent in income taxes, and the top 10 percent, as I said in my opening statement, currently pay 70 percent of all income taxes, and the bottom 50 percent pay no income taxes at all. Now I know they pay payroll taxes. But they don't pay income taxes. So what should these numbers be? Should the top 10 percent pay 80 percent of all taxes? Should they pay 90 percent of all taxes? What is the—from your mind, what is the appropriate amount that the top 10 percent should pay?

Secretary GEITHNER. Chairman Camp, I know we have been having this debate for a long time, we are going to have it for a long time in the future, I suspect, and we are going to come to different judgments on this. Again——

Chairman CAMP. I am just trying to get your judgment on it.

Secretary GEITHNER. The fundamental fiscal reality we face today is we have unsustainable deficits, we have to recognize those constraints. If we are going to bring them down, you have to choose, and if you choose to try to do it without any revenues, you will find it necessary to embrace cuts in Medicare benefits or in investments or national security that you will not be prepared to support. Then you can ask yourself, okay, if you recognize you have to figure out ways to get through tax reform, more revenues out of the current tax system, then you should ask who should bear the burden. And the question, should be, who is in the best position to bear the burden of that additional responsibility?

Chairman CAMP. I understand the path you want to go down, I am just trying to understand from the administration's point of view what is an appropriate level of fair share. Is it that the top 10 percent pay 80 percent of all taxes?

Secretary GEITHNER. The way—you know, we live in a——

Chairman CAMP. Because obviously 70 isn't enough; is that correct?

Secretary GEITHNER. We live in a——

Chairman CAMP. The fact that the top 10 percent pay 70 percent of all taxes, you don't feel that is enough.

Secretary GEITHNER. Well, Mr. Chairman, maybe I could try it this way. We live comfortably in a bipartisan tradition that has helped govern this country for decades and decades of a system of progressive taxation where we ask the most fortunate people to pay a larger share of their income in taxes.

Now, if you look at the effective tax rate today paid by the top 2 percent, 1 percent, 0.5 percent, 0.10 percent of Americans today, their effective tax rate is remarkably low. It is in the mid-20s today. It is not in the 40s, it is not in the 30s, it is not in the 50s, it is in the mid-20s. Now, our judgment is, again, that that effective tax rate should go up modestly for those people because, again, if we don't do that, then you have to find some way to get the savings you need to meet the other needs of the country.

Chairman CAMP. But from what I understand in your testimony, what we are going to see maybe in a few weeks is something on corporate, which I certainly welcome, and I look forward to seeing that, I hope the President gets engaged on that issue. But I don't think we are going to see anything on individual reform. I know you want to raise taxes at a certain point, but what I am trying to get is, why isn't there a comprehensive reform plan? If this is such a key part of economic recovery, why isn't there a comprehensive reform plan coming from this administration? Why isn't there an outline of a path forward in the President's budget to help us move forward in this great bipartisan tradition that you mentioned?

Secretary GEITHNER. We have been very specific about the types of tax changes we think you would have to do if you are going to work off the current tax system. You are right, though, we have not put out and we don't plan to put out in the next few months a comprehensive individual tax reform.

But let me explain why. We spent, as you know, a huge amount of time working closely with the Republican leadership over the summer to see if we could find consensus on a comprehensive balanced plan, tax reform combined with entitlement reforms. As you know, we found it impossible in that discussion, despite a lot of effort, to close the gaps between us. In fact, I think your side walked away from the table three separate times because——

Chairman CAMP. I don't think we want to really go there, Mr. Secretary.

Secretary GEITHNER. But that is the explanation. We tried with your side, and we found—it is just realistic. We found ourselves too far apart to find a basis today for a consensus on a comprehensive individual reform plan. We are going to have to get to that. But we took a run at it, and we found, just to be fair, that you were not ready yet.

Chairman CAMP. Well, to compare some private meetings with a few Members of Congress with a public proposal by the President is not a fair comparison. What we are asking for is some sort of public leadership stand on this issue.

Secretary GEITHNER. We met with the Republican leadership, not just a few Members of Congress, and we had extensive detailed discussions about a broad range of strategies on individual tax reform. But, again, to be fair, you guys were not ready.

Chairman CAMP. I think if you—I think that is not a fair characterization of what occurred there. I wasn't in those meetings, but I will tell you that I think if the President were to lead on this issue, I think there would be a receptive audience with the American people, and we could begin to fashion a public debate on this. I think what people don't like is these debates occurring behind closed doors where they are not part of it. Those were all closed-door meetings, those were not part of the public record. So what I would like to see is some proposal come from the administration on this issue.

I think the budget would have been an opportunity to do that. I am disappointed that it is not in there. But I do look forward to at least seeing this, these ideas that you are going to put together on corporate reform. And with that, I will yield to Mr. Levin for his opportunity.

Mr. LEVIN. Well, Mr. Chairman, we welcome this debate. You suggested that the Secretary not go there. He went there because you went there. I mean, you raised the issue, and I must say when it comes to proposals——

Chairman CAMP. What I objected to was the Secretary characterizing one side or another not coming to an agreement. I don't think that is—I don't think that is appropriate, and that is what I am pointing to. If he wants to talk about the discussion, that is fine.

Mr. LEVIN. Okay. It is my time. I think what he said was that there were discussions and your team walked away, and that is accurate.

Let me just say in terms of proposing a comprehensive individual tax reform, the Republicans have put out a target of 25 percent without specifying how to get there. So there is no comprehensive individual tax reform proposal by the Republicans, and still you criticize the administration. Mr. Chairman, sometimes you talk about who pays income tax, but then you ask is it appropriate for certain people to pay 80 or 90 percent of all taxes? That is simply inaccurate.

When you look at the charts for 2011, the individual income tax over $1.091 trillion, the social insurance and retirement, essentially FICA, is $818 billion. So there is no way that any group pays 80 to 90 percent of all taxes, and the Secretary appropriately pointed to the effective tax rate of 17 percent. It is on the top 400 returns, not 40 or 45 percent.

In terms of income inequality, we ought to remember that those figures are in terms of income growth. Between 1976 and 2007, the top 1 percent got 58 percent of the income growth. So when this administration talks about fair share, that is a fair position to take.

Mr. Secretary, I would like to just ask you in my remaining time, you talk in your testimony about the importance of growth, and about how we cannot cut our way to economic growth. On page 9 you say, "A common mistake in the wake of financial crises is for governments to withdraw support for the economy too soon." You have worked on this issue in this country and internationally. So tell us the philosophy, the approach, of our government.

Secretary GEITHNER. You know, unfortunately the world has a lot of experience in financial crises, mostly in mismanaging them. And again the typical mistake governments make is they wait too long to confront the crisis, act aggressively, and then at the first signs of traction they pull back and reverse course, leaving the economy weaker, the cost of the crisis greater, recession risks much higher, more unemployment, more carnage and damage from the crisis longer, and we are not prepared to make that mistake.

It is worth recognizing that today, even with all the concerns around the world about the capacity of our American political system to find common ground on these issues, Mr. Chairman, even with that concern—and we share that concern, frankly—we pay less than 2 percent to borrow for 10-year maturity. Even with the huge increase in deficits we inherited, interest cost today on our total debt is very low.

Now, we have the ability and the room now to be more careful about how we dig our way out of this mess, and not do so that adds to the burden on average American middle-class families and risk making the crisis worse and longer and more protracted. So our basic judgment is, and I think the record of history supports this, is that you have to be very careful to make sure you are working to support growth until you fully recover from the crisis. And that is why we are proposing this combination of pro-growth investments combined with long-term fiscal reforms. That is the rationale for the strategy.

Mr. LEVIN. Thank you. My time has expired.

Chairman CAMP. Thank you. Mr. Herger is recognized.

Mr. HERGER. Thank you, Chairman Camp, and I must state that I completely share your disappointment with this budget. It is frustrating to hear the President repeatedly talk about the need for bipartisan effort to fix our country's economic and fiscal challenges, yet these words are not backed up by actions. Once again, this budget does nothing to bring down our corporate tax rate that will soon be the highest in the industrialized world; it does nothing to simplify a Tax Code that costs taxpayers hundreds of billions of dollars each year just to figure out what they owe; and it does nothing to save and strengthen important programs like Social Security and Medicare that are headed towards bankruptcy.

House Republicans have made it clear that we are committed to working to find solutions on these issues so we can create jobs here in America and secure a better future for our children and grandchildren. But to make real progress we need leadership from the President, and that is why it is disappointing that we have been presented with yet another do-nothing budget that appears to be driven by election year politics instead of true leadership.

Mr. Secretary, last year this committee held a joint hearing with the Senate Finance Committee to look into one aspect of tax reform, the tax treatment of debt versus equity. Excessive debt was one of the main drivers of the recent financial crisis, and there is broad agreement that our Tax Code creates a clear bias in favor of debt financing and against equity financing; yet the President's budget proposes to triple the top marginal tax rate on dividends from 15 percent to roughly 45 percent. Won't higher taxes on dividends further encourage the use of debt financing and cause businesses to take on more leverage, increasing the risk of companies becoming insolvent?

Secretary GEITHNER. I do not believe so, but let me respond to the broader set of things you began with. The President's proposal lays out $360 billion in cuts to Medicare and Medicaid over the next 10 years. Now, you can say you like a different mix of cuts or more cuts, but you can't say there is not hundreds of billions of dollars in proposed reforms in Medicare and Medicaid in the President's budget. We also proposed hundreds of billions of dollars in other cuts of what are called other mandatory programs, very tough, very hard, not very popular sets of programs. We have proposed very substantial cuts in defense on top of the trillion dollars of cuts that we worked together on last August.

Now, again, you can decide, you would propose to go deeper and faster. Understand that perspective. Our position, though, is that would be damaging to the economy, make us worse off in the long run, and in the short run. That is the difference we share in this.

Now, on your basic question about how you think about debt and equity, let me just say a few things. Now, you are right that we have the highest statutory tax rate on corporations in the world, and that is why you are going to hear us in the next couple weeks lay out for you a broader framework of how to make our tax system for business income better at encouraging investment in the United States, and we are going to have a good debate about how best to do that. But the average effective tax rate on American corporations today is roughly the same, the effective tax rate, as our major competitors, in the high 20s. And if you look at the effective tax rate on investment financed by debt in the United States today, as you said, it is low.

Now, we think in corporate tax reform we can alter the incentives slightly in favor of the same objective you laid out, and we think we can do that. But I do not believe the proposal on dividends we suggest carries the risk you are concerned about, but I will be happy to talk to you more about that. We will have a chance, when we talk about the corporate side, to think about that basic question.

Mr. HERGER. Well, I would—and not only am I concerned with that, but others are concerned with that. In your testimony you state that there are too many tax provisions that favor some industries and investments and benefits only those that receive them. This forces some businesses to carry a larger share of the tax burden than they would under a more equitable system, and it also hurts overall economic growth by distorting incentives for investment of tax credit. Well, I will yield back.

Chairman CAMP. All right, thank you. Mr. Stark is recognized.

Mr. STARK. Thank you, Mr. Chairman, and thank you Mr. Secretary, for your testimony today. The President's budget talks about almost $500 billion in investment in surface transportation system, about $50 billion to create infrastructure jobs right now. You noted that there are over 2 million fewer construction workers on the job, and with historically low interest rates, this would make it inexpensive for communities to begin infrastructure spending right away.

In contrast, we have got a transportation bill before the House, but our House Republican leadership is proudly proclaiming that it doesn't create any jobs, and rather than invest in mass transit, they are actually defunding in their proposal the transportation funds all together.

Now, I disagree with that Republican approach, and I agree with you that infrastructure investments are the best way to create jobs right now. Can you provide some insights into that discussion in the President's proposal to create jobs through infrastructure spending?

Secretary GEITHNER. Absolutely. I think that any American, and if you talk to any business, recognize that we are living with a terribly degraded, very inefficient infrastructure across the country. Transportation infrastructure, roads, bridges, rail, airports. And that degraded infrastructure imposes a tax on American businesses. It makes it more expensive to run a business in the United States than it should be.

And it is very important we put together a long-term, multiyear plan to improve the quality of that basic infrastructure. It is good for jobs now, it is good for growth in the future, it makes businesses more efficient, more competitive. You have to do it in a responsible way. We are proposing to do it by adding to the traditional funding mechanisms, using a modest amount of the savings we get from winding down the wars in Iraq and Iran—Iraq and Afghanistan.

Now, there are some people that are going to say we can't afford to do that, and I don't agree with that. It is a good investment, it has very high returns, will help raise long-term growth, and again it is very good for getting more people back to work sooner, particularly people in the construction industry that are hurt the most by the crisis.

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

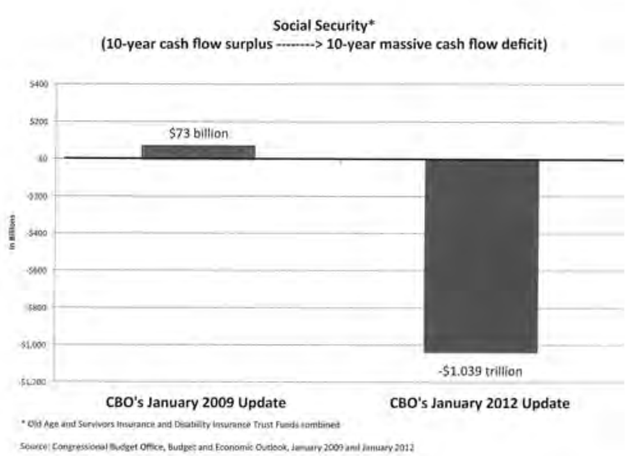
Chairman CAMP. Thank you. Mr. Nunes is recognized. I am sorry, Mr. Johnson is recognized. Apologize.

Mr. JOHNSON. Thank you.

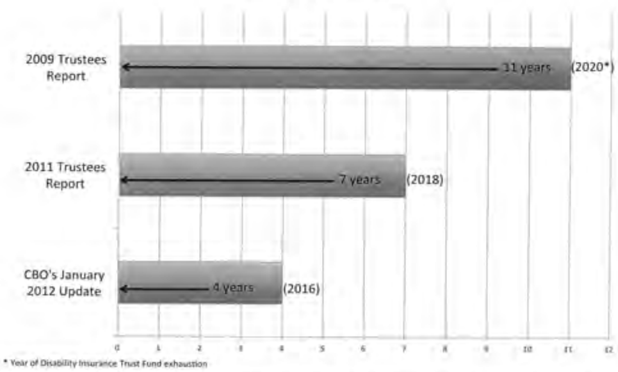
Chairman CAMP. The gentleman from Texas.

Mr. JOHNSON. My questions cover the slides you see before you.

[The insert of The Honorable Sam Johnson follows:]



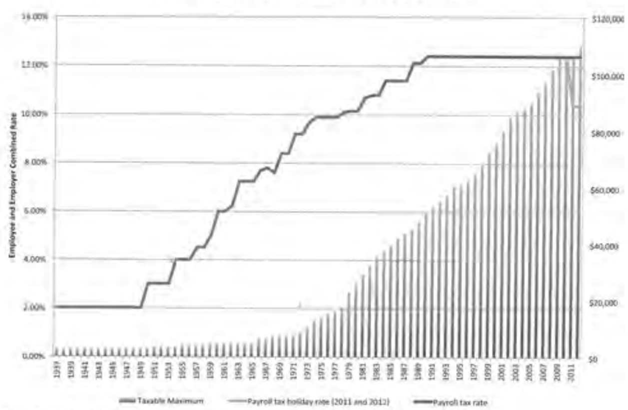
Disability Insurance Program- Time's Running Out to Reach a Solution
(Years Left of Full Benefits)



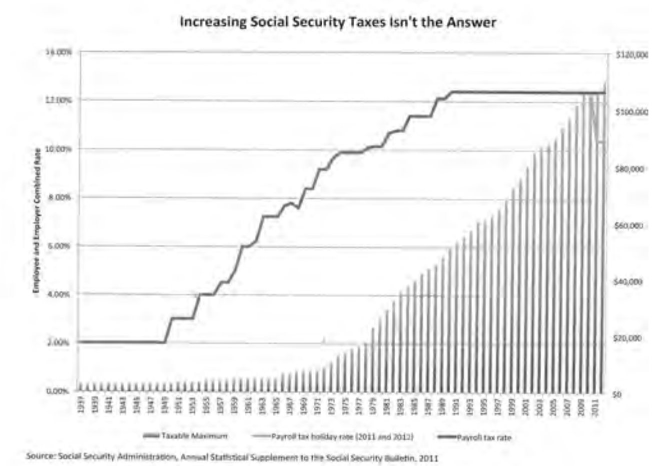
* Year of Disability Insurance Trust Fund exhaustion

Source: The 2009 and 2011 Annual Report of the Board of Trustees of the Federal Old- Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Congressional Budget Office, Budget and Economic Outlook, January 2012

Increasing Social Security Taxes Isn't the Answer



Source: Social Security Administration, Annual Statistical Supplement to the Social Security Bulletin, 2011



Mr. JOHNSON. CBO recently released its budget and economic outlook, and the news for Social Security is alarming. On the first slide you see that in January of 2009 when the President took office, Social Security had a 10-year cash flow surplus of $73 billion. Today there is a massive 10-year cash flow deficit of just over $1 trillion.

On the second slide you see that according to the board of trustees, Social Security's 75-year shortfall has increased 23 percent from $5.3 trillion in the 2009 report to $6½ trillion in the 2011 report.

On the third slide you see that time is running out for us to find a solution to ensure full disability benefits will be paid. At the time of the trustees' 2009 report, we had 11 years. At the time of last year's report we had 7 years, and according to CBO we have now just 4 years before the disability trust fund is exhausted.

As you know, President Obama in his 2011 State of the Union address said we should also find a bipartisan solution to strengthen Social Security for future generations. Last year when you were before the committee, you said it would be good for the country, I think, for us to come together on ways to strengthen Social Security, and we are willing to begin that conversation with the Congress soon. Those are your quotes.

So here we are, Mr. Secretary, 1 year later. As the managing trustee of the Social Security and Medicare Trust Fund, you well know we are facing one of the most predictable crises that worsens with each passing day, and yet there was no mention of Social Security in your testimony. The President ignored the recommendations of his own fiscal commission. He said nothing in his State of the Union, and he has proposed nothing in his budget to secure Social Security's future, not even for the disability insurance program. Why?

Secretary GEITHNER. Congressman, we share your view that we are going to have to find a way to come together on a bipartisan basis to strengthen Social Security. You are right to point out the importance of doing that, and we are still going to work with you on that.

Now, of course as you know, at the risk of provoking the chairman again, I don't mean to do this, I will do this carefully, we did spend quite a bit of time with the Republican leadership in the summer exploring ways to do that, and we found, frankly, we were too far apart; and what we are not prepared to do is to embrace reforms to Social Security that would cut deeply into future benefits for moderate-income retirees. That is not something we can do. We are just too far apart on that. But of course we are willing to work with you on that. And you are right, this is important for us to do, but there is no risk in the foreseeable future to benefits for Social Security retirees. We have a little bit of time to get this right, and we are not going to try to do it on terms that would dramatically——

Mr. JOHNSON. Well, we can keep borrowing money. I think the American people are tired of empty rhetoric and are looking for constructive solutions, so let's see if we can get somewhere.

Does the President support increasing the Social Security full retirement age, which his own commission recommended, an idea also supported by Democrats such as the vice president and minority whip Steny Hoyer? Yes or no?

Secretary GEITHNER. Congressman, again, I will be happy to talk about the broad imperative, happy to spend time on your side talking about alternative proposals.

Mr. JOHNSON. Well, that is not the question. Can you give me a yes or no answer?

Secretary GEITHNER. I am not going to talk about the specifics except to say that we will not support an approach that cuts deeply into benefits for middle-income retirees. We are not going to.

Mr. JOHNSON. I want to ask you, do you know what the tax rate and the taxable maximum amount that rate applied to was when the program first started?

Secretary GEITHNER. I don't know when the program first started, but I know——

Mr. JOHNSON. Let me help you out. The answer is 2 percent; 1 percent paid by the employee, 1 percent paid by the employer, up to a maximum amount of $3,000.

As our fourth slide shows, excluding the payroll tax holiday, we have got a 12.4 percent tax rate on earnings up to $110,100 this year. The maximum is on autopilot to automatically increase every year.

So with that, let me ask, does the President still stand by his campaign position of higher Social Security taxes, even though history shows us we cannot tax our way to sustainable solvency? Yes or no.

Secretary GEITHNER. Well, I am not sure I understand that question, but I guess I would ask you the question, which is, is your proposal to solve this problem by cutting more deeply into benefits for middle-income retirees? Because if it is, then we won't join you in supporting that.

Mr. JOHNSON. The answer is no.

And lastly with respect to the disability program, is the administration's plan to fund disability with general funds, with 45 percent of those funds borrowed from abroad, how does this work to make the program more secure?

Secretary GEITHNER. Congressman, again, we would be happy to work with you on this. As I said, we tried over the course of the summer, didn't find enough common ground. We will come back and do it again with you anytime you want to do it. You are right——

Mr. JOHNSON. Well, I am telling you there is a lot of common ground. Steny Hoyer and I have worked together. He is a Democrat, as you know.

Secretary GEITHNER. I do know.

Mr. JOHNSON. And I think that we are willing to discuss Social Security and fix it for good.

Secretary GEITHNER. Okay, I am happy to work with you on that, and again I appreciate you pointing out how important it is. It is not something we can put off indefinitely, we have to come together on it, but we are very far apart on the core substance, and we have got to figure a way to narrow our differences.

Chairman CAMP. Mr. McDermott is recognized.

Mr. MCDERMOTT. Welcome to the firing zone, Mr. Secretary. It is good to see you, and I agree with you that the budget is a statement of our priorities, and I think the President has the right ones. History has taught us that if we don't keep investing in the economy, we are not going to keep it moving. And one has to wonder in those people who want to stop investing whether they really want the economy to stagger and slow down as we come into the election. It looks very suspicious to me that they don't want to invest in infrastructure and they don't want to invest in education and R&D and the other things.

Now, investing, in my view, is absolutely critical for the economy, and it is not going to be solved by tax cuts, and I listened to them beat up on you about what went on last year, but my—just answer a generic question for me. Can you have a good-faith negotiation when one side of the table gets up and leaves? Is it possible?

Secretary GEITHNER. Well, it makes it a challenge, but I think the——

Mr. MCDERMOTT. Who do you negotiate with when they are gone?

Secretary GEITHNER. Well, it is hard, but the real challenge we face, again just to be direct about it, because we have to be honest about the debate, the real challenge we face is we are just so far apart on these core priorities.

Mr. MCDERMOTT. I would like to—let me go a little bit further. There isn't anybody who sits on the top row of this committee who believes that there is going to be tax reform in the next year. I mean, anybody who thinks that simply has forgotten everything. The tax reform of 1986 took 6 years of the Reagan administration, with Danny Rostenkowski and Tip O'Neill and the President playing golf, smoking cigars, and drinking whiskey, and negotiating for 6 years. So it isn't going to happen. So the President needn't waste his time listening to this stuff: Where is your proposal, where is their proposal? They don't have one because they won't stay at the table.

And further, when you put a committee of 12 together, and the House sends 6 Republicans who, before they walk into the room, say there will be no new taxes, you know there is nothing going to happen. Everybody knew it. I mean, we all put a brave face on, but nobody believed it.

Now, I would like to hear from you, do you think the problems of this country can be solved without raising revenue?

Secretary GEITHNER. I wish it were otherwise, but I don't think so for the reasons I said. You know, our deficits are just too high, they are unsustainably high, and we face a huge set of other challenges. And as you just can see from the terrible crude math, it is, I think, impossible to do, meaning bring the deficits down to a sustainable level.

Mr. MCDERMOTT. Is that because you think that the cuts that would have to be made——

Secretary GEITHNER. Exactly.

Mr. MCDERMOTT. —in social programs are so severe?

Secretary GEITHNER. Just think of it this way. We are proposing $1.5 trillion in tax increases on the top 2 percent of Americans over a 10-year period of time. That is 1 percent of GDP. Just 1 percent of GDP. But it is $1.5 trillion. So if you are not going to do that, you have to cut benefits by $1.5 trillion or you have to cut national security by hundreds of billions or you have to cut investments in education or infrastructure. Those are the kinds of choices we face.

So we don't come to this position with enthusiasm. We come to it by sober, responsible recognition that the fiscal alternatives we face, challenges we face, cannot be met responsibly without a modest increase in revenues through tax reform. That is the realistic responsible recognition that we have come to.

Mr. MCDERMOTT. My understanding of this President's budget is that it has an increase in investment in transportation over what the House bill that we are fiddling around with right now out on the floor. Explain your thinking about that as opposed to offering tax breaks to business if they will hire people, or all those phony things we have tried in the past. Why does infrastructure work better in creating jobs?

Secretary GEITHNER. Well, to be a little fair to the other side, we have actually proposed a combination of approaches. We have proposed a substantially higher level of investment in infrastructure for a longer period of time because for the reasons your colleagues know well, because we think there is a very high return for that economically. Growth will be higher, more people back to work, businesses more competitive. Good use——

Mr. MCDERMOTT. More jobs?

Secretary GEITHNER. More jobs, more growth, businesses more competitive. But we also propose to combine that with some very targeted short-term tax incentives like 100 percent expensing for businesses, for a temporary period of time, hopefully as a bridge to broader tax reform that will improve incentives for investing in the United States. So we are actually trying an approach that combines tax incentives for growth with infrastructure investments for growth.

Mr. MCDERMOTT. Thank you.

Chairman CAMP. Thank you. And I know that some people want to talk about everything but this budget, but let me just say that I made public statements as a member of the supercommittee that everything was on the table. The Toomey plan did put revenue on the table through pro-growth tax reform. It was about $250 billion. It was not the trillion dollars that the other side wanted. So to say that there was no proposal there is just simply inaccurate.

And I would also say on tax reform, I have a bill, a draft discussion on corporate reform. There is a plan out there. So I would just say that while there may have been meetings with the leaders, the administration has never come to this committee, which has jurisdiction over this issue, to work with Republicans and Democrats on this committee, which we have been trying to do with a series of hearings. We had 15 hearings on this issue, we have had hearings with the Senate. I think going through a regular process might be a better approach. So, again, I know from your statement you are going to be giving us some concepts or ideas on corporate reform that I look forward to. So with that, I would recognize——

Secretary GEITHNER. Mr. Chairman, could I just say——

Chairman CAMP. Yes.

Secretary GEITHNER. I would just like to emphasize the common ground. I agree with you, we are going to need comprehensive tax reform. I think it is inevitable, I think it is necessary, I think it is the best way to get a better system that is more responsible fiscally, so I am with you on that, I think the case is compelling. And the reason why I think this debate is worth having now, even if we are a little short of, on either side, comprehensive detailed legislative language, is because we have got to find a way to narrow the gap a bit if we are going to make progress, and that requires confronting this basic question of how do you make the broader plan balanced, how do you make sure there is the right mix of pro-growth things with things that are still fair in terms of opportunity; that is the debate we have to have.

Chairman CAMP. But legislation has been introduced on this issue on the corporate side.

Secretary GEITHNER. Yeah.

Chairman CAMP. I don't pretend to say it is complete.

Secretary GEITHNER. You are ahead of us on the corporate side, that is right, but we will be happy to have a little more detailed discussion in the coming weeks.

Chairman CAMP. Mr. Nunes is recognized.

Mr. NUNES. Thank you, Mr. Chairman. Mr. Secretary, I am going to try to quote you here, but I think you just said that this budget was a sober, direct recognition; is that what you said?

Secretary GEITHNER. Of the fiscal reality we face, which is unsustainable deficits we need to cut by about $4 trillion over 10 years.

Mr. NUNES. Well, I was a little stunned by the word "sober," because I was wondering if you weren't sober 4 years ago. You know, this is the same thing every year you have come before this committee. I have heard you, at least innuendo, about blaming Bush, the past administration, the problems that you inherited. Every year you come to this committee with a budget, you say the same thing, but you have borrowed $5 trillion. This country has borrowed $5 trillion in President Obama's first term, which is basically the same amount that Bush borrowed in his 8 years. And so I am just wondering, you know, we are hearing a lot about infrastructure and job creation and you guys are going to have some type of tax reform, but what happened 4 years ago? You were saying virtually the same exact speech 4 years ago as what I hear today. And so I just don't know how much more money, if $5 trillion wasn't enough.

Secretary GEITHNER. Congressman, again, if you want to talk about the relative fiscal virtue of the Republican leadership in the last decade relative to what we face, I would be happy to do that.

Mr. NUNES. No, I am just glad—I am not trying to place blame here on you or the Republicans or on anyone. I am just saying that I just find it rather ironic that now you guys have become sober suddenly and recognize that we have a budget problem in this country.

Secretary GEITHNER. That is not fair. Each of these years and budgets, we have proposed a way to get ourselves back to a sustainable position, and we have done it every year with the budget from the beginning. Now, what we are debating, though, I think, is not whether we should do that, not whether we have to do it. We are debating how we should do it. And the reason why we are having such a good debate is you do not support the strategy we have embraced to cut the deficits because your strategy, as I understand it, is a strategy that would ask us to preserve and lock in unaffordable tax cuts for the top 2 percent, and to make that tenable you want to cut——

Mr. NUNES. I can see that. The one proposal I did not support was the stimulus bill. That was supposed to go into creating infrastructure, shovel-ready project, blah, blah, blah. And so, you know, I am just trying to figure out why it is that that policy didn't work, and somehow, you know, it seems like you want to recreate another stimulus package. That doesn't seem to be possible, because at the same time you are trying to say you are going to balance the budget. I just want to know how much more should we have spent. How much more should we have spent.

Secretary GEITHNER. If you want to go back and talk about the record of what those policies are, that is fine. I can——

Mr. NUNES. I just want to know. If you didn't spend enough, how much more should we spend?

Secretary GEITHNER. If you want to look at the record of analysis about the impact on the economy, I can draw to your attention Republican economists who said growth would have been dramatically weaker, unemployment much higher, millions of jobs lost, if we had not done that. Congress did the right thing in doing that and it was necessary and decisive and effective.

Now, today, looking forward, if you don't want to invest in infrastructure, and you don't want to invest in education, and you don't want to invest in innovation, you don't want to do things for jobs now, then how are you going to get the economy growing more rapidly? That is the debate we are trying to have. Now, I completely understand and share deeply the imperative of reducing our fiscal level to a sustainable level, and we propose a way to do that. Where we differ, I think, with your side, though, is how to do it, not whether to do it.

Mr. NUNES. I think that my time is almost up and I have another quick question for you, but I think the difference is that for some reason in the administration, you guys believe government creates jobs.

Secretary GEITHNER. That is not true.

Mr. NUNES. Spending creates jobs, and we don't agree with that. But let me switch to a topic that I think we have some agreement on.

Secretary GEITHNER. I just want to say that what you just said there is not true. We recognize, as does anybody who believes in fiscal responsibility in this country, that the job of government is to create the conditions that allow businesses across the country to invest and create jobs.

Mr. NUNES. Like Solyndra would be a good example of that.

Secretary GEITHNER. Investments in clean energy are absolutely a good use of the taxpayer's money. Absolutely good, and we are going to do more of it——

Mr. NUNES. Solyndra was a good investment?

Secretary GEITHNER. It is a very good strategy, economic strategy. And there is lots of support on your side of the aisle for doing this to make sure we are creating tax incentives and financial incentives for investment in clean energy. And we will continue to find ways to do that. There is risk in doing that.

Mr. NUNES. I am glad to have you on the record defending Solyndra. That is very interesting.

Mr. LEVIN. Mr. Chairman, he wasn't doing that, by the way.

Chairman CAMP. The gentleman's time is expired.

Mr. NUNES. Mr. Chairman, if I may, I do have a question for you on the SEC regulations and I think we actually are in agreement on this, and I will get you a question in writing, Mr. Secretary.

Secretary GEITHNER. Okay. Thank you.

Chairman CAMP. If you accommodate, responding in writing would be helpful.

Secretary GEITHNER. Absolutely.

Chairman CAMP. Mr. Brady is recognized for a moment.

Mr. BRADY. Mr. Chairman, today I want to take a moment to honor one of our heroes amongst us. Thirty-nine years ago Sam Johnson returned home safely from Vietnam after being in prison for 7 years in the Hanoi Hilton, nearly half of it in solitary confinement. He is a hero among us, and each and every year we are grateful for your safe return, Sam.

Chairman CAMP. Mr. Tiberi is recognized.

Mr. TIBERI. Thank you, Mr. Chairman. That is a tough act to follow.

Mr. Secretary, you mentioned economic growth, pro-growth, growing our economy. Let me tell you a little bit about what is happening in Ohio. In Eastern Ohio you may have heard, you may have read, there has been over the last year a huge find of natural gas shale; not even really much on line yet, quite frankly. That could be a huge game-changer in Ohio. In fact, many are coming into Ohio investing. But Ohio's oil and gas industry is primarily made up of a whole lot of mom and pop—some second-, third-fourth-generation families running oil and gas businesses.

Mr. Chairman, I would like to ask unanimous consent to submit an article from the Washington Times for the record. The article discusses an Iraqi war veteran from Ohio, who upon returning couldn't find a job, and was recently hired by an oil exploration company making between $60- and $70,000 per year, allowing him to stay in his hometown.

Chairman CAMP. Without objection.

[The insert of The Honorable Pat Tiberi follows:]

The Washington Times

Natural gas extraction training opens up well-paying jobs

Sunday, October 16, 2011

By Julie Carr Smyth – Associated Press

ZANESVILLE, Ohio — Shuttered businesses and boarded-up houses dot the streets of historic Zanesville, the struggling river city where Cory May is starting a life with his young wife.

Until recently, job prospects in his native eastern Ohio were grim even for a hard-working Marine reservist willing to work hard or relocate. Mr. May's mother works as a school custodian in Cambridge, his nearby hometown. His machinist dad is among the county's 11 percent unemployed. Most of his better-situated friends are in the military or work at one of the area's remaining factories.

"It's either that or working minimum wage for the rest of your life, and let's be honest, who really wants to do that?" said Mr. May, a sturdy 23-year-old who did a tour each in Iraq and Afghanistan.

The natural gas industry has changed his prospects.

Vast stores of natural gas in the Marcellus and Utica shales running under Ohio, Pennsylvania, New York and West Virginia have set off a rush to grab leases and secure permits to drill using the extraction technique called hydraulic fracturing, or fracking.

Mr. May snapped up the opportunity through his local community college, Zane State, to take a two-week, 80-hour shale exploration certification course developed by the private company Retrain America. When he graduated, he has interviewed for three jobs and taken a position cementing wells for Halliburton that will pay $60,000 to $70,000 a year.

Zane State is among dozens of public colleges and universities across the northeastern shale states that are moving to add staff, academic majors or job-training courses in fields related to natural gas.

Through a three-year, $4.9 million grant from the U.S. Department of Labor, for example, five community colleges in Ohio, Pennsylvania, West Virginia and New York formed a coalition called ShaleNET. It is focused on recruiting, training and placing people in high-priority natural gas occupations.

"There's really been a sea change in these opportunities, a cornucopia of community colleges and local workforce training programs across the commonwealth of Pennsylvania, West Virginia, Ohio, even the southern tier of New York," said Travis Windle, a spokesman for the Marcellus Shale Coalition, representing energy and exploration companies. "As natural gas continues to expand, so do the needs for a local workforce with these skills that are going to be in need for the next 50 years, or even more."

Training shale workers is not only on the minds of energy interests in the Northeast; newly available resources in Colorado, Oklahoma, Wyoming and Texas also have been met with new educational offerings. Those include the Colorado Energy Research Institute's outreach efforts with a dozen community and technical colleges, and the professional land management certificate program started just last month by the University of Texas at Austin. The field's promised job growth is being documented.

However, Chuck Wyrostock, outreach organizer for the Sierra Club of West Virginia's natural gas campaign, said the economic benefits of the shale boom could be short-lived.

"There is some danger in young people getting trained in the area, when maybe five or 10 years from now other factors will keep them from taking advantage of it any further," he said. He said jobs in alternative energy may overtake the shale gas as America is weaned off fossil fuels.

The Penn State study anticipated that shale-related jobs would be available for 30 to 50 years, but that many workers would have to migrate over time, following the drilling rigs as they move from place to place. Many of the early jobs in Pennsylvania have been landed by out-of-state professionals, especially from energy-rich Texas, and that has concerned labor groups.

For now, Mr. May is basking in the boom times. He's still floored that he got the opportunity right at home to catch such a wave.

"It blew my mind, really. I was like what? It's coming here?" Mr. May said. "It's kind of unheard of, really."

Mr. TIBERI. The point of that article, Mr. Secretary, as you know, is that the find of a game-changer, not just for the oil and gas industry, not just for energy, but for jobs and economic growth throughout that region of our State, and there is a multiplier effect. I talked to an auto dealer in Columbus, who said a friend of his in that part of the State, an auto dealer, sold more Cadillacs last year than he has sold in years. Now, you might have a particular interest in that. That Cadillac dealer is on the verge of selling a whole lot more Cadillacs over the next several years if this oil and gas is allowed to continue to be explored and extracted.

Now, like the Cadillac dealer, most of those oil and gas companies are pass-through entities. As you know, they pay their taxes individually, the owners of those companies do. And the oil and gas industry, it is a big deal in Ohio. My understanding is the President's budget proposes to increase the top two marginal individual tax rates, therefore impacting those pass-through entities. Would that be a tax increase on the top two tax rates of pass-through entities? It is a yes-or-no answer.

Secretary GEITHNER. Yes.

Mr. TIBERI. The President's budget, in my understanding——

Secretary GEITHNER. It is worth noting, though, that again, in proposing to allow those Bush tax cuts for the top 2 percent to expire, they would return them to the level that prevailed in the late 1990s, which I think, as you know, was a remarkably good period for private investment and productivity growth and job creation and——

Mr. TIBERI. It is a yes-or-no answer. The President's budget also proposes to limit the personal exemption on itemized deductions for those individuals as well.

Secretary GEITHNER. Absolutely.

Mr. TIBERI. And finally, applying it to the oil and gas industry, my understanding is the President's budget proposes to repeal the marginal wealth credit, the intangible drilling cost and percentage depletion. And I think you have agreed in the past with me when we have talked about this, that that would be a tax increase to them.

Secretary GEITHNER. Well, it is a—I think a better way to say it, using the language on your side, it is the removal of a subsidy in the Tax Code.

Mr. TIBERI. Okay, Mr. Chairman, I would like to ask unanimous consent to submit this Joint Committee on Taxation report which determined that repealing those provisions would have a devastating impact on domestic oil and gas production, and would result in increased, unfortunately, dependency on foreign fossil fuels to be entered into the record.

Chairman CAMP. Without objection.

[The insert of The Honorable Pat Tiberi follows:]

Many observers today would agree that there are negative externalities to the consumption of fossil fuels, including both pollution and increased dependence on foreign sources of oil. For this reason, many feel that fossil fuels should be taxed heavily rather than granted certain favorable treatment in the Code. Repealing incentives for fossil fuel production would increase the after-tax costs associated with these activities, likely reduce the amount of capital employed in these activities in the long run, and potentially increase the prices of fossil fuels.[243] If fossil fuel prices were to rise as the result of the repeal of incentives for fossil fuel production, there could be substitution from fossil fuels and into other energy sources, including nuclear or renewable sources of energy. The impact on pollution of any such substitution is unclear and would depend on the type and quantity of pollution associated with the alternative energy resource. To the extent that addressing pollution concerns was a major objective, economic theory would suggest the need for a tax on the externality from the consumption of fossil fuels that equaled the social harm from the consumption. Simply removing selected subsidies related to the production of fossil fuels does not address the issue of establishing proper prices on the consumption of goods that cause pollution.

If the proposals caused substitution into alternative sources of energy, reliance on foreign sources of fossil fuels could be reduced because nuclear and renewable energy sources are domestically produced. Alternatively, to the extent that the proposals primarily affect domestic production of fossil fuels, it is possible that any substitution into these alternate energy sources reflects a substitution from domestic production of fossil fuels into domestic production of these alternate sources, thus leaving the United States' reliance on foreign fossil fuels unchanged. Furthermore, as the proposals are likely to have no effect on the world price of fossil fuels, any increase in prices for domestically consumed fossil fuels is likely to be attenuated, and the proposals could primarily result in substitution of foreign fossil fuel sources for domestic sources whose production is more reliant on the subsidies provided in current law. Such an outcome would further imply that the proposals would not lead to any shift into the alternate energy sources of nuclear or renewables. Lastly, other observers have argued that current prices and expected future demand for fossil fuels provide sufficient market-based incentives for domestic exploration and production, and have argued that the present law subsidies are unnecessary to secure a viable domestic fossil fuels production industry.

Additional motivations may also support specific proposed changes. For example, with respect to tertiary injectants opponents of repeal have also argued that the deduction for tertiary injectants encourages the use of carbon dioxide in enhanced oil recovery projects. Such projects represent a primary method of carbon sequestration, which reduces greenhouse gas emissions by capturing and storing carbon dioxide that would otherwise be released into the atmosphere.[244]

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[243] Any price rise is likely to be attenuated in the case of a globally traded commodity, such as oil, where the price is determined globally. In such a case, a decrease in United States' output may have a greater effect increasing imports of foreign oil than on increasing crude prices for domestic consumers. Similarly, an increase in United States' output may have a greater effect displacing imports of foreign oil than on decreasing crude prices for domestic consumers.

[244] See also sec. 45Q, which provides a credit for certain qualified tertiary injectant projects that use carbon sequestration.

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Mr. TIBERI. Mr. Secretary, in addition—again, talking about that Cadillac dealer, my understanding is that the President's budget changes in accounting methods eliminates LIFO, last-in-first-out, accounting within the budget that would impact not only that small business, but a number of small businesses, not only in my State, distributors, manufacturers, car dealers, devastating effects. In fact, the one car dealer, he said he would be lucky if he even stays in business if that position is repealed. Is that in the budget?

Secretary GEITHNER. Yes, it is in the budget. We have a different view of the impact, though.

Mr. TIBERI. I would love to have you talk to this car dealer. Maybe GM can have him talk to you.

Mr. Chairman, last point, question to Mr. Secretary. You mentioned that the effective rate of most our U.S. multinationals is in the 30s.

Secretary GEITHNER. High 20s.

Mr. TIBERI. High 20s.

Secretary GEITHNER. You know, mid- to high 20s is the effective tax rate. It is much, much lower——

Mr. TIBERI. We have had a dozen hearings, Mr. Secretary, and we have had CFOs, we have had tax accountants, these folks competing with German companies, Australian companies, companies from all over the world. And their effective tax rate—in fact, one told us was 36 percent. Most of what we heard from them regarding their effective tax rate was from 30 to 36.

How can we create more jobs, Mr. Secretary? How can we ask the private sector, which you just acknowledged to Mr. Nunes is where the jobs are going to be created, if we tell the pass-through entities that their taxes are going to go up? And if we tell the oil and gas companies that they are not going to be able to drill, and if we tell our corporate folks that we are only to get to 28, apparently, in the President's proposal. The corporate tax rate is not even the average of what the world is at 25 so how can we compete?

Chairman CAMP. Give the Secretary time to answer.

Secretary GEITHNER. Here is the thing to think about in this context. The effective tax rate on the energy industry in the United States today is much, much lower than the average. It is lower because the Tax Code provides a substantial amount of subsidies to those private companies.

We propose, for lots of reasons, mostly because we think it is fair and more efficient, to dial some of those back. Now, if you oppose that, you have to ask yourself who should pay for those subsidies, and why is it fair to ask other businesses or other individuals to bear the burden of paying for those subsidies in the Tax Code? That is another way to think about your question.

But since you are concerned, as far as I can tell, about the risk that the effective tax rate on the oil industry is going to be too high, ask your staff to show you what the average effective tax rate is today, because you will find it is way below the average of what other American businesses pay.

They pay more in order to subsidize that. We don't think that is efficient. We don't think it is good economic policy. We don't think it is responsible fiscal policy. And that is why we think there is need for reform there.

Chairman CAMP. Okay. Mr. Neal is recognized.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Secretary, as you know, I have been involved in the battle of Alternative Minimum Tax for a long, long period of time. I am intrigued by the proposal that the President is offering, and that you and your staff, I know, have helped to assemble. But it does bear noting. And many of the former Bush economic advisors in the last couple of weeks have indicated that many of the things that they did with the Bush tax cuts that I opposed, made the Alternative Minimum Tax not only more complicated, but it simply hit more people because of those tax cuts.

Now, I think there is an opportunity here to, as you have indicated, to force a discussion about tax reform based upon AMT in the proposal that you have. And I hope you might in the next couple of minutes maybe flesh that out for all of us. But not to miss the point, as Bruce Bartlett has indicated in a powerful little book that I would recommend to our Republican colleagues as well, an advisor to Ronald Reagan, he has kind of laid out not a left or a right scenario as much as a kind of reflection on what went awry during those years.

And the second part of my question is, what do you intend to do with the Bush tax cuts?

And the third part of the question is, I know the money market funds discussion has arisen, and as we proceed with that I think it is important to acknowledge that local government, and State government relies on those money market funds for a lot of private-sector investment and initiative. So that is a three-part question, and have a go at it.

Secretary GEITHNER. Okay. We think the Buffett Rule, which is a proposal that says what people that make more than $1 million in this country should pay in terms of their effective tax rate. No less than 30 percent is a better AMT.

Mr. NEAL. Can you eliminate AMT?

Secretary GEITHNER. We think it is a better version of an AMT. And AMT is a mess, and obviously you have to fix it. Again, we are making a simple judgment that the only way to restore fiscal responsibility and still preserve the commitments we need to make to our retirees and national security, is by a modest increase in the effective tax rate for the Americans who are in the best position to absorb that burden. That is the simple principle behind the Buffett Rule.

Now, your second question is, What do we propose to do with the Bush tax cuts? What we propose to do is to allow the Bush tax cuts that went to the top 2 percent to expire at the end of this year, as is scheduled to happen. We propose to extend the Bush tax cuts that go to middle-class families, the rest of the 98 percent of Americans that pay taxes.

We think that is good economic policy, and fair. But it is not enough. We have to go beyond that. And so in addition to that, as your colleague reminded us, we also propose to limit the value of deductions and exclusions for the top 2 percent of Americans, so the benefit they get from those deductions is the same as an average middle-class family. We think, again, that is a simple principle of fairness and fiscal prudence.

You raised the SEC money market reform questions. We are very, very supportive of the SEC's objectives of trying to make sure that we have put in place additional reforms to make a more stable money market fund industry so that it doesn't pose the risk to the broader economy in the financial system that you saw in the fall of 2008. And we are working closely, alongside the Fed, on how to get that balance right. And people are going to want to look very closely at the proposals they come out with. They will have a chance to comment on those proposals. And we will, of course, listen very carefully to any concerns raised about those proposals.

Mr. NEAL. Lastly, Mr. Secretary, as we proceed at some point, I hope, to finish the extenders here at some point, I emphasize, two initiatives that I have worked really hard on for a long period of time, the Build America Bonds, and, I would note, by way of a document that I have here that my Republican friends—boy, did their congressional districts benefit from the Build America Bonds program. And I know that there are some that have had an interest in it, and others have insisted on taking it with one hand and dissing it with the other, but it has been very effective.

And the other issue, the new markets tax credits. It worked wonders across New England as well as across the rest of the country. I think they are very sound economic principles that we can all adhere to regardless of party position or persuasion. So I am hopeful that as you proceed, that you will look favorably upon those opportunities as well.

Secretary GEITHNER. We will. And I share your enthusiasm and support for those two types of tax proposals.

Chairman CAMP. Thank you. Mr. Reichert is recognized.

Mr. REICHERT. Thank you, Mr. Chairman. Welcome, Mr. Secretary. Thank you for appearing today. We are still awaiting the arrival of Secretary Sebelius. We appreciate your presence.

Secretary GEITHNER. I wish she could be here today with me.

Mr. REICHERT. So do we.

Secretary GEITHNER. To join in the debate.

Mr. REICHERT. Yeah. Well, I also want to compliment you. You have improved in your testimony since 2009 when you first appeared.

You stick to your speaking points rather well. What I hear, though, today, is your sort of theory on economics here is that government needs to invest more money, to spend more money to decrease our debt. And also I hear that we need increased taxes on job creators. So that is what I am hearing.

I want to touch on the corporate tax reform just for a moment because I have also heard, and I have written down some quotes here, that you see an urgency here in corporate tax reform. You see an urgency. We can't wait. We have got to get this done. But we are going to hear from you and the President, a little bit later, on some of of the details.

You are going to lay out some core elements. However, there is not a full articulated proposal. You are right. We are not going to give specifics. That is one quote that you gave the chairman. This won't be in the next few months, but could be possibly in the next few weeks. So are we—I am confused. Are we going to see corporate tax reform? Are we really going to see something from the administration on corporate tax reform in the next few weeks, in the next few months, or are we going to wait until after the election?

Secretary GEITHNER. Maybe I should—since you are so interested in this timing question, maybe I should go back a little bit.

Mr. REICHERT. I only have a limited amount of time, Mr. Geithner. Mr. Secretary, are we going to see a plan on corporate tax reform in the next few weeks——

Secretary GEITHNER. You are going to see in the next few weeks us lay out a framework of proposals for corporate tax reform to begin the debate——

Mr. REICHERT. Does that mean specific details?

Secretary GEITHNER. No, it is more than principles, but less than fully articulated legislative language.

Mr. REICHERT. No specific details?

Secretary GEITHNER. No, that is not true. It will be——

Mr. REICHERT. Will we get the details later, Mr. Secretary? Mr. Secretary, specific details later to come?

Secretary GEITHNER. I think that we will——

Mr. REICHERT. By the end of the year?

Mr. LEVIN. Mr. Chairman, he should be allowed to respond to the question.

Mr. REICHERT. It is a yes-or-no question. I am looking for a yes-or-no answer, Mr. Geithner.

Secretary GEITHNER. I think we will give you a framework in the next couple of weeks.

Mr. REICHERT. Let's just say this.

Mr. LEVIN. Mr. Chairman.

Mr. REICHERT. It is my time, thank you.

Chairman CAMP. Mr. Reichert has the time.

Mr. REICHERT. Mr. Secretary, let's say that we get a plan, we see some details and some specifics.

Secretary GEITHNER. I am——

Mr. REICHERT. How do you plan, sir, to, for example, in the—in Washington State, 56 percent of our jobs are small businesses. They pay their corporate income taxes through the individual Tax Code, as you know. The very—these very same taxes that you propose, you are raising in this budget to over 40 percent in some cases; for example, 2.1 percent tax on medical devices, 3.8 percent tax on employers through the health care bill, another 40 percent tax on health care plans. You are going to raise the death tax. You are also going to raise the capital gains tax.

How do you plan to protect our small businesses, the people that are creating jobs, in your corporate tax reform? How do you plan to protect our small businesses, our job creators? That is what I want to hear from you today, and I think that is what the American people want to know.

Secretary GEITHNER. Good question. And as you know, we have worked very hard with Congress to put in place a series of very powerful tax incentives for small business over the last 3 years; very substantial, powerful programs to help get them more access to credit. We are going to build on those proposals in the things that you are going to hear from us in the next couple weeks.

It is worth noting, though, and I just want to make sure this is clear, that the proposals we have introduced in the budget to allow the Bush tax cuts for the top 2 percent to expire, as scheduled——

Mr. REICHERT. Mr. Secretary, answer the question, please.

Secretary GEITHNER. We——

Mr. REICHERT. We are looking at a 40 percent tax on small businesses. How do you plan to protect small businesses?

Mr. LEVIN. Mr. Chairman, could you let him answer the question?

Chairman CAMP. Mr. Reichert has the time.

Mr. LEVIN. Don't abuse the——

Mr. REICHERT. Mr. Secretary, please answer the question. How do you plan to protect small businesses in your corporate tax reform plan? That is what I want to know. I don't want to know what you have done in the past. I want to know what you are going to do.

Secretary GEITHNER. Again, you are going to have the chance—I am sure you will call me up here again, and I am going to look forward to talk to you about it when we lay out our——

Mr. REICHERT. Answer the question, please. Mr. Secretary, please answer the question. How do you plan to protect small businesses?

Secretary GEITHNER. You will——

Mr. REICHERT. The question has not been answered. Answer the question, please.

Chairman CAMP. The gentleman's time is expired. Mr. Roskam is recognized.

Secretary GEITHNER. Mr. Chairman, can I just respond to this question?

Chairman CAMP. Yes.

Secretary GEITHNER. Congressman, as I said, you will hear us in the next couple of weeks lay out a broad framework for reform in the corporate tax system. You will hear in that context some answers to your question. I am not going to answer that today, because we are going to do this a couple of weeks from now. But we will have the chance to talk about that, and I look forward to that.

Mr. REICHERT. Okay. Thank you for not answering the question.

Chairman CAMP. Mr. Roskam is recognized for 5 minutes.

Mr. ROSKAM. Mr. Secretary, lets switch gears. When asked about how harmful the Senate's lack of a budget was last week, Chairman Bernanke said this two-sentence—three-sentence quote. He said, "Is the uncertainty about the future of the Tax Code government programs and so forth a negative for growth? I think it is. Because firms like to have certainty, like to be able to plan."

Now, when the White House was asked its opinion about no action on the part of the Senate, the White House said they had no opinion. What is your view? Do you agree with the White House, or do you agree with Chairman Bernanke?

Secretary GEITHNER. I believe that it is very important to the future of the country, to have confidence in the United States, that Congress come together and agree on a balanced program of fiscal reforms to give Americans confidence and the investors more confidence, that we will find a way to go back to living within our means. And that is very important for us to do, and better for us to do it sooner, rather than later. And that is why we are here today, to debate how best to do that.

Mr. ROSKAM. So unlike the White House, am I incorrect in interpreting you to say that it would be helpful if the United States Senate passed a budget?

Secretary GEITHNER. No, I was answering a different question, which was that——

Mr. ROSKAM. Let's go back to the question that I answered—or that I posed. The Chairman of the Fed says it is not helpful for the Senate not to act.

Secretary GEITHNER. That is not what the Chairman said.

Mr. ROSKAM. When asked about how harmful the Senate lack of a budget is, the Chairman said this: Is uncertainty about the future of the Tax Code government programs"—that is, budget—and so on a negative for growth?" Chairman Bernanke, said, "I think it is."

Firms like to have certainty, like to be able to plan. So you are not recharacterizing Chairman Bernanke's testimony, are you?

Secretary GEITHNER. Well, to actually be fair, I didn't hear exactly what he said.

Mr. ROSKAM. Okay, that is exactly what he said.

Secretary GEITHNER. But I think you are asking a question really about budget process.

Mr. ROSKAM. No, I am asking a question, Mr. Secretary, about budget priorities. That is an acknowledgment by the United States Senate, which is what I think would be incredibly helpful to produce a budget. When the White House was asked, Mr. Secretary, about that issue, the White House said it had no opinion.

What I am asking you is, what is your opinion about the Senate's failure to produce a budget?

Secretary GEITHNER. Let me try it a different way.

Mr. ROSKAM. No, let's try it that way. So the question is: Do you have an opinion about the Senate's failure to produce a budget?

Secretary GEITHNER. Congressman, I will say I will try to state it a better way. Maybe this will be helpful to you. Congress, in August, enacted in the Budget Control Act, a series of caps and controls on discretionary spending which we are living within. We have some disagreements on how best to do that. Now, what that act did not do is reach agreement on a set of entitlement reforms—to health care, other mandatory, or broader tax reforms—to help deal with the rest of the remaining fiscal challenges we face.

Now, it is our judgment, which is why we put forward a budget and why we are having this debate with you, that we need to start to lay the foundation for bipartisan consensus on both of those entitlement reforms and tax reforms. Now, it would be good for us to do that. That is why we are having this debate.

At the end of the year, we are going to have to start that process because with the expiration of all of the Bush tax cuts and the sequester hitting at the end of this year, we are going to have to find some way to reach broader consensus on fiscal reform. That is why we are having the debate right now. So I don't know that you and I disagree in the sense that this is important for the country. That is why we are debating it. And what we have got to try to do is try to figure out how to find more common ground because, as you can tell, at the moment we are a little apart on taxes and we are a little apart on entitlements.

Mr. ROSKAM. So let's move in to try and find common ground. Is there anything fundamentally different about this budget that you are here presenting today that is different than the budget from last year that failed to get a single vote of any United States Senator?

Secretary GEITHNER. It is different in two very important respects. It lays out a much more substantial set of savings on Medicare and Medicaid and what is called other mandatory—farm subsidies, civil servants' retirement and some such things—that were not in the President's budget last year. Together those savings amount to hundreds and hundreds of billions of additional dollars over 10 years; it outlines some additional savings on the defense side, and so in that sense it is different.

It is also different in the sense that it is a much more substantial set of near-term support for job creation and growth than we proposed last February, because we would like growth to be stronger than it has proven to be. Those are the main differences from the last year's budget.

Mr. ROSKAM. My time has expired and I will yield back. Let me ask just one rhetorical question, and that is one I doubt you will answer. But that is: Does the President have a commitment from Senator Reid to put the President's budget on the Senate floor for a vote? I yield back.

Chairman CAMP. Thank you. Mr. Becerra is recognized for 5 minutes.

Mr. BECERRA. Mr. Secretary, thank you for being here. Let me first apologize to you for this committee's lack of decorum, and more specifically, lack of courtesy to you as a witness here today. There used to be a time when we could disagree without being disagreeable. And there was a time where we could have a real discussion and debate with the witnesses. But perhaps this is why so many Americans today are fed up and frustrated with Congress and give it such a low rating, in that they don't believe that we are here to listen to Americans or to its representatives, but just to say what we think.

Let me ask you a question about jobs. We have seen progress. Last month's report where over 250,000 private-sector jobs were created was a good sign, compared to just 3 years ago, when the President inherited the keys to the White House, where we lost in that month of January 2009 close to 780,000 jobs in 1 month. That is a major—a million jobs turnaround in January 2009, to what we see in terms of January 2012.

But we still have a long ways to go, because during that deep recession that began in 2007 and 2008 under President Bush, we lost close to 8 million jobs. Now, we know that we are losing jobs. At the same time, we know that a lot of those jobs aren't being lost altogether and disappearing. They are going overseas, a lot of outsourcing of American jobs. And I know that the President has said that he is very interested in trying to move forward a bipartisan policy that would allow us to insource jobs, to keep jobs in America, and I know you have got some specific proposals there.

Now, one step before I ask a question of you. A review of the employment data shows that in the 10-year period of 1989 to 1999, U.S.-based multinational corporations added 4.4 million workers to the payrolls in the U.S. They at the same time, by the way, added 2.7 million jobs overseas. So they were outsourcing back in that 10-

year period between 1989 to 1999, but they were also insourcing, insourcing more than they were outsourcing.

The 10-year period that followed, 1999 to 2009, those same U.S. multinational corporations based in the U.S. eliminated 864,000 jobs in this country at the same time that they were adding 2.9 million jobs overseas.

So, whereas in the previous decade, they were insourcing while they were outsourcing, it has now become the case that too many of those American multinational corporations are outsourcing while they are cutting American jobs here at home.

Do you have any proposals, does the President have any proposals in his budget to try to encourage American companies to insource jobs here in America?

Secretary GEITHNER. I think probably the single most important rationale for corporate tax reform and the most important test of whether we can do corporate tax reform on sensible grounds is whether we can improve the incentives for companies to create and build things in the United States, because we want U.S. companies not just to be a large share of the huge growth we are going to see outside of the United States in the coming decades, but we want to see more of that demand met by things that are not just produced and created in the United States, but support American jobs.

That is, I think, one of the most important reasons is to try to find a way to help do corporate tax reform, that brings down the rate, broadens the base, and shifts those incentives, in favor of creating and building things in the United States.

So you are going to see when we begin this discussion in the next couple of weeks about corporate tax reform, some specifics about how to do that. And I would say we would look at any proposal through that simple test, which is relative to what you face today, are we making it more likely that that next factory by a U.S. company or a foreign company is built here?

Mr. BECERRA. Now, in the last 23 or so months, we have seen some 3.7 million jobs created. So we are no longer losing the jobs, we are creating them, and we want to accelerate that. Some 400,000 of those jobs are in manufacturing in America, so we are increasing manufacturing jobs—again, not as fast as we should; but, again, do you have any proposals in the budget, tax credits, and so forth, that would incent manufacturing to occur in the U.S.?

Secretary GEITHNER. Yeah, as you heard the President say in the State of the Union, and you will see in the budget, and you will see more in the next couple of weeks, we believe that as we consider broad corporate tax reform, we need to be strengthening the incentives for manufacturing, advanced manufacturing. We think there is a very compelling economic case for doing so; again, very high returns in terms of economic growth, and you are going to see from us some more specific ideas about how best to meet that test.

Remember, the things that can move, industries will move if it is economically compelling for them to move. Manufacturing is one example of that, and that is one reason why you want to focus where you think there is a good case for special tax preferences on that important industry.

Mr. BECERRA. Thank you. Mr. Chairman, thank you very much. I yield back my time.

Chairman CAMP. Mr. Gerlach.

Mr. GERLACH. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here. I just jotted a note from your last comment that the purpose of the corporate tax reform effort that you are going to be undertaking is to basically incentivize growing jobs and building jobs here in the United States.

My district is outside of Philadelphia. We have a very significant medical device industry, and we are very concerned that the 2.3 percent tax imposed on the Obama Care legislation will actually have the opposite effect. In fact, there is a study by Avromed that there would be about 48,000 jobs lost in the industry if this $20 billion tax over 10 years is enacted—or excuse me, is implemented.

So based upon your testimony today that you intend as part of the administration to put forward a comprehensive corporate tax reform plan of action, although it won't be in legislative form, will the repeal of the medical device tax be part of that? And if so—or, excuse me—if not, why not?

Secretary GEITHNER. No, it will not be part of that, and I understand your concerns about this, and I would be happy to talk to you in more detail about it. But let me give you our general sense. The Affordable Care Act will dramatically expand insurance coverage, as you know, for tens of millions of Americans, and therefore we are pretty confident that the net impact on businesses that are in the business of providing health care devices or otherwise, will be very positive, very substantially positive, even with the measures we propose to make sure we are doing that in a fiscally responsible way. But I would be happy to talk to you in more detail about that. I understand your concerns.

Mr. GERLACH. Well, given the nature of the tax, if you are familiar with it, it is a 2.3 percent tax on gross receipts right off the top; whereas, many of the companies in our area, and Representative Paulson also has been working very hard on this issue, many of the companies only have a net profit at the end of the day of only about 1 or 2 percent. So if you are taking 2.3 percent off their gross revenues, you are putting many of those companies at risk, and in fact allowing them to consider moving to other parts of the world to undertake their R&D and their manufacturing.

So again, what is it about the medical device tax that you think somehow is going to create jobs rather than what you agree is the purpose of corporate tax reform, which is to incentivize the growing of jobs here in the United States——

Secretary GEITHNER. Again, I would be happy to spend more time trying to understand your concerns on this stuff, but we think that on balance, that mix of reforms, again, will expand health care dramatically for tens of millions of Americans, will be very positive on balance for American businesses that are in that business.

Mr. GERLACH. So you are open to the industry having more communication with you, the administration, to demonstrate why that tax is not going to incentivize job growth?

Secretary GEITHNER. I am always happy to get advice and concerns on these kinds of things and would, of course, listen on those.

Mr. GERLACH. Okay, one other question. Last year when you were here, I asked you specifically what the corporate rate ought to be rather than 35 percent, and we got you to answer a little bit on that to say you thought it should be down in the area of around 28 percent.

Secretary GEITHNER. I don't think I said—did I say—I don't think—I have been very, very careful not to give you a number.

Mr. GERLACH. Well, I would be glad to send you the transcript. But you were down—I got you down to around 28 percent. My question is: Is that where you are going to be when the corporate proposal—tax proposal comes out in terms of the new rate you think it ought to be?

Secretary GEITHNER. I think what I tried to say in the past is we want to bring down the rate, and we think we can, to a level that is closer to the average of that of our major competitors.

Mr. GERLACH. Okay, thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman CAMP. Thank you. Before I go to Mr. Thompson for 5 minutes, after him we will be alternating one and one, and we will go to 4 minutes, because I know the Secretary has to leave at 12:30. We appreciate the time that we have had with him.

So Mr. Thompson is recognized for 5 minutes, but after that, it will be 4.

Mr. THOMPSON. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here today. And I want to focus in on jobs and one particular aspect of jobs, and that is why I was so pleased to see that the President continues to make what I think are very important investments in renewable energy, including the extending the 1603 Treasury grant program, advanced energy manufacturing credit, and the production tax credit for wind, as well as calling for investments in energy-efficient buildings.

In particular, the 1603 program has leveraged nearly $23 billion in private sector investments, and it supported over 22,000 projects, nearly half of those in my home State of California. And I think every district, every congressional district represented on this dais today, has taken advantage of the 1603, and benefited greatly from that.

And I know that in California, there has been over $1.2 billion in grants issued; in Texas, over $1.6 billion in grants issued; and in my district, that means small businesses have been able to completely go to solar power or get increased amounts from wind energy. And this means that when they do that, not only does that create jobs, people installing those, people building those. But that means more money in their pockets, more money from energy savings, where they can invest more money in their businesses, they can hire more workers. And maybe some of those panels were built in the Dow plant in Midland, Michigan.

And I think it is important to point out that they received $17 million in advanced energy manufacturing credits. And that is important because that is not only jobs in Midland, Michigan, but that means that those solar panels that they are installing in my district, and most of the other districts on this dais, are made right here in the United States of America.

And also it is important that we continue to extend the production of the tax credit for wind. If that is allowed to go away, that will result in the loss of nearly 40,000 clean energy jobs. So as we continue to promote job creation, and add to the 3 million jobs that have been created over the past 2 years, what role do you see clean energy investments in our Tax Code playing in the creation of those jobs?

Secretary GEITHNER. They should continue to play an important role for all of the reasons you said. I think that they are, as part of a comprehensive strategy to make sure Americans are using energy more efficiently to reduce our dependence on foreign oil, to increase the value of renewable sources of energy. We think tax incentives like the ones you described are an important part of energy policy and a good economic policy for the country.

Mr. THOMPSON. Well, I can just tell you from my personal experience in my district and different places I have visited across this country, this is extremely important. And there are areas that are hanging high hopes on the continuation of these programs. They are working with community colleges; they are working with private business in the private sector to train individuals and to work on manufacturing in these areas. And I think this has more potential than we have already seen to date, and I see this going no place but up.

It has been brought up during some of the previous questioners, about the—what has been known as the Bush tax credits. What happens to our deficit if those expire, as they are set to expire?

Secretary GEITHNER. If you would extend the Bush tax cuts for the top 2 percent——

Mr. THOMPSON. What if it just goes away?

Secretary GEITHNER. Oh, I thought you asked the opposite. If you—well, let me try to do it this way, maybe it will answer your question. Which is, if you would extend them, it costs somewhere between $700 billion and a trillion dollars over 10 years. We don't think that we can afford to do that, which is why we propose to let them expire.

Mr. THOMPSON. And then lastly, I just want to point out a lot has been questioned of you as to where your proposal is. I am a big proponent of us doing the work here in this committee and we should be making the proposals. And if you look at the House Ways & Means Committee's discussion draft bill, and if you turn to the provision on tax reform for individuals, it reads: "Individual tax reforms to be provided."

In other words, there is nothing here. If you look at the corporate income tax rate reduction, it reads: "Other business reforms to be provided." There is nothing here.

So I suggest that we do our work, and get some proposals out on the table. I yield back.

Mr. HERGER. [Presiding.] The gentleman yields back. The gentleman from Florida, Mr. Buchanan, is recognized for 4 minutes.

Mr. BUCHANAN. Thank you. I appreciate you being here today, Mr. Secretary. My concern is, as a guy who has has been in business for 35 years—I got up here in 2007—I am a big proponent of a constitutional balanced budget amendment. We couldn't do that today to be a realist because of where we are at. But that would have been something that would have been phased in over 7 or 8 years, and this isn't a Republican or Democratic idea, both. If you look back over 50 years, we balanced the budget five times.

I look at the State of Florida, and we have had a tough time, high unemployment down there, but we were forced to balance the budget. They have had less revenues. They make the tough choices. I am very concerned that this philosophy where we don't put this in place, we are betting the farm.

In fact, one of the past secretaries, because everybody likes to refer back to the Great Depression, had said that they stimulated—they put more money into the recession. Looking back, it didn't do anything much to jobs, but what they did do is leave a pile of additional debt at that point in time.

So when we go out here and we look at what has happened over the last 4 years, and we have had plenty of debt before that but we have added $5 trillion in additional debt, aren't we potentially betting the farm? When you look down the road, we are going to be at $20 trillion in debt. The normal cost of money—you brought up interest rates—are usually 4 or 5 percent, and you are going to have a trillion dollars in interest a year before you pay out one benefit.

Why doesn't a constitutional balanced budget amendment make sense that would be phased in over a period of time, because I personally think we are incapable as an institution to deal with this.

Secretary GEITHNER. I will give you one piece of history, and this is just to comment on what you said, that the Great Depression is a way to think about this question. Which is, if you look at what happened to Federal spending and debt in World War II, you can see one of the challenges with trying to live with a balanced budget. And you saw in that context, necessary, essential, and huge, massive increases in government spending for a temporary period of time that we were able to unwind, restore, grow out of, and leave ourselves in a stronger position.

And it is, I think, very hard to run a country with an amendment that would lock in restraints to make it harder for us to deal with national security, were all of the other unforeseen challenges——

Mr. BUCHANAN. Well, let me just——

Secretary GEITHNER. But I was going to agree with you a little more, because I am with you on the basic imperative. You are absolutely right, though, that to get from a point where you have unsustainable deficits to more sustained deficits, we have to lock ourselves into a fixed set of constraints on how much we can borrow that forces us to come down over time. What we should be fighting about together, is not whether we do that, because we have to do that. What we should be fighting about is—what is the mix of policies we should embrace to get ourselves there, which is what you all have to do.

Mr. BUCHANAN. My point on that is that we have been incapable of that during the last 50 years. During the Clinton Administration, give him some credit; with the Republicans, they seemed to work together and got a balanced budget amendment. But what this does, I can tell you as a guy who worked in the middle markets for a lot of years, it creates an enormous amount of uncertainty when we start running a trillion-and-a-half and continue to run these trillion-dollar deficits, ideally going forward up to $20 trillion. People are sitting on the side lines with their cash, and that is a problem.

Let me take you to the next question. I just want to say, because someone mentioned something about a Cadillac dealer, and I will just take that one industry because I was out at their show out in Vegas. But the point is that there are 17- or 18,000 dealers. Most of them are pass-through entities. That is just one little segment in terms of businesses. Those are the folks—and one of the problems they have got in those industries, as you know, even though the banks claim they are lending, there are a lot of areas where they can't get loans, and raise taxes on a lot of small business people with pass-through entities. A lot of those people that I know are the job providers.

So I would like you to just—when you look at this thing about where are we going to get the money from, we also have to keep in mind if they have to pay another $20,000 or $30,000 a year, that is another job that they can't create.

Secretary GEITHNER. I understand those concerns and again I just want to flesh out two things. The proposals we made to let the tax cuts expire for the top 2 percent only affect 2 to 3 percent of small businesses that employ people. Now——

Mr. BUCHANAN. That might be the businesses, but how many jobs do they create or how many jobs do they have? It is a lot more than 2 or 3 percent.

Secretary GEITHNER. That is a fair point. And again, the other thing I would say is, I totally understand the concern—there is nothing easy in this—is that if you don't do what we are proposing, you still have to ask yourself who are you going to ask to pay higher taxes to avoid that, or who are you going to ask to absorb the broader cost benefits?

Mr. BUCHANAN. But if they create more jobs, ideally, then there is going to be more money, ideally, in the Treasury. Instead of paying something out, we will get something back in terms of revenues.

Secretary GEITHNER. Another comparison, again, if you look at how they did in the second half of the 1990s when they faced similar rates to what we are proposing now, they did really very well. And if you look at the health of the business community at that time—it is actually pretty strong today—but at that time, we had a very impressive record of investment, productivity growth, job creation across the business sector, even with the rates that prevailed then.

Chairman HERGER. The gentleman's time has expired. Mr. Kind from Wisconsin is recognized for 4 minutes.

Mr. KIND. Thank you, Mr. Chairman and thank you, Mr. Secretary, for your indulgence and patience with us today. To my good friend from Florida, I did support the balanced budget when it came up for consideration. I wish there was a little more flexibility in it for severe economic downturns and security contingencies and that, but I supported it, because looking back in retrospect, if we had a balanced budget amendment in place, it might have made it a little bit difficult to pass the 2001, 2003 tax cuts without paying for them or entering into two major wars in Iraq and Afghanistan without paying a nickel for them, or passing a new prescription drug plan, Part B, the largest expansion of entitlement spending since Medicare was first created in 1965, without paying a nickel for it.

And, Mr. Secretary, you and the President, this administration inherited a mess. I mean, we were losing 750,000 jobs a month the day President Obama was sworn in; $17 trillion of wealth was already destroyed in the stock market; and you inherited a $1.5 trillion annual budget deficit. And I think, clearly, progress is being made, and I appreciate the work that you and this administration have put into focusing on the economy and job creation.

I am going to ask you your thoughts on the insourcing initiative that this administration is focused on, and I am glad to see that today the President is in my home State, Milwaukee, visiting Master Lock. And it is a wonderful insourcing story of a major manufacturer in the Upper Midwest that has brought back over 100 jobs right now.

And I know this administration has been focused on what more we can do to encourage that insourcing and expanding the manufacturing base of this country.

Later this month, I believe, you are going to be holding a Select USA Investment Summit, bringing people together about the value of investing and growing jobs here in America. And we will have an opportunity, I feel, for the Tax Code, of trying to really incent businesses to stay in America or locate in America to produce jobs. And I believe that a global economic power like us has to have the ability to make and invent and produce things again.

There are a lot of reasons why businesses decide to locate where they are—from wages to sourcing supply to customer base to quality control and that—but also one of the reasons is we can't ignore the Tax Code. And I would like to see us work in a bipartisan fashion, through the Tax Code, of reducing that rate to any company, and hold out the promise that if you are a business that wants to make something or invent something, create, produce, or grow something here in America, you are going to get a significant tax advantage for doing that. And I would like to hear your thoughts on that.

Secretary GEITHNER. We are in the same place as you, and you made the case well. And again, I think that is the test that you should apply to any broad-based tax reform. We want to look at it in its totality and say is it going to make it more likely, more economically compelling, that more companies—American and foreign—are making that investment here. So we are not just designing and creating things here, but we are building things here in the United States. And I think you made the case well.

You are going to hear again, you will see some proposals in the budget to do that, and you will hear some more from us in the next couple of weeks. I think it is important to recognize that, and I know you do, that a substantial amount of production by American companies is going to happen outside the United States. And that is going to continue. That is necessary, it is probably desirable. But what we don't want to do is to have the Tax Code at the margin make that happen where it doesn't need to happen. And again, we think through better designed reforms, we can shift the incentives in favor of building and creating more of those things in the United States.

Mr. KIND. While I share the goal that trying to lower the marginal rates for all companies is a desirable goal and that, but I think we can be doing more to try to incent manufacturing activity in this country as well. And I am looking forward to hearing the administration's proposals on this. There hasn't been a lot of definition with the work that we have been doing in this committee, and to be fair, I think we have to put something on paper so that we have a real discussion point rather than the philosophical hearings that we have been having. And trying to get to 25 in the deficit-neutral fashion is going to be difficult. But it also ignores the fact that most of the other countries we are competing with has a VAT in place——

Secretary GEITHNER. That is right.

Mr. KIND. —to supplement the lost revenue from having lower corporate rates, and no one is discussing that around here. How do we do this in a deficit-neutral fashion while still making our companies as competitive as they need to be?

Secretary GEITHNER. I am glad you pointed that out. Can I just say one thing Mr. Chairman, quickly?

Chairman CAMP. [Presiding.] Quickly, yes.

Secretary GEITHNER. You are right that, you know, those countries that have moved to lower their statutory rates did so by raising what were already pretty substantial VATs, and the test that you should apply to any tax reform plan is, is it going to help reduce the deficit? Is it going to be fiscally responsible, and is it going to make the system more fair, more efficient? Is it going to improve the incentives for investing here?

Chairman CAMP. Dr. Price has 4 minutes.

Mr. PRICE. Thank you, Mr. Chairman. Thank you, Mr. Secretary for joining us again. The level of deficit in the next fiscal year projected in your budget, is——

Secretary GEITHNER. Let me see if I got this right. We are about 8.6, a little below 9 percent in 2011. We have——

Mr. PRICE. How about in absolute values?

Secretary GEITHNER. I am trying to get to this.

Mr. PRICE. I have only got 4 minutes.

Secretary GEITHNER. We came down a bit in 2012. We came down really quite substantially in 2013, so somewhere between 5 and 6 percent of GDP in 2013.

Mr. PRICE. And the absolute number is about $1.3 trillion.

Secretary GEITHNER. I am not sure that is right, but what matters is the share of GDP.

Mr. PRICE. The absolute number is about $1.3 trillion. Discretionary spending is about a trillion dollars; is that correct, ballpark?

Secretary GEITHNER. Well, the discretionary numbers are set by the cap.

Mr. PRICE. I understand. I am just talking about absolute numbers. You have $1.3 trillion in deficit. You have got $1 trillion in discretionary spending, which means if you did away with all of discretionary spending, the entire Federal Government, outside of the mandatory spending, you wouldn't balance the budget, is that correct, in the next year?

Secretary GEITHNER. I like where you are going. Go ahead.

Mr. PRICE. So where is the solution? Where are the reforms on the mandatory side that allows us to get to balance in your budget?

Secretary GEITHNER. Okay, good question. So we have $360 billion in reforms to Medicare and Medicaid over 10 years.

Mr. PRICE. And those come from?

Secretary GEITHNER. They come in Medicare in the form of lower payments to providers, and some modest changes to the share of health care costs borne by upper-income Americans. Medicaid, a set of other reforms that the budget outlines in some detail. We go beyond that, though, in non-health, other mandatory——

Mr. PRICE. Let me get this straight, if I may. The fundamental reform, the solution to saving Medicare in this country, is to raise rates on folks who have a significant income, and to whack away again at providers in terms of their payment for services; is that right?

Secretary GEITHNER. No, I wouldn't say that. We are not claiming to offer the definitive long-term solution to Medicare.

Mr. PRICE. Let me ask you why—why you are not offering the fundamental reform for Medicare, when we understand that we could do away with the entire spending in the Federal Government, except for mandatory spending, and not even approach balance.

Secretary GEITHNER. Well, we are, again, we are proposing this comprehensive set of reforms, including to Medicare and Medicaid, which together bring the deficit down to a sustainable level over the next 10 years. But as I said in my opening statement, that just puts us in a better position to go confront the long-term challenges we face.

Now, as you know, the Affordable Care Act takes $100 billion, roughly, out of the deficit in the next 10 years, and a trillion in the second decade. We go beyond that with this additional $360 billion of reforms in Medicare and Medicaid in the next 10 years.

Mr. PRICE. Let me share with you the concerns of physicians across this land caring for patients. And that is that your reforms in both the Affordable Care Act and in this current budget decrease the ability of physicians to care for patients, because you empower in this budget, the Independent Payment Advisory Board, which is a 15-member board of unelected bureaucrats with no appeal process, no appeal process, no requirement that any of them are actively practicing physicians. And what your budget does and what the Affordable Care Act does is say to physicians, we will not pay you for those services, because you can't cut benefits to the seniors, as you well know, by law. So the only thing that you can do, by your own admission here today, in this $360 billion, is to decrease payments to providers.

What that means, Mr. Secretary, as you well know, and as I think the President well knows, and certainly the American people know, is what this will result in is a decreased access to care in this country, a decreased quality of care in this country, and decreased ability of the physicians in this country to care for patients. And that is what gives them nightmares.

Chairman CAMP. All right, time has expired. We will go to——

Secretary GEITHNER. May I respond to that? I understand your concerns about this. I just want to point out that if you don't do it the way we propose it, then you are going to have to do it with deeper cuts in benefits to middle-income Americans. So we are not claiming we solve all the problems. We understand your concerns about this, but life is about alternatives; we have to make choices and we think this mixed proposal is better than asking a middle-income retiree to pay dramatically higher costs for their health care in their retirement.

Chairman CAMP. We are going to go back to a 2:1 ratio. And after—the next two speakers will be at 4 minutes. We are going to have to go to 3 minutes to be able to conclude by 12:30. So, Ms. Jenkins is recognized for 4 minutes.

Ms. JENKINS. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here. And Mr. Secretary, you have described this budget as a carefully designed set of investments and reforms to boost growth, create jobs, and improve opportunity for middle-class Americans. And last year the President gave a speech in my district, at home in Kansas, where the President boasted about making productive investments to secure a solid future for the middle class. However, the President's speech also instructed the crowd that, of course, those productive investments cost money, and they are not free.

I think we all understand that this White House's spending is not free. And I think where we differ is where we should trust middle-class families. Should we trust families in Kansas to make their own productive investments rather than funneling our money through Washington? And the real threat to middle-class families, I believe, is Washington's never-ending appetite to spend money.

This budget would increase spending by $200 billion, to $3.8 trillion, or more than 24 percent of GDP, which, according to even your own rosy projections, would result in a projected deficit of $1.3 trillion, adding $7 trillion in debt through 2022. And the numbers only get worse.

At the same time, your budget calls for $1.9 trillion in new taxes from across the economy. I believe you have proposed tax increases on the rich and growing small businesses, an undefined Buffett tax increase, double taxation on dividends. You capped charitable contributions, taxed the oil and gas industry, and even managed to shake some spare change from the aviation industry, not to mention the $1 trillion in fabricated war savings. And even after your budget has taxed the rich, the oil and gas, business, jet manufacturers, you still continue to run record annual deficits for years to come; never, ever approaching balance. You never, ever balance the budget, or lay out a plan to eliminate this national debt.

Rather than protecting the middle class, I would suggest this budget will saddle the middle class, and those aspiring to be in the middle class, with trillions in national debt. It seems that this guarantees—your budget guarantees tax increases that will fall squarely on the middle class. There is no one left to tax.

So my question is, doesn't the White House's inability to control spending mean that eventually middle-class taxpayers will just end up footing this bill?

Secretary GEITHNER. You are mistaken in that judgment, and the President is committed and you have heard us say over and over again, that we will extend the Bush tax cut for middle-class families.

Ms. JENKINS. Who is going to pay off the debt? Who is going to balance the budget after you tax all of these other people and no one is left but the middle class?

Secretary GEITHNER. You listed accurately not the implications of those scenarios, but you listed very accurately exactly how we propose to restore our deficit to a little more secure level.

Ms. JENKINS. You don't get to balance.

Secretary GEITHNER. No, we——

Ms. JENKINS. And you never, ever even address the national debt.

Secretary GEITHNER. We get to the critical test of fiscal responsibility and sustainability, which is, do we reduce the deficits to the level where our debt burden as a share of the economy stops growing and starts to decline.

Ms. JENKINS. That is your definition.

Secretary GEITHNER. No, that's——

Ms. JENKINS. In Kansas, hardworking families don't spend more money than they take in. Can you do that?

Secretary GEITHNER. Well, let me pose it slightly—maybe this way it would be helpful. Who would you like to bear the burden of reducing our deficits? If you would like——

Ms. JENKINS. I would like us to control spending, and that is what I am trying to point out.

Secretary GEITHNER. Where would you like to cut spending deeper than what we proposed?

Ms. JENKINS. I think you will see a House budget that was proposed last year that eventually gets to a balanced budget and eliminates the debt, and I would be surprised if—excuse me, I would be surprised if you don't see the House Republicans pass a similar budget this year. And I yield back. Thank you.

Chairman CAMP. And if the Secretary could respond briefly, I will then go to Mr. Crowley.

Secretary GEITHNER. Okay. If you propose a way to get to balance the way you did last year, then what you show again is, if you do it without modest tax increases on the top 2 percent, then you have to cut deeply into Medicare benefits to do it and into low-income country program. And we will not support that.

Chairman CAMP. Mr. Crowley is recognized for 5 minutes.

Mr. CROWLEY. Mr. Chairman, just very briefly. Thank you for the time. I do note that, Mr. Secretary, that I suspect they will have a similar budget that they did last year that would include the Ryan provision which would voucherize, voucherize and privatize the Medicare system. Is that not what you suspect, Mr. Geithner?

Secretary GEITHNER. Well, I can't speak for them.

Mr. CROWLEY. The gentlelady just mentioned that they suspect that they, she suspects they will pass the same type of budget this year, Republican majority will pass the same type of budget. Is it not—for the record, did it not include a voucherizing of the Medicare system in their last budget?

Secretary GEITHNER. Well, again, if they propose what they did last year, that would be a fair description.

Mr. CROWLEY. Thank you. So there is an answer to their side; they want to privatize the Medicare system, they want to basically take government out of the Medicare system and put it into the hands of private insurance companies. Do you not suspect that as well, Mr. Geithner?

Secretary GEITHNER. Well, again, I don't want to speak for them, but I would say the basic point is if you want to reduce our deficits and you want to do it without raising revenues on anybody, then you have no alternative but to cut deeply on the principal drivers of—which are benefits to retirees.

Mr. CROWLEY. I want to focus particularly on this section of the President's budget. The President's budget assumes that average civilian unemployment will fall from 9.0 percent in 2011 to 8.9 percent in 2012. The reality is the unemployment data used by the administration is far higher than the current actual levels of unemployment, which is, I think, a good thing. For example, the U.S. economy has added private job sectors—sector jobs for 23 straight months, for a total of 3.7 million private sector jobs over that period. In the last 12 months 2.2 million private sector jobs were added on net.

The U.S. automobile industry is thriving and adding workers again, this despite my Republican colleagues' objections to the Federal Government aiding the U.S. manufacturers like General Motors and Chrysler. The Recovery Act has helped create millions of new jobs, particularly in construction and infrastructure, through programs administered by Treasury Department, like the Build America Bonds program.

Chairman Camp, I ask permission to submit for the record a list of every Build America Bonds infrastructure project funded under the Recovery Act in every district of Members of the Committee on Ways and Means.

Chairman CAMP. Without objection.

Information Not Provided

Mr. CROWLEY. Now, all of this, Secretary Geithner, has happened with little or no help from my Republican colleagues who control the House today. In fact, no help, quite frankly, from my Republican colleagues. These are all positive steps and an improvement over when President Bush left office and the Nation was losing 1 million jobs per month. Though I know, I know with an unemployment rate at 8.3 percent, it is not time for a victory lap, and I am not going to ask you to go and explain exactly how we got to this point in a very positive way. Can you just very briefly tell us what the President's budget lays out for the future in terms of job growth?

Secretary GEITHNER. The President lays out a series of specific proposals to improve investments and things that will help improve job creation, bring down the unemployment rate faster, like in infrastructure, but to combine those with—this is of course beyond the payroll tax cut extension which we hope Congress will enact soon—combined with a series of very affordable, quite modest investments in education, in training, community college, and in basic science, research and innovation, so that we are doing things not just to help near-term growth but also improve the long-term growth prospects of the economy.

Mr. CROWLEY. Mr. Geithner, I made it very clear my disappointment, in particular, with the $260 billion transportation bill that Speaker Boehner has put forward, which he and I both agree—which he has said will not create jobs. I just want to submit for the record once again the Speaker's statement here where he almost proudly asserts that the Republican $260 billion transportation bill will not create any jobs for Americans. And with that, I will yield back the balance of my time.

[The insert of The Honorable Joseph Crowley follows:]

CQ

Boehner Downplays 'Stimulus' of Highway Bill

Wednesday February 1, 2012

By Nathan Hurst, CQ Staff

House Republican leaders worked Wednesday to sell their five-year, $260 billion highway bill to a caucus wary of anything that smacks of big-spending economic "stimulus" legislation.

On the eve of what promises to be a contentious Transportation and Infrastructure Committee markup of the bill (HR 7), aides to several freshman Republicans said the leadership was ratcheting up pressure to back the bill — even as several GOP-leaning policy groups came out against the legislation.

In pitching the bill to the House Republican Conference on Wednesday, Speaker John A. Boehner made the unusual argument that spending money on highway projects under a bill he calls the "American Energy and Infrastructure Jobs Act" would not create jobs.

"We are not making the claim that spending taxpayer money on transportation projects creates jobs," the Ohio Republican said, in remarks prepared in advance of the meeting. "We don't make that claim and we won't make that claim. What makes this a jobs bill is that it removes government barriers that are getting in the way of economic growth."

While downplaying the direct stimulative effect of government infrastructure spending — a 2007 Federal Highway Administration study found that every $1.25 billion in federal spending on transportation infrastructure supports 35,000 jobs — Boehner instead stressed features of the bill more appealing to tea party followers and deficit hawks. Those include provisions to streamline environmental approvals, eliminate duplicative and wasteful programs and expand oil and gas drilling on public lands and federal waters.

Those provisions were not enough to win the support of conservative policy groups such as the Heritage Action for America, the Club for Growth and the Competitive Enterprise Institute, which criticized the Republican leadership's bill.

"Supporters of the bill will claim that there are plenty of positive reforms in the bill," Club for Growth leaders said in a key vote alert sent Wednesday morning. "But it's still a remarkably bloated and inefficient piece of legislation."

Heritage Action said the measure was "a missed opportunity to begin devolving transportation authority back to the states" and would create a "massive budget gap." The Competitive Enterprise Institute said using royalties from an expansion of energy production to help fund the measure would violate the "user pays" principle established with creation of a Highway Trust Fund in the 1950s bankrolled primarily with motor fuels taxes.

While drawing criticism from the conservative policy groups, Boehner and Transportation and Infrastructure Chairman John L. Mica, R-Fla., also probably cannot count on any help from Democrats. In addition to their policy objections, House Democrats complain they were cut out of the process of fashioning the bill.

"There hasn't been a single damn hearing," said Massachusetts Democrat Jim McGovern, a senior member of the Rules Committee.

McGovern said he was working with fellow Democrats on amendments targeting provisions in the bill that they oppose, including provisions to allow bigger and heavier trucks on federal highways and to cut Amtrak funding by 25 percent.

Democrats on the Transportation panel remained largely quiet on the bill, although an aide said members were working on a strategy for offering amendments at the markup Thursday.

Boehner reminded members of his caucus Wednesday that he has never voted for a highway bill and was among just eight memhers who voted against the 2005 surface transportation law (PL 109-59). He said this proposal is different because it includes no earmarks and no new taxes. He acknowledged that the new oil and gas royalties would not be enough to fill the gap between Highway Trust Fund resources and authorized spending, and he said there would be a short-term "plug."

Boehner said the bill would cut project approval times in half and empower the states.

He said that "doing nothing is not an option" and that without legislation the Highway Trust Fund will run out of money next year and highway spending would then be limited to gas and diesel tax receipts.

"Whether we like it or not, the reality is that dealing with our nation's crnmbling infrastructure is part of the responsibility of governing," Boehner told the GOP conference.

Boehner also said that under the two-year, $109 billion Senate bill (S 1813) approved with bipartisan support in November by the Environment and Public Works Committee, the Highway Trust Fund also would run dry by the fall of 2013. The latest short-term extension of surface transportation authorization (PL 112-30) expires at the end of March.

Safety Concerns

Highway safety groups focused their criticism on a provision that would allow trucks as heavy as 97,000 pounds — with special permits for some as heavy as 126,000 pounds on some stretches — to use the nation's highways.

Just a day after the AAA motor club president praised the introduction of the House bill as a step toward an ultimate agreement with the Senate on highway funding, one of the group's safety advocates called the heavy truck provision unacceptable.

"There is simply too much at stake here," said Jill Ingrassia, who called for further research.

Joan Claybrook, a former National Highway Traffic Safety Administration administrator who now serves as chairwoman of Citizens for Reliable and Safe Highways, said Wednesday she met with Transportation Secretary Ray LaHood and urged him to publicly oppose the GOP bill, particularly over the truck weights issue. She said another meeting with LaHood is set for later this month.

Claybrook also is urging President Obama to issue a veto threat on the bill and said she doubts any highway bill will be enacted this year.

"I don't think anything in this bill is on [the administration's] agenda," Claybrook said. "We're rearing for a fight here."

Chairman CAMP. Thank you. Mr. Secretary, I do want to say that the House-passed budget contained premium support, and that is a very different concept than the one that I think you might have agreed to. But we will take this up with Secretary Sebelius when she is here later in the month. Mr. Paulsen is recognized for 3 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman, and Secretary, thank you for being here. I really want to follow up on the question of the medical device tax which is going to start in just a little under a year as a part of the President's new health care law. You mentioned earlier that you think this is going to be a net positive or have a net positive balance as a part of the implementation of this tax.

Secretary GEITHNER. I would just say——

Mr. PAULSEN. Can you just talk a little bit about that? What data do you have that might support that contention?

Secretary GEITHNER. Well, as I said, you know, I would be happy to spend more time with you trying to make sure I understand your concerns on this side, but let me try to make the basic point. What the Affordable Care Act does, as you know, is expand access to health care coverage for tens and tens of millions of Americans. By that simple device it substantially improves opportunities for people who are in the business of providing health care. So our judgment is, on balance, it is a good package for people in the health care business.

Now, we had to do that in a way that is fiscally responsible, and so we have done some things that—you are right, we want to make sure we are paying for these things, unlike what Congress did in the expansion of the—in the Medicare Part D back in the last decade. We are trying to do this in a responsible way. We think on balance it substantially improves opportunities for people in the health care business.

Mr. PAULSEN. Mr. Secretary, I want to follow up on this because I know in Massachusetts, which has some similar provisions that are in the President's new health care law, there has been no increased utilization of medical device sales, and Secretary Sebelius has been here to talk about this as well. My understanding is that 75 percent of the folks that are uninsured are 45 years of age or less, and, you know, a lot of these medical devices that are life-improving, life-saving, go to folks that are above age 45, and so I don't think there is data—if there is data out there, I would like to see the data of what is supporting it. I am going to tell you, the companies I represent in Minnesota are very concerned about that. These are research and development jobs. It is innovation; the President has talked about it, you mentioned it today. I just really think this is an American success story as much as it is a Minnesota success story, and I want to keep this here, and this is a tax that is about $20 billion over a 10-year period. It is more than the amount of money that is invested in this industry actually each and every year.

And so I really want to follow up with you if there is actual data that is going to support this down the road. Companies have already announced, in fact Stryker, which is based in Michigan where the chairman and the ranking member are from, they are laying off 5 percent of their workforce this year because of the tax, in anticipation. It is a time bomb out there. And this is a real issue.

Thank you, Mr. Chairman, I yield back.

Chairman CAMP. Mr. Marchant is recognized for 3 minutes.

Mr. MARCHANT. Thank you, Mr. Chairman. Mr. Secretary, when we go home every weekend, we travel around our districts, and we speak to the businesses, and the number one focus that our business people are telling us is that they think the Tax Code is too complicated, their compliance costs are extremely high, and they would like to have a flatter system and a lower tax rate, but they don't expect to pay less taxes. They just want to spend more of their time in their business.

If Congress sends to the President a comprehensive tax reform plan that is revenue neutral, simplifies the Tax Code, lowers both the corporate rate and the personal tax rate, is it your opinion in your discussions with the President that he would sign that legislation?

Secretary GEITHNER. Well, maybe I could separate it and tell you this way: On the corporate side, we would support a plan that lowers rates, broadens the base, doesn't add to future deficits, helps clean up all the distortions and subsidies in the Tax Code, and improves incentives for investing in the United States.

Mr. MARCHANT. And revenue neutral?

Secretary GEITHNER. Well, as I said, doesn't add to the future deficits. Now, in the—on the individual side, as you know, you heard us debate this, we think we have to find a way through tax reform to get some additional revenues out of the current tax system just because the magnitude of the fiscal challenge we face long term is too great for us to meet without a modest amount of additional revenues.

Mr. MARCHANT. So if we put it together, he would not sign it?

Secretary GEITHNER. Again, we think the combined reform has to be consistent with our long-term fiscal challenges, which means that we have to find a way—I wish this were not so—we have to find a way to get a modest amount of additional revenues out of the individual tax system.

Mr. MARCHANT. So he would not sign it at that point?

Secretary GEITHNER. Not if it is not fiscally responsible, he would not sign it.

Mr. MARCHANT. Thank you, Mr. Chairman.

Chairman CAMP. Ms. Berkley is recognized for 3 minutes.

Ms. BERKLEY. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here with us again. I have to say I was somewhat amused by so many members on the other side of the aisle talking about the uptick of Cadillac sales in this country. If I am not mistaken, Cadillac is a GM brand, and what I find so interesting is that so many on the other side of the aisle opposed the administration's successful attempt to save our country's auto industry, which would mean all of these dealerships that are now selling Cadillacs wouldn't be in business, and 2 million of our fellow citizens would have lost their job as well.

A lot of members have spoken about what is happening in their particular districts and States. I am sure I don't have to remind you about what is happening in the State of Nevada. We still have the highest unemployment rate in the country and the highest mortgage foreclosure rate. What is a very potentially strong boon to our economy is the development of our abundance of sun and wind and geothermal. Not only will it create thousands of good paying construction jobs, when it has been estimated that close to 80 percent of my building trades are unemployed, it will put them back to work. And then we will have a product to export, and that is energy, which this Nation so desperately needs.

Now, I think Mr. Nunes was very intent on getting you on the record about Solyndra. I think you believe, as I do, that if there was wrongdoing that they need to be punished, but that you shouldn't be throwing the baby out with the bath water. For a State like Nevada, putting our revenue into developing sun, wind, and geothermal would be a tremendous boon, and can you comment very quickly on that?

Secretary GEITHNER. Well, as I have said before, I think there is a very good economic case for a carefully designed set of incentives to the Tax Code and some other cases for encouraging development of clean energy renewable technologies. I think it is a necessary part of any effective energy strategy, and we are going to continue to support that.

Ms. BERKLEY. I am glad to hear that for the sake of my State.

The Build America Bonds, I was very pleased that the President is increasing and making them permanent. For a State like Nevada they have been essential, and I can tell you that representatives from the city of Reno and city of Las Vegas depend on these bonds, and I just wanted to compliment the administration on that.

And the last thing is, if you wouldn't mind, I would like to be a conduit in writing. My Nevada's treasury secretary has a number of questions that she would like to ask you, and I would like to submit them to you, if I may.

Secretary GEITHNER. Absolutely.

Ms. BERKLEY. With that, thank you again for being here.

Secretary GEITHNER. Thank you.

Chairman CAMP. Thank you. At this time——

Ms. BERKLEY. I yield back.

Chairman CAMP. Thank you. Mr. Berg is recognized.

Mr. BERG. Thank you, Mr. Chairman. One of the questions that I have is this, of course, accumulating debt that we have got. In your opinion, at what point do you raise the red flag?

Secretary GEITHNER. The way we look at the debt burden, you have to measure it as a share of the economy as a whole, and you should look at the debt, net debt held by the public, net of financial assets, and if Congress were to embrace and adopt the President's proposals, then by that measure our debt burden would stabilize as a share of GDP in the roughly 70 to 80 percent range, and then gradually start to come down over time until we see Medicare and Social Security costs start to rise again as millions of Americans retire.

Now, a debt burden at that level is a manageable debt burden for the country. It is possible that as the economy recovers and we get out of the crisis, that we would be able to find prudent, sensible ways to get it lower over time, but we met that basic test of getting the deficit down low enough so you stabilize the debt burden appropriately measured at a level that is manageable. Again, manageable until in the outer decades you see millions and millions more Americans retire and eligible for Medicaid.

Mr. BERG. And then the other countries that look at that debt level, are they using the net debt as well? I mean, is that something pre-skid?

Secretary GEITHNER. I know that is sort of hard. Some people use the gross and don't take out financial assets.

Mr. BERG. Right.

Secretary GEITHNER. Some people use the net, but I am really——

Mr. BERG. It is not a standard really?

Secretary GEITHNER. But I am quite confident that the test that we use is a reasonable test.

Mr. BERG. Okay.

Secretary GEITHNER. Of course, now, to get there, though, even to get to that level, as you know, we have to make some very tough choices and bring the deficits down really quite a long way and hold them there.

Mr. BERG. Well, let me shift gears. One of the things that I see in the proposal is to eliminate the intangible drilling costs, and I know there has been a lot of talk about that, but from my experience in small business, I mean, that is an expense that, you know, we are actually out-of-pocket expense. My question is why—why is that being repealed? I mean, where is it consistent in other parts of the code where a small business, you know, is depreciating that or deducting that? What is the rationale?

Secretary GEITHNER. Well, as you know, we have done in the last 3 years very, very generous and really very, very powerful incentives for investment through hundreds in expensing and bonus depreciation, a range of other provisions over the last 3 years. We thought that was necessary and very important. And when we come to discuss comprehensive corporate tax reform, we will have a very important debate about which of those types of incentives we should preserve, which ones we can't afford any longer.

In that context, you will have to make some very tough choices about whether the level of specific subsidies for particular industries are things we can afford now, and that is the tough choice we are going to face. But, again, you will have a chance to work through those things while we start to confront——

Mr. BERG. What we are saying, where else in the code do we see a small business can't deduct its hard costs? Is there another business or industry that——

Chairman CAMP. Time has expired, and we are running very short. Mr. Schock is recognized.

Mr. SCHOCK. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. I want to ask a few specifics on taxes that are proposed, specifically the one dealing with banks. It seems that this is a recurring theme each year in your proposal.

I might note that when Democrats controlled both the House and the Senate, they did not embrace this proposal, and last year, of course, Republicans in the House did not embrace this proposal. So I question the sincerity in putting it again in the budget, other than the fact that perhaps the President is being consistent.

You know, there has been a lot of talk about getting the banks to pay back for the costs of TARP. But based on testimony by the Treasury Department and numbers from your agency, the $245 billion that was injected into banks, according to the Treasury Department, turned a $13 billion profit. However, some of that TARP money was invested in other organizations, like AIG, General Motors, Chrysler. The Treasury Department has let us know that on the Chrysler investment we have lost $1.3 billion, on the General Motors investment we have already written off $4.4 billion in loss, $23 billion of public stock was sold, another $23 billion is yet owed.

We have 500 million shares of stock. According to the share price today, we could get about $12 billion from the shares of stock if we would sell them. So we are looking at about another $10 billion on top of the already $4 billion in loss on GM, in addition to losses on AIG.

So my question, of course, is if we have lost all this money on the car companies, which the President seems to be very proud of the bailouts of the car companies, but it seems to be that is where the taxpayers lost their shorts, and we actually made money on the money we gave to the banks, why is it that we are taxing the banks?

Secretary GEITHNER. Good question. Thanks for raising it. When Congress passed the legislation to authorize TARP, they put in a provision as part of that legislation that placed on us the obligation to propose to Congress a way to recover any losses from the financial industry, so the way the law was written, in our judgment, we have an obligation to propose to Congress how we would recover any losses across the program from the financial industry.

Mr. SCHOCK. And that is very helpful. So in your opinion, would it be more fair for Congress to give you the ability to recoup the losses from the industries you bailed out that you lost money on, as opposed to the only industry you can recoup from, according to the current law, which is the financial sector in which you made money?

Secretary GEITHNER. There is no—I am glad you are reminding people we made money on the investments in the financial sector. It is good to remind people that that was a very well designed, very sensible set of investments, and I am grateful that you have done that.

Now, there is no way of doing this, recovering any losses, whatever losses we face, in a way that is going to be judged fair by people. But if you don't ask the financial industry to bear that cost, then you are going to ask other industries that benefited less from these programs, other industries that were innocent victims of the crisis, to bear the cost. And I don't think that makes a lot of sense. Of course, Congress——

Chairman CAMP. All right, time has expired. Mr. Reed is recognized.

Mr. REED. Thank you, Mr. Chairman, I didn't expect that. Mr. Secretary, I appreciate you being here, I truly do. One thing I would just say, when you want to respond to the question that the Senate doesn't have a budget and that had no impact on your position, whether or not that impacts where we are going forward as a Nation, from a credibility point of view, the fact that the House will have a budget, the President will have a budget, I think it just makes common sense that if the Senate had a budget, it would be good to have that in black and white so we could have an open and honest debate with America. So I just offer that for your thought process going forward.

The area I want to spend a little time on, I don't know if we spent enough time on today, is the area of trade and China and currency manipulation. And I am very concerned about the various proposals on how we are going to deal with that issue, and I would be interested in your thoughts on the currency manipulation bills that are pending and what your thoughts from the Treasury Secretary's point of view as to how we move forward on the issues of potential unfair trade practices by China, one of our largest trading partners?

Secretary GEITHNER. If I am not mistaken, I am going to have a chance to come up and talk to the committee in more detail about those exact kind of questions with some of my colleagues from the Cabinet in the next few weeks, so I look forward to doing that in more detail.

So let me just say a couple things right now. China is allowing its currency to gradually appreciate against the dollar. It is up about 8½ percent in nominal terms over the last 19 months or so, 20 months; but if you adjust for inflation, it is up more like 12 percent against the dollar. If you look at the cumulative appreciation over the last 5 years or so, it is up close to 40 percent in real terms against the dollar. We think they have got some ways to go. We would like them to move more quickly along the grounds for reasons that——

Mr. REED. And how do we—because I only have a very short amount of time. What is the plan from the Treasury's point of view as to how to advance that agenda?

Secretary GEITHNER. The only—what we are doing is to work with countries around the world.

Mr. REED. On a multilateral——

Secretary GEITHNER. With the IMF, and of course working very hard on the Chinese to try to get them to move more quickly, and we are going to use every means available to be persuasive in encouraging them to move more quickly.

Mr. REED. Any of the legislation pending or proposed in the House and Senate, do you see as a barrier to that agenda, from your perspective?

Secretary GEITHNER. Again, we will have a chance to talk about this in more detail in the next couple weeks or so. I think just to be fair about it, we have got to be careful. For those tools to be effective, they have to be consistent with our international obligations. Otherwise they don't really give us any leverage.

Mr. REED. I so appreciate you saying that because I wholeheartedly agree with that. We need to be consistent with those international obligations. With that, Mr. Chairman, I will yield back.

Chairman CAMP. All right. Thank you. Mr. Pascrell is recognized.

Mr. PASCRELL. Thank you, Mr. Chairman. It certainly is a convoluted policy, Mr. Secretary, when you close jobs in the USA and bring them overseas, that the taxpayers provide the money to help you move. That is pretty convenient. But if you are an American company reversing the trend, and that is in-sourcing jobs, and this is the first President that has talked about that of the last six, Democrat or Republican, and now we are finally understanding how manufacturing is critical and a balanced economy is critical.

And the decline of manufacturing jobs, I think it is about to be reversed, if not already. In-sourcing is a critical policy decision. This is a big deal, I think, with people, and with the perception that people have who is really getting helped and who is getting hurt.

Mr. Secretary, how will the President's in-sourcing policies help manufacturers in my district or any districts bring employees back home, and can you specifically address the 20 percent credit in-sourcing and the 18 percent advanced manufacturing deduction?

Secretary GEITHNER. What we propose to do is to improve the tax incentives for investing in the United States, to make them more powerful if you are in the manufacturing business and advanced manufacturing, and to reduce the incentives in the current Tax Code to shift investment and income overseas. That is a hard thing to do, but, as we have been discussing, we have a chance in the next few weeks to begin the discussion about how best to do that, but it is very important that we find a way to do that.

Mr. PASCRELL. Wouldn't you agree that the Republican decision to reduce the Section 199 deduction for manufacturers is contrary to what you are attempting to do with this budget?

Secretary GEITHNER. Well, again, I think what you want to do is look at—when we talk about comprehensive reform, you want to look at the combined impact of the whole mix of changes to lower the rate, broaden the base. And, again, I think we are agreeing that what you want to look at is the net impact of those changes on the economic incentives to invest here.

Mr. PASCRELL. I hope we work very closely, Mr. Secretary, and I agree with Mr. Reed's opening remarks about what direction we should be going in. So we could find some compromise, believe it or not. Thank you.

Chairman CAMP. Thank you. Mr. Davis is recognized.

Mr. DAVIS. Thank you, Mr. Chairman. Mr. Secretary, appreciate you being here today, and I would like to revisit a subject you and I have talked about before in these hearings over the last several years.

I would like to make a statement, though, before that on the last-in-first-out accounting, or LIFO, that was included in the budget. I am disappointed that for the fourth straight year the administration included a repeal of LIFO in its budget. LIFO is not a loophole or exotic tax shelter, it is a conventional and well-established accounting practice dating back to 1936 when it was brought into being. It minimizes inflation gains and accurately reflects replacement costs for inventory. It is also important to many industries in the United States, with an estimated 36 percent of companies using LIFO for some portion of their inventories.

The repeal of LIFO would have a devastating practical impact, and according to your estimate it would raise overall taxes by $73 billion in the midst of what is a challenging economic climate, with the increase falling heavily on manufacturing companies, thereby significantly reducing the capital they have available for investment in needed machinery, equipment, and ultimately job creation, and frankly would become a huge obstacle to the whole in-sourcing discussion that has been taking place. Repealing LIFO will further reduce U.S. competitiveness in the global economy at a time when we are trying to encourage more U.S. manufacturing, and indeed it is going to accomplish just the opposite.

Last month my good friend Mr. Thompson and I, along with 20 other colleagues, including many on this committee, wrote a letter to the President asking that he refrain from including the repeal of LIFO in this year's budget. Mr. Chairman, I would like to submit our letter for the hearing record.

Chairman CAMP. Without objection.

[The insert of The Honorable Geoff Davis follows:]

Congress of the United States
Washington, DC 20515

January 27, 2012

President Barack Obama
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President:

As you draft your Fiscal Year 2013 Budget Proposal, we urge you not to include the repeal of the Last In, First Out (LIFO) accounting method. Repealing LIFO is more likely to exacerbate than solve our fiscal problems.

The well-established LIFO method of accounting has been expressly permitted by the tax code for more than seventy years. It is widely used by thousands of both public and privately-held businesses. LIFO allows a business to track their costs, minimize artificial inflation gains, accurately reflect replacement costs, and more precisely measure their income for tax and financial reporting purposes. According to a 2008 study by Georgia Tech, "approximately 36% of U.S. companies use LIFO for at least a portion of their inventories."

The repeal of LIFO and resulting retroactive tax increase would have a devastating impact on businesses that rely on this accounting method. The overall taxes owed by companies would increase by billions of dollars. For many businesses, this would significantly reduce available capital for investments in equipment or the hiring of new employees. In some cases it could even threaten the job security of current employees. While our economy is still recovering from a very severe economic recession, it would be unwise to significantly impair the cash flow of many businesses.

Businesses that rely on LIFO include hundreds of publicly-traded companies in the US and countless privately-owned businesses. Industries affected range from metals, paper, chemicals, and petroleum refining to auto parts, beverages, distilleries, groceries, textiles, building materials and industrial equipment. Repeal would impact manufacturers, wholesaler-distributors, and retailers; makers and sellers of virtually all products produced, sold and consumed in the United States. The impact of LIFO repeal would surely be felt in our Congressional Districts and every corner of America.

We hope that the Fiscal Year 2013 Budget will not include LIFO repeal. We believe that retaining LIFO will help struggling companies and small businesses across the nation remain valuable assets to our economy and globally competitive.

Again, thank you for listening to our concerns about these issues as you work on drafting your budget.

Sincerely,

Rep. Geoff Davis
Member of Congress

Rep. Mike Thompson
Member of Congress

Rep. Pat Tiberi
Member of Congress

Rep. Richard Neal
Member of Congress

Rep. Peter Roskam
Member of Congress

Rep. Ron Kind
Member of Congress

Rep. Vern Buchanan
Member of Congress

Rep. Bill Pascrell
Member of Congress

Rep. Erik Paulsen
Member of Congress

Rep. Aaron Schock
Member of Congress

Rep. Ben Chandler
Member of Congress

Rep. Jim Matheson
Member of Congress

Rep. Mike McIntyre
Member of Congress

Rep. Mike Michaud
Member of Congress

Rep. Jim Costa Member of Congress	Rep. Dan Boren Member of Congress
Rep. Cynthia Lummis Member of Congress	Rep. Randy Neugebauer Member of Congress
Rep. Colin Peterson Member of Congress	Rep. Reid Ribble Member of Congress
Rep. Cedric Richmond Member of Congress	Rep. John Yarmuth Member of Congress

Mr. DAVIS. Thank you. It demonstrates strong bipartisan support for LIFO and the need for this accounting method to remain in any future budget.

Mr. Secretary, the President's budget states, quote, "By almost any measure, the economy this past year was stronger than it was in 2009 at the start of the administration," end quote. This claim does not square with reality. Since the President took office, there are 1.2 million fewer jobs, unemployment has gone from 7.8 to 8.3 percent, the price of gas has increased from $1.85 to $3.48, the median value of single-family homes are down $33,000, the national debt has increased from $10.6 to $15.4 trillion. Considering these statistics, by what measures do you believe Americans are better off since the start of the administration?

Secretary GEITHNER. Well, thanks for asking that question. It is the defining issue in this debate. If you look at when growth resumed—which it did really remarkably quickly in the summer of 2009—since growth resumed we have grown an average rate of about 2½ percent, despite all the shocks I referred to in my opening statement—oil, Japan, Europe, all the financial headwinds that follow a crisis like we had, people bringing down debt, working through the overhang in the housing markets, we have 3.7 million private sector jobs created over that period of time, private investment is up by 30 percent. Any measure of the basic health of the business for the United States is much stronger today. Profits are, for example, as a share of GDP, higher than they were before the crisis. Balance sheets of corporate America are much stronger, productivity growth is stronger, Americans are saving more as a share of their income, they are bringing debt down. Those are good fundamental improvements.

Now, parts of the American economy are still, obviously, terribly suffering from the crisis. Housing, construction, environment for many small businesses is still very tough. Those are the aftershocks and the legacy of a crisis like we have lived through produced by a long period of too much borrowing, unsustainable investments in housing and construction, but we are working through those things. And this economy and the health of the business community in the United States would be dramatically worse today if we had not taken the steps we did to put out those financial fires and get growth started again.

Chairman CAMP. All right, thank you. We just have one person left. Last but not least, Ms. Black is recognized for 3 minutes.

Mrs. BLACK. Thank you, Mr. Chairman, and I will be brief in my comments. I want to go back to what you acknowledge to be the greatest driver of our debt, and that is Medicare. You actually did say to the Congressman from Kansas that it was a principal driver. You also said that the President's plan does work on bringing the debt down, but until then we see debt burden begins to rise with the retirement of millions of Americans. So you acknowledge that this is an issue. The President acknowledged it was an issue when he asked the Bowles-Simpson Commission to give him recommendations, and they did, and they were bold recommendations. And yet when you answered the questions from my colleague from Georgia, you talked about the changes that are going to be made or the things that are going to be directly affecting this in the President's budget is lower payment to our providers and also affecting the upper-income Americans in what their benefits are. These are not bold, these are not recommendations that have been put out there by Bowles-Simpson. We continue to just kick the can down the road by nipping around the edges, and I am really disappointed in that.

I would like to know where in this budget I can see, I have looked on some of the pages on 112 and 113, on some of these recommendations. But unless there is something more to it than what I see there, these are not bold changes.

And if I may say one more thing before I turn this over to you to give me some advice on where I might find those, it is that I am really disappointed that we continue to have folks who were not enthralled about the budget that we put out last year in the Path to Prosperity to continue to misrepresent the program and calling it a voucher program. Either the folks that are using this term are just not bright enough to understand what premium support is, or there is some other sinister reason why they continue to use language that is not true.

So we have all got to be honest with one another, and since we acknowledge this is the greatest driver of our debt and we cannot take care of it until we do take care of this with fundamental changes, I am disappointed that those are not what I see, unless you can point me to someplace else in this budget document.

Secretary GEITHNER. You are right that over the next 50 years, 30 to 50 years, Medicare, Medicaid, Social Security produce an unsustainable rise in our debt burden.

Mrs. BLACK. We are going to see it before then.

Secretary GEITHNER. But for the next 10 years those costs are not the principal driver of our deficits.

Now, we have a fundamental disagreement about how to restore fiscal balance and also what type of mix of reforms to Medicare are going to allow us to maintain our commitment to guarantee our seniors retirement and health care security. The big—I think the most simple way to contrast our two strategies for reform of Medicare are whatever you want to call the Ryan Republican strategy, what it would do is dramatically reduce the benefits available to middle-income seniors.

Mrs. BLACK. With all due respect, Mr. Geithner, I think that is a misrepresentation of what was put out there, and again I really am disappointed that we continue to have misrepresentations of what the plan actually does, and I wish that we could just talk without—take the political out of it and talk about the reality. And we can't deny the fact that all of those who are economists tell us this is the biggest driver of debt, it is going to cause us a big problem not in 30, 40, 50 years, but sooner than that, when we see that that fund is going to totally be unsustainable. So I know my time is up, and I yield back.

Secretary GEITHNER. Two quick things in response to that. One is the characterization I used is CBO's, it is not a political or Democratic criticism, it is the CBO evaluation of the impact on beneficiaries.

Again, the other thing I would emphasize is, you are right to remind everybody that our commitments in Medicare and Medicaid over time are unsustainable, and we are going to have to embrace reforms to get them on a sustainable path, but if you try and restore overall sustainability to our fiscal position without a dollar of revenues, then you will make that challenge much harder, and you will be forced to embrace much deeper cuts in benefits than I think we should find acceptable as a country.

Chairman CAMP. Thank you very much, Mr. Secretary, and I appreciate you staying over so that every member of the committee who wanted to ask you a question and remained could do that. And thank you again for making yourself available, and with that this hearing is adjourned.

[Whereupon, at 12:39 p.m., the committee was adjourned.]

[Submissions for the Record follow:]

SUBMISSIONS FOR THE RECORD

Center for Fiscal Equity

Comments for the Record

House Committee on Ways and Means

The President's Fiscal Year 2013 Budget Proposal

Wednesday, February 15, 2012, 10:00 AM

By Michael G. Bindner

Center for Fiscal Equity

Chairman Camp and Ranking Member Levin, thank you for the opportunity to submit these comments for the record to the House Ways and Means Committee. The beginning of the budget debate for a new year brings with it the opportunity to rethink proposals. The Center for Fiscal Equity is using this opportunity to change our proposed fix for Social Security, which we will address in due course in our comments, which outline how Congress can respond to the President's Budget submission. Congress has four options in pursuing fiscal policy this year. It can do nothing, it can play small, it can play medium or it can go big. Our comments will address each possibility.

Doing nothing is a possible solution to almost every issue. At the end of the calendar year, the tax cuts of 2001, 2003 and 2010 expire automatically, as do the recently extended payroll tax cut, extended unemployment insurance benefits and the suspension of the "Doc Fix" for doctors serving Medicare patients. Allowing these provisions to expire essentially solves the nation's fiscal problems in the long term.

If the economy is more robust in December than current forecasts suggest, which is possible if ambitious solutions are pursued by the Federal Reserve on the underwater mortgage issue, this may be the most realistic option – although in our view it would be a lost opportunity for long term reform. This is not likely, however, as richest Americans (including doctors) who by and large fund the anti-tax movement, would be the hardest hit should permanent law come back into force, and would become the loudest voices for compromise to avoid this.

On the expenditure side, the Budget Control Act of 2011 contains within it spending caps which effectively serve as budget allocations for the purpose of enacting appropriations – making a concurrent budget resolution entirely unnecessary for the upcoming fiscal year. Voices who continue to claim that the Senate has not enacted a budget in 1000 days should be silent and if they continue to make this claim, held up to public ridicule because they should know better.

If the law included automatic enactment of the current service budget within these allocations, as we have suggested, then the only action required for this fiscal year would be extension of the debt limit, although some analysts, among them Bruce Bartlett, have suggested that the limit itself is unconstitutional and could be dispensed with, either in law or by Administration decree. Automatic enactment of the budget and dispensing with the debt limit would spur the Congress to enact timely compromise, which would end the impulse to gridlock.

There are two ways that Congress and the Administration can play small ball. Sadly, this is the most likely scenario given the state of the national economy. The most likely way is to delay action until after the election and, as a package, extend the debt limit through December 2013 in exchange for extending the expiring income, payroll, unemployment and medical payment provisions for an equal period of time, accepting the temporary pain of one year of sequestration.

A slightly more ambitious version of this scenario, which leaves less to chance as far as the impact of the election (as a lame duck President has no interest in any compromise at all) is to extend the debt limit, doc fix suspension, the payroll tax cut, extended unemployment and tax rates for middle class and wealthy taxpayers through July 2013 in exchange for making certain tax cuts for lower income Americans permanent, including the 10% tax rate and expanded Child Tax Credit – offsetting some or all of the spending cuts that have already been agreed to. This allows discourse on tax reform without holding our most vulnerable citizens hostage.

Should the President indicate that he is likely to let gridlock rule the day, a medium ball solution is more likely as opposition to a balanced solution evaporates as the likelihood of automatic tax cuts increases. The balanced solution is some combination of the cuts and tax reforms supported by the majority of the Fiscal Commission, also known as Bowles-Simpson, and the proposals of the Bipartisan Policy Center, also known as Rivlin-Domenici. Many of these proposals are similar and where they coincide seems like a fruitful place to start drafting legislation. Using the congressional budget process to begin enacting these provisions could occur in regular order, with the Department of the Treasury playing a supporting role in writing tax reform language.

The large ball game would be to actually balance the budget and enact radical reform in entitlement revenue and spending provisions, a shift from income taxes for most filers to consumption taxes and higher tax rates on those most ability to pay. The Center for Fiscal Equity proposes a large ball solution with four major provisions:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure very American pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of $100,000 and single filers earning $50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

We have no proposals regarding environmental taxes, customs duties, excise taxes and other offsetting expenses, although increasing these taxes would result in a lower VAT. American competitiveness is enhanced by enacting a VAT, as exporters can shed some of the burden of taxation that is now carried as a hidden export tax in the cost of their products. The NBRT will also be zero rated at the border to the extent that it is not offset by deductions and credits for health care, family support and the private delivery of governmental services.

Some oppose VATs because they see it as a money machine, however this depends on whether they are visible or not. A receipt visible VAT is as susceptible to public pressure to reduce spending as the FairTax is designed to be, however unlike the FairTax, it is harder to game. Avoiding lawful taxes by gaming the system should not be considered a conservative principle, unless conservatism is in defense of entrenched corporate interests who have the money to game the tax code.

Our VAT rate estimates are designed to fully fund non-entitlement domestic spending not otherwise offset with dedicated revenues. This makes the burden of funding government very explicit to all taxpayers. Nothing else will reduce the demand for such spending, save perceived demands from bondholders to do so – a demand that does not seem evident given their continued purchase of U.S. Treasury Notes.

Value Added Taxes can be seen as regressive because wealthier people consume less, however when used in concert with a high-income personal income tax and with some form of tax benefit to families, as we suggest as part of the NBRT, this is not the case.

The shift from an income tax based system to a primarily consumption based system will dramatically decrease participation in the personal income tax system to only the top 20% of households in terms of income. Currently, only roughly half of households pay income taxes, which is by design, as the decision has been made to favor tax policy to redistribute income over the use of direct subsidies, which have the stink of welfare. This is entirely appropriate as a way to make work pay for families, as living wage requirements without such a tax subsidy could not be sustained by small employers.

The income surtax is earmarked for overseas military, naval sea and international spending because this spending is most often deficit financed in times of war. Earmarking repayment of trust funds for Social Security and Medicare, acknowledges the fact that the buildup of these trust funds was accomplished in order to fund the spending boom of the 1980s without reversing the tax cuts which largely benefited high income households.

Earmarking debt repayment and net interest in this way also makes explicit the fact that the ability to borrow is tied to the ability to tax income, primarily personal income. The personal or household liability for repayment of that debt is therefore a function of each household's personal income tax liability. Even under current tax law, most households that actually pay income taxes barely cover the services they receive from the government in terms of national defense and general government services. It is only the higher income households which are truly liable for repayment of the national debt, both governmental and public.

If the debt is to ever be paid back rather than simply monetized, both domestically and internationally (a situation that is less sustainable with time), the only way to do so without decreasing economic growth is to tax higher income earners more explicitly and at higher rates than under current policy, or even current law.

The decrease in economic class mobility experienced in recent decades, due to the collapse of the union movement and the rapid growth in the cost of higher education, means that the burden of this repayment does not fall on everyone in the next generation, but most likely on those who are living in high income households now.

Let us emphasize the point that when the donors who take their cues from Americans for Tax Reform bundle their contributions in support of the No Tax Pledge, they are effectively burdening their own children with future debt, rather than the entire populace. Unless that fact is explicitly acknowledged, gridlock over raising adequate revenue will continue.

Unlike other proposals, a graduated rate for the income surtax is suggested, as at the lower levels the burden of a higher tax rate would be more pronounced. More rates make the burden of higher rates easier to bear, while actually providing progressivity to the system rather than simply offsetting the reduced tax burden due to lower consumption and the capping of the payroll tax for Old Age and Survivors Insurance.

One of the most oft-cited reforms for dealing with the long term deficit in Social Security is increasing the income cap to cover more income while increasing bend points in the calculation of benefits, the taxability of Social Security benefits or even means testing all benefits, in order to actually increase revenue rather than simply making the program more generous to higher income earners. Lowering the income cap on employee contributions, while eliminating it from employer contributions and crediting the employer contribution equally removes the need for any kind of bend points at all, while the increased floor for filing the income surtax effectively removes this income from taxation. Means testing all payments is not advisable given the movement of retirement income to defined contribution programs, which may collapse with the stock market – making some basic benefit essential to everyone.

Moving the majority of Old Age and Survivors Tax collection to a consumption tax, such as the NBRT, effectively expands the tax base to collect both wage and non-wage income while removing the cap from that income. This allows for a lower tax rate than would otherwise be possible while also increasing the basic benefit so that Medicare Part B and Part D premiums may also be increased without decreasing the income to beneficiaries.

If personal accounts are added to the system, a higher rate could be collected, however recent economic history shows that such investments are better made in insured employer voting stock rather than in unaccountable index funds, which give the Wall Street Quants too much power over the economy while further insulating ownership from management. Too much separation gives CEOs a free hand to divert income from shareholders to their own compensation through cronyism in compensation committees, as well as giving them an incentive to cut labor costs more than the economy can sustain for purposes of consumption in order to realize even greater bonuses. Employee-ownership ends the incentive to enact job-killing tax cuts on dividends and capital gains, which leads to an unsustainable demand for credit and money supply growth and eventually to economic collapse similar to the one most recently experienced.

The NBRT base is similar to a Value Added Tax (VAT), but not identical. Unlike a VAT, an NBRT would not be visible on receipts and should not be zero rated at the border – nor should it be applied to imports. While both collect from consumers, the unit of analysis for the NBRT should be the business rather than the transaction. As such, its application should be universal – covering both public companies who currently file business income taxes and private companies who currently file their business expenses on individual returns.

In the long term, the explosion of the debt comes from the aging of society and the funding of their health care costs. Some thought should be given to ways to reverse a demographic imbalance that produces too few children while life expectancy of the elderly increases.

Unassisted labor markets work against population growth. Given a choice between hiring parents with children and recent college graduates, the smart decision will always be to hire the new graduates, as they will demand less money – especially in the technology area where recent training is often valued over experience.

Separating out pay for families allows society to reverse that trend, with a significant driver to that separation being a more generous tax credit for children. Such a credit could be "paid for" by ending the Mortgage Interest Deduction (MID) without hurting the housing sector, as housing is the biggest area of cost growth when children are added. While lobbyists for lenders and realtors would prefer gridlock on reducing the MID, if forced to chose between transferring this deduction to families and using it for deficit reduction (as both Bowles-Simpson and Rivlin-Domenici suggest), we suspect that they would chose the former over the latter if forced to make a choice. The religious community could also see such a development as a "pro-life" vote, especially among religious liberals.

Enactment of such a credit meets both our nation's short term needs for consumer liquidity and our long term need for population growth. Adding this issue to the pro-life agenda, at least in some quarters, makes this proposal a win for everyone.

The expansion of the Child Tax Credit is what makes tax reform worthwhile. Adding it to the employer levy rather than retaining it under personal income taxes saves families the cost of going to a tax preparer to fully take advantage of the credit and allows the credit to be distributed throughout the year with payroll. The only tax reconciliation required would be for the employer to send each beneficiary a statement of how much tax was paid, which would be shared with the government. The government would then transmit this information to each recipient family with the instruction to notify the IRS if their employer short-changes them. This also helps prevent payments to non-existent payees.

Assistance at this level, especially if matched by state governments may very well trigger another baby boom, especially since adding children will add the additional income now added by buying a bigger house. Such a baby boom is the only real long term solution to the demographic problems facing Social Security, Medicare and Medicaid, which are more demographic than fiscal. Fixing that problem in the right way definitely adds value to tax reform.

The NBRT should fund services to families, including education at all levels, mental health care, disability benefits, Temporary Aid to Needy Families, Supplemental Nutrition Assistance, Medicare and Medicaid. If society acts compassionately to prisoners and shifts from punishment to treatment for mentally ill and addicted offenders, funding for these services would be from the NBRT rather than the VAT.

The NBRT could also be used to shift governmental spending from public agencies to private providers without any involvement by the government – especially if the several states adopted an identical tax structure. Either employers as donors or workers as recipients could designate that revenues that would otherwise be collected for public schools would instead fund the public or private school of their choice. Private mental health providers could be preferred on the same basis over public mental health institutions. This is a feature that is impossible with the FairTax or a VAT alone.

To extract cost savings under the NBRT, allow companies to offer services privately to both employees and retirees in exchange for a substantial tax benefit, provided that services are at least as generous as the current programs. Employers who fund catastrophic care would get an even higher benefit, with the proviso that any care so provided be superior to the care available through Medicaid. Making employers responsible for most costs and for all cost savings allows them to use some market power to get lower rates, but not so much that the free market is destroyed. Increasing Part B and Part D premiums also makes it more likely that an employer-based system will be supported by retirees.

Enacting the NBRT is probably the most promising way to decrease health care costs from their current upward spiral – as employers who would be financially responsible for this care through taxes would have a real incentive to limit spending in a way that individual taxpayers simply do not have the means or incentive to exercise. While not all employers would participate, those who do would dramatically alter the market. In addition, a kind of beneficiary exchange could be established so that participating employers might trade credits for the funding of former employees who retired elsewhere, so that no one must pay unduly for the medical costs of workers who spent the majority of their careers in the service of other employers.

Conceivably, NBRT offsets could exceed revenue. In this case, employers would receive a VAT credit.

The Center calculates an NBRT rate of 27% before offsets for the Child Tax Credit and Health Insurance Exclusion, or 33% after the exclusions are included. This is a "balanced budget" rate. It could be set lower if the spending categories funded receive a supplement from income taxes. These calculations are, of course, subject to change based on better models.

In testimony before the Senate Budget Committee, Lawrence B. Lindsey explored the possibility of including high income taxation as a component of a Net Business Receipts Tax. The tax form could have a line on it to report income to highly paid employees and investors and pay surtaxes on that income.

The Center considered and rejected a similar option in a plan submitted to President Bush's Tax Reform Task Force, largely because you could not guarantee that the right people pay taxes. If only large dividend payments are reported, then diversified investment income might be under-taxed, as would employment income from individuals with high investment income. Under collection could, of course, be overcome by forcing high income individuals to disclose their income to their employers and investment sources – however this may make some inheritors unemployable if the employer is in charge of paying a higher tax rate. For the sake of privacy, it is preferable to leave filing responsibilities with high income individuals.

Dr. Lindsey also stated that the NBRT could be border adjustable. We agree that this is the case only to the extent that it is not a vehicle for the offsets described above, such as the child tax credit, employer sponsored health care for workers and retirees, state-level offsets for directly providing social services and personal retirement accounts. Any taxation in excess of these offsets could be made border adjustable and doing so allows the expansion of this tax to imports to the same extent as they are taxed under the VAT. Ideally, however, the NBRT will not be collected if all employers use all possible offsets and transition completely to employee ownership and employer provision of social, health and educational services.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

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Committee on Ways and Means
The President's Fiscal Year 2013 Budget Proposal
Thursday, February 15, 2012, 10:00 AM

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

National Community Tax Coalition

NATIONAL COMMUNITY TAX COALITION a division of the Center for Economic Progress
tax-coalition.org

Strengthening Tax Compliance, Government Efficiency & Families' Well-Being Calls For Sustaining Volunteer Income Tax Assistance

Comments on the President's Proposed Budget for the U.S. Department of the Treasury in FY2013

By Jackie Lynn Coleman, Executive Director, National Community Tax Coalition

Feb. 29, 2012

Chairman Camp, Ranking Member Levin and Members of the House Ways and Means Committee: Thank you for the opportunity to share our thoughts on the President's FY2013 budget proposal for the U.S. Department of the Treasury. Specifically, we'd like to address several aspects of the projected budget for the Volunteer Income Tax Assistance (VITA) matching-grant program, overseen by the Internal Revenue Service (IRS).

The National Community Tax Coalition (NCTC) supports maintaining the VITA matching grant at its current, $12 million funding level, as outlined in the President's budget proposal for FY2013 - just as we greatly appreciate Congress' having sustained these crucial resources in recent years. Such resources are critical to the well-being of millions of low- and moderate-income, working families who depend upon VITA help in communities throughout the nation. That's especially so during these tough times, when fiscal pressures fall heavily on families. If anything, struggling families need more such help - certainly not less.

NCTC is the nation's largest, most comprehensive membership organization of community-based organizations offering free tax preparation and financial services to low- and moderate-income working families. Our member organizations operate more than 5,700 Community VITA sites that, in turn, leverage the help of more than 52,000 trained and certified volunteers throughout the country. Last year, these efforts helped households file about 1.5 million federal tax returns – about half of all returns filed with free tax preparation assistance.

Among taxpayers served by VITA, the average Adjusted Gross Income is only about $21,200. Most come from traditionally hard-to-reach and underserved communities that include people with disabilities, limited-English speakers, the elderly, and Native Americans. All seek help in working their way through an often-byzantine tax code, in order to meet their obligations as taxpayers. With VITA assistance, these hardworking families are better-able to identify and claim the full amount of the tax refunds for which they're qualified, without losing up a significant amount of those refunds to the costs of commercial tax preparation. Last year, for instance, VITA saved taxpayers who claim the EITC an estimated $90 million in costs of paid tax-return assistance. In addition, VITA helps families obtain financial education, open bank accounts and explore other asset-building opportunities, file the Free Application for Federal Student Aid for higher education and more.

(over)

In addition to helping individual, working families, VITA also:

- **Bolsters tax compliance.** VITA improves accuracy, in part by increasing electronic-filing rates. The program's 92 percent e-file rate compares with a national average of 79 percent for individual returns – and e-filing yields an error rate 10 times less than that of paper returns.

- **Strengthens government efficiency, saving taxpayers money**. Each electronically filed return costs the IRS nearly $3.50 less to process than a paper return. Thus, VITA's e-filing successes help the program save the IRS and its taxpayers nearly $5 million in return-processing costs each year. Plus, VITA volunteers' help combines with other private and community-based supports – such as in-kind contributions of computers, office space and supplies – to lower administrative costs in government's handling of tax returns.

- **Boosts local businesses and economies.** Returns filed with VITA help resulted in more than $2 billion in total refunds for low- and moderate-income taxpayers in 2011, dollars they spend and invest back in the communities where they live and work. Research indicates that each dollar a household receives from the Earned Income Tax Credit – the source for many of VITA families' refunds – can generate $1.58 or more in local economic activity.

While the federal VITA grant totals $12 million in FY2012, that amount represents only a fraction of the costs of operating Community VITA tax sites nationwide. In fact, during recent annual grant cycles, nearly 400 programs have submitted federal-grant applications totaling more than $30 million, and the overall costs of Community VITA likely total several times even that amount. This reflects the struggles of maintaining current service levels as well as trying to handle growing demands – all at a time non-federal funding sources are rapidly eroding.

State and local governments have drastically slashed VITA resources in recent years. For example, not long ago, Michigan eliminated its free tax assistance funding entirely; Illinois cut its support for VITA in half this year. Philanthropic support for VITA is simultaneously strained and, in some quarters, disappearing. Meanwhile demands on VITA grow annually – in part as a result of IRS budget cuts and curtailment of services. This tax season, for instance, it was learned IRS tax-assistance offices no longer will help taxpayers file prior-year returns – in essence, leaving free tax preparation avenues to absorb such responsibilities, without associated funding.

Thus, NCTC would like to take this opportunity to express support for strengthening IRS appropriations in FY2013 as the President has recommended, a step toward halting – and gradually restoring – some tough budget cuts from recent years. Greater investments in such IRS initiatives as taxpayer services can only increase overall revenues in the long run.

Altogether, the IRS estimates, VITA services are reaching only about one-sixth of the 19 million people who could be helped with free tax preparation services. It's clear that far greater resources are necessary not only to reach more of those hardworking households, but to sustain the level of services that strained VITA programs already struggle to maintain. NCTC hopes to work with both Congress and the President toward this goal, as feasible, for the well-being of low- and moderate-income, working families and their communities. In the meantime, let's maintain the limited but crucial federal investments we've already made in VITA services for families in need of its help.

For more information on VITA, please visit NCTC at www.tax-coalition.org and read our policy brief, "Volunteer Income Tax Assistance: A Proven Path Toward Financial Security."

U.S. Chamber of Commerce

100 Years Standing Up for American Enterprise
U.S. CHAMBER OF COMMERCE

Statement
Of the
U.S. Chamber
Of Commerce

ON: **ADMINISTRATION TAX PROPOSALS IN FY2013 BUDGET**

TO: **THE HOUSE COMMITTEE ON WAYS & MEANS**

DATE: **FEBRUARY 15, 2012**

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than three million businesses and organizations of every size, sector, and region.

The Chamber's members are businesses of all sizes. Our membership consists of small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are cognizant of the problems and challenges facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance – is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 105 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

INTRODUCTION

The Chamber thanks Chairman Camp and Ranking Member Levin for the opportunity to comment on the tax proposals contained in the Administration's FY2013 budget (the "Greenbook"). The Chamber is disappointed with the proposals included in the Greenbook. These proposals are largely a rehash of prior year Greenbooks and once again offer no policies that make our tax code more competitive, fair, simpler, compliance-friendly or more pro-growth. Instead, we see the same policies of prior years and an even greater reliance on raising revenues through the tax code.

The Chamber believes that as the Committee considers policies to drive job creation and economic growth and considers fundamental federal tax reform, it should firmly reject the proposals contained in the Greenbook and seek to undertake comprehensive tax reform to foster growth, competitiveness, innovation, ease of compliance, and job creation. As other countries, and even individual states within our own borders, move to adopt tax policies that foster growth, competitiveness, and innovation, these proposals generally would move the federal tax code[1] in precisely the opposite, and wrong, direction.

IN GENERAL

The Greenbook, in large part, repeats prior year tax proposals of this Administration, levying onerous tax increases on businesses of all sizes and picking winners and losers, while omitting pro-growth tax policy. It levies almost $2 trillion in new taxes, while providing only $146 billion[2] of permanent tax cuts for business, $108 billion of which is comprised of one incentive – making the research and development (R&D) tax credit permanent – which generally is already renewed on an annual basis.

TAX INCREASES

Individual and Small Business Tax Hikes

As in prior years, the Greenbook includes significant tax increases on upper income individuals, totaling over $1.5 trillion. These proposals fail to recognize that these increases hit the most successful U.S. small businesses that pay taxes at individual tax rates, hindering their ability to grow and create jobs.

While this year's budget calls for implementation of a "Buffett" rule that results in a minimum effective tax rate of 30% on those making over $1 million, the rule appears nowhere in the Greenbook. Instead, the Greenbook once again targets those making over $200,000 or $250,000 jointly. The Greenbook ignores that our tax system is already highly progressive (in 2009, according to the IRS, the top 1% of the income distribution controlled about 17% of income and paid almost 37% of federal income taxes). It proposes an even more punitive system on those who save, invest, and create jobs. It proposes increasing the top marginal tax rates, reducing or eliminating itemized deductions, and limiting the rate at which the remaining

[1] All references to the "code" are to the Internal Revenue Code of 1986, as amended.
[2] All revenue estimates are for 10 year periods and are provided by OMB.

deductions can be taken. Further, it proposes raising taxes on investment – taxing long term capital gains at 20%, up from 15%, and dividends at marginal rates as high as 39.6%, up from 15%. These increased investment taxes are compounded by the Medicare hospital insurance (HI) tax of 3.8% that kicks in next year. Additionally, the failure to maintain lower, synchronized capital gains and dividends rates, a departure from prior year proposals, discourages efficient capital allocation and decreases fairness.

Quite simply, the Committee cannot ignore the negative impacts of these tax increases and must reject such policies in both the near and long term. Over the past 30 years, the number of pass-thru businesses – sole proprietorships, S-corporations, LLCs and partnerships – has nearly tripled. In 2010, the Joint Committee on Taxation determined that a substantial share of new revenue (50% for the increase in the top two rates) was directly attributable to the income reported for pass-thru businesses by their owners. In other words, small businesses would bear a substantial portion of these higher taxes.

Further, increased investment taxes have real and damaging ramifications.[3] Millions of Americans of all income levels would be adversely impacted by these tax hikes. Further, older Americans and those saving for retirement would be disproportionately hurt by investment tax hikes. Raising capital gains and dividends taxes has real adverse effects on the economy. Thus, the Chamber strongly opposes these tax hikes and the negative ramifications on investment, economic growth, and productivity that come with increased investment taxes.

As the Committee considers fundamental tax reform, it is critical to recognize the significant numbers of entities who remit taxes under the individual Code; thus, careful consideration must be given to any reform that addresses the corporate tax rate without properly considering individual rates. Second, given the significant and increasing numbers of these pass-thru entities, the Chamber believes proposals, such as these tax increases, must be rejected, as they thwart the growth of the very businesses that are the backbone of our economy.

Other Business Tax Increases

Also as in prior years, the Greenbook includes tax increases on larger business entities, totaling almost half a trillion dollars, achieved by, among other things, double taxing the profits American worldwide companies earn overseas, levying punitive new taxes on traditional energy producers and reinstating Superfund taxes, repealing longstanding accounting practices, and taxing the carried interest in partnerships as ordinary income.

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[3] For more detailed information on the damaging impact of raising investment taxes and the Chamber's opposition to increased investment taxes, please see our September 14, 2011 testimony to the Senate Finance Committee, available at http://www.uschamber.com/sites/default/files/110914testimonysenateFinance.pdf. For a recent detailed study on the international aspects of capital gains and dividends and the adverse economic consequences of high tax rates on this investment income, see E&Y, "Dividend and Capital Gains Taxation: A comparison of the US to other developed nations," (February 2012), available at http://www.theasi.org/assets/EY_ASI_Dividend_and_Capital_Gains_International_Comparison_Report_2012-02-03.pdf.

International Taxation

The Greenbook once again proposes to double tax the profits American worldwide companies earn abroad, by curtailing deferral, limiting foreign tax credits, and attacking the tax treatment of intangibles. The President's own fiscal commission report states that our system of taxing foreign source income is against the norm, and "[t]he current system puts U.S. corporations at a competitive disadvantage against their foreign competitors." His Export Council recommends creation of an international tax system "in which U.S. corporations can compete well with those in other OECD countries," going on to state that a "competitive territorial tax system for the United States should broadly follow the practice of our trading partners… to make the U.S. tax system more competitive with its major trading partners." Despite this, the Greenbook moves in the opposite direction with $148 billion of international tax increases that threaten to put American companies at even greater competitive disadvantage.

The Chamber urges the Committee to reject these proposals and, instead, as it considers fundamental reform, consider ways to level the playing field for American businesses, such as adopting a territorial tax system as recommended by the President's Deficit Commission and Export Council, and proposed by Chairman Camp. The Chamber believes any changes to international tax policy should make American companies more competitive, drive job creation, and stimulate overall economic growth.

Pnnitive Energy Taxes

The Greenbook also repeats its attack on oil and gas companies and coal companies from prior years, proposing large and onerous tax increases, totaling over $41 billion on these traditional energy producers. This represents continued attacks on oil and gas companies as well as coal companies. In addition to industry-specific punitive taxes, many of these companies also face tax hikes in the form of last-in, first-out (LIFO) repeal and changes to the dual capacity rules. All of these tax increases result in increased energy costs and decreased energy security.

Once again, these proposals punish industries such as oil and gas, who already face some of the highest effective tax rates of any industry sector and who create millions of high-paying jobs. The Greenbook justifies these increased taxes on traditional energy sources to pay for "clean" energy and manufacturing incentives. The Chamber strongly urges the Committee to reject tax policies such as this, which preference one industry or sector to the detriment of another. Instead, the Chamber suggests the adoption of fundamental tax reform that would benefit the entire business community.

Changes to Longstanding Inventory Accounting Methods

In addition to the above tax increases, the Greenbook once again proposes repeal of longstanding accounting methods, solely to raise tax revenues. For example, the Greenbook, as in prior years, would repeal LIFO to raise $74 billion. The Chamber opposes the repeal of LIFO accounting as it would result in a punitive, retroactive tax increase for businesses, placing significant cash constraints on them and limiting their ability to manage inflation. Companies would have to record illusory profits on their books, when no economic activity has occurred that would justify recording any profits.

In addition to the repeal of LIFO, the Greenbook once again proposes repeal of the lower-of-cost-or-market (LCM) and subnormal goods accounting methods to raise $13 billion. The Chamber opposes the repeal of these accounting methods as they provide an important cushion during economic downturns. Without these methods, businesses are precluded from recognizing real economic losses in the year of loss, and, rather, must wait until disposal of inventory.

The repeal of these accounting methods originally was proposed as revenue offsets for unrelated initiatives. As the Committee considers short term policies and fundamental reform, the Chamber urges it to reject changes solely sought to raise revenue without consideration for the wide range of industries and businesses of all sizes that would be adversely impacted by these changes.

Punitive Financial Service Sector Taxes

The Greenbook once again proposes a financial crisis responsibility fee.[4] This $61 billion tax will impede economic recovery by constraining commercial lending and capital investment, including much needed lending to small businesses. This tax also creates situations that may lead to double and excessive taxation. In short, this will be a tax borne by America's job creators and is simply the wrong tax at the wrong time.

The punitive financial service sector taxes do not stop there. To raise another $14 billion, the Greenbook would tax "carried interest" – capital gains paid to managers of investment partnerships – as ordinary income. The Chamber believes that taxing carried interest as ordinary income would deter economic activity, reduce credit flow, and stifle job creation. Further, changing this longstanding law ignores the fact that state pension funds, charitable nest eggs, and universities rely on these partnerships and could face funding shortfalls if this tax hike drove talented management capital into other fields.

Thus, as the Committee considers changes to tax policy, the Chamber urges it to seriously consider both the direct and indirect ramifications of these changes on the economy before adopting policies such as those described above.

PRO-GROWTH TAX INCENTIVES

While the Greenbook is full of tax increases, it provides little in the way of tax incentives to help businesses grow. As noted above, in contrast to the almost $2 trillion in new taxes businesses can expect to face, they would see only $146 billion of tax cuts, $108 billion of which is attributable to making permanent the research and development (R&D) tax credit. The long touted incentives for manufacturing are minute in comparison to the tax hikes.

[4] For further information on the adverse impacts of the proposed financial crisis responsibility fee, please see the 2010 study conducted for the Chamber by Hal S. Scott, Nomura professor of international financial systems at Harvard Law School, "Financial Crisis Responsibility Fee: Issues for Policymakers," that demonstrates the adverse impacts this tax would have upon capital formation, available at http://www.uschamber.com/reports/financial-crisis-responsibility.

Small Businesses and Individual Incentives

For small businesses, the Greenbook contains little in the way of broadly applicable incentives. Summing barely $25 billion in total small business tax cuts, the Greenbook proposes eliminating capital gains taxes on small businesses, providing only $8 billion in tax incentives. Further, it provides for small regional incentives, which add only another $8 billion in incentives.

The Chamber believes that the impact of these provisions is extremely limited. For example, the small business capital gains incentive is diminutive, partially due to its applicability only to the limited number of small businesses operating in C corporation form. The Chamber believes that as the Committee considers proposals in the context of fundamental tax reform, it should avoid narrow incentives that are of value to only one industry, sector, or geographic area. Instead, it should seek policies that broadly benefit the widest possible cross-sections of individuals and businesses.

General Business Incentives

The Chamber supports the inclusion of the proposal to make permanent the R&D tax credit. Longstanding Chamber policy provides that research and development incentives should actually be more expansive, for example, by allowing research and development expenses to be deductible in the year incurred and providing a credit as high as 25% for increases in research expenditures.

As the Committee considers both short term policies and fundamental tax reform, the Chamber believes that it must pay close attention to how taxes impact innovation. The United States continues to lag behind other countries in its treatment of research and development costs. Thus, the Chamber recommends that the Committee seek policies that encourage businesses to conduct research and development within the United States and locate the intellectual property developed as a result of that research within our borders.

Conclusion

The Chamber appreciates the opportunity to comment on the tax proposals contained in the Greenbook. We believe the fact that the Administration proposes to use all of these tax increases in a piecemeal, uncoordinated fashion will actually make it harder to accomplish comprehensive, fundamental tax reform if and when Congress seeks to do so. This piecemeal approach will decrease competitiveness, hurt job creation, and quash economic growth; should Congress undertake fundamental reform it should be comprehensive and should seek to foster growth, competitiveness, innovation, and job growth. We look forward to working with Congress and the Committee to develop tax policies that promote growth and encourage investment in the United States.

[Question for the Record follow:]

The Honorable Timothy Geithner, Responses

MEMBER QUESTIONS SUBMITTED FOR THE RECORD
HOUSE WAYS AND MEANS COMMITTEE
PRESIDENT'S FY 2013 BUDGET
SECRETARY GEITHNER
FEBRUARY 15, 2012

Rep. Shelley Berkley

1. **Some state and local governments have raised concerns that the Administration's proposal to cap the amount of bond interest top income earners can deduct from their taxes may make it more difficult to fund capital projects. Is the administration open to working with states and municipalities to balance the need for income equality with the importance of investing in our infrastructure?**

   The Administration is open to working with states and municipalities to improve investment in infrastructure. In fact, the Treasury Department, along with the President's Council of Economic Advisers recently issued a report titled, "A New Economic Analysis of Infrastructure Investment" focused on this very point, a copy of which is available on the Treasury website: http://www.treasury.gov/resource-center/economic-policy/Documents/20120323InfrastructureReport.pdf.

   One way to address the issue that you raise would be to enact the Administration's FY 2013 Budget proposal to reinstate the Build America Bonds (BABs) program. The Administration's FY 2013 Budget proposal would make the BABs program permanent, with a borrowing subsidy rate of 30 percent through 2013 and 28 percent thereafter.

   The BABs program was quite successful in expanding the market for state and local governmental debt. In 2009 and 2010, more than $181 billion in BABs were issued in over 2,275 separate transactions in all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. BABs program benefits include: (1) a bigger and broader market for investors without regard to tax liability; (2) an efficient borrowing subsidy delivered through direct subsidy payments to state and local governmental issuers; (3) a potential streamlined compliance framework; and (4) relief for supply pressures on traditional tax-exempt bonds and assistance in reducing interest rates on tax-exempt bonds. BABs save taxpayers money. Support is also widespread for reinstating BABs, particularly among state and local governments who were able to save their residents billions through lower borrowing costs as a result of using BABs. The National Association of State Treasurers, the U.S. Conference of Mayors, the National League of Cities, the National Association of Counties, the Council of State Governments, and the National Association of State Auditors, Comptrollers, and Treasurers have all endorsed bringing back BABs.

Rep. Diane Black

Line of questioning regarding Argentina's bonds that the government defaulted on in 2001. The Treasury Department has been helpful, and I am requesting an update from the Secretary on their current efforts.

1. **Evading Court Judgments**
Mr. Secretary, as yon know, the Republic of Argentina defaulted on over $81 billion in international bonds in 2001, much of which were issued under U.S. law. In subsequent litigation, over 100 judgments have been entered against Argentina, none of which Argentina has paid. Obviously, respect for the rule of law and the judgment of courts is essential for a healthy financial system. Please tell us what steps the Treasury Department is taking to urge Argentina to meet it obligations.

Mr. Secretary, I'd like you to address Argentina's financial misbehavior and its implications for the international system. As you know, in 2001 Argentina defaulted on billions of dollars in sovereign bonds that it had issued under New York law. Despite having freely agreed to be bound by New York law, it has repeatedly ignored over 100 US court judgments against it, totaling more than $7 billion. Do you agree that by evading its legal obligations, Argentina is undermining the integrity of international bond contracts and the US legal system? What action is your Department taking to compel Argentina to meet its commitments?

On the margins of the Cannes G-20 Summit in November, President Obama discussed with President Fernandez de Kirchner the need for Argentina to normalize its relationship with the international financial and investment community and urged Argentina to take concrete actions with respect to repayment of outstanding arrears and complying with final and binding arbitral awards. Administration officials have followed up with Argentine officials to reinforce the President's message. On March 26 of this year, President Obama announced the suspension of Argentina's eligibility under the Generalized System of Preferences because of Argentina's failure to pay two longstanding International Center for Settlement of Investment Disputes (ICSID) awards in favor of U.S. companies.

Also, as you know, the Treasury Department continues to oppose multilateral development bank (MDB) lending to Argentina due to the government's failure to honor its international commitments. Our policy allows for a narrow exception when programs effectively target very poor and vulnerable populations.

2. **Paris Club**
There are reports that the Treasury Department is considering allowing Argentina to restructure its official debt through the Paris Club. I note that the portion of this debt owed to the US government (approximately $300 million) is relatively small compared to the over $3.5 billion Argentina owes private US creditors. Indeed, studies have shown that the if Argentina were to pay what it owes private Americans, the US Treasury would receive far more revenue from the taxes on those payments than it

would from settling the government-to-government debt. Given these facts, could you assure the Committee that the Treasury Department will withhold approval of a Paris Club deal for Argentina until Argentina has satisfied all awards under the US-Argentine bilateral investment treaty and the outstanding US court judgments against it?

Argentina's arrears to U.S. government agencies total about $550 million, and U.S. government efforts, including through the Paris Club, are appropriately focused on recovering full payment on these loans extended on behalf of American taxpayers. Imposing additional conditions that are unrelated to the government's claims could undermine the government's recoveries, which would not be in the taxpayers' interest.

We are not aware of any studies that show that more than the $550 million Argentina owes the U.S. government would be collected in taxes were Argentina to pay other creditors. In any case, Administration efforts to recover on loans extended on behalf of our taxpayers in no way diminishes our urging of Argentina to resolve the claims of private American investors.

3. <u>IMF</u>

Mr. Secretary, considering that the IMF may be asked to play a significant role in resolving the Eurozone crisis, it is critical that the US do all it can to maintain global respect for the IMF as an institution. In this regard, I note with dismay that Argentina is one of four countries that continues to reject a consultation under Article IV of the IMF Charter (the others being Somalia, Venezuela and Ecuador). In order to maintain confidence in the IMF, will the US continue to insist that Argentina submit to an Article IV consultation? Do you foresee any dilution of this requirement?

The United States will continue to insist that Argentina submit to an Article IV consultation.

The obligation to undergo IMF surveillance is enshrined in the IMF's Articles of Agreement, and we do not foresee any dilution of this requirement.

Rep. Joseph Crowley

1. **Mr. Secretary, as you know, the Republic of Argentina defaulted on over $81 billion in international bonds in 2001, much of which were issued under U.S. law. In subsequent litigation, over 100 judgments have been entered against Argentina, none of which Argentina has paid. Respect for the rule of law and the judgment of courts is essential for a healthy financial system. Please tell what if any steps the Treasury Department is taking to urge Argentina to meet its obligations.**

   Mr. Secretary, I'd like you to address Argentina's financial situation and its implications for the international system. As you know, in 2001 Argentina defaulted on billions of dollars in sovereign bonds that it had issued under New York law. Despite

having freely agreed to be bonnd by New York law, it has not addressed over 100 US court judgments against it, totaling more than $7 billion. By avoiding its legal obligations, could one argue that Argentina is undermining the integrity of international bond contracts and the US legal system? What action is your Department taking to ensure Argentina meets its commitments?

On the margins of the Cannes G-20 Summit in November, President Obama discussed with President Fernandez de Kirchner the need for Argentina to normalize its relationship with the international financial and investment community and urged Argentina to take concrete actions with respect to repayment of outstanding arrears and complying with final and binding arbitral awards. Administration officials have followed up with Argentine officials to reinforce the President's message.

Also, as you know, the Treasury Department continues to oppose multilateral development bank (MDB) lending to Argentina due to the government's failure to honor its international commitments. Our policy allows for a narrow exception when programs effectively target very poor and vulnerable populations. On March 26 of this year, President Obama announced the suspension of Argentina's eligibility under the Generalized System of Preferences because of Argentina's failure to pay two longstanding International Center for Settlement of Investment Disputes (ICSID) awards in favor of U.S. companies.

Rep. Richard Neal

1. **Secretary Geithner, I'd like to congratulate you and your staff for issuing proposed regulations that would help achieve the goals of the Foreign Account Tax Compliance Act (FATCA), which target Americans using foreign accounts to cheat on their taxes. One of my priorities on the Ways & Means committee has been tackling the issue of tax cheats (whether they be individuals or corporations) who attempt to hide their income overseas to avoid paying taxes in the U.S. So I applaud your efforts in this area - I think it's an important step. When do you expect that we'll see final regulations?**

   I also was pleased that the United States issued a joint statement with France, Germany, Italy, Spain and Britain stating that all of the countries will intensify their cooperation in combating international tax evasion - and the six countries intend to implement a government to government approach to FATCA implementation. Can financial institutions rely on this statement or will additional steps, including the passage of local laws, need to occur first? Are conversations occurring with other countries to implement a similar approach? Canada? Switzerland? China?

   The comment period on the proposed regulations, which were issued on February 8, 2012, ended on April 30, 2012, and a public hearing occurred May 15, 2012. In order to provide guidance as timely as possible to financial institutions and other affected parties, Treasury and the IRS intend to finalize the regulations by the end of this summer.

   The joint statement issued by the Treasury Department and the five European Union countries was not a legal agreement and instead announced a framework for agreements that would permit the implementation of FATCA on a government-to-government basis. Accordingly, discussions between these countries and the Treasury Department and the IRS are continuing with a goal of developing agreements consistent with the framework announced in the joint statement as expeditiously as possible. Treasury and the IRS are also engaged in discussions with a number of other foreign governments, and are open to exploring such an approach with other governments, where appropriate.

2. **In 2007, I introduced a bill to address the tax treatment of exchange trade notes (ETNs). Although these ETNs are issued by banks in the form of a debt instrument, they are not treated as debt for tax purposes. Instead, investors are told these ETNs will defer tax on investment income earned along the way, for as long as 30 years, and then turn all that income into long-term capital gain. This tax treatment is not the result of any legislation by Congress bnt instead results from a gap in the tax law. My bill was intended to fill that gap.**

I continue to be very concerned about this issue. As I consider next steps with respect to my legislation, conld you comment on whether Treasury will be issuing guidance on the tax treatment of ETNs?

ETNs are part of a larger class of financial instruments commonly referred to as prepaid forward contracts. The Priority Guidance Plan, which describes the projects that are the highest priority for guidance from the Treasury Department and the IRS each year, includes guidance on prepaid forward contracts. It is anticipated that guidance will be issued on prepaid forward contracts by June 30, 2012.

3. **Secretary Geithner, the National Defense Authorization Act inclndes langnage clarifying Custom and Border Protection's authority to disclose information to rightsholders whose trademarks appear on suspect dangerous counterfeit imports. Even so, I have been told that counterfeit chips have made their way into sensitive defense department systems and in critical civilian products like defibulators, automobile air bags and antilock breaking systems.**

Congress' clear intent was for CBP to immediately return to its prior practice of sharing complete photographs of potentially dangerous counterfeit imports with the rightsholders and it was thought that this could be done with no further administrative action other than an email to the CBP Port Officers.

About a month and a half have now passed since the enactment of the NDAA. Can yon please explain Treasury's position on the NDAA law? When will Treasury implement this law?

I share your interest in expanding Customs and Border Protection's ability to share information about and samples of imported goods suspected of being counterfeit with rights holders of the trademarks on those goods suspected of being counterfeited for purposes of determining whether the imports are counterfeit. To that end the Treasury and the Department of Homeland Security published an interim rule on April 24, 2012 that will enable information sharing. This matter is important both to our national security and to the strength of our nation's economy.

Rep. Devin Nunes

1. **Mr. Secretary, on the issue of money market funds, there were some very constructive reforms that the SEC spearheaded in 2010 that improved the credit quality, maturity, liquidity, and transparency of money market funds. These reforms appear to be working very well. Now I'm reading about further proposals the SEC is developing that involve extreme measures, such as requiring these funds to float their net asset value or to impose capital burdens and impose "redemption restrictions" that would deny investors full use of their cash. I'm concerned that these latest proposals would drive assets out of money market funds to the point of decimating the product, reduce liquidity in short term credit markets, and impose added costs on investors. Are you committed to safeguarding against such negative impacts?**

   We cannot comment on the specifics of any potential proposed rules that the SEC may be considering, but Treasury is supportive of the SEC's efforts to move forward with additional reforms. Money market funds contributed to instability during the financial crisis in 2008 and at the time, the previous Administration and the Federal Reserve were forced to intervene to prevent a widespread run on money market funds. It is critical that taxpayers will never again be on the hook for Wall Street's failures.

   As you acknowledge, the SEC has already taken actions to reduce risks in the industry by strengthening the portfolio credit and liquidity requirements under Rule 2a-7 in February 2010. We agree that money market funds are more resilient today than they were in the lead-up to the financial crisis, but further reform is needed to improve the stability of the industry. Both the President's Working Group Report in 2010 and the Financial Stability Oversight Council's 2011 Annual Report reiterated the need for additional structural reforms to reduce money market funds' susceptibility to runs.

   We look forward to your input on the proposed reform options when the SEC publishes a proposed rule.

Rep. Adrian Smith.

1. **As a result of a bipartisan agreement, the estate tax is imposed at a top rate of 35 percent, with a $5 million exemption for 2011 and 2012. Effective for 2013, President Obama proposes to make permanent the estate tax parameters which were in effect for 2009 – a top rate of 45 percent and a $3.5 million exemption, which would not be indexed for inflation. By not including an automatic inflation adjustment, is it the Administration's intention to eventually impose this tax on more and more Americans**

each year, including the middle class? Does the Presideut think he is offering a permanent solution?

The Budget's proposal on the estate tax contains an exemption amount that is substantially larger than the $1 million exemption scheduled to go into place in 2013 should the law not be changed. With a $3.5 million exemption amount, less than 0.5 percent of estates would be subject to any tax. That said, we are willing to work with Congress to develop an estate tax system that is fair and fiscally responsible.

Rep. Mike Thompson

1. **[Tax Policy] Secretary Geithner, many people who support the repeal of Last-In, First-Out (LIFO) argue that such repeal is inevitable because of the potential adoption by the Securities and Exchange Commission (SEC) of International Financial Reporting Standards (IFRS) on registered U.S. companies. As you know, IFRS does not allow the use of LIFO, so some proponents of LIFO repeal argue that Congress should repeal LIFO now and garner the purported budgetary savings before the SEC enacts IFRS and the chance to score LIFO repeal is diminished or eliminated.**

   My understanding, however, is that the SEC has not yet made any decisions on the adoption of IFRS and there is some discussion that the SEC is not likely to impose IFRS in its entirety on SEC registered companies. I have been told that the trend internationally has been for countries that adopt IFRS to do so with "carve-outs" for difficult issues, and that the LIFO method could be preserved for U.S. registered companies under that approach, even if IFRS is otherwise required for those companies. Does the Administration support the "inevitability argument" described above in regard to LIFO repeal and, if so, how would the Administration deal with the counter argument that it is premature to assume that the SEC will come out in favor of LIFO repeal?

   The Securities and Exchange Commission (SEC), the International Accounting Standards Board (IASB), and the Financial Accounting Standards Board (FASB) are working together to address areas of IFRS/U.S. GAAP (Generally Accepted Accounting Principles) divergence to achieve the overall goal of developing a single set of high-quality financial accounting standards that produce internationally comparable financial information. It has been the policy of this Administration and prior Administrations to support financial accounting standards convergence. Until the IASB and FASB complete their work converging accounting standards, however, it is unclear whether all current IFRS standards will be adopted for SEC registrants.

   Whether or not the SEC decides to adopt all current IFRS standards, the President's FY 2013 Budget proposes to repeal the Last-In, First-Out (LIFO) method of accounting for tax purposes. The repeal of LIFO would eliminate a tax deferral opportunity for taxpayers that hold inventories, the costs of which increase over time. In addition, LIFO repeal would simplify the Code by removing a complex and burdensome accounting method that has been the source of controversy between taxpayers and the IRS.