THE PRESIDENT'S FISCAL YEAR 2011 BUDGET

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
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C O N T E N T S

THE PRESIDENT'S FISCAL YEAR 2011 BUDGET

WEDNESDAY, FEBRUARY 3, 2010

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

The Committee met, pursuant to notice, at 10:00 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 27, 2010

CONTACT: (202) 225–3625

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2011 Budget with U.S. Department of the Treasury Secretary Timothy F. Geithner

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on President Obama's budget proposals for fiscal year 2011. **The hearing will take place on Wednesday, February 3, 2010, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be limited to the invited witness, the Honorable Timothy F. Geithner, Secretary 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.

FOCUS OF THE HEARING:

On February 1, 2010, President Barack Obama will submit his fiscal year 2011 budget to Congress. The budget overview 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, including taxes and customs.

BACKGROUND:

In announcing the hearing, Chairman Rangel said, **"Developing a budget is a difficult challenge at a time when we need to continue our efforts to create jobs and strengthen our economy even as we face increasing concerns about our long-term fiscal outlook. I have enjoyed working with Secretary Geithner over the past year and look forward to hearing him discuss how the President proposes to meet those challenges."**

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://democrats.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 or WordPerfect document, in compliance with the formatting requirements listed below, **by close of business Wednesday, February 17, 2010**. **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 or WordPerfect 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.

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

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

Chairman RANGEL. The Ranking Member and I have been trying to find some way that we can move this forward. The Secretary of Treasury has a limited amount of time. We hope that the Members would agree to a 3-minute limit in terms of questioning, and we will stick to it. We want everyone to have an opportunity to ask a question.

We expect a battery of votes on the floor in a couple of hours. And so I yield my opening statement to the Ranking Member, Mr. Camp.

Mr. CAMP. Well, Mr. Chairman, in that spirit I will submit my opening statement for the record so that we can leave more time for questions by Members on the Committee, and I appreciate the opportunity to move forward. Thank you, Mr. Chairman.

[The prepared statement of Mr. Camp follows:]

Prepared Statement of Dave Camp,
Ranking Member, Committee on Ways and Means

Thank you, Mr. Chairman, and welcome back to the Committee, Mr. Secretary.

Today we begin our annual cycle of hearings on the President's budget proposals and their effects stretching out for the coming decade. As usual, we will have many specific questions about what the Administration plans in terms of spending and taxes, and why.

But before we get to the specific questions about the individual proposals in here, a larger question looms in the minds of tens of millions of Americans.

Where are the jobs?

Last year at this time, President Obama and Democrats in charge of Congress were putting the final touches on their so-called stimulus plan. And in selling that plan, they made all sorts of promises about the jobs it would create and the beneficial impact it would have on the unemployment rate.

Everyone is, of course, entitled to their opinions. But facts are stubborn things. And the facts, quite clearly, show the promises made by this Administration about stimulus were more than a little off the mark.

Instead of creating 3.5 million jobs as Democrats promised, we have since witnessed the elimination of nearly 3 million more jobs.

As we can see from the chart on the screen, we were told unemployment would stay below 8 percent if stimulus passed. Yet unemployment is now 10 percent, and the President's budget admits it will stay there throughout 2010.

Instead of more paychecks, the lasting legacy of stimulus may be measured more by the spike in the number of people collecting unemployment checks. A record 12 million Americans recently claimed unemployment benefits, almost 50 percent more than the 8 million when Congress passed stimulus.

Today, 10 months after stimulus, 49 of 50 States have lost jobs, representing another promise made, but not kept, in selling this debt-bloating behemoth to the Nation.

Other promises, such as those claiming most job creation would be in the private sector or that construction and manufacturing would benefit especially, have been shown to be equally off the mark.

These are not empty assertions. These are all painstakingly documented and can be found on the website of Ways and Means Committee Republicans.

Further proof of the failures of stimulus can be found in last week's report by the Congressional Budget Office, which found stimulus actually cost taxpayers $75 billion more than originally forecast, in large part because the failure to create jobs drove up spending on unemployment and other Federal benefits.

This is the sobering context in which we will consider today's budget. Simply put, it proposes the highest spending, largest tax hikes, and biggest deficits in American history. Meanwhile, the Administration claims these steps are necessary to spur job growth in the coming decade.

And that really leads us to a more basic question. If the nearly $1 trillion added to our debt by stimulus didn't spur job creation this year, why should we expect that adding another $9 trillion in debt over the next decade—as this budget proposes—will improve things?

I look forward to a discussion of how the specifics in the President's budget will actually create real jobs. Not "jobs funded" or "jobs temporarily saved until stimulus money runs out" or whatever else someone would like to count. But real, lasting jobs in profitmaking companies that are selling goods and services to our fellow Americans and customers around the world.

Because for people across the country, especially those I represent in Michigan where the unemployment rate is over 14 percent today, "How does it create jobs?" is the first, middle, and last question on their minds.

Today, I will be looking for answers to these questions from the Administration. I thank the Chairman and yield back the balance of my time.

Chairman RANGEL. Mr. Geithner, we will waive opening remarks and go right into your testimony.

STATEMENT OF TIMOTHY F. GEITHNER, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Chairman Rangel, Ranking Member Camp and Members of the Committee, it is a pleasure to be back here today.

A year ago, as you know, when the President took office, our Nation was facing a deep recession. The economy was contracting at an annual rate of about 6 percent. The financial system was on the verge of collapse. Credit was frozen. The housing market was in free-fall. Millions of Americans had lost their jobs, and the economy was losing jobs at the rate of three-quarters of a million additional jobs a month. And this is very important: When the President came into office, he faced a deficit of $1.3 trillion and projected deficits before a single bill was enacted that, according to CBO, would more than double the Nation's debt over the next decade.

I want to just say this again: In January 2001, CBO, which is your designated nonpartisan, neutral scorekeeper, projected 10-year surpluses of $5.6 trillion. In January 2009, before the President stepped into office, those projected surpluses turned into $8 trillion in projected deficits. So let me just repeat that. Over the course of 8 years, we went from the summits of $5.6 trillion in projected surpluses to $8 trillion in projected deficits. That is a swing of $13 trillion.

Now, this recession caused tremendous damage, and today millions of Americans are still living with the consequences of that recession. And we all know that the road to jobs, to greater economic security and to fiscal responsibility starts with economic growth. And today, in large part due to the actions Congress took and that we took to put out this financial fire, our economy is now growing again, and in the fourth quarter it grew at the fastest rate in 6 years.

This is progress, but it is not enough, and that is why we need to work together to intensify our focus together on job creation, on investment and on innovation.

Now, when you talk to small businesses across the country, as I know you do, they tell a similar story. They are worried about whether they are going to see demand for their products, and their ability to expand and to hire depends on access to credit. And that is why the President in New Hampshire yesterday proposed new legislation to create a small business lending fund. That new fund will offer capital to community banks that have historically been at the center of lending to small businesses, and we need them if we are going to be able to grow and create jobs. That is why the President is also proposing to substantially expand what the Small Business Administration can do in terms of higher loan limits, lower guaranteed fees. We want to extend the Recovery Act provisions and build on those.

Now, in addition to helping small businesses get access to credit, we are proposing extensions of Recovery Act tax relief for small businesses. Expensing, bonus depreciation, we are proposing zero capital gains on investments to small businesses, and we want to work with you to design a credit to help small businesses expand hiring. The President's proposal—and we are open to ideas on how best to do this—is to give small businesses that add jobs $5,000 for each net job they create, and combine that with some payroll tax relief.

Now, in the President's budget we laid out a comprehensive agenda to invest in innovation and strengthen our economic foundation. This budget is designed to create the conditions for the private sector to grow so that businesses small and large can create jobs. To do this we need serious financial reform not just to provide better protection for consumers and investors, but to make sure that our financial system is taking the savings of Americans and financing future growth and innovation, not financing financial and real estate booms.

We want to encourage American innovation. Last year we made the largest investment in basic research funding in the history of our country, and we want to build on that and give businesses incentives to invest in R&D and in clean-energy technologies.

We need to increase exports, and that is why we are committed to working with this Committee and with the Congress to pursue strong trade agreements, because the more American businesses are able to export, the more jobs they are going to be able to create in America.

We want to invest in education. Businesses in this country need an education system that does a better job of teaching and creating a skilled and productive workforce.

And finally, we need health care reform so that we can provide greater economic security for tens of millions of middle-class families and help reduce the extraordinary cost burden our existing health care system puts on businesses large and small.

Now, these are reforms the government has to make. If the government fails to meet these basic challenges, Americans will suffer, and businesses will suffer. The market cannot solve these challenges on its own. The government needs to address these challenges in order to provide a strong foundation for a dynamic, growing private sector.

Now, part of this foundation requires returning as a country to living within our means. When we have strong growth in place, we need to begin the process of bringing down our deficits. These deficits are too high. They are unsustainable. And the American people and investors around the world need to have the confidence that we are going to work together to bring them down when the economy is stronger.

Now, the President's budget proposes some important steps toward that objective. Starting in fiscal year 2011, we propose to cap nonsecurity discretionary government funding for 3 years. Second, we are proposing some important changes to our tax system to make it fairer and help bring down those long-term deficits. So we are proposing to allow the tax cuts put in place for the richest Americans to expire to close what is called the carried interest loophole so that we are taxing the income of hedge fund and private equity managers in the same way we tax the earnings of teachers and firemen, and we want to eliminate unnecessary, unfair and ineffective tax subsidies.

As we take these modest steps, though, we want to expand, extend the Making Work Pay tax credit, which goes to 95 percent of working families across the country. We are working to close down the TARP at zero cost to the taxpayer. If you join with the President in passing our proposed financial responsibility fee, the taxpayer will not be exposed to a penny of loss on the actions the government was forced to take to fix the financial system.

Third, we have to restore basic disciplines of budgeting that all American families live with by reinstating pay-as-you-go. Any new initiative should be paid for without adding to the deficit. In the 1990s, those disciplines helped move us from a deficit that was 4.5 percent of GDP in 1991 to a substantial surplus in 2000. Now, this budget outlines a path to bring our deficits down as a share of our economy to below 4 percent over the next several years. And while government support for the economy is critical now, we can't let our future deficits and debt continue to grow faster than our economy without hurting future prosperity.

This is going to be a difficult task, it is going to require tough choices, politically difficult choices, but it is important we work together on that. And that is why the President has proposed the creation of a bipartisan fiscal commission which will be charged with identifying responsible policies that can win support across the aisle to bring down these deficits.

I want to just close by saying the following: The United States economy is in a much stronger position today than it was a year ago, but our challenge is not just to repair the damage caused by this recession. We also have to make the investments that are necessary to our future prosperity. We have not been investing in making the kind of reforms that are essential to broad-based economic growth in this country, and that is why the investments laid out in the President's budget are so important.

Now, I know we have different ideas on how best to get the economy growing again and make sure we are creating jobs, but I want to underscore where I think you can find some common ground today. People across the aisle today say deficits matter, and ours are too high. Tax cuts are not free. We have to pay for the programs we propose to undertake. But our priority today, our priority today, is to make sure we are getting Americans back to work and we have the conditions in place for a sustainable recovery. Now, I want to say I look forward to working with this Committee on how best to design and implement policies that achieve that objective.

And I want to conclude, Mr. Chairman, just by saying one thing about what you read in the news today about AIG. What happened in AIG was an outrageous failure of policy. As a country we should have never let a company take on a scale of risk that could threaten the stability of the financial system, and we should never allow the taxpayers ever again to be in a position where they have to pay a penny for rescuing a financial system from the mistakes caused by not just government, but the decisions of people running these major firms.

Part of what contributed to this was a set of compensation practices that defied gravity; they were deeply responsible. In a simple way what happened is people were paid if things went well, but they were not exposed to loss if things went bad. And what happened in AIG is the people running that firm, as they were taking on a level of risk we had not seen ever before, they had it—they were paying their people on a presumption that they would share in the gains if things turned out fine, but if things went south, they would be protected from those losses. These contracts were put in place in December 2007, and in March 2008, before that company faced collapse, they came to the government and said, we need you to help us save us from ourselves.

Those contracts were outrageous. They should never have been permitted. And Ken Feinberg has done an exceptional job under very tough conditions. I asked him to come and help us work through this. He is a brave, smart, tough man, who knew he was not going to make anybody happy, and he did a very good job of negotiating down those payments and trying to make sure that you did not have any of that kind of stuff in place in that firm or across our major firms in the future.

Now, if you join with us in passing this proposed fee on our largest financial institutions, then you will be able to say, as we do, that the American taxpayer will not pay a penny for what happened in AIG. And if you work with us on financial reform, then we can put in place the kind of bankruptcy procedure we have for real companies and we have for small banks that allow us to deal with future AIGs without having to face the kind of outrageous things you have seen us have to confront in this process.

So our job today is to see if we can find a way to fix what was broken in this economy and in this financial system. We are making some progress, but we have a ways to go. And we are looking for the best ideas that offer the best bang for the buck to get people back to work that are responsible, recognize we have limited resources, but understand the deep obligation we have to try to repair what was broken, repair all the damage that was done, and put us back on a path where we can be more—we have earned back the confidence of the American people that they are going to have a more secure economic future.

Thank you, Mr. Chairman.

Chairman RANGEL. Thank you, Mr. Secretary.

[The prepared statement of Secretary Geithner follows:]

Embargoed Until 10:00 a.m. EST, February 3, 2010

Treasury Secretary Timothy F. Geithner
Written Testimony
House Committee on Ways and Means
February 3, 2010

Chairman Rangel, Ranking Member Camp and members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2011 Budget.

The U.S. economy is still in the midst of one of the most challenging periods in our nation's history. We have pulled back from the brink of financial collapse and a historic recession. The overall economy grew at an annual rate of 4 percent over the last six months of 2009, but millions of Americans remain out of work and the economic pain of the recession can still be felt throughout our nation. This crisis has caused enormous damage to the basic economic security of tens of millions of Americans.

This is why we have a lot of work to do together to make sure that as overall economic growth recovers, so does job growth. We must restore confidence in the economy's fundamental resilience, and we are taking the steps to ensure sustainable growth going forward that is more widely shared among the American people.

Our immediate priority is to work together to encourage the creation of more and, better-paying jobs. We can only achieve that objective if we are committed to laying a foundation for job creation in the private sector. In the short-term that means ensuring that the true engines of job creation, America's businesses, have the right incentives to expand and hire through new targeted measures in 2010 that will speed job creation.

But laying a new and stronger foundation for the private sector requires more: it requires an equally strong public commitment to invest in the innovation, modern infrastructure, and the education of our future and present workers. These investments will enable our businesses to compete, increase productivity, and most importantly, will help create good, well-paying jobs. In the long-term, this new foundation requires the creation of a strong investment climate by showing our commitment to return the deficit to sustainable levels and establishing the right rules to restore trust in the core functions of our financial system. When recovery is firmly in place and the economy is back on its feet, we need to begin the process of bringing down the deficits that Washington has been accumulating for almost a decade. These deficits are too high and left unchecked they will burden our children and grandchildren, and could drain investment from the private sector, drive up interest rates and threaten the very prosperity we are seeking to produce.

The commitment in this Budget to job creation, innovation, investment in the skills of our people and fiscal sustainability is essential to setting the stage for the kind of broad-based economic growth that will provide middle-class Americans with rising living standards and financial security.

Pursuing these goals requires a careful balance. It means not turning too quickly away from our immediate goals of jobs and recovery, while also not ignoring the long-term health, education and energy challenges that our nation cannot afford to further ignore. And it means laying out a clear path to fiscal sustainability, and demonstrating our commitment to walk that path by taking the first critical steps along it.

Recovery and Job Creation

As the President said last week, jobs must be our most immediate focus. That means that even before we get to our FY 2011 Budget, we will work with Congress to enact legislation to accelerate the pace of job growth.

First and foremost, we will do this by providing businesses – especially small businesses that have been major job creators in recent years –with tax cuts and other incentives to put more Americans back to work quickly.

The Administration proposes to extend Recovery Act business tax relief, and to create a new, temporary tax credit for job creation. We will extend Recovery Act measures that allow small businesses to deduct the full cost of new investments in qualifying equipment. And we will allow all businesses to take bonus depreciation deductions this year for qualifying capital investments.

Under our new "Small Business Jobs and Wages Tax Cut," all businesses will be eligible for a $5,000 tax credit for every new employee they hire in 2010. An additional bonus amount will be available to firms that increase their payroll by adding hours or raising wages, with the total credit amount capped at $500,000 per firm. Because it will use a 2009 baseline, there are no games or accounting tricks any business could perform to get the job or wage tax cut without actually increasing jobs or wages.

In order to get money out to businesses quickly and thus provide a fast-acting incentive to hire, firms will be able to claim the credit on a quarterly, rather than annual, basis. We expect that over one million small businesses that are growing jobs or wages will receive the credit.

This combination of tax measures will boost the pace and quantity of business investment and, with it the number of new jobs that businesses create.

To cope with the difficulty that small businesses face in getting bank credit, the Administration is proposing legislation that will use $30 billion from TARP to create a new separate program designed to provide capital to small and community banks. Our proposal includes a carefully-designed incentive structure that improves the terms of the capital the more a small bank expands lending to small business. And we will explore additional ideas from Congress on other ways this facility could work to expand lending to credit-worthy small businesses.

We also call for extending through September of the effective Recovery Act measures that supported up to $15.4 billion in Small Business Administration loans through lower fees and higher guarantees during this difficult time. And we will support legislation to increase the loan size of the SBA's two most heavily-used guarantee programs.

Second, the President has proposed measures to spur immediate job growth by creating incentives to invest in our environment and energy security. In addition, the Budget includes an extra $5 billion to expand the number of firms eligible to receive a tax credit for investments in U.S. factories that produce clean energy products. This will boost jobs by helping to build a strong U.S. clean energy industry. And because it is an expansion of an existing program, there

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are already worthy businesses ready to receive the benefit so that the additional amount will go to work quickly creating new jobs.

The President is also proposing new incentives for consumers who retrofit their homes to make them more energy-efficient, and we are seeking to expand several Recovery Act initiatives that promote energy efficiency and clean energy and that have been particularly popular and effective at job creation.

Third, the President is proposing to boost infrastructure investment beyond what was included in the Recovery Act so that we can continue modernizing our transportation and communications networks. This increase will support needed public works, provide private sector companies with new work, and spur additional hiring.

As we take all of these steps to get Americans back to work, we need to extend Recovery Act relief for those most hurt by the nation's economic troubles. This will include emergency assistance to seniors, unemployment compensation and COBRA assistance for the unemployed, and relief to revenue-strapped states and localities to help prevent layoffs.

Building a New Foundation

While our first aim must be to restore job growth, the FY 2011 Budget looks beyond the immediate recovery to build a new and stronger foundation for growth in the years ahead. Our aim in doing so is to produce growth that once again raises the living standards of all Americans.

We cannot afford an economic expansion like that of the past decade when, as the President said last week, jobs grew more slowly than during any previous recovery; the incomes of average American households declined while the costs of health care and college reached new highs; and much of our growth was built on the sands of a real estate and financial boom.

In order for Americans to thrive, this nation must rely, as it always has, on a vibrant private sector. Our entrepreneurs, small and large businesses, workers, and nonprofit organizations must be the engines of productivity growth and the primary creators of new, high-quality jobs. Washington's role must be to create optimal conditions for small and large American businesses to grow, innovate and create jobs.

Government can play this important role by helping to ensure that families can save and that businesses have ready access to the credit needed to grow; by helping to expand the body of technical knowledge and the quality of public infrastructure to encourage new businesses and greater productivity; by expanding the market for American goods and services by increasing our exports to the rest of the world; and by helping Americans to better educate themselves in order to best employ the latest knowledge and compete in an increasingly globalized marketplace.

The President's Budget outlines policies to make important progress on all of these objectives.

A strong, healthy financial system is crucial for sustainable growth, job creation, and broad-based prosperity. Such a system helps families save for a house, a child's education and retirement. And it channels those savings into investments that let businesses grow, hire, and raise incomes.

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Our financial system is far stronger today than it was a year ago. But it is operating under the same rules that led to its near-collapse and a dangerous recession. These rules must be changed to keep the system from taking unjustifiable risks and so that it can fuel growth.

We need a financial system that is safer; in which financial firms, especially large ones, have more capital to absorb their own losses and cannot take risks that threaten the whole economy. Consumers need to be given the information they require to make the decisions that are right for them and they need to be protected from unfair and fraudulent practices. The government needs to have the authority that it did not have in the recent crisis to break apart and unwind failing firms in ways that limit damage to the system as a whole.

The Administration has proposed reforms that would accomplish these goals, and the House has already passed legislation. We must finish the job of enacting comprehensive reform for the sake of people's financial safety and to ensure growth.

At the very core of the Administration's efforts to build a new foundation for growth are our efforts to encourage American innovation. We already made the largest investment in basic research funding in history last year, and we propose to build on that. Even with our tight fiscal constraints for discretionary spending, our Budget for the next fiscal year will increase civilian research and development (R&D) by 6.4 percent. Our aim is to help create the conditions for greater economic productivity and the emergence of new growth- and job-creating businesses. And with most of these new investments offset by reductions in military R&D, we will pursue this aim without increasing the size of government or government spending.

As the President has said, no area is riper for R&D-driven innovation than energy. Whether you are a consumer watching the cost of filling your gas tank go up or a scientist tracking how climate change is affecting our planet, it is clear that we can no longer afford our heavy reliance on fossil fuels to power our economy.

The transition from fossil fuels to clean energy will challenge both America's technical ingenuity and our political will. But the challenge holds out tremendous possibilities not just for improving our health and the environment, but for creating new, high paying "green" jobs and driving the recovery of America's manufacturing economy.

This Administration is committed to creating clean energy and green jobs. The Recovery Act is already investing $90 billion in clean energy technologies. And our FY 2011 Budget extends that commitment. As I have already mentioned, it expands by $5 billion our Advanced Energy Manufacturing Tax Credit, a 30 percent credit for qualified investments in new, expanded or re-equipped clean energy projects. It substantially expands support for construction of new nuclear power plants by increasing loan guarantee authority for such projects by $36 billion. It funds a $500 million credit subsidy to support $3 billion to $5 billion of loan guarantees for energy efficiency and renewable energy projects. It continues work begun under the Recovery Act to modernize our electrical grid so that it is smarter, stronger, more efficient, and helps foster the growth of wind and solar energy projects.

We will make parallel investments in infrastructure with the intention of taking full advantage of the knowledge generated by the new R&D we are funding. These investments are designed to be launched as quickly as possible in order to create jobs. They will include increasing a $7.2 billion

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program to expand access to broadband computer networks, and following through on our five-year, $5 billion commitment highlighted by the President last week in Florida to develop high-speed rail.

We are also proposing to expand and make permanent the very successful Build America Bond program, which was part of the Recovery Act. Build America Bonds have expanded the investor base for municipal bonds and lowered borrowing costs, helping to restore a badly damaged municipal finance market and support job creation through new infrastructure projects. States and localities have already issued over $64 billion in such bonds through the end of December. The President's Budget proposes making Build America Bonds permanent with a subsidy rate that makes extension revenue-neutral. The Budget also proposes expanding the eligible uses of these bonds, allowing them to support financing for nonprofits and a wider range of municipal borrowing.

A critical component for building a new foundation for stable, long-term growth, and a complement to our efforts to increase R&D and innovation, is opening up foreign markets to American goods and services. The President has set a goal of doubling our exports over the next five years and thereby supporting two million American jobs.

Our Budget will substantially increase funding to expand exports, especially those produced by U.S. small businesses. The Budget will provide a 20-percent increase in Commerce Department funding that promotes exports from small businesses, as well as funding for the Import-Export Bank to expand U.S. small business use of the Bank's financial export assistance.

History shows that, besides R&D, the investment that pays the greatest returns in improved productivity and greater prosperity is education. The Budget makes substantial new investments in this area, as well.

The Budget will provide new incentives for the rising generation of students to train as scientists and engineers. And because in order to succeed in a global economy higher education is a necessity and not a luxury, the Administration proposes to increase community college graduation by 5 million students by 2020.

The Budget increases maximum Pell Grants awards to $5,710, and further propose to make Pell Grants an entitlement program, to further the President's commitment that coming from a lower-income family should never be a barrier to any young person with high educational aspirations. In addition, it will extend the American Opportunity Tax Credit, which provides a tax incentive of up to $2,500-a-year toward college costs – or up to a total of $10,000 for a young person getting a four – year degree.

The Budget will support the Administration's efforts to make major reforms and improvements in the nation's elementary and secondary schools to help students graduate so that they are ready for postsecondary education or a career. It will expand the Recovery Act's successful Race to the Top competition for funds to include not only states, but individual school districts, and by investing in a new competitive fund to encourage states to develop innovative techniques for recruiting, retaining and rewarding effective teachers.

Finally, this budget is designed to give middle – class Americans a chance to get back on their feet and contribute to this economy. That commitment has been central to the Administration's policies from the outset. The middle class was the focus of the Recovery Act. And soon after taking office, the President created a Middle Class Task Force, led by Vice President Biden, aimed at raising the living standards of working families.

In this budget, we build on that commitment. We are proposing to extend the lower- and middle-class tax cuts that are scheduled to expire at the end of 2010. Among its effects, this extension will ensure that 97 percent of small businesses who file individual income tax returns will be spared an increase in their tax rates. The Budget will also extend the Recovery Act's Making Work pay tax credit. And through the initiative of Vice President Biden, we will expand the Child and Dependent Care Tax Credit to help those who are working or going to school and are also responsible for caring for others.

We will further assist tens of millions of middle - class families if we pass health care reform that protects every American from the worst practices of the insurance industry, gives small businesses and uninsured Americans a chance to choose an affordable health care plan in a competitive market, and requires every insurance plan to cover preventative care.

The Administration and Congress have worked hard over the past year on health care and we have no intention of letting the chance for real reform slip away. It is crucial to remember that beyond the difference reform would make to the quality, cost and coverage for tens of millions of Americans, reform would reduce the growth of health care costs. This would be of immense importance to the efficiency of our economy and to our ability to reduce deficits over the long-term.

The Fiscal Imperative

American families are making tough choices in difficult times; Washington must do the same.

Every American knows that the path of our deficits is too high and that if they persist long after this recession ends, they will pose a corrosive threat to our economic future.

That is why we believe that even as we take emergency action to spur demand and job growth, it is not too early to begin the process of imposing policies that can start bringing the deficit down to sustainable levels once recovery and job growth have a firm footing. Failure to show our commitment to bring down medium-term and long-term deficits can weaken a recovery. Failure will mean higher rates for families that want to buy a home or businesses seeking to start or expand. Failure will limit the government's ability to respond in future crises.

Of course, in tackling this problem, we must strike precisely the correct balance with the job- and growth-spurring measures required to assure recovery, and the investment in innovation and education to lay a new foundation for future growth. If we fail to do so, we risk driving the economy back into recession, causing immense additional harm to middle-class families and making it even harder to fix our fiscal problems.

This last point bears repeating. Advocating deep and immediate cuts would damage growth, exacerbating our fiscal challenges.

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On the day that President Obama took office, the budget deficit for 2009 stood at $1.3 trillion – 9.2 percent of GDP – and the projected 10-year deficits for the following 10 years were $8 trillion.

These huge deficits are the result of the prior Administration's decision to enact large tax cuts and a prescription drug bill without paying for them. Over the next ten years, those measures alone are projected to add $5.8 trillion to the deficit, including interest expense on the additional associated debt.

The impact of the policies on our nation's debt burden was magnified by the great recession the President inherited and its impact on revenues and automatic increases in spending on safety net programs. Together these automatic changes will increase deficits by about $2.4 trillion over the next ten years. Simply put, over $8 trillion of the projected deficits we faced as we put together this budget were due to the fiscal policies of the last eight years and the effects of the deep recession this President inherited. A much smaller amount – less than one tenth of the effect of the unpaid for policies and the recession – is attributable to the cost of the means by which we supported and pulled the economy out of crisis.

Deficit trends of this level are not sustainable. Beginning to correct them will require cutting deficits enough to stabilize the debt-to-GDP ratio at a manageable level so it is no longer rising. This requires cutting the deficit to 3 percent of GDP. This Administration is committed to achieving the goal of deficits that are roughly 3 percent of GDP by 2015. Doing so would mean that the on-going expenses of government will be completely covered by incoming revenues; the only thing adding to the deficit will be interest costs on the accumulated past deficits.

This is an ambitious goal. The deficit in the current fiscal year is expected to reach 10.6 percent of GDP. To reach our 3 percent fiscal target between now and 2015, we must lower deficits as a share of GDP by more than they have been reduced in any five-year period during the past six decades.

The President's Budget proposes a series of actions that would begin to put us back to a responsible, sustainable fiscal path. Let me highlight those changes:

The Budget will freeze all non-security discretionary funding for three years (2011-2013) at 2010 nominal levels, with funding after the three years increasing only at about the rate of inflation. The freeze will reduce deficits by $250 billion through the end of the decade. Among other things, it will require us to eliminate or consolidate funding for several education programs even as we make significant targeted investments to improve education. It will mean reducing spending on the National Park Service, terminating the Brownfield Economic Development Initiative for poor areas that the President advocated during the election campaign and still supports.

In addition, we need to restore the basic set of disciplines that helped make sure that if Congress proposes new policies or tax cuts, these are paid for with offsetting cuts or changes in policy. In the 1990s, Washington started to live by the budget rule and the basic common sense principle that if the President and Congress wanted to pass an expensive tax cut or entitlement increase – however worthy – they had to find offsetting measure to ensure it did not increase the deficit or debt. This common sense rule – called PAYGO – helped Washington move from large deficits to surpluses. If Washington had lived up to this principle during the last decade it would have served as a bulwark against the unpaid for tax cuts and entitlement increases that make up the heart of the current deficit and debt. Reinstating PAYGO will help return the government to fiscal sustainability.

The Budget will include proposals to close the "tax gap" by collecting more of the taxes that are owed, but are not paid. This is critically important. Tax evasion not only reduces tax revenue, thereby resulting in an implicit tax increase on those Americans who pay their taxes, it also reduces the faith Americans have in the tax system, starting a vicious cycle that can result in even more evasion. I appreciate this Committee's longstanding interest in, and leadership on, efforts to reduce the tax gap. I look forward to working with the Committee to address this important issue.

The Budget will provide nearly $250 million in new enforcement initiatives to improve compliance, which will build on the foundation established in the FY 2010 budget to hire nearly 2,000 new employees dedicated to addressing international tax evasion by businesses and affluent individuals, improving information reporting, and broadening collection activities.

Since President Obama took office, the United States has aggressively pursued international tax agreements to further cross-border tax information exchange. In the past year alone, the United States has signed agreements improving tax information exchange with Switzerland, Luxembourg, Liechtenstein, Gibraltar, Monaco, and Chile. The United States also is working multilaterally to make sure that countries meet international standards on tax transparency and information exchange. The Administration is committed to preventing the facilitation of offshore tax evasion. Finally, the Internal Revenue Service has vigorously pursued enforcement actions against those hiding money offshore. All these efforts are being undertaken to address a fundamental concern: Again, tax evasion, especially through the use of offshore entities and accounts, undermines confidence in our tax system and results in an implicit tax increase on those who pay the taxes they owe.

Our Budget will include a number of proposals to increase information reporting and withholding. The most significant proposal involves addressing the use of offshore entities and accounts to evade U.S. taxes. This initiative will result in billions more in revenue over the budget window and just as importantly send the message that if you hide income and assets offshore to evade tax, we will find you and you will pay. I applaud the leadership this Committee has shown on the issue.

We are also proposing substantive changes to our tax laws to address rules that yield unfair and economically inefficient results. For example, our proposals to reform our international tax rules, to address those aspects that disadvantage investment in the United States and encourage companies to ship jobs overseas. Of course, we recognize that this is an area where our tax law must strike a balance. We are concerned about the competitiveness of U.S. companies abroad and recognize that the growth of U.S. companies globally can benefit the United States. But we recognize that allowing a company that moves jobs or investments overseas to gain a competitive advantage through our tax code against a competitor that chooses to expand investment and job growth in the United States is unfair and is bad policy. This Budget seeks to strike that balance by limiting our proposal regarding the deferral of expenses only to interest. In addition, we drop a previous proposal to limit the ability of taxpayers to elect the tax status of business entities

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under the so-called "check-the-box" rules. We remain concerned about the misuse of those rules to inappropriately avoid U.S. taxes, and thus are proposing tighter rules regarding the use of foreign tax credits, as well as a new provision to backstop our transfer pricing rules that will subject to immediate U.S. tax excessive returns on intangibles transferred to low-tax foreign affiliates. Our goal in these proposals is to limit the role taxes play in business investment decisions by reducing implicit tax incentives to move investment and jobs overseas. We are, of course, open to discussing how best to achieve that goal.

Our proposals to allow some of the Bush Administration's individual tax cuts to expire as scheduled and to limit the value of certain tax benefits are restricted to those with the highest incomes. Moreover, we again propose that the income earned on a so-called "carried interest" be taxed as ordinary income and not at preferential capital gains rates, so that private equity and hedge fund managers pay tax on their compensation under the same rate structure as average Americans.

The new Budget will include the President's Financial Crisis Responsibility fee to be imposed on our largest financial firms. The fee will raise $90 billion over 10 years. And it will be extended beyond that period in the event that the cost to the taxpayers of saving the financial system turns out to be greater than that. This last point is another one that bears repeating; the fee can and will be extended until every penny of taxpayer assistance to the financial system has been repaid and the cost of the rescue to taxpayers is zero.

The Administration's Budget will cut the deficit as a share of GDP by half as a share of the economy, from the 9.2 percent of GDP the President inherited in 2009 to 4.2 percent of GDP in 2013. The deficit will fall further in 2014, to 3.9 percent.

But this is not enough.

That is why the Administration supports the creation of a bipartisan Fiscal Commission. The Commission will be charged with identifying policies that could win the necessary political support to complete the job of achieving fiscal sustainability. Specifically, it would be asked to propose how to balance the budget exclusive of interest payments on the debt by 2015.

Both Democratic and Republican administrations have turned to similar bodies when the nation faced complex and contentious fiscal decisions. For example, in 1981, President Reagan established by Executive Order the so-called Greenspan Commission to cope with financing problems of Social Security. We could make progress tackling today's fiscal problems with similar bipartisan action.

While the new Fiscal Commission's first job will be to balance the operating budget of the government—the budget absent interest payments on the debt—by 2015, the panel also would be charged with proposing changes to address the unsustainable rate of growth in entitlement spending and the long-run gap between government revenues and expenditures. The nation will be challenged anew to maintain fiscal balance as the Baby Boom generation retires, especially if we fail to reform health care. This will make the Commission's latter charge as difficult, and important, to meet as its immediate one.

Finally, I want to highlight progress we achieved over the past year in rescuing our financial system and our economy at a lower cost to taxpayers than many anticipated.

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Treasury has taken steps to dramatically bring down the cost of the Troubled Asset Relief Program (TARP), which helped stabilize the financial system, and to shift the focus of the program to small business and housing. As a result of careful stewardship and improved financial conditions, the projected cost of TARP has fallen from $341 billion last August to $117 billion in this Budget, and we have removed an additional $250 billion reserve in place in the event that additional financial stabilization efforts were necessary. If Congress joins with the President in enacting the financial fee, American taxpayers will not have to pay one cent for the financial rescue.

Conclusion

While our country is in a stronger position today than it was one year ago, we still face tremendous challenges. In meeting those challenges, the true engine of job growth and prosperity, the private sector, must lead the way. But the government must help create conditions that allow businesses to thrive.

We must work together to spur job growth, to invest in ways that make our economy stronger in the future, and to lay the foundation for long-term growth. And we must work together to ensure that our government goes back to living within its means.

These goals reinforce each other; they are not in conflict. Without growth, we cannot begin the process of restoring fiscal responsibility. Without confidence that we can bring down our long-term deficits, it will be harder to make sure we are getting Americans back to work and improving economic security.

We are a strong and resilient country. We have successfully confronted great economic challenges in the past, and we will do so again. This is a question of will, not ability. The American people want to see us do this together – to work to solve the problems that we all face and to get the economy back on track.

I look forward to working with you in a bipartisan manner on this endeavor.

Thank you.

Chairman RANGEL. Well, you have said it all. I am going to yield to Mr. Camp. But I think it is abundantly clear that in addition to having incentives, we have to find some way to provide confidence to the people out there, especially our small businesses. Let us see where we do have a common ground.

I am going to ask Mr. Camp to consider his staff working with the House, analyzing, as we will, the President's proposal to see what parts of it are acceptable, because the misery, the pain that is going on out there is not Republican, it is not Democrats, and I think they are looking for some degree of unified support.

So we are going to give it our best try, Mr. Camp and I, and we do hope your office would share with us experts to help us to get through the political problems that unfortunately we face. I thank you for your testimony, and I yield to Mr. Camp.

Mr. CAMP. Well, thank you, Mr. Chairman. And obviously we will do everything we can to be working on all of these issues facing certainly our country at this difficult time. But I want to thank you for being here, Mr. Secretary, and for the opportunity to really have a hearing on the President's 2011 budget. And it appears from my reading of the budget that the President is calling for about $2 trillion in tax increases, is that correct, as a total number?

Secretary GEITHNER. Well, here is how I would say that——

Mr. CAMP. Well, I think it is.

Secretary GEITHNER. What we are proposing to do is allow it to expire.

Mr. CAMP. I really would like to get your comment.

Secretary GEITHNER. We are proposing to allow to expire the tax cuts that affect 2 to 3 percent of the richest Americans in the country. We think that is fair, we think that is just. But we are extending very important tax cuts for the vast bulk of Americans, vast bulk of American businesses. And these are powerful, very powerful, responsive tax cuts. They are good policy. We should work together to make sure those happen.

Mr. CAMP. And I notice that the budget does not factor in the House-passed national energy tax. And if you did factor that into the budget, the total number would be closer to really about $3 trillion in tax increases in the budget. So last year I look at the increase in spending by about 84 percent in last year alone, and since the Democrats came into the Majority, the debt limit has increased by 60 percent, and now you want to pay for all that spending and all of that debt with about $3 trillion in new taxes if you add in the 2—plus the $1 trillion cap-and-trade.

Secretary GEITHNER. No, Mr. Camp, I don't think that is——

Mr. CAMP. And those new taxes on small businesses, on working Americans' health benefits, and also, as I said, taxes on energy.

Now, I understand the President has called for about $30 billion to help small businesses, and on the surface I think that sounds pretty good. But as I look at the President's budget, his tax increases would hit small businesses particularly hard, because you are increasing taxes on nearly half of all small business income, 44 percent according to the Joint Tax Committee. So under the President's plan, small businesses would pay an additional $10 billion in taxes in 2011 alone, and a total tax increase over the 10-year period of $259 billion. So it seems to me that $30 billion in help pales in comparison to the $250 billion in tax increases.

Secretary GEITHNER. We would welcome—if you are prepared to work with us to make sure we can help small businesses to get credit and take the resources we have saved by fixing this broken financial system devoted to that, that would be terrific. But the tax benefits of small businesses in the President's budget are very, very substantial and dramatic. And again, one very important point—and this is not our numbers—letting the tax cuts on high-income Americans expire affects only 2 to 3 percent of American small businesses, 2 to 3 percent.

Mr. CAMP. I see my time has expired.

Secretary GEITHNER. But the tax benefits we are proposing to give them are very, very substantial, and we hope you will join with us in making those permanent and extending those incentives.

Mr. CAMP. Well, I will just say in light of the private-sector job losses announced this morning, further job losses in January, I don't see how raising taxes will have the effect of leading to job creation. And when you look at the total tax relief versus the total tax increases, it is a significant tax increase particularly on small businesses.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Levin.

Secretary GEITHNER. Can I just respond to that last point?

Chairman RANGEL. Okay.

Secretary GEITHNER. I just want to do it one more time just to say historically. I have been in public service all my life. My first job in public service was the Treasury Department, first under Secretary Jim Baker. Lloyd Bentsen gave me my first job, my first senior job, in Treasury. When I left the Treasury, at that point CBO and OMB projected $5 trillion, more than $5 trillion in surpluses. When the President came into office, that had shifted to an $8 trillion deficit.

Now, there is nothing fair, responsible or good for business in that swing. Now, we are in a deep hole that we did not create; we are trying to dig out of it. Love your help in trying to dig out of it, but it requires that we would be growing again and get people back to work. And we are willing to work with you on how best to do that, but our priority is again to fix what was broken, make sure we have an economy that is growing, people are back to work. If we do that well, then we are going to be in a better position to help dig ourselves out of this fiscal hole.

Mr. CAMP. Well, where I come from, when you are in a hole, you stop digging. And I look at the tax increases, the debt, the spending, and particularly the way it is going to fall on small business, I don't see the help there. But I would like to—I mean, the purpose of this hearing is to really highlight these provisions and see where we can maybe find ways to move ahead and help certainly get jobs started again in this country. Thank you.

Chairman RANGEL. Will the clerk please start the clock over for Mr. Levin.

Ms. SCHWARTZ. Will you just yield for one moment for a point of clarification? I just want to be clear about the numbers. This came up yesterday in the Budget Committee, that there is a new category now called "Democratic control budgets." And so what the Republican side is doing is putting the last 2 years of the Bush Administration deficits onto us.

Chairman RANGEL. Mr. Levin will proceed.

Mr. LEVIN. I am glad—look, I think we need to try to find common ground, but it won't work if people try to escape from the past. And I think everybody needs to remember the sentence you read, simply put, over $8 trillion of the projected deficits we faced as we put together the budget were due to the fiscal policies of the last 8 years and the effects of the deep recession this President inherited.

I want to ask you then, Mr. Camp talked about the impact on small business, and when they do that, they talk about the 250 category, $250,000, and maintaining—not maintaining the tax cut for those people, and they include everybody, lawyers, et cetera. Repeat for us the impact, if you would, Mr. Secretary, of not continuing the tax cut for wealthy Americans. Who is hit by that?

Secretary GEITHNER. Roughly 2 to 3 percent of individuals and roughly 2 to 3 percent of small businesses.

Mr. LEVIN. Okay. That is a fact.

Now, also there has been opposition for the fee on financial institutions. Say a word about why the Administration is proposing that.

Secretary GEITHNER. The law Congress passed to give the executive branch the authority to fix this financial mess required the Secretary of the Treasury to propose a way to recoup any losses so that the American taxpayer was not having to shoulder the burden. So what we did is a simple commonsense thing, is propose a fee on our largest banks that benefited the most from the actions we had to take to fix the financial crisis, designed in a way that operates like a fee on risk or a fee on leverage. It is a simple—it is fiscally responsible, it is fair, it helps make the system stable if it is designed well.

Mr. LEVIN. Okay. And I hope as we search for common ground, those on the Minority side will indicate their position on that.

And the same on the $30 billion for community banks. Just sum up quickly why you suggest we do that and why you suggest how we pay for it?

Secretary GEITHNER. Community banks are responsible for about half of small business lending. Community banks were not part of the problem, but they are a necessary part of the solution. For them to be able to help small businesses expand and grow in that payroll, they need to make sure they have access to capital. Not all of them can raise capital in private markets now. So what we are proposing is a simple thing, is to give them capital and design it so that the more they lend, the more economically attractive will be that capital. Now, we are also proposing to expand what the SBA can do. And those two things alongside these tax incentives for small businesses is a powerful package of measures.

Mr. LEVIN. And I hope as we search for common ground, Mr. Chairman, that those on the Minority side will express their position on that proposal. Thank you.

Chairman RANGEL. Thank you.

Dr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

A budget is setting the priorities of how a group spends their money, whether we are talking about a family, or we are talking about the Federal Government. And as you look at the situation today where everybody wants a job, and all we are talking about is jobs, jobs, jobs, the example of the priorities of Franklin Delano Roosevelt were to create jobs through the Work Projects Administration, through the CCC. You have seen the same thing over time in the seeded jobs that have been created. And I would like to hear you convince me that putting a tax credit out for small business is more effective than recreating some of the creation of jobs that have gone on in the past.

Seattle needs a seawall. If we have a Earthquake like they just had in Haiti, the city will slide down into the ocean. We have a viaduct that is clearly a problem, as the one in San Francisco went down. So that the infrastructure jobs are everywhere around us. There are human service jobs in schools, in nursing homes and all kinds of places for seeded positions.

Convince me that your balance of putting money on the side of small business helps for job creation—because if people don't have money, they don't go to small businesses to buy stuff.

Secretary GEITHNER. I agree with you, and that is exactly well said. And that is why we have been so supportive of very substantial investments in infrastructure across the country. Now, those go directly to putting people back to work. And it is good for the economy as a whole as well, because as you know, there are parts of our Nation's infrastructure that have been allowed to decay and erode over time. So infrastructure spending, if it is well designed, and if it can move quickly, is very powerful and effective. And we will be very supportive as we work with the Senate to follow your lead in passing a jobs bill and making sure there is well-designed infrastructure spending as part of that.

In addition, one of the most effective things we can do is to make sure that at the State and local level there are resources so that teachers can stay in the classroom teaching, firefighters are able to stay on the job. And those things, aid to first responders, helping State governments avoid having to make deeper cuts in the basic services, that is good policy, very powerful, and can operate very quickly.

So you are right to say that tax cuts alone are not going to solve this problem. And you are right to say we need to do other things alongside that to make sure that you are doing direct things that can help job creation in areas where the country needs greater investments. But together we think that package could be quite powerful.

Mr. MCDERMOTT. The tax expenditures right now are balanced how, infrastructure versus tax cuts?

Secretary GEITHNER. Well, that really depends on the mix that Congress ultimately adopts. But in our view is—what we propose is that Congress set aside about $100 billion for additional spending right now to reinforce job creation. And we are suggesting only a third of that go for this new jobs-tax credit-hiring incentive. The balance of the rest should go to things that we think would also complement that, help repair infrastructure, help first responders, make sure we have teachers in the classroom, and so that is one way to cut the package.

Mr. MCDERMOTT. Thank you.

Chairman RANGEL. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Secretary Geithner, it has been a year now since the President signed a so-called stimulus bill, and Americans are still wondering where are the jobs. In my own northern California rural district, the unemployment rate is over 15 percent. The last thing we should be doing is passing legislation that would make this problem worse.

The President's budget assumes that Congress will pass a health care bill. The House Democrats' health care bill raises taxes by more than $732 billion over the next decade. Using the methodology developed by Christina Romer, President Obama's top economic advisor, these tax hikes could cost the country 5 million jobs, something the Republicans find unacceptable. Does losing 5 million jobs on top of the current double-digit unemployment rate concern you?

Secretary GEITHNER. Congressman, those are not our numbers. They are no numbers I don't think any reasonable economist would support. And, of course, we would not ask you to support programs that carried that risk, because we believe, as you did——

Mr. HERGER. It is the methodology by the President's own advisor that calculated this.

Secretary GEITHNER. There is not a chance that a reasonable independent economist would look at that package of measures and suggest that would be the impact over time. One thing is important for people to understand: Businesses today, small businesses, pay more for health care than large businesses. The burden on them in the current system is not good for business. They normally put it at the top of their basic concerns about what Washington is doing to make their lives harder.

Our job is, and our priority is, as you said rightly, unemployment is just outrageously high in this country, and even the national number doesn't capture much higher numbers in districts like yours, many parts of the country. And that is why it is so important that we are on this and keep working to reinforce this. The worst thing we could do today would be to stand back and say, all right, we are going to hope that our challenge now can be best addressed by going and cutting these deficits dramatically today. That would be irresponsible; that would be fiscally irresponsible. It would make the economy weaker. It would not be good for the country.

Mr. HERGER. I would like to ask you some specific tax increases that are in the House and Senate health care bill since the President's budget does not provide any details of what he is asking Congress to pass. Does the Administration support a new 8 percent payroll tax on employers who don't offer health insurance that meets government standards, a tax that could result in the loss of millions of jobs? And does the Administration support a tax on any American who chooses not to buy government-mandated insurance, a tax that would fall on millions of Americans making less than $250,000 per year?

Secretary GEITHNER. Congressman, you have all spent a lot of time on health care this year. And, frankly, we hope you spend some more time because we would like to get it done. And if you ask businesses what they are worried about a lot, what they would like is to know what the rules of the game are going to be, they would like there to be a little uncertainty lifted, they would like this debate to end so that they know how they can basically plan it, and they would like us to lift the burden of cost the current system puts on them.

So I know you spent a lot of time on this. There is a lot of views on both sides of the aisle, but we are committed, and we think it is important for the country to try to see if we can work together to put in place some sensible reforms that will reduce the rate of growth in costs, expand coverage, improve the quality of care, and end the huge hidden cost and unfairness in our current system.

Chairman RANGEL. Mr. John Lewis from Georgia.

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

Thank you, Mr. Secretary, for your presence. Thank you for your willingness to serve the government for so many years.

Mr. Secretary, I am pleased to see that President Obama's budget continued the theme of trying to restore fairness and balance to our Tax Code. I also am glad to see that the President has taken on efforts to reduce the tax gap. Can you please take a moment to share with us some of the ways in which the President seeks to close the tax gap? And can you please tell us why the President believes that this is so important?

Secretary GEITHNER. Congressman, on this issue we are following the lead of this Chairman and many Members of the Committee. I will give you one example. Our tax system today creates a range of incentives that encourage companies to shift investment and income offshore. Let me put it more starkly. You could have two companies operating together in a district or a State. If one of them shifts investment income overseas, it pays less in taxes. You could have a competitor keeping that investment here, adding jobs in the United States, pay a higher tax burden. We don't think that is good economic policy. We don't think that is fair. We want to make that a more even playing field. So that is one example of a set of reforms, commonsense reforms, that can make the system fairer that are good for investment in jobs in this country.

There are different ways to do it. In many ways, again, we are following the lead of your Chairman and many Members of this Committee, and we want to build on that to make sure that we are making it harder for people to evade their responsibilities, to take advantage of loopholes in current law that are unfair and effective. We are proposing to end a range of ineffective subsidies in our Tax Code that go to oil and gas industries, for example. Another example I gave is on how we tax the incomes of hedge fund managers and private equity firms. We are suggesting that they should get taxed on income like teachers are today. Those are simple, fair things.

We are proposing to extend Make Work Pay; goes to 95 percent of working Americans. We want to make permanent the middle-class tax cuts that, again, go to 95, 97 percent of Americans. Again, those things we think are fair. We can do those in a way that is fiscally responsible. I am sure there are other things we can do, but we are starting with that. And we are carrying the responsibility of proposing ways to help dig ourselves out of this hole we are in, and to do it in a way that is going to support growth in jobs, is fiscally responsible and is fair, fair to the American people.

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

Chairman RANGEL. Richard Neal. Sounds like tax reform to me, doesn't it?

Mr. NEAL. Sounds good to me, Mr. Chairman.

Thanks, Mr. Secretary. First, though, a word of thanks for including my auto IRA bill in the budget recommendation. I don't understand why there would be any opposition to that. It has been well met by community bankers. It has been well met by insurance agents and credit unions as well.

I also want to say, as Mr. Lewis mentioned a moment ago, I appreciate the inclusion of reinsurance in your budget. I have lobbied that issue for many, many years. I do appreciate the simplicity of your proposal, but it might still allow significant shifting of profits offshore outside of the reach of the U.S. tax system.

And incidentally, for our friends that are here today, a reminder: Domestic companies are upset about this. This isn't an issue that was brought to my attention by the AFL/CIO. This was offered by domestic insurance companies that want something done about it. They don't understand why they have to compete with companies who move offshore.

In addition, Mr. Rangel has been very sincere in our effort to talk about tax reform, and I appreciate the time and effort you have put into these international tax provisions. And recently Chairman Rangel asked me to look into transfer pricing, and I have begun a study of that complex issue with the assistance of the Committee staff and our experts at Joint Tax. And I hope that we can work together on these international reforms, because Mr. Rangel's proposal does encourage companies to stay here and to prosper.

Now, would you explain briefly the changes to international tax proposals as you did a moment ago, or at least to the followup on them and how they have changed since the last budget?

Secretary GEITHNER. Again, we are trying to balance a simple imperative. We want to make sure there is a level playing field for American companies so we are not creating incentives to shift investment, jobs and income overseas. We want to do that in a way that takes account of the fact that American companies compete globally. We want to make sure we are reinforcing, not hurting that competitive position. And we have to balance those objectives.

So we put out some proposals last year, again that followed in many ways the leadership of the Chairman and many Members of this Committee. We heard a lot of reaction to those. We took that into consideration. We narrowed the scope, in part because of concerns about impact and competitiveness. We made some additional suggestions, too.

But I want to make the basic point, which is there are different ways to do this. Of course, we will work closely with you on this. We are open to suggestions. And we understand that a lot of people think you can't really do this without doing comprehensive tax reform or corporate tax reform, and that may be true, but we think these are sensible, commonsense things, and we would like to try to move on them.

Mr. NEAL. Certainly you raise the issue of tax reform, and I hope that remains a priority with the Administration.

And last, Mr. Secretary, could we get Treasury to submit to us what the cost of the war in Iraq will be? And not just the immediate costs that are now north of $1 trillion, but, just as importantly, the obligation we have to the men and women who have served us honorably, for our veterans hospitals for years and years and years to come.

The idea that we could invade Iraq and cut taxes and use supplemental budgets here to masquerade the true cost of that obligation is part of where we find ourselves. So it is okay to suggest that if we are digging a hole, and we find that we can't get down anymore, that we should stop digging. But I will tell you that obligation is a very honorable obligation to pay for those veterans hospitals for years and years to come. So I hope that you could give us a realistic assessment of what that invasion cost and why we find ourselves in some measure with these deficits we have today.

Secretary GEITHNER. A basic responsibility we have is to be honest and account for the costs of governing, whether it is meeting our national security needs or new programs that benefit millions of Americans, like on Medicare Part D. We need to make sure that we are being fair and honest about what those costs are. I completely support that principle. Thank you.

Chairman RANGEL. Our veteran buddy, Mr. Sam Johnson from Texas.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Geithner, I would like to first express my appreciation for the President including in his budget legislation H.R. 690, which I introduced along with my colleague Earl Pomeroy, to remove cell phones from a listed property. It is high time we made this change. That is a dumb tax to begin with, and I think you would agree.

Secretary GEITHNER. Thank you for saying that. And I agree it is something that most people are very supportive of.

Mr. JOHNSON. Yes, sir.

Well, I would like to begin my questions on tax credit proposal. I am not sure if you had a chance to read the article in the CNN Money entitled "Obama, Here is $5,000, Go Hire Someone." In that article Jimmy Hughes, a small businessowner in my district, is quoted as saying, "I need the money before I hire the people, not after I hire them." So according to him, future hirings depend on his cashflow situation, not on a tax credit. So how is this temporary 1-year credit going to be of any help to businesses?

Secretary GEITHNER. Well, I think it can be very helpful. But again, let me just underscore what I said at the beginning, which is that the key thing is to make sure there is growth and demand for products people want to buy. But I think if you look at what is happening across the country now, it is not just the economy has stopped shrinking and it grew at the most rapid rate in 6 years last quarter, but you are starting to see now just the beginning of people seeing orders increase. So as that happens, what this will do is make it more likely that people add jobs in anticipation of that increase in orders. And if we can make them get more credit available, they will be able to borrow to finance that expansion.

So this doesn't solve all problems, but we think it will make a real difference.

Mr. JOHNSON. You need to fix the bank problem first.

Let me ask a question about the President's fiscal commission. Are tax increases on the table for Social Security reform, yes or no?

Secretary GEITHNER. Congressman, thank you for raising this. What we are doing is proposing to take a model that President Reagan pioneered in the 1983 so-called Greenspan Commission, and a model that Senator Gregg and Senator Conrad have designed, to get a group of statesmen together, step back from politics, see if they can find common ground on things that will help dig ourselves out of this hole. And you want them to be able to come fresh, no preconditions, and try to work on things that again will make sense.

Mr. JOHNSON. The question is are you going to tax Social Security?

Secretary GEITHNER. Again, I think everybody—part of this is saying the same thing, which is that what you want to do is have people come, step away from politics, take a cold, hard look at it, and figure out what is going to make sense and work and what can command bipartisan consensus. In this commission, our view is that you need to have Democrats and Republicans together recommend things that are going to work. It won't work if you just have Republican ideas on one side or just Democratic ideas on the other. These are big problems, got to work on them together. It is going to take a while; this is one way to do it.

Mr. JOHNSON. Social Security can be fixed, but it doesn't need to be taxed.

Thank you, Mr. Chairman.

Chairman RANGEL. I would like to recognize the gentleman from Tennessee John Tanner.

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

And, Mr. Secretary, thank you for being here.

I will be very brief. I have to run over to the floor to do a bill. I hope you all will talk more about the dangers that we face as a country if we do nothing about the structural deficit.

In 2000, if you look at the website of the Treasury Department, revenue and expenditures were both around 19 percent of GDP. We were basically breaking even. The second worst thing that happened in 2001 happened in February when the CBO estimated it would be a $5 trillion surplus over the next 10 years. I remember saying at the time, I don't know what the price of cotton is going to be in 10 days, and they are telling me what is going to happen in 10 years. And we all know what happened after June of that year, 2001, when the economic game plan for the country was enacted, and in September we had 9/11, and every assumption that went in the conclusion of a $5 trillion surplus was no longer valid.

And what happened during this entire decade is that the Administrations and Congress have not gone back and revisited the fact that since that time, revenue has never been as much as 19 percent of GDP, and expenditures have never been less than 20 percent. Like the war in Afghanistan and Iraq, we borrowed money.

Never before been done. It is a structural deficit. And this palaver about, well, we will just cut spending here and there, and that will take care of it, all of us know is not possible financially, unless 2 and 2 somehow don't equal 4 anymore.

What I would ask that you do—and I applaud you for the commission. I told somebody the other day the way this Congress operates, and has since basically I have been here 21 years, is no matter who is in charge, we would still have pony express stations open in Wyoming if it was up to Congress, and we didn't have a BRAC Commission for defense spending. And the temptation here is to put off the tough decisions, but we are rapidly, as you know, reaching a point where we cannot any longer do that.

So I just want to thank you for what you are doing. But I think the more emphasis we tell and put on the American people about this structural deficit and be honest with them—I think this idea that if you raise taxes a penny on somebody that makes adjusted gross income of $10 million is somehow a crime has to be addressed, because we cannot get along without at least some acknowledgement that revenue and expenditure have to somehow equal about the same as a percentage of gross domestic product.

I made a little speech here. I know that you know that. I hope you will just say it over and over so people understand it.

Secretary GEITHNER. I would be happy to say it. Our fiscal position is unsustainable. We will be poor as a country if we don't fix that problem. Our priority now has to be growth in jobs. That is the fiscally necessary, responsible thing to do. Without that you can't fix our long-term deficits. But even when we are growing again, the economy is back on its feet and back to work, we are still going to be left with an unsustainable fiscal position, and that is why—and if we don't commit to bring that down, then we face the risk of a weaker growth in the future, and that would be unfair not just to businesses, but to the families, too.

So I completely agree with you. And again, I think if you listen carefully now, even though it is a deeply political moment, if you listen carefully now, it is very encouraging. People don't say anymore, deficits don't matter; they don't say anymore, tax cuts are free; they don't say anymore, we can afford to make huge, expensive commitments in perpetuity without paying for them. And that is a healthy recognition, very costly recognition. But you hear more people saying that, and I think that is fundamentally encouraging.

We get this economy growing again, we get the unemployment rate down, get job creation up again, then we can start to shift to bring them down. And what the President's budget does is to say that next year we start that process. And, you know, that next year is not too late, it is not too soon to start, but we start to make it clear that we recognize this, and we understand that we got to bring those long-term deficits down.

Chairman RANGEL. Mr. Doggett from Texas.

Mr. DOGGETT. Thank you, Mr. Chairman.

Mr. Secretary, I have two questions that I will state and ask separately regarding your testimony this morning that your goal is to get the best bang for the buck to get people back to work; certainly something all of us share. The first one concerns the comments you make this morning that really repeat what the President said in his recent radio address, that we need to close unwarranted tax loopholes that reward corporations for sheltering their income or shipping American jobs ashore—offshore.

As I read your budget proposals, they are exactly the same as the ones you advanced last year minus 40 percent of the revenue for multinationals who export jobs overseas and shelter their income. Since you announced that proposal last year, other than a speech by the President in May and occasional reference to it, I haven't seen anything done to achieve these objectives other than the Wall Street Journal report that you and former Secretary Summers assured multinationals that they shouldn't be so worried about.

My question is what reason is there to believe that the Administration will do any more this year on the 60 percent of the proposal that is left to close unwarranted tax loopholes that result in jobs being shipped overseas than it did last year?

My second question, Mr. Secretary, concerns the jobs tax credit. Everybody is for a tax provision that will actually produce in a cost-effective way more jobs. There is a great question about the particular proposal for $33 billion that the Administration has advanced. Marty Sullivan, a former Treasury Department economist, I think put it most succinctly in saying, the general consensus among tax experts is that the credit is a stinker, because it simply encourages people to do what they would have done anyway.

Since your proposal is retroactive, surely there can be no claim that a new job added in January or February or before this bill was signed was caused by this provision. It also distorts the market. For my small business in central Texas that has been hanging onto its employee even though it has been very painful to do so, they get nothing out of this jobs tax credit. But for those dismissed employees or a new company coming into town, they certainly benefit. Your own staff, one of your secretaries, has said, "Well, we don't know how effective it will be, but it may be even if we get 10 percent out of this, that will be great, because it will assure liquidity for small businesses."

Surely the Treasury can come up with a better way to promote job growth than a proposal that may be 90 percent ineffective, that for $33 billion gives us $3 billion of new jobs. The Congressional Budget Office has also noted that this provision will be the least help where there is greatest need. Could you respond on each?

Secretary GEITHNER. Absolutely. I have never met a——

Chairman RANGEL. We have a time constraint which we all have. I would suggest that you respond in writing to the eloquent questions of Mr. Doggett.

[The information follows:]

Chairman RANGEL. And I would like to recognize Mr. Brady of Texas.

Mr. BRADY. Thank you, Mr. Chairman.

I am confused. You repeatedly regret the $1 trillion annual deficit that you were handed as an Administration. And since Congress controls the pocketbooks, White House can't spend a dime it isn't given by Congress, remind us who was in charge of Congress for 2 years when you were handed that huge annual deficit?

Secretary GEITHNER. I think you know the answer to that, Congressman.

Mr. BRADY. It is Democrats.

Secretary GEITHNER. But the damage to our fiscal future, the transformation from $5.6 trillion——

Mr. BRADY. Got it. We heard that earlier in the comments. I appreciate it, Mr. Secretary. I just want to make sure our listeners weren't confused by who handed you that horrible deficit.

And I wasn't going to bring up AIG, but since you did, there is common ground and anger and outrage at the way AIG's bailout has been handled by you and Treasury; Congress, Democrats, Republicans; the public as well, both the first two bailouts, the SECA deal that gave 100 percent on the dollar to the counterparties of AIG, the Fed then trying to prevent the public and Federal regulators from knowing the details of that. Last year the President was outraged at the $45 million in bonuses. It is a year later. It is $100 million in bonuses now—oops.

The Administration's handling of AIG resembles the Keystone Kops. It would be funny if it wasn't leaving taxpayers crying about it.

I do think in this economy the White House has taken its eye off the ball, pursuing, I think, an extreme agenda and failed economic policies. Today consumers have no confidence, little confidence in the economy. Businesses aren't willing to hire back new workers who make those expansion plans because they are frightened by the cost of higher health care costs, higher energy costs, higher taxes.

But where there is common ground is in the President's commitment the other night at the State of the Union to double exports over the next 5 years. Other economies are growing faster than the United States. That is where the customers are at. Selling U.S. products and goods around the world creates jobs in the United States.

Up here, Mr. Secretary, I put up a graph of what our exports are doing. It took 11 years to double the exports during some pretty strong economic times in global growth. And my question is, because I welcome what the President said, and there is common ground for that, I believe, on this panel and in this Congress, so what is the President's plan to double exports over the next 5 years?

Chairman RANGEL. I am going to ask the Secretary to respond; however, I hope that Members give time for the Secretary to respond within the 3 minutes, because it is so unfair to the newer Members who won't get a chance to ask questions also. Please be brief, Mr. Secretary, so we can make certain that we can get answers.

Secretary GEITHNER. Congressman, glad to hear what you said about exports. I think it is a very realistic objective, partly because the world is growing fast, faster, and because American companies are very good at competing in a range of things that the world needs. So I think it is a very realistic objective.

I think it requires that we work together to pass strong trade agreements. It will expand opportunities in those foreign markets. We can't let other countries go and compete away those markets from us. It requires some support through Ex-Im Bank and Commerce to make sure that businesses are getting a little assistance where they can. And it requires we be investing in things that help us stay at the frontier of innovation. And so by putting the largest investments in basic research and development, permanent extension of the R&D tax credit, targeted tax incentives to new technologies, those are things that make a big difference and help make sure that we are in the game gaining market share around the world.

But I think you are right to emphasize it. In fact, U.S. exports have been doing really quite well recently, but we want to make sure that we are reinforcing that.

Mr. BRADY. Are the three pending trade agreements part of that plan this year?

Secretary GEITHNER. Absolutely. As the President said, it is not just that. We need to be in the game in Asia as they move to try to negotiate new agreements there, and we want to make sure that the broader Doha Round of trade agreements, the multilateral agreements themselves, we put those in place in a way that is going to be good for American companies.

Mr. BRADY. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Pomeroy of North Dakota.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Secretary, I would just note, comments from my friends on the other side of the aisle about AIG and the other regulatory failures of the last Administration seem to me incredibly out of place. We watched under the preceding Administration regulatory resolve ultimately fade away, yielding to blind faith in market activity.

I used to be an insurance commissioner. I believe in the insurance marketplace. But that doesn't mean you don't watch the swindlers, the crooks, and the shortcutters that are going to try to rip off, ultimately, the public. That is what happened. We are still picking up the pieces, at great expense to the public, for that misguided, unbridled faith in the marketplace that occurred in the last Administration.

But the question I want to ask you about relates to job growth in this tight budget timeframe. I believe one area where we can have job growth, still consistent with very sound budget principles, is in the area of pension funding relief.

This Committee regrettably played a part in putting into law an extraordinarily stringent funding regimen for pensions. I believe it made no sense because it didn't match assets with liability timelines. That was before the collapse. Once the collapse occurred, we have crushed portfolio values because of market correction. We have low interest rates, which further produce a very onerous funding picture.

They need, I believe, interim funding relief, not to the jeopardy of the solvency of the plan, but basically bringing funding requirements more in line with solvency principles. If we do that, Mr. Secretary, we can also have for companies maintaining defined benefit pension plans more cash in the operation to grow the operation, to hire employees, to grow the economy. I would like your comments on that.

Secretary GEITHNER. Congressman, I think you are right. We think there is a good case for targeted pension relief for just the reasons you said, and we would like to work with you on doing that. I am not sure we have exactly the exact, precise way to do it, but the basic principle is right, and we are prepared to work with you on that.

Mr. POMEROY. Thank you, Mr. Secretary.

I yield back.

Chairman RANGEL. Mr. Thompson of California.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. And I want to thank you personally for the responsiveness of you and your office in working on issues through my office.

Two Members before me have talked about this new jobs credit, and I want to associate myself with their concerns. Mr. McDermott talked specifically about projects that actually generate jobs and, at the same time, generate security to communities.

And I just think it is incongruent that we want to spend money to hopefully create jobs in small businesses. I don't know anybody in business who hires an employee because they are going to get a tax break. People hire employees because they have work to do.

And, at the same time, this budget cuts the Corps of Engineers. There are projects all across this country that are critical to the public safety of the people that we represent, projects that are beyond shovel-ready, they are already going, and they are terribly underfunded. It seems to me that we could get a lot more bang for taxpayer dollars if we looked at that rather than trying to put some seven-bank shot together on how we hire employees.

Secretary GEITHNER. Congressman, I just want to say I completely agree. The most important thing we can do is to make sure there is growing demand for the products American businesses are creating. That is a necessary thing. Nothing is possible without that.

But I just ask you, please take a careful look at the way this was proposed. There is a lot of concerns about previous versions of this. We have listened very carefully to those concerns. I am not sure we have addressed all those concerns, but this is designed with a view to exactly those concerns. And we think it is better than the previous, but we do not have a monopoly of ideas on this.

Again, our test, as you said, is we want to do things that have the highest prospect for a dollar of taxpayer resources providing a spark to investment, a spark to job creation. And we think these can play a role alongside what you said, which is support for infrastructure, State and local governments, those kinds of measures.

Mr. THOMPSON. Thank you.

Another proposal in the budget is the idea that we would do away with the LIFO, the last-in, first-out accounting practice. This is an accounting practice that works well for some U.S. businesses. If we do this, if we end it, what is going to happen is U.S. small businesses are going to take a big tax hit, and their competitors overseas are going to have a terrific advantage over us in the marketplace.

There are some industries that have to hold their inventory for a long time. This is a fair and reasonable way to recognize that, and I would strongly urge you to go back and revisit that, along with the user fee that this budget imposes for TTB.

I can't think of anything that would be more difficult for these small businesses to deal with than this. It even charges people who don't use TTB. And, again, it gives a terrific advantage to our overseas competitors in the markets. So I would urge you strongly to revisit these two issues.

I yield back.

Chairman RANGEL. I might suggest, Mr. Secretary, the Majority and Minority get together in a workshop atmosphere with your office to thrash these ideas out, where we have more than 5 minutes back and forth.

Mr. Ryan, it seems like you have been with me all weekend on TV. But you are recognized.

Mr. RYAN. Not in person. We should get together more often.

Chairman RANGEL. I would like to yield to you.

Mr. RYAN. All right. Thank you, Chairman. I appreciate it.

First, just an order of business, I sent you a letter last year, Mr. Geithner, about Delphi pensioners, salary pensioners. I want to insert this for the record. If you could get back to me, I really want to get a response from you.

Chairman RANGEL. Without objection.

[The information follows:]

Mr. RYAN. I brought up page 146 in your budget, which is your S–1 budget totals. And, when you take a look at this, I just find this amazing. You have your budget totals here, which, by your own admission, from your own budget director, you are a smart guy, you have smart economists over there, all of them say that, for the medium and long run, the budget deficit has to get below 3 percent of GDP. Yet, this budget plan you are bringing to us doesn't even get close to it.

Secretary GEITHNER. You are exactly right. And we said clearly——

Mr. RYAN. Since I have 3 minutes——

Secretary GEITHNER. Okay, sorry.

Mr. RYAN. So you have this warning on here. It is like the warning on a cigarette pack. You have this little magic box underneath your budget totals that says we are going to have a commission do it. We are going to have this partisan commission, two-to-one ratio of Democrats over Republicans, that will give us a report after the election——

Secretary GEITHNER. Well, no, it is not a two-to-one ratio. That is not fair. It is not a two-to-one ratio.

And let me say it slightly different. What we are saying is we are going to solve our part of the mess we inherited. So we inherited a structural deficit, and to bring that down, we are going to have to work together.

Mr. RYAN. Then why don't you do it in your budget? If you are going to solve this problem—you guys run the government. If you are going to solve our fiscal situation, why don't you do that? Why don't you give us a budget that actually gets the deficits to a sustainable level?

Secretary GEITHNER. All right, then let me—just one more thing.

Mr. RYAN. No, no. Let me read a quote. I want to read a quote. I have 3 minutes. Let me read a quote from Mr. Orszag in the Wall

Street Journal, which I completely agree with. “The unusual situation that the government finds itself in, with other countries willing to finance the U.S. debt at low rates, won’t last.” And he added, “When it flips, the question is, how do you get ahead of that to avoid the downward spiral of rising interest rates, a plunging dollar, and a sinking economy?”

I couldn’t have said it better myself.

Secretary GEITHNER. I think it is a good quote, too. I agree with that.

Mr. RYAN. The vigilantes in the bond markets are going to get us, and the American people are going to get hurt.

So why aren’t you giving us a budget, not punting to a commission, but why aren’t you giving us a budget that, using your own definitions and standards, actually is sustainable?

Secretary GEITHNER. Congressman, we are proposing a budget, again, that takes the huge mess we inherited——

Mr. RYAN. You can blame Bush only so long.

Secretary GEITHNER. Congressman, it is just a factual thing. Again, I would say, when I left the Treasury in 2000, it was surpluses on OMB and CBO’s round as far as the eye can see. When we came in, it was a deep trench.

Mr. RYAN. Fine. You obviously inherited a tough situation. You are making it worse, by your own admission.

Secretary GEITHNER. Again, we are willing to join with you in digging our way out of this mess. We are proposing to bring that deficit down from its ridiculous levels today where we inherited them, more than half of the share of the economy, we get it below 4 percent. But we would like a little assistance in taking it the next way forward.

But you are absolutely right about the basic imperative, which is, unless we get these down, we are going to be weaker as a country in the future. And it is very good for the country to hear you and your colleagues stand here today and say, “We are ready to be fiscally responsible.” That is a good thing for the country. We welcome it. We want to work with you on how we are going to do that.

Mr. RYAN. You shouldn’t worry about the criticism of us as much as you should about the bond markets.

Chairman RANGEL. Mr. Larson of Connecticut.

So much for the bipartisanship.

Mr. LARSON. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for your service to the country.

Mr. Secretary, I wanted to ask you specifically, and I know you may have said something in your opening remarks as well, but with regard to the privatization of Social Security or with the idea of a path forward being one that includes the privatization of Social Security or vouchers for Medicare, what is the Administration’s position on that?

Secretary GEITHNER. Congressman, let me say clearly, the President, I am confident, would oppose it. I would oppose it. I don’t think it is fair to say to Americans that we are going to privatize Social Security, leave elderly Americans with a voucher that wouldn’t cover the costs of basic health care as they go into retirement. I do not think that would be fair, and we would work against that, just as they have stated directly.

Mr. LARSON. Is this anything different than what we heard from the previous Bush Administration about how they would privatize Social Security?

Secretary GEITHNER. Well, Congressman, I don't actually understand and have not seen the details of that proposal, but I actually don't think that that proposal would have a lot of support on the other side of the aisle too. But that is for them to speak to.

Mr. LARSON. Well, I want to thank the Secretary and certainly would support the Administration in that respect.

With regard to small businesses, if you could further enlighten us with regard to why the Administration is focused in this area and what you predict the outcomes will be for small businesses, which are hurting?

Secretary GEITHNER. Businesses create jobs. We need businesses, small and large, to start to invest and add back the jobs they cut as they were scared the economy was falling off the cliff. That requires growth. And the economy is now growing, but we want to make sure we are reinforcing that.

Growth is not enough. With growth, we want to see more jobs created. For that to happen, we think there is a good case for some targeted incentives to help reinforce that process, and they need some credit if they are going to be able to expand. And lots of small businesses across the country, through no fault of their own, if they were unlucky in their bank, or there are parts of the country that are experiencing the worst of this stuff, they are hurt because the credit pipes in the economy are still clogged. So we need to open those up if they are going to be able to start to meet what is growing demand, a slight uptick in demand for their products. That is the basic case.

So alongside what we have to do on infrastructure, help for State and local governments, those kinds of proposals, we think there is a good case for targeted tax incentives and measures to help get that credit where it can be best used, by small businesses.

Mr. LARSON. Well, I hope that you and the President, as the President continues to go out on the road, et cetera, we are able to talk about small business, but especially about the preservation of Social Security and Medicare and how important that is to such an important base of society and so many baby boomers who are now in the position to seek these benefits. It is true that we have to make sure it is sound and secure into the future, but that doesn't mean throwing the baby out with the bath water, so to speak.

Secretary GEITHNER. I couldn't agree more. Again, it is important to understand that this——

Chairman RANGEL. The time has expired.

Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Secretary, it is good to see you here. Thank you for being with us.

Before I begin, I just want to mention a conversation that I had with Assistant Secretary Allison recently, about a month or so ago, about the programs that you have underway under TARP to try to help get dollars out into our local communities, to our local banks and so forth, and the efforts that are being made to make sure that businesses owned by veterans, women and minorities have an opportunity to participate. These are very small businesses, and we want to make sure that they are able to help us manage those accounts.

I am hoping that you will allow me to follow up with you, because you indicated an interest before. And I learned some, not disturbing information, but some confusing information about how you track that progress. So I would like to follow up with you, if I may, on that.

Secretary GEITHNER. I am happy to do that. It is very important to me. Our overall number on contracts is quite strong. But if you look at value of contracts, it is too low, and we would like to do better.

Mr. BECERRA. I would like to follow up with you on that.

I would like to turn to some charts that were prepared by the Budget Committee that I would like to begin with.

There is a chart that should go right before that. There we go.

Mr. Secretary, if you take a look at this chart, what you will see is this is a chart that tracks our annual deficits since 1981. It goes back a ways because too often the conversation here is very limited in scope. We talk only about this year's deficits or this year's problem or this year's accumulated debt without taking into account the history of where we have been. So I decided I had better go back a number of years, some 30 years, to talk about what has gone on in this country in terms of deficits and surpluses.

If you take a look, what you see is something very interesting. That chart ends in 2009 when President Obama was handed the keys by President Bush, and you can see the steep decline that we were in. That is what we were facing as a country in terms of our annual deficits. And you can also see, the only time we were really in surplus was under President Clinton.

Now, if we go to the second chart, what that first chart really amounts to is a chart that shows how many years of deficits we had. And, quite honestly, when you total it up, it turns out to be a lot of debt. Annual deficits lead to lots of debt, and we ended up having a doubling, a near doubling of the size of the national debt under the previous Administration.

Well, if we will go to the next chart, it is tough to turn that deep a hole into a pile of good news. And while it hasn't been the best of news for Americans totally this year, this past year, things have gotten much better. As you know, we have actually seen economic growth for the first time consistently for some time. It has been about 2 years since we saw consistent economic growth, and now we are beginning to experience that.

And, if we go to the next chart, we will see how that now uptick toward economic growth—and I believe some of that is due to the policies of the Administration—we now begin to see jobs not necessarily being lost in the numbers they were—a year ago, they were lost to the tune of 741,000; that is 24,000 jobs lost a day when President Obama got the keys from President Bush—to the point where now we actually saw a little bit of job growth—you can't really see it much in November—and certainly a vast reduction in the jobs that are being lost. And some believe we are going to see job growth in the next quarter.

Finally, the last chart I wanted to point out is that it does matter if we have deficits and run massive debts because the American public may not think in terms of the national debt but they certainly know what they have in their bank account. And we saw the 401(k)s and bank accounts of Americans drop dramatically. Now we are seeing them come back.

So, while the news isn't all good, it is improving, and you have to put it in an historical context of where we were.

So, I will end with this question, Mr. Chairman: Mr. Secretary, I don't know if you know this, but let me ask you a question. You have a train with about 120 cars on it traveling at 50 miles an hour. And it is traveling recklessly, fiscally recklessly. How long does it take to stop that train when the conductor says, "I have to pull the emergency brakes and change course?" How long does it take?

Chairman RANGEL. Mr. Linder of Georgia.

Mr. BECERRA. Mr. Chairman, if I could ask the Secretary if he knows the answer?

Secretary GEITHNER. It is going to take a while. You can't turn on a dime, but you have to start.

Mr. BECERRA. I will give you the answer. It takes about a mile and a half to stop that train. It is going to take a while to turn this country around.

Mr. LINDER. Mr. Secretary, welcome. I am glad you are here.

In your opening comments, you stated that it was the obligation of your Department to come up with these proposals, such as the new tax on banks to fill the holes. When did this proposal originate? Who originated it? How long has it been under discussion?

Secretary GEITHNER. Congressman, we at the Treasury started to take a look at how to meet that obligation in the law in the fall of this year.

Mr. LINDER. Would you share Larry Summers' and Christine Romer's comments on this proposal?

Secretary GEITHNER. Well, again, this is the President's proposal, and we recommended it to him, and it had really broad support.

Mr. LINDER. Would you share with us some of the inner-office memos on this going back to last fall?

Secretary GEITHNER. Congressman, again, I would be happy to explain why this versus the alternative.

Mr. LINDER. Would you share with us some of your inner-office memos on the origination of this idea?

Secretary GEITHNER. I would be happy, as always, to make sure we are helping this Committee make good choices about how best to do this. But, again, the basic point, and it is a simple point, is I think the law required us to make sure we proposed how to recoup losses. We looked at a bunch of different ways to do that. We wanted to do it in a way that was going to be fair, it was put on the people who benefited the most, and didn't leave the taxpayers exposed to a dime. And, if we could, we wanted to do it in a way that was like a fee on leverage and on risk. That is why we chose this model. We know there are other ways to do it, but we think this is a pretty commonsense proposal.

Mr. LINDER. Will you share with us some of the background memos on this, back and forth?

Secretary GEITHNER. Again, I would be happy to talk with you about all the discussions we had about alternatives so that you can understand a little bit about why we came to this choice.

Mr. LINDER. Would you give us some of the memos between you and other people in the Department when this decision was arrived at?

Secretary GEITHNER. Well, Congressman, do you want to have a debate about the merits of the proposal?

Mr. LINDER. No, I just want to know when it started.

Secretary GEITHNER. I told you when it started. Again——

Mr. LINDER. Then I would like to see the memos.

Secretary GEITHNER. I would be happy to be responsive to any request you make about any of the merits of this versus the alternatives, how we came to this judgment. I will be happy to do it.

Mr. LINDER. Thank you.

On the TARP wind-down, you mentioned something about that in your opening comments. Are you going to abide by the statute that says that money should go to pay down the deficit, or are you going to reuse the money?

Secretary GEITHNER. Of course we are going to abide by the statute. The way the statute is written is that when repayments come in, they go to reduce the debt. And it is important to recognize we have been successful in getting, I think, about $170 billion back from the banking system, and that goes directly to reduce our long-term fiscal challenges. But what it didn't do is reduce the authority Congress gave us. And the way the law was designed is we are still left with that authority.

Now, we are not going to have to use that authority, but we think it is a good idea to preserve some of that authority, that existing authority—and we are not going to use anything like that $730 billion—to make sure we are helping small community banks do what they need to do to help their business customers grow and expand. So that is the basic principle, that is the basic design of the bill.

Again, I hope this is something that we can do together, because community banks across the country—it is in every district, in every State—they will say what is true, which is it is hard for them to raise capital, even though they were very good, well-run banks. And some of them have opportunities to expand. And there is a very good economic case for trying to make sure you can take a dollar of investment in them and encourage lending. It has some of the highest return on a dollar of tax revenue that we have seen.

Mr. LINDER. So your answer is, you are going to reuse the money?

Secretary GEITHNER. No, no. No. I say, the way the law is written, the $175 billion we took back from the banking system, that was in the banks when I came into office, goes to reduce the debt. But we are going to take some of the authority that Congress authorized, a very small amount of that authority, but it is a good amount of authority, and make sure that we are helping the small banks, too.

Chairman RANGEL. Mr. Linder, if you could identify these documents that you are seeking, I will try to help you to get them.

Mr. Blumenauer of Oregon.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

And thank you, Mr. Geithner, for joining us. You will be surprised to know that all of us Members of Congress think it is a good idea to be fiscally responsible. The issue comes in when we do it, how we do it.

To this extent, I commend my friend Paul Ryan, who is leading the charge for the Republicans on the budget, for coming up with some specifics. I will debate Paul on a few of those. But I think he is offering a valuable service, when other people dance around it, to say, “Here is what we need to do.” And I think this is something that we need to continue doing.

You have some elements of the budget which I like. You have taken on some of what I think are unjustified subsidies to agribusiness that actually don’t help small farmers and ranchers. It might help the Treasury.

In the past, you have offered up in the budget reinstitution of the Superfund tax, which would actually help us clean up the toxic legacy for decades, create jobs, and protect the environment.

What you said a moment ago about the fiscal situation not being sustainable and that our priority should be on jobs and recovery of the economy, I couldn’t agree more.

But I would hope that, as you develop this and you work with Congress, you can think about one area that is not sustainable, and that is our infrastructure spending. You are hearing a common theme, at least on this side of the aisle. We have a Highway Trust Fund in deficit for the first time in history. We are shoring it up with the general fund, which is adding to the deficit in the long run. We are at an impasse with reauthorization. So we are not dealing with the big-ticket, long-term investments in transportation that would create jobs and revitalize the community.

I am hopeful that we can have a thoughtful discussion about the wisdom of spending about as much money on more tax breaks, extending some provisions more for business, which would be about this fiscal headroom that would be necessary to actually fully fund a transportation bill that would put people to work, that all the economists we have talked to say would have a higher economic multiplier, and would let us be on with the big task ahead of us.

Do you have any comment about actually financing the infrastructure deficit?

Secretary GEITHNER. Again, our basic test should be what is going to do the best job of getting growth back, growth stronger, more jobs, spark for investment, do that in a way that is fiscally responsible over the longer term and do it in a way that is fair—fair on small businesses, fair on working families. That is the basic balance we have to strike.

And I agree with you that, if you do infrastructure spending right, you get a very high return, and you do things that are good for how fast we can grow in the future, how fast businesses can grow, because people depend on a basic level of infrastructure that we don’t really have as a country. But we have to find a balance between those things. I want to work with you and we will be happy to work with you on what the best balance is.

Mr. BLUMENAUER. Thank you.

Chairman RANGEL. Mr. Kind of Wisconsin.

Mr. KIND. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your testimony here today.

In speaking about fairness, you know, to be fair, I mean, there is a whole lot of hand-wringing going on around this place right now in regards to the cause of the budget deficits from a lot of people who actually should know better. I mean, recent history shows that, while the Republicans were in control with a Republican President, they passed two large tax breaks that primarily benefited the most wealthy, not a nickel of it offset or paid for in the budget.

This came on the heels of two wars overseas, not a nickel of it paid for, and then the largest expansion of entitlement spending since Medicare first passed in 1965 when they passed their prescription drug plan, which analysts say is going to cost our country about $1.2 trillion over the next 10 years, not a nickel of it paid for.

So this Administration walked into a budget mess and an economic situation perhaps worse than any previous Administration since FDR when he walked into the Great Depression. So it took a while to get into it, a lot of bad policy decisions, from my point of view, and it is going to take a while to get out.

And I am glad you and the President and the Administration are so focused on a robust small business agenda, because we understand the crucial role they are going to play as a locomotive to pull us out of this economic recession with job creation.

In my district in western Wisconsin, the small businesses, the family farmers are the backbone of the economy. And everything we can do to help them right now keep their doors open and expand jobs is going to be needed. That is why the Administration's proposal of extending the accelerated depreciation, the immediate expensing, no cap gains tax for small businesses, this new $30 billion loan program that you want to set up—and I want to work with your office to make sure that family farmers are also eligible for those loans, because they are going to need that credit this spring in order to get the spring plant in, too. That is going to be an important component.

But I want to focus briefly on the new jobs tax credit. I guess this fits into the category of "we don't do anything new around here except the history we repeat." And this is not a new idea. It was something tried back in 1976. Maybe I am missing something, but from the analysis and data that came from that tax credit attempt back then, it fell kind of flat and we didn't get a good bang for the buck from that 1976 new jobs proposal.

What do you see in your proposal which is different from 1976 that might give us hope that this might spur some job creation, especially with the small businesses in the country that will add jobs and help get this economy back on track?

Secretary GEITHNER. There are two parts to this proposal.

One is if you add a net job relative to the amount of people you had on the payroll in 2009, you get a $5,000 tax credit. In addition, if you add to payroll, if you increase the hours of the people you have currently employed, if you raise wages and salaries for them, then we give you payroll tax relief alongside that.

It is very different in design from the one you referred to from the late 1970s. Although, the record on that is somewhat better than I think you said. It is very different from what the Congress considered last December in designing the Recovery Act. And there may be different ways to do this, but we think it is designed in a way that is much more effective in providing a bit more spark to hiring as growth demand picks up.

But you are right, this is a controversial proposal, and we are trying to be creative about it and pragmatic about it. And, of course, we recognize what many of you have referred to, which is what businesses say most is they want to make sure they are facing growing orders, have the financing available to meet those orders. But I think this will provide a little bit more of a boost, a little more spark to make sure, as we grow, we are creating more jobs than we otherwise would.

Mr. KIND. Thank you.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here today.

Yesterday the President said in New Hampshire, "We must budget our money the way the American people do." I am sure you agree with that.

My dad came to America literally on a boat and got a job in a manufacturing plant. Some years he made less than others. When he made less, we spent less. When he lost his job, when he lost his pension, when we lost our health care, we spent even less than the year before.

You recognize this document?

Secretary GEITHNER. I do.

Mr. TIBERI. I thought you would. Back in 2007, the American people gave us $2.5 trillion to spend, their money. We spent $2.7 trillion—too much. The deficit that year was $160 billion. By the way, after several years of two wars and a Medicare prescription drug benefit, our deficit was too much, but it was $160 billion.

Two years later, the economy went off a cliff. The 2009 budget, according to your numbers, the American taxpayers sent us $2.1 trillion, of course, less than 2 years earlier. We spent $3.5 trillion.

To go further, on your budget, if you look on out in the out-years, the 2015 estimate, because of tax increases we are going to take from the American people $3.6 trillion. My dad would say, "Wow, okay, we spent $3.5. Now we are going to take in $3.6?"

Long term, to Mr. Becerra's point, we fixed it, right? No. My dad would be highly disappointed, because we are going to spend $4.3 trillion. And to make matters worse, to go 5 years more, we are going to spend $5.7 trillion. That is not how the American people budget, Mr. Secretary.

My question: Small business, everybody talks about small business——

Secretary GEITHNER. Congressman, could I just respond quickly on that point?

Mr. TIBERI. You can after I ask my question, because the Chairman will cut me off. So you can answer two questions, that question and then you can answer this question.

We talk about small businesses. Both sides talk about small businesses. In this proposed budget, we give you and the IRS the authority to now reclassify independent contractors, independent contractors who work across the country for small mom-and-pop businesses—I am thinking of a homebuilder friend of mine who uses carpenters, he uses people to lay carpet, he uses people to put on the roof as independent contractors. And now you could reclassify them for the issue of payroll taxes, health care benefits, pension costs. This will put small businesses across America out of business.

Secretary GEITHNER. And we are not going to do that, and we are not proposing to do that. But I am glad you raised that point.

Mr. TIBERI. Will you take that out?

Secretary GEITHNER. I would like to say this exactly this way. We are proposing that we work together to legislate authority for the IRS to clarify a system today that is very, very hard for small businesses to comply with.

Let me just give you an example. A small business today looks at the current system. They have to try to figure out what happens in the tax courts over time, case by case. They have to take into consideration more than 20 different factors to try to figure out and make that judgment like that. It is not easy for them. It is not fair for them versus large businesses.

So what we are suggesting is a very simple, pragmatic proposition, but we have to work with you to do it. We can't do it on our own; is that we make it a little easier. We are not going to change that basic line though. And I completely recognize and agree with the concerns you said, and I will not support things that would carry that risk.

But I want to come back to where you began. Your rendition of history is right in the sense that it is a mess created to behold, but it is much worse than you said. It is not just that we came into office with a $1.3 trillion deficit, but the projected deficits at that point were going to add an additional $8 trillion over the next 10 years.

Now, you are right about governments and households, and you are right to say that governments have to make choices. We have to live within our means, too. But in a financial crisis, in a recession, you can't save your way out of it, you can't cut spending and expect that to lift your way out of it.

When you are facing this kind of deep wreckage and damage, the basic obligation of government—we learned this, it was expensive in the Great Depression, but we learned our mistake. We have watched lots of other countries make that mistake. But you cannot cut deficits in the midst of a deep financial crisis and expect to do anything but see thousands of jobs lost, millions lost, thousands of businesses close, millions more Americans lose their homes. There is no——

Mr. TIBERI. My time has expired, Mr. Secretary. I was just quoting the President.

Chairman RANGEL. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Despite the promises made in TARP, it seems as hard as it was a year ago for small businesses in my area of North Jersey to get loans. You know that better than I do. So now you are talking about $30 billion from TARP to create a new separate program designed to provide capital to small and community banks, as I understand it. I agree that we should invest TARP, and I think we should not look lightly at the suggestion we reduce the deficit by TARP.

What is the justification and evidence that this is going to open up lending? We had justification last year. It didn't work. What makes this justification any more cogent?

Secretary GEITHNER. Let me try and say it this way. We have a recession caused in part by the fact that people across the country borrowed too much. We are facing—again, we had an economy shrinking at an annual rate of 6 percent after they had borrowed too much. So there was no way through this that wasn't going to see borrowing come down as businesses and families went back to living within their means. And you have seen a precipitous drop in demand for loans and credit by very strong, healthy businesses.

But what is a problem for us as a country is when a good business, a viable business that has good customers, that can expand, wants to grow, and it can't meet that demand with access to credit.

Mr. PASCRELL. And that is a lot of businesses.

Secretary GEITHNER. And that is a lot of businesses. I agree with you completely.

Now, that is not easy to fix, because the pipes are still a little clogged for small business credit. What this does is help open up those pipes by trying to make sure that a small bank doesn't have to cut further——

Mr. PASCRELL. So you think that is the difference in providing TARP money for the smaller banks as compared to what we did last year? Is that what you are saying?

Secretary GEITHNER. No. The capital that went to small banks last year was very, very helpful. And I think if you talk to small banks across the country, those who came and took that money said they were able to do things they could not do. In a simple way, a dollar of capital from the government creates $8 to $10 in lending capacity. And that was very effective.

But what you saw happen last year—and this is important to recognize—we had more than 650 banks, about 650 small banks, withdraw their applications for assistance from the government, for lots of reasons, but among those reasons were two: One is there was a public perception created that that made them look weak. Many competitors ran ads against them, the ones that took assistance, saying they were weaker for it. And they were very scared that that assistance would come about with burdens and conditions, making it harder for them to run their bank.

Mr. PASCRELL. My time is running out. I just need to say this, Mr. Secretary: We need to do something about the financing of foreclosures.

Finally, the AMT, when I read this budget, you talk about a permanent solution to AMT, but it looks like you are paying for it with deficit financing. We don't want to go back. You go back to the past Administrations, but it seems to me you are replicating this by not calling for paying for the reduction permanently of the alternative minimum tax. You are doing the same thing as those other guys did.

Secretary GEITHNER. No, absolutely not.

Mr. PASCRELL. Well, how are you paying for it?

Secretary GEITHNER. We are proposing to reinstate the basic disciplines on spending and revenues that were in place in the 1990s to help constrain exactly the concern you raised.

Chairman RANGEL. Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. Good to see you again.

Before I go into my line of questioning with you, I feel compelled to highlight something that was brought up earlier today by my good friend Kevin Brady from Texas when he inquired about AIG. As someone very intimately involved in this issue with you, as well as with Mr. Kanjorski from Pennsylvania, I think it is important that we not rewrite history here today.

I think you did a good job in your opening statement. But I want to just clarify again that the former President and his party begged this Congress to create the TARP. The former President and his party gave the money to AIG almost unfettered. And the former President and his party did not provide for oversight of that money or of the AIG bonuses. And now they want to blame this Administration and your office for their mistakes and their methods, just like they will do on the deficit here today as well.

Mr. Secretary——

Secretary GEITHNER. Congressman, you need to start a little further back even than that, okay? Because what happened in this country is we allowed people to get around basic protections we put in place on banks and to build up huge risk and leverage outside those banks, doing things like banks do—this is true in AIG and a range of other institutions—without any effective oversight or constraints and without the kind of basic tools like bankruptcy that we used to handle these kinds of problems for basic banks.

Those two failures, that failure of regulation and policy and the failure of tools to give us bankruptcy, those were tragic mistakes. And that is why it is so important that we fix this mess and put in place reforms so we are not faced with those choices again.

Mr. CROWLEY. Thank you, Mr. Secretary.

Mr. Secretary, if we took all of the spending, if we zeroed out all spending, no more Coast Guard, no more food safety inspectors or air traffic controllers or cancer research at NIH, and didn't pay any Federal employees, we would still have a trillion-dollar deficit, is that correct?

Secretary GEITHNER. I think it is exactly right that the principal factors driving our deficits are not the things you referred to.

Mr. CROWLEY. The principal factors are the issues of Social Security and especially the out-of-control costs in the Medicare system, is that correct?

Secretary GEITHNER. Absolutely. But it is not just that. It is the tax cuts that are in place for the most fortunate Americans.

Mr. CROWLEY. I was going to get to that point.

Secretary GEITHNER. I am sorry.

Mr. CROWLEY. That is all right. You did it for me.

Mr. Secretary, I want to applaud Mr. Ryan, as well, for his honesty and presentation of an internal budget. But, again, I believe, as my colleagues do as well, they are just bringing out again some of the failed policies of the former Administration rejected by the American people, and that is the privatization of Social Security and the providing of vouchers under the Medicare system. They were rejected before. I hope this Administration rejects them again, as you stated before, and the President strongly rejects that proposal.

Secretary GEITHNER. Yes, we will.

Chairman RANGEL. The Chair recognizes Ms. Brown-Waite of Florida.

Ms. BROWN-WAITE. I thank the Chairman.

Thank you, Mr. Geithner, for being here.

Mr. Chairman, I have a series of five questions. I obviously won't have time because our time was truncated. So I may submit them and ask Mr. Geithner to respond to four of them, and one I will ask.

Chairman RANGEL. Without objection.

[The information follows:]

Ms. BROWN-WAITE. Thank you.

Americans are very concerned about jobs and certainly the escalating national debt. The most recent estimates indicate that the United States will be spending about $700 billion a year in interest payments by the end of this decade. To put that in context, that is kind of like a new TARP every single year, for which the taxpayers get zero in return. And, by the way, I didn't vote for the TARP.

Right now, you are financing current interest payments by borrowing more. The President's budget freeze is a drop in the bucket. What happens when confidence fails and interest on Treasury bonds skyrockets?

The second part of that question is, speaking of TARP, community banks are still doing some lending, and yet your proposal is to escalate that. But the larger banks, the larger banks that we helped out, sir, are doing nothing. They are calling in lines of credit. They are putting businesses out of business. They are calling in notes. And that is one of the reasons why we have such a problem today in this economy.

Why not deal with the large banks who sucked the money from the American public, sir? Could you answer that?

Secretary GEITHNER. Congresswoman, you are absolutely right about the corrosive cost to our economy of having large deficits, this huge increase in the debt we inherited, create much higher interest burdens. And we have to work together to bring down those long-term deficits. I completely agree with you, and you said it well, and it is important for people to highlight that.

Now, let me talk about the financial system just very quickly. What we did when we came into office is we took back $170 billion from the largest banks in the country by forcing them to go out and raise private capital so the American people could take those resources and put them to meet our long-term needs, including the one you pointed out, which is these deep, long-term fiscal deficits and their burden.

Now, it is very important that we keep working together——

Ms. BROWN-WAITE. Sir, I don't think you can use this money twice. I don't think——

Secretary GEITHNER. Oh, we are not using it twice. As I said, the way the law is written——

Ms. BROWN-WAITE. I don't think you can use it to give them back to the community banks and comply with the law that says that has to reduce the deficit.

Secretary GEITHNER. Congresswoman, and you did not vote for it and I did not design the law, but the way the law was written, it was very carefully written. It says that when we get repayment—and let me say this again, $170 billion in repayments from our financial system replaced by private capital——

Ms. BROWN-WAITE. Sir, my time is almost up.

Secretary GEITHNER. I want to make sure we get this right.

Ms. BROWN-WAITE. One other question. When we talk about the fact we had a surplus, nobody is saying, guess who was in charge of Congress? Sir, I think you know and I know and the American people know, it was the Republicans who insisted on that. And so it was the Republicans who controlled Congress at the time.

With that, Mr. Chairman, I yield back the balance of my time.

Chairman RANGEL. Okay. Let's see now. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

It is indisputable that the Obama Administration inherited an economy in free-fall and that, before the President even put his hand on the Bible, we had a $1.3 trillion deficit last year. The question, of course, is how we go forward. And I think this discussion is very healthy, because the more we hear some ideas from the other side, the more we hear that they want to turn back the clock to some of the proposals from the Bush Administration that got us into this mess to begin with.

Let's just talk about tax policy. We talked about that this morning. The recovery bill provided tax relief for 95 percent of working Americans—95 percent of working Americans. The head of the Republican House conference the other day described those as "boutique tax cuts," and then turned around and asked the President if he would do a tax cut that helped the wealthiest. We have heard again this morning the idea that we should continue in place the tax cuts that benefited the wealthiest Americans, and at the same time we say, "You guys got to get those deficits under control."

You can't have it both ways. The Bush tax cuts that the President has proposed to allow to expire on their own terms, that portion of it benefit, on average, Americans who have income of $809,000. This is on incomes over $250,000, with average incomes over $800,000. And by doing that, we will reduce the deficit by $826 billion over 10 years, almost a trillion dollars.

So, it is interesting to hear the notion that we should turn back the clock once again, give disproportionate tax breaks to the wealthiest Americans, and then turn around and say, "Well, let's work together to reduce the deficit." So let us focus on ideas. That was one of them.

We also adopted statutory PAYGO, which I think most Americans understand the notion that you got to make do. You have to make sure if you are going to add somewhere to government programs, you have to find offsets one way or another to pay for them. Again, we look forward to the House passing that.

We have had a discussion about TARP. President Bush came to this Congress and said, "We are facing a meltdown in the financial industry. We have to rescue it." A distasteful choice; the President said it was like having a tooth pulled. But it was necessary to turn things around.

But the key issue is what you said, Mr. Secretary: Now what are we going to do to get the money back? You have a proposal on the table to make sure that AIG and the financial industry that got that money from the taxpayer has to pay back every cent.

So I hope our colleagues on the other side of the aisle will work with us. Because when we passed the Wall Street accountability bill here in the House, we had a provision to do that, and we didn't get a vote from a single Member on the other side. So this discussion is very healthy.

Mr. Secretary, as I leave, I just ask you to get back to me on a proposal to establish a financing authority for green energy. It is an area we have to invest in. I think there were some promising ideas in the President's budget to create a $4 billion infrastructure innovation fund. I hope we can focus that on clean energy initiatives. There was a provision in the House energy bill to do that. I look forward to a conversation with you on that.

Chairman RANGEL. Mr. Davis of Kentucky.

Mr. DAVIS OF KENTUCKY. Thank you, Mr. Chairman.

Mr. Secretary, I appreciate your being here today.

I would like to continue our discussion where we left it off last February regarding LIFO, last-in, first-out accounting. I think there is a misunderstanding in much of the economic world on the role of this. It is not a loophole or tax shelter. It was actually started during the Great Depression.

And speaking of turning the clock back, I hear a lot of references from the other side about the Roosevelt Administration, much of which—his legislation was ruled unconstitutional. In fact, the domestic agenda got shut down by the Senate as a result of overreach.

My concern here, in particular, if we want to create jobs in manufacturing, repeal of LIFO creates many challenges. It is a well-established practice. I think my colleague, Congressman Thompson, rightly pointed out that we are on a different standard. Our foreign competitors do not have this. This is one small advantage because of the great disadvantage American business does have in international competition. How do we compete with the Chinese with our average rate being around 40 percent and theirs about 12?

Here is the question: In industries like distillery and aerospace, where you have to set that inventory in many cases for years and then accrue it at a cost dramatically higher, you know, you would raise taxes by $60 billion effectively, but at our end, for example, in my State, it would—actually, those are your numbers, $59.1 billion I believe is the exact number. In this downturn, I can see it very clearly killing jobs, reducing investment and risk, where that is already a challenge now.

Congress rejected the proposal to repeal it last year. You brought it back to us. You told me there was a difference of opinion on that, but we have very broad bipartisan support to keep it. I was wondering if you would comment on where you see the compelling reason to repeal this?

Secretary GEITHNER. Congressman, you made the case against it very well, and I understand the concerns against, but we think it is reasonable policy. Again, we are following the lead of many Members on this Committee who have proposed this in the past. I would be happy to talk to you or respond in writing and try to walk through what its impact might be and what its rationale is.

But we thought it was good policy back then. We still think it is good policy. I understand the concerns you raised. I know not everybody agrees. And that is how this process works. We get to sit down and look at these proposals and figure out what is going to make the most sense.

Mr. DAVIS OF KENTUCKY. Well, just looking at it as a turnaround, and there was this discussion that I have heard, of this drumbeat—I am waiting for President Eisenhower to be blamed, since we are attacking Republican Presidents on infrastructure. But——

Secretary GEITHNER. Well, I don't think LIFO caused the crisis. I don't think it——

Mr. DAVIS OF KENTUCKY. No, but I think we are calling for bipartisanship and then making endless attacks on things that, frankly, are pointless from a political standpoint.

I put this in light of a corporate turnaround. When you go into a failing plant, and I have done that before, the one thing that you never do is hurt the things that are actually maintaining financial stability and put further burden to increase costs when you are trying to take cost out of the process.

All I could say is, when you come in with a $160 billion deficit and condemn that, and then we have over a $1 trillion deficit, if I took that before a board of directors, I would hear the words from that show "The Apprentice," "You're fired." And that is what the American people are going to do if we keep this out-of-control spending.

Secretary GEITHNER. I don't think metaphors capture what we are facing.

Chairman RANGEL. Ms.——

Secretary GEITHNER. Could I say one thing, Mr. Chairman?

But I think you said an important thing. A failing company, we got a turnaround problem. Now, I don't think we have a failing economy. We have huge strength across this country, a lot of innovative, dynamic, strong businesses. But we have a turnaround problem. And we are beginning to make some progress turning it around.

And, again, we would like to see if we can find ways that work together that will make it more likely we get this economy back on track, we repair the damage, repair the wreckage, and, as we grow, we do so with more jobs.

Chairman RANGEL. Ms. Schwartz from Pennsylvania.

Ms. SCHWARTZ. Thank you, Mr. Chairman.

And thank you, Secretary.

I appreciate your comments. I think my colleagues on this side of the aisle made it very clear, and I think some concession on the other side of the aisle, that in fact this Administration did inherit a financial mess, both in the economy and, of course, for our Federal budget. So, thank you for your comments and clarifying both the reality of what we inherited, but also how we are going to go forward to really remedy all we can do to actually stimulate the economy and job growth.

I particularly appreciate the focus in the budget on small business and small business lending—we have all heard that from our businesses—and also the focus on the deficit, the pay-as-you-go, the commission, and the fact we are trying to balance this, what do we do to restore stability, which we have already done, in the economy, the action that the Administration and this Congress has already taken, and what we are going to do going forward.

I wanted to ask something that hasn't been asked yet, and that is potentially some agreement in a bipartisan way, and that is on the issue of helping encourage Americans to save, particularly to save for retirement.

I think there were some comments from both sides saying we have to act more like families do. But the fact is a lot of American families got into serious trouble by borrowing more than they could repay, and it is true the Federal Government did that in the previous Administration, as well. But we don't always make it very easy to save.

One of the things that happened during this terrible recession we are in is that, in August, Americans started to save again. But it isn't easy. It is challenging for families that are facing very difficult financial times. And it is, we know, made easier when you can save at work, save through your employer. Seventy-eight million working Americans do not have any kind of retirement plan or savings plan at their workplace.

What I really want to ask you is the proposals that the Administration has put forward, both to encourage small businesses to—really, they can't afford real retirement savings—set up 401(k)s and make that easier and less costly for small businesses, and even for those small businesses that don't choose to do a 401(k), to do some kind of automatic savings for their employees.

I guess all of us know that money we haven't seen that we put away adds up over time. I encourage all of my young staffers to do that, and many of them do.

But this is really important, and I think it is something we can all agree with in a really bipartisan way.

Secretary GEITHNER. The most important thing we can do——

Chairman RANGEL. Let me tell you the problem that we have here. We have 10 Members that have not had an opportunity to inquire, and we got about 10 minutes to get to the floor. For those Members that want to stay, we can divide that time up to 1 minute apiece or, at the 2 o'clock hearing, give priority to those people who have not made inquiry. So who would want to wait until 2 o'clock so I can bypass them?

Okay.

Ms. SCHWARTZ. I will close by thanking you and look forward to working with you on those proposals.

Secretary GEITHNER. I would be happy to respond in writing on those proposals.

Chairman RANGEL. Mr. Reichert.

Mr. REICHERT. Do I have 1 minute, or do we have time for 3 minutes?

Chairman RANGEL. One minute, unless you prefer to come back.

Mr. REICHERT. Mr. Secretary, you and I had an exchange last year regarding trade. I just want to go back to that very quickly. From 1995 to 2007, we did have a double in our U.S. exports, but there were nine trade agreements passed at that time. The President has said that he wants to double our exports. We need to have these trade agreements passed.

Do you support the free-trade agreements, the concept of free trade?

Secretary GEITHNER. Oh, absolutely. Yes.

Mr. REICHERT. Do you support the Korean agreement, the Colombian agreement, the Panamanian agreement? Yes or no? Do you support those agreements, having trade agreements with those countries?

Secretary GEITHNER. We support having strong trade agreements. Open markets for U.S. exporters are fair for American business.

Mr. REICHERT. Mr. Secretary, do you believe that trade creates jobs?

Secretary GEITHNER. I do.

Mr. REICHERT. Do you believe we are losing jobs by not passing the trade agreements? Yes or no?

Secretary GEITHNER. I think we can create more jobs if we expand exports.

Mr. REICHERT. Mr. Chairman, my time is not up.

Chairman RANGEL. Your minute has expired.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Geithner, thank you for being here. And put me in the category of those who support the HIRING Act tax credits. I have introduced a bill similar to what the President has. It is a little bit different, broader. But for a State that has 11.2 percent unemployment, higher than the national average, we are on board.

Let me ask you—and I have talked to my chambers. I was at two of them the other night, Vinson and Erwin. They are tickled to death, and they want to see something happen. These were the Chambers of Commerce.

Congressman Rangel and I introduced a tax credit bill for school construction in the Recovery Act, but the market for those bonds has been slow to develop because of the financing side of that issue, and I know you are working on that. Can you give us some idea of where the guidance is?

And second, the President's budget includes the America—Buy America Bonds Act, and I hope you will look at that for qualified school construction bonding as well, because I think these are ways to put a lot of people to work very quickly.

Chairman RANGEL. Ms. Berkley.

Ms. BERKLEY. Thank you, Mr. Chairman.

It is lovely to see you again, Mr. Secretary. I am going to do this in 30 seconds and then get a response.

My district is in a world of hurt. I have over 13 percent unemployment. My building trades are 50 percent unemployed. I have the highest mortgage foreclosure rate in the country. I have a service-oriented economy. I have been pushing for 100 percent deductibility of meals tax and a spousal travel allowance to get people back to work. What are you going to do to help me?

Secretary GEITHNER. You have been a passionate, eloquent advocate for those two proposals.

Ms. BERKLEY. And I have more.

Secretary GEITHNER. And I understand you feel strongly about them, and I will be happy to talk to you and work with you on how best we can meet that objective.

And you are right to remind everybody that there is a huge amount of pain still across this country, and it is not captured in the national numbers. And there are parts of the country where unemployment is much, much higher, where job loss—where foreclosure is much, much higher, and that is why we have done everything we have as quickly as we have to put a floor under this recovery and help reinforce recovery. You are right about it, and I am glad you are reminding people about it.

Ms. BERKLEY. Well, thank you.

One other thing. We keep talking about small businesses. Don't forget my big developers; they can't get a loan either.

Chairman RANGEL. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for your presentation. I want to spend my minute reinforcing my colleague Mr. Davis' comments about LIFO. In the Commonwealth of Kentucky, we have an industry which is $3 billion worth of our gross State product. I know you want to talk about expanding exports. We export bourbon to 126 countries. It is a growing part of the economy. It is one of the manufacturing sector's growing segments. Overall manufacturing is down 20 percent in Kentucky. The distilling industry is up 6 percent. This proposal would represent an existential threat to many of our distilleries, and it is a significant concern.

I yield back, Mr. Chairman.

Chairman RANGEL. Thank you.

Mr. Secretary, I hope we can get together with a bipartisan discussion of the recommendations made by the President and you. In any event, we look forward to working with you outside of just this formal hearing to see whether we can iron our differences. And we will need your help with the Senate. It doesn't really make sense for us to go through all of this only to find out that they have problems with our product.

So let me thank you for being with us. I look forward to being with you again soon.

This hearing stands adjourned until 2 p.m. this afternoon.

[Whereupon, at 12:04 p.m., the Committee was adjourned.]

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