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HEARING ON THE PRESIDENT'S FISCAL YEAR 2012 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY TIMOTHY F. GEITHNER

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

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HEARING ON THE PRESIDENT'S FISCAL YEAR 2012 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY TIMOTHY F. GEITHNER

WEDNESDAY, FEBRUARY 16, 2011

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

The committee met, pursuant to call, at 1:02 p.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [Chairman of the Committee] presiding.

[The advisory of the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Chairman Camp Announces Hearing on the President's Fiscal Year 2012 Budget Proposal with U.S. Department of the Treasury Secretary Timothy F. Geithner

House Ways and Means Committee Chairman Dave Camp (R–MI) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2012. **The hearing will take place on Tuesday, February 15, 2011, in 1100 Longworth House Office Building, beginning at 1:00 P.M**

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

BACKGROUND:

On February 14, 2011, the President is expected to submit his fiscal year 2012 budget proposal to Congress. The proposed budget will detail his tax proposals for the coming year as well as provide an overview of the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction.

In announcing this hearing, Chairman Camp said, **"With the unemployment rate stuck at or above 9 percent for the last 21 months and anemic economic growth, tax policies ought to help, rather than hinder, our country's economic recovery. The President has called for corporate tax reform to make our employers more competitive. However, 75 percent of America's job creators are structured as pass through entities, and that means we need to craft policies that address the needs of all job creators—large and small. This hearing will provide the Committee an opportunity to review the President's proposals and explore ways in which we can work on a bipartisan basis to reduce complexity and develop the pro-growth tax policies our families and job creators need."**

FOCUS OF THE HEARING:

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Tuesday, March 1, 2011** Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman CAMP. The committee will come to order for this hearing on “The President’s Fiscal Year 2012 Budget Proposal.”

Before I begin this afternoon, I want to recognize an individual who is not with us today because his courage and conviction has landed him an invitation to the East Room of the White House. It goes without saying that it is an immense honor to serve with our colleague from Atlanta, Mr. John Lewis. His role in the civil rights movement is well-documented. And after today, when the President of the United States bestows upon him the Nation’s highest civilian honor, the Presidential Medal of Freedom, it will be well-recognized.

On behalf of this Committee and the people I represent in the Fourth District of Michigan, I want to extend heartfelt congratulations to John. The success of the civil rights movement was a victory for the African American community and for every American. It may be a bit out of character for this Committee, but I would ask that we break with tradition and all join in a deserved round of applause for the Honorable John Lewis.

[Applause.]

Chairman CAMP. With that, welcome, Secretary Geithner. It is good to see you again and have you before the Committee.

It has been said that the power to tax is the power to destroy. But last year’s election shows the American people are increasingly concerned about the power of deficits to destroy jobs, the sound dollar, and ultimately their children’s and our country’s future.

Unfortunately, the President's budget features too much of both. It would result in record-high deficits while pushing the Federal tax burden over 20 percent of our economy, a level never sustained in our Nation's history.

And let me be clear, Mr. Secretary, Americans are not taxed too little. What America has had under this administration is too little job creation, more borrowing, taxing, and spending, and certainly not the answer to what ails our economy.

In 2009, we were promised that spending $1 trillion on a stimulus plan would drive unemployment under 7 percent by now. Instead, unemployment has remained at or above 9 percent for a record 21 months.

Stimulus advocates also promised 137 million jobs by now. We are woefully short of that mark as well. Today, almost 14 million Americans are looking for work but can't find it, and a record number have given up trying, choosing instead to sit on the sidelines of our economy. A full 6.2 million are long-term unemployed, and the average duration of unemployment is a record 37 weeks. That is almost double the record level before this recession.

Vice President Biden recently said that the unemployed should just "hang in there" and wait for jobs to return. But, at the current pace, it could be 2020 or beyond before the U.S. returns to full employment. And that is a long time to just "hang in there".

The fact is, Americans shouldn't have to wait any longer for some real solutions. And, frankly, this budget is a missed opportunity. In the words of Erskine Bowles, the Chairman of the President's own deficit commission, this budget goes "nowhere near where [you] will have to go to resolve our fiscal nightmare".

As I look through this budget proposal, I am left wondering if there wasn't a printing error, because it looks almost identical to last year's budget. We again have massive tax increases, now totaling $1.9 trillion, that will hit small businesses, middle-class families, American employers with worldwide operations, and investment income—the very investments we need to jump-start the economy.

Even the same things are missing from this budget. There are platitudes about tax reform but tax policy proposals that move in the opposite direction. And there is nothing on entitlement reform, and there is little more than lip service about getting the deficit under control.

During the Simpson-Bowles commission, of which three members of this Committee were members, we heard testimony that, once a nation's debt reached 90 percent of its economy, that country would see economic growth decline by about 1 percent. And in the U.S., that would cost us about a million jobs. And, Mr. Secretary, we are not at 90 percent; our gross debt is now 100 percent of our economy. And we can ill-afford to lose out on the needed job creation simply because Washington can't get its spending under control.

Despite that and other warnings, what is being presented today fails to deliver real change. I had hoped for so much more, and I am left wondering how many more experts need to ring the alarm bell before this administration begins to hear it and act accordingly?

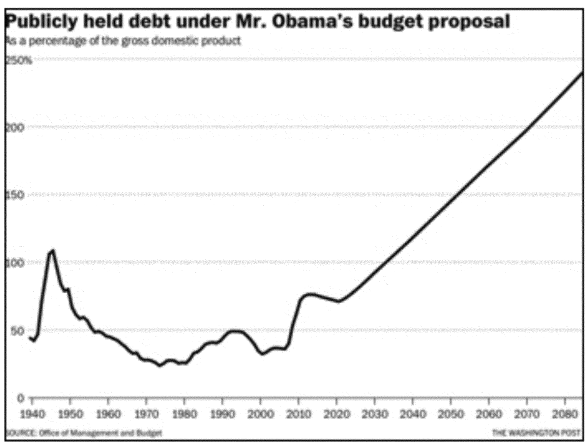
I ask unanimous consent to insert into the record a Washington Post editorial from today's paper entitled, "President Obama's Budget Kicks the Hard Choices Further Down the Road."

[Washington Post article]

President Obama's budget kicks the hard choices further down the road

www.washingtonpost.com

Tuesday, February 15, 2011; 12:00 AM



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. "The fiscal realities we face require hard choices," the president said in his budget message. "A decade of deficits, compounded by the effects of the recession and the steps we had to take to break it, as well as the chronic failure to confront difficult decisions, has put us on an unsustainable course." His budget would keep the country on that course.

Granted, the budget outlines cuts in discretionary spending, ranging from military procurement to heating assistance for the poor. A five-year freeze in nonsecurity discretionary spending - two years longer than the three-year freeze proposed in last year's budget - would save $400 billion during that period compared to what would have been spent otherwise to keep up with inflation.

But as Mr. Obama noted in his State of the Union address, discretionary spending represents a small slice of government outlays, so cuts in discretionary spending are simultaneously onerous and insufficient to reach fiscal balance. The administration proclaimed that its budget would save $1.1 trillion, two-thirds of it from spending cuts. It neglected to point out that, even if all those savings were implemented, the debt would increase by another $7.2 trillion over the decade. And that's accepting the administration's optimistic projections. From 2013 to 2016, the administration estimates the economy will grow at an average rate of nearly 3.9 percent per year, while the Congressional Budget Office projects a growth rate of just 3.4 percent. That could make an enormous difference in the amount of revenue generated and, consequently, the size of deficits. By 2021, the national debt will equal 77 percent of the total economy, even given the administration's rosy forecast - and, as the administration's chart reprinted here shows, the debt will then really explode.

Administration officials applauded themselves for having the discipline to offset the cost of two expensive items: avoiding punishing cuts in Medicare reimbursement rates for physicians and making sure the alternative minimum tax (AMT) does not hit a growing share of middle-class taxpayers. Not so fast. The patches are temporary - two years in the case of the so-called "doc fix," three years for the AMT. Meantime, the administration uses up a decade's worth of financing to pay for them - with no whisper of how to address the problems in the long term.

And that's not the only gimmickry. The budget assumes that the full cost of the doc fix will be paid for, and therefore not add to the deficit, but fails to explain how. It includes a $328 billion magic asterisk for transportation funding, identified only as "bipartisan financing for Transportation Trust Fund." Higher gasoline taxes? Don't ask. Meanwhile, the administration recommends paying for the AMT fix by reducing the value of charitable tax deductions for those in the two highest tax brackets. A smart idea, and one that the administration also proposed in its two previous budgets, originally as a way to pay for health-care reform. If it was a nonstarter then, what's the basis for thinking its prospects are better now?

The larger problem with the budget is the administration's refusal to confront the hard choices that Mr. Obama is so fond of saying must be faced. The president's debt commission concluded that more tax revenue will be needed in coming years to finance the costs of an aging society. Mr. Obama repeated his call to do away with the Bush tax cuts for upper-income taxpayers in two years - but maintained his tired and irrational insistence that the rest of the tax cuts, enacted in far different fiscal circumstances, be preserved.

If Oklahoma Republican Sen. Tom Coburn could sign on to a deficit-reduction plan that included raising tax revenue, is it too much to ask for such bravery from Mr. Obama? And if Illinois Democratic Sen. Richard Durbin could sign on to a plan that included raising the Social Security retirement age, is it too much to ask for more from Mr. Obama than an airy set of "principles for reform"? Sadly, the answer appears to be yes.

http://www.washingtonpost.com/wp-dyn/content/article/2011/02/15/AR2011021500055.html

Chairman CAMP. Now, I am sure many of my friends in the minority can't wait to chime in and set the record straight. So please allow me to admit something: We all share part of the blame for where we are today. However, that is not the issue. The issue is whether or not we will all be part of the solution.

And, Mr. Secretary, you and I have had many good discussions about where this country needs to go. And today I am not interested in the boilerplate but am interested in finding real solutions that reduce the cost and complexity of our Tax Code, that deal with the unsustainable costs of our entitlement programs, and that brings our debt back under control. All of these will help unleash the private sector to create good-paying jobs.

So, Mr. Secretary, I look forward to hearing from you today. And also, later in the week, we will hear from your colleagues from the Department of Health and Human Services, as well as the Office of Management and Budget, on these topics.

And, with that, I yield to the ranking member, Mr. Levin, for the purposes of an opening statement.

Mr. LEVIN. Thank you, Mr. Chairman.

The President's budget is in sharp contrast to the House Republicans' CR. It embodies a necessary combination of investing in economic growth and reducing our deficit. The Republican 2011 blueprint, which the House will debate this week, reflects starkly different priorities. It disinvests. It would take our economy backwards through extreme cuts.

The President's budget charts a responsible path to a sustainable fiscal situation. Its point of departure is an economy that has been through a wrenching recession and a recovery that is still gathering strength.

Since the recovery began, more than 1.3 million private-sector jobs have been created, more than in all 8 years of the Bush administration together.

Our efforts were designed to ensure a sustainable economic recovery, and we must be sensible to that, as we take needed steps to reduce our deficits.

That is why, as the President's budget lays out $1.1 trillion in deficit reduction over the next decade, it invests in proven public-private partnerships that support jobs, innovation, and growth. It makes permanent and enhances the R&D credit. It extends the Build America Bond program, which Republicans oppose and which has financed over $180 billion in vital infrastructure improvements.

It also provides an additional $5 billion for the highly successful 48(c) tax credit. This tax credit provides a direct incentive to manufacture advanced energy products like solar panel and wind turbines here in the U.S. In one example that I know you, Mr. Chairman, are very familiar with, Hemlock Semiconductor received $142 million in tax credits to help maintain its global leadership in producing the polycrystalline silicon used in the manufacturing of solar panels. This is one of the vivid examples of a successful public-private partnership.

The House Republican plan disinvests in jobs and growth and in our community. It cuts more than $1 billion from the Clean Water Revolving Fund. It chokes funding for the Energy Advanced Research Projects Agency, which is conducting cutting-edge research to foster the products and jobs of tomorrow. It completely eliminates the COPS program that puts police officers on our street every day. It takes a hatchet to the Community Development Block Grant program that is so important to local economic development in municipalities that are under severe economic strain right now.

At the same time, the Republicans' rules allow for unlimited additional tax cuts that are not paid for, at a time when tax revenues as a percentage of the economy are near an all-time low. According to the administration's estimates, permanently extending the tax cuts for upper-income households alone would increase the deficit by nearly $1 trillion over 10 years.

The President's budget focuses on preserving the tax relief for working families making less than $250,000. It would permanently protect the middle class from AMT. And it permanently extends vital assistance to working families that we had to fight Republicans to include in the December tax compromise.

More broadly, the Chairman—you, Mr. Chairman—has criticized the President's budget as lacking a plan for tax reform. If we are going to have tax reform, we are going to need to work together, not against each other, to make the difficult choices necessary for responsible reform.

Nowhere is it more true than on the debt limit. As the Secretary—as you, Mr. Secretary—has made clear, the need for fiscal responsibility and the need to support economic recovery must complement each other, not undermine one another. And vitally, we cannot jeopardize the economic recovery by putting at risk the full faith and credit of the United States. The majority must not irresponsibly put our economy in severe jeopardy by using the debt limit as leverage or as a bargaining chip.

We took necessary steps to prevent a recession caused by a financial crisis from becoming a depression. We cannot risk a new financial crisis that would reverse the new momentum of economic growth.

Thank you, Mr. Chairman.

Chairman CAMP. Thank you, Mr. Levin.

Welcome, Secretary Geithner. You have 5 minutes. Your full written statement will be part of the record, but you may begin your testimony. And welcome to the Committee on Ways and Means.

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

Secretary GEITHNER. Thank you, Chairman Camp, Ranking Member Levin, and Members of the Committee. It is a pleasure to be here before you today to talk about the President's budget.

The President's budget presents a comprehensive strategy to strengthen economic growth and expand exports, with investments in education, innovation, and the Nation's infrastructure.

Alongside these investments, the budget presents a detailed, multiyear plan to cut spending and reduce deficits. Our deficits are too high. They are unsustainable. And, left unaddressed, these deficits will hurt economic growth and make us weaker as a nation.

We have to restore fiscal responsibility and go back to living within our means.

The President's budget cuts the deficit he inherited in half as a share of the economy by the end of his first term. These cuts are phased in over time so that we protect the recovery.

In order to make it possible for us to invest in future growth and to restore fiscal sustainability, the President proposes to reduce nonsecurity discretionary spending to its lowest level as a share of the economy since Dwight Eisenhower was President.

To achieve this, the budget proposes a 5-year freeze of annual nonsecurity discretionary spending at its 2010 level. And this will reduce the deficit by more than $400 billion over the next 10 years.

The President also proposes to reduce the request for Defense spending, to freeze civil service salaries, to improve efficiency in government services through a range of program eliminations and reductions.

These savings create the necessary room for us to make targeted investments in support of reforms that will help strengthen future economic growth. The most important thing we can do to promote our long-term growth is to improve the quality of education, to invest in innovation, and to rebuild America's infrastructure. Without these investments, America will be weaker and less competitive.

As part of this strategy for growth, the President proposes reforms to our tax system designed to encourage investment. We propose to put in place a permanent and expanded tax credit for research and development in the United States; to eliminate—to eliminate—capital gains on investment and small businesses; to encourage advanced manufacturing and clean energy technologies; to keep taxes on investment income, dividends, and capital gains low; to reform and extend the Build America Bond program; and to make college more affordable for middle-class Americans.

These tax incentives are accompanied by reforms that would reduce incentives to shift income and investment outside the United States and to close loopholes and tax preferences that we cannot afford.

Now, in addition, we propose to pursue comprehensive tax reform that would lower the corporate tax rate. Our present tax system for businesses combines a very high rate with a very broad range of expensive tax preferences for specific industries and activities.

We need a more competitive system that allows the market, not tax planners and lobbyists, to allocate investment, a system in which businesses across industries pay a roughly similar share of earnings, a system that provides more stability and certainty, that is more simple to comply with. And we need to do all this without adding to our future deficits.

We have begun the process of building support for comprehensive corporate tax reform. Mr. Chairman, I want to welcome your personal support for comprehensive reform. I believe we have the opportunity to do this now.

The President's budget also outlines some responsible reforms on the individual side. We propose, as we have in the past, to allow the 2001 and 2003 tax cuts for the wealthiest Americans to expire; to limit certain deductions, tax expenditures for those same high-income Americans; to restore the estate tax to the 2009 levels; and to close the carried interest loophole.

These proposals—and I want to emphasize this—these proposals will help ensure that the savings we achieve together through spending restraint are devoted to deficit reduction, not to sustaining lower tax rates for the most fortunate 2 percent of Americans.

This budget would achieve the dramatic reductions in our deficit over the next decade that are necessary to stop the national debt from growing as a share of the economy and to stabilize our debt burden at a level that will not threaten future growth.

Now, this is only a first step, a down payment on the long-term reforms necessary to address our long-run deficits. To address the long-run deficits that we face over the next century, not just the next decade, we will have to build on the progress and the very substantial progress that has been achieved in the Affordable Care Act to reduce the rate of growth in health care costs.

And in addition to that, although it is not a contributor to our short-term or medium-term deficits, we should work together across party lines to strengthen Social Security for future generations.

Now, we cannot grow our way out of these deficits. They will not go away on their own. And they will not be solved by cutting deeply into programs, into investments that are critical for future growth and competitiveness. We have to work together to find consensus on a multiyear plan that cuts deficits where we can so that we can invest where we need and that reduces our deficits.

Making a multiyear commitment will allow us to make sure that the changes are phased in as the economy recovers. And making a multiyear plan will help give businesses and individuals adequate time to adjust and prepare for the impact of those changes on the economy.

The President's proposals represent an important starting point for discussion. And we recognize that there are many valuable ideas on both sides of the aisle. And we know, as you know, that we need both parties and both houses of Congress to come together to enact solutions that work best for the country.

In December, we were able to come together to find bipartisan consensus on a very strong package of tax incentives to help sustain recovery and restore confidence. We want to bring that same commitment to the challenge of restoring fiscal responsibility.

Thank you. I would be happy to take any of your questions.

[The prepared statement of Secretary Geithner follows:]

Embargoed Until 1:00 p.m. EST, February 15, 2011

Statement of Treasury Secretary Timothy F. Geithner
Committee on Ways and Means
U.S. House of Representatives
February 15, 2011

Chairman Camp, Ranking Member Levin and members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2012 Budget.

I. Introduction

When the President took office two years ago, the U.S. economy was in the middle of its deepest recession in more than 50 years. The economy was contracting at a rate of 5 percent per year, and private businesses were cutting more than 700,000 jobs per month.

In the face of this crisis, this Administration and Congress put in place policies that helped pull the economy back from the brink and established the basis for the ongoing recovery. Today the economy has grown for six straight quarters. Businesses have started to hire again and have added more than 1.3 million jobs since the labor market began to recover. Economic activity has accelerated over the last few months, supported by strong private demand.

This past December, the Administration and Congress agreed to a bipartisan tax package that will help ensure that the recovery continues. This agreement prevented a tax increase on middle class Americans, and also included crucial Administration initiatives – such as a temporary payroll tax cut, an extension of unemployment insurance benefits, and immediate expensing for certain business investments – that will provide a substantial boost to economic activity.

Consumers and businesses are now expressing more optimism about the future, suggesting momentum that will sustain growth in the coming months. At the same time, private sector analysts have issued more optimistic near-term forecasts and are projecting stronger growth in 2011 and 2012.

However, we still face very substantial economic challenges. Millions of Americans remain out of work, and families across the country are still struggling to make up for losses in their savings and in the value of their homes.

The President has outlined a broad strategy to help strengthen economic growth with investments in education, innovation, and the nation's infrastructure. Alongside those investments, we must reform the nation's finances to restore fiscal responsibility. Our deficits are too high and they are unsustainable. Left unaddressed, these deficits will hurt economic growth and make us weaker as a nation. We must go back to living within our means.

The Budget presents a detailed plan to cut spending and reduce deficits. The President's Budget cuts the inherited deficit in half as a share of the economy over his first term; includes proposals that will reduce deficits by more than $1 trillion over the next 10 years; and cuts non-security discretionary spending to its lowest level as a share of the economy since Dwight Eisenhower was President. These cuts are phased in over time to protect the recovery.

In addition, the Budget sets priorities by balancing spending cuts with the need to protect investments in education, innovation and infrastructure. Under-investing in these areas would compromise our competitiveness. Finally, the Budget reaffirms our commitment to reduce tax expenditures and reform entitlement programs.

II. A Credible Commitment to Fiscal Responsibility

The President's Budget meets the following five imperatives, all of which are necessary components of a credible commitment to fiscal responsibility:

- First, we must lower deficits over a multi-year period to stabilize or reduce the national debt as a share of the economy. Deficit reduction needs to be gradual to avoid endangering the recovery.

- Second, we need to reduce overall spending as a share of the economy, with spending cuts targeted at programs we cannot afford.

- Third, we need to protect and expand investments in targeted areas crucial for future economic growth.

- Fourth, we must develop tax policies that promote growth and investment while maintaining fairness and fiscal responsibility.

- Fifth, we must restore fiscal responsibility over the long term by reducing the rate of growth in health care expenditures and by strengthening and extending the solvency of Social Security.

The following sections outline in detail how the President's Budget meets each of these imperatives.

A multi-year commitment to stabilize the national debt

While our deficits will decline in coming years as the economy continues to recover, economic growth alone will not be enough to stabilize our finances. In the absence of further action, the deficit is projected to remain near 4.5 percent of GDP for the rest of the decade, even after the economy is fully recovered. Under this scenario, the national debt held by the public will grow from 62 percent of GDP in 2010 to nearly 85 percent of GDP by 2021, the highest share since 1948. Without reform, debt will continue to grow after 2021, as mandatory spending and interest payments on the debt grow faster than revenues.

Roughly speaking, stabilizing the debt as a share of the economy requires that outlays, excluding interest payments on the national debt, must equal revenues. This requires us to cut the deficit to approximately 3 percent of GDP and maintain deficits at about this level into the future.

The President's Budget accomplishes this over the medium term. Our proposals cut the deficit in half by 2013, reduce it to 3.2 percent of GDP by 2015, and maintain deficits around 3 percent of GDP for the second half of this decade. Under our proposal, the national debt held by the public as a share of the economy stabilizes around 76 percent starting in 2013, although it rises slightly at the end of the 10-year budget window. Excluding the financial assets held by the government, such as student loans and other investments, our proposals stabilize the national debt held by the public as a share of the economy at around 68 percent.

The pace of deficit reduction has to be calibrated to the path of recovery. Under the path envisioned in the Budget, significant deficit reduction starts in 2012 and accelerates in 2013 and 2014, due mainly to economic recovery and the expiration of support measures, and also due to Budget proposals that reduce the deficit. Starting in 2015, when the economy is projected to be closer to operating at full capacity, the Budget proposals will reduce the deficit by more than $150 billion each year on average through 2021.

The tension between the need for fiscal responsibility in the medium term and supporting the recovery in the short term creates a difficult challenge for policy makers. Because changes made one year can easily be altered the next, the best way to resolve this tension is for Congress and the Administration to commit to a multi-year plan of fiscal responsibility, phased in over an appropriate time horizon.

Committing to a multi-year deficit reduction plan would give businesses and individuals more certainty about the impact of future government policy. This can improve confidence today and help keep borrowing rates low. Moreover, committing to a multi-year plan would give businesses and individuals adequate time to adjust and prepare for future changes.

Cut spending and eliminate programs we cannot afford

Meaningful deficit reduction requires serious cuts to government spending. The Budget proposes a five-year freeze of non-security discretionary spending at its 2010 nominal level, reducing the deficit by more than $400 billion over the next decade, and bringing the level of non-security discretionary spending to its lowest share of our economy since the Eisenhower Administration.

This will not be easy. The President has asked each agency to make tough choices, and the Budget includes more than 200 terminations, reductions and savings proposals. The President has also asked civilian government employees to share responsibility for reducing deficits and has proposed freezing their salaries for two years, which will save more than $60 billion over the next 10 years. Finally, we are continuing to make government more efficient by reducing administrative overhead costs, reforming the government purchasing process, and embracing competitive grant programs.

In addition to cutting current non-security discretionary spending, the President is asking departments and programs outside of the spending freeze to reduce their future spending. Specifically, the Department of Defense is pursuing a variety of strategies to reduce defense spending; as a result, the Budget reduces defense spending by $78 billion over the next five years, relative to last year's Budget proposal. Secretary Gates believes these savings can be realized through reducing overhead costs, improving business practices, and cutting excess or troubled programs, and will not weaken our national security.

In addition to cutting spending, the Budget includes two proposals that will reduce our future obligations. The Budget proposes giving the Board of the Pension Benefit Guaranty Corporation (PBGC) the authority to adjust gradually the premiums it charges pension plan sponsors. This will encourage companies to fund their pension benefits fully while improving the PBGC's long-term financial position. Premium increases would be phased in, starting in 2014. The Budget also includes a proposal that would provide short-term relief to states and employers, while encouraging states to put their unemployment insurance programs on firmer financial footing. Together these two proposals would reduce the federal deficit by $60 billion over 10 years.

Increase investment in areas important to economic growth

It is not enough to spend less; government must also spend more wisely. The President's Budget sharply restrains overall spending, but it also invests in important areas where the government has a clear role to provide public goods that promote future economic growth and competitiveness: education, innovation and infrastructure.

- Education: An educated and skilled workforce is critical for the United States to compete in the global economy. Workers with a college education not only earn higher wages for themselves, but increase the productivity of those who work with them and of the economy overall. The need for additional investment in education is striking: America has fallen to ninth among advanced countries in the proportion of young people with a college degree. The Budget proposes targeted investments in education to help us regain our competitive edge.

  We propose to strengthen investments in programs across every stage of a child's education. The Budget includes $350 million for the Early Learning Challenge Fund, a program that would apply the lessons learned from the successful Race to the Top program to early education, and dedicates $100 million to help prepare 100,000 new teachers in science, technology, engineering and math over the next 10 years. The Budget also recommits to maintaining the maximum Pell grant award and to making permanent the American Opportunity Tax Credit, which provides up to $10,000 for a student for four years of college. These two programs help make college affordable for millions of students and their families.

- Innovation: Investments in research and development (R&D) produce the technological advancements that contribute to productivity growth and improvements in U.S. living standards. However, businesses may under-invest in R&D because they do not capture the full social returns on their investments. The President believes that government has an important role to play in promoting technological progress, and the Budget includes $148 billion in R&D investments for this year to support basic research and clean energy.

  These include maintaining the Administration's commitment to doubling the investment in basic research conducted at the National Science Foundation, the Department of Energy's Office of Science, and the National Institute of Standards and Technology labs. The Budget's proposal to increase the federal investment in the National Institutes of Health to a total of $32 billion will support innovations in biomedical research, improving future health care outcomes and economic growth.

  The Budget also provides $8.7 billion for clean energy technology, including more than doubling investments in energy efficiency research, development, and deployment; increasing renewable energy investments by over 70 percent; and expanding investments in the Advanced Research Projects Agency – Energy (ARPA-E).

- Infrastructure: Infrastructure is critical to economic growth and competitiveness, and yet our current investments in infrastructure are insufficient and often inefficiently allocated. In addition to a $50 billion up-front investment in transportation infrastructure to create jobs in occupations that have been hit hard by the recession, the Budget lays out a long-term plan for sustained, targeted investments in the most effective infrastructure programs and projects.

  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 appropriated in those years. This proposal includes $30 billion to create a National Infrastructure Bank, which will attract private capital to infrastructure projects while improving the process of allocating infrastructure funds. The proposal also includes $32 billion in competitive funding to encourage states and cities to reform their transportation programs to focus on more efficient and effective investments. We are committed to working with Congress on a bipartisan basis to ensure that there is sufficient revenue to keep the underlying Transportation Trust Fund solvent, because these investments must be fully paid-for.

Taken together, the Budget balances two priorities that guide our approach to government spending. First, spending cuts are necessary to lower the deficit. At the same time, we must protect targeted, responsible investments that allocate limited government resources towards programs that will boost economic growth and promote job creation over the long run.

A tax system that supports growth, fairness and fiscal responsibility

Strengthening our competitiveness and restoring fiscal responsibility will require reforms to our tax system.

Starting with revenue provisions that promote investment in innovation and clean energy, the President's Budget includes a series of specific tax policy changes that help us move towards a more efficient, fair and competitive tax system that will support economic growth.

Specifically, the Budget proposes making an expanded research and experimentation tax credit permanent, thereby increasing certainty for businesses making crucial long-term investments that will lead to more innovation. In addition, in order to support investment in clean energy technology, the Budget proposes tax credits for advanced manufacturing facilities, energy-efficient commercial buildings and an improved credit for plug-in vehicles.

The Budget proposals also reduce the incentives for multinational firms to shift income and assets to their foreign subsidiaries. Finally, the Budget proposes a fee on financial firms to recoup the costs of the extraordinary financial assistance the government put in place to resolve the crisis.

In addition to these proposals, we must pursue comprehensive corporate tax reform to create a competitive tax system that raises sufficient revenue in the most efficient, simple and fair way. The current system for taxing corporations and business hurts economic growth by placing burdens on U.S. businesses that negatively affect their investment and employment choices. Because of various loopholes and carve-outs, some industries pay an average rate that is four or five times higher than others, and although our statutory corporate tax rate is one of the highest in the world, we raise about the same amount of corporate tax revenue as our major trading partners.

Moreover, because of the high rate and because of the various loopholes and carve-outs, too many businesses end up making investments based on what their tax planners recommend, instead of what sound business judgment would suggest. This puts our entire economy at a disadvantage. As the President has announced, in consultation with the business community and other stakeholders, the Administration is examining ways to lower the corporate tax rate and to eliminate provisions that negatively affect investment. By pursuing these two objectives together, we can enact reform that does not add to current or future deficits. I look forward to working with you on this important endeavor.

Balancing the budget requires sacrifice from all Americans, but should also promote fairness for the middle class.

The Budget proposes reducing the value of certain tax expenditures on the wealthiest Americans by limiting the value of itemized deductions to 28 percent for high income households. This is a down payment on reform of the individual income tax system.

This provision alone will generate enough revenue to fully protect the middle class from a dramatic expansion of the Alternative Minimum Tax (AMT) for three years. The Budget calls on Congress to find additional ways to pay for permanent AMT relief, because if left unaddressed, the AMT will inappropriately sweep up tens of millions of families into this parallel tax system. Working with Congress to fully pay for AMT relief after 2014 would lead to an additional one percent of GDP in deficit reduction by the end of the decade.

In addition, the Budget proposes to reform the taxation of carried interests in financial partnerships, to close the loophole that allows some to pay tax at lower capital gains rates on what is effectively compensation.

We must also allow the 2001 and 2003 tax cuts for married couples with household incomes above $250,000 (and $200,000 for single filers) to expire and return the tax on large estates to 2009 levels. The President has been clear that we cannot afford these tax cuts for the wealthiest Americans, which do very little to support economic growth. Allowing these temporary tax cuts to continue indefinitely would increase the deficit by nearly $1 trillion over the next 10 years.

Fiscal sustainability over the long run

While stabilizing the debt-to-GDP ratio over the medium term is an important down payment on long-term fiscal stability, we must also reform entitlement programs, as entitlement spending is projected to increase more quickly than revenues due to an aging population and growing health care costs.

We made important progress on entitlement reform last year by passing the Affordable Care Act (ACA). Independent analysts have estimated that the ACA will significantly slow the growth of medical costs, relieving both government and businesses of some of the pressure of rising medical expenditures. According to the most recent analysis from the Congressional Budget Office, the ACA is estimated to reduce the deficit by more than $200 billion from 2012 to 2021, and by more than $1 trillion in the following decade. The most important step we can take right now for long-term deficit reduction is to implement the ACA fully and effectively.

Still, we know that more is needed, which is why the Budget includes additional provisions that address our rising medical expenditures. The Budget proposes $62 billion in specific savings in health programs that will fully pay for two years of relief from physician payment rate cuts called for by the Sustainable Growth Rate formula. The Budget calls for a long-term, fiscally responsible reform of physician payments that provides incentives to improve quality and efficiency while ensuring that payments will be predictable. A long-term solution will build on the fully paid-for, one-year relief for physicians enacted this past December. In addition, the Budget includes $250 million in grants to encourage progress on medical malpractice reform, which can reduce over-utilization of some expensive procedures without compromising patient outcomes.

Finally, the President is committed to strengthening Social Security. Together with Congress, we will consider ideas that put Social Security on more sound financial footing over the long term. However, we will reject plans that slash benefits; that fail to protect current retirees, people with disabilities and the most vulnerable; or that subject Americans' retirement savings to the whims of the stock market.

III. Conclusion

America is at a fiscal crossroads. We cannot pretend that our budget problems are merely the result of the financial crisis, nor can we pretend that we can restore fiscal responsibility without real sacrifice that affects all Americans.

Unless we act today, the national debt will continue to grow as a share of the economy over the medium run, even after the economy is fully recovered. Without reform, an aging population and rising health care costs will cause entitlement spending to grow more quickly than revenues in the long run, putting increasing strain on the budget and causing deficits to remain elevated far into the future.

If the debt were to continue to grow as a share of the economy, an ever-increasing share of revenues would have to be devoted just to paying the interest on the national debt, so that in 2020 interest payments would be nearly as large as all defense spending. Such escalating interest payments would create an unsustainable cycle that would eventually force dramatic adjustments. Without appropriate reforms, this path would have consequential effects on the U.S. economy.

While it is apparent that adjustments are necessary, we need to choose our path wisely. Cutting services and programs too much, too soon would jeopardize the recovery and destroy tens of thousands of jobs. Cutting the deficit today without making a long-term commitment to fiscal responsibility could enable a return to profligacy in the future. Cutting spending indiscriminately would force us to cut investments in vital public goods, and focusing reform solely on spending would impose an undue burden on those most in need while ignoring the opportunity to make our tax system more simple, fair, and efficient.

The President's plan navigates these challenges. The Budget lays the foundation for long-term growth while cutting spending in order to reduce the deficit. Making a multi-year commitment to the principles embodied in the President's Budget will reduce the risk of future crises, reassure investors and provide certainty about the future path of spending and taxes. In addition, a multi-year commitment will help ensure that borrowing costs remain low, making home ownership and higher education more accessible for Americans and making long-term investments more attractive for American businesses. Together the increased certainty and improved confidence will contribute immediately to economic growth and job creation.

History provides many examples of how past Congresses have made similar multi-year commitments. In some cases, Congress made permanent changes to policy that lowered the deficit over many years. For example, the 1983 amendments to Social Security extended the solvency of the Social Security Trust Fund for several generations. In other cases, Congress adopted budget rules that locked in a path of deficit reduction, limiting future deficit spending. For example, discretionary spending caps and PAYGO rules for mandatory spending and revenue legislation adopted in 1990 and 1993 contributed to reductions in the budget deficit, and eventually to budget surpluses.

Restoring fiscal sustainability will require courage from both the Administration and Congress, as we cannot move forward without compromise. We know compromise is possible. The December tax agreement proves that we are capable of forging agreements that move our economy forward.

There is no doubt that Members of this Congress – in both parties and both houses – have many good ideas of their own for promoting fiscal sustainability. While we believe the President's Budget is appropriately balanced in its priorities, we look forward to working with you to make a commitment that reflects our common ground – creating American jobs and promoting long-term economic growth.

Thank you, and I look forward to taking your questions.

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

I think we can agree, the economy is not adding jobs at the rate it needs to. And I think that is particularly why I am disappointed. You sense disappointment on our side, that the President's budget brings up some of the same tax hikes on American small business that Congress, even when both chambers were controlled by Democrats, already rejected.

About 75 percent of small businesses are structured as pass-throughs—partnerships, or S corps, or sole proprietorships—and they are responsible for about two-thirds of all new jobs created. Yet, these are the businesses the President would subject to massive tax hikes by raising the top marginal rates.

Given that unemployment has been stuck at or above 9 percent for 21 consecutive months, do you really believe that we should be raising taxes on small businesses? And will you commit that any tax reform that we might move forward on would address the concerns of these employers?

Secretary GEITHNER. Mr. Chairman, a very important question. And you are right, I think, to emphasize that our overwhelming priority now for the country should be to make sure we are reinforcing this expansion, get more people back to work. Because we are still living with the scars of the damage caused by the crisis. You can see it in high unemployment rates, in millions of people still at risk of losing homes, the pressure on small banks, small businesses across the country. So that objective of strengthening growth should still be our overwhelming focus and priority.

Now, we propose in the budget a series of very well-designed, targeted tax incentives for small businesses. Because, as you said, they are so important to job growth and to innovation. So, for example, as I said in my opening statement, we are proposing to eliminate capital gains taxes on investment in small businesses, to make permanent pretty generous expensing for investment by small businesses in capital equipment.

Now, you are right that we are proposing again to allow to expire on the schedule agreed to by Congress last December these taxes that affect the top 2 percent of individuals and small businesses in the country. They only affect 2 to 3 percent of businesses. And the vast bulk of those small businesses you referred to are structured as partnerships. And we are talking here about our law firms, investment firms, businesses who choose to structure themselves as partnerships, not as corporations.

And the vast bulk of those small businesses you are referring to earn very, very substantial amounts of revenue each year. And, again, even in that case, we are proposing to restore those tax rates to the level that prevailed in the 1990s, where we had the best record of investment, productivity growth, innovation, job growth than the country has seen in generations.

We think that is a responsible recommendation. We recognize it is not popular on your side of the aisle. But I want to underscore what you said, I think, is that our challenge is it to figure out a way to restore sustainability and strengthen economic growth. We have to balance those two objectives. And we are not going to be growing in the future unless we make some tough choices to restore fiscal responsibility. And those are the types of tax changes, tax reforms we think are consistent with our obligations to strengthen growth.

Chairman CAMP. Well, I am encouraged by some of the comments that the President and you have made, and also by your testimony today about the need for the reform of the corporate Tax Code.

But, given those comments, we then see a budget that goes in the opposite direction. Instead of proposing reforms that broaden the base and lower rates, which is what I think most people would like to see on the business side, and trying to level the playing field and reduce complexity, this budget is proposing changes that continue to pick winners and losers.

I guess my question to you is, how do you suggest we achieve tax reform, particularly on the business side, when the administration continues to push proposals that will raise taxes on some companies or some activities in order to offset spending that is unrelated to those activities? It is going in the opposite direction of, I think, the very encouraging comments that have been coming out of the administration and you, as well.

Secretary GEITHNER. Mr. Chairman, you are right that, in the budget, we do not propose a detailed plan for comprehensive tax reform. But we do propose a set of changes to the existing structure that would help, as we see it, improve investment incentives in the United States.

And I think the way to look at those changes is, they help make the case for why we need comprehensive reform. And if there are aspects of those proposals that make you uncomfortable, you should view it as an incentive for us to do comprehensive reform.

And we are very serious, as you know—and we have talked about this a lot—in trying to build consensus now on a set of fundamental changes to the corporate tax system that would improve incentives for investment, do so in a way that is fiscally responsibility. And to do that, we would have to lower the rate very substantially and eliminate or substantially reduce the broad range of tax preferences, incentives, that now create a lot of unfairness and distortions in the Tax Code.

But, again, what we did in the budget is say, we would like to work with Congress on comprehensive reform, but if we are forced to work within the current system, here are some changes that would help improve investment incentives in the short term. But, again, view those as an incentive, as a way to make the broader case for a comprehensive reform.

Chairman CAMP. All right. Thank you.

Mr. Levin may inquire.

Mr. LEVIN. Thank you.

Mr. Chairman, I am glad you asked the Secretary about the position of the administration not to extend the high-income tax cut.

And I think, Mr. Secretary, you have helped to shatter the myth that this is basically an increase in taxes on small business. You have explained that, right? And as I remember the analysis, about 75 percent of the high income that would be affected would be income over $1 million a year. Is that correct?

Secretary GEITHNER. That is roughly correct, yes.

Mr. LEVIN. That is the estimate.

Secretary GEITHNER. That is the estimate. That is one estimate, yeah.

Mr. LEVIN. And you indicated what percentage of businesses would be affected?

Secretary GEITHNER. Only 2 to 3 percent of all businesses in the country. And, again, the vast bulk of those businesses make well over a million dollars in earnings a year. And, of course, many, many of those who make that much money are fundamentally what we would call law firms or investment firms or other types of companies that are structured that way to help lower their tax burden.

Mr. LEVIN. All right. Let me now ask you about investment, because there is such a sharp contrast between the President's budget and the CR. I think you have described it—for the President, it is invest and cut the deficit. For the CR, it is essentially non-invest or disinvest and cut the deficit, except increase it by how much, the high-income tax cut over 10 years?

Secretary GEITHNER. Well, to extend the high-income tax cuts for 10 years would cost substantially over $700 billion, maybe close to a trillion dollars.

Mr. LEVIN. All right, now, Mr. Chairman, it is interesting. I think we need to have this discussion. You used the term "winners and losers." And that is often talked about in terms of investment. And I didn't mean to pick on you. I picked on Hemlock because I was there.

Chairman CAMP. The chair does not feel picked on.

Mr. LEVIN. Good.

I was there. It is a vivid example of public-private partnership. And I was told right there that, if it hadn't been for 48(c), the expansion would not have occurred.

So, Mr. Secretary, just quickly sum up why this budget cutting the deficit combines it with investment.

Secretary GEITHNER. Well, you know, again, we live in a very competitive world. We have to make sure that we are focused every day on how to make the country stronger and more competitive. And if we are going to be able to meet a substantial share of the growing demand for goods and services around the world, we want more of that to be met by investment in the United States.

And what the President's budget does is propose a range of reforms and incentives that make it more likely that that next great American business builds their next factory in the United States and that that great foreign competitor of the United States builds his or her next factory in the United States. And we want to make sure the Tax Code is working to encourage those kind of investments and not to discourage those kind of investments.

And it is very important, when we think about fiscal policy choices, we look at them through the prism of what is going to be a better strategy for growth and investment. It is not simply an exercise of reducing future deficits. Although this is very important to future growth, how you do it is critically important. And you have to set priorities, and you have to make sure, again, you are preserving the capacity to invest in things that are important to the competitiveness of every business in the country.

For example, any business you talk to in the country that is engaged in manufacturing will tell you that they need better access to high-quality engineers. They want our schools to do a better job of producing people with the skills they need to compete. They need to make sure they have better designed incentives in the Tax Code to encourage investments here in the United States. The proposal we made to make permanent the R&D tax credit and expand the credit is a good example of those kind of incentives.

But we just want to make sure that we look at these fiscal choices through the prism of what is going to be good for growth and investment in the United States.

Mr. LEVIN. Thank you. And the CR is a disinvestment proposal at the time we need more, not less.

Secretary GEITHNER. Well, again, I think the challenge is I think we all recognize we are going have to reduce spending. We all recognize we are going to have to reduce our long-term deficits. The question is how to do that and how to do that in a way that preserves incentives for investment here, allows us to improve education, strengthen our public infrastructure. That is the challenge we face.

Mr. LEVIN. Thank you.

Chairman CAMP. Thank you.

Mr. Herger may inquire.

Mr. HERGER. I thank the Chairman, and I join in greeting the Secretary to our hearing.

Secretary Geithner, on page 2 of your written testimony, you state that, quote, "We must restore fiscal responsibility over the long term by reducing the rate of growth in health care expenditures," close quote. I couldn't agree with you more. In fact, that is one of the main reasons why I voted against the Democrats' health care overhaul twice in the last Congress.

The Obama administration's own Medicare actuaries have predicted that national health care expenditures over the next decade will be $311 billion higher because of the Democrats' health care overhaul. In other words, the health care law bends the cost curve up, not down.

Yet, on page 7 of your testimony, you assert that, quote, "Independent analysts have estimated the Democrat health care law will significantly slow the growth rate of medical costs," close quote.

Mr. Secretary, could you tell us, who are the analysts you are relying on for this claim? And is there a reason you are choosing to ignore the findings of your own administration's actuaries?

Secretary GEITHNER. Excellent question, and thanks for giving me a chance to respond to that.

As many of you have said, our long-term deficits that we face over the next century are primarily driven by rapid rates of growth in health care costs and, to a lesser extent, by Social Security obligations. The most important thing we can do to reduce those long-term costs is to reduce the rate of growth in health care costs.

Now, in our system, in our country, we rely on the independent, nonpartisan Congressional Budget Office to analyze for the Congress and for the administration the impact of reforms on costs. And it is the judgments of the CBO that bind all of us. They bind the Congress and ultimately bind the administration.

And it is in the judgment of the nonpartisan, independent CBO that those reforms, if enacted and held to over time, will substantially reduce the rate of growth in health care costs for the public sector. And they, in fact, make the largest contribution to entitlement reform that this country has considered in generations.

And it is, of course, in recognition of the fact that the only path to long-term fiscal responsibility is through health care savings that these reforms made it through the Congress are so important.

And, of course, we recognize that we are going to have to build on that. We haven't solved that problem definitively. And we would welcome the chance to join with you in figuring out ways we can help make a further contribution, even greater contribution to reducing the rate of growth in those costs.

But I would rely on CBO's estimates.

One more clarification: If I am not mistaken, I think what the actuary said, was if Congress does not enact those reforms, then costs will grow more rapidly. He was making a prediction about what Congress might ultimately do, not what the reforms would produce in terms of savings.

Mr. HERGER. Last summer, in an interview on "The Kudlow Report," you said that the administration wanted to prevent the rates on capital gains and dividends from rising beyond 20 percent. Can you please clarify whether this 20 percent rate is inclusive of the new 3.8 percent tax increase included in the Democrat health care law?

Secretary GEITHNER. No, it is not. But we do propose in the budget to make sure that the top rates on dividends and capital gains don't rise beyond 20, because, again, we want to have a budget that is encouraging investment in the United States.

Mr. HERGER. So it is not inclusive. So it does rise beyond 20 percent in this area.

Secretary GEITHNER. Well, maybe this is a simplifying convention, but when we think about the rate on dividends and capital gains, we view it—we look at the statutory rate established in the budget. And, again, we think there is a good case for trying to make sure that we keep the overall tax burden on investment income in the United States at a modest level. We think that is good for future growth. We think we can afford do that.

Mr. HERGER. Again, Mr. Secretary, our concern is, at a time when the economy is what it is, that we really hold to this. The American public, certainly those who are creating new jobs, cannot afford to have more money taken out. That money could be used for investment.

I yield back.

Chairman CAMP. All right. Mr. Johnson is recognized.

Mr. JOHNSON. Thank you, Mr. Chairman.

Mr. Secretary, the Congressional Budget Office shows permanent deficits in the Social Security program, meaning that Social Security payroll taxes can't fully cover benefits. In other words, the cost of paying benefits is now more than the revenues coming in to pay them. You would agree.

We are on a very tight time schedule here, so I will ask a few simple questions, and I would ask you to be brief in responding, if you would.

How are we paying benefits if we don't have sufficient payroll taxes? Is the Treasury paying Social Security interest it is earning from the IOUs Treasury gave the system when it borrowed payroll taxes from Social Security to pay for other government spending?

Secretary GEITHNER. Congressman, we have the ability to meet our commitments to Social Security beneficiaries, and we will continue to meet that obligation.

But we recognize, as do many of your colleagues, that, over the longer term—but we have some time to get this right—we need to make sure that we strengthen Social Security, secure Social Security for future generations. And that is going to require some changes. And we are, as the President has said, we are willing to work with all of you to figure out a best way to do that. But——

Mr. JOHNSON. How much are those interest payments going to be in 2012, do you know?

Secretary GEITHNER. I don't know right now, but I would be happy to respond to you in writing——

Mr. JOHNSON. It is about $127 billion, according to the Trustees Report. According to the President's budget, in 2012 the budget deficit is expected to hit $1.1 trillion—the fourth year in a row of trillion-dollar-plus deficits. Meanwhile, the debt held by the public will be near $12 trillion next year, double what it was in just 2008.

Mr. Secretary, where will the money come from to pay the interest owed to Social Security?

Secretary GEITHNER. Well, Congressman, again, I think you are making our point. It is very important that we find a way to reduce our long-term deficits. That is not something we can defer forever. And what the President's budget does is propose a detailed mix of policies, both spending restraint as well as tax reforms, that will bring those deficits down dramatically, dramatically, over the next——

Mr. JOHNSON. I understand that, but where are you going to get the money to pay Social Security? You are going to have to borrow it, right?

Secretary GEITHNER. We have the resources to meet those commitments for a substantial time to come. Now, of course, we don't want to put off those questions forever. It would be good for the country, I think, for us to come together on ways to strengthen Social Security. And we are willing to begin that conversation with the Congress soon.

Mr. JOHNSON. Well, clearly, we are borrowing at record levels. That is a crisis this nation faces, the fear that the rest of the world soon won't want to lend to us.

What percentage of our borrowing comes from foreign sources?

Secretary GEITHNER. Well, Congressman, as a whole, we are borrowing much less from the rest of the world than we were just 3 years ago. Right now, our current account deficit, the amount we borrow from the rest of the world to meet our obligations, is now about half the level it was at the peak in 2007. And what that means is that Americans are saving more and they are funding a larger share of these deficits.

But a substantial share of our outstanding debt, like is true for every major economy, is held by foreigners. And, again, we agree and what this President's budget reflects is a recognition that, if we are going to grow in the future, we have to make sure we agree on reforms that bring down those long-term deficits.

Mr. JOHNSON. The President's budget this year says 47 percent comes from foreign sources.

Thank you, sir.

I yield back the balance of my time.

Chairman CAMP. Thank you.

Mr. Rangel may inquire.

Mr. RANGEL. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for sharing your views with us.

As we discuss the budget for 2012, soon, and very soon, we will have to look at the continuing resolution for this year and next. Having said that, at one point in time, the President of the United States indicated that he was only advocating an extension of the tax relief for those people making less than $250,000. But in this agreement, as they said, the President didn't ask for it, but he did agree that it would be for everybody. Having said that, I understand the cost of the relief given to the upper-income people is over $100 billion.

Now, the CR that the majority has given to us has a substantial number of cuts in spending, but that doesn't necessarily mean that it is not going to be ultimately a cost that we are going to have to pay.

My question to you: Have there been any comparisons between the cost of extending this relief to where economists say we should not expect economic growth as a result of it and the negative impact of cutting programs which could cause an additional spending? Has your office reviewed this to give us direction?

Secretary GEITHNER. Well, Congressman, you are raising exactly the right point, which is that, as we think about ways to reduce these deficits, we have to make sure that we are doing things that are going to be supportive of future growth, that are going to have a high return, as you say, a large bang for the buck, if we are making investments. And you want to make sure you are not cutting into things that will hurt future growth, raise unemployment in the future, raise our long-term deficits in the future.

And what the President's budget does is reflect our view of where those choices should be made. So, again, we want to make sure we are increasing investments in education, in infrastructure, in research and development, not cutting those. Because if we do a smart job of making investments in support of reforms in those areas, future growth will be stronger, it will be more competitive, our deficits will be lower in the future. If we cut deeply into those investments, we will be weaker as a country, it will be harder to solve our long-term fiscal problems.

But those are exactly the kind of tradeoffs that this Committee and your colleagues in both houses will have to make.

Mr. RANGEL. Mr. Secretary, really I have to go vote, but the point I am trying to make is that the insistence on the overall tax cuts for the upper income did increase the deficit, and that money was borrowed in order to do it. And so, to come back now and to talk about savings, it seems to be a dramatic inconsistency in supporting both of those themes.

Secretary GEITHNER. Those temporary tax cuts were expensive. We can't afford to make them permanent. And I agree that if we are going to make cuts in spending, as we have to do, we want to make sure that those savings go to support investments and cutting future deficits, not sustaining tax cuts for the top 2 percent of Americans that we can't afford.

Mr. RANGEL. Thank you, Mr. Secretary.

I yield back, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. Brady is recognized.

Mr. BRADY. Thank you, Mr. Chairman.

Mr. Secretary, this budget don't add up, either for job creation or tackling these dangerous deficits. And the two are tied together, as you say, because consumers aren't confident that America is going to really tackle its fiscal deficit, and businesses don't believe Congress is serious about this.

I think you are repeating 2 mistakes from the last 2 years. One is using rosy economic forecasts, as you did last year and the year before—the White House, excuse me, Mr. Secretary, not you. These forecasts are 0.4 and 0.5 percent higher than CBO and OMB. Doesn't sound like much, but just that difference wipes out three-fourths of the purported savings in this budget over the next decade.

And then, secondly, on job creation, I don't understand why the administration comes back with higher taxes on U.S. companies trying to compete and win overseas. Because all we are doing in this budget is encouraging companies to manufacture oversees—$87 billion more in energy taxes, again, on U.S. energy companies, encouraging them to send their workers overseas.

And then, finally, this budget takes a whack at real-estate partnerships, traditional partnerships that build our shopping centers, apartments, movie theaters, office buildings, none of which can stand an almost tripling of their taxes.

So, how in heaven's name does the White House believe it will gin up the economy, which is very sluggish, by taxing the manufacturers and job creators most likely to get us out of these tough times?

Secretary GEITHNER. Congressman, excellent questions. And let me just respond quickly on each one.

I actually think, if you look carefully at the economic assumptions in the budget, they are actually quite realistic and quite conservative. You are right, at some parts of the 10-year horizon, some of the estimates look a little higher than the consensus forecast, but in other cases they are lower and more conservative.

But I think if you look at these—I will just give you one example. The average growth rate estimated over this period of time is significantly lower than the average strength of past recoveries. So we are trying to be conservative.

And, again, one great strength of our system is, in the end, CBO's assumptions govern, in this case. And you will be able to rely on them to make sure that we are being balanced. But I think they are reasonably conservative.

Now, very important that as we think about tax policy that we are doing things that encourage investment. Now, you are right that we are proposing to reduce some tax benefits that go to some parts of the American business community. But we are proposing very substantial and very broad-based incentives for investment, too. And if you look at the overall net income impact of those in terms of tax revenues, it is a very, very modest change. And I think, again, what it does is shift the incentives in the Tax Code, if these were enacted, to encourage the next company to build their next plant here in the United States.

Now, I know you are right that we are proposing to eliminate some loopholes, some preferences, things that we think are expensive and don't have much impact on growth. And we know people are going to disagree with those things, but it is just a reflection of the fact that we don't have unlimited resources, we face some tough choices, and we can't do everything we want to do.

And every time we look at a tax provision, we should ask ourselves two questions. One is, is it improving incentives for investment here? And does it have a substantial return, in terms of growth impact? And if it is too expensive relative to that, then our view is we should phase it out.

Mr. BRADY. Just a final, and I will close out. And, again, this isn't your budget, necessarily, but the White House. But please carry back to the White House this message: Because they kill jobs, those tax increases are dead on arrival in this House. We have to find a better way, we will work together with you, to get this economy going.

Thank you, Mr. Secretary.

Chairman.

Mr. TIBERI. [Presiding.] Thank you.

Thank you, Mr. Secretary, for being here. I guess it is just you and me for the time being.

Secretary GEITHNER. Let's solve some problems.

Mr. TIBERI. I was pleased to hear the President, in his State of the Union, talk about lowering corporate tax rates as a way to expand jobs. Within the budget, however, I am worried that the administration isn't paying as much attention to small businesses, in terms of creating jobs.

Obviously, you know—I don't have to tell you—the way that small businesses are set up, most pay as passthrough entities their income taxes. And, therefore, I believe there are a number of things within the President's budget that impact those small-businesses owners.

And so, if I could just kind of read you a list of things I am interested to hear your "yes" or "no" answer, if you think that any of these are a tax increase on small-business owners.

The President's budget, as you know, proposes to phase out personal exemptions on itemized deductions. In addition, the President's budget proposes to limit otherwise allowable itemized deductions, commonly known as the Pease limitation.

Do you consider these two tax increases on small businesses? Those passthrough entities that are oftentimes partnerships, S corps, many of those often itemize their deductions.

Secretary GEITHNER. Well, to make it easier, I agree on the following, which is, again, that those tax changes only impact 2 to 3 percent of small businesses. And those small businesses affected overwhelmingly are businesses that earn substantially more than a million dollars. And you are right that many of them are structured as passthrough entities. But, in that context, most of the ones that are affected by this are, you know, typically like a law firm or an investment partnership.

Mr. TIBERI. The President's budget proposes to reclassify many groups of independent contractors as employees—you have testified to this before—for tax purposes. And many of those small businesses contract with those outside individuals.

Do you consider the new payroll tax on those small businesses a tax increase on them, since you reclassified——

Secretary GEITHNER. Well, I wouldn't describe it that way. Let me just tell you what the objective of this is.

As you know, this is a very complicated provision of the Tax Code, and it is very hard for people to comply with it. And what we are proposing is a very simple thing. It is that Congress authorize the IRS to issue guidance for comment on how to make sure that we simplify the ease of complying with this, to make sure that businesses are on a level playing field. Because right now, the current system, apart from being way complicated to comply with, creates a lot of unfairness across businesses, and it gives some businesses the opportunity to, frankly, lower their tax burden in a way that is unfair to their competitors.

So we want a level playing field and a more simple thing to comply with. And what we are proposing is just that Congress give the IRS the authority to issue guidance for comment. And, of course, once the IRS goes out with a draft, anybody affected will have a chance to comment on that and suggest how that could be improved.

Mr. TIBERI. Would the small businesses be paying more, though, if they had those employees?

Secretary GEITHNER. It just depends on their circumstance.

Again, what we think is fair is, we want to have a Tax Code where businesses pay roughly the same amount of income tax relative to earnings. In our current system, as you know, it is deeply unfair. Some companies pay a lot more than the average, some pay less than the average. And we think we want to move to a system where, again, it is a more level playing field and it is a more fair, simple system to comply with.

Mr. TIBERI. Another rate in the President's budget that has changed is the top rate for the estate tax. Obviously, many small-business owners, farmers are concerned about what happens in 2 years to the estate tax.

Is the rate that goes up to 45 percent, is that an increase in taxes for small-business owners?

Secretary GEITHNER. It absolutely is a change in the estate tax. And, again, what we are proposing is that we restore the rates and the exemptions to the levels that prevailed in 2009. And, again, with those rates and those exemptions, a tiny, tiny, tiny, small fraction of estates are affected by those changes.

And, again, we think that is the best way to balance our obligations for fiscal responsibility with all the other objectives we share, how to make sure we are strengthening the economy as a whole.

Mr. TIBERI. In my State of Ohio, there are roughly 50,000 people that are employed by the independent oil and gas industry by producers. It is a pretty big industry. Most of these individuals are employed by small-business owners, a lot of family-owned businesses. And, as you know, the President's budget proposes to repeal the marginal well tax credit, to repeal the expensing for intangible drilling costs, and to repeal the percentage depletion.

Do you consider this a tax increase on independent oil and gas producers?

Secretary GEITHNER. I would, yes.

What it does is, again, reduce a very, very substantial subsidy that now goes to the oil and gas industry. And we are proposing to eliminate that because it is very expensive and it works against a national priority, which is to encourage the economy, as a whole, to shift to less carbon-intensive forms of energy use in the future and to reduce our ultimate dependence on the types of energy that, again, contribute to climate change and could threaten future growth prospects. That is the rationale for that change.

Mr. TIBERI. One of my constituents is a small-business owner, a family operation. He says that if this proposal becomes law, it will evaporate the industry in Ohio.

Last year, Joint Tax suggested that this will not only hurt the domestic production of oil and natural gas, but it will, ironically, increase our dependency on foreign fossil fuel. Do you agree with that?

Secretary GEITHNER. No, I don't.

But here is a different way to look at this. When we allow parts of the American economy to pay much lower taxes than the average, that means taxes are higher on all other businesses in your State. And I think what you have to ask yourself is, is that fair and does that make sense? It adds to inefficiency. It probably hurts growth overall, because what it means is people who sit in this room are allocating investment, not the market as a whole. And, again, we want the market to decide which businesses grow, not the community of tax lobbyists and tax planners.

Again, when we allow certain parts of the economy to pay much less than their fair share of taxes, then it means every other business in the country is paying higher taxes as a result.

Mr. TIBERI. One final question: Do you consider the individual mandate within the health care bill, the penalty levied upon people who refuse to accept to take on individual insurance, the penalty that they have to pay to the IRS, a tax?

Secretary GEITHNER. Congressman, I think you know my answer to this question, which is, we do not. But that is not a judgment I ultimately make. That is a judgment that is going to be made in different rooms, different bodies than this.

But I can tell you that I fully support the health care reforms that were passed because I think they are very important to helping make sure that the cost businesses bear for health care are reduced over time and that we can restore fiscal responsibility, fiscal sustainability to our long-term deficits.

Mr. TIBERI. Do you think, though, it is kind of ironic that the Treasury Secretary thinks it is not a tax but the Justice Department argues that it is a tax?

Secretary GEITHNER. I cannot begin to explain when lawyers and financial people disagree on some things, but I can give you lots of other examples where that is the case.

Mr. TIBERI. I thank you for your patience.

We are going to take a break, about 10- to 15-minute break. Refill your water glass, take a restroom break. Votes should be done in about 10 minutes, and we will resume our hearing.

So the hearing will be in recessed for about 15 minutes.

Chairman CAMP. [Presiding.] Mr. Stark is recognized.

Mr. STARK. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for taking the time to explain much of this to us.

We have recently received a letter from over 270 prominent economists—I presume you were one of the 270—which stated that the Affordable Care Act contains essentially every cost-containment provision that policy analysts have considered effective in reducing the rate of medical spending.

Could you comment on how you feel the Affordable Care Act will relate to constraining health care costs?

Secretary GEITHNER. Congressman, very important question, and thank you for asking it.

What these reforms do over time is change the incentives for how Americans use health care and set in motion what we believe are the most powerful sets of ideas out there for reducing the rate of growth in health care costs over time.

And, of course, there is a lot of uncertainty that surrounds these estimates, but, as I said earlier, we rely on the CBO to make these judgments for us. And, in their judgment, these reforms over time will very, very substantially reduce our long-term deficits by reducing the rate of growth in costs.

Now, as the President has made clear, we want to build on those reforms. Ultimately, we are going to have to do more. And we would welcome the chance to work with people on both sides of the aisle to strengthen those reforms so they can deliver even more savings in the future.

But I agree with your characterization that the bill includes, we think, many, if not most, if not all, of the best ideas out there for reducing the rate of growth in costs.

Mr. STARK. Well, Mr. Secretary, you, every once in a while, blog. And I have been given a quote from a blog you did some time ago, talking about in the absence of health care reform. And I wonder if you could dig back on your Facebook someplace and send us a copy of that blog for the record.

Secretary GEITHNER. I would be happy—to I don't really use that term and don't do Facebook. But I would be happy to give you our analysis and our reports about what the reforms would do for our competitiveness as a country.

Secretary GEITHNER. Again, you know, I think it is important to recognize, if you ask businesses what they care about most among their concerns, they care a lot about the burden rising health care costs puts on them. And so, if we care about competitiveness and growth and jobs, not just access to affordable care, you have to make sure these reforms take hold or are allowed to work over time.

Mr. STARK. Thank you. Thank you very much.

I yield back, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. Davis is recognized.

Mr. DAVIS. Thank you, Mr. Chairman.

Thank you for joining us today, Mr. Secretary.

I would like to switch subjects to a different area that is very current from a standpoint of job creation and job sustainment, and that is to talk about unemployment insurance for a moment.

Could you tell us who pays unemployment insurance taxes?

Secretary GEITHNER. Well, as you know—and I am sure you know this based on your question—businesses pay the unemployment insurance taxes.

Now, if you are an economist, you would give a more complex answer to that, because, ultimately, of course, the economy as a whole pays those taxes. But——

Mr. DAVIS. But, ultimately, it comes out of someone's pocket.

Secretary GEITHNER. Yeah, the direct incidence is on businesses. You know, some people would say that—well, I won't give you the more complicated answer.

Mr. DAVIS. I guess that leads to my next question. Have you been an employer and paid these taxes? I mean, I have. I have written the checks every quarter to the——

Secretary GEITHNER. I, unfortunately, have been in the public sector all my life. But I have helped manage substantial organizations of people.

Mr. DAVIS. Okay. No fault in that, but it does give a difference in context.

The reason that I wanted to clarify that, the administration's budget, pages 184 and 191, describes your unemployment insurance proposal as offering $9 billion in relief to employers through 2013, and then subsequently tax hikes totaling $67 billion over the next decade.

If you were an employer, as I was or many of us on the Committee were, paying those checks and were looking at long-term capital investment forecasts, trying to decide whether to hire or not hire, what to do, if you were an employer having to face that decision, would you think that getting, for example, $9,000 in relief now in exchange for a $67,000 tax tab in the future through increased unemployment insurance taxes is really a good deal?

Secretary GEITHNER. Oh, I do think it is a good deal, because our job is to figure out what makes sense for the country at a time when we have limited resources. And, as many people on your side of the aisle have said, we have to recognize that we face unsustainable long-term deficits. So we are going to have to do things that are going to be painful. The choice is to—we want to make those choices in a way that is careful and sensitive.

But what this proposal does—remember, this is just a proposal. You know, Congress has to reflect on this and consider it. And we are completely open to suggestions of how better to design it. But what it does is, it marries some short-term relief for States and for employers with reforms that make the base of these assessments more fair across companies as a whole.

And, again, there may be different ways to do this. We may not have gotten it perfectly right. Open to suggestions, happy to work with you on a better way do it.

Mr. DAVIS. I appreciate that perspective. I think 2014 may be the ultimate year of fulfilling that Mayan prophecy economically, with all of these taxes coming to bring the end of the business world. The concern that I have is that, in fact, we have so many issues that are coming if there are not reforms to the reform in health care and other things like this. I hear constantly from employers back in my district that there is a lot of fear, frankly, at the small to mid-sized business levels about hiring. Now we add on another issue with UI and the proposed tax increases in the budget.

I guess my final question would be this: If you were an employer and you were trying to make decisions with cash longer-term, do you think that, with this looming tax hike, that you, personally, would be eager to take on new liabilities to hire people?

Secretary GEITHNER. Well, Congressman, again, what I would try to look at is the following. I would say just two things. One is, look at what businesses across the country are doing today. And if you look at what has happened to the recovery over the last 18 months, businesses are expanding investment at an accelerating rate, pretty strong rate, much more rapidly than GDP is growing overall. And we have created more than a million private-sector jobs just in the last three quarters, much more and much more quickly than the last two recessions that were much milder recessions. And so, we have a long way to go, but we are making progress.

Now, I would look at the overall mix of proposals in the President's budget on the tax side, because it is my view that if you look at their overall impact on businesses and competitiveness, they are very strong, very powerful, help improve incentives for investment in this country, help improve incentives for innovation, that we think those are good for growth long-term. But you have to look at the overall package of it, not just the specific tax cuts for businesses, but the broader reforms as a whole.

Mr. DAVIS. Yeah, I appreciate your sentiment. I guess if I were in the personal and capital gains tax rate to 44 percent, combined with things like this, it might create a bit of a disincentive for that. But we will weigh in in a different place on that.

And, with that, I yield back.

Chairman CAMP. Thank you.

Mr. Reichert is recognized.

Mr. REICHERT. Thank you, Mr. Chairman.

Mr. Secretary, welcome.

I remember 2 years ago your first visit to this Committee, and I think my question was on trade. You may recall that. I was a little concerned there was only one sentence attached to the no-cost stimulus, as it has been referred to, to trade.

And so I am happy to say that I am really encouraged with the President's position and latest action on his Export Initiative Council, which I am a member of, and then also his recent developments in negotiating the Korean trade agreement. So I am excited about the job possibilities, the doubling of exports, and the engine it will provide to our economy. So congratulations on that.

It shows you how much can change in a couple of years. There is something that I am concerned about and am hoping that you might change a position that you have taken. I would like to remind you of a letter that 118 Members of Congress signed, along with myself and Eric Cantor, voicing our opposition to the tax simplification program, dubbed "Simple Return," that you considered last Congress. This proposal would basically have the IRS prepare your taxes for you and mail you a bill.

This is, in my opinion, hardly tax simplification. It is more like the fox guarding the henhouse. I think there would be a lot of people that might agree with that.

I want to assure you that we are still aware of that proposal, and I wanted you to be aware of our opposition and hope that there might be some change in your thought as we are now a year or 2 later.

I want to move on. I really want to get back to this small-business thing. I am concerned that the administration's budget targets small businesses, as has been said. Some of the figures have been already tossed about. But, as you said and I think most people recognize, much of the burden, really, is going to fall on these pass-through businesses, the S corporations, partnerships, and sole proprietorships, whose income is reported on their owners' individual tax return.

And, as you said, that is 3 percent of small businesses. However, the Joint Committee on Taxation found last year that roughly 50 percent of the higher Federal tax revenue would come from small businesses.

I am particularly concerned about its impact on the millions of small businesses that are located all over the State of Washington and across this country. So do you believe that this is 50 percent of our income?

Do you believe that higher taxes on hundreds of thousands of small businesses, mom and pop stores, is really a way to create jobs?

Secretary GEITHNER. Well, let me just start with where you started. And thank you for what you said about the export side. And I want to say, it is very encouraging, what you are seeing now, which is, export growth is very strong. It is leading the recovery. Exports are growing really quite rapidly. And it is really across the board, from agriculture to high-tech. And it shows how fundamentally strong and resilient this country is.

And you are right to emphasize, though, the question for us for the future is how to make sure that continues. And for that to happen, you want to make sure that you see more investment in the United States by U.S. companies, by foreign companies. And that will help contribute to the stronger export growth. We need to do that alongside these trade agreements.

And I heard you on your second concern.

Mr. REICHERT. Thank you.

Secretary GEITHNER. Now, the way I would think about it is this, which is—and, again, I think this is the fairest way to do it. Those proposals, again, apply to a very small fraction of small businesses, only 2 to 3 percent. And the incidence falls mostly, overwhelmingly on businesses in that category that make substantially more than a million dollars a year. So——

Mr. REICHERT. How do you address the fact, though, that 50 percent is from small business income?

Secretary GEITHNER. Because that income that you are referring to, again, is concentrated in businesses that are actually not small. They are actually quite large. And, overwhelmingly, those businesses are businesses structured like law firms and firms similarly structured like that. You could say those are like communities of individuals that earn a lot of money because they are very productive, and they are allowed under our tax system to structure themselves that way to reduce their taxes.

Mr. REICHERT. But is this really the way to encourage economic growth?

Secretary GEITHNER. Oh, again, I think it is.

I think, as many people on your side have said, again, future economic growth depends on two really important things. One is better incentives for investment in this country, and confidence that we are going to reduce our long-term deficits. We have to do both. If the business community, if the American people, if foreign investors are not confident we are going to reduce those long-term deficits, then they are going to invest less here, and future growth will be weaker.

So we just have to balance these different objectives. And, again, those are the rates that prevailed during the 1990s, which was the best record for small-business creation, best record for investment growth, best record for productivity growth, best record for income growth, employment growth, than we have seen in more than 30 years.

So we think that that is a prudent response at a time when we don't have unlimited resources.

Mr. REICHERT. We will agree to disagree on that one.

Thank you, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. McDermott is recognized.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for coming.

The President's budget has cuts in it that are huge cuts to the deficit but still invests in the country. The alternative plan by the Republicans—we are going to vote on it in about 48 or 72 hours—is cut spending and use the savings to protect tax cuts for the wealthiest top 4 percent.

Now, the Republicans' spending plan, in my view, is a dark view of the future, one that throws the middle class under the bus. The Republican plan, if you read it carefully, sends one message to America's middle class, to the unemployed, and to the working poor: We don't care about you.

Now, for example, they want to cut spending for States to repair highways and bridges. They want to cut Social Security Administration, so Social Security offices close across the country for a month next year. These programs won't help put America back to work, they don't grow the economy, and they keep the lights out for senior citizens.

For example, Republicans want to cut $758 million from the Women, Infants, and Children program, the WIC program. Now, that program provides funding to keep low-income mothers and soon-to-be mothers, as well as their children, get food and health care referrals. The program was signed into law by none other than the great icon, President Reagan, to which all the Republicans in the Congress pray every day as their patron saint.

Now, these are just a few examples of the drastic and disastrous cuts the Republicans are proposing. They don't cut defense, even though the Secretary of Defense is desperately calling us to stop buying weapons his department doesn't need. They don't seem to think that the wealthy have any responsibility to this country or for those who have less fortunate lives in it.

It also seems the Republicans don't understand the idea of investing. Now, Paul Krugman has called these Republican spending cuts "eating the future." That comes from a Native American saying, that you can tell when a tribe is on its way down when they eat their seed corn. Now, basically, the Republican focus on cutting spending from these programs, they cut things that don't have an immediate benefit but they really take a hit in the long term. And the Republicans, as they eat our seed corn, are doing it at the expense of the middle class and the poor.

Now, the President has taken meaningful steps to balance the budget and bring manufacturing back to the United States. And I would like you to talk about the question about the Build America Bonds and the other investments, and contrast that with what is in the Republican budget. There is, we understand, $2 trillion sitting in private hands, and they won't invest it. So we have no alternative but to do it from the government level, because the private sector is not doing it.

I would like to hear you talk about the President's investments.

Secretary GEITHNER. Well, Congressman, I can't improve on the contrast you described, although I agree that the choice we face is a pretty stark choice in different strategy for the country. And what we are trying to lay out is a more confident vision of what it is going to take for us to grow in a world where we face a lot of competitive challenges.

I want to just highlight, again, some of the proposals in the budget which we think are going to be good for investment and future growth. Again, we propose to make permanent an expanded credit for research and development; zero capital gains for small businesses; an expansion of a very valuable tax credit to help families afford college for their children; low taxes on dividends and capital gains so that we are, again, not hurting investment incentives; investments in education so that we improve the quality of education; investments in improving the overall quality of infrastructure. I mean, if you are a business in the United States today and you have to deal with our infrastructure, it is like a tax on competitiveness.

So those things, we think, are critical to our capacity to grow in the future, to compete with these countries around the world that are getting very good at things that we used to be uniquely good at. And, again, we have to make sure that, as we think about the budget, we think about what is a better strategy for growth.

And, of course, we have to do that in a way that is going to be viewed as fair to the overwhelming majority of the American people. We are coming out of a financial crisis that caused devastating damage not just to low-income Americans but across middle-class Americans. You see that in high unemployment rates, in millions of Americans still on food stamps, millions of Americans still at risk of losing their homes, and after decades of very substantial increases in inequality.

And so we have to find a way to make these fiscal choices to restore a balance, restore a gravity to our fiscal position, but not at the expense of our ability to grow and compete in the future and not at the expense of some basic principles of fairness for a country that is still suffering deeply because of the recession.

Could I say that the Republicans are going to have the chance, not just in the debate about the CR, but when they put together their budget resolution, they are going to have the chance to lay out a 10-year plan, like the President does, that explains how the Republican leadership in the House believes we can bring these deficits down over time and what mix of spending restraint longer-term, what mix of tax reforms that will help achieve that.

And that will give us a chance to have a good debate. And we will have a good debate. And we won't agree on everything, but we will agree on some things. But the important thing is that the strength of the economy depends on us making sensible choices.

Chairman CAMP. All right. Thank you.

Mr. Nunes is recognized.

Mr. NUNES. Thank you, Mr. Chairman.

Just continuing your thought there, Mr. Secretary, President Obama, this is his third budget. And I just find it peculiar that you would state just now that you are waiting for us to lead. Isn't that why you——

Secretary GEITHNER. No, no, I wasn't saying that. I am sorry, I didn't mean to imply that. Let me just correct that.

Obviously, the President, as President, has the responsibility for laying out to the country and the world every year a budget that lays out a 10-year path to reduce deficits. And that is the beginning of the process——

Mr. NUNES. You said you are waiting for us to come up with our ideas?

Secretary GEITHNER. No, no, no, not at all. We have to take the lead and the initiative, and you are going to disagree about some of those choices, and we will have to figure out what makes sense.

But what I meant is that I know that you are having this debate about current spending for this fiscal year, but as important as that debate is that you are going to have the chance to lay out an alternative vision about how we bring those deficits down.

My point is, just to come back to where we began, you are focused, understandably, as we are, on how to demonstrate to the American people we can bring some restraint to spending that is unsustainable. That——

Mr. NUNES. Well, Mr. Secretary, in your budget, on page 52, you state or I should say, the President's budget, not your budget—"Even with this fundamental change, however, an aging population and a continued high level of health costs will pose serious long-term budget problems. Medicare, Medicaid, and Social Security will absorb a much larger share of Federal resources than in the past, limiting what the government can do in other areas. The level of high debt to GDP that is projected risks unsustainability without further policy changes."

But you kind of punt on entitlement reform and other subjects in your budget.

Secretary GEITHNER. No, no. Congressman, I have listened to your colleagues say that, but I guess I would say the following in response.

We have an unsustainable deficit over the next 10 years, which we have to deal with. We have to bring that down to something that is sustainable. And after that decade, we face unsustainable long-term deficits primarily driven by health care costs.

Now, the Affordable Care Act brings about very, very substantial cost savings that will help reduce those costs, but we recognize we need to build on those. The President made a few suggestions in the budget of how to go beyond the Affordable Care Act to build on those things—for example, reforming medical malpractice——

Mr. NUNES. Well, Mr. Secretary, I am actually glad you brought up Medicare in your savings. When you look at page 281 of the Medicare Trustees Report, which you are using for your brilliant savings that now have solved the Medicare crisis over time, where now it is only $2.4 trillion, according to your math—but, in the back, the chief actuary says this. The chief actuary doesn't believe the long-term projections, because here is what he says: "For these reasons, the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range or the long range." I am assuming that is because we didn't deal with SGR and unfunded liabilities, et cetera, et cetera.

Now, do you agree or disagree with the chief actuary of the Medicare report?

Secretary GEITHNER. A very important clarification: In the way the Congress works, in the way the laws of the land work, CBO is the judge of what reforms cost and save. What the actuary was doing is making a prediction about what future Congresses may or may not do. That is really your job, your decision and CBO's.

Now, of course, if Congress does not enact these reforms or repeals them or modifies them, then they will save less money over time. And that is what that report refers to. That is a prediction about what Congress will do, not a prediction about what the law would do if Congress were to stick with it.

Mr. NUNES. So you think, if we just stick with the President's current budget, without any policy changes to entitlements, that we are going to be okay.

Secretary GEITHNER. No, no. I would say this. If you enact the President's budget, which is unlikely, because you will want to change it, but if you enact that degree of deficit reduction over the next 4 to 5 years, then you will stabilize our debt as a share of the economy at an acceptable level. And if you leave in place the Affordable Care Act, then you will have made a very substantial contribution to those long-term deficits that start to accelerate in the decades ahead.

Now, what the President said——

Mr. NUNES. Mr. Secretary, I think the last 3 years I have heard you say almost exactly the same thing, just worded differently. And every year, the budget problem gets worse over time.

Secretary GEITHNER. No, actually, in some ways, it is getting better because the economy is doing a little better than we expected.

But the way our Constitution works, the President proposes, Congress has to legislate. And you will now share with us the privilege of how to make decisions about these long-term costs.

And, again, what I think is very important for us do, and this is a better way for us to do it, is to lock in multiyear savings over time. If you try do it in 1 year, you will kill the economy. And you need to give the business community and families the chance to look ahead and the chance to adjust to the change that is to come over time.

But that is something we are going to have to do together. We can't do that on our own.

Mr. NUNES. My time has run out. I yield back, Mr. Chairman.

Chairman CAMP. All right. Dr. Boustany is recognized.

Mr. BOUSTANY. Thank you, Mr. Chairman.

And, Secretary Geithner, it is good to see you again before the Committee.

Secretary Geithner, at a time when every American is concerned about our ability to compete, whether here or abroad, it is apparent to many of us that the administration has launched a full-scale assault on American energy security.

Now, there have been denials by the administration that a moratorium on drilling exists, but permits are not being granted. And, in fact, just this past weekend, the second largest shallow-water drilling company in the United States filed Chapter XI. One thousand jobs are at stake.

This is all solely due to the administration's policies. It is not because of the economy; it is not because of some foreign event. It is solely due to policy made in the White House.

Now, I have questioned you before and we have gone back and forth through letters on energy policy. In a letter you sent to me a while back, there was one line in there that really bothered me. I will read it back to you. It says, "To the extent the credits encourage overproduction of oil, they are detrimental to long-term energy security."

This is referring to the eight—I believe it is eight-different provisions in the budget that will be repealed. These are tax preferences for oil and gas that have been in existence for quite a long time.

So my question is—it is a very simple starting question: Is there an overproduction of oil in the United States today?

Secretary GEITHNER. Well, Congressman, I think I would come at that question this way: When you allow individual industries in the United States to pay much lower tax rates than other businesses pay, that means all other businesses pay higher taxes. And that makes the country, as a whole, less competitive.

Mr. BOUSTANY. But do we really have an overproduction of oil in the United States today?

Secretary GEITHNER. Well, you know, as you know, I don't——

Mr. BOUSTANY. It is really kind of a "yes" or "no" question, isn't it?

Secretary GEITHNER. Well, I don't run energy policy, don't feel equipped to address that question.

But, again, what I would say is, it makes sense at a time when we have unsustainable deficits and we are worried about our long-term energy-security issues that we have to figure out ways to, frankly, clean the Tax Code out of special benefits that go to a limited number of industries that mean that the rest of Americans pay higher taxes. That is the rationale for this.

Mr. BOUSTANY. But if we are looking to compete and grow, stimulate the economy and to grow the economy, do you believe that oil is a very necessary part of our energy security and our energy economy today?

Secretary GEITHNER. I am sure it will be part of our energy security and meeting our energy needs for a long time to come. But, again, we think it is good policy for the country to not provide very generous incentives that encourage the production dependence on very carbon-intensive forms of energy.

Mr. BOUSTANY. You say "very generous incentives," but if you compare actual equivalent energy metrics with wind and solar, the subsidies for those are much higher on a per-unit basis of energy than they are for oil and gas.

Secretary GEITHNER. True. But, again, I am not an economist, but I think we would argue that the overall return on those investments for the economy, as a whole, are higher.

Mr. BOUSTANY. But that is not proven yet.

Secretary GEITHNER. Well, you know, people may disagree on that, but, again, we think for the country, as a whole—and I know that this is going to be painful for parts of the energy industry. But I think overall——

Mr. BOUSTANY. It is going to be painful for every American, sir.

Secretary GEITHNER. No, I don't think so. I think that overall——

Mr. BOUSTANY. I disagree with that. And, sir, if we tax our current energy production, then obviously prices are going to go up, whether it is electricity or fuel at the pump——

Secretary GEITHNER. No. I think the problem with these tax benefits and the virtue of changing them is that they will not affect the price of energy for the American people. What they do do——

Mr. BOUSTANY. I don't agree with that, and that is not what I am getting from economists that I have consulted with.

Secretary GEITHNER. Well, unfortunately, about economists, you know about economists, they can disagree on almost anything. But we have to make these judgments.

And, again, when you look at these industry-specific tax benefits, I think it is important to recognize that they only exist because other businesses pay higher taxes. So if you care about overall competitiveness of the American industry, you should care about trying to scale those back over time.

Mr. BOUSTANY. There is also a provision with regard to dual-capacity companies. And this is going to affect U.S. companies that do drilling overseas, making them less competitive than American companies.

Now, I have to question, why should U.S. tax law favor state-owned enterprises, Chinese state-owned enterprises, a Venezuelan state-owned enterprise, over and above U.S. companies?

Secretary GEITHNER. I definitely would not support that, and I very much doubt that these proposals have that risk.

But, again, Congressman, we are not going to agree on this, but I would be happy to talk to you about this. And I understand the concerns you began with, about the impact of all these changes on specific companies. And I would be happy to have my colleagues work would you on how best we can limit those effects.

Chairman CAMP. All right. Thank you.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Chairman CAMP. Mr. Neal is recognized.

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

Mr. Secretary, I am delighted with Dr. Boustany's comments, because I know now that I will be able to count on him with Bermuda and Switzerland as they compete in the reinsurance market in his part of the country with domestic companies.

I am going to give you a chance to speak, Mr. Secretary, on this. Could you give us an idea of where we were with TARP, where we are with TARP, and where we are going with TARP?

I am delighted with your modified proposal on reinsurance. You can already sense that the Bermuda and Swiss companies who are receiving a subsidy to compete with American companies are taking note of what you proposed.

And the last issue is that the Department of Labor is proposing some new rules on fiduciaries, with their public hearing next month. And, at the same time, SEC is proposing new rules under Dodd-Frank to create a uniform fiduciary standard.

I am hoping that Treasury will be involved in this rulemaking so that you will have some enforcement responsibility, as IRAs are solely in your purview. And you know I have your auto IRA that I have carried for the last two sessions.

But I am asking, I guess, in the three instances here what the Treasury role will be in each instance.

Secretary GEITHNER. Well, let me start with where you ended. We will follow that debate very closely. And, of course, we share your interest of trying to make sure these come out with a reasonable balance. But we will watch that stuff carefully.

You understand what we are proposing on the reinsurance side. I don't need to go into that. But, again, we are trying to make sure there is just a level playing field for American companies.

On TARP, where you began, let me just say a few things about where we are on TARP.

When I came into office, the CBO estimated this program would cost us about $350 billion. We now believe that, outside of housing, these programs will show a positive return to the American taxpayer, very substantial amounts. And that is because we ran a strategy that had private capital, not the taxpayers' money, come in and bear the largest burden of trying to solve our crisis, recapitalizing the banking system, et cetera. And we have been very, very successful in managing those investments to generate, if you just look at the bank investments, for example, billions and billions in dollars in positive return that we can use to meet our long-term challenges.

These programs were incredibly successful in restructuring the automobile industry, restoring it to profitability. And we have a much stronger private financial system today than we had going into the crisis because of the success of the President's strategy. We have not just saved, you know, hundreds and hundreds of billions of dollars of taxpayers' resources, but we are going to show a positive return, outside of housing, that is very substantial.

I think it will prove to be the most successful financial rescue in modern history, even recognizing that we still face a lot of challenges ahead in digging out of this crisis, repairing the damage caused by it.

Mr. NEAL. Well, as one who supported that initiative, I would point out and I think it is important to acknowledge again, that that legislation took place in October of 2008. So we are grateful for your efforts to make sure that the initiative worked, understanding that, even though it was proposed by the previous administration, that it is one of those instances in the House of Representatives where moderate Democrats and moderate Republicans cast the correct vote.

Secretary GEITHNER. And the current Speaker of the House played a decisive role in helping make that happen. And there were a lot of courageous votes in this body in support of that legislation. It was very unpopular legislation, but it was a courageous and necessary act.

Now, when we came in, we had to finish the job and get the money back. But it was absolutely essential to helping break the back of the financial crisis.

Mr. NEAL. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. Heller is recognized.

Mr. HELLER. Thank you, Mr. Chairman.

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

You keep exempting housing every time you talk about the economy turning around, and I would like to home in on that for just a minute.

As you are probably aware, I am from Nevada. We have some real housing problems in Nevada. In fact, for the last 4 years straight, actually 49 straight months, Nevada has continued to have the highest foreclosure rate in the United States. One in every 79 housing units in Nevada has received a foreclosure notice. We have one county, where I believe 1 in 49 homes has received a foreclosure notice.

We have over 400,000 households that owe more on their mortgage than they are worth. To put that in better perspective, three-quarters of the people in their homes are owing more now than their homes are worth. A couple of examples: We have a housing unit in northwest Las Vegas that were originally priced at $735,000, built in 2006. One of them went for $62,500 at auction last year. There is also a condo unit in Las Vegas that was selling in 2006 for $625,000, now selling for $106,000. I am just trying to put this thing in perspective, help you understand.

When I talk to my constituents, of course they blame the banking industry, saying they are not willing to negotiate. When you talk to the banking industry, they blame the FDIC. When you talk to the FDIC, they blame you. Now, I am not asking you who you blame; I am just trying to set this picture in a manner to which you can respond.

I want to give you two quotes, two of your quotes. I don't disagree with these quotes, but I think you can help shed some light on them. You said, "I personally believe that there is going to be a good case for the government preserving some type of guarantee to make sure that people have the ability to borrow to finance a house even in a very damaging recession. I think there is going to be a good case for that."

You also said, "I think we are not going to preserve Fannie and Freddie in anything like their current form. We are going to have to bring fundamental change to that market."

Some people would say that those two conflict with one another. The more I read it, I think it makes more sense.

For my sake and perhaps my constituency's sake, could you shed some light, perhaps, on where we are going in the housing industry? And so that we are not exempting housing every time we talk about the economy improving, that perhaps there is a direction that we are moving or this administration is moving that we can fully understand.

Secretary GEITHNER. Excellent question. And I am glad that you emphasized this basic reality still, which is, again, the scars of this crisis are still very deep and broad, and they are present still across the country.

But the housing crisis was very much concentrated in your State and three other States and in a series of cities across the country. And it is still very, very hard. And, to be realistic, I think it is going to take several more years to heal the damage caused by that crisis.

Now, we are trying do two things. One is we are trying to make sure that we can reach as many Americans as we can to give them a chance to stay in their home if they can afford it. The programs we have helped put in place have helped roughly 2.5 million Americans have a chance to take advantage of a modified mortgage that lowers their monthly payment and stay in their home.

We can't help everybody, because a lot of people got themselves way overextended, and we don't think we can justify using the taxpayers' money to help them stay in homes they can't afford. But we are going to try to make sure we reach as many people as we can. Those programs that are still in place now are making a huge difference for millions of Americans. And we want to make sure that, again, they do as much as they can.

Now, longer term, obviously we have a housing system that is a mess and did not work, overwhelmingly dependent on the government now still. And what we laid out last week was a plan to gradually wind down Fannie and Freddie, gradually restore this market to a market where private capital provides most of the mortgages in this country, but still has the government play a limited role, a targeted role in helping provide affordable housing alternatives, rental as well as ownership, to low-income Americans.

And we proposed a variety of other models for trying to make sure that the government is providing some kind of protection against the risk of a very severe recession in the future. We are not going to do that with Fannie and Freddie, though. We don't think they can be part of that solution.

And we want to begin a debate in Congress with the relevant Committees about how best to craft legislation that would achieve those objectives: wind down Fannie and Freddie; restore the private market to the dominant place in housing finance, but with better protections for consumers; more capital against risk; homeowners holding more equity in their homes; and some protection in a future crisis against the risk that you have a mild recession turn into a depression. That is a very difficult challenge to do.

And, of course, for the reasons you began with, we want to make sure these reforms are phased in gradually. Because we are not going to take any risk that we slow the process of repairing the housing market or we damage the recovery.

Chairman CAMP. All right. Thank you.

Mr. Gerlach is recognized.

Mr. GERLACH. Thank you, Mr. Chairman.

Mr. Secretary, thank you for testifying today.

One of the statements the President made in his State of the Union, which I felt was very positive, was his desire to address the corporate tax situation. And while he did not express, necessarily, where he felt the rate should be lowered to, it was a very positive statement that that is an issue he wants to work on.

Do you have a sense of where the President wants to go, from the 35 percent corporate rate to what level?

Secretary GEITHNER. Well, my own view is, for it to be worth it, you have to move it substantially lower. The average——

Mr. GERLACH. So, in the 30s? Or below 30, into the 20s?

Secretary GEITHNER. The average rate of our major trading partners now is in the high 20s. And for it to make a meaningful difference, you want to get it down substantially towards that level.

Mr. GERLACH. Okay. And are you of the belief that, by doing that, you are incentivizing more domestic activity, economic activity, trying to encourage more investment here domestically rather than abroad?

Secretary GEITHNER. Absolutely. I think that there are two very important rationales for doing this.

One is, again, you want the market allocating investment, you want the market choosing which companies grow, which companies succeed. You don't want the tax system making those judgments, getting in the way of those judgments. And so, if you can clean up the tax system, lower the rate, broaden the base, you probably improve overall growth and efficiency.

But as important as that, you want the Tax Code working with, not against, the objective of encouraging investment here in this country.

Mr. GERLACH. Would those same goals apply to an individual taxpayer?

Secretary GEITHNER. I think, generally, we are going to have to do comprehensive individual tax reform, too. And, as many people have proposed in the past, probably the best way to do that, to simplify the system, make it more fair, is to also lower the rates and broaden the base.

Mr. GERLACH. Okay. As I understand it, under the President's 2012 proposal, he actually wants to raise the two top marginal rates from 33 to 36 and from 35 to 39.6, both of which would be over the corporate rate that we are talking about reducing. If those same goals apply to corporations as to individual taxpayers, why would the administration want to see an increase in those rates?

Secretary GEITHNER. Well, again, what I would do is compare—if you think about those rates in context, they are the rates that prevailed in the 1990s, and we were doing fine as a country then. Actually, it is a record that was the envy of the world then and we would be thrilled to recreate today.

So I think those rates are something that is completely consistent with the strategy of making sure we are more competitive, we are growing. And it recognizes that, again, as many of your colleagues have recognized, we have unsustainable fiscal deficits. And if we are going to save money together in reducing spending, we want to make sure those savings go to deficit reduction and improving incentives for investment in the country.

Mr. GERLACH. Okay. Well, we don't have the same economy in 2011 as we did in the 1990s. And I would hope that we would all work together to reconstruct a Tax Code that works for the current economy, both domestically and in the world, rather than going back to the 1990s and try to reconfigure the same kind of tax structure that may not be applicable to what we need do today.

And I can't understand if we, on the one hand, agree that we need to lower the corporate tax rate to stimulate investment, why you also want to increase taxes on individuals if we want those same taxpayers to take their hard-earned money, invest it in the economy, create economic activity, and do the things that we all want to see happen to raise everybody's boat.

So it seems to be a little incongruous that we would want to decrease or lower the corporate tax rate, and yet, at the same time, still in an economy with 9 percent unemployment, you want to increase taxes on people who we want to see invest in this economy.

Secretary GEITHNER. Congressman, again, you are raising very important questions that just reflect the difficulty of the choices we face.

But I will tell you, you know, my sense is, if you gave businesses the choice, they would choose that mix. They would say, we are comfortable living in an economy where we see a modest increase in marginal tax rates for only 2 percent of Americans and we see a more competitive tax system. I think they would prefer to play in that economy than the one we have today.

Mr. GERLACH. Thank you, Mr. Secretary.

Chairman CAMP. Thank you.

Mr. Becerra is recognized.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Secretary, good to see you. Thank you for being here.

I am going to detour from asking you about the President's budget for next year for a moment, because the plan House Republicans released on Friday pertaining to this current year's budget could create an immediate crisis for millions of Americans who depend on Social Security.

The Republican proposal cuts the Social Security Administration's operating budget for the rest of this current year by $1.7 billion below what the Social Security Administration needs for this current year, 2011. That is over $500 million below what the administration spent to serve the public last year with a smaller population of beneficiaries.

As a trustee of Social Security, I am wondering if you could give me comments as to whether or not you think that is the way we should be stewarding the most important program that the Federal Government has for Americans, especially those of retirement age.

Secretary GEITHNER. Well, again, Congressman, as you would suspect, I would not support those changes, for just the reasons you said.

Mr. BECERRA. Okay. Now, my understanding is that, from what we are being told, that if the cut is made as the Republicans propose in their current-year budget proposal, it would mean a loss of 3,500 jobs, it would shut down the Social Security Administration's offices for 1 month, which means each and every one of us who services seniors in our office, disabled Americans, in our offices through constituent services would have to explain to members in our community that, for a period of about a month, there would be no one answering the phones, no one responding to queries, no checks going out to beneficiaries, no Social Security numbers issued to newborn babies.

Over half a million retirees, widows, and severely disabled workers would face these delays, starting with the creation of a budget like this. Is that something you think, as a trustee for Social Security, that we can at this stage handle?

Secretary GEITHNER. No. Again, I would not support cuts that would have that impact, for just the reason you have said.

Now, again, I just want to be careful. I haven't seen those cuts. We don't know what the House is going to actually pass. And we would take a very careful look at anything the House passes and try to make sure that people understand the full implications.

But the most important thing, again, is, as we find a way to restore gravity to our fiscal position, we are not cutting into basic services and critical investments that will hurt the economy longer-term—not just short-term, but long-term as well.

Mr. BECERRA. And now, on a related note, our Republican colleagues are threatening to shut down the government unless certain cuts are made in certain programs. And that would come through a vote on the debt ceiling limit. And they would vote—some have said that they would vote against it.

Some Members on the Republican side have said that they would vote against increasing the debt limit and keeping the government operating unless there were cuts to Social Security. I know that there are some who have made a proposal that would—I would call it the proposal to pay China first; that before you pay any money for any program, whether it is a Social Security beneficiary or Medicare beneficiary, you have to first pay other creditors, including China and others who have lent us money. That is why some of us call it the "pay China first" proposal.

Do you believe that we should be holding the government and all those who depend on the services that the government provides hostage in order to make certain cuts that could ultimately have a devastating impact on Americans?

Secretary GEITHNER. I don't, Congressman. As you know, I believe that America has to meet its obligations, that we are a country that pays its bills, we meet our commitments. And we cannot afford to do anything that would create a risk of jeopardizing this recovery, slowing the pace of expansion, slowing the pace of employment growth. And to create any uncertainty in the minds of the American people and the broader investment community that America will not meet its obligations would be very damaging to the recovery.

And, again, just to take the more confident side of this, of course I am completely confident Congress will act, as it always does, to raise the debt limit. And I very much welcome the comments made by the Republican leadership, both in the House and the Senate, that recognizes that America has obligations and is going to have to meet them.

Now, we are going to have to have a very important debate about how to restore fiscal responsibility. And we are looking forward to that debate, again, because that is a necessary debate for us to have. But we are going to have to work that out and still make sure the world understands that we are a country that meets its commitments.

Mr. BECERRA. We are going to have a further discussion later on, not just through the discussion of the budget but in coming up with tax reform policies, on what we do with all these tax loopholes. The President's fiscal commission, which I was privileged to serve as a member of, called these tax loopholes "tax earmarks," because essentially we are earmarking money to certain segments of the American economy, whether it is businesses or individuals. And they get the gain while the rest of the population doesn't.

And you do touch on them some. In fact, you had a conversation with my colleague Mr. Boustany about the tax loopholes that go for the oil industry. Are those the types of things that you are going to continue to try to seek out some consensus and try to make reform to our Tax Code?

Chairman CAMP. If you could just answer briefly. Time has expired.

Secretary GEITHNER. Yes.

Chairman CAMP. All right.

Mr. BECERRA. Thank you, Mr. Secretary.

Chairman CAMP. Dr. Price is recognized.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, thank you for joining us today on what really, I think, is one of the most important issues for our constituents. They understand that our fiscal house is not in order, and they are demanding that it be put in order.

Just by way of clarification, I think it is also important to appreciate that the President is the one who holds the keys as to whether or not the government gets shut down. He has said that he won't sign something—fill in the blank. Whether or not this government gets shut down is squarely in the President's lap.

You said just a moment ago that you thought it was appropriate for the market to decide which companies grow and succeed. Many of us on our side of the aisle and many Americans believe that this administration has grossly distorted the market and made it much more difficult for companies to be able to succeed in the way that the normal business processes work, where the government isn't coming in to bail out their competitor or to change the playing field.

So I think it is incredibly important that we recognize that the kind of things that are being said here don't necessarily square with what the reality is, or at least the perception of folks out there.

But I want to talk about what you have said and what the President said. This is a 10-year path. You said today, we need to take the lead and the initiative. And so, for so many of us, we are just dumbfounded, astounded by the fact that the administration hasn't taken this opportunity to address the issue of entitlements.

Clearly, the automatic spending that is in the budget, in the Federal Government, just continues and continues and continues. And if there is no change, obviously that is what will make us Greece, with no pejorative opinion on Greece, but certainly the financial situation.

Why didn't you all address the entitlement situation?

Secretary GEITHNER. Well, Congressman, at the risk of repeating myself, what the President's budget does is reduce our deficits to roughly 3 percent of GDP over a 5-year time frame——

Mr. PRICE. I got that.

Secretary GEITHNER. —which is the level necessary to stabilize our debt burden at a level that is acceptable for us.

Mr. PRICE. In 5 years, are we any more capable of addressing the challenges of Medicare and Medicaid than we are right now?

Secretary GEITHNER. Well, you are right to point out, as we do, that that is just a first step, and solving the 10-year deficit, which is essential and important, does not, by itself, solve the long-term deficits.

Mr. PRICE. So would you say——

Secretary GEITHNER. But, again, this President and this body has already passed and put in place the most sweeping entitlement reform to reduce costs that we have considered as a country. And just contrast it with, for example, what this body passed in the previous decade, which was a large expansion of Medicare to cover pharmaceuticals without paying for it, adding to our deficit——

Mr. PRICE. Actually, Mr. Secretary, I wasn't here when that passed, but——

Secretary GEITHNER. You weren't. I don't blame you for that.

Mr. PRICE. I would suggest that what was passed in the area of health care in fact will increase costs to the Federal Government, increase our deficit and our debt, as opposed to decrease it.

So it really is remarkable, again, when you say, we need to take the lead and initiative. There is no evidence of this administration taking the lead and initiative on entitlement reform. You have taken the lead and initiative on expanding entitlements and expanding automatic spending.

I want to address a particular issue in the area of health care as a physician, the issue of the sustainable growth rate and how physicians are compensated for the remarkably high-quality care that they deliver.

My reading of the budget, and it is just recent, is that over the 10-year window, I think it is about $341 billion, somewhere in that range, to allow for the SGR to continue. Where are you getting that $341 billion? I haven't been able to determine that.

Secretary GEITHNER. We identify ways to cover the costs of that for, I believe, the first 2 years——

Mr. PRICE. Yes.

Secretary GEITHNER. —but not for the remaining 8.

Mr. PRICE. Correct.

Secretary GEITHNER. And we are assuming—and it is an assumption, or it is a prediction, it is a hope that Congress will, as they have done the last 2 years, figure out a way to make sure they can sustain those rates at levels Congress seems to want to, and do it in a way that they pay for it. But we only identify how to do it in the first 2 years.

Mr. PRICE. So the assumptions are that Congress will take care of that and that money will be there.

Secretary GEITHNER. Not all on your own. We will probably have to join you in figuring out ways to pay that. But we don't solve it, we don't identify how to do it over the full 10 years.

Mr. PRICE. Okay. Well, let me just register, finally, my real concern about what I believe is a remarkable lack of leadership on the part of this Administration in not addressing the issue of Medicare and Medicaid reform.

Chairman CAMP. All right. Thank you.

Mr. Doggett is recognized.

Mr. DOGGETT. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

The budget that the President has presented seeks to add some improvements in our fiscal operations both through revenue and spending changes. And, as important as those spending cuts are, some of them even painful cuts in spending, the revenue is also very important. In fact, it is the principal job of this Committee.

You don't believe that we can achieve a balanced budget without some additional revenues, do you?

Secretary GEITHNER. No, I don't. I don't think you can achieve the necessary reduction in deficits that are critical to long-term growth without looking at sensible, carefully designed tax reforms, as well.

Mr. DOGGETT. Right. And with reference to those tax reforms, one that you have been involved in of late is corporate tax reform. We recently, as you know, had a hearing in this Committee on this.

According to a Bush administration Treasury report, taxes on U.S. corporations represent a smaller percent of their profits, in fact, than in other developed countries across the OECD. I believe that last year there was a report out that corporate tax receipts represent a little over 7 percent of Federal tax revenues. Fifty years ago, it was about three times that amount that we got.

President Reagan, which I think provides us some guidance here, when he approved the 1986 Tax Reform Act, he actually raised corporate tax revenues for the Federal Treasury by about $122 billion.

You have said that the guiding principle here, and the President has said in his State of the Union, is that, at a minimum, we should not borrow money or shift more of the tax burden to individuals in order to have corporate tax reform. And I want to assure that that is a firm and unyielding position of the administration, that we will not be borrowing from the Chinese to finance such a reform, and we will not be shifting more of the burden to individuals.

Secretary GEITHNER. That is right. When we say revenue-neutral, we mean we would not support tax reform that reduced revenues from the corporate sector, but it also means that we don't think it is realistic or achievable or desirable to try to raise revenues from higher taxes on businesses, because we live in a much more competitive world. And though what you said is right, the average effective tax rate on U.S. businesses today is about the average of our competitors, but our statutory rates are much higher, their statutory rates are much lower, and that creates a playing field that works to our disadvantage.

And we don't think realistically we can shift more of the burden to the business community than they already bear because of that new competitive world. So when we say revenue-neutral, we mean revenue-neutral.

Mr. DOGGETT. You are not going to have them contribute less than 7 percent.

Secretary GEITHNER. Not going to reduce and not going to try to go materially higher.

Mr. DOGGETT. You have included in this budget proposal, again, international tax loophole closures that you have had in the past. And one of those that I have been particularly interested in is the one that deals with corporations that develop intellectual property, patents, various other forms of intellectual property, formulas and the like here in the United States, perhaps even using our research credits, and then just before they are to be marketed they shift the ownership or they joint-venture it offshore.

We had testimony on this last year at our hearing from Assistant Secretary Shay, who said that the administration would support moving forward to deal with this narrow but very costly problem that I believe your budget that you just submitted says costs us about $20 billion over 10.

And my question to you is, does the administration continue to support dealing with this serious problem of shifting intellectual property overseas as a separate, independent matter from broader reform we hope to eventually achieve?

Secretary GEITHNER. We do. We can do it in two different ways. We can do it by reforming the current system, as we proposed, to reduce the opportunity our Tax Code provides to shift income outside of the United States, income from intangibles like you suggested. Or we can do it through comprehensive reform.

But, again, the overriding objective should be to make sure that we are reducing both the incentives and the opportunities in the tax system to shift income and investment outside of the United States.

Mr. DOGGETT. And I believe that there are proposals not unlike the one Mr. Becerra talked about for Social Security in this continuing resolution to make significant cuts to Internal Revenue Service tax enforcement. I know some people who would like to see that amount cut to zero, but we have had testimony in the past that, for every dollar that we cut in tax enforcement, we are reducing revenues by $3 to $14.

Does that remain true, that significant cuts to the enforcement will actually worsen our budget deficit problems?

Secretary GEITHNER. Absolutely. The independent analysts that look at this say, for every dollar you put in to IRS resources, customer service enforcement, you raise at least $4.

Chairman CAMP. All right. Thank——

Secretary GEITHNER. Every dollar you cut has the same cost.

Chairman CAMP. Thank you.

Mr. Smith is recognized.

Mr. SMITH. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for your time and your service.

We heard earlier commentary on Social Security and what could be accomplished or what could not, perhaps, speculatively be accomplished. Now, a furlough, as apparently was suggested, would that not be an administrative prerogative?

Secretary GEITHNER. You know, I don't have the privilege or the responsibility of managing the Social Security Administration, so I can't—and I haven't had a chance to look at these cuts. So I was very careful in responding to that question by saying that, if the cuts had that impact, then I think it would be imprudent and unwise and unnecessary. But I haven't had a chance to look at them. And I don't know how we would meet whatever Congress would propose.

Mr. SMITH. Okay. Well, I appreciate that. And I guess I would like to certainly do my part for not participating in hyperbole and, you know, ramping up rhetorical statements for various reasons. But, certainly, I think you can agree, we are facing some significant challenges.

We have touched a bit on taxes here today. You know, the estate tax, I hear a lot of input on that from back home, rural Nebraska. They say it is double taxation. Do you agree with that?

Secretary GEITHNER. Well, you know, I—I don't know what I would describe—how I would describe it. But what I would say is that the rates and exemptions we proposed would make sure that that tax only affected, we think, less than one-half of 1 percent of estates in any given year.

And, again, we are not proposing it because we like doing it. We are only proposing it because, as you are saying over and over again, we have unsustainable obligations, unsustainable deficits, and they will hurt future growth and make us weaker as a country if you don't fix them. And we are going to have to do a bunch of things to spread the burden of that.

But, again, our proposals would only affect less than one-half of 1 percent of all estates in any given year.

Mr. SMITH. Well, I can appreciate that. I mean, it certainly reduces the political pushback. I would hope that you would share the concern of many of my constituents, not just about the estate or death tax, but the narrowing of the tax base, that fewer and fewer people are paying taxes. Whether it is the Federal income tax that fewer and fewer people are paying or other taxes how do you think we could address that?

Secretary GEITHNER. Well, if you look at our tax system today, there is lots of unfairness across the system. And you refer to one piece of it, which some people think is unfair, which is lower-income Americans pay payroll taxes but many don't have to pay the income tax as a whole. But the vast majority do pay the payroll tax.

But I will take the other side of it. It is also true that, as many of our, you know, most successful executives have said, you can be a very successful businessman today and pay a much lower effective tax rate than people who work for you. And that doesn't seem fair either.

And, again, we are trying to propose some initial reforms to help leave us with a more simple, more fair system.

Mr. SMITH. All right. And I can appreciate that, as well.

Now, on the capital gains tax rate, is there any concern that letting that go back up or even pushing it back up could actually result in fewer dollars of capital gains tax being recovered?

Secretary GEITHNER. Not at 20 percent, no. Again, we are proposing to make sure that—but, you know, Congress has to make this choice—that we would only see, if those goes up for the highest-income Americans, they only go up to 20 percent. And we think that is a very modest rate on capital income.

Mr. SMITH. But still by increasing the penalty per se of a transaction, there would be no risk or very little risk of actually having fewer transactions?

Secretary GEITHNER. I don't think—I think it is a very small effect.

You know, we are also, as I said, proposing to eliminate capital gains on investments in small businesses. We have some offsetting things that are good. But I think that would be a very modest change, and no material impact on the economy or investment decisions.

Mr. SMITH. Okay. Thank you, Mr. Secretary.

I yield back.

Chairman CAMP. All right. Ms. Jenkins is recognized.

Ms. JENKINS. Thank you, Mr. Chair.

And thank you, Mr. Secretary, for joining us today.

Chairman CAMP. If the gentlewoman would suspend, because of short time, as the Ranking Member and I have discussed, we are going to go to 3 minutes per member to try to accommodate every single Member.

Secretary GEITHNER. And, again, I am happy to respond in writing to any questions. And I am sorry that I have to leave at 3:30.

Ms. JENKINS. Thank you, Mr. Chair.

Once again, thank you, Mr. Secretary, for joining us.

As a result of an agreement last December, the estate tax for the next 2 years will be imposed at a top rate of 35 percent with a $5 million exemption. And effective for 2013, President Obama has proposed to make permanent the estate tax parameters that were in effect in 2009, a top rate of 45 percent, $3.5 million exemption, which would not be indexed for inflation.

I am a sixth-generation Kansan, raised on the family's dairy farm in Holton. My kids are the seventh generation to grow up in eastern Kansas. Mr. Secretary, as you probably know, Kansas is an ag State. I hope you have an appreciation for the importance of the family farm to this nation.

Do you even happen to know what the price of a new combine is?

Secretary GEITHNER. I have never been a farmer, do not know.

But I will say one thing, which is, the agricultural community in the United States today is one of the strongest parts of the economy today. And you are seeing in exports of agriculture, in basic growth in agriculture, a lot of encouraging signs of how strong this country is in agriculture. And we want to do everything we can to make sure we are reinforcing that.

Ms. JENKINS. We feel like we are under attack here. A new combine costs over $300,000; a new tractor, over $225,000. That is with nothing attached to it. If you want to attach a high-priced implement, it is $170,000 on top of that. So, as you can see, the cost of the necessary equipment to manage a farm can be quite high. In fact, it can easily top $1.5 million just in equipment.

Several years back, the USDA did a study. There were nearly 11,000 Kansas family farmers that had land and buildings valued at over $2 million. So the cost of implements and land values, when added together, it is really not hard to get to the $3.5 million cap on the estate tax that the President's budget is proposing.

And, in addition, I want to note, the average net income on a family farm is approximately $45,000 a year.

Now, I have heard the President state that everyone needs to pay their fair share of taxes, but under the President's proposal, it is not unreasonable to expect that a significant percent of Kansas family farms could be placed at risk when trying to comply with Federal tax laws and most likely could not meet the capital requirements to maintain ownership between generations.

So I just would like to see if you realize how this proposal negatively treats family farms. I would ask you, how do you advise family farms address this challenging issue?

And perhaps as a follow-up, it has been promised that taxes wouldn't be raised on those earning below $250,000. With the net income of the family farm being $45,000 a year in Kansas, again, how do you explain hitting them with a tax increase that could cost many of them their livelihood?

Chairman CAMP. Just very briefly, Mr. Secretary.

Secretary GEITHNER. Could I just say one thing?

Chairman CAMP. Yes.

Secretary GEITHNER. Again, the estate tax changes would affect only less than one-half of 1 percent of estates in any given year, including the families that you are concerned about. And we share those concerns.

One very important point: In the tax package passed by the Congress at the end of the year, the President proposed, and it was included in that, a provision for 1 year, any business in the country can fully expense capital investment, fully write off against their taxes the cost of a new combine, a new tractor. And that is one reason you are seeing capital investment expenditures start to accelerate now in the beginning of the year.

So, again, if you look at the overall mix of things we are proposing, we have put in place, they will substantially improve the capacity and the competitiveness of American businesses and American companies.

Chairman CAMP. All right. Thank you.

Mr. Thompson is recognized.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here.

And if the gentlewoman from Kansas is truly interested in saving family farms, I have a bill for you. See me after the hearing.

I think it is important that we discuss this budget today, on the same day we are beginning the debate on the CR. And a couple of my colleagues have juxtaposed some of the differences. I think one of the major ones speaks directly to the issue that I think it was Mr. Herger raised, that he was interested in a budget that gets people back to work. And that is kind of the antithesis of what the CR does, given the early analysis that that would cost us about 800,000 jobs.

And so, if you juxtapose what is happening today in the CR and the President's budget, specifically things such as the Build America Bonds, which were so successful—I know Sacramento airport used those. They generated 1,250 jobs. And probably every district across the country can say something similar. And I would like to hear how you deal with that, because that is certainly a job creator, visàvis the job killer in the CR.

And also, on energy issues, I notice the President's budget extends the 1603 Treasury grant program, which is so important for renewable energy, and the section 48(c) provision, the manufacturing tax credit, which is important to keeping those jobs here in America.

And I would like to hear about that and what you see as an opportunity for us, through encouraging and investing in renewable energy, how we can use that to create more jobs.

And I should also mention, because it was brought up today by someone on the other side about the potential loss in traditional energy jobs, that the CR makes some cuts that will make it impossible to get permits renewed and issued for those traditional energy jobs, which, again, puts us at an energy disadvantage.

Secretary GEITHNER. Well, Congressman, you highlighted a range of things we think are some of the most important things we can do to help the economy recover, not just in the short term but long term.

And I would share the caution that, as you look at how to make these tough choices across the deficit as a whole, be careful not to cut investments that will hurt jobs and be careful not to cut investments that will hurt our competitiveness in the future. And when you think about our broader fiscal challenges, make sure you bring a long-term perspective and that you are putting in place restraint that we can live with over time, that balances that need to make sure we are strengthening the recovery of the economy as a whole, and also brings some gravity to our fiscal position.

Chairman CAMP. All right. Thank you.

Mr. Buchanan is recognized.

Mr. BUCHANAN. Thank you, Mr. Geithner, for being here.

Thank you, Mr. Chairman, for this meeting.

The biggest concern I have is about taxation, in terms of the President's budget, but I want to touch on a couple of things.

One, we are all interested in jobs, because we know if we grow jobs, it cuts the deficit. So we have to do that. I think you agree with that.

But let me tell you the reality. I am a guy who has been in business 30 years, had a thousand employees 4 years ago, so I understand the middle markets pretty well. I was Chairman of the Florida Chamber. I dealt in these middle-market and small companies.

Let me give you my observations from Florida. One, there is a severe lack of credit for small- and medium-sized businesses. You know that; I have seen you acknowledge it numerous times. Compared to what was 4 years ago, it is very difficult to get credit. Today, they can talk about credit, but unless you are going to put up a half-million-dollar CD, you are not going to get that line of credit, whatever you need.

The second thing is health care. To me, it is a big entitlement program for 32 million or 50 million people, but it doesn't do anything to bend the curve for small- and medium-sized business. I had one of our largest employers the other day in from Sarasota. They are getting ready, ideally, to hire 300 people. They could hire more. Their health care bill went up a million and a half dollars. But that goes across the board, even with small companies. Everybody says, "Vern, I just got my health care bill. It went up 20 percent." It is killing jobs. Lack of credit is killing jobs.

Now, the third thing that comes to the budget with the President is increasing taxes. I want to go back to a point that you made. You said that it only raises taxes on 2 to 3 percent of small businesses. That was in your opening comment. That might be true of the percentage of businesses, but how many jobs do they create? There are a lot of people, and most of them that might make a million dollars today, but they have 700 employees. They need more capital. But this budget suggests we raise their taxes in a climate with a lack of credit and health care costs going up. A lot of these businesses, as you know, are passthrough entities.

So how do you respond to the tax aspect of the President's budget?

Secretary GEITHNER. Okay, again, very briefly, you are right about the credit problem. And I agree with you, it is very important. And, you know, after a period where credit was too easy, it is too tight now in pockets of the country, particularly for businesses that were unlucky in their choice of bank. Because their bank got overextended, they were the victims of the bank having to reduce leverage and strengthen capital.

But we are hoping that is going to start to improve. The numbers suggest it is starting to improve. The price of credit is much, much lower than it was at any time in the last 2 years or so.

And this small-business program that is now working its way through the system is going to help a little bit, help small banks get capital from the government, help States provide a little more financial power into their credit programs.

And we have to make sure that the examiners, the supervisors, and the bank supervisors aren't——

Mr. BUCHANAN. But getting to that tax piece, I really want— you said 2 or 3 percent. I want you to make a comment on that.

Secretary GEITHNER. Now, again, it is very important to understand, so I am glad you asked it again. And I am just telling you the numbers that the independent tax people tell the Congress, or inform the Congress of.

It is 2 to 3 percent of small——

Mr. BUCHANAN. Of companies.

Secretary GEITHNER. Of companies. And——

Mr. BUCHANAN. That employ how many?

Secretary GEITHNER. And you are right, they employ substantial numbers of people. But the vast bulk of those companies affected by that are companies that make substantial amounts of earnings.

Now, you are right that their taxes——

Mr. BUCHANAN. They are not all law firms and investment firms. I can tell you that——

Secretary GEITHNER. No, they are not all law firms. But those that are not law firms and investment firms are overwhelmingly still earning substantial amounts of money.

And, again, these are the rates that prevailed at a time when the small-business community in this country——

Mr. BUCHANAN. But we don't have the circumstances we have today. That is my concern.

Chairman CAMP. All right. The time has expired.

And, Mr. Secretary, I know we agreed on a hard stop at 3:30. We do have three Members on each side that have not had an opportunity to question. I don't know if I could prevail on you——

Secretary GEITHNER. Could I listen to the questions and then, if I don't have time, I will respond to them in writing?

Chairman CAMP. All right. Why don't we have them at least present their questions to you. I appreciate your generosity in staying.

So Mr. Blumenauer is recognized. And then, once you complete your question, we will go on to the next person.

And then if you want to try to summarize at the end, I would appreciate that, Mr. Secretary.

Mr. BLUMENAUER. Mr. Secretary, first of all, I would just identify with my friend, Mr. Thompson, about the energy.

But my specific question that I would pose to you deals with what my friend from Louisiana talked about, about potential downside impacts of the President's proposal to eliminate outdated fossil fuel subsidies for the oil companies and invest in energy for the future. By the way, some of us—I have introduced legislation that would do exactly that, and I have a number of cosponsors.

I would hope that you could analyze for us, in a world oil market where a barrel of oil is fungible and a price is determined internationally that is in the range of $2 trillion to $3 trillion, or more if it keeps going up, what impact $8 billion would have on the $2 trillion to $3 trillion—the extent to which it has any benefit, would that inure to Europeans or Chinese, if it made any difference at all.

It seems to me that would be useful for us, to have this proper context.

Chairman CAMP. All right. Thank you.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Chairman CAMP. Mr. Berg.

Mr. BERG. My question comes from North Dakota. Back in the 1980s, we had a real financial problem, and we increased taxes, and the problem just continued. A decade ago, we had the same problem, a lot of other States did, after the dot-com bubble burst. And, really, we took the opposite approach. We tightened our belt. We didn't raise taxes. We encouraged the private-sector growth. And today we are below 4 percent unemployment. We encouraged the oil and energy industries to grow, encouraged those kinds of jobs, and they have had positive growth.

So my question to you really relates to the importance of small business. My own experience is, when you tax small business, that is negative for them. It creates uncertainty. And so, in this budget, I see the taxes going up on small business. A lot of small businesses, are passthrough entities, and so they are paying taxes at ordinary income rates. In fact, I think 50 percent of small business is paying their tax as ordinary income.

So, again, my question to you is how can we increase the taxes on these small businesses, and how can that be good for our economy?

Secretary GEITHNER. Again——

Chairman CAMP. All right.

Secretary GEITHNER. Well, I am sorry. I said I wouldn't respond, but I will come back at the end.

Chairman CAMP. All right. Mr. Kind.

Mr. KIND. Thank you, Mr. Chairman.

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

I, too, have a follow-up question about the fiduciary definition that is being worked on by Labor and SEC, but I will submit that in writing and hopefully get a response from you.

But I don't know if you are or are not aware, but the Economic Policy Institute, a nonpartisan, independent group, finally had a chance to analyze the Republican continuing resolution that is before us this week. And they determined that, if enacted as proposed, it would result in over 800,000 jobs being lost in both the private and public sector, given the policy implications behind their continuing resolution.

I find that 800,000 number very fascinating, because, the day President Obama was sworn in, you may recall that we were losing 800,000 jobs a day. Since then, we have had——

Secretary GEITHNER. A month.

Mr. KIND. A month, A month. Since then, we have had 11 consecutive months of private-sector job growth. The day he was sworn in, $17 trillion of wealth had already been destroyed in the stock market. Since then, over $13.5 trillion has been restored.

And the day he was sworn in, he inherited from the previous administration a $1.5 trillion budget deficit. Now, the first year in which you guys had control of the budget, it was revised downwards by $150 billion. It is going up again next year, but that is primarily due to the continuation of the Bush tax cuts that all of them supported on the other side.

And I think we just have a very stark contrast between two different visions for our country right now: one that is offering a very cold, dark assessment about the future of our nation and the possibility of economic growth, and one that is more hopeful and optimistic.

I see that in the budget that this administration has proposed, especially in the area of innovation and competitiveness. I agree, and I think most people would agree, with the President in the State of the Union when he says, we have to out-innovate, out-build, out-create, out-compete the rest of the nations in the world. And there are smart investments in doing it and bad spending that we have to get control of in order to bring balance to all of this.

And I would be interested, again, if you want to submit a written response or whatever, to highlight some of the more important investments you feel we have to move forward on in order to create the sustainable long-term economic growth that we face in this nation.

Thank you.

Chairman CAMP. All right. Mrs. Black is recognized.

Mrs. BLACK. Thank you, Mr. Chairman.

Mr. Geithner, I want to read from your written testimony here. You say, "Our deficits are too high, and they are unsustainable. Left unaddressed, these deficits will hurt economic growth and make us a weaker nation. And we must go back to living within our means." I couldn't agree with you more.

But this budget predicts, over the next 10 years, that we are going to lower our deficit to 3 percent of GDP. And I am just thinking about my 14-year-old grandson. And 10 years from now, what I can say to him is, "You know, Dylan, I am really sorry that we could only lower this to 3 percent. And, by the way, you are going to have at least a $15 trillion deficit that you and your family are going to have to pay back. And I am really sorry that I just couldn't get it quite done for you."

Why is that our goal, to still be at a deficit, not a balanced budget, and not growing our economy to the point where we can start paying down our debt? That just seems like not a very good goal to me.

Secretary GEITHNER. Excellent question. I agree with you; it is a place to start, but it is not enough.

Chairman CAMP. Mr. Pascrell is recognized.

Mr. PASCRELL. Thank you, Mr. Chairman.

Mr. Geithner, let's put to bed once and for all, if you would—and I think you need to address this directly—that we did not—maybe the President did not address it for the other reasons, the entitlements. But it is not true that Federal health care reform adopted many—they did adopt many of the recommendations from Congress' own independent advisory commission. I hope you read it. The Medicare Payment Advisory Commission, very specific recommendations. And that by having a Medicare center for innovation, Medicare can now test and use new payment models to improve patient care and to bring the cost down. I have never heard anything about that from Fox. Ever, ever, ever will I hope to hear that.

And my second area I think you should address is, we are cavalierly talking about public employees like they are chattel. That is what we do with cops and firemen and teachers. And they are not. They have given their lives to this country. If they have some bad ones in the mix, get them out of there. But you can't paint with a wide brush.

We are now having a weird situation of increasing private jobs and the public jobs going down. And if you don't think that is going to cost us money, you are wrong.

Thank you, Mr. Chairman.

Chairman CAMP. All right. Mr. Schock is recognized.

Mr. SCHOCK. Thank you, Mr. Chairman.

Thank you, Mr. Geithner, for being here.

There are two questions I want to highlight, one dealing with what some are calling the TARP tax, the tax being levied on institutions with assets over $50 billion. I am specifically interested in a couple of things: one, why in one step we are, with a broad brush, taxing all institutions with assets above $50 billion, whether they took TARP or not; and then, at the same time, we exempt out some entities that actually took TARP.

And then, I think the question that is begged is, when the administration says we are making money on TARP, why would we need a tax to begin with?

The other question deals with the budget, which really seeks to penalize those companies that utilize deferral. And for those of us that have companies in our State that are large multinationals, I guess my question would be, how does that help create jobs? And, more importantly, how does it help us become competitive in a world climate? For a company that may only have 10 or 12 percent of their operations overseas, we may be able to get the skin, but if 70 or 80 percent of what they sell is manufactured and sold in other countries, I would suggest that perhaps they are just going to leave if we continue to make it more and more uncompetitive for them to remain in America.

Chairman CAMP. Mr. Crowley is recognized.

Mr. CROWLEY. Thank you, Mr. Chairman.

And I will be brief. I was hoping to have more of a discussion with you, Mr. Secretary. I appreciate your being here today.

With respect to the health care reform law that we put in place and that you so ably helped to lead the charge on and to talk about the impact on the U.S. economy, I would have liked to have had a conversation and heard from you and your thoughts about what we are hearing more about, the taxation on America's middle class that that bill will bring about, how it is going to kill jobs in America. I would have liked to have talked to you about that. Or how it is going to kill small businesses, that small businesses will never use the tax credits that they have been afforded under the new law.

I would have liked to have had a conversation about a lot of the falsehoods that have been spewed about this, and continue to be, even though small businesses are using tax credits, even though we are not killing small businesses in this country, nor are we killing job creation and growth, as you have just said, that we have consistently over the last 11 months continued to see growth in the private job market. And that there is not going to be an increase, because of that bill, on taxes in the middle class.

I would have liked to have had an opportunity to talk to you about that. I wasn't able to, so I think I answered the questions for you. But thank you very much for being here today.

Chairman CAMP. All right.

Mr. Secretary, I want to thank you for your time. You were very generous. I will certainly give you the opportunity to respond now, if you like, to touch on any of those things or to respond in writing at your discretion. If you would like to comment now, you may.

Secretary GEITHNER. Well, can I just say a few final things?

Chairman CAMP. Yes.

Secretary GEITHNER. Let me just make a few final points.

If you care about entitlement reform and our long-term fiscal deficits, the most important thing Congress could do is to make sure the reforms that were put in place to reduce the rate of health care cost growth remain in place, are enacted, that Congress sticks to them. And if we can find ways to go beyond, we welcome a chance to do that.

A second observation to make: We had a lot of discussion about the state of the economy and what is going to be good for future growth. I just want to emphasize that, by any measure you can look at the fact that the stock market is up about 100 percent since when we came into office, or you can look at overall levels of profitability for the American business community as a whole the American private sector you look at productivity growth, you look at the dynamics of innovation, what is happening in expert growth, the American business sector is in a dramatically stronger position today because of the actions taken by Congress and the President and the Fed over this period of time. Our job is to help make sure we reinforce that, because we have a lot of challenges ahead still.

On the TARP tax, just a quick response: The law that authorized the TARP requires the administration to propose a fee to cover any losses so that we hold the taxpayer harmless. And those costs have come down dramatically.

And, as I said, outside of housing, we are likely to earn a positive return. But because the independent estimates still estimate we still have some risk of loss, we felt obligated to put in the budget how would we propose to recoup that so the taxpayers aren't exposed to that. And we have proposed a very modest fee, only on those firms that were eligible, the largest firms that were eligible for the emergency assistance.

Just one final thing on deferral: As you think about deferral, think about it this way. The current tax system at the margin makes it more likely that a company in your State is going to build a plant outside of the United States rather than inside of the United States. And what it means is that, if you have two companies in your State competing together, the current tax system will favor, with a lower tax burden, the company that builds that next plant outside of the United States.

This is a complicated thing to fix, and we are committed to fixing it. That is one reason why we are proposing comprehensive tax reform. But as you look at these changes, I think you want to join with us in making sure that the tax system is working with our broad objectives at trying to strengthen incentives for investment here in the United States.

And, again, any time you give any particular industry a tax benefit, tax credit, it means all other businesses, on average, pay higher taxes. That is not fair, and it makes us less competitive. That is something worth changing.

Nice to be here today. Thank you. Excellent questions, good discussions. I look forward to continuing them with you. And let's see if we can do corporate tax reform.

Chairman CAMP. All right, thank you. And thank you for being so generous with your time.

And if Members have questions, they will submit them to you in writing. And I hope that we could receive a response.

Chairman CAMP. Thank you again, Mr. Secretary.

This hearing is now adjourned.

[Whereupon, at 3:46 p.m., the Committee was adjourned.]

[Questions submitted by the Members to the witnesses follow:]

The Honorable Pat Tiberi

Questions for the Record
Treasury Secretary Timothy F. Geithner
House Ways and Means Committee hearing on the President's FY12 Budget and Revenue Proposals
February 15, 2011

Questions from Rep. Tiberi

1. **The President recently announced an effort to ensure regulations do not cause undue burdens on businesses and their customers. EBSA is in the process of redrawing the fiduciary lines at the same time that the SEC is considering proposing new rules for Broker Dealers in this area. Wouldn't it make sense to coordinate efforts with the SEC to ensure that investors and their financial service providers are not subject to potentially confusing and overlapping rules?**

   The Administration, including the Treasury Department and the Department of Labor (DOL), and the SEC are working to ensure that the policy initiatives you describe, if adopted, are consistent and not unduly burdensome. DOL's initiative is in the form of a notice of proposed rulemaking. DOL has received a number of public comments that it will be considering in the course of its deliberations, many of which advocate modifications that would provide greater clarity as to the intended scope of the current proposal. The SEC's initiative is in the form of a staff study that was required by the Dodd-Frank Act. The study recommends that the Commission consider rulemaking, but the Commission has not issued a rule proposal. If the Commission does issue a rule proposal, there will be an opportunity for public comment. As acknowledged in the SEC study, the protections provided to benefit plans, participants and retirees under the Employee Retirement Income Security Act of 1974 ("ERISA") have historically been a separate overlay to the fiduciary protections provided to all investors under U.S. securities laws.

2. **As you know, Congress debated and then enacted, as part of the Dodd-Frank Act, a directive to the SEC to examine a uniform fiduciary standard of care for broker dealers and investment advisors. Recently, the Department of Labor has proposed an overhaul of the definition of fiduciary that would create a conflicting and confusing standard for service providers and investors regarding investment advice. As a financial regulator, how can you guarantee effective coordination among the various departments and agencies so that conflicting standards for providing investment advice that drive up costs for investors can be avoided?**

   The Administration is working to ensure that these policy initiatives are consistent and not unduly burdensome. With regard to process, DOL rulemaking is subject to coordination and clearance within the Administration, including review by the Office of Information and Regulatory Affairs within the Office of Management and Budget. SEC rulemaking is not subject to clearance within the Administration, but the Treasury routinely coordinates with the SEC and other independent agencies with regard to implementation of regulations.

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3. **Some concerns have been raised about the Department of Labor's proposal impacting IRA investors in a particularly adverse way. While Treasury did not draft the rule, it will be tasked with enforcing tax penalties associated with IRA accounts. Has the Treasury Department completed any cost analysis on IRA account holders or the cost of the additional IRS employees that may be needed to enforce the DOL rule as it relates to IRA accounts?**

   On October 22, 2010, the Department of Labor (DOL) published in the Federal Register a proposed regulation that would protect beneficiaries of employee benefit plans and individual retirement accounts by revising its definition of the circumstances under which a person is considered to be a "fiduciary" by reason of giving investment advice for a fee to an employee benefit plan or to individuals covered by the plan or IRA. DOL solicited comments on the proposed regulation and proposed that the new definition would only become effective 180 days after a final regulation is published. We understand that DOL has received comments and held two days of public hearings in early March with respect to the proposed regulation.

   The term "fiduciary" is defined in section 3(21)(A) of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Section 4975(e)(3) of the Internal Revenue Code (Code) provides a similar fiduciary definition for purposes of the imposition of an excise tax on certain prohibited transactions involving plans (including employer plans and IRAs) and certain disqualified persons (including fiduciaries). As noted in the preamble to the proposed regulation, section 102 of Reorganization Plan No. 4 of 1978 transferred to DOL the Treasury Department's authority to interpret section 4975 of the Code. Accordingly, DOL, rather than the Treasury Department, has authority to define who is a fiduciary.

   We also understand that DOL has received comments asking that the proposed regulation not apply to IRAs. As DOL reviews and considers these and other comments, the Treasury Department and IRS will be available as resources to DOL in evaluating excise tax enforcement issues that could affect DOL's decisions in developing its final regulation.

The Honorable Dave Reichert

Questions for the Record
Treasury Secretary Timothy F. Geithner
House Ways and Means Committee hearing on the President's FY12 Budget and Revenue Proposals
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Questions from Rep. Reichert

1. **Mr. Secretary, with respect to the international tax rules, the active royalty exception in tax code section 954 distinguishes between, on one hand, active royalties received from unrelated entities, which enjoy U.S. tax deferral due to the active nature of the income, and, on the other, active royalties received from related entities, which are immediately subject to U.S. taxation as subpart F income despite the same active nature of the income. This may have the practical effect of discouraging a U.S. parent company from owning the payor of the royalties, through a controlled foreign subsidiary, even when there are business reasons to own or acquire the payor of the royalties. One proposal to address this is to apply the section 954(c)(2)(A) active royalty exception to royalties (which fully meet the active conduct of a trade or business standard) that are received from either unrelated or related entities. Would you support a proposal to expand the active royalty exception to royalties received from related entities? If so, would additional safeguards be needed to assure that arm's length pricing standards are met?**

   Our international tax rules currently allow deferral of U.S. tax on royalties (as well as certain other payments) received by a controlled foreign corporation from a related person to the extent the royalties are attributable to active income of the payor (income that would not be subject to current U.S. taxation). We believe this rule largely, if not entirely, addresses the issue you have raised. The Administration's FY-2012 budget proposes a one-year extension of this provision, which will otherwise expire at the end of the year.

   The Administration continues to be concerned about the inappropriate shifting of profits to low tax jurisdictions through transfers of intangibles offshore. For this reason, the Administration's Budget included proposals specifically targeting our concerns in the area of transfer pricing and the outbound transfer of intangible assets.

   The Administration's proposal is intended to serve as a backstop to current rules for valuing intangible property rights transferred to a related person and to prevent the inappropriate shifting of income resulting from the transfer of high value intangibles offshore. It is consistent with and complementary to the principles of the current transfer pricing rules.

The Honorable Rick Berg

Questions for the Record
Treasury Secretary Timothy F. Geithner
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February 15, 2011

Question from Rep. Berg

1. **My question is related to the importance of small business. In my own experience, when you tax small business, that is a negative for the business, for the employees and for the economy. Most small businesses are pass-through entities, so raising the personal income tax raises taxes on a majority of small businesses. So, my question to you is why would we increase the taxes on small business? And, how is that good for our economy?**

   The Administration recognizes the importance of small businesses to the health and growth of the U.S. economy. President Obama has signed into law more than 17 tax cuts for small business. In addition, his FY2012 Budget proposes a large permanent increase in the amount of investment that small businesses can expense and proposes to eliminate permanently any taxation of capital gains on qualifying small business stock, providing entrepreneurs and small businesses further encouragement and reward for new investment.

   The Administration believes that these types of targeted incentives are more cost-effective in helping small business contribute to economic growth than is extending the 2001 and 2003 cuts in the top two tax brackets for those with the highest incomes (over $250,000 for married taxpayers filing joint returns).

   Moreover, although the majority of small businesses are indeed organized as pass-through entities, only about 3 percent of small business owners fall in the top two tax brackets.

The Honorable Diane Black

Questions for the Record
Treasury Secretary Timothy F. Geithner
House Ways and Means Committee hearing on the President's FY12 Budget and Revenue Proposals
February 15, 2011

Questions from Rep. Black

1. **Mr. Secretary, in your written testimony you said, "Our deficits are too high and they are unsustainable. Left unaddressed, these deficits will hurt economic growth and make us a weaker nation. We must go back to living within our means." I couldn't agree with you more. According to the President's Budget Proposal, the Federal Government will run a deficit every year for at least the next ten years. Why is that your goal, to still be at a deficit, not a balanced budget, and not growing our economy to the point where we can start paying down our debt in ten years? What spending cuts should Congress consider to get us closer to a balanced budget in ten years? Please be as specific and detailed as possible in your reply.**

   The President presented a responsible budget that shows how we can live within our means and invest in the future. It makes tough choices to cut spending and reduce the deficit, including a five-year non-security discretionary freeze. This proposal alone will save more than $400 billion over the next 10 years and reduce non-security discretionary spending to its lowest level as a share of the economy since President Eisenhower. This proposed spending freeze, along with other measures outlined in the Budget, will reduce the deficit by more than $1 trillion, putting us on a path to fiscal sustainability.

   Moreover, the FY2012 Budget proposal will stabilize debt held by the public as a share of GDP in the 76 to 77 percent range at the end of the forecast horizon, from FY2015 to FY2021. The primary balance (deficit excluding interest payments) is projected to show a slight surplus after 2017. Reducing the deficit and stabilizing the debt-to-GDP ratio over the medium term is an important first step towards long-term fiscal sustainability. It is a significant start, but more needs to be done

   Over the long term, we face unsustainably expensive mandatory spending commitments. The Administration recognizes that the only way to effectively control the growth of all non-discretionary outlays is to develop bipartisan consensus within a multi-year framework that sets and constrains spending growth to long-term objectives. Committing to a multi-year deficit reduction plan would give businesses and individuals more certainty about the impact of future government policy. This would improve confidence today and help keep borrowing rates low. It would also give businesses and individuals adequate time to adjust and prepare for future changes.

   To summarize, the FY2012 Budget is only a first step towards restoring fiscal sustainability. Longer term, spending discipline on all outlay items—not just non-security discretionary spending—is needed to ensure that we live within our means. We look forward to working with our Congressional colleagues to develop a multi-year plan to cut spending and lower the deficit.

The Honorable Mike Thompson

Questions for the Record
Treasury Secretary Timothy F. Geithner
House Ways and Means Committee hearing on the President's FY12 Budget and Revenue Proposals
February 15, 2011

<u>Question from Rep. Thompson</u>

1. **During previous Ways and Means hearings, I have repeatedly raised my many objections to the Administration's proposed repeal of the "Last-In, First-Out" (LIFO) method of accounting for inventories. The degree of retroactivity associated with the Administration's proposal is problematic because the recapture of LIFO reserves can go back several decades, especially for a number of my constituents. Requiring taxpayers to write up their beginning LIFO inventory to its "First-In, First-Out" (FIFO) value in tax year 2013 will result in the recapture of reserves that have accumulated for decades. Do you think this kind of retroactive repeal is fair?**

   The tax deferral provided under the LIFO method is inconsistent with general income tax principles, which require gains be taxed when realized and recognized. The LIFO method allows these gains to be deferred indefinitely, despite the fact that inventory sales are realized and recognized annually. Recognition of accumulated LIFO reserves would put LIFO taxpayers on a more even playing field with other taxpayers that have paid and continue to pay tax on their inventory sales without being able to take advantage of the tax deferral that the LIFO method provides. Eliminating this tax deferral benefit will result in more fair and equal treatment among taxpayers.

   The tax law has long-standing rules governing the consequences of changes in accounting methods. Under these rules, when a taxpayer ceases to use LIFO, it must write-up the value of its inventory from its LIFO value to the value of the inventory under the new accounting method. If this results in taxable income, that income is taken into account over a four-year period. The budget proposal for eliminating LIFO as an accounting method utilizes this same concept, and requires LIFO taxpayers to write-up their inventories. Under the Budget proposal, the tax due from LIFO repeal can be spread over a ten-year period, which is more generous than current law's four-year period, lessening any immediate effect. The requirement that a taxpayer must recognize the tax consequences resulting from a change in accounting method is not a retroactive tax increase. Instead, such a requirement properly reflects the accounting for previously deferred income and puts taxpayers that cease to use LIFO on equal ground with those that have not used it in the past.

The Honorable Ron Kind

Questions for the Record
Treasury Secretary Timothy F. Geithner
House Ways and Means Committee hearing on the President's FY12 Budget and Revenue Proposals
February 15, 2011

Question from Rep. Kind

1. **The Department of Labor recently proposed a new rule on ERISA fiduciary investment advice. Simultaneously, as a result of the Dodd-Frank Wall Street Reform Act, the Securities Exchange Commission and the Commodities Futures Trading Commission is also undergoing a review of the definition of a fiduciary.**

   Access to the services of financial experts will be very important for small employers as they seek ways to make savings opportunities available to their employees. How can we ensure that Labor's fiduciary rule and the ongoing efforts at the SEC and CFTC are aligned and help offer investors more, not less, education and guidance on planning for retirement, including savings through Individual Retirement Accounts within the Department's purview?

   Given the President's emphasis on bringing rationality to federal rule-making, and the Treasury Department's central role in promoting savings, I hope you will work to encourage close coordination between the SEC and the Department of Labor to ensure that investors and their financial service providers are not subject to potentially confusing and overlapping rules.

   The Administration, including the Treasury Department and the Department of Labor (DOL), and the SEC are working to ensure that the policy initiatives you describe, if adopted, are consistent and not unduly burdensome. DOL's initiative is in the form of a notice of proposed rulemaking. DOL has received a number of public comments that it will be considering in the course of its deliberations, many of which advocate modifications that would provide greater clarity as to the intended scope of the current proposal. The SEC's initiative is in the form of a staff study that was required by the Dodd-Frank Act. The study recommends that the Commission consider rulemaking, but the Commission has not issued a rule proposal. If the Commission does issue a rule proposal, there will be an opportunity for public comment. As acknowledged in the SEC study, the protections provided to benefit plans, participants and retirees under the Employee Retirement Income Security Act of 1974 ("ERISA") have historically been a separate overlay to the fiduciary protections provided to all investors under U.S. securities laws.

[Submissions for the Record follow:]

Statement of the U.S. Chamber of Commerce

ON: **FY2012 ADMINISTRATION BUDGET PROPOSALS**

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

DATE: **FEBRUARY 15, 2011**

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

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

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

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

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

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

INTRODUCTION

The Chamber thanks Chairman Camp and Ranking Member Levin for the opportunity to comment on the tax proposals contained in the Administration's FY2012 budget (the "Greenbook"). The Chamber is immensely disappointed, both with the proposals included in the Greenbook and that the Greenbook makes no mention of tax reform. While we are disappointed with the included proposals, which largely are a rehash of prior year Greenbooks, we are even more so with the fact that none are coupled with true fundamental tax reform. Despite months of the Administration touting an interest in tax reform, they completely fail to mention the issue of fundamental tax reform, and, instead, seek to impose over a trillion dollars in new taxes on the business community.

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

IN GENERAL

The Greenbook, in large part, repeats prior year tax proposals of this Administration, levying onerous tax increases on businesses of all sizes and picking winners and losers, while omitting pro-growth tax policy. It levies over a trillion dollars of new business taxes, while providing only $116 billion[2] of tax cuts, $106 billion of which is comprised of one incentive – making the research and development (R&D) tax credit permanent – which generally is already renewed on an annual basis.

TAX INCREASES

Individual and Small Business Tax Hikes

As in prior years, the Greenbook includes significant tax increases on upper income individuals, totaling over $1 trillion. These proposals fail to recognize that these increases hit the most successful U.S. small businesses that pay taxes at individual tax rates, hindering their ability to grow and create jobs.

Our tax system is already highly progressive (in 2008, the top 1% of the income distribution controlled about 20% of income and paid almost 40% of federal income taxes). Yet, the Greenbook proposes an even more punitive system on those who save, invest, and create jobs. It proposes increasing the top marginal tax rates, reducing or

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

eliminating itemized deductions, limiting the rate at which the remaining deductions could be taken, and raising the tax rate on capital gains and dividends.

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

Further, according to the nonpartisan Tax Foundation, about 39% of the tax increase on upper income taxpayers proposed in last year's Administration budget would have come from business income. It is fair to presume that this year's proposals would have similar adverse impacts on small business job creators.

The Chamber believes these burdensome tax increases represent poor policy, in both the short term and long term. Further, the lessons of such proposals should be two-fold as the Committee considers fundamental tax reform. First, it is critical to recognize the significant numbers of entities who remit taxes under the individual Code, and, thus, careful consideration must be given to any reform that addresses the corporate tax rate without properly considering individual rates. Second, given the significant and increasing numbers of these pass-thru entities, the Chamber believes proposals, such as these tax increases, must be rejected, as they thwart the growth of the very businesses which are the backbone of our economy.

Other Business Tax Increases

Also as in prior years, the Greenbook includes tax increases on larger business entities, totaling $357 billion, achieved by, among other things, double taxing the profits American worldwide companies earn overseas, levying punitive new taxes on traditional energy producers and reinstating Superfund taxes, repealing longstanding accounting practices, and taxing the carried interest in partnerships as ordinary income.

International Taxation

The Greenbook once again proposes to double tax the profits American worldwide companies earn abroad, by curtailing deferral, limiting foreign tax credits, and attacking the treatment of intangibles. Despite the fact that the President's own fiscal commission report states that our system of taxing foreign source income is against the norm, and "[t]he current system puts U.S. corporations at a competitive disadvantage against their foreign competitors," the Greenbook contains these $129 billion of international tax increases that threaten to put American companies at even greater competitive disadvantage.

The Chamber urges the Committee to reject these proposals and, instead, as it considers fundamental reform, consider ways to level the playing field for American businesses, such as transitioning to a territorial tax system. The Chamber believes any changes to international tax policy should make American companies more competitive, drive job creation, and stimulate overall economic growth.

Punitive Energy Taxes

The Greenbook also suggests large and onerous tax increases on traditional energy producers, totaling over $46 billion. This represents not only continued, but increased, attacks on oil and gas companies as well as coal companies. Further, in addition to industry punitive taxes, these companies also face tax hikes in the form of last-in, first-out (LIFO) repeal and changes to the dual capacity rules. All of these tax increases result in increased energy costs and decreased energy security.

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

Changes to Longstanding Inventory Accounting Methods

In addition to the above tax increases, the Greenbook once again proposes repeal of longstanding accounting methods, solely to raise tax revenues. For example, the Greenbook, as in prior years, would repeal LIFO to raise $53 billion. The Chamber opposes the repeal of LIFO accounting as it would result in a punitive, retroactive tax increase for businesses, placing significant cash constraints on them and limiting their ability to manage inflation. Companies would have to record illusory profits on their books, when no economic activity has occurred that would justify recording any profits.

In addition to the repeal of LIFO, the Greenbook once again proposes repeal of the lower-of-cost-or-market (LCM) and subnormal goods accounting methods to raise $8 billion. The Chamber opposes the repeal of these accounting methods as they provide an important cushion during economic downturns. Without these methods, businesses are precluded from recognizing real economic losses in the year of loss, and, rather, must wait until disposal of inventory. Further, any recovery in the value of the inventory in a subsequent year is not lost; rather, the business will recognize a larger amount of taxable income in the year the inventory is sold.

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

Changes to Investment Partnerships

To raise another $15 billion, the Greenbook would tax "carried interest" – capital gains paid to managers of investment partnerships – as ordinary income. The Chamber believes that taxing carried interest as ordinary income would deter economic activity, reduce credit flow, and stifle job creation. Further, changing this longstanding law ignores the fact that state pension funds, charitable nest eggs, and universities rely on these partnerships and could face funding shortfalls if this tax hike drove talented management capital into other fields.

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

PRO-GROWTH TAX INCENTIVES

While the Greenbook is full of tax increases, it provides little in the way of tax incentives to help businesses grow. As noted above, in contrast to the over one trillion dollars in new taxes businesses can expect to face, they would see only $116 billion of tax cuts.

Small Businesses and Individual Incentives

For small businesses, the Greenbook contains little in the way of broadly applicable incentives. Summing barely $10 billion in total small business tax cuts, the Greenbook proposes eliminating capital gains taxes on small businesses, providing only $5 billion in tax incentives. Further, it provides for small regional incentives, such as extending and expanding the new markets tax credit, which adds only another $1.8 billion in incentives.

The Chamber believes that the impact of these provisions is extremely limited. For example, the small business capital gains incentive is diminutive, partially due to its applicability only to the limited number of small businesses operating in C corporation form. The Chamber believes that as the Committee considers proposals in the context of fundamental tax reform, it should avoid narrow incentives which are of value to only one industry, sector, or geographic area. Instead, it should seek policies which broadly benefit the widest possible cross-sections of individuals and businesses, such as the full repeal of the onerous 1099 reporting requirements.

General Business Incentives

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

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

Conclusion

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