THE PRESIDENT'S FISCAL YEAR 2012 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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THE PRESIDENT'S FISCAL YEAR 2012 BUDGET

TUESDAY, FEBRUARY 15, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. Paul Ryan, [Chairman of the Committee] presiding.

Present: Representatives Ryan, Simpson, Campbell, Calvert, Akin, Cole, Price, McClintock, Chaffetz, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Young, Amash, Rokita, Guinta, Woodall, Van Hollen, Schwartz, Kaptur, Doggett, Blumenauer, McCollum, Pascrell, Ryan of Ohio, Wasserman Schultz, Moore, Castor, Tonko, and Bass.

Chairman RYAN. Director Lew, welcome back, I understand there is a traffic problem that tied you up, those things can happen. The President is fortunate that you agreed to a return assignment at Office of Management and Budget. This one is going to be a little different than the last one, I think, because the fiscal situation is so much worse. You have come under a darkening fiscal outlook. We are aware of the challenges that you face in putting this budget together, and we thank you for your hard work and for coming here today.

Having said all of that, the budget of the United States is more than just about arithmetic. It is a statement of national priorities. It is a gauge of our national health. Because we face a crippling burden of debt, this year's budget in particular presented the President with a unique opportunity to lead our country.

The President has disappointed us all by declining that opportunity. He punted. Instead of confronting our debt head-on, the President has presented us with a budget that spends too much, borrows too much, and taxes too much, and that costs jobs and opportunities. His budget would double the amount of debt held by the public by the end of this term, and triple it on the 10th anniversary of his inauguration.

To be sure, our country was already on an unsustainable fiscal trajectory before he took office. Our debt is the product of acts by many Presidents and many Congresses over many years. Both of our political parties share the blame in where we have come to. Nevertheless, the President's policies have accelerated us down this disastrous path. He has made our spending problems worse with policies such as the failed stimulus and a brand-new open-ended health care entitlement. He has argued for massive tax increases that would stifle economic growth and job creation, and make our fiscal picture worse. His budget alone contains $1.6 trillion in higher taxes on American families, businesses, and entrepreneurs. In our nation's most pressing fiscal challenges, the President has abdicated his leadership role.

First, he punted to a bipartisan Fiscal Commission to develop solutions to the problem. Then, when his own commission put forward a set of fundamental entitlement and tax reforms, a commission comprised of a majority of Democrats, he ignored them. He even failed to take the commission's advice on less sensitive subjects, such as discretionary spending. His budget would increase discretionary spending by $353 billion, relative to his commission's proposals.

Former Clinton Chief of Staff, and co-chair of the Fiscal Commission, a man who I have great respect for, a Democrat, Erskine Bowles said, quote, The budget goes nowhere near where they will have to go to resolve our fiscal nightmare. The President's budget disregards the drivers of our debt crisis and the insolvency of our entitlement programs. Every day that passes without leadership on this crucial challenge is another day of uncertainty for job creators, and a darkening economic prospect for millions of Americans living in the shadow of our growing and unsustainable debt.

The politically safe response, I suppose, is to do nothing. I wonder about that, though. Unfortunately, this is the path the President has chosen. We feel that it is our responsibility to do things differently, to lead where he has fallen short, and that is exactly what we plan to do.

With that, I will yield to Ranking Member Van Hollen for an opening statement.

[The statement of Chairman Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

Director Lew, welcome back.

The President is fortunate that you agreed to a return assignment to OMB under a darkening fiscal outlook. We are aware of the challenges you faced in putting this budget together, and we thank you for your hard work.

The Budget of the United States is about much more than arithmetic. It is a statement of national priorities—and a gauge of our nation's health.

Because we face a crippling burden of debt, this year's budget in particular presented the President with a unique opportunity to lead our country.

The President has disappointed us all by declining that opportunity. He punted.

Instead of confronting our debt head on, the President has presented us with a budget that spends too much, borrows too much and taxes too much. His budget would double the amount of debt held by the public by the end of his term—and triple it by the tenth anniversary of his inauguration.

To be sure, our country was already on an unsustainable trajectory before he took office. Our debt is the product of acts by many presidents and many Congresses over many years. Both parties share the blame.

Nevertheless, this President's policies have accelerated us down this disastrous path. He has made our spending problems worse with policies such as the failed stimulus and the new health care entitlement.

He has argued for massive tax increases that would stifle economic growth and make our fiscal picture worse—this budget alone contains $1.6 trillion in higher taxes on American families, businesses and entrepreneurs.

And on our nation's most pressing fiscal challenges, the President has abdicated his leadership role. First, he punted to a bipartisan commission to develop solutions to the problem.

Then, when his own commission put forward a set of fundamental entitlement and tax reforms, he ignored them. Erskine Bowles, the Democratic chairman of the fiscal commission, said the White House budget request goes "nowhere near where they will have to go to resolve our fiscal nightmare."

He even failed to take the commission's advice on less sensitive subjects, such as discretionary spending: His budget would increase discretionary spending by $353 billion relative to the commission's proposals.

The President's budget disregards the drivers of our debt crisis and the insolvency of our entitlement programs.

Every day that passes without leadership on this crucial challenge is another day of uncertainty for job creators and darkening economic prospects for millions of Americas living in the shadow of our growing debt.

The politically safe response, I suppose, is to do nothing. Unfortunately, this is the path the President has chosen.

We feel that it's our responsibility to do things differently—to lead where he has fallen short. And that's exactly what we plan to do.

With that, I will yield to Ranking Member Van Hollen for an opening statement.

Mr. VAN HOLLEN. Thank you, Chairman Ryan, welcome Director Lew. I know that President Obama, like President Clinton, will be well-served by having you at the helm of Office of Management and Budget. And I thank you for being here to discuss the President's budget. And while we are still reviewing some of the details, I want to commend the President for putting forth a budget that reduces our deficit while also investing in our future.

This is a tough-love budget. It cuts non-security discretionary spending by $400 billion, taking that category of spending to the lowest share of GDP since the Eisenhower Administration. And starting this year, it steadily decreases the deficit, and brings the budget to primary balance by the year 2017. But the President's budget cuts the deficit while making critical investments in areas like education, clean energy, infrastructure, and scientific innovation.

Last week, Chairman of the Federal Reserve Ben Bernanke testified before this committee about the importance of targeted national investments to help grow the economy and keep America competitive. He highlighted the need to pursue policies to foster economic growth, quote, By encouraging investment in the skills of our workforce as well as new machinery and equipment, by promoting research and development, and by providing necessary public infrastructure. This budget does that.

As we debate the best way forward, our conversation must include a comprehensive review of our national balance sheet. It is simply short-sighted to think we can try to balance our budget through cuts in domestic discretionary spending alone, a category that represents only 12 percent of the overall budget. We must look to other areas, including comprehensive tax reform, and eliminating special interest breaks in the tax code. The President's budget moves in the right direction by putting an end to taxpayer dollars going to subsidies for big oil companies at a time when gas is costing American families more than $3 a gallon, and oil companies are making huge profits; there is no reason to subsidize those companies and short-change investments in education and Head Start, as some of our colleagues are proposing to do today on the floor of the House.

This budget extends tax cuts for middle class tax families, but rejects tax breaks for those at the very top. It takes a balanced approach, much like the budgets under President Clinton. Under the Clinton Administration, the country enjoyed real economic growth of 3.9 percent per year, and the economy added 20.8 million private sector jobs. That balanced approach allowed us to not only stop running deficits, but actually achieve surpluses and begin to reduce our nation's debt. Unfortunately, those surpluses disappeared under the previous Bush Administration. They cut taxes for the wealthy and turned a $5.6 trillion surplus into a sea of deficits, lost 653,000 private sector jobs over that eight year period.

In January, 2009, when the President raised his hand and was sworn in, he was handed an economy in free-fall that was losing 700,000 jobs a month, and a record $1.3 trillion deficit. Unfortunately, some of the first acts of the new Congress were to eliminate the PAYGO rule, and add $230 billion to that deficit in connection with health care reform.

Having spent the first two years working to rescue the economy, working with Congress and the American people, the President's budget is now focused on strengthening the economy with a plan of targeted investments and deficit reduction. It stands in stark contrast, I might say, to the approach that we are seeing by our colleagues on the floor of the House, which is to slash important programs immediately, disregarding the impact on the fragile economy and workers.

It is critical that our nation's budget strike the right balance with both spending and revenue, and I believe the President's budget makes an important effort to hit the right note. It is a starting point. I must say, it is interesting to hear many of our colleagues on the Republican side criticize the President for not putting more of the ideas of the Bipartisan Deficit-Debt Reduction Commission on the table, when in the House, the representatives to that commission voted against it.

That being said, and I am going to conclude, Mr. Chairman, in order to tackle our longer-term fiscal challenges beyond the 10-year period of this budget, it is important that the White House and the Congress, Republicans and Democrats, come together to seriously discuss and consider the ideas in the Commission's proposal. Compromise is not a dirty word. Getting things done requires give and take. We should begin that conversation now. Thank you, Mr. Chairman.

[The statement of Mr. Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MINORITY MEMBER, COMMITTEE ON THE BUDGET

Thank you very much, Chairman Ryan.

Welcome, Director Lew. I know that President Obama, like President Clinton, will be well-served by having you at the helm of the Office of Management and Budget.

Thank you for being here today to discuss the President's budget. While we are still reviewing some of the details, I want to commend the President for submitting a budget that reduces our deficit, while also investing in our future. This is a tough love budget. It cuts non-security discretionary spending by $400 billion over the next decade—taking that category of spending to the lowest share of GDP since the Eisenhower Administration. And, starting this year, it steadily decreases the deficit and brings the budget to primary balance by 2017.

But the President's budget cuts the deficit while making critical investments in areas like education, clean energy, infrastructure, and scientific innovation. Last week Federal Reserve Chairman Ben Bernanke testified before this committee about the importance of targeted national investments to help grow the economy and keep America competitive. He highlighted the need to pursue policies to foster economic growth 'by encouraging investment in the skills of our workforce as well as new machinery and equipment, by promoting research and development, and by providing necessary public infrastructure.' This budget does that.

As we debate the best way forward, our conversation must include a comprehensive review of our national balance sheet. It is simply short-sighted to think we can try to balance our budget through cuts in domestic discretionary spending alone—a category that represents only 12 percent of the overall budget. We must also look to other areas, including comprehensive tax reform and eliminating special interest breaks in the tax code. The President's budget moves in the right direction by putting an end to taxpayer dollars going to subsidies for big oil companies. At a time when gas is costing American families more than $3 a gallon and oil companies are making huge profits, there is no reason to subsidize big oil companies and short-change funding for Head Start and education, as our Republican colleagues are proposing to do today on the House floor. President Obama's budget also extends tax cuts for middle class families, but rejects tax cuts for the wealthiest 2 percent of Americans. At a time of huge deficits, we cannot afford to ask our children to pay for tax breaks for the folks at the very top.

The President's budget takes a balanced approach, much like the budgets under President Clinton. Under the Clinton Administration, the country enjoyed real economic growth of 3.9 percent per year and the economy added 20.8 million private-sector jobs. That balanced approach allowed us to not only stop running deficits, but actually achieve surpluses and begin to reduce our nation's debt. Unfortunately, those surpluses were squandered under the Bush Administration. The Bush Administration cut taxes for the wealthy and turned a $5.6 trillion surplus into a sea of deficits and lost 653,000 private-sector jobs over eight years. In January 2009 the Obama Administration was handed an economy in free fall that was losing over 700,000 jobs a month and a record $1.3 trillion deficit.

Having spent its first two years working to rescue the economy, the President's budget is now focused on strengthening the economy with a plan of targeted investments and deficit reduction. The President's approach stands in stark contrast to the House Republicans' plan being debated on the House floor today. That plan would recklessly slash important programs immediately—disregarding the impact to American workers and our fragile recovery. The President's Bipartisan Commission charged with reducing our national debt and deficit stated that 'in order to avoid shocking the fragile economy, the Commission recommends waiting until 2012 to begin enacting programmatic spending cuts.' The Rivlin-Domenici Commission rendered the same advice. Deep cuts now will not create a single job; in fact, Mark Zandi and other economists have warned against deep spending cuts that would put thousands of American jobs at risk. President Obama, on the other hand, has laid out a long-term, responsible path to fiscal sustainability. He has proposed significant but targeted cuts that stand in contrast to the House Republicans' hatchet job on the budget that will cost many Americans their jobs.

It is critical that our nation's budget strikes the right balance with both spending and revenue, and I believe the President's budget makes an important effort to hit the right note. It is an important starting point. That being said, in order to tackle our longer-term fiscal challenges—beyond the 10 year period of this budget—it is important that the White House and the Congress, Republicans and Democrats, come together to seriously discuss and consider the ideas in the Commission's proposal. Compromise is not a dirty word. Getting things done requires give and take. We should begin that conversation now.

Chairman RYAN. Mr. Lew, the floor is yours.

STATEMENT OF JACOB J. LEW, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. LEW. Thank you, Mr. Chairman. Ranking Member Van Hollen, members of the Committee, thanks for having me here today to present the President's 2012 budget. It is a real honor to be here again after 10 years, presenting the President's budget, and I thank the Chairman and the Ranking Member for the very kind personal words that they opened with. I have a great deal of respect for each of them, and look forward to working together in a bipartisan way as we move through the long and difficult process.

After emerging from the worst recession in generations, we face another historic challenge. We need to demonstrate to the American people that we can live within our means and invest in the future. We need to work our way out of the deficits that are driving up our debt, and at the same time make the tough choices to make sure that we are in a position to out-educate, out-build, and out-innovate our competitors. That is what it is going to take to return to robust economic health and to grow jobs in the future.

This is the seventh budget that I have worked on at the Office of Management and Budget, and the most difficult. It includes more than $1 trillion in deficit reduction, two-thirds of it from lower spending, and it puts the nation on a path towards fiscal sustainability so that by the middle of the decade, the government will no longer be adding to our national debt as a share of the economy. By the middle of the decade, we will be able to pay our current bills and remain in primary balance for many years after that.

The President has called this budget a down-payment. Because we still have work to do to pay down the debt and address our long-term challenges. But we can't start to pay down the debt until we stop adding to it. And that is what this budget does.

The budget lays out a strategy for significant deficit reduction, the most deficit reduction in a comparable period since the end of World War II. It will bring our deficit down to about three percent of the economy by the middle of the decade, and stay there for the rest of this budget window.

Changing the trajectory of our fiscal path is a significant accomplishment, but to do this it will take tough choices, and I would like to highlight just a few of them.

Our budget includes a five-year, non-security discretionary spending freeze that will reduce the deficit by over $400 billion over the next decade, and bring spending in this category of the budget to the lowest level since President Eisenhower sat in the Oval Office. To achieve savings of this magnitude, it is not enough to just deal with programs that are outdated, or ineffective, or duplicative, though we do start there. It is also necessary to make reductions in programs that, absent the current fiscal situation, we wouldn't be looking for reductions. Programs like low-income energy assistance and Community Development Block Grants.

In national security, which we are not freezing, we are also making real cuts. Defense spending over the past decade has been growing faster than inflation, and we can no longer afford that. The budget cuts $78 billion for the Pentagon's spending plan over the next five years, which will bring Defense spending down to zero real growth. It cuts weapon programs that Secretary Gates and the military leadership says we don't need, and we can't afford. We are also capturing savings that come from bringing our troops home from Iraq, which, when you add it in, brings defense spending down by more than five percent, compared to the President's budget of last year.

Of course, cutting discretionary spending alone can't solve our fiscal problems. This budget also deals with mandatory spending and with revenue, and it takes significant steps to address our long-term fiscal challenges. For example, this budget shows that we can pay for solutions to two problems that we have been all too willing to kick down the road by putting on the national credit card. One is preventing a nearly 30 percent reduction in reimbursements to doctors in Medicare, to keep doctors in the system and treating patients. Another is preventing an increase in taxes on middle class families through the Alternative Minimum Tax, commonly known as the AMT.

In December, there was bipartisan agreement to pay for a one-year extension of the so-called Doc-Fix, which was not required by budget rules, but it was the right thing to do. In this budget, we build on that, and we have $62 billion of savings to pay for the next two years of this fix. And those three years of paying for the Doc-Fix establishes a clear pattern and creates a window so we can work together, so that we can address this in the future without adding to the deficit.

With regard to the Alternative Minimum Tax, we have offsets in the budget to pay for three years of what is called a patch. And we could pay for it by limiting the amount that those in the highest tax bracket can receive for itemized deductions. It is a big step towards cutting back on spending in the tax code, and it is consistent with the Fiscal Commission recommendations. If we continue on this path of paying for the AMT patch after 2014, it alone will reduce the deficit by one percent of GDP by the end of the decade. These both are down-payments on long-term reform to reduce the deficit further, and the administration looks forward to working with Congress to permanently cover these costs once and for all.

Similarly, as the President said in the State of the Union, we are eager to work together on a deficit-neutral corporate tax reform that will simplify the system, eliminating special interest loopholes and level the playing field, and lower the corporate tax rate for the first time in 25 years. And while it does not contribute to our deficits in the short or medium term, the President has laid out his principles to strengthen Social Security, has called on Congress to work in a bipartisan fashion, to keep this compact with future generations.

As we take these steps to live within our means, we also invest in the areas critical to future economic growth and job creation: education, innovation, clean energy, and infrastructure. And even in these areas, the budget cuts programs in order to fund high-priority investments. For example, in education, we maintain the increased maximum Pell Grant level, which is enabling nine million students to pay for college education, and we pay for it with a $100 billion in savings that primarily come from eliminating summer-school Pell Grants and eliminating the graduate student in-school loan subsidy.

In the area of innovation, we support $148 billion in research and development investments, including $32 billion for the National Institutes of Health. And we need visionary goals to bring about a new clean energy economy to help pay for these investments. Lower priority programs are cut, and we eliminate 12 tax breaks for oil, gas, and coal companies, that will raise $46 billion over 10 years.

And to build the infrastructure we need to compete, the budget includes a proposal for a $556 billion surface transportation re-authorization bill. Not only does this plan include the consolidation of 60 duplicative, often-earmarked programs into five, and it demands more competition for funds, but we insist that the bill be paid for, and we look forward to working in a bipartisan manner to do that.

Mr. Chairman, I am under no illusions how difficult it is to make the tough choices needed to put us on a sustainable fiscal path. As we make these choices, I believe that it is important that we not cut areas that are critical to helping our economy to grow, and making a difference for families and businesses.

Finally, cutting spending and cutting our deficits requires us to put political differences aside, and working together. I look forward to working with you and crafting a set of policies that enable us to live within our means and invest in the future. And I look forward to answering your questions. Thank you very much.

[The statement of Mr. Lew follows:]

PREPARED STATEMENT OF HON. JACOB J. LEW, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Chairman Ryan, Ranking Member Van Hollen, and Members of the Committee, thank you for inviting me to testify this morning about the President's Fiscal Year 2012 Budget.

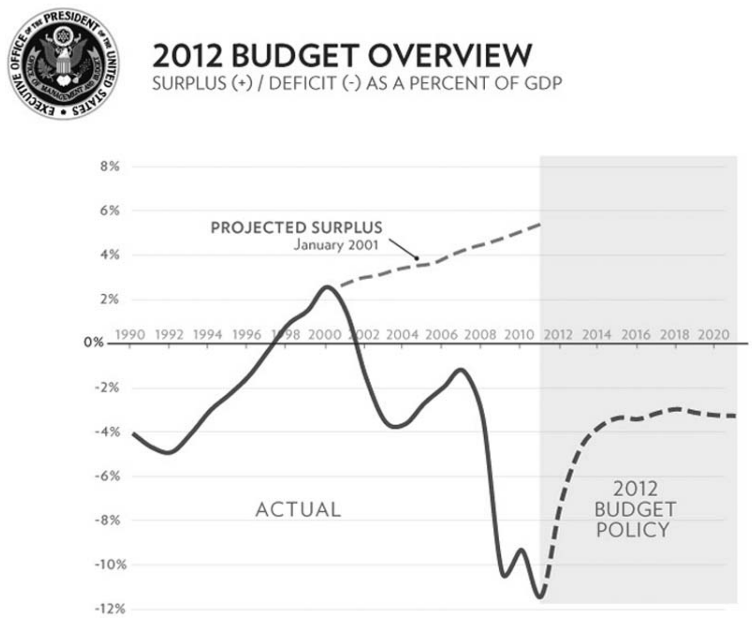
As the President has said, now that the country is back from the brink of a potential economic collapse, our goal is to win the future by out-educating, out-building and out-innovating our competitors so that we can return to robust economic and job growth. But to make room for the investments we need to foster growth, we have to cut what we cannot afford. We have to reduce the burden placed on our economy by years of deficits and debt.

This is the seventh budget I have worked on at OMB and the most difficult. It is a budget of shared sacrifice across the Federal government. It is a budget that makes tough choices to begin to tackle our major fiscal challenges. It is a budget that transitions from rescuing the economy to investing in our future. It is a budget that lives within our means in order to compete effectively in the world economy.

THEN AND NOW

The world has changed since I last served at OMB. When I left OMB in January 2001, we had balanced the budget and projected a surplus of $5.6 trillion over the next decade. In fact, we projected that the U.S. would effectively be debt-free by 2013. Unprecedented economic growth was certainly a key driver of budget surpluses. But in a virtuous cycle, a commitment by the President and the Congress to maintain a surplus reinforced expectation of Federal fiscal responsibility, which had a positive impact on interest rates and further helped to spur economic growth. This surplus was the result of year after year of fiscal discipline including budget agreements in 1990, 1993 and 1997. Presidents and congressional majorities from both parties reached across the aisle to make tough policy choices.

When I returned as OMB Director last November to a projected deficit of $10.4 trillion—a sixteen trillion dollar swing in just over ten years—the fiscal picture could not have been more different. Large deficits were driven by two main factors: first, the worst economic downturn in a generation and policy response necessary to rescue the economy, and second, the decision in prior years to give two large tax cuts without offsetting them and to create a Medicare prescription drug benefit without paying for it.



Clearly, the challenges we face today are very different than those we faced more than a decade ago, when many of us worked together to balance the budget.

OUR RECORD

Bringing the Economy Back from the Brink

It is useful to begin by reviewing the state of our economy, because it shows how far we have come but also how far we need to go.

When the President took office the economy was in freefall. Real gross domestic product (GDP) was dropping at an annual rate of 4.9 percent after falling at an annual rate of 6.8 percent the previous quarter. The economy was losing an average of 783,000 private sector jobs per month. A steep decline in the stock market combined with falling home prices led to a significant loss of household wealth. Between the third quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by 28 percent—the equivalent of one year's GDP.

In the last year, we have seen some encouraging signs that the trajectory has changed and that a recovery is beginning to take hold. An economy that had been shrinking for nearly a year is now growing again—over the past six quarters, through the first quarter of FY 2011, real GDP has grown at an average rate of 3.2 percent. After nearly two years of job losses, more than one million private sector jobs were added to the economy in 2010. Capital and credit markets are functioning and gaining strength. And after teetering on the brink of liquidation just two years ago, America's auto industry is posting healthy gains and returning money to the taxpayers who helped it through a period of turmoil.

What changed?

Just 28 days after taking office, the President signed into law the Recovery Act to create and save jobs and to invest in an economy able to compete in the 21st century. Approximately one-third, or $288 billion, of the Act's funds went to tax cuts for small businesses and 95 percent of working families. Another third, or $224 billion, was used for emergency relief for individuals and state and local governments. The final third was invested in projects to create jobs, spur economic activity, and lay the foundation for future sustained growth.

This investment had a powerful impact. The White House Council of Economic Advisers (CEA) estimates that the Recovery Act raised the level of GDP as of the third quarter of 2010 by 2.7 percentage points, relative to what it would have been absent intervention, and raised employment relative to what it otherwise would have been by between 2.7 and 3.7 million jobs in the same time frame.

And we have acted together to build on this growth. In March 2010, the President signed the Hiring Incentives to Restore Employment (HIRE) Act that provided subsidies for firms that hired workers who were unemployed for at least two months and other job creation incentives. In August, he signed into law $10 billion in additional aid to States to prevent the dismissal of 160,000 of teachers, police officers, and firefighters nationwide. In September, the President signed the Small Business Jobs Act. At the end of 2010, the President signed into law a bipartisan agreement on taxes that prevented a tax increase for middle-class families, extended unemployment insurance benefits for millions of Americans hardest hit by the recession, provided powerful incentives for business investment and job creation, and temporarily reduced the payroll tax which also would help spur macroeconomic demand. Economists from across the political spectrum agree that this bill will boost economic growth in 2011 by 0.5 to 1.2 percentage points.

From the Recovery Act to our financial stabilization plan, the President's tough choices over the past two years have helped to save the economy from a second Great Depression. But we are keenly aware that the recovery is not happening fast enough for the millions of Americans who are still looking for jobs, and our immediate task is to accelerate economic growth and job creation to get our fellow Americans back to work. That is why the President has proposed an up-front investment of $50 billion in building new roads, rails, and runways to upgrade our infrastructure and create new jobs. It is why the President is making key investments in innovation, clean energy, and education that will create jobs and make our workforce more competitive. And that is why the President laid out a commonsense approach to regulation that is pragmatic and evidence-based, and that will protect our health and safety and help lay the groundwork for economic growth and job creation.

RESTORING A SOUND FISCAL POLICY

While taking steps to rescue the economy, the President has also worked to restore accountability and fiscal responsibility. In his first Budget, the President confronted directly the fiscal situation we inherited, eliminating trillions of dollars in budget gimmicks. He made a commitment to restoring fiscal responsibility, while recognizing that increasing the deficit in the short term was necessary to arrest the economic freefall. The President pledged to cut the deficit he inherited in half as a share of the economy by the end of his first term, a commitment this Budget keeps. He signed into law pay-as-you-go (PAYGO) legislation that returned the tough budget rules of the 1990s to Washington. The principle behind PAYGO is simple: all new, non-emergency entitlement spending and revenue losses must be offset by savings or revenue increases, with no exception for new tax cuts.

In addition, the President signed into law the landmark Affordable Care Act (ACA), enacting comprehensive health insurance reforms that will hold insurance companies more accountable, lower health care costs, guarantee more health care choices, and enhance the quality of health care for all Americans while reducing the deficit. According to CBO analysis, the Affordable Care Act will save more than $200 billion over the next ten years and will reduce the deficit by more than $1 trillion over the second decade. This is more deficit reduction than in any legislation since the 1990s. At the same time, the ACA's savings provisions tackle the single biggest contributor of our nation's long-term deficits—rising health care costs.

While taking major steps to bring down our deficits, the President also demanded that the Government spend every taxpayer dollar with as much care as taxpayers spend their own dollars. The President proposed legislation to create an expedited rescission authority so that unnecessary spending can be struck swiftly and constitutionally. Through his Accountable Government Initiative, the Administration has launched a host of initiatives to streamline what works, cut what does not, and eliminate wasteful spending. These initiatives include focusing agencies on identifying and delivering on their top priorities, a comprehensive strategy to reform Government contracting that will save $40 billion by the end of 2011, an initiative to reduce the amount of improper payments made by the Government by $50 billion, a review and reform of information technology use and procurement, an initiative to reduce administrative overhead by billions and improve performance, and an effort to dispose of billions of dollars of unneeded and under-utilized real property assets.

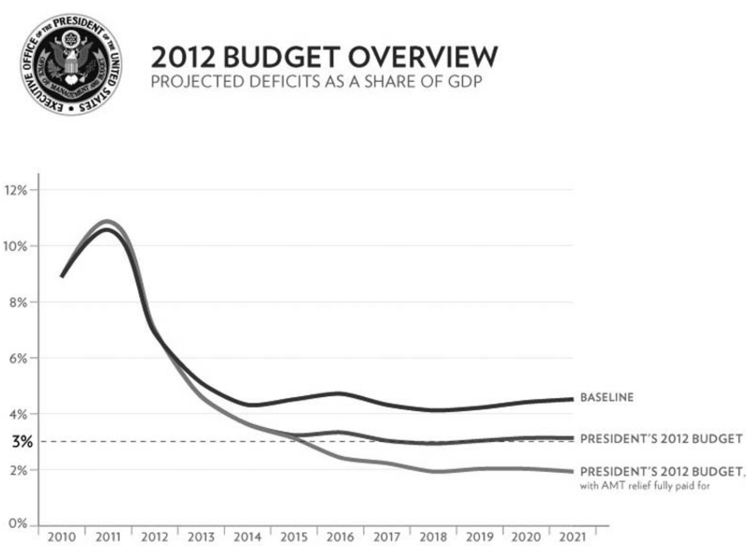
Each year since entering office, President has asked his Administration to go line-by-line through the Budget to identify programs that are outdated, ineffective, or duplicative. In his first two Budgets, the President identified more than 120 terminations, reductions, and savings, totaling approximately $20 billion in each year. These terminations ranged from a radio navigation system for ships made obsolete by GPS to new F-22 fighter jets. While recent administrations have seen between 15 and 20 percent of their proposed discretionary cuts approved by the Congress, the Administration saw 60 percent of its proposed discretionary cuts become law for 2010.

Finally, in April 2010, the President created the bipartisan National Commission on Fiscal Responsibility and Reform, and charged the Commission with identifying policies to improve the fiscal situation in the medium term and to achieve long-term fiscal sustainability. The Commission made an important contribution, beginning the process of building a bi-partisan consensus on the nature of the challenge we face and expanding the debate to include a broader range of options. While the Administration doesn't agree with every recommendation in the report, there are many areas of this budget that reflect the work of the Commission.

LIVING WITHIN OUR MEANS AND INVESTING IN THE FUTURE

Now that the country is back from the brink of a potential economic collapse, our goal is to win the future. But we cannot do so if we are saddled with increasingly growing deficits. This Budget builds on recent progress and lays out a comprehensive and responsible plan that will put us on a path toward fiscal sustainability for the rest of the decade—a down payment that will build a strong foundation to tackle our long-term challenges.

The projected deficit this year is nearly 11 percent of GDP, the highest level since World War II, reflecting the severity of the recession and our temporary measures to generate jobs and growth. The Budget lays out a path of rapid deficit reduction—the most deficit reduction in a comparable period since World War II. In the second half of the decade and beyond, debt is no longer growing as a share of GDP—a key indicator of fiscal sustainability. Redirecting our fiscal path on this downward slope is a significant accomplishment, one which will take tough choices and shared sacrifice—and is essential for the long-term competitiveness of the American economy.



The first step to reducing our deficit is maintaining a strong economy, which is a key priority for the Budget. As the baseline projections show, with economic growth we begin to make substantial progress at reducing the deficit even before we make additional policy changes. However, even with a sustained recovery, simply continuing current policies does not get the job done—it would leave us with deficits of between 4 and 5 percent of GDP—with debt growing at an unsustainable rate through the end of the decade and beyond.

To stay on a path towards sustainable deficits on the order of 3 percent of GDP, we make tough choices across all areas of the Budget to identify more than $1 trillion in savings—two thirds from spending reductions. This requires decisions beyond just separating the good programs from the bad. It means broadly sharing sacrifices in all areas of the Budget in order to make critical investments in areas most important to growth and competitiveness. And it means reducing spending in areas where we continue believe there is still important work to do. It cannot be achieved by simply looking at discretionary spending—we need to look at mandatory and revenue policies as well. An overview of key decisions in the FY 2012 Budget is as follows:

- Non-security discretionary. The Budget proposes to freeze non-security discretionary spending for five years, which saves more than $400 billion over the next decade and brings this category of spending to its lowest level as a share of the economy since Dwight Eisenhower was in office.
- Security discretionary. The Budget reflects tough decisions in areas outside of the non-security freeze—bringing Defense spending down from a long period of significant real growth to zero real growth, saving $78 billion over the next five years relative to last year's plan. Reflecting the winding down of military operations in Iraq, the Overseas Contingency Operations (OCO) budget for DOD in 2012 will be about 26 percent lower than levels in the President's 2011 request. As a result, the overall defense budget, including OCO, will be down by 5.2 percent from last year's request.
- Health care. The Budget fully pays for a two-year extension of current Medicare physician payment rates with $62 billion in health care savings, preventing a payment cut of over 25 percent. The Budget also proposes incentives for States to implement medical malpractice reforms to further reduce the growth of health care costs.
- Revenues. The Budget pays for three years of AMT relief by cutting the value of tax expenditures for high-income taxpayers by 30 percent. The Budget also opposes any further extension of the unaffordable upper-income tax cuts to two years.
- Fiscal stewardship. The Budget includes several proposals to reduce the risk of future liabilities. These include giving the Pension Benefit Guaranty Corporation (PBGC) the ability to adjust premiums to reflect all risks facing the pension insurance system and proposing reforms to encourage State responsibility and improve the solvency of the Unemployment Insurance Trust Fund.

SHARED SACRIFICES, HARD CHOICES

To be competitive in the 21st Century, the United States cannot be weighed down by crippling budget deficits, ineffective programs that waste tax dollars, and a government that is not accountable to the American people.

Five-year non-security freeze. It would be short-sighted to cut spending across the board and shortchange critical areas for growth and competitiveness—such as education, innovation, and infrastructure—or carelessly slash programs that protect the most vulnerable. This means that some cuts must be deeper to make room for key investments. In his 2011 Budget request, the President proposed a three-year, non-security discretionary freeze. As the economic recovery takes hold, the President believes that it is important to go further and is now proposing a five-year, non-security discretionary freeze. This is an extension of the freeze proposed last year, based on 2010 enacted levels. This freeze would be the most aggressive effort to restrain discretionary spending in 30 years and, by 2015, would lower non-security discretionary funding as a share of the economy to the lowest level since Dwight D. Eisenhower was president. Over the decade, the five-year freeze saves more than $400 billion.

Program terminations, reductions, and savings. In part to meet this freeze, the Budget includes over 200 terminations, reductions, and savings totaling more than $33 billion in savings for 2012 alone. On their own, these cuts will not solve our fiscal problems, but they are a critical step to creating a more responsible and accountable Government and a key component of a comprehensive deficit reduction strategy. It is never easy to end or cut programs; they all have advocates. Some programs are duplicative, outdated and ineffective. But we also had to choose programs that, absent the fiscal situation, we would not cut:

- Low-Income Housing Energy Assistance Program (LIHEAP). The Budget cuts LIHEAP by more than $2 billion, returning LIHEAP funding to 2008 levels, prior to the energy price spikes. However, in this difficult fiscal environment, we cannot afford to maintain the expansion to the program.
- Community Services Block Grant (CSBG). CSBG has helped to support community action organizations in cities and towns across the country. These are grassroots groups working in poor communities, dedicated to empowering those living there and helping them with some of life's basic necessities. These are the kinds of programs that President Obama worked with when he was a community organizer, so this cut is not easy for him. Yet for the past 30 years, these grants have been allocated to virtually the same organizations, using a formula that does not consider how good a job the recipients are doing. The Budget proposes to cut financing for this grant program in half, saving $350 million, and to reform the remaining half

into a competitive grant program, so that funds are spent to give communities the most effective help.

• Grants-in-Aid for Airports. The Budget lowers funding for the airport grants program to $2.4 billion, a reduction of $1.1 billion, by eliminating guaranteed funding for large and medium hub airports. The Budget focuses the traditional Federal grants to support smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital. At the same time, the Budget would allow larger airports greater flexibility to generate revenue with increased non-Federal passenger facility charges.

These cuts are not limited to a few agencies. Rather, these cuts reflect shared sacrifice across the Federal government—even for agencies that are central to out-competing, out-building, and out-educating in the 21st century. For example, the Department of Education has made difficult decisions in order to maintain historic increases for Pell Grants, which are critical to creating future generations that are well-educated and globally-competitive. The Administration would put Pell Grants on firm financial footing through steps that include eliminating the in-school interest subsidy for loans to graduate students and ending the new year-round Pell Grant, which offers students a second Pell Grant in one year, but has cost ten times more than anticipated. The Budget also eliminates 13 discretionary programs at the Department of Education and consolidates 38 K-12 programs into 11 new programs that emphasize using competition to allocate funds.

Federal civilian employee pay freeze. Federal workers are patriots who work for the Nation often at great personal sacrifice. They deserve our respect and gratitude. But just as families and businesses across the country are tightening their belts, so too must the Federal government. On his first day in office, the President froze salaries for all senior political appointees at the White House. In his Budget last year, the President proposed extending that freeze to other political appointees, and he eliminated bonuses for all political appointees across the Administration. Starting in 2011, the President has proposed and Congress enacted a two-year pay freeze for all civilian Federal workers. This will save $2 billion over the remainder of 2011, $28 billion over the next five years, and more than $60 billion over the next 10 years.

Savings in discretionary security programs. The President's Budget also demands cuts and savings in security programs. DOD, in particular, has seen an average increase to its base budget of 7.4 percent a year over the past decade. Moving forward, DOD is pursuing a variety of strategies to set the course for zero real growth in defense spending, and saving $78 billion in its base budget (including $13 billion in FY 2012) relative to FY 2011's request for the next five years. Secretary Gates will oversee a package of terminations, consolidations, and efficiencies in operations to slow this growth, and these savings will be used to fund programs and efforts critical to the armed forces and the security of the Nation. Reflecting the winding down of military operations in Iraq, the Overseas Contingency Operations (OCO) budget for DOD in 2012 will be about 26 percent lower than levels in the President's FY 2011's request. As a result, the overall defense budget, including OCO, will be down by 5.2 percent from last year's request.

Administrative savings. Allowing waste is never right, and it is especially intolerable in a time of tightening belts and tough decisions. Continuing the President's Accountable Government Initiative, the Budget cuts $2 billion in administrative overhead like travel, printing, supplies, and advisory contract services; establishes a process to quickly sell excess and under-utilized Federal real estate; and embraces competitive grant programs based on the Race to the Top model. This model is applied to programs from early childhood education through college; to allocate grants for transportation; to bring innovation to workforce training; and to encourage both commercial building efficiency and electric vehicle deployment.

Reorganize government. We live and do business in a global economy, but the organization of our government has not kept pace with the private sector advancements of the 21st century. Many of our government organizations have strayed from their original or core missions, evolving out of inertia rather than in response to the changing needs of the groups they serve. This has resulted in duplicative and ineffective programs that persist and grow over time, and an organization of functions that doesn't always make sense. For example, as the President stated in his State of the Union address, there are twelve different agencies that deal with exports. Americans deserve a streamlined, efficient and well-functioning Federal government that is responsive to the needs of its citizens and of the private sector.

The Budget reflects the President's commitment to reorganizing the Federal government to ensure that our resources are being used effectively and efficiently, with a particular focus on making the U.S. more competitive. In the coming months we will be working to identify where we can merge, consolidate and cut in order to better facilitate the needs of all American companies, entrepreneurs, and innovators and give these engines of economic growth a leg up in the global economy. The President plans to submit a proposal to Congress to enact the changes necessary to reorganize the Federal government in a way that best serves the goal of a more competitive America.

INVESTMENTS IN OUR FUTURE

The best antidote to a growing deficit is a growing economy, which spurs expanded employment, higher revenue collection, and lower demand for spending on safety net programs like unemployment insurance nutrition assistance. Putting the Nation on a sustainable fiscal path and getting our deficits under control are critical to making the United States competitive in the global economy, and the Budget lays out a strategy to do this. At the same time, it also recognizes that we cannot cut back on investments that will fuel future economic growth particularly since sustained and robust economic growth plays a very significant, long-term role in reducing deficits. While the Budget identifies cuts and savings and asks for shared sacrifices across the government, it also invests in areas critical to helping America win the race for the jobs and industry of the future.

We must target scarce Federal resources to the areas critical to winning the future: education, innovation, clean energy, and infrastructure.

Educate a competitive future workforce. In an era where most new jobs will require some kind of higher education, we have to keep investing in the skills of our workers and the education of our children. This Budget continues to support the President's commitment to once again have the highest proportion of college graduates in the world by 2020, and continues the reform agenda not just by devoting significant resources to where they are needed, but also by ensuring that those funds are being invested in programs that deliver results efficiently and effectively. This Budget calls for:

- Maintaining the Pell Grant maximum award at $5,550. Since 2008, the Administration has increased the maximum Pell Grant by $819, ensuring access to postsecondary education for over 9 million students from low-income families.
- Supporting reform of K-12 education with expanded Race to the Top and other innovative, evidence-based programs that encourage innovation and reward success, and expands the Race to the Top concept to early childhood education with $350 million to establish a new, competitive Early Learning Challenge Fund for States.
- Establishing a Workforce Innovation Fund that will encourage States and localities to break down barriers among programs, test new ideas, and replicate proven strategies for delivering better employment and education results at a lower cost per outcome.

Investment in R&D and transformational technologies. To compete in the 21st century economy, we need to create an environment where invention, innovation, and industry can flourish. That starts with continuing investment in the basic science and engineering research and technology development from which new products, new businesses, and even new industries are formed. We must focus in areas that show the greatest promise for job creation to position ourselves to get ahead of our competitors and be a leader in emerging industries. This Budget makes significant investments in clean energy technology and research and development to nurture the United States as a world leader in innovation. To meet these goals, the Budget calls for:

- Providing $148 billion for research and development. This level of funding continues the effort to double investments in basic research at the National Science Foundation, Department of Energy Office of Science, and the National Institute for Standards and Technology (NIST); provides robust investment in biomedical research at National Institutes of Health (NIH); and doubles energy efficiency research and development.
- Making the Research and Experimentation (R&E) tax credit permanent to give businesses the certainty they need to make these important investments. In addition, the Administration proposes to expand the credit by about 20 percent, the largest increase in the credit's history, and simplify it so that it is easier for firms to take this credit and make the investments our economy needs to compete.
- Bolstering economic rejuvenation in hard-hit areas of our country with new Growth Zone program. Growth Zones will deliver expanded tax incentives for investment and employment and a more streamlined access to government assistance to 20 new areas facing economic distress as well as growth potential.
- Providing $8.7 billion for clean energy technology research, development, demonstration, and deployment. This includes more than doubling energy efficiency investments and increasing renewable energy investments by over 70 percent. The

Budget seeks to reinforce new approaches to energy research by adding three new energy innovation hubs and expanding investment in the Advanced Research Projects Agency—Energy (ARPAE). In addition, the budget provides $5 billion for Section 48C tax credits for renewable energy manufacturing facilities.

Build a 21st century infrastructure. To compete in the 21st century, we need an infrastructure that keeps pace with the times and outpaces our rivals, and for too long we have neglected our Nation's infrastructure, its roads, bridges, levees, waterways, communications networks, and transit systems. In the Recovery Act, the Administration made the largest one-time investment in our Nation's infrastructure since President Eisenhower called for the creation of a national highway system. We need to continue to build on those efforts—and to do so responsibly by paying for what we build. We cannot strengthen our economy with a modern infrastructure if at the same time it weakens our fiscal standing. To give America the world-class infrastructure our economy needs, the Budget:

- Proposes a six-year surface transportation reauthorization that increases average annual investment by $35 billion per year, in real terms, over the previous six year authorization plus passenger rail funding in those years; this represents a total inflation-adjusted increase of sixty percent over the life of the bill. To bring the trust fund under budget enforcement mechanisms, the Budget proposes to reclassify trust fund spending on surface transportation as mandatory, subjecting it to PAYGO rules and closing score-keeping loopholes.
- Provides $1.2 billion for the Next Generation Air Transportation System, the Federal Aviation Administration's multi-year effort to improve the efficiency, safety, and capacity of the aviation system.
- Invests in smart, energy-efficient, and reliable electricity delivery infrastructure. The Budget continues to support the modernization of the Nation's electrical grid by investing in research, development, and demonstration of smart-grid technologies to spur the transition to a smarter, more efficient, secure and reliable electrical system.
- Builds next-generation wireless broadband network to provide access to 98 percent of the population, creates a Wireless Innovation Fund, and establishes an interoperable broadband network for public safety. These proposals will be fully paid for with proceeds from proposed "voluntary incentive auctions" of underused spectrum and other spectrum management measures, which will generate more than $27 billion over the next decade. In addition to funding the programs above, nearly $10 billion of these proceeds will be dedicated to deficit reduction.

BUILDING ON OUR PROGRESS

Now that the recovery is beginning to take hold, taking further steps to ensure responsibility has to be a priority—not because fiscal austerity in and of itself is virtuous, but because there is no way that we can compete and win in the world economy if we are borrowing without an end in sight.

The President's Budget is a down payment. It puts the government on a path to reach sustainable deficits over the next ten years. This means that for the first time in 10 years, the government will again be fully paying for all of its programs and the debt will stabilize as a share of GDP. This is an important milestone—but not the finish line—on the path to a balanced budget.

We cannot achieve sustainable levels with ever deeper cuts in non-security discretionary spending, which is simply not a large enough share of the picture either to cause or to solve the whole problem. The President has been clear that we must work on a bipartisan basis to find long-term solutions across all areas of the Budget, including Medicare, Medicaid, and tax reform.

Continue efforts to restrain the growth of health costs. Health care comprises one-quarter of non-interest Federal spending, and it is the key driver of future deficit growth. According to CBO analysis, the Affordable Care Act will save more than $200 billion over the next ten years and will reduce the deficit by more than $1 trillion over the second decade. This is a pivotal achievement, and the President is resolutely committed to implementing the ACA fairly, efficiently, and swiftly. But the job is not yet done. The Budget builds on the ACA with additional proposals to contain health care cost growth:

- The ACA made important advances in the area of program integrity, but there are other important opportunities to reduce fraud, waste, and abuse in Medicare and Medicaid. The Budget includes ideas pulled from external sources, including recommendations from the President's Fiscal Commission and from legislation that has received bipartisan support. The $62 billion in health savings in the Budget focus on increasing program integrity, efficiency, and accountability—not reducing beneficiary access or benefits. For example, the Budget extends efficiencies from

Medicare competitive bidding for durable medical equipment to Medicaid, and prohibits brand and generic drug companies from delaying the availability of new generic drugs ("pay-for-delay ").

- At the same time, these health savings pay for two years of relief from the Sustainable Growth Rate (SGR) formula—preventing a decrease of nearly 30 percent in physician payments that would hurt Medicare. This paid-for extension is on top of the three previous paid-for extensions of the SGR fix, including the one-year extension enacted in December, establishing a pattern of practice that we hope to continue as we work with Congress to achieve a permanent fix.
- Fully implementing the Affordable Care Act achieves cost savings and promotes efficient care, including reimbursing doctors and hospitals as Accountable Care Organizations, and adjusting payments to hospitals with high readmissions or hospital-acquired conditions. Implementing the Act also has the potential to fundamentally transform our health system into one that delivers better care at lower cost—a potential that is not fully captured in the ACA savings estimates. In particular, the Act incorporates the most promising ideas from economists and leaders from across the political spectrum to control health care costs.
- The President's Budget includes $250 million in grants to States to reform their laws on medical malpractice through various approaches such as health courts, safe harbors, early disclosure and offer programs, or other legal reforms. These grants would be awarded and administered by the Bureau of Justice Assistance (BJA) in consultation with the Department of Health and Human Services. The goal of any reform would be to fairly compensate patients who are harmed by negligence, reduce providers' insurance premiums, weed out frivolous lawsuits, improve the quality of health care, and reduce medical costs associated with "defensive medicine." This proposal is in line with the Fiscal commission's recommendation for "an aggressive set of reforms to the tort system."

Make a Down Payment on Tax Reform. To foster a competitive economy, we must have sensible and affordable tax policy that is consistent with our overall objectives of deficit reduction and economic growth. Since the last comprehensive overhaul nearly three decades ago, the tax code has been weighed down with revenue-side spending in the form of special deductions, credits, and other tax expenditures that do little for middle income families, and burdened with generous upper income tax cuts and more generous estate tax cuts for families making more than $250,000 a year. To compete and win in the world economy, we cannot sustain a tax code burdened with these unaffordable benefits. This is why the President has called on the Congress to undertake a fundamental reform of our tax system. As progress towards this goal, the Budget calls for:

- Allowing the 2001 and 2003 High-Income and Estate Tax Cuts to Expire. The Administration remains opposed to the permanent extension of these high-income tax cuts past 2012, as now scheduled, and supports the return of estate tax to 2009 rates and exemption levels. These policies save nearly a trillion dollars over the decade including interest effects. We cannot afford these unpaid-for tax breaks for the wealthiest Americans and we are committed to limiting the current extension to two years.
- Beginning the Process of Corporate Tax Reform. The United States has the highest corporate tax rate in the world. Part of the reason for this is the proliferation of tax breaks and loopholes written to benefit a particular company or industry. The result is a tax code that makes our businesses and our economy less competitive as a whole. The President is calling on Congress to work with the Administration on corporate tax reform that would simplify the system, eliminate these special interest loopholes, level the playing field, and use the savings to lower the corporate tax rate for the first time in 25 years—and do so without adding a dime to our deficit.
- Paying for the Alternative Minimum Tax (AMT). This Budget provides for a three year extension of AMT relief, and is offset by an across-the-board 30 percent reduction in itemized deductions for high-income taxpayers. This is the first time an extension of AMT relief has been fully paid for. While our base projections do not assume that we continue to pay for AMT relief after 2014, the President is committed to working with Congress to fully pay for AMT relief beyond this window. Doing so reduces the deficit by an additional 1 percent of GDP by the end of the decade relative to the deficit reduction in the Budget.

Take Steps Now to Reduce Future Liabilities. Looming debts and unfunded liabilities can put taxpayers on the line for bailing out programs in the future. The Budget promotes fiscal stewardship by restoring responsibility to key areas. First, the Budget proposes to give the Pension Benefit Guaranty Corporation (PBGC) Board the ability to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This will both encourage companies to fully fund their pension benefits and give the PBGC the tools to improve its financial soundness without over-burdening the companies it ensures, saving $16 billion over next decade. Second, the 2012 Budget provides short-term relief to States by providing a two-year suspension of State interest payments on their debt and automatic increases in Federal unemployment insurance (UI) taxes. At the same time, the Budget proposes steps to encourage States to put their UI systems on firmer financial footing and pay back what they owe to the Federal government. Beginning in 2014, the Budget increases the minimum wages states can subject to unemployment taxes to $15,000. Finally, the Budget proposes to gradually reduce the loan portfolios and eligible loan sizes of Fannie Mae and Freddie Mac and end the conservatorship of these companies, scaling back government support in a way that allows private capital to return without undermining the housing market recovery.

Begin a Dialogue on Social Security Solvency. The President considers Social Security to be one of our most successful programs, and indispensable to workers, people with disabilities, seniors, and survivors. The President has been clear that we need to strengthen Social Security to make sure that Social Security is sound and reliable for the American people, now and in the future. The Budget lays out the President's principles: Reform should strengthen the program and its protections for the most vulnerable, without putting at risk current retirees and people with disabilities, without slashing benefits for future generations, and without subjecting American's guaranteed retirement income to the whims of the stock market. The President believes that the best way forward is for leaders of both parties to come together to discuss the way forward on a bipartisan basis.

Social Security is not contributing to our deficit any time soon. Our goal is to make sure that current and future generations are assured that the system will remain sound for the long term as well—to provide the peace of mind that is one of the important benefits of insurance.

A WAY FORWARD

There has been a vibrant national conversation on fiscal responsibility over the past several months. The President's Fiscal Commission made important progress in launching a serious bipartisan discussion last year, and I commend them for resetting the debate on further deficit reduction. While the President has not embraced all of their proposals, many of them are included in this year's Budget. Federal employee pay freezes, medical malpractice reform, a call for government reorganization, and the elimination of in-school subsidies for graduate student loans are just a few examples. Our Terminations, Reductions, and Savings volume includes numerous proposals that were also recommended for termination or reduction by the Fiscal Commission. And like the Commission, we make proposals to improve budget discipline, including subjecting the Transportation Trust Fund to PAYGO rules and providing for program integrity cap adjustments. We must take serious steps to both cut spending and cut deficits. We must address these issues in a bipartisan way. And we must do so in a way that is consistent with our core values.

The Fiscal Commission was clear that that the only way to tackle our deficit is to cut excessive spending wherever we find it—in domestic spending, defense spending, health care spending, and spending through tax breaks and loopholes. Now that the worst of the recession is over, we have to confront the fact that our government spends more than it takes in. That is not sustainable and we need a comprehensive approach

The five year non-security freeze achieves significant savings with a dramatic reduction in discretionary spending over the coming decade, and it will require commitment from both the Administration and Congress to live within that framework. But we have to remember that this category of spending represents a little more than 12 percent of our Budget. To make further progress, we cannot pretend that cutting this kind of spending alone will be enough. Looking forward, we will have to make hard decisions to further reduce health care costs, including programs like Medicare and Medicaid, which are the single biggest contributor to our long-term deficit. Health insurance reform will slow these rising costs, which is part of why nonpartisan economists have said that repealing the health care law would add a quarter of a trillion dollars to our deficit. Still, we need to look at other ideas to bring down costs, and the proposals in this year's Budget are a first step. And we cannot afford a permanent extension of the tax cuts for the wealthiest two percent of Americans if we are committed to achieving a sustainable deficit.

This Budget builds on the work of the last two years, and makes a down payment on a strong American future. Much work remains to be done. We need to take steps to reduce our future liabilities. And we need to work to shape our government into one that is more affordable, more effective, and more efficient.

I look forward to working with both houses of Congress in the coming months as we work to put our fiscal path back on a sustainable course.

Chairman RYAN. Thank you. Mr. Lew, before I get into this, how long do we have you for? I understand you have to testify over in the Senate later this afternoon.

Mr. LEW. I believe we have until 12:30.

Chairman RYAN. But a little bit longer than that, since you were a little late, how does that sound?

Mr. LEW. I apologize for being late. I hadn't allowed for the new security rules.

Chairman RYAN. No, don't apologize. I am just trying to manage time so everybody gets a shot at their questions.

Mr. LEW. Actually, Mr. Chairman, the issue was, the gentleman in front of me in line had to take his shoes off as he went through the metal detector, and it took a few minutes.

Chairman RYAN. Okay. I am reading in the Washington Post today, an editorial board which is, you know, more often thought as favorable toward the administration's point of view, quote, the title of the editorial is, President Obama's Budget Kicks the Hard Choices Further Down the Road, quote, The President punted. Having been given the chance, the cover and the push by the Fiscal Commission he created to take bold steps to raise revenue and curb entitlement spending, President Obama, in his fiscal 2012 budget proposal, chose instead to duck. To duck, and to mask some of the ducking with the sort of budgetary gimmicks he once derided.

We just heard from the Congressional Budget Office director and the chairman of the Federal Reserve, one of the best things we can do for the economy today is put in place a plan that gets this deficit and debt under control. Why did you duck? If George Bush brought this budget to the House, I would say the exact same thing. You know the drivers of our debt, you understand the issues. I think the fact that the President even gave us this Fiscal Commission to start with acknowledged, we agree on the size and the scope and the nature of the problem. Why did you duck, why are you not taking this opportunity to lead?

Mr. LEW. Mr. Chairman, I think the President's budget, if you look at the bottom line, addresses the fiscal challenges that we face in the short and the medium-term, and he has called it a down-payment, acknowledging that we need to work together in the long-term. If you look at what the mandate of the Fiscal Commission was, it was to bring the deficit down to three percent of GDP by the middle of the decade. Our budget does that.

Surely there are things in our budget that we will have disagreements about. I know that we are going to have a serious debate about priorities. But the President's budget accomplishes the goal. And I think if you look at the budget, it does it with some very, very tough decisions. The spending reductions are very real, the revenue provisions are very real, and the mandatory savings are very real. There certainly are other things that we will need to work on together to address the long-term challenges, but if our goal is to get to a sustainable deficit by 2015, I think the President's budget puts down a comprehensive deficit reduction path.

Chairman RYAN. Okay, using your own table S-4 on page 176 of your budget, you don't get the primary balance in your own numbers until 2017, and then immediately thereafter you have more problems.

Mr. LEW. So, let us look at S-4. If you look at S-4, where it starts, the deficit is 10.9 percent of GDP. It comes down to 3.2 percent of GDP in 2015. We then stay between 2.9 and 3.2, 3.3, in that area around three percent of GDP for the rest of the decade, and if you had a series that went beyond, it would go on for years beyond that. I think it is a mistake to think of three percent of GDP as a bulls-eye. I think if you compare 10.9 percent to 3.2 or 3.1 or 3.0, it is a world of difference. And I think we achieved primary balance in this budget.

Chairman RYAN. So let us get into what is behind that primary balance, behind your claims of balance. And I can go through the tables. Am I correct that the budget proposes revenues that are $819 billion greater than your current policy baseline, and that within your policy baseline, you have an $807 billion, 10-year tax increase built into it, because it assumes the expiration of the 2001 and 2003 tax cuts for higher income earners, and assumes the estate tax reverts back to 2009 level? Am I correct that that is what your baseline assumes?

Mr. LEW. Mr. Chairman, our baseline assumes, consistent with where there was bipartisan agreement in December, that we would permanently extend the middle class tax cuts, and that we would have estate tax relief. We did not have long term agreement on the upper income rates, or on the richer estate tax relief.

Chairman RYAN. I just wanted to make sure we have an equal understanding.

Mr. LEW. Yeah. We tried to construct a baseline so that the difference would be clear.

Chairman RYAN. So, adding the additions in the baseline revenue increases, that is about $1.6 trillion in additional revenues from where we are today, correct?

Mr. LEW. Well, the upper-income tax cut is $709 billion, and the estate provision is $98, and then there is some debt service on top of that.

Chairman RYAN. Right, so 1.6, okay.

Mr. LEW. It is 953, actually, I believe.

Chairman RYAN. What about debt service?

Mr. LEW. It is 709 for the upper-income, 98 for the estate, and 147 in debt service.

Chairman RYAN. So, let me get to this because you have to go, and I have a lot of questions, and I am going to send you more. Your economic assumptions, which are how you achieve primary balance, which is how you achieve the claims you are making. I want to walk you through this and ask you why you make these economic assumptions.

You are expecting very robust growth in the coming years. Your forecast calls for real GDP growth well above four percent in 2013 and 2014, much, much higher than the private sector Blue Chip consensus or Congressional Budget Office, but I find it interesting that 2013 also marks the year where you are calling for a big rise in taxes across all segments of our economy. You basically are raising taxes on successful small businesses, on investment, as part of the expiration of the 2001-2003 tax cuts and the health care tax cuts. Specifically, there is a new 3.8 tax increase on investment. As of 2013, the top income tax rate will rise from its current level of 35 percent all the way to 44.8 percent. The tax on dividends could triple from its current level of 15 percent to 45.4 percent. And the tax on capital gains will rise from 15 percent to 23.8 percent.

But you are calling for robust economic growth in that very year. Do you think that the tax increases that you are planning on in 2013 on mostly successful small businesses in the investment community in America, on job creators; you think it is not going to impact the economy? You think that is the year when the economy takes off? Because if it doesn't, then you never reach primary balance, as you are claiming.

Mr. LEW. Mr. Chairman, there was, in December, an agreement that we should extend certain tax provisions for two years. And there are some provisions that do take effect, or go out of effect, because of that. I think if you look at our economic assumptions, the economic assumptions in the short-term are actually a little bit more pessimistic than some of the outside observers. In the long-term they are a little bit more optimistic, and it is driven by one key difference, which is an important conceptual difference. The question is will we recover from this recession the way we have recovered from past recessions?

If you look historically, financially-led recessions have had slightly longer periods of recovery, but in the end we get back to where the economy would have been. We assume that that is the case. We are within the range of recoveries from past financially-led recessions, and we think that they are very prudent, reasonable assumptions. Undoubtedly, and I apologize I am a lawyer not an economist, so I could get into a level of detail here which is probably beyond my own training. But economists can disagree about what year it would happen and they can disagree about whether or not we will get back to what was the potential GDP before. We think it is the right thing to do, to get our economy back. That is one of the reasons we have put forward a budget that invests in the things that it takes to keep growing the economy; and we think that education, innovation, and infrastructure are key to it.

Chairman RYAN. Here is what does not add up to me; you are saying, in 2013, you are going to have economic growth 1.3 percent higher than what the Congressional Budget Office believes, 1.4 percentage points higher than what the Blue Chip believes, and you are claiming this explosion of growth in a year where you are raising taxes across the board on entrepreneurs, small businesses, investors, investment.

History doesn't square with your comments. And if we are right and you are wrong about this, then you will never reach primary balance. The $1.7 trillion you are claiming in extra revenue because of the higher economic growth, you are claiming above and beyond what the Congressional Budget Office claims, doesn't materialize then, and we are in a world of trouble.

And I will just finish with this. What is so frustrating about this is, you know the drivers of our debt are the entitlement programs. And yet, you are doing nothing to address that. We are in different parties; that is fine. But when people elect a President, they expect a President to lead, to take on the country's biggest challenges before they become actual crises. And we all know that this debt is becoming a crisis. And you are not even touching these programs. You are assuming the economy is going to take off in a year in which you are raising taxes everywhere, all over the economy. And if your math doesn't add up, then we are all in a world of hurt, and this will cost us jobs.

Mr. LEW. Mr. Chairman, if you look at tax provisions, the vast majority of the revenues that you are talking about are associated with the tax rate at the top end; the tax rates for people who earn $250,000 a year or more. I would just note that, during the last administration I served, and during the Clinton Administration, at those tax rates we had the longest period of uninterrupted growth in American history. So they are not tax rates that have been historically challenging to growth. If you look inside our budget, where there are new proposals, we have a lot of tax cut proposals that are designed to promote the kinds of investment that we need in this country. And we, net, have $360 billion of new revenue. So it doesn't amount to a large amount in 2013.

Chairman RYAN. Yeah. I don't know where you are from, but where I come from, most of our jobs come from successful small businesses. In Wisconsin, you drive to any city, and there is going to be an industrial park with a Sub-S, a LLC with 100, maybe 200, 300 employees. They file taxes as individuals. Most of the top tax rate is actually small businesses. And when we are taxing our small businesses at rates above 50 percent in most states, like Wisconsin, 44.8 percent in this country, where most of our competitors are taxing their businesses at rates lower than we are, how do we expect to win global competition? How do we expect to create jobs when we are taxing the engine of economic growth and job creation, small businesses, at rates in excess of 50 percent in most states?

Mr. LEW. I think that if we look at who are the taxpayers in that class, at $250,000 or above, and where the revenue goes. I am from New York, a lot of it goes to finance and a lot of it goes to law. And I think that it is not the case that the top rate is something that is principally a small business issue. I think that we have a lot of tax proposals that would make taxes easier for small businesses. The right way to target small business is to make sure that we do the things that are targeted to investment, and not to the kinds of income that drives people into that top bracket, in the most cases.

Chairman RYAN. All right. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. Director Lew, as I indicated in my opening statement, I think it is an important achievement that in this budget you reach primary balance by the year 2017 and begin to stabilize the problem. But I also indicated that I think we all need to work together, especially to take actions, now, to deal with what are going to be projected deficits in the next 20 years, and I think that conversation should begin now.

But I do want to point out that this is not easy to do when you have dug yourself as a country in a deep hole, digging itself out, that there are other alternatives out there. And the Chairman of the Committee has put forward an alternative road map, in good faith, in a sincere effort to reduce the deficit. So it is in that spirit that I just want to point out that when the Congressional Budget Office, last January, scored that budget proposal, that deficit proposal, that they indicated that in the year 2020, the deficit would be 3.7 percent of GDP. And that the budget would not be in primary balance under that plan, as of that day. And that, in fact, if you go out another 20 years, until 2040, the deficit in percent of GDP is 4.5 percent, and the budget is just then getting into primary balance.

And I point that out, Mr. Chairman, to show you how hard it is. As some criticize the President's effort, just recognize that other sincere efforts that were made actually brought the deficit into primary balance later than the President's budget. And there are going to be conversations about different assumptions, but my point is, these deficit numbers were the result of a good faith effort, and I think the President has made a good faith effort. We do all need to get together.

Now I want to discuss the longer-term outlook. I want to discuss what is happening today on the floor as it draws contrast with the approach that the Obama Administration is taken with respect to the deficit. As you indicated, you are talking about significant cuts in domestic discretionary spending. As you know from listening to many of my colleagues, these are going to have a real impact, and a painful impact on many people's lives. But you have decided that, in order to get deficit under control, we are going to have to make these tough decisions, and we agree.

At the same time, today on the floor, there are proposals to cut immediately and deeply. I just want to read to you a statement from the President's Bipartisan Deficit Commission, that we are hearing lots of positive things about, from our colleagues, about their recommendations and approach. Here is what they said, and I quote, In order to avoid shocking the fragile economy, the commission recommends waiting until 2012 to begin enacting programmatic spending cuts.

Another bipartisan commission, the Rivlin-Domenici Commission, rendered the same advice. Mark Zandi and other economists have indicated that deep, immediate cuts, in contrast to responsible and planned cuts over a period of time, those deep, immediate cuts, could harm the fragile economy, and hurt job growth. If you could please comment on the proposals today, for very deep and very immediate cuts and the impact they would have on the economy and job growth, in your opinion.

Mr. LEW. Mr. Van Hollen, I think we have a tough balance that we have to strike. We agree that it would be a mistake to do drastic deficit reduction in this year that we are in, beginning in next year. We had bipartisan agreement in December on the tax bill, largely because of the concern that we needed to keep the economy moving, that we couldn't afford the drag that a tax increase in January would have had. At the same time, we need to focus on reducing spending, we need to focus on making decisions that will turn the corner on the deficit, and we can't really wait years to do that.

I think our budget has a frame that we think is the right frame for making the tough trade-offs. And we are going to have to work, as we go through the remainder of the legislation for fiscal year 2011, and then as we work together on next year, to come up with the right balance. I think it is important that we have the right balance. You don't need to make the kinds of cuts that you are describing in order to get on the right path, but you do need to tighten the belt, which is what our budget is saying.

And we are watching carefully as the House continues work. We will be working with the House and the Senate, and then ultimately together, to do the responsible thing and fund the government. But I think it is a question of not mixing too many things together. The long-term challenge is what we have got to keep our eye on. When I say long-term, in this window of the next 10 years, we have got to look to the middle of the decade. And are we on a path towards getting down to a deficit where we stop adding to the debt? That is what we have tried to do with the budget.

Mr. VAN HOLLEN. Some of our Republican colleagues have indicated that, if they don't get their way, in terms of these very deep and immediate cuts that could harm the economy, that if they don't get their way on those cuts, that they would shut down the government. Now, we have seen this movie before, I know you have. If you could just make clear what some of the impacts of that would be on things like the Social Security Administration and other essential functions of government.

Mr. LEW. Well, I take the Congressional leadership at their word, that we all want to avoid a situation like that. It is not the right way to run the government, and I think we have a broad agreement that we have to keep essential services going. When the government shut down in the mid-1990s, it was very unpleasant. It was unpleasant when people needed to apply for passports because a relative was ill or passed away overseas, and they couldn't get a passport. People started to appreciate things that they just took for granted, but when the government shut down, they stopped.

I hope we don't get to the point where we have to go through that again. And I think if we all work together in a bipartisan way to look for the things we can agree on, and take some of the things that we can't agree on, and put them off to the side, we can accomplish a great deal.

Chairman RYAN. Thank you, Mr. Van Hollen. I will just simply say for the record, it is not our desire to see the government shut down, but equally we don't want to rubber-stamp these elevated spending levels. We want to see a beginning of a down-payment on spending reductions. With that, Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman, and I would just reiterate what you just said. It is nobody's desire to shut down the government; what we want to do is reduce spending. And that is what we are trying to do with the budget that we are bringing to the floor. Everybody talks about draconian cuts. You have got to remember, this is on top of enormous increases that have occurred over the last couple of years, so it is not as draconian as a lot of people would like. But I appreciate your testimony; I appreciate your hard work on this budget. I know it is hard to put together a budget, even if it is one that most people, I want to say this respectfully, but most people don't take seriously.

Most people don't think this is ever going to be enacted. All the right words are used. I think the Ranking Member said, this is a tough-love budget. If this was the tough-love that my father had shown me when I was young, I would still be a juvenile delinquent. Some people think I still am; I understand that.

I have heard that we have to make tough choices; they are going to be necessary. We have to live within our means. Let me ask you, this budget, theoretically, goes to balance in, what, 16 years?

Mr. LEW. Well, it is going to take a long time to go to balance, we first have to stabilize the debt.

Mr. SIMPSON. Is there ever a balance projected out there?

Mr. LEW. To get to balance will require a set of decisions that are beyond what anyone is discussing right now.

Mr. SIMPSON. Why is no one discussing that?

Mr. LEW. Well, I will tell you the last time I testified before this committee, I presented a balanced budget with a surplus. I understand what it takes to get to a balanced budget. We have gone through 10 years of a combination of things that have driven the deficit up. We have had an economic crisis, but we also had decisions to not pay for what we were doing. We now have to deal with the results of that, and it is not going to be a quick process. I know that I left things in pretty good shape 10 years ago, and I look forward to leaving things in better shape when I am done this time.

Mr. SIMPSON. I do not deny that you did. We have a tendency in this committee to sit and look back at certain indicators that prove our point of view. All of those don't really matter. What matters is where we are today, and where we are going to be in the future. And what the American people are saying is, get your fiscal house in order. I don't see this getting our fiscal house in order. I have noticed that everybody says, Well we are going to have $400 billion in cuts and savings in this budget, like that is some big deal. Four-hundred billion dollars, yeah it is a lot of money, that is over 10 years, right?

Mr. LEW. Yes.

Mr. SIMPSON. That is like $40 billion a year. The budget this year's proposal is $3.73 trillion? Forty billion in savings? Less than one percent, or around one percent in savings? This is not tough-love. This is continuing the path we are currently on with no future balanced budget ever, in this proposal, and the American people are rejecting it, frankly.

Mr. LEW. Congressman, let me just say a couple things. First, we have put what we believe to be a very serious proposal, it is comprehensive, forward. We don't think we have a monopoly on all knowledge and wisdom; we look forward to seeing the ideas that are put forward. And when you put forward a budget that reduces the deficit, I am sure there will be things in it that we can agree on, there will be things that we can't agree on. This is the first step in the process. I know that it is easy for pundits on the outside to dismiss the starting point, but the President's budget is the starting point. It is a frame, it is a comprehensive frame. And I think that it does achieve something very important, which is it stabilizes the deficit at three percent of GDP by the middle of the decade, and while I totally agree that we need to be on a path that goes beyond that, and I wish we were on a path where we could, together, talk about balance. Until we stop adding to the national debt, we can't talk about getting to balance, and this budget would get you there.

We won't agree on all the details. And I know that some of the actions that have been taken in this House do cut spending. I haven't seen the actions yet that reduce the deficit. And I look forward to that. I know that it is the beginning of the process, and we will work together when we see your proposals.

Mr. SIMPSON. Well we all understand that you are not going to get to balance by simply cutting spending. The spending is a portion of how you get there. You also have to look at the entitlement programs which this budget totally left out, in terms of reform of the entitlement programs. And everyone, I think the American people understand, that we have to address entitlement reform, and leadership has to come from the White House to do that, quite frankly.

Mr. LEW. Congressman, we agree that we need to reduce spending. I think if you look in this budget, this is possibly the toughest budget that certainly a Democratic President has ever put forward, cutting things that are very, very important priorities, things that many of us have worked for decades to grow. We have said we have got to tighten our belt; we have got to do what every American family does and make the tough choices. So I think there are real tough choices in this budget. I don't think that it is fair to say that we haven't dealt with entitlements. We certainly haven't dealt completely with entitlements, but $62 billion of savings to pay for Medicare in the next two years is something. It is real, it is a first step, it is a down-payment.

I think that if we are going to work together on entitlements, we also have to acknowledge that Social Security is not driving the deficit between now and 2021. You know, I worked on Social Security Reform. In 1983 I was working on the reform bill. So I deeply, deeply believe that we have an obligation to current workers, to future retirees, to current retirees, to have a system that is sound and reliable for decades and decades to come. But it is not contributing to the short-term deficit. We should do it because it is the right thing to do.

Mr. SIMPSON. Right. Appreciate it, thank you.

Chairman RYAN. Ms. Schwartz.

Ms. SCHWARTZ. Thank you very much. Good to have you here and thank you for your good work on this first budget that you are presenting. And I appreciate, and it was more in your written remarks than what you said here, but you reference, you did reference how we got here. And I don't want to dwell on this, but I appreciate the fact that you laid out very, very clearly that the national debt and the economic crisis that the President inherited. And the work that the President and the Democratic Congress did in the last two years to bring us out of what was obviously a really deep, really broad, and in many cases, devastating recession for this country. But being clear that the President inherited a $10 trillion debt; this didn't all happen in the last two years. And of course, the recession actually meant that there were few people paying taxes, too; so this reduced our revenues.

The President's budget really does, I believe, make very clear that we can't accept the status quo; that where we have gotten to is a better place. We are beginning to see a growth in the economy, beginning to see some growth in jobs, which is good, and we just can't sit on our hands. Nor do I think that we, and I think you have rejected this, the notion that we can get to a place where we can balance the budget and grow the economy simply by spending cuts. My Republican colleague did acknowledge that, and I appreciate that, because that is their proposal right now. The only thing we can do is spending cuts, and actually tax cuts, but that alone is not going to get us there. And that is what is being presented by the Republican majority.

But I also will agree, those made by the Republican side, that budgets are about priorities and values, and I think this is something that the President has made very clear: that we cannot only focus on deficit reduction. We need to reduce the deficit, but if we are going to grow the economy, put people back to work, then we have to invest in the future. And that is what I wanted to ask you about. I wanted to acknowledge, of course, that the budget does reduce the deficit by $1.1 trillion, and that is real money for most of us. And it is not easy to get there. And it brings fiscal stability to the nation in 2017, primary balance, again none of this is easy.

But the budget also does make strategic investments in the future. For many of us in our districts across the country, if we are going to see growth in this economy, the focus on energy, on innovation, on education, on infrastructure, is important. And every business I talk to says to me, We need, we look at, we locate, do we have incentives for innovation? Do we have the kind of infrastructure that allows us to move our products and our workforce? Is there an educated workforce? They ask about taxes, too. But they want to know, and it starts with, where is the infrastructure? Where are the advantages for innovation?

And so, I think we need to talk about that. Because otherwise we are really just looking at a slash-and-burn, willy-nilly, let us just cut spending right now. And again, the Budget Deficit Commission said, not a good idea in a fragile economy. So I would like you to elaborate a bit on the tax credits that are available to businesses to incentivize research and development, key to our growth. Because it is the private sector in this country that does create the new discoveries, the new technologies, the new products. But they often look to us for that helping hand.

Mr. LEW. Thank you. I think that, if you were to ask most businesses that are in the high technology area, what is the single thing we could do that would give them stability looking forward, it would be to make permanent the R&D Tax Credit. The uncertainty from year to year is a very difficult way to do business. And while, in Washington, there is a kind of conventional wisdom that we know it will be extended because it has to be extended, if you are a business person trying to make a decision, trying to go get financing, trying to get investors, having that ambiguity out there can be life or death as far as your business is concerned. So I think, putting in our budget a permanent extension in the context of a fiscal policy that pays for it, is very important.

I think it is also important to remember that there is a role for government-funded programs and tax support in R&D. Basic research in this country has really been very much enhanced by what we do at the National Institutes of Health, what we do in the National Science Foundation, what we do in the Department of Energy, and what has made us the leaders in innovation is that the technology that is discovered in places where, frankly, the risk should be shared by all of us, it is then handed off to a private sector that has the capacity to implement it more effectively than any other in the world. And we have tried to balance that.

Chairman RYAN. I hate to cut you off, but I just want to make sure that every member gets a chance, and it is way over the five minute limit.

Ms. SCHWARTZ. I appreciate your comments; we will keep working together on that. Thank you.

Chairman RYAN. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman, and welcome, Director Lew.

Mr. LEW. Thank you.

Mr. CAMPBELL. In your budget, you propose to increase federal civilian employment outside of the Department of Defense by 22,400 people in the coming fiscal year, 2012. Seriously, you want to increase the number of federal employees now?

Mr. LEW. Well, we have an awful lot of agencies that are going down. The increases are very much concentrated in areas where there are new missions, and they are missions that, I think, are shared concerns. If we put in place new screening procedures at our airports, and we put in the machinery so that we can make sure that no one gets on an airplane with an explosive. We also need to have the inspectors there, who run the machines, who know what is in them. I think if you go through the increases, they are very heavily in areas where there are new missions that we are undertaking, and I am happy to get back to you after and go through some of them.

Mr. CAMPBELL. Okay, so you do propose to increase by 22,000?

Mr. LEW. No, in general, if you look through the budget, there are a lot of agencies that go down, so we don't have a general approach.

Mr. CAMPBELL. Twenty-two thousand, four-hundred is the net increase outside of defense. Another question, Your predecessor, Dr. Orszag, before this committee on several occasions, said that the current fiscal trajectory of the country was unsustainable. Do you share that view?

Mr. LEW. I think this budget stands for the principle that we have to get our fiscal house in order, and that we have to take seriously stopping the practice of treating deficits like they don't matter. And we have put a plan forward that would get us to primary balance by the middle of the decade. That was the challenge that he was describing ahead of us at the time.

Mr. CAMPBELL. Absent this budget, you agree that the current trajectory is unsustainable?

Mr. LEW. If you look at what is driving the deficit down, part of it is getting the economy moving again.

Mr. CAMPBELL. Director Lew, I understand you are a lawyer, but is it unsustainable? That word is used by a lot of people.

Mr. LEW. I was going to answer your question; I just need to break it into the pieces in order to answer your question. We need to keep the economy growing in order to not have an unsustainable deficit, because the kind of financial crisis we are in, the recession, creates enormous problems in our fiscal policy. We have got policies in place to do that, but then we can't stay at deficits that are five percent of GDP, which is roughly where we would be if we didn't make policy. We need to make policy to bring it down so we can get to primary balance. We have done that, and I do think that that is what we have to do to have a sustainable fiscal policy.

Mr. CAMPBELL. So is this budget sustainable? Does it solve the problem?

Mr. LEW. Those are two different issues. Sustainable is a step along the way; I think the problem is bigger than that. I think that, you know, I preferred sitting in this seat when I could project surpluses in healthy economic times. We are a long way from being able to do that on either side of the aisle. We are going to need to work together to get to the point where we stop adding to the problem, and then we are going to need to work together to solve the rest of it.

Mr. CAMPBELL. Earlier I believe you did use the word sustainable with this budget. So do you believe that if we did this budget, it was enacted for the next 10 years exactly as it is on this paper, that we would move along fine, we don't have a debt problem, we don't have a problem?

Mr. LEW. No, I think this budget produces a deficit that is sustainable for a period of time so that we can then work together. It is a down payment, and then we need to work together.

Mr. CAMPBELL. Afterwards the deficit goes up, after the 10 years of this budget.

Mr. LEW. It starts to creep up, but as you get 20 years out it starts to be a problem again. There is more work ahead of us. I totally agree with the notion that we cannot just look at the next five or ten years, but I am saying we have to start by looking at the next five or 10 years.

Mr. CAMPBELL. So we do have to deal with the entitlement programs?

Mr. LEW. The President said in the State of the Union, and in his budget, that we have to look to the short-term and the long-term. We need to work together on that.

Mr. CAMPBELL. Why not propose something now?

Mr. LEW. Well, this budget proposes a great deal to get us to primary balance. It gets us to a place that is sustainable. And it extends the offer, as the President did in the State of the Union, to work together. We have tried to leave options on the table, we have tried to create an environment where we will be able to work on things that have historically been challenging, and I think we need to do both.

Chairman RYAN. Mr. Doggett.

Mr. DOGGETT. Thank you very much, Mr. Chairman, and thank you for your service. And I want to draw attention to the last time you came before this committee, because it was an unusual time in which you did not just talk about a balanced budget, but as you made reference in an earlier comment, you, working with President Clinton and this Congress, produced a balanced budget, something that no Republican President, before or after, has done in decades. And the unfortunate thing is, having produced that balanced budget, our Republican colleagues in the Bush-Cheney administration, when they took over, instead of building on that success, squandered on that success. They never met a tax break they didn't like, they believed in the alchemy that every expert who came here, Republican and Democrat alike, told them that those tax breaks wouldn't pay for themselves, they abandoned pay-as-you-go government, they, in addition to all the tax breaks that they advanced, they advanced one increase in spending after another, increasing government spending at an incredible rate, but not wanting to pay for it.

And so after eight years of running our debt up and our economy down, they are complaining today that you haven't solved all the problems that they created in eight years fast enough. And I think that is basically the circumstance in which we find ourselves. With reference specifically to this question you were just asked about the 22,000 increase in government employees, isn't a large part of that related to the honesty that this administration brings to federal employment, that you can contract out and create the appearance that you are reducing the size of the government, but many of these contracting out experiments of the last eight years just ended up costing tax payers more and producing less?

Mr. LEW. That is part of it. And the other kinds of examples that I have used explain the other part of it. We also have a very, very large work force, and this is a very small percentage of the total.

Mr. DOGGETT. And then I want to ask you about one type of entitlement spending that I am encouraged to see, and I want to explore with you a minute about it, that the administration again seems to be focusing on for the first time, something prior administrations have not done; and that is the whole area of tax expenditures, because they really do amount to entitlements since they are entirely out of the budget process. You have, for the first time since 1993, of any President, revised that section of your budget, and it would appear that tax expenditures, which now rival direct discretionary expenditures, will receive some type of thorough evaluation by the administration, and I just ask you first to comment generally about what you see going forward, and whether perhaps we will eventually have a tax expenditure budget to allow a more thorough comparison of the tax expenditures and the direct expenditures?

Mr. LEW. Congressman Doggett, the issue of tax expenditures is a very important one. If you look at the work the Fiscal Commission did, one of the places where I think they made a real contribution was in having a conversation about spending on both the revenue and direct spending side. If you look at the President's budget, the proposal that I described as the way we pay for the alternative minimum tax extension is a prime example of how we begin to get that spending on the tax side. It says that we have a host of provisions in the tax code that are of more value as you get into a higher and higher tax bracket, and that we should limit it so that someone who has a family at 250,000 and above gets the same value as people at 250,000 and below. It doesn't take the deduction away, it starts to trim the value of it. We think that is a measured way to start getting at this issue of spending in the tax code. And we think it is something that ought to be the basis for being able to begin a serious conversation.

Mr. DOGGETT. Have you envisioned, during the coming year, a thorough and careful evaluation of these tax expenditures, and implementing what you say in your budget appendix?

Mr. LEW. The President has proposed in his State of the Union and the budget that we begin to work together on corporate tax reform and that we have a general bipartisan consensus.

Mr. DOGGETT. Just on that point specifically, I am very pleased that the President, in his State of the Union, and Secretary Geithner indicated that must be revenue neutral. I think it actually ought to be revenue increasing to help deal with this problem, but that is a non-negotiable position in the administration. We are not going to see us borrow from the Chinese in order to give tax cuts to corporations, are we?

Mr. LEW. So the principle the President set forth was that we should broaden the base, lower the rates, so we can be more competitive, and it is really, principally, a way to drive our international competitiveness. That is going to be challenging because once we have all agreed on that broad principle, broadening the base means that you take away special interest tax provisions.

Chairman RYAN. Thanks. Mr. Calvert.

Mr. CALVERT. Thank you, Mr. Chairman. I just want make a point; my friends on the other side of the aisle took over the Congress in 2007, and that is when you see significant spending increases, and as I understand it, Congress does have something to do with spending around here. And that is certainly a big part of it. I want to thank our guest for coming out today, I understand the traffic was bad, I saw it out there, it was pretty difficult. A couple of things you pointed out to drive people to investment. I am a small businessman, was a small businessman; how do you drive people to investment if you have significant increases down the road in capital gains rate?

Mr. LEW. I think that the responsibility that we have, first and foremost, is to keep a healthy, growing economy where there is demand and there is business activity out there. So I think that, going to our big frame, the most important thing we can do to promote investment is to be responsible in the way we conduct our fiscal policy. Within that, we have made the kinds of choices that we think are where the government can really be helpful in terms of driving the economy of the future. When you talk to business leaders, in my job I fairly frequently talk to business leaders, I hear over and over again where they have problems right now is hiring people with the right skills, engineering skills, technical skills. By producing the workforce that our businesses need, we are helping to promote business in this country.

Mr. CALVERT. Reclaiming my time, I find it difficult to believe that—the folks that I did business with—finding capital gains rates going up significantly is going to make it easier for them to do business. But I have another question I want to ask. My other job—I am on the Defense Appropriation Committee—and I wanted to understand this new account that you have to cover the diplomatic and development costs of the U.S. involvement in Iraq, and Afghanistan, and Pakistan. As you know, in past years that was handled in the regular base-budget. And I want to know what standards were used to determine what costs were appropriate for inclusion in this account, and can you send us a written guidance for the account for the record?

Mr. LEW. I am happy to get back for the record, but I can give you a brief answer if you would like. The funding for military operations overseas are funded through what are called overseas contingency operations funding. It has not historically been an issue for the civilian side, but with things like the withdrawal of troops in Iraq, and the build-up of a civilian mission that is quite labor-intensive, security-intensive, it creates the same challenges that the military does. The simple rule that was used in putting it together was, to the extent that we have activities that wouldn't carry on once we normalize our diplomatic footprint, those should be handled in the base. To the extent that we have activities that are more like the military surge, they should be in the overseas account.

Mr. CALVERT. I would like to have that. Also, the budget request, $117 plus billion for Department of Defense's account for conduct of the war in Iraq and Afghanistan; and that is obviously dependent on U.S. troop level in Iraq and Afghanistan, and as you understand, under the SOFA agreement, the Status of Forces Agreement, we are reducing the force in Iraq at the end of this calendar year, and Afghanistan has announced policy to a troop withdrawal in July, 2011, though the size of that withdrawal is still yet to be determined. On your assumption, what troop level are you assuming for Afghanistan and Iraq in this funding request?

Mr. LEW. In Iraq we have a clearly stated policy to withdraw our troops on schedule, and the funding levels reflect that policy. In Afghanistan, our policy is that we will begin to withdraw troops. We have not used the budget as the place to project specific numbers. That will have to be worked through by the national security team.

Mr. CALVERT. Okay, yet to be determined. Last question, you expect an additional war supplemental to be asked for here in the short term?

Mr. LEW. We have requested funds that we know to be needed for the coming fiscal year. We have not yet seen what the appropriations are for fiscal year 2011, and we obviously don't know what the appropriations will be for fiscal 2012, so I can't give you a guarantee, not knowing what will be appropriated, but I know we have estimated, to the best of our ability, what the costs will be.

Mr. CALVERT. Thank you, Mr. Chairman.

Chairman RYAN. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chairman. Mr. Lew, thank you for being here today. Now, we have three challenges facing us and they need to be all addressed simultaneously. We need to reduce the deficit, at the same time we need to grow the economy, and create jobs that will keep America competitive. Now, as far as I am concerned, the best way to reduce the deficit is to get American back to work. But we have tough choices to make. The big difference between making sound investments and smart cuts, as President Obama has proposed, or the path that our Tea Party Republican colleagues are taking on the fiscal year 2011 budget with ideology, mean-spirited, or just plain dumb, cuts. Now, Mr. Lew, over the past years, Congress has provided tax breaks, tax cuts, tax loopholes, and special tax perks, estimated to reduce revenues by more than $1 trillion. In December's legislation to extend the Bush tax cuts, some of the beneficiaries of these tax break earmarks were NASCAR racetrack owners, Caribbean rum manufacturers, at the cost of hundreds of millions of dollars in foregone revenues.

The last point I would like to make before I ask you three questions is: The discretionary defense spending over the next five years will approach $3 trillion, not including the cost of the wars in Iraq and Afghanistan. Yet this budget proposes only a $78 billion reduction in defense spending, which is nothing more than a rounding error. Now, I know Congress is part of the problem. Despite the Pentagon's objections, I am aware the Republicans have included an alternative engine for the F-35 Joint Strike Fighter and the F-11 CR at the cost of $45 million. Now, this is a total waste of taxpayer dollars, and an example of Congressional pork, and it should be eliminated.

So, Mr. Lew my questions are; the defense discretionary spending is dwarfing all other domestic investments, keeping our community safe, and strong, and prospering. Where can greater defense spending reductions take place over the next decade? Can you also elaborate on the administration's plan to close tax loopholes, and end special tax perks, and cut off the special interest tax giveaways that are adding hundreds of billions of dollars to the deficit. And then, if you have time, could you explain more on some of the President's ideas on how to grow this economy and create jobs?

Mr. LEW. Thank you, Congresswoman McCollum. Let me start on Department of Defense. We, I think, share on a bipartisan basis the belief that we have a core responsibility to provide for national defense. Over the last 10 years, the spending on defense has been considerably above inflation, and it wasn't subject to the same kind of rigor that other things were, and we were also going through extraordinary times.

This is not a judgment being made about the past, but as we look to the future, this budget says that we have to start pulling back, but not pulling back in a way that sacrifices our national security. The policy in this budget says that the Department of Defense will tamp down its increases so that it will have no real growth in the five-year window. That is $78 billion of savings compared to their five year plan for the last year's budget. We think that is a very important step.

It is an important step which requires tough choices. It means you can't afford the second engine that you don't need for the Joint Strike Fighter, it means you can't afford the Marine Expeditionary Vehicle. There are tough decisions that have to be made, and I think we have a Secretary of Defense and a leadership in our military, that is prepared to make the tough choices, and we look forward to working with Congress. But they are hard—it means that there are things that are made now that won't be made in the future, and that is what it is going to take to start getting our defense budget under control.

On the question of closing loopholes, the President's budget includes a number of specific proposals, I mentioned the oil, gas, and coal provisions in my opening remarks, but we also have provisions that would take away the tax benefits that come to companies that export jobs, and we think that it is important to have policies in our tax code be designed to reflect what we need to do in our economy. So, in our economy, for the future, we need to develop the new renewable energy technology industry. That is going to create jobs in the future. I am kind of getting to your third question by answering the second within the five minutes. Ware going to build the new economy in renewables and in clean energy, and that is where we need to put our investment. So if you look at the withdrawal of a special provision for oil, gas, and coal, and the investment in new technologies, it kind of tells a story about how we think you invest in the future.

Chairman RYAN. Mr. Akin.

Mr. AKIN. Thank you, Mr. Chairman. Just a couple of thoughts. Years ago, I was taught what was called the Harvard Case Study Approach to solving problems, and it was taught in business schools, and the idea was that you are given this complicated situation, and you could see all sorts of things that would be a good thing to do, and you got this-this-and-this, you have all these good ideas, but part of the discipline was, pick the number one thing. What is the very first and essential element that you have got to deal with? And that was frequently the situation then that would determine whether a company was going to succeed or fail.

As I take a look at many of the things we have discussed even here this morning, and that you are dealing with in the budget, we are dealing with, to some degree, some peripheral things, but it seems like there has been pretty good emphasis that the elephant in the room is the tremendous growth of entitlements. I just heard references to the fact that maybe the defense budget is really the bugaboo here.

But if you take a look at defense as a percent of GDP, going back to maybe 67 or so, you are looking at close to nine percent of GDP being spent on defense, it is now dropped to four-something. And one of the few people on this committee sitting on armed services; we talk about, Well, we are going to cut this Expeditionary Fighting Vehicle for the Marines. The only problem is, if you really believe in Marines, you have got to get them from the ocean to the shore. So, I am not so sure that you have already cut the percent of GDP for defense not quite in half, and in the meantime entitlements have gone from about 2.5 percent, if you go beyond Medicare, Medicaid, Social Security, to the other entitlements, you are well up at whatever it is, 12 percent. And you put entitlement and debt service together, and all of a sudden, voila, that is what our revenue is.

So it seems to me that the elephant in the room is the entitlements, and courageous leadership is going to acknowledge that fact and say, Okay, now let us have the conversation, and talk about what we are going to do with those. Because all of us know we are talking about some heavy cuts in discretionary, but that is just the tip of the iceberg. So I guess it is disappointing not to say, Hey, let us at least make this the main subject the main subject. The second thing that I don't quite understand is the idea that we are somehow going to shock the fragile recovery by cutting discretionary income. I guess that is assuming that that discretionary income, by spending all that money, it helps the economy. If you could enlighten me on that line of reasoning, because I don't understand that.

Mr. LEW. Thank you, Congressman. I have a soft-spot for those business school case studies; I paid my way through college by working on producing those case studies, so they have played an important part in my life. The first thing I would do, looking at a university class on how do you solve the problem, is say, Where do we need to be on the bottom line? And bottom line is we need to have a three percent of GDP deficit in order to say we are not adding to the debt. Then I would ask, What are you doing to get there? And we have put forward a plan that gets there. And then, I would say, you separate the question of what do you need to do for the long term. And that is exactly what we have done in this budget.

So, I think we are dealing with the short-term and the medium-term, we are saying in a very direct way that we need to work together on the long-term, and we are trying to leave as much open for discussion so there is an environment where we can actually reach agreement. The easiest thing to do is kind of polarize the environment. We are deliberately leaving room for that conversation.

Mr. AKIN. Let me just jump in. In order to come up with the numbers that you have come up with, some of the assumptions strike me as being a little odd. For instance, some of my Democrat colleagues have talked about how, when President Bush took office, everything was rosy and perfect, but I recall there was quite a recession going in 2000, 2001. I do remember the numbers in May, 2003 we did three unpopular tax cuts, capital gains, dividends, and death tax. They weren't popular because we were tarred-and-feathered as sticking up for the rich guy. But the trouble was it was those rich guys that owned the businesses that hired people. And if you destroy the businesses by overtaxing the owners of small business, then you don't have any jobs.

So, I took a look at those numbers after capital gains, dividends, and death tax, and what we saw was that first of all the GDP jumped, and it had the kind of growth that you want to make the budget numbers work, but we did it by cutting those taxes on the small business and the investors. We also saw that the employment turned right around. We went from un-employing a lot of people to jobs being created. And last of all, according to just what Laffer predicted, the government revenues actually jumped up when we cut the taxes, because of the fact that the economy got back going. So I don't understand how you make it work with growth and still raising taxes.

Mr. LEW. I would love to respond but I suspect from the tapping I don't have time.

Chairman RYAN. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. Thank you for your service.

Mr. LEW. Thank you, Congressman.

Mr. PASCRELL. I find it remarkable, and I say this with fondness, Mr. Chairman, I am glad you smiled. I say this with fondness. You have become an existential party. You have amnesia about how the past and how we got to this place, and you don't want us to invest in the future. We are stuck with the here and now. I don't think we are stuck. I think this is a pretty credible blueprint. And it is not going to be like this when we finish, but it is a credible blueprint to begin with. There is a simple juxtaposition going on here. The President's budget, correct me if I am wrong Mr. Lew, the President's budget achieves substantial deficit reductions, and achieves a sustainable debt of three percent of the GDP by 2015. Is that correct, or incorrect?

Mr. LEW. I would only correct you that it is the deficit.

Mr. PASCRELL. I am sorry. A sustainable deficit; that is what I meant to say. Second question is, isn't it true that in this President's budget, there is $5 billion in small business tax cuts for 2012, and if you add up the 10 years there is $116 billion in real tax cuts for small businesses. Is that correct?

Mr. LEW. There are substantial incentives for small business. They do add up to a number like that. I don't have the exact number in front of me. I assume you have the correct number.

Mr. PASCRELL. Okay. Here is my second question then, some of my colleagues, who I admire, and respect, and that is nothing to smile about, I mean it. I don't have to agree with them, right? Some of my colleagues criticized the President's budget that it does not cut entitlement programs like Medicare. In fact, Mr. Chairman and I went outside for water, and the President was providing us with his address at 11 a.m. about the budget, and that was his first question. Why didn't you show leadership,—I think those were your words yesterday—Why didn't you show leadership in going after Medicare and Social Security?

We know Social Security has very little to do with the deficit. We would agree with that, correct? I personally believe we can balance the deficit without cutting Medicare for seniors. That is my own personal belief. You could do other things. However, is it not true, Mr. Lew, that federal health care reform adopted many recommendations from Congress own independent advisory commission, the Medicare Payment Advisory Commission, we established that, did we not?

Mr. LEW. Correct.

Mr. PASCRELL. And that by having a Medicare Center for Innovation, Medicare now can test and use new payment models. We fought to have that in there for a very specific reason, to not only improve patient care, but lower our national spending on health care. Would you just respond to that, please?

Mr. LEW. Congressman, I think there are many, many things that we have done in the last couple years that are very important in health care. We have real savings in the 10 years, bigger savings beyond that, and we have put in place mechanisms like the ones you have described, which give us the ability to get the best practices, which are the way we are going to reduce spending overall going forward. A lot of those things don't score easily, because there is a question about when they will have results. We believe that they will have results, and we have to stay on the course of implementing it that we make sure we get the benefit.

Mr. PASCRELL. And many of those were not even scored.

Mr. LEW. Correct. That doesn't mean they are not real. It just means you first have to demonstrate it.

Mr. PASCRELL. Why should we be paying for police to patrol the streets of Kabul and Baghdad? Why is that exempt when we say defense appropriations? Why is that exempt, but not cops on the beat in Patterson, New Jersey, or Camden, New Jersey, or anywhere? Why?

Mr. LEW. I want to start by saying that we provide funding to make sure we can keep cops on the street in Camden, New Jersey, as well. So we don't believe that the choice is you either do one or the other. One of the things we have tried to do is preserve funding for the cops program. I think he short answer to the question of why we should be supporting the training of the police in Afghanistan, is that in order for us to get to the point where we can withdraw American troops, Afghanistan is going to need to have the ability to protect itself so that we are not put at risk, and that is part of our plan.

Mr. PASCRELL. I was talking about the security in our own country. Thank you, Mr. Chairman.

Chairman RYAN. A lot of our problem here is we have witnesses in high demand. I want to make sure every member gets his chance, so I ask unanimous consent that we reduce our four minutes each, so that we can make sure that we can accommodate everybody and still allow Mr. Lew his chance to go over to the Senate to testify. Without objection. Mr. Cole.

Mr. COLE. Well, I was going to object, because it was my time. My friend Mr. Price and I think we either need to get taller or you guys in the front row need to get a lot shorter, it is very hard to see you there.

Mr. LEW. This has actually changed since the last time I was here. I find myself leaning forward a lot more.

Mr. COLE. But since my time is short, I have got three areas I would like to ask you about. The first is, just looking at your budget; you basically keep 80 percent of the Bush tax cuts for about 95 percent of the people that received them. Does that suggest, one, that you don't think those went to the rich particularly, and two, that you see them as having been, and continuing to be, beneficial to the economy?

Mr. LEW. You know, we believe that the tax cuts for the middle class are a good thing, and there was too high a tax rate burden, and we should continue to do what we can to minimize the tax burden on the middle class. One thing I would just point out is that we don't take the benefits of those tax breaks away from anyone; even if they are above 250,000, we just say there shouldn't be additional tax breaks.

Mr. COLE. No, I understand that, and again, I applaud the President for embracing, literally 80 percent of the Bush tax cuts, something that seems to be forgotten around here sometimes. We can disagree about 20 percent, but 80 percent we actually do agree on. Second question, and this gets maybe to your philosophy, the administration's philosophy, in your deficit reduction plan over several years, you have some tax increases, you have some spending restraints. Roughly, what is the balance that you strike between tax increases and spending cuts or restraints?

Mr. LEW. Well, I apologize that it is a little bit of a complicated answer, just because baselines make how you measure complicated, and I want to be clear. We start with a baseline that assumes that the tax rate in the top bracket stays where it will be when the provisions enacted last December expire. From that baseline, we have net $360 billion of additional revenue. But I say net because we have $392 billion of tax cuts, so after you pay for the tax cuts, net $360 billion of new revenues.

Mr. COLE. And how much in spending restraint?

Mr. LEW. We have $751 billion in mandatory and non-security discretionary savings, and we do count debt service as spending because we have to pay for debt service.

Mr. COLE. Obviously we would probably disagree over whether letting those tax cuts run out amounts to a tax increase or not, but let me put that aside. Let me get to the last point I wanted to ask you about and this really does get down to, actually, some questions my friend Mr. Akin raised. Look, we all know entitlement spending is going to be a major focus.

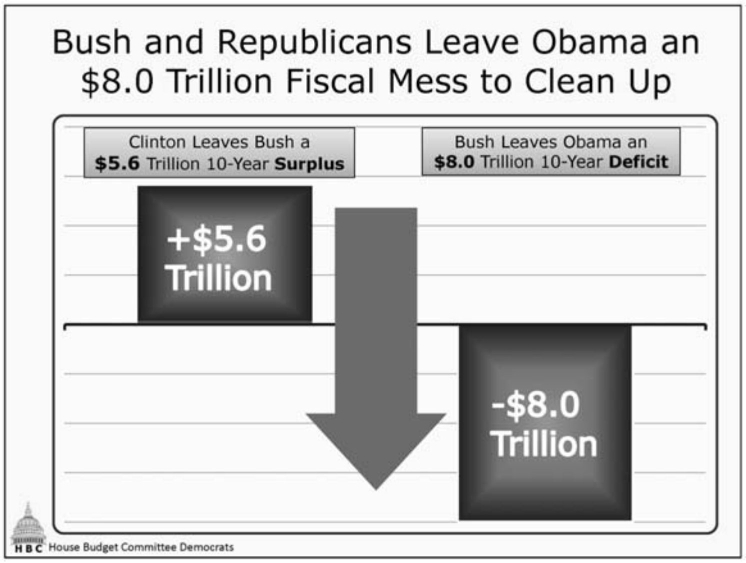
As an appropriator I will be thrilled the day we finally move to tax expenditures and entitlement expenditures, because that is where the problem is. But since you have expressed a lot of the President wants to do this, doesn't want to take options off the table. I am like everybody else, I am really disappointed we haven't seen more, at this point, but can you tell me when that discussion would begin, is the President going to propose a format in which it would take place, does he think he should lead with a proposal of his own, or wait for Congress to put one on? I am sort of mystified about how we get to the elephant in the room that Mr. Akin was talking about.

Mr. LEW. The President has put quite a lot on the table in the budget that we presented yesterday, and it is the first step in the process. We have a lot of work to do together, both in terms of finishing the work on 2011, getting to work on 2012. I have to tell you from my own personal experience, having watched and been part of the deficit reduction efforts in the late 70s, 80s, 90s, when we have had real success in a bipartisan basis, it is come from people working together behind the scenes and in an environment where there could be the kinds of open conversations where there is trust. And I think if we concentrate on developing that kind of a conversation, we will again produce the best results for the American people.

Mr. COLE. Thank you gentlemen. Thank you, Mr. Chairman.

Chairman RYAN. Ms. Castor.

Ms. CASTOR. Thank you, Mr. Chairman. Welcome. I would like to show you a chart, here.



I understand you were the head of Office of Management and Budget in the last few years of the Clinton administration, where there were burgeoning debts and growing deficits, but at the end of the Clinton administration, is it true that you left when we had a projected 10 year surplus of $5.6 trillion?

Mr. LEW. I would just correct that I was director of Office of Management and Budget three years in a row when we had surpluses. We didn't have deficits, we had surpluses. We were paying down the debt, so that is what that chart says.

Ms. CASTOR. I stand corrected. And then when President Obama took office, we were facing an $8 trillion, 10-year deficit. It must be entirely frustrating to you, it must have been frustrating, during that eight year period, to watch what happened to the surpluses left at the end of the Clinton administration.

Mr. LEW. I don't exaggerate when I say it breaks my heart. I think that you look at what drove the deficit up, some of it was beyond our control, in terms of the economy. When there is a recession, there is a loss of revenue and there is certain spending that you have. Some of it was because of wars, which you don't necessarily choose, but if you go to war, that is an extraordinary circumstance. Some of it was because we just suspended the basic common sense of paying for what we did. And we had tax cuts and spending increases that weren't paid for, and that is what has created the long-term problem we are dealing with now. These other things correct themselves; the economy is recovering, and we are going to see revenues and spending get back to their more normal levels. The wars will come to an end; we are pulling our troops home from Iraq. The other creates a problem that we have to deal with.

Ms. CASTOR. And that is why I am grateful that you have taken on this new challenge. We all agree, the government has got to live within its means. But we must remain mindful that we are coming out of the most severe recession in our lifetimes, and we have got to build on the economic foundation for the future, and that is why I am particularly focused on job creation, and jobs, and our workforce. My district is home to one of the largest universities in the country, and a lot of community colleges, and private universities, and I am 100 percent behind you on what this budget does to maintain the maximum Pell grant for students. It remains at $5,550 for students. You all know that the Pell Grant helps over nine million students across America afford college.

Now, over the last couple of days there is been a lot of confusion in the press, however, over what is happening with the Pell grant. It appears President Obama maintains the maximum Pell grant, at $5,550 for 2012, for students, and you pay for it by cutting the relatively new year-round Pell grant that allowed some students to qualify for two Pell grants. I wasn't aware that they could do that.

Are you also aware that in contrast to what the President's budget is trying to do, right now on the floor of the House, the Republican continuing resolution has proposed cuts in the Pell grant by $845 per student for 2011? I think that is moving in the wrong direction when we want to ensure that we have the most competitive workforce across the globe. So could you explain your budget and why you viewed this as a priority, and your view of the Republican efforts to diminish support for students, and how it will hurt our national goal of supporting an educated workforce that can outcompete others?

Chairman RYAN. And I ask you to explain that in six seconds, otherwise give the rest in writing, please.

Mr. LEW. We think Pell grants are an enormously important program. We have taken the tough steps in this budget to pay for it, and when you look at where some of the increases in spending since 2008 and now are, Pell grants is one of the biggest, and we think it is one of the best investments we can make in our future.

Chairman RYAN. All members, if you ask your question at the end of your time allotted, you are taking away from our fellow colleague. So that is why I am being judicious with the gavel, here, so everybody gets a chance. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Director Lew, thanks so much for joining us. Some of our friends on the other side of the aisle, one of them said on our side there is an amnesia about the past. So I want to visit a little bit of the amnesia that goes around to the other side. You said that the last time you were before this committee it was a good time because you had produced a balanced budget. What party was in control of the House of Representatives at that time?

Mr. LEW. I am proud to say we worked on a bipartisan, balanced budget agreement.

Mr. PRICE. But the answer to that would be Democrat or Republican?

Mr. LEW. We worked with Republican leadership.

Mr. PRICE. Republican leaders. Thank you very much.

Mr. LEW. The Republicans and Democrats in Congress.

Mr. PRICE. Can you tell me, Director Lew, what the debt was in this country at the end of 2006?

Mr. LEW. I would have to look that number up. I have a lot of numbers in my head, I don't have that number in my head.

Mr. PRICE. If I told you that the debt at the end of 2006 when the Republicans ended their control of Congress—the House of Representatives—was $8.4 trillion. Would you say that was about right?

Mr. LEW. When we took office it was approaching $10 trillion.

Mr. PRICE. When Speaker Pelosi began her reign would be about right in 2007, correct? And the debt right now, Director Lew?

Mr. LEW. The debt right now, I can look that up.

Mr. PRICE. About $14 trillion?

Mr. LEW. $14 trillion.

Mr. PRICE. Somewhere in that range. So about $6 trillion in the last four years under Democrat leadership in the House, is that correct?

Mr. LEW. You know, I think that one can go through these numbers, and we can look it up in the book, and we can establish what the numbers are. I think one has to understand what was going on in these periods.

Mr. PRICE. Absolutely.

Mr. LEW. We were going through the worst economic conditions since the Great Depression.

Mr. PRICE. I will reclaim my time Director, I am sorry. I only get four minutes. And as the elephant in the room has been discussed, it is a remarkable, remarkable display that we believe has come out of the administration. When I was a kid we used to play kickball in the street or in the backyard, and when we turned around and headed to our house, we knew that the house was going to be there. The house is burning down, Mr. Director.

And the fact of the matter is that the administration is playing kickball and not attending to the work that needs to be done. To put a budget before the American people that doesn't address the entitlement issues is reckless and irresponsible. And you talk about, To get to balance, a set of decisions needs to be discussed, that no one is discussing right now. But I will tell you who is discussing them, Mr. Director, and that is our constituents. They are scared to death. And they don't see any leadership coming out of this administration as it relates to the entitlements. When does that discussion begin?

Mr. LEW. You know, Congressman, if you look at what was going on during the period.

Mr. PRICE. When, Mr. Director, when does that discussion begin?

Mr. LEW. I am happy to answer that discussion if you give me a moment.

Mr. PRICE. I have got four minutes and the fact of the matter is that you are not answering the question, and you haven't answered the question.

Mr. LEW. The President has put down a budget that we think takes the first, and very important, step of showing how we get to a sustainable deficit by the middle of the decade. That is an important step. And the President has also said that we need to work together on a bipartisan basis to do what we need to do in the long term, and I think we can't confuse the two issues.

Mr. PRICE. Does this budget deal with the entitlements that [inaudible].

Mr. LEW. This budget begins to, but those entitlement issues did not cause the increases that you have just described. The worst economic recession since the Great Depression drove those numbers. We need to get the economy moving, and we need to take the steps that we have put forward in this budget and then more, on a bipartisan basis, working together.

Mr. PRICE. We look forward to that. As you well know, and as you have stated here, this budget does not deal with the entitlement issues. I want to turn my attention very quickly to the tax issues. The assumptions under this budget assume that the tax increases will occur for those making more than $250,000 in two years; is that correct?

Mr. LEW. It assumes that the tax rates that are in current law will remain in effect.

Mr. PRICE. So that a tax increase for small businesses occurs within this budget window, is that correct?

Mr. LEW. It means that individuals, families that earn over $250,000 a year will pay the same taxes that they did during the end of the 1990s when the economy was growing at the fastest rate.

Mr. PRICE. And the amount of tax increase in this budget is about $1.6 trillion, is that correct?

Mr. LEW. Again, it gets to this question of measurement. I have tried to be very clear that there is a portion that we are not taking credit for because it is in the baseline, and I am happy to work through those numbers.

Chairman RYAN. Thank you, we already established the 1.6 number. Mr. Tonko.

Mr. TONKO. Thank you, Mr. Chair. Director Lew, thank you for joining today.

Ms. MOORE. Mr. Chair, excuse me. What happened to me? I just want to know.

Chairman RYAN. Ms. Moore, as you know, the rule is in the order in which you show up, so we have Tonko, Bass, Moore, Wasserman Schultz, Ryan, and Blumenauer on your side of the aisle.

Ms. MOORE. Okay, I just wanted to make sure I hadn't disappeared.

Chairman RYAN. No, you are still there, Gwen.

Ms. MOORE. Okay, got you.

Mr. TONKO. Thank you for providing insight on the President's proposed budget. Also, I am aware that you are a fellow New Yorker. Last month, members of the New York delegation in the House, myself included, wrote to you about extending the Federal-State Health Reform Partnership. As you know, this innovative partnership between New York and the federal government has led to significant modernizations and improvements for several hospitals and health systems. Established by former Governor Pataki and Secretary Leavitt to improve New York's outdated health care system, the funds have been allocated already, but not all the projects that have been authorized by the agreement have been finished. The New York delegation also wrote to urge you and Secretary Sebelius to extend the waiver for three years, and my concern is that be agreed to here. It is a common-sense thing to do, and do you know if the Office of Management and Budget extends the waiver before it expires late this year?

Mr. LEW. Congressman, I know it is under review. There are actually two waivers that are under review. I have been at the Office of Management and Budget for eight weeks, it is one of the things that I have actually looked at; it hasn't come to me for a decision yet, we will continue to work with the state as we review it.

Mr. TONKO. Great. We look forward to working with you on that. And also, the President's budget, I am very concerned about the investment in R&D and basic research, and happy to note that the President's budget proposes to invest some $148 billion in R&D, in energy efficiency, and key basic research, contrasted with the Republican spending plan that would slash R&D. The President's budget also proposes robust investments in the National Institutes of Health, where doctors and scientists work to cure cancer, heart disease, and diabetes. Alzheimer's and other diseases that together claim the lives of millions of Americans every year are also impacted by that budgeting. The GOP spending plan on the floor today cuts the National Institutes of Health budget by about a billion, and medical research has proven to extend life expectancy, for instance, from 50 years in 1911 to nearly 80 years now in 2011. Can you explain the approach taken with R&D and research, basic research in the President's plan? Some call it spending, others reference it as investing.

Mr. LEW. I am happy to. We have taken a very close look at the R&D budget and we have looked kind of beyond some of the traditional boundaries. There has been a broad consensus that biomedical research is important. We agree with that. We have an increase in biomedical research. But we have looked at areas like energy research, and we have put significant resources into developing the technologies that will make us the most competitive country with the technologies of the future. We have put money into basic research. I think that we have to have a comprehensive research agenda in order for us to be in a place where, as the President says, we can out-innovate other countries.

It has been an area, historically, of enormous strength in the United States. Even today, we spend more as a country, public and private combined, on research than any other country in the world. There are certain aspects of it which don't happen in the private sector alone, because there is too much risk, too many experiments and things that aren't going to become commercially viable, but you need to go through that process in order to get the material, the knowledge, out there. And I think we have had a history of very effective partnership in this country of transferring research from government-funded research to private-sector development, and we have tried to put together a budget that will continue what we think is the best of the American tradition.

Chairman RYAN. Thank you. Mr. McClintock.

Mr. MCCLINTOCK. Mr. Lew, welcome. I want to join Ms. Castor and others for complimenting you on the job you did under the Clinton administration. You guys did an absolutely magnificent job managing the nation's fiscal affairs. You cut spending by a miraculous 4 percent of GDP during your years; historic reform of entitlements ending welfare as we know it; what amounted to the biggest capital-gains tax cut in American history; four years of budget surpluses. It is true it was a Republican Congress, but give credit where credit is due. You guys did a great job. But I look at this budget, and it seems to be exactly the opposite.

Mr. LEW. I wanted to just say thank you.

Mr. MCCLINTOCK. No, with all sincerity, thank you. It was a great job. But I look at this budget and it is exactly the opposite: record increases in spending, biggest peacetime deficit in American history, no effort to address entitlements, which have grown significantly more challenging over the last several years. Wouldn't you call this the anti-Clinton budget?

Mr. LEW. No, Congressman. I am very proud of the work I did in the Clinton administration and I would point out that one of the reasons that spending was falling as a percentage of GDP is the economy was growing so fast because we had a good fiscal policy that promoted confidence and economic growth. I think if you look at the projections today, spending now and in the future, we are projecting the retirement of the baby boom. We are seeing more people become 65 and claiming their benefits.

Mr. MCCLINTOCK. Actually, that is my very next question. I want to get to your long-range projection.

Mr. LEW. And I think that it is part of the reality of projections that even if we cut spending in the policies that we are making, as we pay the benefits that people are due, there will be areas of the budget where spending goes up. I don't think any of us would want to be saying that people shouldn't be able to collect their Social Security benefits when they are 65, but that and Medicare for people retiring is really driving those aggregate spending levels. On the discretionary side, we are cutting spending.

Mr. MCCLINTOCK. Exactly right, which is why we are all baffled that you haven't tackled entitlements that are driving our long-range projections right off a cliff. But speaking of those long-range projections, I look at the claims that you are reducing the deficit in the long-term. You know, we have enough trouble projecting 10 quarters into the future without projecting 10 years, but I look at what you are doing here and you take the current year's war-funding level of $165 billion this year, pay for operations in Iraq and Afghanistan, including the surge, you then take this level and project it out for 10 years and this represents your current policy baseline. You then assume a policy or placeholder $50 billion for the war from 2013 to 2021, and then you count the lower funding in your budget relative to this current policy baseline as a $1.1 trillion spending cut over 10 years. You take the related debt service, that is another $1.3 trillion. Are you guys really planning to stay in Iraq at current levels and to continue the surge for the next 10 years? It has either a yes or no question. Yes or no?

Mr. LEW. No, the budget reflects our withdrawal from Iraq.

Mr. MCCLINTOCK. And you are claiming that as savings. You take a baseline assuming of $165 billion a year, including the surge, and then you count everything below that as savings. Well we are planning to do that anyway.

Mr. LEW. I am happy to respond. We are almost out of time. The overseas contingency operation account is something that really solved a problem that the Obama administration inherited, which was there was no orderly way to fund war operations, and supplemental appropriations were very much in disrepute as being a way of not having honest budgeting.

Mr. MCCLINTOCK. In the five seconds I have got left, that is an intellectually dishonest way of presenting the budget, particularly when the other part is $819 billion of tax increases.

Mr. LEW. That is an important issue, and I would love to be able to respond in more detail on it.

Chairman RYAN. How about in writing, because I would love to hear the answer to that one too. Ms. Bass.

Ms. BASS. Thank you. Director Lew, thank you for your testimony.

Mr. LEW. Thank you.

Ms. BASS. You and the President should be commended for crafting a $1.1 trillion deficit-cutting budget that strikes the right balance, frankly, between spending reductions and targeted investments in infrastructure, innovation, and education. Prior to Congress, I served in the California Legislature where we had to make tough choices, such as eliminating Pell Grants for summer school to sustain the maximum award for all eligible students.

Having said that, I do want to take a moment to draw attention to the choices made in the continuing resolution that will be debated this week. Not only does the spending plan make devastating cuts to critical programs that families depend on to get back on their feet, but the continuing resolution would result in lost jobs of 1,300 police officers, 2,400 firefighters, and 16,000 private-sector construction jobs from cutting $1.7 billion from the federal building fund.

The most promising new source of economic growth and job creation is in our public infrastructure system, from roads and bridges to broadband and air-traffic control systems to a new energy grid. I am pleased to see that the budget invests in these key areas that will spur job creation, and based on this, what do you believe are the potential numbers of jobs that would be created by what you and the President are proposing?

Mr. LEW. Congressman, I thank you. I can't give you a specific job forecast. I think we have all learned that there is uncertainty in the projections when you get to a pinpoint number. I think what we know is that when you build roads, when you build ports, when you build the infrastructure we need to be competitive in the future, it puts men and women to work on those projects in real time. And in our Surface Transportation Reauthorization Proposal, we do propose that $50 billion be done at the beginning to get a head start and to get people to work. I would be happy to get back to you with some notions of what that means in terms of specific jobs, but it is clearly a lot of jobs.

Ms. BASS. I would appreciate that, even if you could give us a range. If you could get back to me, I would appreciate that. Second question, with the cuts that are taken in the defense part of the budget, I do believe that we can find additional savings. I wanted to ask you, for example, as I understand it, there is nearly 270 bases in Germany, 65 years after World War II ended. And I wanted to know if the administration has conducted a savings estimate on closing these bases that probably no longer serve a strategic value, and if some of them do, I would question whether over 200 do.

Mr. LEW. You know, I think that these are the kinds of questions the Department of Defense needs to ask, not just about Europe but about its operations everywhere. What do we need for our current and future defense, what could we live without? I don't want to prejudge the answers to any of those questions, but I think that by putting in this budget the first step to bringing the Department of Defense back into the normal budget tradeoffs, where we are saying no real growth. That is a cut, in terms of what you can buy; it means you have to start doing less things. That is a step in the direction of asking a lot of very hard questions.

Ms. BASS. Thank you, and then just finally I wanted to thank you for your comments earlier, especially about the R&D credit. Being in California and the Silicon Valley, we hear that all the time from the tech community, the need for that to be long-term so that they can do the planning. So thank you very much for your time.

Mr. LEW. Thank you.

Chairman RYAN. Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman. Director, thank you for being here and your good work. I do appreciate it, the work you have done in the past. But what I have a problem with is this budget. It was suggested earlier that budgets reflect the priorities and values of those that present them, and I think in this case it is true. I think it is very true, that this is a case that is being made by the administration. They want big government, more government, the bottom line is this doubles the debt in 10 years, and that it is fiscally irresponsible. You know, the decisions we make in Congress are all about what kind of money we are going to pull out of people's pockets and give to somebody else. I find it reprehensible that we continue to talk about investments and other things when we are pulling money from people's pockets to try to give it to somebody else. The most important thing we can do is allow money to stay in their own pockets. It is the American people's money, it is not Congress money, it is not the White House's money.

I want to get very specific at some of the things you said. This budget is a down payment was one of the things I heard, a quote from you, I believe, yesterday. This is a down payment on mortgaging our future, and it exacerbates the problem. It doesn't actually solve it.

I want to talk about part of your testimony on page six. It says, quote, To stay on a path towards sustainable deficits. Sustainable deficits seems like an oxymoron to me. We are on a trajectory where we can't afford anything. We are paying $600 million a day just in interest. I would appreciate, at a future date, to please try to define for us sustainable deficits, because I think to the average American, to me, it does not make sense. We have no sustainable deficits.

To further go on with that quote, you say, On the order of three percent of GDP, we make tough choices across all areas of the budget to identify more than $1 trillion in savings, two-thirds from spending reductions. Where does that other third come from? As I understand it, it is from tax increases, is it not?

Mr. LEW. I am happy to answer all the questions you just asked.

Mr. CHAFFETZ. Just this last one, please. I know our time is short.

Mr. LEW. The net savings come from a number of provisions, but a lot of it comes from the provision that would pay for the alternative-minimum tax, which would reduce the value of tax deductions for families with $250,000 and above.

Mr. CHAFFETZ. And a significant portion does come from tax increases, correct?

Mr. LEW. Well, one-third.

Mr. CHAFFETZ. A third is coming from tax increases. You have a statement in here about federal civilian employee pay freeze. I find this to be terribly disingenuous. The reality is, when Barack Obama took office to now, we have 145,000 additional federal workers. To suggest that pay is being frozen is not an accurate statement. Through step increases, through bonuses, through others, we have dramatically increased the federal payroll. The budget that is being proposed, when you say pay freeze, does that mean that expenditures on payroll will go up or stay the same?

Mr. LEW. It means that people are not going to get a cost-of-living adjustment, a raise from the pay that they get right now.

Mr. CHAFFETZ. So the total, the line-item going forward, will our total expenditure from the U.S. Government, will that go up or will that be the same?

Mr. LEW. Well if we have more people, we will obviously have to pay the people who we are hiring, but for an individual federal worker they are going to see their pay frozen.

Mr. CHAFFETZ. I guess what I am worried about for the American taxpayer is their expense for federal employees is going to go up, correct?

Mr. LEW. Well I think if we want people to work at the airports and check to see that bombs aren't getting on planes, we have to pay them.

Mr. CHAFFETZ. We already have 65,000 TSA agents.

Mr. LEW. But we have new technology, and the new technology requires people to use it.

Mr. CHAFFETZ. How many is enough? How many more TSA agents do you need? You have 65,000 TSA agents.

Mr. LEW. Congressman, I am happy to go into detailed answers.

Mr. CHAFFETZ. How many more TSA agents do you need?

Mr. LEW. I think as we put new technology at the airports, we needed to hire people to work that equipment. I can get you an exact number.

Mr. CHAFFETZ. We have 65,000. I need to know how many more people is it going to take?

Mr. LEW. I know that it is not worth buying equipment that we don't have people to operate.

Mr. CHAFFETZ. I appreciate it. Thanks, Mr. Chairman.

Mr. LEW. And I would like to answer your other questions if I have time. I don't know if I have time.

Chairman RYAN. If you could get to the gentleman in writing, only because we want to watch your time and the rest of the members time.

Mr. LEW. Sure, okay.

Chairman RYAN. It has now my pleasure to yield time to Ms. Moore.

Ms. MOORE. Thank you so much, Mr. Chairman, and thank you Mr. Lew for appearing. Now as you can tell, members on both sides of the aisle are very frustrated, because this is a very difficult budget. And coming from a cold place like Wisconsin, it is just chilling to see things cut like the low-income housing energy assistance program, for example. But I do appreciate the fact that the administration has attempted to have somewhat of a balance in terms of revenue and spending cuts and defense cuts, and entitlement cuts. I just want to ask you a very simple question: If we cut every dime of discretionary non-defense spending, would that put us on a course toward ending our deficits? Every single dime.

Mr. LEW. It has not a big enough part of the budget for us to solve the problem.

Ms. MOORE. Thank you. That is what I want to know, because there is an attempt to really describe the solution as simply just cutting everything, not just low-income heating assistance but everything.

Entitlements, my questions are generated from just listening here today. I get a little bit nervous when my colleagues talk about the White House not having dealt with entitlements. Did you say earlier in your testimony that you had found, what was it, $65 billion.

Mr. LEW. $62 billion.

Ms. MOORE. In savings from Medicare?

Mr. LEW. It is Medicare, Medicaid, federal employees health benefit programs; it is dozens of different provisions.

Ms. MOORE. So thank you. So you did, in fact, deal with entitlements. The reason I get nervous is entitlements is a really big category. The Medicare prescription drug program, can you remind me of how much that cost and was not paid for?

Mr. LEW. Well I can tell you none of it was paid for. The exact estimate at the time was on the order of $500 billion.

Ms. MOORE. $500 billion?

Mr. LEW. I wasn't working on this at the time, I might have the number wrong.

Ms. MOORE. And I wasn't here, and Democrats weren't in control of Congress. That is an entitlement that needs reforming.

Social Security, I get very nervous. Can you just clarify for me who pays for Social Security? It comes out of our paychecks and employers paychecks, and you said earlier it was not driving the deficit. Why do they keep lumping Social Security into this deficit situation that we are in, and saying that it needs to be dealt with?

Mr. LEW. Well, Social Security is financed by payroll tax, half by the employer, half by the employee. And if you look at the Social Security trust fund, it is projected to remain in a position to pay benefits until 2037, so we don't have any immediate crisis in Social Security funding. I think that it is also the case that we are spending more year to year on Social Security because people are retiring. If you turn 65, you get benefits.

Ms. MOORE. Okay, so thank you. I hate to cut you off but I keep hearing an awful lot about how the White House is harming small businesses, the business creators. I am just wondering, what are they talking about? If I have a hedge fund operating from my living room with a computer, I am a small business and I make, you know, several million dollars, am I considered a small business? A job creator? Like you said, law firms. Who are these small businesses that we are harming with the tax?

Mr. LEW. I think if you look at the budget proposals we have, we have targeted assistance for small businesses that meet the kind of definition that I think most of us would, in a common-sense way, think of a small business. A small factory, a small shop, and it wouldn't apply to services like law and finance. So we have incentives that we propose that would make the tax code more attractive.

Ms. MOORE. You have differentiated here so that we are just not the mom-pop shop.

Mr. LEW. We don't need to have the overall tax rate on the wealthiest Americans go back down to the [inaudible] level.

Ms. MOORE. Okay, let me ask one final question in my last five seconds, or just to make a statement maybe. The Bush era tax cuts, which I think we ought to have gotten rid of, period; those earning over $250,000 a year still benefit six times as much as everybody else.

Chairman RYAN. Thank you, Ms. Moore. Ms. Black.

Mrs. BLACK. Thank you, and thank you Mr. Lew. I want to go back and continue in the vein of the question related to a sustainable deficit. You started out by saying that this budget is just a starting point. I am a little disappointed in that because my understanding is that as the role of the President, he is to set forth a plan, not a skeleton. I am disappointed that there wasn't more of a plan here along the areas of the entitlement programs, but that is really not the direction I want to go. The direction that I want to go in is talking about sustainable deficits.

Now, as has already been said here, we admire the work that you did during the Clinton administration, and particularly having a budget surplus, and that it broke your heart that we are not in that situation. However, it seems as I read your testimony and what I hear today, that the goal here was to have a sustainable deficit. And I think our goal should be to be out of debt, and that we shouldn't have a sustainable deficit but we should have a balanced budget. Do you agree that we should be in a situation where our goal should not be a sustainable deficit, but should be that we would have a surplus and not spend more money than what we bring in?

Mr. LEW. The reason we call this a down payment is because we do agree that we need to get beyond stopping the building up of the debt, and we then need to work on surplus so that we can pay it down. The problem is you don't get there quickly. You have to stop putting more onto the bill before you can pay it down. It is going to take hard work to do that. The three percent of GDP gets us only to the point where we are paying our current bills with revenue, and we still have the deficit, the long-term debt, out there. And then we are going to need to work together on dealing with that.

Mrs. BLACK. And I want to go to that too, because if our goal over the next 10 years is to just have sustainable deficit, we will never pay down the debt. And frankly, one of the reasons why I ran is because I look at my six grandchildren, and I am really sad to think that my goal over the next 10 years, or my goal of serving for however long I serve, is just to sustain the deficit and not go toward the debt. And I think that it is short-sighted for us to think along those lines. I want to see a plan that gets rid of the deficit and begins to start to pay on the debt.

Mr. LEW. I think that having presented budgets that had surpluses and now working on a budget that is a tough budget, that stops building the debt, I agree that we need to look beyond getting to the point where we are not adding to the debt, and we need to look to the point where during good economic times, we are paying down the debt. It is not a simple process. We are not going to get there quickly. It took a long time to dig this hole; it took a lot of decisions to get us where we are. It is going to take a lot of hard work to get out. And I think that the notion that this is a starting point, I don't mean to say it is not a serious starting point. It is a comprehensive, responsible budget. The President doesn't get the final word; he gets the first word. He has put his plan forward.

Mrs. BLACK. But I want to go back, again, to words that you used on one of the other comments that you made, and you talked about all of the things that got us to where we are. But you said the number-one thing was, we suspended common-sense spending where we are spending more than what we bring in. And this budget that we have gotten does the same thing, and I don't think it gets us to where our goal really should be, and that is to stop deficit spending and start paying down our debt.

Mr. LEW. Well this budget actually adheres to the principle that we need to pay for what we do, and with all respect I would note that changing the rules of the House so that tax cuts don't require offsets is not something that is going to help get to the goal that you are looking for. We need to have a clearheaded understanding that whether it is a tax cut or spending increase, if we don't pay for it, it increases the deficit.

Mrs. BLACK. Well the more that we take from the people that are out there creating the jobs, the less jobs we will have, the less taxes we will collect. Thank you.

Chairman RYAN. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you Mr. Chairman. Welcome, it is good to see you.

Mr. LEW. It has good to be here.

Ms. WASSERMAN SCHULTZ. I think it is interesting that the gentle lady from Tennessee laments the lack of a plan. Here it is. This looks like a plan to me.

Mr. LEW. Felt like a plan putting it together.

Ms. WASSERMAN SCHULTZ. I bet it did. This from the party that still after six weeks in the 112th Congress, still has no jobs agenda, still has not put forward a plan to create jobs, not a single piece of legislation, nothing that has as many pages as this, 207 pages like this plan does. I think that when casting aspersions about the lack of a plan, they should look inward first. But your testimony referred to $62 billion in savings from increasing efficiency and accountability of health spending. Now we really focused on cracking down on waste, fraud, and abuse, and that was a huge priority in the 111th Congress for Democrats, particularly when we passed the Affordable Care Act. What are some of the significant policies in the budget that will contribute to that kind of savings?

Mr. LEW. Congresswoman, there is kind of three baskets of savings. There is one set, which is about 16 provisions, which we would call program integrity. It is to make sure that if a provider has been paid erroneously, we recoup payment. If a provider submits bills for things that shouldn't be paid or duplicate bills, we have a process to make sure we pay once and we pay properly. That saves a little over $30 billion.

We then have a number of provisions that would give Medicare and Medicaid the ability to take advantage of generic drugs, particularly generic biologics. That saves a little over $10 billion. Then we have a couple of changes in the Medicaid program, one of which would make sure that when we have expanded coverage and less uncompensated care, we calibrate correctly the disproportionate share payments that are supposed to pay providers who are providing uncompensated care. And then there is another that just lines up the state payment rates so that there is accuracy in what they are being matched for.

Ms. WASSERMAN SCHULTZ. The $62 billion in savings to which I just referred: Is that separate and distinct from the $125 billion in savings included in the budget related to program integrity?

Mr. LEW. It is only counted in the budget once, and it is in the mandatory section, the $62 billion. We may have a display that shows it somewhere else, but it is only in the numbers once.

Ms. WASSERMAN SCHULTZ. Thank you. I want to focus on the cuts in Community Development Block Grants. In recent years, Congress has typically provided more than the President requests for Community Development Block Grants. And that is obviously a program that helps local governments fund housing, and sewers, and streets, and economic development, particularly in low and moderate income neighborhoods. Let me just give you a couple of examples of it for folks that really don't know Congressional speak. You know, Community Development Block Grants funds things like three grants in 2010 to the cities of Janesville, Kenosha, and Racine, Wisconsin, totaling nearly $4 million, and $2.4 million in two grants to Lima and Mansfield, Ohio. So my question is, the President's 2012 budget cuts Community Development Block Grants by about $646 million, and that is compared to the CR, where the Republican cuts it $3.1 billion, below, from the CR, $2.4 billion below the President. Can you classify the distinction between the President's approach to Community Development Block Grants cuts and the cuts in the CR, from the Republicans?

Mr. LEW. The President's budget is a comprehensive budget where we have made tough tradeoffs. Reducing community-development block grants by 7.5 percent is a tough decision. We have got a lot of cities and towns that do good work with this money.

But we didn't think it was necessary to make a deeper cut than that to hit the target of the $400 billion savings.

Chairman RYAN. Thank you, Mr. Chairman.

Ms. WASSERMAN SCHULTZ. Thank you.

Chairman RYAN. The gentleman from Appleton, Wisconsin, Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. Thank you, Director Lew, for being here today. Just reading out of your testimony on page five, you say, Now that the country is back from the brink of potential economic collapse,—I would dare say that there is about 10 million Americans who wouldn't agree with that because they don't have a job today—Our goal is to win the future. But we cannot do so if we are saddled with increasingly growing deficits. Do you believe that statement, or was it just put in there as hyperbole?

Mr. LEW. No, I believe it. I think that we were in a state of freefall in the economy. We are not content with unemployment where it is now, or growth where it is now, but we have gone from negative growth and losing jobs to positive growth and creating jobs. And I believe that if we don't deal with the deficit, it is going to become a real threat to our economy.

Mr. RIBBLE. So we cannot win the future if we are saddled with increasingly growing deficits. That is a statement that you agree?

Mr. LEW. Yeah, no, I definitely agree with that. I wrote it, and I agree with it. That's a good thing.

Mr. RIBBLE. Why would the President project a budget that, for the last five years, whose deficits are $890 billion, $891 billion, $960 billion, $1.05 trillion, and $1.16 trillion? All growing deficits.

Mr. LEW. I think if you look at these last few years, there have been extraordinary things going on because of the recession. We have had a collapse in terms of revenues because of lower economic activity, we have had increased expenditures, some of them automatic stabilizers, some of them actions Congress and we took together to get the economy moving again. We have said that we are now at a pivot point. We cannot accept that as business as usual. It was necessary during the recession. We had to get out of this recession; if we were seeing negative growth right now and rising unemployment, that would be a terrible thing. So we are very proud of the work we did. We inherited an economy that was not in good shape, and we have gotten it on the path towards being in much better shape. The job is not done. And we are now looking to the future, and that is why we are putting together a budget that we think invests in the future.

Mr. RIBBLE. Yeah, but the first five years, you project decreasing deficits and the last five years, you project increasing deficits, which will prevent us from winning the future.

Mr. LEW. I think the deficit, as a percentage of the economy, stays in that 3 percent range in the entire period of this budget, and that is what we need to do to be able to pay our bills and not to put our current expenses on the credit card. We are going to have to do a lot more to pay down the debt. We are, and we are not pretending that we can do that all at once. We need to do that together, but we have got to get started.

Mr. RIBBLE. On page seven, you use, It would be shortsighted to cut spending across the board and short-change critical areas for growth and competitiveness, such as education, innovation, and infrastructure, or carelessly slash programs that protect the most vulnerable. It is a little incendiary to think that those are the only two choices, but maybe it wasn't written with that intent. I will tell you what I believe is careless; when all the adults in this room leave, cameras are gone and the television announcers go home, I believe there is going to be a five-year-old sitting here with the bill. I think that is careless. Thank you sir.

Chairman RYAN. Thank you. Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Chairman Ryan, thank you, Mr. Lew. I think this is the best budget you could put together given the circumstances, and I think it is important for us to remember that it was the President and this administration that said we need to have a Debt Commission, that made that happen while a lot of Republicans on the other side were doing the Potomac two-step, backpedalling away from it. And I think we need to go back and read those press clippings. You were here in 1993. Would you say that 1993 budget, when we had great economic growth during the 90s, 20 plus million new jobs being created, was it the 93 budget that really got the economy back on track?

Mr. LEW. Congressman, I would say that what really made a difference was that from 1990, under President Bush, to 1993 under President Clinton, to 1997, when there was a bipartisan budget agreement, we showed continued emphasis on reducing the deficit, and paying for what we were doing, and getting our economic house in order. 1990 and 1997 were bipartisan; 1993 was not. I hope that we are now going back into a period where we can work together, because I actually believe that people draw a false distinction between, Is the economy causing us to get out of the deficit or is it our policies? They are connected. When we pursue policies that promote confidence in the future, it is good for the economy. When the economy grows, it is good for the deficit; a virtuous cycle.

Mr. RYAN OF OHIO. I think it is important that we realize that mature decisions were made in 1990; mature decisions were made in 1993. In 1993, there wasn't one Republican that voted for that budget. Vice President Gore had to break the tie in 1993, and then when we got into the 90s, we had some money to invest in children's healthcare and R&D, and set the stage for T-Com revolution and the Internet revolution and everything else.

Two quick questions. One is, is a concern of yours, we have got $100 billion in cuts that our friends in the House want to make immediately in the next few months. We have got about $140 to $150 billion in cuts being made by states across the country, $2 billion is going to be pulled out from the federal employees. Are you concerned that in the short-term, that we are pulling too much money out of the economy and it is going to hurt the growth that we have had and the success that you have had over the last year or two?

Mr. LEW. We have put together a budget that tries to step on the brakes at the right time, and to not jump too fast into fiscal consolidation. I think we are going to have to look and see how the debate develops here in Congress. I think there is a concern in the states, as they are facing their fiscal challenges. We were careful in this budget that overall, the impact on the states, we don't think will create more of a problem there, though there are some things we reduce, there are other things we increase.

Mr. RYAN OF OHIO. I am concerned. You guys have the veto pen, and I just want to encourage you to not be afraid to take a stand, because we have come a long way in the last two years and we need the President to continue to lead us out of this. We are doing the right things now, I disagree with what my friends on the other side are saying. That leads me to my next and final question, and you have got 35 seconds to try to sum it up. How do these investments that you are making, R&D, education, high-speed rail, infrastructure, how do these investments compare as a percent of the GDP to what China is doing, what Germany is doing, what some of these other countries are pumping money into; how do our investments compare to these other countries, as we try to be competitive and compete?

Mr. LEW. Well overall, the United States as a private-public combined, spends more money on research and development than the next four largest countries put together, so we are the leaders in R&D. I think in these areas, we frankly have not kept up with some of our competitors. The infrastructure investment needs to keep up in order to be able to ship goods and buy and sell goods.

Chairman RYAN. Thank you. Mr. Flores.

Mr. FLORES. Thank you Mr. Chairman, and thank you Director Lew for joining us today. I want to continue the conversation that Mr. Price started about amnesia regarding the past. Do you recall what the unemployment rate was in December, 2006? It was about 4.4 percent. The unemployment rate in December, 2010 was in the mid-nines. I would submit that what you claim that you inherited was due to a legislative process that occurred during that four-year period, and that wasn't controlled on this side of the aisle.

I am new to this job, I have been in it about six weeks. Before I did this, I was a CPA and a CFO and a CEO for a number of successful companies, and so I know what it is like to sign the front side out of a paycheck, to make the decision to commit to hire an employer, to make an investment. This so-called plan doesn't put me in a position, if I were in that chair today, to do that.

The other thing is that I know a little bit about businesses and budgeting, and I have learned some new terminology. Sustainable deficits is a new term, and then primary balance, that is another interesting term. When Chairman Bernanke was here last week, he said that the federal deficit over the long term should not exceed the interest cost that we pay on our debt. We have come up with this definition of primary balance, that it is okay to run a deficit of 3 percent of GDP. How many businesses and families do you know of that can operate in primary balance and for how long?

Mr. LEW. We haven't set the goal of stopping at primary balance. We have said you have to get to primary balance in order to get beyond that, and I think it is an important difference.

Mr. FLORES. This doesn't get better than primary balance.

Mr. LEW. You are not going to get to balance if you don't pass through primary balance.

Mr. FLORES. Let me submit to you that most families and most businesses that I know of cannot operate in primary balance. I commend you for having balanced budgets during the Clinton administration. That is what I call primary balance, is where you have zero deficit or a surplus.

Mr. LEW. If I could just respond on the first point. You know, I think most families have had some experience with building up balances on their credit card that they really were facing really hard decisions.

Mr. FLORES. They don't do it over 10 years. They don't do it over 40.

Mr. LEW. They start by cutting up the card, not putting more on it, and that is what primary balance is.

Mr. FLORES. And they start by cutting their net deficit to zero, and this plan doesn't do that. My questions are this, you have got average spending during, what was it? Let me rephrase that.

Mr. LEW. I am going to have to bring historical statistics with me the next time I testify.

Mr. FLORES. I can answer it for you, but do you recall what spending was as a percent of GDP during the Clinton administration?

Mr. LEW. It was around 20 percent.

Mr. FLORES. Correct. And what is the average spending as a percent of GDP under this plan?

Mr. LEW. I think that when you look at spending as a percentage of GDP over time, it does grow as the population grows, because people become eligible for Social Security and Medicare. So when one talks about those numbers, you have to look at what is behind them.

Mr. FLORES. It is almost 23 percent, and if we really wanted to develop a plan to have sustainable deficits of zero or a primary balance of zero, we should have spending down around the same level as taxes and that is around 18.3 percent of GDP over the long-term.

Mr. LEW. You don't get the balance if your revenue and your spending don't cross. The question is, at what level they cross providing what we need for the country.

Mr. FLORES. I understand. I yield back.

Chairman RYAN. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman. Welcome, Mr. Lew. Each member of Congress arrives here from different life experiences, and one truth in our family is going back nearly a century, that when Republicans occupied the White House in Congress, members of our family were thrown out of work. And when Democrats regained those offices, our family members started going back to work. It is one of the reasons I am a Democrat. I know until all Americans who want to work are able to become productive again, we won't be able to balance our budget nor reduce the deficit. No American I know wants to borrow more money from China or any other foreign country to keep this economy afloat. The administration budget, in my opinion, makes a responsible start and takes the deficit seriously, and so do I. In fact, I have served in this Congress long enough to have been a part of the solution during the 1990s that some of my Republican colleagues have referenced, to balance the budget and grow jobs in this economy. Mr. Lew, you were a part of that, I think the President has the right man in your position.

Also this man, Mr. Panetta, who now has the CIA. We sat in this room, I was a member of the Budget Committee back then. I know what we did for America, and when we did it, Alan Greenspan said he didn't think it was a good idea to balance the budget. That is the most unbelievable statement I ever heard in my life. Congress did it by making tough choices, by cutting waste and also curbing special interests. I support the administration's proposals to get rid of those oil subsidies. Let them compete in the global economy. In the tough times we are facing today due to the Wall Street abuses that caused the recession we are in, the problem with the Republican budget is, it hurts job creation and it goes after the people who can least afford to hold their lives together in this economy.

In fact, their budget cuts off almost four million student loans, it takes away five million meals to the homebound elderly, it lays off meat and poultry inspectors, and it cuts 40,000 jobs in preschools and Head Start. I don't think that is a very good set of proposals, so my questions, really Mr. Lew, to you deal with jobs, which is where we should be focused in two areas; one transportation, and the other one energy. For where I come from, which is not a government platform like capital cities like the one we are sitting in right now, and it is not a trading virtual platform like New York or Chicago or San Francisco, these places that deal in virtual stuff, we are the real economy in northern Ohio, and for us transportation and energy are destiny.

So let me ask you, the administration has put some focus in its budget, despite tough times, on investing in infrastructure, and also in new forms of energy. That is music to our ears in our part of the country. We have to compete in an unsubsidized, free-enterprise economy in northern Ohio. Could you please tell us a little bit about the investments that the administration is going to be making in transportation and in renewable energy, and how this will contribute to job creation, which we all desperately want?

Mr. LEW. Thank you, Ms. Kaptur. I am going to try in 50 seconds to do justice to our program, but we have an approach that is designed to make sure that we build the infrastructure so that we can have goods come and go between American markets and shipped internationally from our seaports and our airports. We have taken a broad view of surface transportation, because it also means having the kind of modern communications technology so that northern Ohio becomes part of the virtual economy because there is no part of the country that is left behind. That is what it is going to take to win the future. In R&D, in energy, you know we look at the new technologies in renewable energy and where other countries are frankly putting their money down, saying That is the future. If we don't do the same, we are going to find ourselves left behind. America has never been left behind before, and we shouldn't start now.

Ms. KAPTUR. I wish you could say more. Thank you very much, Mr. Chairman. Thank you, Mr. Lew.

Mr. LEW. Thank you.

Chairman RYAN. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. Mr. Lew, I am also one of the folks who is new around here, but I am familiar with budgets, I have written them, I have read them, and I can assure you, sir, that if you let me play around with the assumptions, I can make you a budget that looks as good or as bad as I want it to. I am looking at your assumptions regarding the revenues in the future, and you have assumed, essentially, that revenues have become about 19 percent of GDP in the next couple of years and then steadily increase over the course of your budget, peaking out above 20 percent. These are the historical numbers going back to the 1960s, and I suggest to you sir, or I would ask you, are you making an assumption that we have only seen once or twice in the last 40 years?

Mr. LEW. You know, the revenue projections are based on a combination of current law and specific proposals, and it is driven by what is happening in the economy overall.

Mr. MULVANEY. But the truth of the matter is that you are assuming numbers that, you are assuming the numbers will be average. Nineteen percent, 19 percent, 20 percent, and we have only seen that sporadically once, maybe twice, in the last 40 years. You take a look at the GDP, another one of your assumptions, Mr. Ryan mentioned it earlier, the Washington Post beat you up on it today; you are assuming rates of growth in the economy that dramatically exceed even what the Congressional Budget Office is assuming. Against that backdrop, you are also assuming interest rates dramatically lower than the Congressional Budget Office. I would suggest to you, sir, that to assume growth rates that are higher but interest rates that are lower is internally inconsistent, and I draw your attention to the fact that you have assumed an interest rate on the 10-year Treasury note of this year of 3 percent. Do you know what the 10-year traded at last week?

Mr. LEW. I did not check the [inaudible] rates last week.

Mr. MULVANEY. Three point six five. And your assumption is that it will be 3 percent this year. The Congressional Budget Office, by the way, says it will be 3.4; they are already too low. The Congressional Budget Office also testified that for every percentage point that they assume the interest rate is too low, it is $1.3 trillion of additional debt over the course of the 10 years. You have assumed revenues that are way higher than average, GDP that is higher than anybody else thinks, and interest rates that are dramatically lower than anybody else thinks. And I put it to you, sir, that that is the reason that this is not a credible document.

And I go back and I look at the past couple of budgets that the President has offered. Two years ago, he told us the deficit this year would be $900 billion in his budget. Last year, he told us the deficit this year would be $1.3 trillion. Yesterday, he told us it was $1.6. Two years ago, he projected that the budget deficit next year would be $557. Last year, he told us that number was going to be $829. Now he is telling us the number is going to be $1.1. I can't believe the numbers. I can't do it. And until we can get numbers that we can agree on are at least in the middle of the assumptions, it is going to be very difficult for us to focus on policy.

Is it a question? No, sir, it is not. Am I beating up on you? Perhaps unfairly so. But the point is this; we should be here talking about policy. We should be here talking about what the President wants to do to fix the country, and what we want to do to fix the country. I happen to be one of those Republicans who does not believe the President doesn't want the country to succeed. I believe that he does, but we have to have a discussion about policy, and when you give us numbers that are simply not credible, it really prevents us from doing that. I expect better.

Mr. LEW. Can I respond at least quickly?

Mr. MULVANEY. Very briefly. I expect better out of you, and I have already spoken to the Chairman, I expect better from us. When you see our budget, you are not going to see unreasonable assumptions. But yes, sir, you may.

Mr. LEW. The economic assumptions in this budget reflect what is the middle in terms of where the Federal Reserve Board looks at what the likely patterns of recovery are. So, there are mainstream assumptions.

Mr. MULVANEY. Well then you need to walk to the Congressional Budget Office and tell them that their numbers are whacked out.

Mr. LEW. And there is a conceptual difference between the Congressional Budget Office numbers, where they believe the economy never gets back to the level of strength that it had before the recession. That hasn't been the experience of past recessions, even financially-led recessions. It is taken longer, but we have gotten back. So there may be year-to-year disagreements, but we think we have very credible economic assumptions, and I am happy when we have more time, to go through them in some detail. Thank you.

Mr. MULVANEY. Thank you.

Chairman RYAN. Thank you Mr. Huelskamp. Mr. Huelskamp, will you just yield for 10 seconds?

Mr. HUELSKAMP. Yes, sir.

Chairman RYAN. Here is what we think is wrong. You are assuming 3.9 percent growth in the first five years, 3.2 percent over 10 years. That is above trend, and only with those rosy assumptions can you ever get close to the primary balance you are claiming. That is why when we see blue chip Congressional Budget Office far below where you are, it sort of strains the credibility of these claims. That is the point we are trying to make.

Mr. LEW. Mr. Chairman, I would just say that in the short term, we actually are slightly less optimistic. In the long term, we are slightly more optimistic, because of the difference in approach I just described.

Chairman RYAN. And medium-term, where you hit your objectives more often.

Mr. LEW. The idea behind the economic projections is, will we or won't we track the recovery patterns from past financially-led recessions? We believe we will. That is what the projection is. So it is to that trend.

Chairman RYAN. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you Mr. Chairman. Mr. Director, I appreciate you being here, and back in February 23, 2009, the Congressional Budget Office at that time outlines a $1.186 trillion deficit. The very next day, the President made his promise to pledge to cut the deficit in half by the end of my first term in office. In your comments, and the President's yesterday, he made a claim that he was going to meet that pledge, at least projected. But the numbers show one-half of the Congressional Budget Office figures are a $593 billion deficit. What do you predict?

Mr. LEW. If you look at it as a percentage of GDP, we cut it in half by the end of the first term.

Mr. HUELSKAMP. That was not the statement of the President. That is what bothers me, how the President can stand up, and you can stand here in this document, and claim that you are cutting the deficit in half, when you did not.

Mr. LEW. We are cutting it in half as a percentage of GDP.

Mr. HUELSKAMP. That was not the claim the President made. Would you agree with me?

Mr. LEW. I know what we have done in this budget. I know what we have said in this budget. We have cut the deficit in half as a percentage of GDP.

Mr. HUELSKAMP. I appreciate that. Again, I will just note, that is not what the President said, and that is not accurate of what is in your budget, and that is some of my difficulty. Where I come from, if you are wrong, you are wrong, but to stand up and again make that claim, I was very disappointed in that particular claim. But I am also particularly disappointed, Mr. Director, in another statement in your document where you state, quote, We are going to stay on a path towards sustainable deficits. How long are deficits sustainable?

Mr. LEW. We need to get to the place where we stop adding to the national debt. This is a down payment. We need to work together to go farther than that. But you have got to walk before you run. You have got to get rid of the deficit before you cut the debt.

Mr. HUELSKAMP. I understand, but this budget never does that, does it?

Mr. LEW. It gets us on a path where we will able to do it, yes.

Mr. HUELSKAMP. The path is unsustainable. Your path in this budget is unsustainable. The deficit is not sustainable.

Mr. LEW. I look forward to seeing the plan.

Mr. HUELSKAMP. We are not talking about a proposed plan, Mr. Lew. That is why I am dissatisfied. The language that is coming out of this administration is telling the American people that we can borrow for 10 years or longer, and are going to call it sustainable. We are going to say 3 percent borrowing is sustainable. It is not sustainable. There is no way we can sustain the track that is being presented here, and that is disappointing, because I know the American people. I know people that work every day and try to balance their budgets and they understand that sometimes you go under water awhile. But to sit here today, and have the President claim, somehow, it will be all okay, even if we are going to have a $768 billion deficit in two years and we are going to sustain that forever, and that is why I am very disappointed that the President didn't stand. I am very disappointed in that. That is what I wanted to convey. Because the President has the opportunity to stand up and provide proposals to save and strengthen Medicare. And you have said here that those are not contained in here.

But I just want to note, to the American people, the folks that are listening here, and in the media, this is not sustainable. You can call it whatever you want. Sustainable deficits do not work.

Primary balance is a figment of our imagination. Only in Washington could you run a deficit and claim it is balance, and somehow use the word balance. Mr. Lew, you couldn't do that anywhere else. They would laugh you out of the room. And I come at the state level. I served in the state legislature. We had a requirement; balance. It wasn't a primary balance. We couldn't run a deficit. This country is on a course for un-sustainability and I would expect the President to stand forward and say I am not going to keep my word, but to stand up and tell the American people, I kept my pledge. He did not.

Mr. LEW. I disagree with you Congressman.

Mr. HUELSKAMP. He is $193 billion off of his promise. That is a false claim and I am very disappointed in that. I yield back the balance of my time, Mr. Chairman.

Chairman RYAN. Do you want to take a second?

Mr. LEW. No, I would be delighted to, Mr. Chairman.

Chairman RYAN. You know it is coming out of your time.

Mr. LEW. I understand. I have missed lunch a lot of days. I think that if we want to use the kinds of common-sense language that people understand, we should just do that. We should say, Can you bring down the debt before you eliminate the deficit? No. You can't start paying down the debt until you stop adding to it. That is all we mean by primary balance. We are not talking about it being okay. We are just saying that you can't honestly tell people that we can pay down the debt, while you are still adding to it.

Chairman RYAN. Mr. Young.

Mr. YOUNG. Mr. Director thanks so much for being here today. I know it has been a long morning and early afternoon for you. My focus here in Congress is on sustainability, but it is on sustainable job creation. And in the testimony we received from Bernanke the other day, he indicated that the one thing that really is missing from our policymakers in Washington, the Executive Branch and Congress alike, is that coherent plan, as he phrased it, and as Moody's recently phrased it when they downgraded Japan's debt. A coherent plan to deal with our entitlement programs. That is pointedly absent from this budget, this roadmap, if you will. I think that is a dereliction of duty on the part of the President.

Now you have indicated in today's Wall Street Journal, if they quoted you correctly, that such proposals to deal with these matters are better left in closed-door settings. Fair enough. Perhaps that is the political judgment you make. I actually think we owe it to the American people to own up to them and to treat them like adults. That is what I intend to do. What is our pathway into this meeting? How are we going to begin this conversation? Will a letter be forthcoming? What will the date of that meeting be? Please enlighten us.

Mr. LEW. Congressman, I don't believe that is exactly what I said, but what I do believe and what I have said is, we have put down a plan, which is the President's plan for how we are going to get to the point where we stop adding to the debt. We have also said that we need to have an environment where we can work together on these long-term issues and have conversations about things that it is frankly hard to have conversations about. History shows that it is much harder to create an environment where we can have trust and conversations to work on a bipartisan basis, than just to take polarizing positions. We have tried to strike a balance, putting a responsible plan out there and creating an environment for that conversation. We just took the first step yesterday. Congress is going to come forward. You will write your budget and we will engage. It is a long process. This is the first step.

Mr. YOUNG. What is the next step?

Mr. LEW. Congress will write a budget. We look forward to seeing what you do and your budget, and how you reach primary surplus, how you reach deficit reduction, if you bring down the debt. We really do think that you will have ideas that we want to take advantage of and we look forward to working together.

Mr. YOUNG. In this remaining minute and a half, let us narrow down exactly what concerns the President has. People on this panel here, at least on this side of the aisle, invite and encourage the dialogue with the White House on this. Is it people in his own party that are a barrier, and what might I do as a freshman member of Congress to create the political space where the President can step up and take a leadership role in these matters?

Mr. LEW. I have worked on bipartisan negotiations from both sides of the street, I was in the Speaker's office when the, with a Democratic speaker when there was a Republican President, and with a Democratic President and Republican speaker. I can tell you the hardest part of the process is developing the trust, where you can talk about the things that you have to do. I think the attempts to characterize this budget in the way that we have done it today are things that I hope people take another look at, because this is a serious proposal. I know you don't agree with it. I know there are things that will be in your budget that we don't agree with. We have to come from those positions, to find the middle where we can agree. That is how you reach bipartisan agreement.

Mr. YOUNG. Well I would encourage the President, I know he is watching C-SPAN today, to move forward aggressively on this matter. We are running out of time. We don't know what the optimal debt to GDP ratio is, as Bernanke and others have testified, and I think we need to very quickly embrace this issue and solve it, as opposed to dancing around it and doing the Potomac two-step.

Mr. LEW. We look forward to working together. We share the same long-term goal. We may have different ideas about how to get there and that is what we need to work through together.

Chairman RYAN. Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman. Thank you, Mr. Lew. Representative Young, Representative Stutzman, and I come from a state that has a balanced budget. In fact we have a triple-A bond rating, haven't raised taxes, and our secretary of state for the last eight years has been running the office on a 1987 budget, unadjusted for inflation, and by and large, no one seems to have missed a beat, no one is complaining about lack of services or anything else. Can you imagine if we could have Washington work on 1987 dollars? Hold on, don't answer that.

Mr. LEW. I think there would be a lot of people who asked where their Social Security check was.

Mr. ROKITA. No, I don't think so. I don't think so. But we have to get to that, because you are right. You have acknowledged here a couple times that we have this pig in the python, the baby boomers you described, getting older and need their check, and that is, I think, the frustration here, is yeah, we all see that. But where is the leadership? You mentioned a few times that you are a lawyer, I am one too, I feel your pain.

Mr. LEW. I haven't practiced in a long time.

Mr. ROKITA. But, classic basic skills of negotiation dictate that, when you are kicking off a process, which you just did yesterday, leadership dictates even, that you kicked off up here. And it seems that you are right here, and saying, Okay, you guys fill in the blanks.

Mr. LEW. No, I don't agree with that. I think we kicked off the process with a comprehensive plan that put an awful lot on the table, that is, we think, the best way to deal with the immediate challenges in front of us. And if that is not something that you agree with, we look forward to seeing your plan, and then we will work together to find where we can resolve it. So I don't agree with the characterization. I do agree that, as the President said, when he said this is a down-payment, there will be issues that we have to deal with beyond this, and those are totally consistent.

Mr. ROKITA. Okay, so in that regard, let me ask you some specific things. There has been a bipartisan agreement. Steny Hoyer, if I am quoting him correctly, said, Democrats agree that spending cuts are necessary to tackle our deep budget deficit. So we have got bipartisan agreement that we have got to start cutting spending. Given the reality that spending cuts are coming, has Office of Management and Budget approved any agency's spending in excess of fiscal year 2010 levels?

Mr. LEW. We are currently operating under a Continuing Resolution. Under the Continuing Resolution, we neither can begin or terminate activities. So we have been operating under the terms of something that provides for funding, in most cases, at fiscal year 2010 levels. It is an imperfect way to run the government, we should have full-year spending bills, and there undoubtedly will be complications as we move through the year, adjusting these numbers as we go along.

Mr. ROKITA. Have you advised agencies to prepare to start lowering their budgets?

Mr. LEW. Well, we advised agencies that they should follow the law. The law is that under continuing resolution, you do not initiate or terminate programs.

Mr. ROKITA. Well, for the future, are you starting to get these agencies acclimated to a culture of spending cuts?

Mr. LEW. I think the budget exercise we went through to produce this budget was a transition for many agencies, where things that were sacred cows that only grew, were frozen or reduced. There are tough decisions in this budget, really tough decisions, and I think there isn't an agency of government that hasn't made those tradeoffs.

Mr. ROKITA. You acknowledged that there is a net excess of 22,000 federal employees under your plan.

Mr. LEW. I am acknowledging that there is an increase, which is a very small percentage of the federal workforce, to address new activities in this period.

Mr. ROKITA. In Indiana, 22,000 is a lot of people.

Mr. LEW. It is a lot of people, but it is a big country, too, so when you put a few people at airports all over the country, it starts to add up.

Mr. ROKITA. Oh, don't start the airport business.

Mr. LEW. I could give other examples if I had more time.

Mr. ROKITA. One more thing on Social Security. You mentioned that Social Security wasn't much of an issue, I am paraphrasing, obviously, but I want you to tell me whether or not the trust fund has any money in it or not.

Mr. LEW. Trust fund has been running a surplus since 1983.

Mr. ROKITA. That is been taken.

Mr. LEW. And it has bonds in it.

Mr. ROKITA. Thank you.

Chairman RYAN. Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman. Thank you, Mr. Lew, for your time today. Does the administration have any concern about the national debt?

Mr. LEW. Yes.

Mr. STUTZMAN. I mean, am I right in reading that, on page 202, that our debt is going to go from $13.5 trillion to $26.3 trillion over the next 10 years?

Mr. LEW. Yeah, I think that we are very concerned about controlling the deficit so we stop building the national debt. We then have to start bringing down the debt so that the interest payments can also be reduced.

Mr. STUTZMAN. There is no plan, or no idea, in here, that even starts the curve back to some sort of solvency with national debt. I mean, to me, as we waited for the President's budget, I really felt that, you know, the President was going to come back and he was going to, in this town as a freshman, I am finding it is very political, I see great divides between the party, and I thought maybe the President's going to try and one-up the Republican party, and do something that, you know, maybe we are going to try to jump out in front and do.

And it totally surprised me to see this type of a budget. As a small business owner back in Indiana, to project deficit spending, project doubling the debt; when are we going to start to see some sort of action to show otherwise?

Mr. LEW. First, I mean, you are looking at, there are different measures of the debt. The debt held by the public is the part of the debt that has the impact on credit markets. And I would just note there are different ways of looking at it, it gets to a much lower number in 2021.

Mr. STUTZMAN. Where does it start to do, to go back down? Am I looking at the wrong line?

Mr. LEW. No, I mean, until we start paying down the debt, the interest payments on the debt will still be increasing that number. I don't disagree that we need to ultimately turn the corner and start paying down the debt. I just am arguing, and I think it is common sense, that until we stop adding to the debt through our spending policies, to pay down the old debt is impossible. So we have got to do this in two steps. This down payment has that first step, which is the critical and necessary first step.

Mr. STUTZMAN. As I am going back through, there are a couple of departments that get minimal increases. But it appears the largest increase is to the Department of the Treasury, specifically the IRS. Can you comment why?

Mr. LEW. Well, there are several reasons. First of all, we are implementing financial regulatory reform, which is an important area. We certainly don't want to be exposed to the future risks of bail-out that we have seen in recent years.

Secondly, we have enforcement initiatives where, I think we all agree, that if two people live next door and they are in the same income tax status, they have the same income, they should pay the same taxes. It shouldn't be that if you cheat you pay a lower tax rate. And there are enforcement efforts in there.

Mr. STUTZMAN. So how many of the 22,000 new federal employees are anticipated to be hired by the IRS?

Mr. LEW. I would have to go back and check the specific numbers.

Mr. STUTZMAN. I have got a couple of miscellaneous questions. How many federal employees do we currently have?

Mr. LEW. I could give you an exact number, I am happy to get back to you.

Mr. STUTZMAN. Okay, and then real quick, I think I heard you say earlier, that employers' number one concern is that they need an educated workforce, is that right?

Mr. LEW. I said, when I meet with CEOs, one of the big concerns that I hear them express is that they are having trouble hiring people with the skills they need in science, engineering, and math.

Mr. STUTZMAN. Okay, all right. Thank you, Mr. Chairman, I will yield back.

Chairman RYAN. Okay. Mr. Lankford.

Mr. LANKFORD. Thank you. You got to do this whole exercise last year, and go through all the dance and all the hearings and everything else, and then the budget was actually not passed.

Mr. LEW. I have only been here eight weeks on the job.

Mr. LANKFORD. Congress just passed on it, and so getting a chance to do this again, and that we can hopefully get a chance to pick up and pass a budget this time, and get us through all that. I am hearing a perpetual sense that the certain apocalypse is coming if Republicans actually try to balance the budget and move us from, out of just deficit spending, to actually cutting down the debt. But I can tell you, I see the other side of this, to say $26 trillion is a more frightening thing to me that balancing the budget is a frightening thing to me on that.

Let me just set a quick stage for you, just the emotions of that, because you are walking to this, early on at this point, returning back, as I am walking into it. Here is the sense that I walk into it with. When I came on January 5, this year's budget deficit was projected to be $1.4 trillion. By the State of the Union, it was $1.5 trillion. As of yesterday, it is $1.65 trillion. Now, what I am hearing is this sense of consternation that we are talking about cutting $100 billion out of this year's budget when actually our deficit has increased $250 billion, just in the six weeks that we have been in this session, at this point.

So there is a real sense among a lot of people that I have talked with, to say we cannot just slow down the amount of debt that we are adding each year. We have actually got to get back to balance. And I know you are walking a fine line, and I know you are fulfilling the President's mandate to say let us slow down the curve somewhat on it. But you go out 10 years, and there is no debt reduction. I know you said a bunch of times, we have got to get back to this primary balance. But it seems as if the next President and the next Congress is left with the hard decisions, and this is just some simple decisions that get into it.

Mr. LEW. In fairness, President Obama took office and inherited a situation that was out of control, and we are getting it under control and we are doing it as we emerge from the recession.

Mr. LANKFORD. What I am hearing are terms like sustainable deficits, that doesn't seem to be working towards getting it under control. That seems to be working towards getting it to some manageable balance that we only add a trillion or so a year to our debt, and we are not really getting out of this.

The other side that really concerns me is this whole sense of trying to split up the way that we are handling energy, that there is a preferred energy and there is a non-preferred energy. And we are going to try to sink a lot of money into R&D, into new technologies and energy, while punishing people that are in traditional. There has been a lot of conversation about jobs and about small businesses. And my question, in multi-fold in this; my concerns on it, number one is, is an independent producer of traditional energy sources who has three to five employees a small business?

Mr. LEW. If that was the entirety of the business, I believe it would be a small business.

Mr. LANKFORD. For a lot of independent producers around the country, they have three to five employees. And there is this sense of, we are going to go hammer on the big oil companies, when the majority of our energy companies aren't the big giant companies. They are small independent producers that are scattered all over the country. There are hundreds and thousands of them, scattered all over, that are about to get hammered, that are living in fear that the administration is going to come hammer them to come do another type of energy, very similar to what President Carter did when he said we are going to have 20 percent of our electricity produced by solar power by the year 2000. Yet here we are, in 2011, it is not even one percent.

Mr. LEW. We are seeing that other countries are investing in the technology now, and the technology has advanced, and we are entering a different period of time.

Let me just respond to one point that you made.

Mr. LANKFORD. Let me just finish, I have no issue with all forms of energy. I have an issue with going and punishing one group that is actually fueling our vehicles and powering our cars and getting our homes ready, so we can go try to do something else that may work ten years from now. It feels like the sustainable debt, you are saying, We will try to manage this and hopefully that will work out at some point. That is what I feel like we are doing to energy by trying to punish the energy companies.

Mr. LEW. I know we are almost out of time, but I just want to go back to one point you were making earlier, when you described the increase in the projected deficits. I just want to point out that in December, I know you weren't here in December. In December, my first couple of weeks in this new position, we had an important bipartisan agreement to do something that I think most of us agree on, which is taxes shouldn't have gone up January 1 of this year. We needed to have economic activity, it was the wrong time to let a tax increase take place. We also needed to do some things because we were still in a recession. That is driving up the numbers, but we knew when we passed it at the time, that it would have that short-term impact.

Chairman RYAN. Thank you. Mr. Guinta.

Mr. GUINTA. Thank you, Mr. Chairman. Thank you, Mr. Lew, for being here. I have a couple of quick questions, and I will try to not take up the full four minutes. First of all, I understand earlier this morning we agreed on the $1.6 trillion deficit number for fiscal year 2012, as proposed. Correct?

Mr. LEW. I am not sure I understand what you are referring to.

Mr. GUINTA. Did you agree that this budget proposal has a $1.6 trillion deficit?

Mr. LEW. Our budget states in its four corners, what the deficit is each year.

Mr. GUINTA. 2012, it is $1.6 trillion, correct?

Mr. LEW. In 2012, it is 1.1.

Mr. GUINTA. One point one trillion, okay. You had said that we want to cut the deficit in half, as it relates to GDP. You had also made statements about the deficit as a percentage of GDP. You also said that we need to be talking more clearly to the country about the challenges we have. I don't disagree with that. My point would be, I don't think the country appreciates the verbiage that we use. Municipalities, states, and homes do not budget the way the federal government budgets. I agree with you, and I think most people here agree, that we do have to reform and reduce spending. We do have to get on a path to have a greater fiscal soundness moving forward.

I don't see that path in this budget. You have conveyed that this is a first step. You have also made the statement that we need to put the, step on the brakes at the right time. I believe that the country believes that this is the right time. Our time is now, in order to change course, change direction. And I am certainly willing to work with you, and anybody, who recognizes that point. I don't see it in the budget, and maybe I am missing it, but I will continue to look through.

A couple of things that I would consider. First of all, I would like to know, how many programs for this budget did the administration audit?

Mr. LEW. How many did we audit, we reviewed every program in the Federal Government. We have terminations, reductions, and savings in over 200.

Mr. GUINTA. In this budget proposal? Okay, do you know how much money that saves?

Mr. LEW. $33 billion, those 200 plus terminations, reductions, and savings, save over $33 billion in 2012.

Mr. GUINTA. And where did you end up spending that savings in this proposal?

Mr. LEW. We are living within the freeze. We are paying for the extension of the Medicare Doc Fix, we are doing, there is a whole host of things. In just a few seconds, it would be hard to give you the complete, comprehensive answer.

Mr. GUINTA. Is there a proposal for a reduction in force of federal employees?

Mr. LEW. There is not a general policy. I believe there are some agencies that may well have some reductions enforced. It is not that it was a government-wide policy.

Mr. GUINTA. But you could instruct the departments to reduce their size and scope?

Mr. LEW. Right, we have a pay-freeze, which is a reduction in compensation for federal workers. And we have budgets that are very constrained, which mean that they are going to take on new missions without new people. And I think these are very tight budgets for federal agencies.

Mr. GUINTA. Okay. And the final point I would like to make is, in New Hampshire, my home state, 94 percent of our employers are small business owners. I note on the Office of Management and Budget Website that you project over 10 years, 500,000 new jobs will be created in New Hampshire. Our total population is about 1.3 million. I fail to see how we are going to create 500,000 new jobs in my state, particularly when we have got the marginal rate lapsing at 45 percent with the number of small business owners we have.

Mr. LEW. I am not familiar with the specific projection you are referring to. I am happy to take a look at it and get back to you.

Mr. GUINTA. Okay. Thank you very much.

Chairman RYAN. That is it?

Mr. LEW. Thank you very much.

Chairman RYAN. I hope you get some time to eat lunch before your next hearing. Thank you for coming by. We obviously have a chasm that separates our opinions on these issues. I look forward to further meetings with you in the future, this hearing is adjourned.

Mr. LEW. Thank you, Mr. Chairman.

[Questions submitted for the record and their responses follow:]

QUESTIONS SUBMITTED FOR THE RECORD AND THEIR RESPONSES

Chairman Ryan:

Director Lew, in Table S-7, there is an adjustment to the BEA baseline of $118 billion over ten years ($12 billion per year) to "reflect the incremental cost of funding the existing Pell maximum grant award."

Could you provide a more detailed justification for this adjustment and tell us if it is mandatory or discretionary funding?

A: The adjustment to the BEA baseline reflects the special scorekeeping rule for Pell Grants that CBO, OMB, and the Congressional budget committees have used since 2006. The scoring rule charges the appropriations committees for the full cost of funding the Pell maximum award for all eligible students, regardless of the amount of budget authority specified in the appropriations bill. The proposed out-year adjustment to the BEA baseline reflects the full cost of funding the current discretionary maximum award level—$4,860—for the projected number of students who would qualify in each fiscal year of the ten-year budget window. Finally, the adjustment is discretionary and does not suggest mandatory funding for the entire Pell Grant program.

Chairman Ryan:

Your predecessor's June 8, 2010 budget preparation guidance to agencies "requested that each non-security agency submit a budget request five percent below the discretionary total provided for that agency for FY 2012 in the FY 2011 Budget." Despite this guidance, many agencies including Commerce, Education, Energy, HUD, Interior, Treasury, EPA, GSA, NASA, NSF, SBA, and SSA saw increases over the projected 2012 level or decreases smaller than 5%.

Why did the administration not reduce spending that the agencies themselves decided were low priority?

Please provide for the record a list of the programs identified by the agencies pursuant to this guidance.

A: The agency submissions to OMB are part of the deliberative process which informed the development of the 2012 Budget. Like in past years, OMB provided guidance to agencies on their 2012 Budget request, including the top-line funding level for each agency. This past year, we also asked agencies to identify lower priority programs that are less critical in advancing their missions.

The materials agencies submitted were critical to developing our FY 2012 Budget request, and directly informed decisions to terminate or reduce funding for many low priority programs. Overall, the budget proposed 200 terminations and reductions that save $30 billion in 2012. In other cases, the Budget proposes to consolidate funding for low priority programs and use the funding more effectively, or reform programs so they can better accomplish their mission.

All of this contributed to the President's proposal to freeze non-security discretionary spending for five years.

Chairman Ryan:

Please provide the Committee with a list of proposed terminations and major reductions in the President's budget for FY 2002-FY 2010 and the ultimate funding level provided by Congress for these programs.

A: Attached is the list of discretionary programs that were proposed in the President's Budget for termination or reduction from 2006 to 2010, compared with the funding levels enacted by the Congress. The 2006 Budget was the first year that the President's Budget included a supporting document detailing proposed terminations and reductions. From 2006 to 2009, the supporting document was titled "Major Savings and Reforms." Since 2010, the supporting document was titled "Terminations, Reductions, and Savings."

2006 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2005 Enacted	2006 Request	2006 Enacted	2006 Request Less 2005 Enacted	2006 Enacted Less 2005 Enacted
TERMINATIONS					
Department of Agriculture					
AMS Biotechnology Program	4	---	---	-4	-4
Forest Service Economic Action Program	19	---	10	-19	-9
High Cost Energy Grants	28	---	26	-28	-2
NRCS Watershed and Flood Prevention Operations	75	---	75	-75	---
Research and Extension Grant Earmarks and Low Priority Programs	180	---	197	-180	17
Department of Commerce					
Advanced Technology Program	136	---	80	-136	-56
Emergency Steel Guarantee Loan Program	---	-50	---	-50	---
Public Telecom. Facilities, Planning and Construction Program	21	2	22	-19	1
Department of Education					
Alcohol Abuse Reduction	33	---	33	-33	---
Arts in Education	36	---	36	-36	---
B.J. Stupak Olympic Scholarships	1	---	1	-1	---
Byrd Scholarships	41	---	41	-41	---
Civic Education	29	---	29	-29	---
Close Up Fellowships	1	---	1	-1	---
Community Technology Centers	5	---	---	-5	-5
Comprehensive School Reform	205	---	8	-205	-197
Dropout Prevention Program	5	---	5	-5	---
Educational Technology State Grants	496	---	275	-496	-221
Elementary and Secondary School Counseling	35	---	35	-35	---
Even Start	225	---	100	-225	-125
Excellence in Economic Education	1	---	1	-1	---
Exchanges with Historic Whaling and Trading Partners	9	---	9	-9	---
Foreign Language Assistance	18	---	22	-18	4
Foundations for Learning	1	---	1	-1	---
GEAR UP	306	---	306	-306	---
Higher Education Demos for Students w/Disabilities	7	---	7	-7	---
Interest Subsidy Grants	1	---	---	-1	-1
Javits Gifted and Talented Education	11	---	10	-11	-1
LEAP	66	---	66	-66	---
Literacy Programs for Prisoners	5	---	---	-5	-5
Mental Health Integration in Schools	5	---	5	-5	---
National Writing Project	20	---	22	-20	2
Occupational and Employment Information	9	---	---	-9	-9
Parental Information and Resource Centers	42	---	40	-42	-2
Perkins Loans: Capital Contributions and Loan Cancellations	66	---	66	-66	---
Projects with Industry	22	---	20	-22	-2
Ready to Teach	14	---	11	-14	-3
Regional Education Laboratories	66	---	66	-66	---
Safe and Drug Free Schools State Grants	437	---	350	-437	-87
School Leadership	15	---	15	-15	---
Smaller Learning Communities	94	---	94	-94	---
Star Schools	21	---	15	-21	-6
State Grants for Incarcerated Youth	22	---	23	-22	1
Supported Employment	37	---	30	-37	-7
Talent Search	145	---	145	-145	---
Teacher Quality Enhancement Program	68	---	60	-68	-8
Tech Prep State Grants	106	---	106	-106	---
Tech-prep Demonstration	5	---	---	-5	-5
Thurgood Marshall Legal Opportunity	3	---	3	-3	---
Underground Railroad Program	2	---	2	-2	---
Upward Bound	313	---	313	-313	---
Vocational Education National Activities	12	---	9	-12	-3
Vocational Education State Grants	1,194	---	1,194	-1,194	---
Vocational Rehab. (VR) Migrant and Seasonal Workers	2	---	2	-2	---
Vocational Rehabilitation Recreational Programs	2	---	3	-2	1
Women's Educational Equity	3	---	3	-3	---
Department of Energy					
Hydropower Program	5	---	---	-5	-5
Nuclear Energy Plant Optimization	2	---	---	-2	-2
Nuclear Energy Research Initiative	2	---	---	-2	-2
Oil and Gas Programs	79	20	65	-59	-14
Department of Health and Human Services					
ACF Community Service Programs	30	---	5	-30	-25
ACF Early Learning Opportunities Fund	35	---	---	-35	-35
CDC Congressional Earmarks	60	---	---	-60	-60
CDC Preventive Health Block Grant	119	---	100	-119	-19

2006 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2005	2006		2006 Request Less 2005 Enacted	2006 Enacted Less 2005 Enacted
	Enacted	Request	Enacted		
CDC Youth Media Campaign	59	---	---	-59	-59
Direct Service Worker Delivery Grants	3	---	---	-3	-3
HRSA Emergency Medical Services for Children	20	---	20	-20	---
HRSA Health Facilities Construction Congressional Earmarks	483	---	---	-483	-483
HRSA Healthy Community Access Program	83	---	---	-83	-83
HRSA State Planning Grant Program	11	---	---	-11	-11
HRSA Trauma Care	3	---	---	-3	-3
HRSA Traumatic Brain Injury	9	---	9	-9	---
HRSA Universal Newborn Hearing Screening	10	---	10	-10	---
Real Choice Systems Change Grants	40	---	25	-40	-15
Department of Housing and Urban Development					
HOPE VI	143	-143	100	-286	-43
Department of the Interior					
BLM Jobs-in-the-Woods Program	6	---	---	-6	-6
LWCF State Recreation Grants (NPS)	90	---	28	-90	-62
National Park Service Statutory Aid	11	---	7	-11	-4
Rural Fire Assistance (BLM, NPS, FWS, BIA)	10	---	10	-10	---
Department of Justice					
Grants: Byrne Discretionary Grants	168	---	191	-168	23
Grants: Byrne Justice Assistance Grants	626	---	331	-626	-295
Grants: COPS Hiring Grants	10	---	---	-10	-10
Grants: COPS Interoperable Communications Technology Grants	99	---	10	-99	-89
Grants: COPS Law Enforcement Technology Grants	137	---	130	-137	-7
Grants: Juvenile Accountability Block Grants	54	---	50	-54	-4
Grants: Other State/Local Law Enforcem't Assist. Prgm Term.	94	---	76	-94	-18
National Drug Intelligence Center	39	17		-22	-39
State Criminal Alien Assistance Program (SCAAP)	301	---	404	-301	103
Department of Labor					
Migrant and Seasonal Farm Worker Training Program	76	---	80	-76	4
Reintegration of Youthful Offenders	50	---	50	-50	---
Department of Transportation					
National Defense Tank Vessel Construction Program	74	---	---	-74	-74
Railroad Rehabilitation Infrastructure Financing Loan Program	---	---	---	---	---
Environmental Protection Agency					
Unrequested Projects	489	---	319	-489	-170
Water Quality Cooperative Agreements	17	---	---	-17	-17
National Aeronatautics and Space Administration					
Hubble Space Telescope Robotic Servicing Mission	291	---	---	-291	-291
Other					
National Veterans Business Development Corporation	2	---	2	-2	---
Postal Service: Revenue Forgone Appropriation	29	---	29	-29	---
SBA: Microloan Program	15	---	14	-15	-1
SBA: Small Busines Invest. Co. (SBIC) Participating Sec. Program	---	---	---	---	---
TOTAL, TERMINATIONS	**8,609**	**-154**	**6,058**	**-8,763**	**-2,551**
REDUCTIONS					
Department of Agriculture					
Federal (In-House) Research	1,102	996	1,135	-106	33
Forest Service Capital Improve and Maintenance	515	381	439	-134	-76
Forest Service Wildland Fire Mgmt (incl. supp./emerg. funding)	2,097	1,444	1,771	-653	-326
M-Saver: Biomass Research and Development	---	-2	-2	-2	-2
M-Saver: Broadband	---	-50	-80	-50	-80
M-Saver: CCC - Bioenergy	---	-90	-90	-90	-90
M-Saver: CCC - Market Access Program	---	-75	---	-75	---
M-Saver: Farm Bill Program (Farm and Ranchland Protection)	---	-16	-26	-16	-26
M-Saver: Farm Bill Programs (Ag. Management Assistance)	---	-14	---	-14	---
M-Saver: Farm Bill Programs (CSP)	---	-40	-55	-40	-55
M-Saver: Farm Bill Programs (EQIP)	---	-200	-183	-200	-183
M-Saver: Farm Bill Programs (WHIP)	---	-25	-42	-25	-42
M-Saver: IFAS	---	-300	-300	-300	-300
M-Saver: Renewable Energy	---	-23	-23	-23	-23
M-Saver: Rural Business Investment Program	---	-89	-89	-89	-89
M-Saver: Rural Firefighter Grants	---	-40	-40	-40	-40
M-Saver: Rural Strategic Investment Program	---	-100	-100	-100	-100
M-Saver: Value-added Grants	---	-120	-120	-120	-120
M-Saver: Watershed Rehabilitation	---	-210	-210	-210	-210
NRCS Conservation Operations	831	768	840	-63	9
NRCS Resource Conservation and Development Program	51	26	51	-25	---
Water and Wastewater Grants and Loans	548	450	530	-98	-18
Department of Commerce					

2006 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2005 Enacted	2006 Request	2006 Enacted	2006 Request Less 2005 Enacted	2006 Enacted Less 2005 Enacted
Manufacturing Extension Partnership	108	47	106	-61	-2
Department of Education					
Adult Education State Grants	570	200	570	-370	---
State Grants for Innovation	198	100	100	-98	-98
Department of Energy					
Environmental Management	7,054	6,505	6,657	-549	-397
Department of Health and Human Services					
HRSA Children's Hospitals GME Payment Program	301	200	300	-101	-1
HRSA Health Professions	450	161	298	-289	-152
HRSA Rural Health	149	33	169	-116	20
SAMHSA Programs of Regional and National Significance	792	687	760	-105	-32
State, Local & Hospital Bioterrorism Preparedness Grants	1,406	1,280	1,311	-126	-95
Department of Housing and Urban Development					
Housing for Persons with Disabilities	238	120	239	-118	1
Native American Housing Block Grant	622	522	630	-100	8
Public Housing Capital Fund	2,579	2,327	2,464	-252	-115
Department of the Interior					
Bureau of Indian Affairs School Construction	263	174	209	-89	-54
National Heritage Area Grants	15	5	13	-10	-2
Payments in Lieu of Taxes	227	200	235	-27	8
USGS, Mineral Resources Program	54	25	53	-29	-1
Department of Justice					
Federal Bureau of Prisons Construction Program	189	-144	---	-333	-189
Grants: Juvenile Justice Law Enforcement Assistance Programs	321	198	292	-123	-29
Department of Labor					
International Labor Affairs Bureau	93	12	73	-81	-20
Office of Disability Employment Policy	47	28	28	-19	-19
Workforce Investment Act Pilots and Demonstrations	85	30	30	-55	-55
Department of State					
Assistance for the Independent States of the Former Soviet Union	556	482	514	-74	-42
Department of Transportation					
FAA - Airport Improvement Program (Oblim)	3,497	3,000	3,550	-497	53
FAA - Facilities and Equipment	2,525	2,448	2,540	-77	15
FRA - Next Generation High Speed Rail	19	---	---	-19	-19
Department of Treasury					
Internal Revenue Service - Taxpayer Service	3,606	3,567	3,568	-39	-38
Environmental Protection Agency					
Alaska Native Villages	45	15	35	-30	-10
Clean Water State Revolving Fund	1,091	730	896	-361	-195
National Aeronatautics and Space Administration					
Aeronautics: Vehicle Systems Program	569	459	507	-110	-62
Jupiter Icy Moons Orbiter	402	280	120	-122	-282
Other					
NARA: National Historical Publications & Records Commission	5	---	8	-5	3
ONDCP: High Intensity Drug Trafficking Areas Program	227	100	227	-127	---
U.S. Institute of Peace, Construction of New Building	99	---	---	-99	-99
TOTAL, REDUCTIONS	**33,546**	**26,462**	**29,908**	**-7,084**	**-3,638**
TOTAL, TERMINATIONS AND REDUCTIONS	**42,155**	**26,308**	**35,966**	**-15,847**	**-6,189**

2007 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2006 Enacted	2007 Request	2007 Enacted	2007 Request Less 2006 Enacted	2007 Enacted Less 2006 Enacted
TERMINATIONS					
Department of Agriculture					
Commodity Supplemental Food Program	107	---	107	-107	---
Community Connect (Broadband) Grants	9	---	9	-9	---
Forest Service Economic Action Program	10	---	---	-10	-10
High Cost Energy Grants	26	---	26	-26	---
Microbiological Data Program	6	---	5	-6	-1
P.L. 480 Title I	80	3	3	-77	-77
Public Broadcast Grants	5	---	5	-5	---
Research & Grant Extension Earmarks, Low Priority Programs	195	---	12	-195	-183
Watershed & Flood Prevention Operations	75	---	---	-75	-75
Department of Commerce					
Advanced Technology Program (ATP)	79	---	72	-79	-7
Alcohol Abuse Reduction	32	---	32	-32	---
Close Up Fellowships	1	---	1	-1	---
Emergency Steel Guarantee Loan Program	---	-49	---	-49	---
Foundations for Learning	1	---	1	-1	---
Parental Assistance Infor Centers	40	---	40	-40	---
Public Telecommunications Facilities Planning and Construction	22	---	22	-22	---
Department of Education					
Academies for American History/Civics	2	---	2	-2	---
Arts in Education	35	---	35	-35	---
B.J. Stupak Olympic Scholarships	1	---	1	-1	---
Byrd honors scholarships	41	---	41	-41	---
Civic Education	29	---	29	-29	---
Comprehensive School Reform	8	---	2	-8	-6
Dropout Prevention Program	5	---	---	-5	-5
Educational Technology State Grants	272	---	272	-272	---
El-Sec School Counseling	35	---	35	-35	---
Even Start	99	---	82	-99	-17
Excellence in Economic Education	1	---	1	-1	---
GEAR UP	303	---	303	-303	---
Higher Ed Demos for Students w/Disabilities	7	---	7	-7	---
Javits Gifted and Talented Education	10	---	8	-10	-2
LEAP	65	---	65	-65	---
Mental Health Integration in Schools	5	---	5	-5	---
National Writing Project	22	---	22	-22	---
Perkins Loan Cancellations	65	---	65	-65	---
Projects with Industry	20	---	20	-20	---
Ready to Teach	11	---	11	-11	---
Safe and Drug-Free Schools State grants	347	---	347	-347	---
School Leadership	15	---	15	-15	---
Smaller Learning Communities	94	---	94	-94	---
Star Schools	15	---	12	-15	-3
State Grants for Incarcerated Youth	23	---	23	-23	---
Supported Employment State Grants	30	---	30	-30	---
Teacher Quality Enhancement	60	---	60	-60	---
Tech-prep education State Grants	105	---	105	-105	---
Thurgood Marshall Legal Opportunity	3	---	3	-3	---
TRIO Talent Search	145	---	145	-145	---
TRIO Upward Bound	311	---	311	-311	---
Underground Railroad Program	2	---	2	-2	---
Vocational Education National Programs	9	---	10	-9	1
Vocational Education State Grants	1,182	---	1,182	-1,182	---
VR Migrant and Seasonal Farmworkers	2	---	2	-2	---
VR Recreational Programs	3	---	3	-3	---
Whaling and Trading Partners	9	---	9	-9	---
Womens Education Equity	3	---	2	-3	-1
Department of Energy					
Geothermal Technology Program	23	---	5	-23	-18
Oil and Gas R&D Progams	64	---	15	-64	-49
University Nuclear Energy Programs	27	---	17	-27	-10
Department of Health and Human Services					
CDC Preventive Health & H.S. Block Grant	99	---	99	-99	---
Community Economic Development	27	---	27	-27	---
Community Services Block Grant	630	---	630	-630	---
Grants & Training	229	---	240	-229	11
Job Opportunities for Low-Income Individuals	6	---	6	-6	---
Maternal and Child Health Small Categorical Grants	39	---	39	-39	---
Real Choice Systems Change Grants	25	---	16	-25	-9

2007 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2006	2007		2007 Request Less 2006 Enacted	2007 Enacted Less 2006 Enacted
	Enacted	Request	Enacted		
Rural Community Facilities	7	---	7	-7	---
Urban Indian Health Program	33	---	34	-33	1
Department of Housing and Urban Development					
HOPE VI	99	-99	99	-198	---
Department of the Interior					
BIA Johnson-OMalley Assistance Grants	16	---	12	-16	-4
LWCF State Recreation Grants	28	---	28	-28	---
National Park Service Statutory Aid	7	---	3	-7	-4
Rural Fire Assistance	10	---	---	-10	-10
Department of Justice					
Byrne Discretionary Grants	189	---	189	-189	---
Byrne Justice Assistance Grant	327	---	520	-327	193
COPS Law Enforcement Technology Grants	128	---	166	-128	38
Juvenile Accountability Block Grants	49	---	49	-49	---
National Drug Intelligence Center	39	16	39	-23	---
State Criminal Alien Assistance Program	400	---	400	-400	---
Department of Labor					
Americas Job Bank	15	---	---	-15	-15
Denali Commission Job Training Earmark	7	---	7	-7	---
Migrant & Seasonal Farmworkers Training Program	79	---	80	-79	1
Reintegration of Youthful Offenders	49	---	49	-49	---
Susan Harwood Training Grants (OSHA)	10	---	10	-10	---
Work Incentive Grants	20	---	20	-20	---
Department of Transportation					
National Defense Tank Vessel Program	---	-74	-74	-74	-74
Railroad Rehab. & Improvement Financing Loan Program	---	---	---	---	---
Environmental Protection Agency					
Unrequested Projects	277	---	---	-277	-277
Other Agencies					
CNCS National Civilian Community Corps	27	5	27	-22	---
CNCS Presidents Freedom Scholarships	4	---	---	-4	-4
National Veterans Business Development Corp.	1	---	2	-1	1
Postal Service Forgone Revenue Appropriation	29	---	29	-29	---
SBA: Microloan Program	14	---	14	-14	---
TOTAL, TERMINATIONS	**7,115**	**-198**	**6,500**	**-7,313**	**-615**
REDUCTIONS					
Department of Agriculture					
Conservation Operations	822	745	759	-77	-63
In-House Research	1,124	1,001	1,129	-123	5
M-Saver: Agricultural Management Assistance	---	-14	-14	-14	-14
M-Saver: Biomass R & D	---	-2	-2	-2	-2
M-Saver: Broadband	---	-10	-10	-10	-10
M-Saver: Environmental Quality Incentives Program	---	-270	-253	-270	-253
M-Saver: Farmland Protection Program	---	-47	-24	-47	-24
M-Saver: Ground & Surface Water Conservation	---	-9	-9	-9	-9
M-Saver: Market Access Program	---	-100	---	-100	---
M-Saver: Renewable Energy Program	---	-3	---	-3	---
M-Saver: Rural Economic Development Grants	---	-89	-74	-89	-74
M-Saver: Value-added Marketing Grants	---	-40	-40	-40	-40
M-Saver: Watershed Rehabilitation Program	---	-65	-65	-65	-65
M-Saver: Wildlife Habitat Incentives Program	---	-30	-42	-30	-42
Resource Conservation & Development	51	26	51	-25	---
State & Private Forestry	217	117	217	-100	---
Department of Commerce					
Manufacturing Extension Partnership (MEP)	105	46	105	-59	---
Technology Administration	6	1	2	-5	-4
Department of Education					
Mentoring program	49	19	49	-30	---
Perkins Institutional Fund Recall	---	-664	---	-664	---
Physical Education	73	26	73	-47	---
Teaching Traditional American History	120	50	120	-70	---
Department of Energy					
Clean Coal Power Initiative	50	5	60	-45	10
Environmental Management	6,590	5,828	6,186	-762	-404
Weatherization Assistance Program	243	164	205	-79	-38
Department of Health and Human Services					
HRSA- Childrens GME	297	99	297	-198	---
HRSA- Health Professions	295	159	334	-136	39
HRSA- Poison Control Centers (PCC)	23	13	14	-10	-9

2007 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2006	2007		2007 Request Less 2006 Enacted	2007 Enacted Less 2006 Enacted
	Enacted	Request	Enacted		
HRSA- Rural Health	160	27	160	-133	---
SAMHSA- Programs of Regional and National Significance	851	780	850	-71	-1
M-Saver: Social Services Block Grant[1]	---	-500	---	-500	---
Department of Homeland Security					
Grants & Training	1,789	1,095	1,259	-694	-530
Department of Housing and Urban Development					
Public Housing Capital	2,439	2,178	2,439	-261	---
Department of the Interior					
BIA School Construction	207	157	205	-50	-2
Bureau of Reclamation Reductions (excl. CUPCA)	977	850	991	-127	14
USGS Mineral Resources Program	53	31	52	-22	-1
Department of Labor					
Consolidated Job Training Grant	3,927	3,413	3,925	-514	-2
International Labor Affairs Bureau	73	12	73	-61	---
Office of Disability Employment Policy	28	20	28	-8	---
State/International					
Assistance for Eastern European Democracy	357	274	274	-83	-83
Assistance for the Independent States of the Former Soviet Union	509	441	452	-68	-57
Department of Transportation					
Amtrak	1,294	900	1,294	-394	---
FAA - Airport Improvement Program (oblim)	3,515	2,750	3,515	-765	---
Department of Treasury					
Business Systems Modernization	197	167	168	-30	-29
Environmental Protection Agency					
Alaska Native Villages	34	15	34	-19	---
Clean Water State Revolving Fund	887	688	1,084	-199	197
National Aeronautics and Space Administration					
Aeronautics Research	884	724	892	-160	8
Other Agencies					
Corporation for Public Broadcasting	460	346	464	-114	4
Denali Commission	53	6	53	-47	---
NARA: National Historical Publications & Records Comm	8	---	7	-8	-1
TOTAL, REDUCTIONS	**28,767**	**21,330**	**27,287**	**-7,437**	**-1,480**
TOTAL, TERMINATIONS AND REDUCTIONS	**35,882**	**21,132**	**33,787**	**-14,750**	**-2,095**

2008 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2007	2008		2008 Request Less	2008 Enacted Less
	Enacted	Request	Enacted	2007 Enacted	2007 Enacted
TERMINATIONS					
Department of Agriculture					
Community Connect (Broadband) Grants	9	---	13	-9	4
Community Facility Grants	28	---	27	-28	-1
Economic Impact Grants	18	---	8	-18	-10
FNS - Commodity Supplemental Food Program	107	---	139	-107	32
Multifamily Housing Direct Loans	45	---	36	-45	-9
Research & Extension Grant Earmarks/Low Priority Programs	12	---	144	-12	132
Rural Business Grants	45	---	45	-45	---
Rural Enterprise Zones/Empowerment Communities	11	---	8	-11	-3
Single Family Housing Direct Loans	113	---	105	-113	-8
Watershed Programs	46	---	30	-46	-16
Department of Commerce					
Emergency Steel Guarantee Loan Program	---	-49	---	-49	---
Public Telecomm Facilities, Planning and Construction Grants	20	---	19	-20	-1
Technology Administration	2	2	---	---	-2
Department of Education					
Academies for American History and Civics	2	---	2	-2	---
Advanced Credentialing	17	---	10	-17	-7
Alaska Native Education Equity	34	---	33	-34	-1
Alcohol Abuse Reduction	32	---	32	-32	---
Arts in Education	35	---	38	-35	3
B.J. Stupak Olympic Scholarships	1	---	1	-1	---
Byrd Honors Scholarships	41	---	40	-41	-1
Civic Education	29	---	32	-29	3
Close-Up Fellowships	1	---	2	-1	1
Comprehensive School Reform	3	---	2	-3	-1
Dropout Prevention Program	---	---	---	---	---
Education for Native Hawaiians	34	---	33	-34	-1
Educational Technology State Grants	272	---	267	-272	-5
Elementary and Secondary School Counseling	35	---	49	-35	14
Even Start	82	---	66	-82	-16
Excellence in Economic Education	1	---	1	-1	---
Foundations for Learning	1	---	1	-1	---
Higher Ed Demos for Students with Disabilities	7	---	7	-7	---
Historic Whaling and Trading Partners	9	---	9	-9	---
Javits Gifted and Talented Education	8	---	7	-8	-1
Leveraging Educational Assistance Programs	65	---	64	-65	-1
Mental Health Integration in Schools	5	---	5	-5	---
Mentoring Program	49	---	49	-49	---
National Writing Project	22	---	24	-22	2
Parental Assistance Information Centers	40	---	39	-40	-1
Perkins Loan Cancellations	65	---	64	-65	-1
Physical Education	73	---	76	-73	3
Projects with Industry	20	---	19	-20	-1
Ready to Teach	11	---	11	-11	---
School Leadership	15	---	14	-15	-1
Smaller Learning Communities	90	---	80	-90	-10
Star Schools	12	---	---	-12	-12
State Grants for Incarcerated Youth	23	---	22	-23	-1
State Grants for Innovation	99	---	---	-99	-99
Strengthening Alaska Native/Native Hawaiian Institutions	12	---	12	-12	---
Supplemental Educational Opportunity Grants	771	---	757	-771	-14
Supported Employment State Grants	30	---	29	-30	-1
Teacher Quality Enhancement	60	---	34	-60	-26
Tech-Prep Education State Grants	105	---	103	-105	-2
Thurgood Marshall Legal Opportunity	3	---	3	-3	---
VR Migrant and Seasonal Farmworkers	2	---	2	-2	---
VR Recreational Programs	3	---	2	-3	-1
Women's Educational Equity	2	---	2	-2	---
Department of Energy					
Geothermal Technology Program	5	---	20	-5	15
Oil and Gas Research and Development	15	---	25	-15	10
University Nuclear Energy Program	17	---	15	-17	-2
Department of Health and Human Services					
ACF - Community Services Block Grant	630	---	654	-630	24
ACF - Other Community Service Programs	27	---	45	-27	18
AoA - Alzheimer's Demonstration Project	12	---	11	-12	-1
AoA - Preventive Health Services	21	---	21	-21	---
CDC - Preventive Health & H.S. Block Grant	99	---	97	-99	-2

2008 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2007	2008		2008 Request Less 2007 Enacted	2008 Enacted Less 2007 Enacted
	Enacted	Request	Enacted		
Job Opportunities for Low-Income Individuals	6	---	5	-6	-1
Rural Communities	7	---	8	-7	1
HRSA - Bioterrorism Curriculum Development	21	---		-21	-21
HRSA - Maternal and Child Health Small Categorical Grants	39	---	40	-39	1
IHS - Urban Indian Health Program	33	---	35	-33	2
Department of Housing and Urban Development					
HOPE VI	99	-99	100	-198	1
Rural Housing and Economic Development	17	---	17	-17	---
Section 108 Loan Program	4	---	5	-4	1
Department of the Interior					
BIA - Housing Improvement Program	23	---	14	-23	-9
BIA - Johnson-OMalley Assistance Grants	20	---	21	-20	1
FWS - Landowner Incentive Grants	15	---	---	-15	-15
FWS - Private Stewardship Grants	7	---	---	-7	-7
LWCF State Recreation Grants	28	---	25	-28	-3
National Park Service Statutory Aid	7	---	7	-7	---
Rural Fire Assistance Program	---	---	6	---	6
Department of Justice					
National Drug Intelligence Center	39	16	39	-23	---
State Criminal Alien Assistance Program	400	---	410	-400	10
Department of Labor					
Denali Commission Job Training Earmark	7	---	7	-7	---
Migrant & Seasonal Farmworkers Training Program	79	---	80	-79	1
Susan Harwood Training Grants (OSHA)	10	---	10	-10	---
Work Incentive Grants	20	---	14	-20	-6
Environmental Protection Agency					
Targeted Watershed Grants	17	---	10	-17	-7
Unrequested Water Infrastructure Projects	---	---	133	---	133
National Aeronautics and Space Administration					
Red Planet Venture Capital Fund	---	---	---	---	---
Other Agencies					
Commission of Fine Arts, National Capital Arts and Cultural Affairs	7	---	8	-7	1
National Veterans Business Development Corp	2	---	1	-2	-1
Postal Service Forgone Revenue Appropriation	29	---	29	-29	---
TOTAL, TERMINATIONS	**4,439**	**-130**	**4,529**	**-4,569**	**90**
REDUCTIONS					
Department of Agriculture					
Farm Labor Housing Program	32	10	22	-22	-10
In-House Research Programs	1,129	1,022	1,121	-107	-8
M-Saver: Environmental Quality Incentives Program	-253	-270	-270	-17	-17
M-Saver: Funds for Strengthening Markets, Income and Supply	---	-65	-684	-65	-684
M-Saver: Rural Economic Development Grants	-74	-34	-34	40	40
M-Saver: Agricultural Management Assistance	-14	-10	---	4	14
M-Saver: Commodity Credit Corp Cotton Storage Credits	---	-87	---	-87	---
M-Saver: Conservation Security Program	-83	-80	---	3	83
National Forest System	1,453	1,344	1,470	-109	17
Resource Conservation & Development Program	51	15	51	-36	---
Self-Help Housing Grants	34	10	39	-24	5
Watershed Rehabilitation Program	31	6	20	-25	-11
Department of Commerce					
Economic Development Administration Grants	251	170	243	-81	-8
Manufacturing Extension Partnership (MEP)	105	46	90	-59	-15
Department of Education					
Career and Technical Education State Grants	1,182	600	1,161	-582	-21
Safe and Drug-Free Schools State Grants	347	100	295	-247	-52
Teaching American History	120	50	118	-70	-2
Department of Energy					
Weatherization Assistance Program	205	144	227	-61	22
Department of Health and Human Services					
ACF - Social Services Block Grant	1,700	1,200	1,700	-500	---
CMS - Real Choice Systems Change Grants	16	10	10	-6	-6
HRSA - Childrens Hospital GME Payments	297	110	302	-187	5
HRSA - Health Professions Grants	334	115	350	-219	16
HRSA - Poison Control Centers	23	10	27	-13	4
HRSA - Rural Health	168	25	175	-143	7
OS/CDC - State, Local and Hospital Preparedness Grants	1,298	1,112	1,166	-186	-132
SAMHSA - Mental Health Programs	263	186	299	-77	36
SAMHSA - Substance Abuse Programs	588	504	590	-84	2
Department of Housing and Urban Development					

2008 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2007	2008		2008 Request Less 2007 Enacted	2008 Enacted Less 2007 Enacted
	Enacted	Request	Enacted		
Community Development Block Grant (Incl. cancellation)	3,772	2,681	3,866	-1,091	94
Public Housing Capital Fund	2,439	2,024	2,439	-415	---
Department of the Interior					
Indian Land Consolidation Program	34	10	10	-24	-24
Payments in Lieu of Taxes	233	190	229	-43	-4
USGS - Mineral Resources Program	53	30	51	-23	-2
Department of Labor					
Cancellation of Unexpended Job Training Balances	---	-335	-250	-335	-250
H-1B Fraud Prevention (Unobligated balances cancellation)	---	-50	-102	-50	-102
Indian and Native American Training Program	54	45	53	-9	-1
International Labor Affairs Bureau	73	14	81	-59	8
Job Training Grants Consolidation	3,925	3,413	3,850	-512	-75
Office of Disability Employment Policy	28	19	27	-9	-1
Pilots, Demonstrations and Research	15	13	49	-2	34
Senior Community Service Employment	484	350	522	-134	38
Department of Transportation					
Amtrak (Intercity Passenger Rail)	1,294	900	1,355	-394	61
Essential Air Service	59	---	60	-59	1
FAA - Airport Improvement Program (ob lim)	3,514	2,750	3,515	-764	1
Railroad Rehab and Improvement Financing Loan Program	---	---	---	---	---
Environmental Protection Agency					
Mexico Border	25	10	20	-15	-5
State and Local Air Quality Grants	220	185	217	-35	-3
Small Business Administration					
Microloan Program	14	---	17	-14	3
Other Agencies					
Corporation for Public Broadcasting	464	350	448	-114	-16
Denali Commission Direct Grant-Making	53	6	26	-47	-27
NARA National Historical Publications and Records Commission	7	---	10	-7	3
TOTAL, REDUCTIONS	**25,963**	**18,848**	**24,981**	**-7,115**	**-982**
TOTAL, TERMINATIONS AND REDUCTIONS	**30,402**	**18,718**	**29,510**	**-11,684**	**-892**

2009 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2008 Enacted	2009 Request	2009 Enacted	2009 Request Less 2008 Enacted	2009 Enacted Less 2008 Enacted
TERMINATIONS					
Department of Agriculture					
Community Connect (Broadband) Grants	13	---	13	-13	---
Community Facility Grants	27	---	31	-27	4
Economic Impact Grants	14	---	10	-14	-4
Farm Labor Housing Program	22	---	18	-22	-4
Food and Nutrition Service - Commodity Supplemental Food Program	139	---	160	-139	21
Forest Service Economic Action	4	---	10	-4	6
Forest Service Valles Caldera National Preserve	4	---	4	-4	---
High Cost Energy Grants	20	---	18	-20	-2
Rural Economic Development Loan and Grant Program	---	-39	-20	-39	-20
Multifamily Housing Direct Loans	30	---	29	-30	-1
Public Broadcast Grants	5	---	5	-5	---
Research and Extension Grant Earmarks/Low Priority Programs	144	---	136	-144	-8
Resource Conservation and Development Program	51	---	51	-51	---
Rural Business Grants	45	---	44	-45	-1
Section 9006, Renewable Energy Program	36	---	5	-36	-31
Self-Help Housing Grants	39	---	39	-39	---
Single Family Housing Direct Loans	105	---	75	-105	-30
Value Added Producer Grants	19	---	4	-19	-15
Watershed Programs	30	---	24	-30	-6
Department of Commerce					
Emergency Steel Guarantee Loan Program	---	-49	---	-49	---
Manufacturing Extension Partnership	90	4	110	-86	20
Public Telecommunications Facilities, Planning and Construction Grants	19	---	18	-19	-1
Technology Innovation Program	46	---	60	-46	14
Department of Education					
Academies for American History and Civics	2	---	2	-2	---
Advanced Credentialing	10	---	11	-10	1
Alaska Native Education Equity	33	---	33	-33	---
Alcohol Abuse Reduction	32	---	33	-32	1
Arts in Education	38	---	39	-38	1
B.J. Stupak Olympic Scholarships	1	---	1	-1	---
Byrd Honors Scholarships	40	---	41	-40	1
Career and Technical Education National Programs	8	---	8	-8	---
Career and Technical Education State Grants	1,161	---	1,161	-1,161	---
Civic Education	32	---	33	-32	1
Close-Up Fellowships	2	---	2	-2	---
Comprehensive School Reform	2	---	---	-2	-2
Education for Native Hawaiians	33	---	33	-33	---
Educational Technology State Grants	267	---	270	-267	3
Elementary and Secondary School Counseling	49	---	52	-49	3
Even Start	66	---	66	-66	---
Excellence in Economic Education	1	---	1	-1	---
Foundations for Learning	1	---	1	-1	---
Higher Education Demonstrations for Students with Disabilities	7	---	7	-7	---
Historic Whaling and Trading Partners	9	---	8	-9	-1
Javits Gifted and Talented Education	7	---	7	-7	---
Leveraging Educational Assistance Programs	64	---	64	-64	---
Mental Health Integration in Schools	5	---	6	-5	1
Mentoring Program	49	---	49	-49	---
National Writing Project	24	---	24	-24	---
Parental Assistance Information Centers	39	---	39	-39	---
Perkins Loan Cancellations	64	---	67	-64	3
Physical Education	76	---	78	-76	2
Projects with Industry	19	---	19	-19	---
Reading is Fundamental	25	---	25	-25	---
Ready to Teach	11	---	11	-11	---
School Leadership	14	---	19	-14	5
Smaller Learning Communities	80	---	88	-80	8
Special Olympics Education Programs	12	---	8	-12	-4
State Grants for Incarcerated Youth	22	---	17	-22	-5
Strengthening Alaska Native/Native Hawaiian Institutions	12	---	12	-12	---
Supplemental Educational Opportunity Grants	757	---	757	-757	---
Supported Employment State Grants	29	---	29	-29	---
Teacher Quality Enhancement	34	---	50	-34	16
Teachers for a Competitive Tomorrow	2	---	2	-2	---
Tech-Prep Education State Grants	103	---	103	-103	---
Thurgood Marshall Legal Opportunity	3	---	3	-3	---
Tribally Controlled Postsecondary Vocational Education	8	---	8	-8	---
Underground Railroad Program	2	---	2	-2	---
Vocation Rehabilitation - Migrant and Seasonal Farmworkers	2	---	2	-2	---

2009 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2008 Enacted	2009 Request	2009 Enacted	2009 Request Less 2008 Enacted	2009 Enacted Less 2008 Enacted
Vocation Rehabilitation - Recreational Programs	2	---	2	-2	---
Women's Educational Equity	2	---	2	-2	---
Department of Energy					
Oil and Gas Research and Development	25	---	25	-25	---
University Nuclear Energy Program (Nuclear Regulatory Commission)	15	---	5	-15	-10
Weatherization Assistance Program*	227	---	450	-227	223
Department of Health and Human Services					
Administration for Children and Families - Community Services Block Grant	654	---	700	-654	46
Administration for Children and Families - Other Community Service Programs	45	---	51	-45	6
Administration for Aging - Alzheimer's Demonstration Project	11	---	11	-11	---
Administration for Aging - Preventive Health Services	21	---	21	-21	---
Centers for Disease Control - Preventive Health and Health Services Block Grant	97	---	102	-97	5
Congressional Earmarks	451	---	412	-451	-39
HRSA - Children's Hospital Graduate Medical Education Payments	302	---	310	-302	8
HRSA - Maternal and Child Health Small Categorical Grants	40	---	49	-40	9
Indian Health Service - Urban Indian Health Program	35	---	36	-35	1
Department of Housing and Urban Development					---
Brownfields	10	---	15	-10	5
Revitalization of Severely Depressed Public Housing (HOPE VI)	100	---	120	-100	20
Rural Housing and Economic Development	17	---	26	-17	9
Section 108 Loan Program	5	---	6	-5	1
Department of the Interior					---
Bureau of Indian Affairs - Housing Improvement Program	14	---	14	-14	---
Bureau of Indian Affairs - Johnson-O'Malley Assistance Grants	21	---	21	-21	---
Indian Land Consolidation Program	10	---	---	-10	-10
Land and Water Conservation Fund State Recreation Grants	25	---	20	-25	-5
National Park Service Statutory Aid	7	---	6	-7	-1
Office of Surface Mining Reclamation Grants	20	---	20	-20	---
Rural Fire Assistance Program	6	---	7	-6	1
Department of Justice					---
State Criminal Alien Assistance Program	410	---	400	-410	-10
Department of Labor					---
Denali Commission Job Training Earmark	7	---	3	-7	-4
Migrant and Seasonal Farmworkers Training Program	80	---	83	-80	3
Susan Harwood Training Grants	10	---	10	-10	---
Work Incentive Grants	14	---	17	-14	3
Environmental Protection Agency					
Targeted Watershed Grants	10	---	---	-10	-10
Unrequested Water Infrastructure Projects	133	---	145	-133	12
Other Agencies					
Commission of Fine Arts, National Capital Arts and Cultural Affairs	8	---	10	-8	2
National Veterans Business Development Corporation	1	---	---	-1	-1
Postal Service Forgone Revenue Appropriation	29	---	23	-29	-6
TOTAL, TERMINATIONS	**7,023**	**-84**	**7,257**	**-7,107**	**234**
REDUCTIONS					
Department of Agriculture:					
Capital Improvement and Maintenance	484	406	482	-78	-2
Distance Learning and Telemedicine Grants	30	20	30	-10	---
Forest Service Research and Grants	549	378	562	-171	13
Housing Repair Loans	10	5	9	-5	-1
In-House Research Construction	47	-54	47	-101	---
In-House Research Programs	1,121	1,037	1,140	-84	19
Land Acquisition	43	6	50	-37	7
Multifamily Housing Revitalization Vouchers	28	-20	28	-48	---
National Forest System	1,470	1,350	1,521	-120	51
Water and Wastewater Grants	469	220	480	-249	11
Mandatory Reductions Providing Discretionary Offsets:				---	---
Agricultural Management Assistance	---	-10	---	-10	---
Conservation Security Program	---	-80	---	-80	---
Environmental Quality Incentives Program	---	-220	-270	-220	-270
Funds for Strengthening Markets, Income, and Supply	---	-293	-359	-293	-359
Department of Commerce:					
Economic Development Administration Grants	243	100	225	-143	-18
Pacific Coastal Salmon Recovery	67	35	80	-32	13
Department of Education:					
21st Century Learning Opportunities	1,081	800	1,131	-281	50
Safe and Drug-Free Schools State Grants	295	100	295	-195	---
Teaching American History	118	50	119	-68	1
Department of Health and Human Services:					
Health Resources and Services Administration - Health Professions Grants	350	110	393	-240	43
Health Resources and Services Administration - Rural Health	175	25	169	-150	-6

2009 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions of dollars)

	2008	2009		2009 Request Less	2009 Enacted Less
	Enacted	Request	Enacted	2008 Enacted	2008 Enacted
Substance Abuse and Mental Health Services Admin. - Pgms. of Reg'l and Nat'l Significance	889	639	951	-250	62
Mandatory Reduction Providing Discretionary Offsets:				---	---
Social Services Block Grant	---	-500	1,700	-500	1,700
Department of Homeland Security:					
State and Local Support Programs	4,105	2,200	4,246	-1,905	141
Department of Housing and Urban Development:					
Community Development Block Grant (including cancellation)	3,866	2,794	3,900	-1,072	34
Public Housing Capital Fund	2,439	2,024	2,450	-415	11
Department of the Interior:					
Bureau of Indian Affairs - Roads	26	13	26	-13	---
U.S. Geological Survey - Mineral Resources Program	51	26	52	-25	1
Department of Labor:					
Indian and Native American Training Program	53	45	53	-8	---
International Labor Affairs Bureau	81	15	86	-66	5
Job Training Grants Consolidation	3,850	2,826	3,904	-1,024	54
Office of Disability Employment Policy	27	12	27	-15	---
Pilots, Demonstrations and Research	49	16	49	-33	---
Senior Community Service Employment	522	350	572	-172	50
Department of Transportation:					
Amtrak (Intercity Passenger Rail)	1,355	900	1,490	-455	135
Essential Air Service	60	---	73	-60	13
Federal Aid Highways (obligation limitation)	41,216	39,399	40,700	-1,817	-516
Railroad Rehabilitation and Improvement Financing Loan Program	---	---	---	---	---
Environmental Protection Agency:					
Clean Water State Revolving Fund	689	555	689	-134	---
Mexico Border	20	10	20	-10	---
Nonpoint Source Grants	201	185	201	-16	---
National Aeronautics and Space Administration:					
Aeronautics Research	627	545	500	-82	-127
New Millennium Program	58	4	4	-54	-54
Small Business Administration:					
Microloan Program	17	---	23	-17	6
Other Agencies:					
Corporation for Public Broadcasting	448	200	461	-248	13
Delta Regional Authority	12	6	13	-6	1
Denali Commission Direct Grant-Making	26	6	16	-20	-10
National Archives and Records Admin - Nat Historical Public and Records Commission	10	---		-10	-10
TOTAL, REDUCTIONS	**67,277**	**56,235**	**68,338**	**-11,042**	**1,061**
TOTAL, TERMINATIONS AND REDUCTIONS	**74,300**	**56,151**	**75,595**	**-18,149**	**1,295**

2010 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions in dollars)

	2009 Enacted	2010 Request	2010 Enacted	2010 Request Less 2009 Enacted	2010 Enacted Less 2009 Enacted
TERMINATIONS					
Department of Agriculture					
Economic Action Program	5	---	5	-5	---
High Energy Cost Grants	18	---	18	-18	---
Public Broadcasting Grants	5	---	5	-5	---
Resource Conservation and Development Program	51	---	51	-51	---
Rural Empowerment Zones and Enterprise Communities Grants	8	---	---	-8	-8
Watershed and Flood Prevention Program	24	---	30	-24	6
Department of Commerce					
Public Telecom Facilities	18	---	20	-18	2
Department of Defense					
C-17 Strategic Airlift Aircraft	---	91	2,500	91	2,500
Combat Search and Rescue (CSAR-X) Helicopter	233	89	---	-144	-233
F-22 Raptor Fighter Aircraft	2,907	---	---	-2,907	-2,907
Future Combat Systems Manned Ground Vehicles*	783	369	80	-414	-703
Joint Strike Fighter Alternate Engine	465	---	465	-465	---
Multiple Kill Vehicle Program	283	---	---	-283	-283
Next Generation Bomber	---	---	---	---	---
Presidential Helicopter (VH-71)	835	85	130	-750	-705
Transformational Satellite	768	---	---	-768	-768
Department of Education					
Academies for American History and Civics	2	---	2	-2	---
Character Education Program	12	---	---	-12	-12
Civic Education	33	---	35	-33	2
Close-Up Fellowship	2	---	2	-2	---
Even Start	66	---	66	-66	---
Foundations for Learning	1	---	1	-1	---
Javits Gifted and Talented Education Program	7	---	7	-7	---
National Institute for Literacy	6	---	---	-6	-6
Ready to Teach	11	---	11	-11	---
Safe and Drug-Free Schools and Communities State Grants	295	---	---	-295	-295
Student Mentoring Program	47	---	---	-47	-47
Department of Energy					
Los Alamos Neutron Science Center Refurbishment	19	---	20	-19	1
Nuclear Hydrogen Activities	8	---	---	-8	-8
Nuclear Power 2010	178	20	105	-158	-73
Oil Research and Development Program	5	---	20	-5	15
Reliable Replacement Warhead	---	---	---	---	---
Yucca Mountain Repository Program	288	197	197	-91	-91
Department of Health and Human Services					
Anthrax Vaccine Research	8	---	3	-8	-5
Delta Health Initiative	26	---	35	-26	9
Denali Commission	20	---	10	-20	-10
Health Care Facilities and Construction	310	---	338	-310	28
Rural Community Facilities	10	---	10	-10	---
Department of Homeland Security					
Emergency Operations Center Grant Program	35	---	60	-35	25
Inter-City Bus Security Grant Program	12	---	12	-12	---
Loran-C	35	---	12	-35	-23
Trucking Security Program	8	---	-6	-8	-14
Department of Housing and Urban Development					
Brownfields Economic Development Initiative	10	---	18	-10	8
Department of Justice					
State Criminal Alien Assistance Program (SCAAP)	400	---	330	-400	-70
Department of Labor					
Denali Job Training	3	---	---	-3	-3
Work Incentive Grants	17	---	---	-17	-17
Department of Transportation					
Corridor H of the Appalachian Development Highway	10	---	---	-10	-10
Denali Access	6	---	---	-6	-6
Rail Line Relocation Grants	25	---	35	-25	10
Surface Transportation Priorities	161	---	293	-161	132
Corps of Engineers					
Environmental Infrastructure Construction	180	---	80	-180	-100
Environmental Protection Agency					
California Diesel Emissions Reduction Grants	15	---	10	-15	-5
Homeland Security Grants	5	---	---	-5	-5
Local Government Climate Change Grants	10	---	10	-10	---
Water Infrastructure Earmarks	145	---	157	-145	12
Other					

2010 TERMINATIONS AND REDUCTIONS

(Budget authority and obligation limitations in millions in dollars)

	2009	2010		2010 Request Less	2010 Enacted Less
	Enacted	Request	Enacted	2009 Enacted	2009 Enacted
Christopher Columbus Fellowship Foundation	1	---	1	-1	---
Harry S Truman Scholarship Foundation	1	---	1	-1	---
TOTAL, TERMINATIONS	**8,836**	**851**	**5,179**	**-7,985**	**-3,657**
REDUCTIONS					
Department of Agriculture					
Agricultural Research Service Buildings and Facilities	47	-50	71	-97	24
Department of Defense					
Airborne Laser Program	401	187	183	-214	-218
Aircraft Carrier Build Schedule	1,211	484	484	-727	-727
Government Reliance on Contracted Service Support	20,100	19,200	19,149	-900	-951
Ground-Based Midcourse Defense Program	1,507	983	1,033	-524	-474
LPD-17 and Mobile Landing Platform Transport Ships	930	1,177	1,177	247	247
Navy CG(X) Cruiser	142	150	46	8	-96
Recruiting and Retention Adjusments to Maintain End-Strength	7,039	6,246	6,171	-793	-868
Department of Health and Human Services					
Construction Earmark for the Nat Ctr for Natural Products	16	12	16	-4	---
Real Choice Change Systems Grants	5	3	3	-2	-2
Department of the Interior					
Abandoned Mine Lands Discretionary Grants	20	7	10	-13	-10
Department of Labor					
Office of Labor-Management Standards	45	41	41	-4	-4
Corps of Engineers					
Low-Performing Corps Construction Projects	244	---	230	-244	-14
Environmental Protection Agency					
Targeted Funding for Alaska Native Villages Infrastructure	19	10	13	-9	-6
Other					
African Development Foundation Program	33	30	30	-3	-3
East-West Center Assistance	21	12	23	-9	2
Election Assistance Commission Grants	106	52	75	-54	-31
Voice of America	3	1	3	-2	---
TOTAL, REDUCTIONS	**31,889**	**28,545**	**28,758**	**-3,344**	**-3,131**
TOTAL, TERMINATIONS AND REDUCTIONS	**40,725**	**29,396**	**33,937**	**-11,329**	**-6,788**

* The funding amount displayed here is different than the amount displayed in the volume. Only the Manned Ground Vehicles component was proposed for termination. The amount displayed in this table (the Manned Ground Vehicles component) is correct; it was not correct in the Terminations, Reductions, and Savings volume (the entire account).

Congressman Yarmuth:

Director Lew, for the past two years I have opposed the Administration's proposal to repeal the Last In, First Out (LIFO) accounting method for tax purposes. American companies have been operating under the assumption that LIFO is a perfectly sound accounting method since 1939, when Congress enacted tax code section 472, which expressly makes LIFO an acceptable method of tax accounting. Repealing LIFO would have a devastating impact on a number of companies in my district, particularly Brown-Forman, a wine and spirits company that is one of the largest producers of Kentucky bourbon. Brown-Forman, which employs about 1,300 people in Louisville, estimates repealing LIFO would raise its taxes by hundreds of millions of dollars. The company, and the spirits industry at-large, has long used LIFO as its standard accounting method, which is, in part, attributable to the fact that it produces whiskey, a product which necessitates aging over long periods and which federal law specifically requires to be aged.

There is one aspect of the President's proposal that has me particularly concerned for American companies, and that is the fact that the proposal would not only repeal *the LIFO method going forward; it would also "recapture the LIFO reserve" of every LIFO taxpayer. This proposal would retroactively repeal deductions that were clearly authorized by the U.S. tax code and that in many cases were taken by the taxpayer as far back as several decades ago. This would be the equivalent of repealing the mortgage interest deduction and forcing homeowners to repay all of the deductions they took. This, like the current LIFO proposal, would be exceedingly unfair, as are most retroactive tax changes. I, therefore, urge you to reconsider your proposal—and respond to these concerns.*

A: The repeal of the LIFO (last in, first out) method of accounting will eliminate a tax deferral opportunity available to taxpayers that hold inventories, the cost of which increase over time. This tax benefit does not accrue to taxpayers who use the FIFO (first in, first out) method of accounting. In addition, LIFO repeal would simplify the tax code by removing a complex and burdensome accounting method that has been the source of controversy between taxpayers and the Internal Revenue Service. International Financial Reporting Standards do not permit the use of the LIFO method, and repealing LIFO would remove this possible impediment to the implementation of these standards in the United States.

Taxpayers that currently use the LIFO method would be required to write up their beginning LIFO inventory to its FIFO value starting in 2013. Allowing LIFO taxpayers to exclude the amount of the inventory write up from gross income would represent a substantial windfall for those taxpayers relative to others who have been using FIFO for years and potentially paying more tax as a result. Furthermore, the Administration's proposal mitigates the burden of the retroactive effect by allowing the one-time increase in gross income to be taxed over 10 years, rather than all at once; in short, the Administration's proposal provides appropriate transition relief.

[Whereupon, at 12:55 p.m., the committee adjourned subject to the call of the Chair]

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