THE PRESIDENT'S FISCAL YEAR 2013 REVENUE AND ECONOMIC POLICY PROPOSALS

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BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

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THURSDAY, FEBRUARY 16, 2012

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

The committee met, pursuant to call, at 2:00 p.m. in room 210, Cannon House Office Building, Hon. Paul Ryan [chairman of the committee] presiding.

Present: Representatives Chairman Ryan, Garrett, Akin, Price, Chaffetz, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Rokita, Ginta, Van Hollen, Schwartz, Doggett, Blumenauer, Yarmuth, Pascrell, Honda, Ryan of Ohio, Wasserman Schultz, Moore, Castor, Tonko, and Bass.

Chairman RYAN. The hearing will come to order. Welcome, everyone, to this important hearing. And I would like to thank Secretary Geithner for joining us. This is your second hearing today and fourth this week, so you are halfway there. You are a glutton, I will tell you that. We know that defending this budget is no easy task so we really do appreciate your time.

Secretary GEITHNER. Not as hard as your job on your budget.

Chairman RYAN. It is going to be a fun day.

Secretary GEITHNER. You have my sympathy, you do.

Chairman RYAN. I do. I appreciate it. You are about to get mine, but in a different way. It is pretty well known that one of your favorite sayings, which I really enjoy this, is "A plan beats no plan." It is a phrase you used often during the financial crisis to describe the need for policymakers to plan for every contingency in order to stay ahead of events.

You were in the middle of the firestorm of the crash. As a Fed New York chair, you of all people know this. I remember those days vividly. I remember your predecessor and the Chairman of the Federal Reserve coming here, talking about crises, deflationary spirals, all about the impending collapse of the economy. It was a very, very ugly moment. And what came out of that was ugly legislation. It was ugly legislation because the whole thing caught us by surprise, all of us. And the circumstances could not be more different today, because back then we faced a crisis that most people didn't see coming.

Today we are facing the most predictable crisis in our Nation's history. And yet for a fourth year in a row, you brought us this. This is no plan. This is no plan to restrain spending, to grow the economy, and, most of all, it is no plan to save us from a debt-fueled crisis which will be an economic disaster for all of us.

If a plan beats no plan, then why has the President once again decided to duck from the drivers of our debt? Why has he once again given us more broken promises instead of leadership? Excuses instead of accountability? Instead of cooperation where agreement is possible, and we would like to think there is some of that, why have we seen the President turn his back on the bipartisan solutions that have been percolating out there? Why has he decided to base his reelection strategy on dividing Americans for political gain, in our estimation?

After House Republicans put forward a serious solution in our budget last year, the President had an opportunity to advance plans for meeting our challenges, to advance alternatives, to then compromise, and if in fact there is a growing bipartisan consensus for the reforms that are needed. There is a growing bipartisan consensus on contentious issues like entitlement spending and tax reform, reforms based on premium support which would shrink Medicare by introducing choice in competition.

They have a bipartisan history. The history dates back to John Barrow and Bill Frist and Bill Thomas under the Clinton Commission. It continues with the work done by Alice Rivlin and Pete Domenici at the bipartisan Policy Center. And it includes the work that I have recently done with Senator Ron Wyden from Oregon to put a bipartisan option for saving and shrinking Medicare.

Fundamental tax reform also has a bipartisan history. In 1986, I was in high school at the time, but I read the book. We did fundamental tax reform that lowered tax rates and broadened the base. The congressional sponsors of that bill: Dick Gephardt and Bill Bradley.

So I would argue that this is not necessarily a left versus right issue, this is about those who are willing to tell the people the truth about our Nation's fiscal challenges and those who continue to duck from those challenges.

This budget takes the latter approach. It represents a very clear threat to the health and retirement security for American seniors. It threatens our prosperity by fueling growth of government with ever higher taxes. And it commits our children and our grandchildren to a diminished future. I don't know how you conclude otherwise.

Secretary Geithner, you would probably be the first to acknowledge that having no plan is a plan in and of itself. It is a plan for failure. It is a plan to stay in the debt crisis. And having no plan means we are planning for decline as a Nation. The point of this hearing is to find out why that kind of future for our country is apparently acceptable in this budget and to this administration. I hope your testimony can provide answers.

I look forward to a great conversation. And with that, I want to yield to the Ranking Member Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

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

Welcome all, to this important hearing.

I'd like to thank Secretary Geithner for joining us. This is your second hearing today and your fourth this week.

We know that defending this budget is no easy task, so we appreciate your time.

Mr. Secretary, it's pretty well known that one of your favorite sayings is "plan beats no plan."

It's a phrase you used often during the financial crisis to describe the need for policymakers to plan for every contingency in order to stay ahead of events.

I remember those days well.

We had you, your predecessor at Treasury, and the Chairman of the Federal Reserve, all coming here to warn us about the impending collapse of the U.S. economy.

Because that crisis took us by surprise, the legislation that resulted was ugly.

But the circumstances could not be more different today.

Back then, we faced a crisis that very few people saw coming. Today, we are facing the most predictable crisis in our nation's history.

And yet, for the fourth year in a row, you've brought us this.

This, Mr. Secretary, is no plan. It is no plan to restrain spending. It is no plan to grow the economy. And most of all, it is no plan to save the nation from the debt-fueled economic disaster before us.

If plan beats no plan, then why has the President once again decided to duck from the drivers of our debt?

Why has he once again given us broken promises instead of leadership—and excuses instead of accountability?

Instead of cooperation where agreement is possible, why have we seen the President turn his back on bipartisan solutions?

And why has he decided to base his re-election strategy on dividing Americans for political gain?

After House Republicans put forward serious solutions in our budget last year, the President had an opportunity to advance plans for meeting our challenges.

In fact, there is growing bipartisan consensus for the reforms that are needed—even on contentious issues like entitlement spending and tax reform.

Reforms based on premium support, which would strengthen Medicare by introducing choice and competition, have a bipartisan history.

This history dates back to the Breaux-Thomas commission under President Clinton, it continues with the work done by Alice Rivlin and Pete Domenici at the Bipartisan Policy Center, and it includes my cooperation with Sen. Ron Wyden to put forward a bipartisan option for saving and strengthening the Medicare guarantee.

And fundamental tax reform also has a bipartisan history. In 1986, we did fundamental tax reform that lowered rates and broadened the base.

The congressional sponsors of that bill? None other than Dick Gephardt and Bill Bradley.

So I would argue that this is not a Left vs. Right issue. This is about those who are willing to tell people the truth about our nation's enormous challenges, and those who continue to duck from those challenges.

This budget takes the latter approach.

It represents a very clear threat to the health and retirement security of America's seniors, it threatens our prosperity by fueling the growth of government with ever-higher taxes, and it commits our children and grandchildren to a diminished future.

Secretary Geithner, you would probably be the first to acknowledge that having no plan is itself a plan.

It is a plan for failure. Having no plan as a nation means planning for decline.

The point of this hearing is to find out why that kind of future for our country is apparently acceptable to your administration.

I hope your testimony can provide the answers—and the accountability—that the American people deserve.

With that, I yield to the Ranking Member, Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you very much, Mr. Chairman. Welcome, Mr. Secretary. I think as the Secretary will testify, in fact this budget represents a plan. It represents a responsible plan, a good plan. And the debate we really have in this committee is not between plan and no plan, it is between two very different visions of how we move forward in this country.

And what this budget does is three essential things. Number one, it helps to nurture and move forward our very fragile recovery. I think we all know that when President Barack Obama was sworn in, the economy was in total free-fall. In fact, we now know in the last quarter of 2008 we were in free-fall at a rate of negative 8.9 percent of GDP. Mr. Chairman, you mentioned that when the previous Secretary of Treasury came here, the economy was in crisis. That is exactly right. And that is the crisis the President inherited.

In January when the President was sworn in, we were losing over 800,000 jobs every month. Now, the first thing the President and the previous Congress did was to put a net under that free-fall and then begin to reverse it. We passed the Recovery Act, we passed legislation to help rescue the auto industry successfully, and many other measures. And the reality is that today for the last 23 months we have seen over 3.5 million jobs, private sector jobs, created in this country. So that is good news.

Is it enough? Certainly not. And that is why the President's budget lays out a strategy for continuing to nurture that recovery and continuing to help businesses hire more people and grow the economy. One piece of that is something I hope we will get done later today in the House and tomorrow, which is to extend the payroll tax cut and extend UI for another 10 months, very important provisions to the economy and to the American people.

But that is not enough. The plan the President put forward in his budget, similar to the one he brought before the Congress last September, the American Jobs Act, also contains another number of important provisions. If you look at the unemployment figures, you will find while we have seen a growth in private sector jobs, you continue to see layoffs in the public sector; teachers losing their jobs, firefighters, emergency responders. That is why the President's plan says we need to provide a little assistance to the States.

The President's plan also calls for a $50 billion investment in infrastructure. Absolutely necessary. We have over 13 percent unemployment in the construction industry. We have roads that need to be built, we have schools that need to be renovated. This is a win-win. It is often curious to me to hear people say that building an aircraft carrier helps create jobs, which it does, but building roads doesn't. You know, you got to make sure we have the defense budget not just for a strong defense, but it is a job creator building an aircraft carrier. Yes, it is. Building a road is as well. And so why we would decide to not invest in our infrastructure, which has been essential to our past economic growth and essential to our future economic growth, is a mystery to me. And the President has put forward a good plan there.

What else does this budget do? It makes critical investments in the future. I am sure the Secretary is going to talk about that. Look at the GI bill. The GI bill helped send millions of Americans to college to get a better education. It has paid off not just for them, but for the country. Look at investments this country has made in the past in science and research. Research at DARPA helped lead to the Internet, helped the United States get a head start. We want to invest in this country in science and research so that we can maintain a competitive edge.

And finally, this budget takes a balanced approach to reducing the deficit in a predictable way. It reduces the deficit as a percent of economy to under 3 percent. It gets it down to 2.8 percent at the end of the 10-year window, and it does it in a balanced approach, balanced way.

And, frankly, that is what our Republican colleagues object to. It is not that you don't have a plan. You have a plan, you have a balanced plan, you have a plan that says we are going to make some tough cuts in discretionary spending that goes down to the lowest level as a percent of GDP since the Eisenhower Administration in this budget. They cut over $350 billion in health mandatory; they cut other mandatories as well. But they also do something else. They propose tax reform not just to simplify the code which is absolutely essential, but they do it in a way that other bipartisan commissions have done—Simpson-Bowles and Rivlin-Domenici—to also help us reduce our deficit. And the reality is that our Republican friends have taken this position, and I want everyone to understand. When they talk about tax reform, not one penny from closing loopholes in the Tax Code can go to deficit reduction, not one penny. That would be a violation of the pledge taken by 98 percent of House Republicans.

And so the dilemma we have is not between no plan and plan; it is between a responsible balanced plan that the President has submitted and a plan that we have seen before from this committee and others, which I would say is totally lopsided. Because if you are not asking the folks who have done really well, folks at the very high end of the income scale, if you are not asking them to go back to paying the same rates as they were during the Clinton Administration when the economy was booming, then you got to—simple math—you got to find it somewhere else. And what that budget did is take $700 billion out of Medicaid. That is about a third of Medicaid cut.

Mr. Chairman, it totally—it places the risk of rising health care costs on seniors through a plan that ends the Medicare guarantee, and it slashes important investments in infrastructure, education, science and research. So those are the choices we have. And Mr. Secretary, I know you are going to elaborate on the plan that you have. I think it is a good plan, it is a responsible plan and it is a balanced plan. Thank you, Mr. Chairman.

Chairman RYAN. So I guess we are just going to agree to disagree on that.

Secretary Geithner, the mic is yours.

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

Secretary GEITHNER. Chairman Ryan, Ranking Member Van Hollen, and members of the committee, thanks for giving me the chance to come talk to you today about these important questions. I am going to talk about four things, just briefly, about the economy and the challenges we face there, then a bit on the near-term imperatives on growth and jobs. I will lay out the broad elements of our strategy and then I will talk about the contrast between us, where we disagree. I will give our version of where we disagree.

First, on the economy. The economy today is gradually getting stronger, but we have a lot of tough work still ahead of us.

Over the past 2½ years, despite the financial headwinds from the crisis as people bring down debt and we work through the housing construction bubble, despite the severe cutbacks by State and local governments, despite the crisis in Europe, despite the rise in oil prices last spring, despite the terrible damage to confidence caused by the specter of default this summer, despite all those shocks and headwinds, the economy is growing at an average annual rate of 2½ percent since growth resumed in the summer of 2009. Private employers have added 3.7 million jobs over the past 23 months. Private investment in equipment and software is up by more than 30 percent. Productivity has improved. Exports across the American economy, from agriculture to manufacturing, are expanding rapidly. Americans are saving more and bringing down their debt levels. The financial sector is in much stronger shape, helping to meet the growing demands for credit and capital.

Now, these improvements are signs of the underlying resilience of our economy, the resourcefulness of American workers and businesses, and they are signs of the importance of the swift and forceful actions we took with the Fed to stabilize the financial system and to pull the economy out of the worst economic crisis since the Great Depression. But we still face very significant economic challenges, particularly for the average working family in this country. Americans are still living with the acute damage caused by the crisis. The unemployment rate is still very high. Millions of Americans are living in poverty, still looking for work, suffering from the fall in the value of their homes, or struggling to save for retirement or pay for college. And for these reasons the President's budget calls for substantial additional support for economic growth and job creation alongside longer-term reforms to improve economic opportunity, improve long-term growth prospects and restore fiscal sustainability.

I want to applaud the congressional leadership for the progress they have achieved. They reached an agreement to extend the payroll tax cut in emergency unemployment insurance.

And this is my second point. Don't stop there. There are more things that we can do with bipartisan support, things that are traditionally headed by bipartisan support, that will be good to make the economy stronger in the short term. And just because we agree—we disagree now on the long-term shape of tax reform and entitlement reform, it doesn't have to get in the way of doing more things now that would help the economy in the short term.

I will just give you three examples. More help to get construction workers back on the job with a substantial infrastructure program would be good policy. Helping Americans refinance to take advantage of lower mortgage rates would be good policy. And better incentives for investing in the United States would be good policy. All those things are things that have had broad bipartisan support in the past and we shouldn't let the big disagreements we have on the ultimate shape of tax reform and entitlement reform get in the way of movement on those things now. So don't stop with the payroll tax extension.

Now, beyond these immediate steps, and this is my third point, the President's budget lays out a long-term strategy to strengthen economic growth and improve economic opportunity while reducing our deficits to more sustainable levels. And I know the conventional wisdom here in Washington is that this debate does not matter because Congress is too divided to legislate in this election year. But this is a very important debate. It matters because it is about fundamental economic priorities: how to increase growth and opportunity, how to strengthen health care and retirement security, how to reform our tax system, how we return to living within our means.

We have to govern with limited resources and we have to make choices about how to use those resources more wisely, particularly given the millions and millions of Americans who will become eligible over the coming decades for Medicare and Social Security. And it is important because, as you all know, at the end of this year we face the expiration of the Bush tax cuts and the possible imposition of the sequester, and together that will force us to come to agreement on another substantial down payment on fiscal reform.

So it is a debate we have to have now and we need to get work on how to build consensus on how to move forward in this case, even though we are so far apart on some of the fundamental choices.

Now, in the President's budget we propose reform that would save $4 trillion over 10 years, $3 trillion on top of the caps on discretionary spending we agreed to in August. Now, if Congress were to enact these reforms, they would lower the deficit from just under 9 percent of GDP in 2011 to just under 3 percent of GDP in 2018. That would stabilize the overall debt burden as the share of the economy in the second half of the decade. That would put us back on the path towards fiscal sustainability and leave us in a much better position to confront the remaining challenges we face—and they are formidable, still—that build in future decades as more Americans retire.

Now, under this plan, discretionary spending is projected to fall to its lowest level as a share of the economy since Dwight Eisenhower was President. And the President's proposal would also slow the rate of growth of spending in Medicare and Medicaid, both through the Affordable Care Act reforms and the additional proposals we have laid out in the budget for additional Medicare and Medicaid savings.

But as we reduce spending, we also have to protect investments that are important to expanding future economic growth, and that is why the budget makes a series of targeted investment proposals in education, in innovation and manufacturing infrastructure. These are not expensive proposals; they are things we can afford, and we propose to pay for them within a framework that reduces our deficits to more sustainable levels.

Now, in order to achieve this balance, this balance between significant substantial deficit reduction over time with still some room for investments that matter, we are proposing to raise a modest amount of additional revenues through tax reform. The President's plan proposes roughly $2.5 in spending cuts for every dollar of revenue increases. These revenue increases would fall only on the top 2 percent of Americans, not on the rest of the 98 percent of Americans. They would raise revenues by roughly 1 percent of GDP, although slightly less than the proposals in the Simpson-Bowles Commission. And focusing these revenue proposals on the top 2 percent is in our judgment a more fair and a better way to achieve fiscal sustainability, better for the economy and better than the impact of an equivalent amount of cuts in things like benefits to middle-income seniors or to infrastructure or even defense spending.

We propose tax reforms that raise revenues not because we think it is good politics for us or that any of us like to do it, we propose it because we do not believe it is possible to meet our national security needs, to preserve a basic level of health care and retirement security, to compete effectively in the global economy, without some increase in revenues as part of a balanced plan.

Now, we illustrate in the budget a range of specific tax changes that could be added onto the present tax system to raise the necessary amount of revenue. But we think the best approach to get there would be through comprehensive tax reform. We have outlined a general set of principles that would be designed to make the system more fair, more simple, better at encouraging investment in the United States.

We are going to lay out in the coming weeks a broad framework for corporate tax reform designed to achieve that objective: more simple, more fair, lower rates, broadened base, better for investment in the United States. And we think that is a good place to start. And I hope, as the chairman said at the beginning, there is the prospect of bipartisan consensus on a framework of tax reform like that.

Final point. I know there are Members of Congress who are critical of these proposals and would prefer a different strategy, and you should judge our plan against those alternatives.

Let me say where we agree and I think where we disagree. Where we agree is that our fiscal deficits are unsustainable. They have to be brought down over time and will do a lot of damage to economic growth in this country. And we agree that commitments we made to Medicare and Medicaid are unsustainable and unaffordable over the long run.

But we disagree in some fundamental respects. Some of you have suggested that we cut deeper and faster with more severe austerity now. In our judgment that would damage economic growth, it would reverse the gains we have achieved at getting more Americans back to work, and it would put more Americans into poverty. A program of severe immediate austerity now is not a growth strategy. We can't cut our way to economic growth, and you would have to be very attentive to an economy still healing from the crisis to make sure we are doing things that help growth and not hurt growth in the short run.

Second, probably a more fundamental contrast between our two plans is that there are some on your side who have suggested we try to restore fiscal balance without raising any additional revenue from anyone, or even by cutting taxes further. Now, in our judgment to do so would necessarily entail deep cuts in benefits for retirees and low-income Americans—cuts in investments, in education, and innovation and would hurt growth, and cuts in defense spending that would damage our national security interests.

So the choice we face is not about whether we should reduce our deficits, because we all know we have to do that. It is about how fast we do it, how quickly we do it. But fundamentally it is about whether to do it with a balanced plan that helps growth in the short run and the long run, or with a plan that will place more of the burden on cuts in national security, Medicare, low-income programs, education, innovation and infrastructure in ways that we think will be unfair and damaging to our interests as a country.

Now, these are tough reforms, but it is a balanced mix of spending cuts and tax increases. It gives us room to make investments that will improve opportunities for Americans. It will help protect our basic commitment to retirement security in health care for the elderly and the poor. It provides substantial immediate additional help for the average American, alongside a reform to help restore long-term sustainability.

It is not going to solve all our challenges. Even if you embrace these proposals today, we would still be left with substantial additional challenges, but it would put us in a much better position to meet those challenges.

Thank you, Mr. Chairman. I would be happy to try to respond to your questions.

Chairman RYAN. Thank you.

[The prepared statement of Secretary Geithner follows:]

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

Chairman Ryan, Ranking Member Van Hollen, and members of the Committee, thank you for giving me the opportunity to appear before you today to discuss the President's Fiscal Year 2013 Budget.

I. INTRODUCTION

Three years after the worst financial crisis since the Great Depression, our economy is gradually getting stronger. The decisive actions we took to combat the financial crisis, combined with the President's policies to restart job growth and support the economy, have helped lay the foundations for continuing growth. Over the last two and a half years, the economy has grown at an average annual rate of 2.5 percent, exceeding growth in the year prior to the recession. Private employers have added 3.7 million jobs over the past 23 months, including more than 400,000 manufacturing jobs. Growth has been led by exports, which have grown 25 percent in real terms over the last 2½ years, and by business investment in equipment and software, which has risen by 33 percent during the same period.

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

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

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

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

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

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

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

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

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

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

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

II. INVESTING IN OUR COMPETITIVENESS

Education and Training

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

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

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

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

Innovation and Manufacturing

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

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

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

• The Budget includes $141 billion for Federal R&D—investments that will promote the development of a variety of high-priority technologies, from next generation robotics to nanotechnology to improved cybersecurity. The budget also keeps spending on the National Institutes of Health steady at $31 billion.

• Of this, the Budget provides $2.2 billion for Federal advanced manufacturing R&D, a 19 percent increase over 2012.

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

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

• The Budget sets aside $149 million in the National Science Foundation, an increase of $39 million above the 2012 enacted level, for basic research targeted at developing revolutionary new manufacturing technologies in partnership with the private sector.

• The President's Advanced Manufacturing Partnership invests in a national effort to develop the emerging technologies that will create high-quality manufacturing jobs. For example, the Budget includes $21 million for the Advanced Manufacturing Technology Consortia program, a new public-private partnership that will develop road maps for long-term industrial research needs and fund research at universities and government laboratories directed at meeting those needs.

• The Administration also supports a range of investments and initiatives to bring about a clean energy economy and create jobs for the future, especially manufacturing jobs. For example, the Budget provides $290 million to help meet the goal of doubling the pace of energy intensity improvements across America's industries over the next decade, as well as funding to double the share of electricity that comes from renewable energy sources by 2035.

Infrastructure

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

• The President's Budget provides funding for crucial infrastructure investments. Specifically, the Budget proposes investing $476 billion over the next six years in our nation's surface transportation system, which builds upon our proposal to immediately invest $50 billion to help workers get back on the job. The savings achieved through our orderly drawdown of forces in Iraq and Afghanistan will pay for these investments, with the other half of those savings used to reduce projected deficits.

• The Budget also calls for the creation of a National Infrastructure Bank, a bipartisan idea that will leverage private capital with more flexible financing so that we can build worthwhile projects efficiently and effectively, based on their merits.

• The Budget also provides significant new investments for the modernization of public schools and community colleges so that those who attend have access to a safe environment with modern technology.

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

III. CONTINUING TO BUILD FISCAL SUSTAINABILITY

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

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

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

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

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

Spending Cuts

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

Non-security Discretionary Spending

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

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

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

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

Discretionary Defense Spending

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

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

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

Mandatory Spending

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

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

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

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

Tax Reform

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

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

Individual Tax Reform

As with corporate tax reform, for individual reform the best path would be to enact comprehensive tax reform that meets the principles the President laid out last

September and revisited as part of the State of the Union. The key to these reforms is fairness.

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

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

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

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

Corporate Tax Reform

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

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

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

III. CONCLUSION

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

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

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

I hope Congressional leaders make progress toward extension of the payroll tax cut and emergency unemployment insurance. These measures will put more money in the pockets of American families at a time when they need it most and will help support the broader economy. The savings to families are significant: a full year of the tax cut will save $1,000 this year for the typical household earning $50,000, and the extension of emergency unemployment insurance will prevent millions of UI claimants who are looking for work from losing or being denied benefits.

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

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

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

Chairman RYAN. I guess we will just, like I said to Mr. Van Hollen, agree to disagree on a few of those points. Here is the crux that I want to get to. Do you think this budget averts the deterioration of our fiscal problem?

Secretary GEITHNER. Well, as I said, we are not claiming this solves all the problems facing the country, but it does meet the critical essential test.

Chairman RYAN. Which is?

Secretary GEITHNER. Of restoring our deficits to a more sustainable position for the next 10 years. And the test there, which is a test you embrace in your plan too, is to make sure you get deficits down below 3 percent of GDP and hold them there. And if you do that, then what happens is our overall debt burden as a share of the economy stops growing at a level we can manage and starts to come down. So we meet that test, and we help lower the trajectory of cost growth in the outer decades that comes from millions of Americans retiring. But we still would face, even with this framework, more work to do in that long-term demographic challenge.

Chairman RYAN. Well, bring up slide 13, because I just don't see the rhetoric matching the results. And out of your budget, page 58, in analytical perspectives you say that—this is your budget. It says that the government's position gradually deteriorates, that our fiscal condition deteriorates. These are your numbers.

Secretary GEITHNER. What it shows, Mr. Chairman, is——

Chairman RYAN. This is your deficit path, your debt path.

Secretary GEITHNER. And it shows just exactly what I said. Which is, if you look at 2012 for the next 10 years, it stabilizes that debt burden as a share of the economy. And then what happens is—and this is exactly what I said——

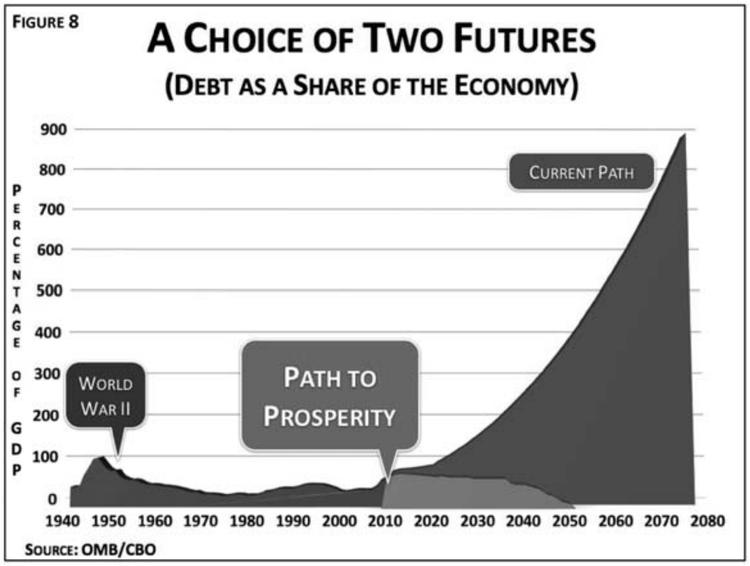
Chairman RYAN. And so it will just allow it to take off after that?

Secretary GEITHNER. No, no. And you are right. And as millions of Americans retire, then those costs in Medicare and Medicaid start to increase again. And that is why we are saying openly and directly to you that we are going to have some work to do.

Chairman RYAN. That is one way of putting it.

Secretary GEITHNER. No, but—and what you do is, I think on your budget, although I know you are going to have a new one coming, is you would lower that path in ways that would substantially increase the burden of health care costs on middle-income seniors. And although we agree with you, we are going to have more work to do, but we are not going to adopt an approach that would undermine that basic benefit.

Chairman RYAN. Go ahead and show slide A if you can.



Chairman RYAN. So you brought it up. I know you didn't necessarily want to see this chart. The red is the status quo. That is the baseline we are on.

Secretary GEITHNER. You could have taken that to 3,000 or to 4,000.

Chairman RYAN. This is last year's budget. Yeah, right. We cut it off at the end of the century because the economy, according to CBO, shuts down in 2027 on this path.

Secretary GEITHNER. I like that chart. I saw this chart yesterday. But if you look at the—you are talking about like, I think, more than half a century going out.

Chairman RYAN. Yeah.

Secretary GEITHNER. But if you look at the gap between us——

Chairman RYAN. I understand the gap.

Secretary GEITHNER. Between 10 and 20, it is a pretty small gap. And that gap, though, that 10 to 20 gap, which is all we are debating today, is a gap where you are achieving that slightly diminished path.

Chairman RYAN. Here is the point. This is your time, so we will just take a long time. Here is the point. Leaders are supposed to fix problems. We have a $99.4 trillion unfunded liability. Our government is making promises to Americans that it has no way of accounting for them.

And so you are saying, yeah, we are stabilizing it but we are not fixing it in the long run. That means we are just going to keep lying to people, we are going to keep all these empty promises. And so what we are saying is in order to avert a debt crisis—I mean, you are the Treasury Secretary. If we can't make good on our bonds in the future, who is going to invest in our country? We do not want to have a debt crisis.

And so it comes down to confidence and trajectory. Do we have confidence that we are getting our fiscal situation under control, that we are preventing the debt from getting at these catastrophic levels? And to go back to the preceding chart, number 13, you are showing that you have no plan to get this debt under control. You are saying we will stabilize it, but then it is just going to shoot back up.

And so my argument is that is Europe. That is bringing us toward a European debt crisis, because we are showing the world, the credit markets, future seniors, people who are organizing their lives around the promises that are being made to them today. We don't have a plan to make good on this.

Secretary GEITHNER. Mr. Chairman, as I said, maybe we are not disagreeing in a sense that I made it absolutely clear that what our budget does is get our deficits down to a sustainable path over the budget——

Chairman RYAN. And then it takes back off.

Secretary GEITHNER [continuing]. Over the budget window. And why—let's talk about why do they take off again, why do they do that?

Chairman RYAN. Because we have 10,000 people retiring every day.

Secretary GEITHNER. That is right. We have millions of Americans retiring every day and that will drive substantial further rate of growth in health care costs. And so you were right to say we are not coming before you today to say we have a definitive solution to that long-term problem. What we do know is we don't like yours, because what yours would do is put an undue burden on a middle-income senior and substantially raise the burden on them for rising health care costs. Now, you are right, though, that government is about you have to make choices between the immediate and the urgent and the important.

Chairman RYAN. In the interest of time, we are fine that you don't like our path. That is what politics and Republicans and Democrats and difference of opinions are all about. But if we don't come up with a plan for this country, we are going to pull the rug out from under people who are relying on these benefits.

Now, we don't agree with your interpretation of our plan because we provide more for the poor and the middle income and less for the wealthy. We think that is the smart way to go on funding these important guaranteed programs.

Secretary GEITHNER. I don't——

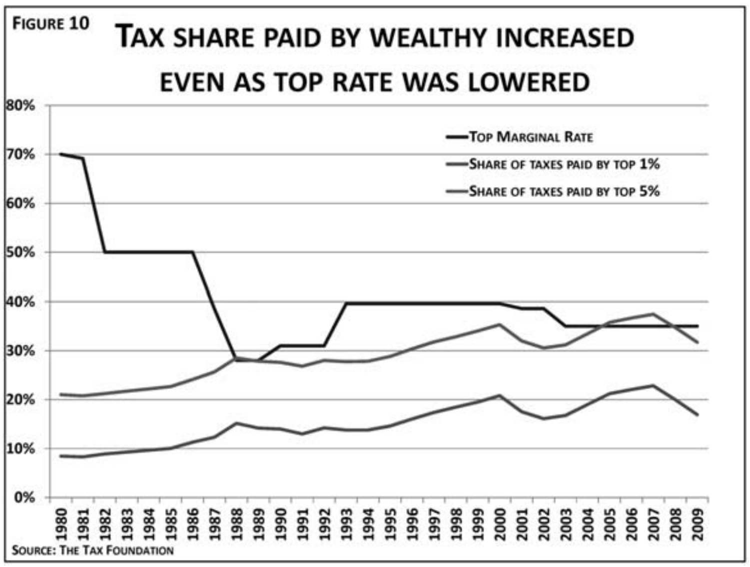
Chairman RYAN. Put that aside.

Secretary GEITHNER. I don't think that is a fair description of your plan.

Chairman RYAN. Well, actually I do. But we can go back and forth on this. Put all that aside. If we don't start showing the country that we have a plan to make good on these promises to secure these health and retirement benefits, then we are going to have a debt crisis.

Let me try to go to something where maybe we have a little more agreement on. On tax reform, I have enjoyed reading some of your quotes where you said that there is a better way to do tax reform than, say, what you are proposing in the budget. I think you say, a better way to do it is to lower rates and broaden base. I couldn't agree more. We have had all these bipartisan ideas, we have had all these bipartisan working groups.

Let me just go to a couple of charts. And this is for more or less my friends. Go to number 10 if you can, slide 10.



Chairman RYAN. A lot of folks think that if we lower tax rates, then the rich are just going to rip everybody off, that they are going to get away with murder. Take a look at the facts. When we have lowered tax rates over—since 1980, the share of the tax burden for the wealthier people has gone up. 1986 is a good example. Right there, the shares shot up. So the wealthy actually pay a higher proportion of the tax burden as those tax rates have gone down. Why? Three reasons. We provided middle- and lower-income relief for families throughout that time. Cutting top rates actually increased economic growth, upper mobility and prosperity. And third——

Secretary GEITHNER. Not so much, actually.

Chairman RYAN. Well, as far as——

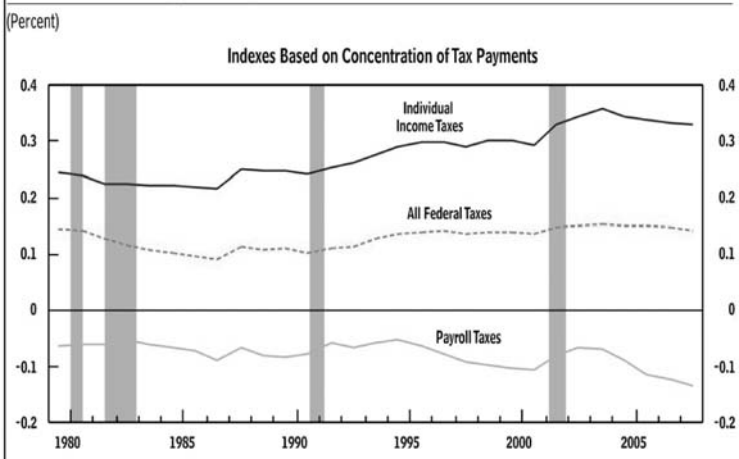
Secretary GEITHNER. Alas.

Chairman RYAN. Well, I will get to the next one. I will show you an adjustment of that. And third, we have taken away loopholes that benefit the well-off.

Secretary GEITHNER. Also not so much.

Chairman RYAN. No, no. That is the point I am trying to get to. So in 1986 we closed loopholes, lowered rates. We went from a 70 percent rate down to a 21 percent rate over that decade alone. And so let's go to slide 14.

FIGURE 13
Indexes of the Progressivity of Federal Taxes



Source: Congressional Budget Office.

Chairman RYAN. This shows—this is the CBO's chart—the index of progressivity in federal taxes. This one is controlled for changes in income distribution, which goes to your earlier point. It shows you that in 1980 to today, we are not lowering the distribution of the tax burden. It shows you that like after 1986, by closing loopholes and lowering rates, we can get better growth and the wealthier actually will pay a higher proportion of the burden. And that is controlling for changes in income distribution.

So the point I am trying to make here is there ought to be a bipartisan element of compromise here, because what we have shown, for those who are worried about the distribution or the burden, you can actually keep higher-end people paying more of the tax burden and get a better system. But we need another round of base broadening and rate lowering.

Secretary GEITHNER. Can I respond?

Chairman RYAN. It has popped up like weeds since 1986, so it is time for a new round. That is my point.

Secretary GEITHNER. Can I respond to this?

Chairman RYAN. Yeah.

Secretary GEITHNER. As I said, I agree with you that we are going to need tax reform. We should all embrace it. The basic elements that we are going to need will lower rates and broaden the base. So let's talk about——

Chairman RYAN. On individuals as well?

Secretary GEITHNER. Yeah, absolutely. So let's talk about what I think separates us still in terms of basic strategy. The dominant plans out there that have bipartisan support—Simpson-Bowles, Domenici-Rivlin, the Senate Six—share in common with us a basic recognition that you need through tax reform to find a way to generate a modest amount of additional revenues.

So in our proposal, in our budget, revenues and shares of GDP would rise modestly back up to around 20 percent. That is slightly lower than where they end up in Simpson-Bowles, but a little higher than you are going to get through current law, about 1 percent of GDP higher. And I think in your framework last year, you show revenues rising to 19 percent of GDP.

Chairman RYAN. Right.

Secretary GEITHNER. Although you don't necessarily explicitly embrace revenue-raising tax reform, you are sort of assuming growth will bring that, which we don't think is possible.

Chairman RYAN. That is what the basis does, right.

Secretary GEITHNER. So I think the two main differences between how we think about this today—but we have to test this when we start to get serious about it—is an explicit commitment you need from both sides that is part of a balanced plan. You need tax reform that is going to raise an additional 1 percent of GDP in revenues.

Chairman RYAN. So putting all of that aside——

Secretary GEITHNER. And one other difference. And you have to ask yourself how do you want to allocate that burden. In Simpson-Bowles, Rivlin-Domenici and in the Senate Six proposal—and we would take the same approach—is you are going to have to have effective tax rates, which as you know are very low at the high end. You have to have effective tax rates go up modestly. And we think they should go up, really, for only those top 2 percent of Americans.

Chairman RYAN. Let me there—just because the time is cutting out and he has got to go to a signing thing—I want you to go. This is actually bipartisan. That is not what you are proposing in this budget. Everything you are saying sounds great, but you are proposing to raise tax rates and then add more complexity to the Tax Code. You have all this green stuff, all these tax credits.

Secretary GEITHNER. As I said in my opening remarks, we are showing you—someone is trying to motivate tax reform because we are saying if you have to raise——

Chairman RYAN. By proposing the opposite of it?

Secretary GEITHNER. No, no. I want to be clear on this. We are saying that if you have to raise, as part of a balanced plan, 1 percent of GDP revenues, as every other bipartisan pool has said you have to do, and you are going to do it on top of the current tax system, here are some ways to do it.

But we are saying then, the President says this over and over again, we think the best way to get there is through rate lowering, base broadening, more simple, more efficient and more fair. But the main fundamental difference between us is how much revenue—if you guys can commit explicitly as revenue through tax reform, we will be on the way. But then we will have a debate about who should bear that burden. And our judgment is the top 2 percent of Americans should bear that burden through a higher effective tax rate. That is our judgment.

Chairman RYAN. Let me get you there. And I am going to have the last word, so we will keep going around. And I am not trying to pop you here, but this is what is frustrating to us; your rhetoric never matches your actions. I am not talking about you personally, I am talking about the administration.

Secretary GEITHNER. I don't think that is fair, Mr. Chairman.

Chairman RYAN. No. You are showing us a budget to raise tax rates and add complexity to the Tax Code.

Secretary GEITHNER. Right. Like when you——

Chairman RYAN. And add your mark to the Tax Code.

Secretary GEITHNER. The burden of governing when you propose a budget, as you know, is——

Chairman RYAN. This is your fourth one.

Secretary GEITHNER. That is right, exactly.

Chairman RYAN. And you haven't proposed what you have said in four budgets.

Secretary GEITHNER. No, that is not true. What we said is, here is what you have to do as part of a balanced comprehensive deficit reduction plan if you are going to get enough revenues out of the system to do this in a fair way. Here is what you have to do. And what we propose to do in this context is to modestly increase the effective tax rate on the top 2 percent.

Chairman RYAN. All right. The top effective rate goes to 44.8 percent on individuals.

Secretary GEITHNER. Not the top marginal rate.

Chairman RYAN. Well, first of all, just assume for the sake of arguing that I am right, which this thing has been fact-check a million times. The point is you are raising effective marginal tax rates. In Wisconsin, nine out of ten businesses file as individuals.

Secretary GEITHNER. We are only going to raise them if you decide to agree to raise them and you decide you would rather not do comprehensive tax reform. But you are right, they will raise an effective tax rate in the top 2 percent.

Chairman RYAN. I just want to be kind to everybody else. These things you say you are not putting in your budget. This is the fourth budget. And we hear all this happy talk about coming together, but we don't see those proposals in black and white in your budget.

Secretary GEITHNER. One last thing. We have never claimed that this budget included a comprehensive proposal for individual tax reform, never claimed it, because we spent, as you know, 4 months working with the House Republican leadership this summer on a way to get a balanced plan with comprehensive individual tax reform that raised revenue alongside substantial savings in Medicare and Medicaid.

Chairman RYAN. I am——

Secretary GEITHNER. And we found in that process, frankly, that you were not really there yet, not quite ready. And so for that reason, we have decided that let's do some foundation laying and lay out some broad principles.

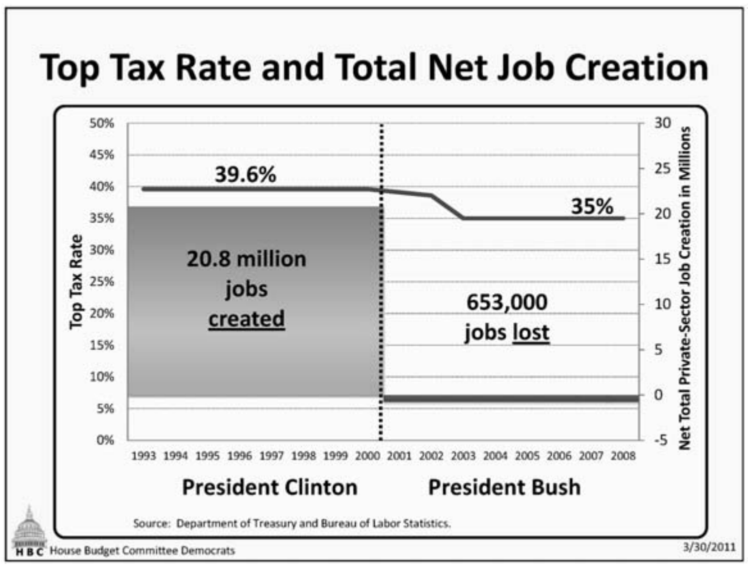
Chairman RYAN. I don't even know how to respond to that. Mr. Van Hollen.

Mr. VAN HOLLEN. Again, welcome, Mr. Secretary. Having participated in some of those rounds, my sense was they basically collapsed because of the fundamental issue that we are debating right here in this committee, which is whether or not to take a balanced approach to addressing our deficit and challenge. And we did not have a partner to compromise on a balanced approach.

Let me just say what the co-chairs of the bipartisan Simpson-Bowles Commission said with respect to the budget. Everyone recognizes, including you, that as you get into the second 10 years we have got a lot of work to do together. But here is what they said. "In the framework he announced in April and what he submitted to the Select Committee in September, the President embraced many of the goals and principles outlined by the fiscal commission and incorporated some of the policies we proposed. We are pleased that the President's latest budget continues to focus on deficit reduction and are also encouraged to see real, specific policies for limiting tax expenditures, slowing health care cost growth, and reducing spending throughout the government."

I would suggest that if we could have a partner in coming to that balanced approach that we talked about, we would be able to tackle some of these things.

Now, I would like to put up a chart just to address what is a sort of continuing myth, which is that relatively small changes in the top marginal rates are the chief driver of job growth. And that has just been proven false by history on numerous occasions.

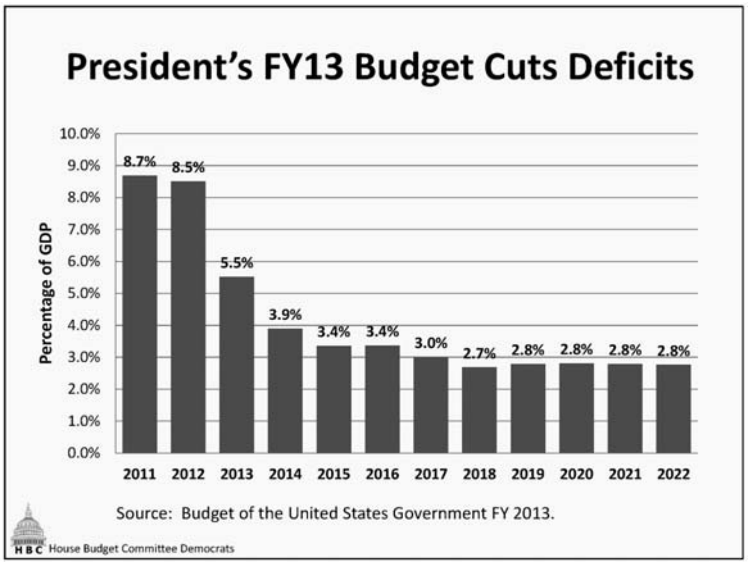


What you see here is after the 1993 budget agreement when the top marginal rate was raised to 39.6 percent, you saw over 20 million jobs created during that period after the 2001-2003 tax cuts, so-called Bush tax cuts, where they reduced the top rate. By the end of that period you saw a net loss of jobs.

Now, obviously there are lots of things going on. But the major point here is that minor changes in the top marginal tax rate are not the primary drivers of growth in our economy. Of course, the other benefit of that higher rate was, as the Secretary said, it brought in more revenue, which meant that at the end of that 10-year period in the year 2000, it was the last time we actually had a balanced budget, a balanced budget which helps contribute to long-term economic stability and growth. So I think it is important to keep in mind these historical facts as we debate the whole question of tax policy.

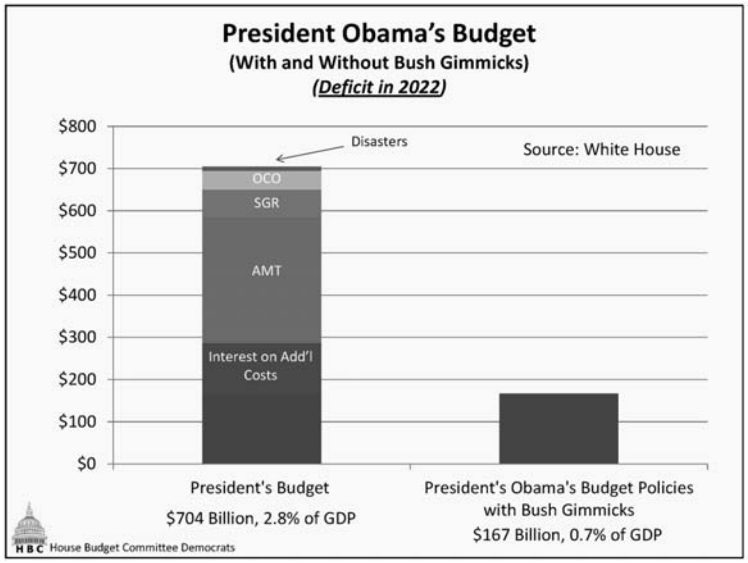
Now, I want to go to another slide here, because yesterday—well, just very briefly this shows the trajectory of the President's budget as proposed. It is a plan, it is a responsible plan. And as the Secretary testified, it gets the deficit below 3 percent, 2.8 percent of GDP at the end of the 10-year window. And many have said this is a budget full of gimmicks.

For those of you who are newer to this committee I want to show you what President Obama's budget would look like if we used the so-called gimmicks that were used in the previous administration's budget, just because a lot has been made of that.



If we go to the next slide, what you see on the left are all the costs that were not counted in the Bush budget over the 10-year period. In other words, the Bush budget assumed that we weren't going to fix the AMT, they assumed that for the 10 years the AMT would spring back into effect and you would have a tax increase on more than 25 million Americans. They assumed that we would never take care of the doc fix. And so if you were to convert President Obama's budget into the President Bush methodology, you get the following.

Let me go to the next slide please.



Mr. VAN HOLLEN. That top red line is the President's budget, using the straightforward accounting techniques, and says 2.8 percent of GDP. That blue line, that is what President Obama's budget could claim if you used the Bush Administration's accounting gimmicks. So the Secretary has acknowledged that we have got a lot of work to do as we deal with the demographic changes 10 years and beyond.

Chairman RYAN. What that tells me is your enemy is OMB.

Mr. VAN HOLLEN. Well, what it tells me is that this is—well, except for in this case, right, OMB actually did it the way I think we would want them to do in terms of calculating the likely outcome.

Now, I just want to end with this, because I do have to go over and sign the conference committee report, and I think everybody agrees that would be a good thing. I am going to have to leave a little early because I have got to go sign the conference committee report in the payroll tax cut conference.

But Mr. Secretary, you have raised the issue, the chairman has raised the issue. Fundamentally we have got to figure out a way to come together to resolve these issues. There are some basic disagreements. We believe that it is important in the short term to continue to take measures that are described in the President's budget to boost job growth.

I remember more than a year ago, a lot of our Republican colleagues were pointing to the new government in the U.K. as an example of how we should proceed here. We should have an austerity budget. Well, I think the Secretary can talk about what the GDP numbers, growth numbers are in the U.K. these days. They are not very good. It is a good thing we didn't follow that proposal.

The second is as we look to the future taking this balanced approach, and the Secretary has pointed out that when you take the kind of measures with respect to health care that were taken in the chairman's budget last time, what you do is shift the risk of rising health care costs to seniors on Medicare. And rather than take that approach, we need to spend a lot more time finding a way to reduce the growing health care costs throughout the American health care system.

Now, the reality is the Affordable Care Act put in place a lot of mechanisms that we believe will begin to do that and will prove successful. But there is more work to be done there. But I think that what we need to do there is come together in a way that deals with the fundamental problem, not just shift the problem from Medicare to senior citizens. And that is at the heart of what this is all about in trying to find a balanced approach. Because if you don't ask the folks who have done really well to put in more, then you are going to have to take more and more out of middle income and seniors.

Mr. Secretary, I just want to end by asking with respect to the experience we have seen with some of the governments that took strict austerity approaches, what is the evidence so far?

Secretary GEITHNER. Well, it all depends on the circumstances. You are right to point out the U.K. experience. But we are not in the position the U.K. is, nor anything like the rest of Europe in this context, in the sense that we enjoy still—and you can see it in the prices of U.S. financial assets—enormous confidence around the world that this country, this Congress, this city, this government, will ultimately find a way to put in place a more substantial system of long-term fiscal reforms. And so there is confidence out there in markets that ultimately Congress is going to come to get them to do the right thing soon enough in this context, and that is why we are able to borrow at relatively low rates, and you see that confidence in U.S. financial markets.

If we were to, in the face of being able to borrow at 2 percent for 10-year money, if we were to now decide we are going to try and turn this deficit swollen by the crisis, swollen by the Bush economic policies, and try to reduce that balance in 2 years or 3 years, you would kill this economy. You would kill this economy and you would dramatically set back the long-term cause of deficit reduction, because you would swell the long-term deficits by inducing another crisis. That is not what the Ryan budget proposes, I would point out, although there are some people who have suggested that we need to cut faster now.

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

Chairman RYAN. You bet. Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Secretary. So let me get this straight, what your testimony has been so far. That you agree that the tax system that we have in this country is far too complex and is not working, but you are not going to give us a new tax reform system now that would be simpler; but, rather, would get a plan in this budget, give us a more complex tax system until later on in the term.

Secretary GEITHNER. No, you don't—I know you don't like the proposals, specific tax proposals.

Mr. GARRETT. Well, isn't it more complex, is what you just said?

Secretary GEITHNER. Oh, absolutely. If you try to get more revenues out of the current tax system in a rational way, you are going to do things that are complicated, there is no doubt about it. And that is why it would be better to do it through tax reform.

Mr. GARRETT. That is my point. So you are saying that you are giving—the system is too complex today—so you are giving us a proposal that is even more complex.

Secretary GEITHNER. It is just the nature of the beast in this context.

Mr. GARRETT. Mr. Secretary, I would think of all people, especially you, that you would understand that our system is too complex for the average individual to understand how to fill out their return; that you would be coming to us not today, but prior to this, with a simpler tax system today and not waiting until the end of your term.

Secretary GEITHNER. I know we are going to have a chance to do this together, but I think that we are lighting the fundamental difference. Even in tax reform that raises the revenues that, for example, Simpson-Bowles suggests we need, or Rivlin-Domenici suggests we need, or the Senate Six suggests we need, in that context the effective tax rate on somebody is going to go up because you are raising revenues.

Mr. GARRETT. Mr. Secretary, with all due respect, that is not the question.

Secretary GEITHNER. No, it is.

Mr. GARRETT. No. I am asking the question so I know what the question was. The question is, when are you going to give us a simple tax reform? And your answer is, not now.

Secretary GEITHNER. Not in this budget, no, we are not.

Mr. GARRETT. Thank you. That is the question. When are you going to give us——

Secretary GEITHNER. When we have evidence on your side that you guys are willing to, as part of a balanced fiscal plan, raise revenues through tax reform. And that is what we spent so much time with your leadership discussing in the summer.

Mr. GARRETT. I understand. So in other words——

Chairman RYAN. Will the gentleman yield?

Mr. GARRETT. I will yield.

Chairman RYAN. That is leadership. So wait for other people to do something; then we will react?

Secretary GEITHNER. Mr. Chairman, you know, you guys just spent 6 months threatening to default on obligations you gave us, you bequeathed to us. Now, if you call that leadership, that is fine with me. But what we did is, and it was in the spirit that we have to work this out in a bipartisan way, is we sat down with your leadership for months to try to work out whether we could find consensus on a balanced program.

Mr. GARRETT. Reclaiming my time, Mr. Secretary. And during all those months we never got from you the same thing that you are telling us right now, you are never going to give to us.

Secretary GEITHNER. Did the leadership share with you the proposals we discussed?

Mr. GARRETT. We never got legislation, formal legislation from you.

Secretary GEITHNER. Nor did we get it from you. We didn't get it from you either.

Mr. GARRETT. On entitlement reform and on tax reform, we have.

Secretary GEITHNER. Not on tax reform you didn't. You just said we would like to get to 25, that was it. That is not a tax reform plan.

Mr. GARRETT. So where is your tax reform plan? That is why we are here today, is to learn where this administration——

Secretary GEITHNER. Congressman, if you want to bludgeon me into admitting we are not giving you an individual tax reform plan, I confess, it is not in the budget. We are not giving it to you. If you want to use your time for that, that is fine.

Mr. GARRETT. All right. My second question is, where is your entitlement reform plan?

Secretary GEITHNER. We have in the budget——

Mr. GARRETT. Are you going to do same thing?

Secretary GEITHNER. No, hold on—$360 billion of specific scoreable savings in Medicare and Medicaid over the 10-year budget window, and an additional $250 billion of other mandatory savings. Those will be part of a——

Mr. GARRETT. Mr. Secretary, let me rephrase my question. Where is your long-term entitlement reform plan? Not 10-year budget window, the long-term reform.

Secretary GEITHNER. Congressman, if you want to use your time that way, that is fine. We are not proposing to solve the problems in the country for the next hundred years because we feel like if we can agree on how to fix them for the next 10 years, people might have more confidence we can work on the next 50 to 100 years. If we can't agree on how to solve the next 10 years, why are you so worried about and focused on the next century or millennium? If you think that we can't solve—if we can't solve this problem——

Mr. GARRETT. Reclaiming my time, Mr. Secretary. You are willing to take shots at the plan that Mr. Ryan has proposed, which does try to solve it over the long term, and you are critical of those plans, significantly of those plans. All we would like to have is, in a debate or a dialogue on this, is to say, here is the plan that we have proposed, Mr. Ryan has proposed; where is the plan that you have proposed long term? Not 100 years, not 80, 60, 40.

I will yield to the chairman.

Secretary GEITHNER. I think you guys got to make a decision. You can either decide——

Chairman RYAN. Well, I was hitting the gavel because it is getting——

Secretary GEITHNER. I think you have to decide just for consistency, okay? Are you going to say you do not like our plan, which proves we have a plan or we don't have a plan. You can't have it both ways in this case. Now, we are not claiming to do what you would do to Medicare. We are not claiming that. We are not going to do it.

Chairman RYAN. I am going to run this tight, because we got a lot of people here and you have a schedule.

We don't see it that way, the Chairman of the Federal Reserve doesn't see it that way. Ms. Schwartz.

Ms. SCHWARTZ. I thank you. Mr. Chairman, I hope that we are fair that there are seconds to go. And I am not sure you have to gavel people down before the time is up.

Chairman RYAN. They weren't coming close.

Ms. SCHWARTZ. I understand that, but it wasn't because the time was up; you were just finished with hearing it. And I think there is a very clear difference of opinion.

Secretary GEITHNER. Is it going to go this way all day for us?

Ms. SCHWARTZ. Not for me. You are going to have another 4½ minutes of a little more comfort zone here. The fact is that there is a very different approach here. And I think that, Mr. Secretary, you spoke very well and very clearly about the fact that the President is putting forward a 10-year plan. And that is actually pretty good, I think, given that we have gone through a very tough time and seen our way through it. And growing jobs and stabilizing the deficit and being able to make investments that ensure economic competitiveness would be a very good outcome over the next 10 years.

So either we can disagree, the other side can disagree. But calling on the President for not having picked their time frame seems to be not what the argument really is. The argument is that they actually disagree with the plan that the President has put forward.

What I wanted you to talk about, because you have already well articulated where we have come from and the challenges ahead, is that one of the key differences between what the Republicans want to do, which is simply cut everything, is to not only the balanced approach, but to make the kind of investments that are going to ensure America's economic competitiveness. You outlined some in your testimony.

I wanted you to just take a few minutes to talk about how important it is to make the kind of investments in research and development. I am particularly interested in advanced manufacturing and innovation. And I did want you to not only talk about what is in the budget, but to mention two ideas that I have, one you and I have talked about a good bit that is very successful already, that I would like to see us do again, which is the therapeutic tax credit. This was the billion dollars that we made sure went to over 3,000 companies, startup biotech companies across this country, companies that are alive today, working on therapies and devices that may cure, save lives, save money.

I would like to see that be done again if we reach someplace where we can actually move forward, because I think it is really important for the United States of America to stay on the cutting edge of innovation, particularly in life sciences, and this is one way to do it. I appreciate the level of funding for NIH and some of the other work you are doing in R&D.

The other piece has to do with the issue of incentivizing innovative businesses that use patents. And this has been a tax policy in other nations that has been successful in drawing out new industries, innovative industries that are making products based on a patent, and a new patent. So I am working on legislation that would do that here. It would provide some tax incentives, again, so we can grow those new—the growth industries.

So I wanted to mention those two specifics and give you a couple of minutes to talk about, really in a very positive way, how we are not going to get out of this tough economy but we are actually going to continue to grow and be the leaders in the world economically.

Secretary GEITHNER. Well, I am happy to take a closer look at those two specific proposals and welcome your support for them. Again, the simplest way to describe what we think makes sense for long-term growth and opportunity is better education outcomes, support for basic science and research, not just NIH and medical discoveries, but of course across a range of parts of science critical to future technological development.

Ms. SCHWARTZ. Right. Energy has been a big piece of that.

Secretary GEITHNER. Energy, better incentives for investment and manufacturing.

Ms. SCHWARTZ. Great productivity and technology.

Secretary GEITHNER. And a substantial long-term investment infrastructure. So that those core things, education, innovation, infrastructure and better incentives for investment, that is what we think should be the core of the strategy. If you look at the combined cost of those things they are very modest, well within our capacity to afford as a country. But you got to do so in ways that are responsible, that we pay for those things, and we in the budget lay out how we propose to pay for those reforms.

Ms. SCHWARTZ. Well, I very much appreciate that. And again, I think that we will try and keep this a little more civil, at least every other speaker, and give you the opportunity to really lay out what is a very clear vision for this country and a contrast, unfortunately, to the other side.

And I appreciate what you said about a willingness of the administration or another administration that has reached out so often and in great detail to the other side of the aisle and not gotten the cooperation back. I will end again on a positive note, having just signed the conference committee report. We actually got a conference committee working. It did its work and it reached a compromise. I think it does protect 160 million Americans who need that 2 percent payroll deduction, and unemployment, and, of course, on the Medicare physician side. So I look forward to that coming to the floor.

Secretary GEITHNER. My compliments for that. And as I said, again, don't stop there. Try to figure out a way to go further.

Chairman RYAN. Mr. Akin.

Mr. AKIN. I think the only place I am agreeing with you is the overall captions and headlines. I agree with that part. And then everything below I am assuming you have trouble with. So starting with——

Secretary GEITHNER. Some of your headlines we agree with, too.

Mr. AKIN. One of them is that you talked about maintaining national security. And it seemed like another one was create and grow jobs in the economy. Those things, I don't think you get any kick from any of us.

The first question is specific. And that is, does this budget set out in a specific plan something to prevent the sequestration or the 10 percent cut in national defense? Is there something where you are committing that you want to stop that sequestration so that we do not take that 10 percent cut?

Secretary GEITHNER. A good question and thanks for asking it. Again, if you count the savings, roughly $1 trillion savings, in the caps on discretionary spending we agreed on in August, then we propose an additional $3 trillion in savings roughly split 50/50 between spending cuts and revenues. So the spending cuts alone are enough to meet the test you have to meet in the sequester. And our spending reduction proposals primarily are the $350 billion or so we would save from Medicare and Medicaid and the 250 or more billion dollars we would save from other mandatories. But the budget contains a range of other savings to achieve that.

And we believe that that mix of policies, both spending and the revenue side, it goes well beyond what you need to replace the sequester and it would be better than letting the sequester hit.

Mr. AKIN. So if that happens, is the sequester automatically just repealed?

Secretary GEITHNER. I can't remember exactly the way the legislation is written. But if Congress were to embrace reforms that achieve more than the savings required by the sequester, then the sequester does not go into effect.

Mr. AKIN. And do those reforms include tax increases?

Secretary GEITHNER. Well, again, that is a suggestion you would have to make. We think they are going to have to ultimately. But we have a magnitude of savings proposals that would exceed the required amount to suspend the sequester. It is a different mix, though.

Mr. AKIN. The first thing is, I just came from Armed Services Committee, and your top military leadership all saying a sequestration is a total and complete disaster.

The second thing was jobs in the economy. One of the items on your tax increases here is you are going to repeal the percentage depletion for hard mineral fossil fuels; i.e., coal. Now, the administration has already been pretty tough on the coal companies in terms of permits. There is a lot of foot-dragging so they can't get their permits.

Increasing the size and expanding the Streams Act apparently makes it very hard for Longwall. And now this thing here is going to increase the taxes on coal companies; is that correct.

Secretary GEITHNER. Well, you are right that we do propose and have proposed for some time dialing back, eliminating, reducing the very generous substantial subsidies we provide for a number of parts of the energy sector. And we think that is necessary, we think it is good energy policy, good economic policy. And I would remind you that I think, as you know——

Mr. AKIN. Well, let me just get real practical on you, though. If you get rid of the depletion allowance, it means that the coal company's taxes are going to go up, right?

Secretary GEITHNER. Well, if you remove a tax subsidy for a specific industry then, yes, their taxes go up.

Mr. AKIN. Okay. So their taxes currently are running about 22 percent. What will happen if you get rid of the depletion allowance for coal?

Secretary GEITHNER. I would be happy to respond to you in writing. But it would be worth noting that the average tax rate paid by American business today is in the high 20s. So the reason why they get to pay only 22 or 18, whatever it is for the energy industry, is because other businesses across the economy are paying more. And that is not efficient, it is not fair. It is better to have a flatter, more even system. That is why we are proposing to remove those subsidies.

Mr. AKIN. The depletion allowance, if you remove it, basically is going to shut down the coal industry. Now, I know the President, I have at least have heard it reported that he is pretty favorable to that idea. But the fact of the matter is there are an awful lot of jobs. There are mines closing now all over the place. And so if you continue the foot-dragging and the permits, you increase the groundwater situation so you can't mine underneath an intermittent stream or something that has no water in it a good part of the year. And then you get rid of this depletion allowance, which makes a certain amount of sense, because when you dig the coal out, then once the coal is gone there isn't anything there.

And so they have the same thing for like sod farms. You take enough sod off the top, then there isn't any more top soil.

So you are basically going to shut the coal industry down. And I am thinking that doesn't seem like jobs in the economy; to me it seems like war on the private sector.

Secretary GEITHNER. We don't believe, Congressman, that our proposals have that risk, but of course, happy to talk to you in more detail about what makes sense in this context.

Chairman RYAN. Thank you. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

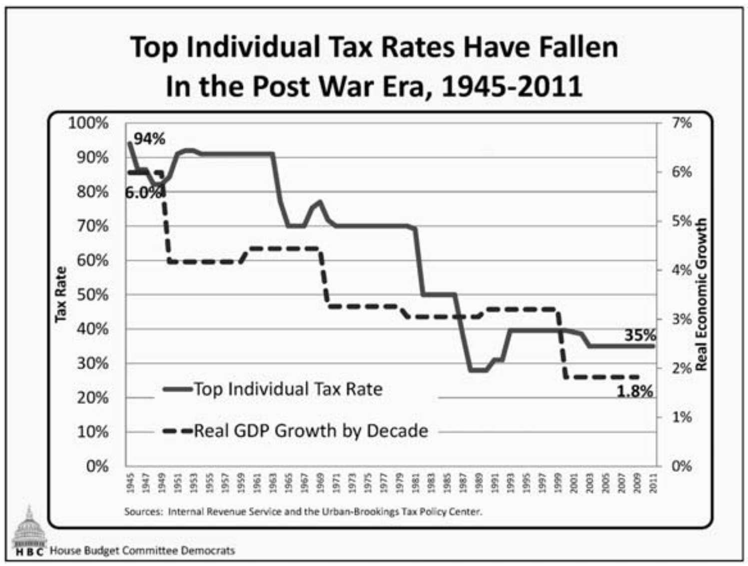
Mr. Secretary, I couldn't agree with you more that progress does not have to wait for another election or a new administration. It is interesting to watch what has happened. A year ago there were some threatening to shut down the government over Big Bird and Planned Parenthood. Then the summer, you know, you mentioned, you know, there were some who were seriously arguing that we not honor paying the debts that we have already incurred.

Secretary GEITHNER. It wasn't just a few, it wasn't just some.

Mr. BLUMENAUER. Yes. Later, in fact this year, we had people go home for the Christmas holiday over the debate about the payroll tax. But actually the people sometimes are heard. And we watched folks come back from the holiday and approve what had been essentially rejected. And we are going off to sign off on a conference committee that is extending it for the rest of the year, unpaid for, which you couldn't have imagined if you just listened to the rhetoric, including some around this table earlier in the year.

I was struck by what our chairman said about 1986 and tax reform. I thought that was a fascinating period. But I would like you to comment on a couple of differences. Because I look at 1986 as something that made a difference, and I don't have enough time to put the charts up, that talk about much higher performance of this economy when the tax rates were much higher. There are things like investing in education, in infrastructure, that matter deeply. But 1986 featured—it did not have 235 Members of the House of Representatives who signed a pledge that they are not going to raise anybody's taxes on anything, because as you well know, there were lots of changes in that reform that ended up raising taxes on a number of people despite cries that it was going to shut them down. It actually didn't.

Ronald Reagan signed off on something that correlated taxation on individual work and investment. We had people in both parties who were working together, a President who repeatedly actually raised taxes. Ronald Reagan raised a gas tax in 1982, a nickle a gallon, back when that was real money. So it seems to me one of the big differences in 1986 versus now is that we had two parties that were willing to make adjustments, raise taxes where necessary. They had some confidence going back and forth, working together. There were no signed pledges that things were off the table.



So I wonder if you could just elaborate from your vantage point, because you really didn't have a chance to elaborate on some of the give-and-take, where it appeared from those of us on the outside, that the President and the Speaker were making progress before somebody's chain was yanked. But if you want to talk about 1986 versus today or the process, I would welcome your thoughts.

Secretary GEITHNER. I do agree that it is going to be harder now than in 1986, in part because of the politics in the Republican Party and how that has changed. I think what is interesting about 1986 is Ronald Reagan designed and proposed a tax reform plan that resulted in a very substantial increase in taxes on businesses in order to pay for a very substantial tax cut on individuals that he subsequently decided he had to reverse. And he reversed, much to his credit, because he was worried about the long-term fiscal problems. He reversed a substantial part of that individual tax cut in the coming years because he realized it was irresponsible and unsustainable. I think the—but I want to try and take the positive side of this debate because——

Mr. BLUMENAUER. Please.

Secretary GEITHNER. The question is whether we are coming closer together or moving farther apart. I don't know, if you look back the past year, despite all the noise and despite how divisive it has been, we did some very good important foundation-laying in the Republican leadership on entitlement reform and tax reform. You saw the appropriations process really work at the end of last year. It took us longer than we thought, but you just got a bipartisan agreement to extend the payroll tax cut and extend unemployment insurance.

And we think there is a lot of room still on things good for growth and jobs, like on infrastructure or on helping people refinance their mortgages, for example, or investment incentives where we think there has traditionally been a lot of bipartisan support and we should be able to move forward on those kind of things.

So our hope is that we can find some practical things we can agree on, even while we are trying to narrow our differences on the big things.

Mr. BLUMENAUER. Thank you, Mr. Secretary.

Chairman RYAN. Dr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, welcome.

I think that the American people by and large want us to get the job done. And there is a lot of misinformation and disinformation that comes out of Washington. We have heard some of it in this room this afternoon. The fact of the matter on the payroll issue is that there were some folks who were staying in town trying to solve this and some folks that fled. The folks that fled were our Democratic colleagues in the Senate. Uncertainty in the market is destructive to job creation. I assume you agree?

Secretary GEITHNER. Well, I guess I would say right now, the biggest source of uncertainty in keeping growth modest is concern about the weakness in demand.

Mr. PRICE. Uncertainty for employers, what their tax rate is going to be, what the consequences of this policy or that policy are going to be. When there is uncertainty then when we talk to small and large job creators they say we have just got to wait. Is that not the case?

Secretary GEITHNER. There can be. But I don't think there is much evidence today that that uncertainty about the long-term deep questions we are facing is having a material damaging effect on growth now. What is hurting growth now is the fact that people still have too much debt, we are still working through the housing problems; and we faced a terrible triple storm, triple threat of Europe, oil and Japan last year, apart from the debt limit damage.

Mr. PRICE. Let me just take on the uncertainty for just a moment, if I may, because the uncertainty on the other side was a 2-month fix to these things. And we had passed through the House one year a payroll tax, a holiday tax reduction, one year of unemployment benefits extension, and a 2-year plug for the physician doc fix.

But I want to talk about taxes on small businesses. Yesterday I was intrigued because in one of the committees—I can't remember which one—in which you testified, you said that taxes on small businesses would indeed go up with this plan.

Secretary GEITHNER. For 2 percent or 2 to 3 percent of American small businesses.

Mr. PRICE. And I appreciate that honesty. And if we look at the 2 to 3 percent of those that file those business tax returns, that is actually 32 percent of the business owners and employs 33 million people. Those 2 to 3 percent employ 33 million people in this country in small businesses.

Secretary GEITHNER. I don't know if those numbers are right. But as you guys—we talked about this before, but let me just mention two things in that context. That definition of small businesses includes all sorts of people most Americans won't think of as small businesses. It includes lawyers in law firms, partners in law firms, partners in hedge funds and private equity firms. And half of those small businesses you just referred to have income after expenses of more than a million dollars.

Mr. PRICE. I promise you, who thinks those folks are small businesses are the secretary working for that attorney or that physician, are the clerk in the small store, the small outlet. They certainly know they are working for a small business. And when you raise taxes on small businesses, what happens is that you get less of what the small business does. And so when you get——

Secretary GEITHNER. How were they doing in the second half of the 1990s?

Mr. PRICE. We are not comparing it to the second half of the 1990s. What we are comparing it to is where we are right now and where we could be. And that is the difference between this budget and the budget that we will propose. That is, that we have a pro-growth budget, one that keeps tax rates the same or reduces tax rates. Because increasing taxes to chase ever-increasing spending, which is exactly what your budget does, is insanity, and the American people know it, which is why they look to Washington and they say, "What the heck is going on?"

Secretary GEITHNER. But Congressman, are you saying that the budget you are going to propose is going to have no revenue increases in it?

Mr. PRICE. No. In fact, we do increase revenue and we do it in a neutral way so that we include loopholes, broaden the base, lower the rates.

Secretary GEITHNER. But is it neutral, or does it raise revenue?

Mr. PRICE. We raise revenue over time so that you can accommodate the changes in the demographics in society, without a doubt.

Secretary GEITHNER. How do you raise revenue, though?

Mr. PRICE. I am happy to be on the panel at the Treasury Department when you invite me down. I would be happy to do that. But the fact of the matter is——

Secretary GEITHNER. This is important because——

Mr. PRICE. Mr. Secretary, the fact of the matter is in this budget that you have, you increase taxes $1.9 trillion, $1.9 trillion. If you are increasing taxes to balance a budget, that is one thing. If you are increasing taxes to expand ever-increasing spending, that is something absolutely different.

Secretary GEITHNER. And we are not——

Mr. PRICE. And that is what is so frustrating to the American people.

Secretary GEITHNER. That is a good question, but that is not what we are doing. Now, you were right. As I said, we are proposing to raise taxes by citing more than 1 percent of GDP.

Mr. PRICE. $1.9 trillion.

Secretary GEITHNER. Citing more than 1 percent of GDP.

Mr. PRICE. $1.9 trillion.

Secretary GEITHNER. Over 10 years.

Mr. PRICE. $1.9 trillion.

Secretary GEITHNER. We are doing that alongside roughly 2-to-1 the ratio of spending cuts. Now, if you do not want to——

Mr. PRICE. The spending cuts that you say you have are in fact already in law, already in law. What you do, you are raising taxes $1 for every $0.83.

Secretary GEITHNER. Congressman, that is not true, but the good thing about it——

Chairman RYAN. We are running a tight clock. Stop, please.

Secretary GEITHNER. Let me respond to the question.

Chairman RYAN. No, no.

Mr. Yarmuth, you are going to miss your schedule if we keep doing this. You want to be out of here by 4:30, right? Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. And I want to first of all congratulate you on what I think is the clearest articulation of our short-term economic needs and our long-term challenges that I have yet heard. And I think anybody watching your appearance here and listening to that would understand that we need different approaches over the next few years than what we do for the next 40, and I appreciate that very much.

Secondly, I would like to say or ask you, we have seen all these charts with long, big lines going out 40, 50, 60, 70 years. With changes in technology, medical research, demographics, culture, world situations and so forth, how reasonably reliable do you think those projections are for 40 years from now or 50 years from now?

Secretary GEITHNER. Not at all.

Mr. YARMUTH. About as much as betting on a Kentucky Derby horse probably?

Secretary GEITHNER. Just to give you an example, when the Clinton Administration left office in 2000, CBO projected surpluses over the next 10 years of roughly $5 trillion. And in that 8-year period we swung from $5 trillion projected surpluses to projected deficits in the range of about $8 trillion. So that just shows you what can happen in a short period of time when people make bad policy choices or when you face financial crises. So 10 years is hard to predict, 20 years is impossible, 40 years is ridiculous.

Mr. YARMUTH. Thank you for that. And I do want to make one comment on Mr. Price's question to you about small business owners. They have used, Republicans have used this argument a lot. And they say that this 2 percent of small business owners represents 30 percent of small business income. Does that not essentially undermine their point? Because this very small percentage of small business owners is making a lion's share of all the income from small business owners, and therefore it is kind of hard to argue that 4.6 percent more of their taxes is going to be a real impediment to them.

Secretary GEITHNER. They may be small by somebody's definition, but they are rather rich is another way to say it. I think the more important thing to say is if you are not going to raise revenues by allowing the effective tax rates to rise modestly for the top 2 percent of Americans, top 2 percent of small businesses, who are you going to ask to pay more taxes, or whose benefits are you going to cut? That is another way to think about the trade-off. And the reason why this is so important for the outlook for the business community is if you try and find that 1 percent of GDP in revenues in this near-term period through cuts in infrastructure defense spending, Medicare benefits, low-income programs, infrastructure, then you will do more damage for the demand—to the demand for their products. They will have less products that they can sell. They won't be better off for that reason.

So we think this is a better package for growth in the alternative if you are going to commit to lower the deficits.

Mr. YARMUTH. Okay. I can't let you get away, since you are talking about products. I have to mention the proposal of the administration again this year to do away with the LIFO accounting, which would have very dramatic effects on the bourbon distilling industry in my State and something that has become a growing export.

Yesterday I asked Mr. Zientz whether or not in constructing the proposal to end LIFO that there was a consideration of the broader economic impact of ending that. And of course I am particularly interested in the distilling industry; other people would in others. Has there been an analysis of the broader economic impact?

Secretary GEITHNER. We have looked very carefully, as we always do, at the impact of those proposals on the industries affected. And in our judgment the impact is modest and manageable. But of course, no one likes to see their taxes go up. And our basic problem of course is because we as a government with limited resources is who are we going to ask to pay for those special tax permits? Now, these are not special in the sense they did go to a broader range of industry. As I understand it, they have been a long tradition. I completely understand the merits of them. But our fundamental problem is that we face unsustainable deficits and we have to find a way to make the system more fair so that businesses in similar circumstances are paying roughly the same effective tax rate.

Mr. YARMUTH. Well, is there an analysis, because I know for instance one corporation based in my district, Brown-Forman, which does $3.4 billion worth of business, pays I think something like $800 million in excise taxes on its product, a heavily taxed industry. Is there something we could look at and have as part of the record that we could analyze? I know part of this is about oil and gas, and that is the lion's share of it. But oil and gas doesn't taste at all like bourbon, and I would be happy to demonstrate that to you.

Secretary GEITHNER. I think the chairman should serve bourbon at our hearings.

Mr. YARMUTH. If you have that kind of analysis, I would love to get it.

Secretary GEITHNER. I would be happy to try to get as much information as we can to you in that context.

Mr. YARMUTH. Thank you, Mr. Secretary.

Chairman RYAN. Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Secretary. I appreciate it. Are you calling upon the Senate to pass your budget?

Secretary GEITHNER. I thought you might ask this question, because I have heard you guys do this over the last few days. I am not a budget process expert. You guys are the Budget Committee. But I will offer a few things in response to that. The Senate does not need a budget resolution in order to pass appropriations bills, pass tax cuts, tax reforms, pass entitlement reforms, pass mandatory savings. As you know, pass the Americans Jobs Act, pass the payroll tax cut. So that is a budget process question. What we want to do is, we would like the Senate and the House together to find more things they can do together that would improve economic growth and jobs.

Mr. CHAFFETZ. I would love to hold hands with Harry Reid. We have done our job in the House in the past and passed a budget here. It is a simple question: Are you calling upon the United States Senate to pass the President's budget?

Secretary GEITHNER. We are absolutely calling on the United States Senate to embrace, the House as well, to embrace the fiscal reforms we propose in the budget, absolutely.

Mr. CHAFFETZ. Are you calling upon the Senate to pass the President's budget? When is it reasonable for them to do that?

Secretary GEITHNER. I answered your question. Can I just say one thing? The test of governing and legislating, if I am not mistaken, is not for you to send the Senate things that you know will not have bipartisan support. That is not a test of legislating, I don't think.

Mr. CHAFFETZ. I am asking about a Democratic President, President Obama and this administration, and you as the Secretary of the Treasury, are you calling upon the Senate, which is controlled by the Democrats, to vote on and pass your budget?

Secretary GEITHNER. As I said, absolutely we would like the Senate and the House to act on the Senate reforms that the President has put in the budget. That is what a budget is for. But I was just pointing out that you said that you have done your job by sendng the Senate legislation. I don't think that is a test of legislating in a divided country with a divided government.

Mr. CHAFFETZ. So is it fair for me to say that you are not calling upon the United States Senate to pass this budget?

Secretary GEITHNER. No, it would be fair to say what I just said, which is that, yes, we would like the Senate and the House to pass sensible fiscal reform that would help the economy. We would like that to happen.

Mr. CHAFFETZ. I find it stunning that the Senate has yet to pass a budget, more than 1,000 days. It is terribly frustrating.

Secretary GEITHNER. You can use me as you want, but you guys are using your time poorly, because you guys have been saying it for 5 days in a row.

Mr. CHAFFETZ. I don't want you to tell me how to do my job, because we are doing our job here. We are passing budgets and we are passing legislation that sits and stalls in the United States

Senate. And it is frustrating. You can smile and laugh about it all you want.

Secretary GEITHNER. No, I am saying I can help you with other questions, I can't help you with that one because that is about the Senate.

Mr. CHAFFETZ. Well, and that is part of the challenge, is that the White House is not calling upon the Senate to get involved in this game and pass a budget. That is the way we come to a reconciliation, that is how we work these things out, is when we pass something, they pass something, they come together in a conference and we work on it. But if they refuse to do their job, if they refuse to actually—and the White House is just going to sit here, giddy, with that silly little smirk, and laugh about it like we can't do anything about it, then we make no progress, and that is part of the frustration.

Let me ask you about the January budget and economic outlook that was put out by CBO that estimated that the stimulus didn't cost $787 billion but actually cost $821 billion. Would you agree or disagree with that analysis?

Secretary GEITHNER. I haven't seen that, but I would like to take a look at it and get back to you.

Mr. CHAFFETZ. Thank you. I would sincerely appreciate it. On page 2 of your testimony at the very top paragraph, for members who are looking at this, you have this one particular sentence in here that I would take some issue in. It is the end of the first paragraph of the top page, numbered page 2. "These savings are sufficient to stabilize our debt as a share of the economy by 2015 and begin placing our debt on a downward path."

What is troubling here is when I look at the total debt held by the Federal Government. When President Obama took office it was roughly $9 trillion, now it is going to be projected, under your numbers and your budget, to be at $26 trillion. The President has never put forward a budget that actually balances to actually pay down the debt; is that correct?

Secretary GEITHNER. We propose reforms that, as I said, would reduce the budget deficit to a level that is sustainable, defined as a level that stabilizes the debt burden at an acceptable share of the economy and starts to bring it down.

Mr. CHAFFETZ. What percentage would that be? What percentage of debt is acceptable?

Secretary GEITHNER. Well, the deficit level you need to stabilize the debt has to be slightly below 3 percent of GDP. And if we do it in time frame, then that would stabilize the debt burden as a share of the economy. And we measure this as net debt held by the public net of financial assets in the 70s as a percent of GDP. And that level is a manageable burden for us.

But as we all said, and your charts show, that is a start. Because if you only do that, then in the succeeding decades those costs start to grow again.

Chairman RYAN. Thank you. Mr. Pascrell.

Mr. PASCRELL. I would like to address the $25 billion agreement amongst the 49 State attorneys general and the five largest mortgage lenders. In New Jersey, homeowners will receive $762 million in direct relief, with the majority going to refinancing. However, the overall agreement, $17 billion for a principal reduction is nothing compared to the $700 billion total in negative equity for homeowners in this country. That is to me a big deal.

In August of 2010, the New York Fed in this document found that a principal writedown of a mortgage with 18 percent negative equity would cut the probability of default 40 percent—that is a big deal—within 1 year of modification.

Considering that nearly half of all outstanding mortgages are owned by Freddie Mac and Fannie Mae—correct, my friend from New Jersey—it seems we have a simple solution. Tell me where it isn't so simple.

Secretary Donovan recently commented on Fannie and Freddie, we need to break the logjam of principal reductions. And as you well know, Treasury has offered triple incentives to banks and mortgage companies willing to cut mortgage principal for underwater homeowners through the Housing Affordable Modification Program. You have talked about some time, haven't you?

The need for principal reduction is very apparent, not only in New Jersey but some other States, obviously, while the decline in the median price, median price, of a single-family house, home, outpaced the national average by 3.7 percent drop, a 3.7 percent drop, with Bergen County having an 8 percent drop last year—that is big—and an even higher drop of 8.4 percent in Passaic County, right next to it.

Mr. Secretary, the need for principal reduction for Freddie and Fannie-held mortgages is apparent. Is it contained within the President's 2012 budget? And if it isn't, why isn't it?

Secretary GEITHNER. It doesn't need to be in the budget, because we believe that Fannie and Freddie have the clear authority to provide principal reductions in cases where it is clearly beneficial to the taxpayer to do it. And there are a range of types of mortgages where that is the case. So we, as it sounds likes you support, we are working closely with the GSEs, with Fannie and Freddie, with the FHFA, to encourage them to take another look at the math, because we think it is in the taxpayers' interest for them to do it.

Mr. PASCRELL. Well, this is important, Mr. Secretary, because most of what we have done in the last 6 years has not helped this problem. I would lay before you that just as many as we have helped, the few that we have helped, we have had a few more added to that list. And you know that quite well. This is going on and on and on.

What help does the taxpayer get if somebody can't meet the nut and then has to get out of his house, bring down the whole neighborhood? If he can't pay his taxes, then somebody on the rest of the street has to pay his taxes. And this is dragging down on the entire economy. I don't really see anything tangible—I will listen with the minute I have left—in this budget that addresses the deepest problem going on in America. Because that is our dream. People worked hard for their homes, and we think it is better to put them out so we lessen risk? That is where Fannie and that is where the other group is, period.

Secretary GEITHNER. But Congressman, I am agreeing with you. I think the only reason—the thing I was saying which is that we believe FHFA has the authority now, and that is why it is not in the budget. And we think they have the authority to do in a way that is good for the taxpayer. Our problem is we don't have the authority to compel them to do it, because when Congress passed the law that put them into conservatorship, Congress—and these were Democrats in this context, in the Senate—wanted to keep them purely independent of the executive branch, and that is our constraint.

But we are working with them on, and I think we can probably make some progress in this area.

Mr. PASCRELL. I hope so, because I would conclude in the final seconds that I have that this gnawing problem is never going to get us back to the promised land. I am telling you, we have not, either side, has not done the job. And why Fannie and why Freddie seem to be on holy ground, I don't know.

Thank you, Mr. Chairman.

Chairman RYAN. Thank you.

Mr. STUTZMAN.

Mr. STUTZMAN. Thank you, Mr. Chairman.

And thank you, Mr. Geithner. It is good to see you and thanks for being here.

I just want to follow up a little bit on Mr. Chaffetz' questioning. The budget. Do you think a budget is important?

Secretary GEITHNER. Absolutely.

Mr. STUTZMAN. Last year's budget that the administration proposed, do you remember how many votes it got in the Senate once it was forced to vote on it?

Secretary GEITHNER. Well, in the way it was done, it got very few votes.

Mr. STUTZMAN. Zero, right?

Secretary GEITHNER. Because it was the way it was done.

Mr. STUTZMAN. Because of the way it was done.

Secretary GEITHNER. Again, I am not a budget process expert but it was because—you know.

Mr. STUTZMAN. It didn't get any votes. And I guess my question is, is this a waste of time for us? If last year's budget, which is similar to this year's budget coming from the administration, this seems to be a waste of time. If it is not going to get a single vote in the Senate, Democrat-controlled Senate, why do we even want to go through this process? Why even go through the time of putting a budget together if you haven't worked with your Democrat colleagues in the Senate, who didn't give you one single vote?

Secretary GEITHNER. No, that is not what I said. Of course, again, I said we spent a fair amount of time over the summer, as you know, working with the Republican leadership. Of course, we worked closely with the Democrats, and the proposals in this budget to try to build on the talks we had over the course of the summer, and, of course, even the work of the supercommittee in the fall.

So we think this is good policy. And the reason why it is worth you paying attention to it is because if Congress were to adopt it, it would be good for the country.

Mr. STUTZMAN. My point is, doesn't it show you how far apart you are from even your own Democrat colleagues?

Secretary GEITHNER. No, I am not worried about our distance from our Democratic colleagues.

Mr. STUTZMAN. But you can't even get a single vote in the Democrat-controlled Senate.

Secretary GEITHNER. I am not worried about the distance between us and the Democrats. I am a little worried about the distance between us and some Republicans, but that is why it is good to have this debate.

Mr. STUTZMAN. According to your own Treasury Department, over 80 percent of businesses in the U.S. are unincorporated pass-through entities paying taxes at the individual level. I am in that category as a farmer in Indiana. And of the businesses that have profits of $1 million or more, over 60 percent are unincorporated pass-throughs.

My question is, the President's tax policies, including those in the health care legislation, would push the tomorrow individual tax rate to 44.8 percent. Do you think there is a disparity if you take the upper income tax rate at 39.6 percent; if you take PEP, reinstate PEP, that is 2 percent; and Medicare taxes of 3.2 gives you 44.8 percent? Do you think that is a disparity between small business owners and corporations, who pay an upper tax rate of 35 percent?

Secretary GEITHNER. Well, I think to do a fair comparison of the economics of taxation, you have to look at the effective tax rate on those pass-throughs and the effective tax rate on the corporations, and I think if you do that, you will find the disparity very small.

Mr. STUTZMAN. Do you have any numbers?

Secretary GEITHNER. I will be happy to try to respond to you in detail on that.

Mr. STUTZMAN. Okay. The President also said that failing to extend the payroll tax cuts at the current level would obviously amount in a large tax increase, but in the budget, you don't extend that payroll tax cut after this year.

Secretary GEITHNER. That is right.

Mr. STUTZMAN. Why not?

Secretary GEITHNER. Because there are things you have to do to come out of a crisis you only want to do on a temporary basis. And so we have proposed a lot of different things on a temporary basis.

For example, last year, we proposed and you all embraced a 1-year period of 100 percent expensing for businesses. You couldn't make that permanent in a responsible way, but it is good policy for a short-term process. There are some things you should do on a temporary basis. This is one of them.

Mr. STUTZMAN. But CBO is saying that we could see the economy stagnant for the next 5 years. Why not make it a 5-year fix, or a 5-year rate, instead of making it towards the end of 2012 when it looks political?

Secretary GEITHNER. A good question. CBO's analysis that shows what I think you show, very moderate growth for a long period of time, is on the assumption that all the Bush tax cuts expire, which is not something we support. As you know, we want to extend them for 98 percent of Americans. So it is our judgment that the economy is likely to be in a position at the end of next year where it can withstand the effects of this short-term temporary payroll tax expiring.

Mr. STUTZMAN. But this is what I get tired of, because I really believe we need a civil debate in Washington, and I get tired of Republicans being thrown under the bus saying Republicans want to destroy Medicare and Social Security, when that is not the case whatsoever, but then the President turns right around and cuts the payroll tax rates, which would actually fund Social Security and Medicare, so there is less money going into those programs.

Secretary GEITHNER. That is not true though.

Mr. STUTZMAN. It is the same thing though. I mean, there is less money going into Social Security and Medicare, right?

Secretary GEITHNER. No. The way the law works, any shortfall that comes from like a temporary payroll tax cut is made up automatically by general revenues. So that has no impact——

Mr. STUTZMAN. That is still from the taxpayer. It still is going to come from the taxpayer. Those funds don't see any less money going in?

Secretary GEITHNER. No. That is the way the law works. I think the question is shall we be—I am not sure I understand. Do you want to extend the payroll tax cut longer?

Mr. STUTZMAN. I am fine with that.

Secretary GEITHNER. I don't think you can justify doing that. But we will have to work through this at the end of the year.

Chairman RYAN. The time has expired.

And I would remind our witness: You are the witness; they are the questioners. This is a legislative branch on this side of the table. You are the executive branch on that side of the table. So let's keep the questions the way that the Constitution is.

Secretary GEITHNER. Sometimes I have to ask a clarifying question just so I can answer your question.

Chairman RYAN. Okay. All right, let's make sure it is that.

We are to Ms. Castor.

Ms. CASTOR. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

I would like to ask you about identity theft and tax fraud, because in the fall of last year, my local police chief, she said where are all the criminals on the street? All the drug dealers were gone. All the other petty theft criminals gone off the street. They thought we are doing a great job. Crime is down. Then they raided a motel with rooms where they had laptops set up one after another, and they found where all the criminals were, and they were filing fraudulent identities to claim the—filing the tax returns to get refunds. And they have quite a racket going on. They call it TurboTax, because it is so easy. And they can put in hundreds of these. And you should see what the Postmaster General has, just row after row of those debit cards, the green dot, other checks coming to Post Office boxes, some that they have been able to get.

In fact, the bust last year was $130 million worth, and they think that is just the tip of the iceberg. And this is not just in Tampa, Florida. This is happening all over the country, and we have got to get a handle on it.

Here is one of the problems. The Tampa Police Department advised me that their investigation was complicated at every turn by laws that prohibits the IRS from sharing information. While we all value those personal privacy protections, there must be a way for IRS to cooperate with local and Federal law enforcement to investigate the fraud. For example, in the big TurboTax bust, they even had taped confessions by some of the people, but because there was a missing link in the evidence on the actual tax return, they could not bring them to prosecution. The U.S. Attorney is completely frustrated. Law enforcement all across my State is very frustrated.

So here are the two primary issues. First, what can you do to address that? We filed legislation, my Republican colleague who is a former sheriff, Representative Nugent, he understands this. But we can't wait for legislation. And, two, the IRS has got to have better screens and filters, checks, especially now here is tax filing season. The Tampa Police Department said just in the first part of the year now, they have $9 million more in fraudulent returns that they have recovered. So we have got to get a handle on this to protect the taxpayer. And if we are looking for cost savings, we can start by putting a stop to this fraud.

Secretary GEITHNER. You are right, and I appreciate your drawing attention to this problem. And Doug Shulman as the Commissioner of the IRS is doing a very good job trying to get us in a better place to try to reduce the ability of Americans to again illegally benefit from tax benefits they are not entitled to.

One thing we are going to need is we are going to need some more resources for the IRS to make sure they have enough in the enforcement budget. But I would be happy to look at your legislation and consult with the IRS and have my colleagues come talk to your staff and see if we can figure out how to reduce the remaining barriers.

Ms. CASTOR. Yes. And colleagues, I ask for your help as well. If you go back and talk to your local law enforcement and they tell you they are not aware of it, they just haven't found it yet. Because it is so easy. They steal the identities of people who are deceased. We have had cases where people working in nursing homes go in and steal personal information. Even children go file.

And, see, here is the problem with the IRS. They have said if your refund is less than $10,000, that is not enough for us to investigate. And that is a real problem. They have got to come up with some strategies where if somebody has a Post Office box and they are getting 25 checks, the IRS has got to be aggressive on this thing.

Secretary GEITHNER. They are very aggressive, but remember, they don't have unlimited resources so they have to devote those resources to where they think the highest return is in getting better tax compliance done. But I agree with you we have a problem. We are working on it. I will be happy to come talk to you about how best to solve it. And I very much appreciate the support we have gotten to make sure the IRS has the resources they need to have to do a better job in this area.

Ms. CASTOR. Thank you very much.

Chairman RYAN. All right, 25 seconds.

Mrs. Black.

Mrs. BLACK. Thank you, Mr. Chairman, and thank you, Mr. Geithner, for be here today. Of course, we had some time together yesterday and——

Secretary GEITHNER. We did. I enjoyed it.

Mrs. BLACK. And we are spending a little time together today.

I want to start out by making a comment about this division and divisiveness here on Capitol Hill. It has disappointed me in the last year I have been here. I came from a State legislature where I worked with bipartisan support on very difficult issues, and I know what that is like. It is hard work. It is hard to do.

But I have gone through the budget, and I must say I haven't read the whole thing yet, but I did read the first pages of this budget very carefully, and it is the President's message. I want to read a couple of things here to remind people that this is not a way to start out a discussion of bipartisanship when you have in the very first pages of this document divisiveness.

So here it says, I presented to congressional Republicans another balanced plan to achieve $4 trillion in deficit reduction. Unfortunately, Republicans in Congress blocked both our deficit reduction measures in almost every part of the American Jobs Act for the simple reason that they were unwilling to ask the wealthiest Americans to pay their fair share.

It goes on several pages and I am not going to read the whole thing, but it just continues to talk about Republicans, Republicans being the bad people who don't want to work with him. This does not set a tone of bipartisanship, and this is the leader of our country. And I have got to start out by saying that, because this is very disappointing to me, that that would be the first pages of this document, before we even get into talking about what is good or what is bad in here.

Now, let me turn your attention to something that again is very important to me as someone who comes from a health care background. First I want to ask you, would you agree that Medicare is the biggest driver of our debt?

Secretary GEITHNER. Over the next 50 years, yeah, but not over the next 10.

Mrs. BLACK. But you don't believe that currently with 10,000 seniors retiring every day, that it is a driver of our debt currently?

Secretary GEITHNER. No. Obviously, the biggest parts of spending in the budget are Medicare and Medicaid and Social Security and the defense budget.

Mrs. BLACK. Right.

Secretary GEITHNER. So those costs actually matter a lot. But the growth that really starts to hurt us builds a little bit more gradually.

Mrs. BLACK. Well, and you are right, because we did see the chart at the beginning, and you even acknowledged there that that begins to grow pretty rapidly with the retirement, the rising number of millions of Americans retiring.

Secretary GEITHNER. Starting 20 to 30 years from now, yes.

Mrs. BLACK. But what you are saying to me is that we should not worry about that now, because that is not to be worried about until 20 years down the road?

Secretary GEITHNER. No, not at all. I am a very strong supporter of early action on these things, because the longer you wait, the more damage you are putting the country in.

But what I am pointing out is that we believe it would be a substantial step forward for us to come together and agree on how to fix our problems for the next 10 years, even if we can't agree on how to solve them for the next 100 years.

Mrs. BLACK. I know my time is running out very rapidly here, so I do want to—at some point in time, I am going to send you some questions and have you answer them for my purposes of writing. But the President did acknowledge this was a problem, because he had the Bowles-Simpson Commission take a look at this, and they actually had some pretty bold entitlement reforms in there, in the document "The Moments of Truth." Did the President adopt any of those in this document that we are looking at?

Secretary GEITHNER. I am glad you raised that. But I just would point out that we are much closer to the broad strategy in Simpson-Bowles than is what people refer to commonly as the Republican budget. So if you look, for example—with maybe one exception, the sense that neither the Republican budget nor our budget provides the details of the Social Security reform plan. But if you look at the broad balance of spending and tax cuts, we are much closer to Simpson-Bowles than is the Republican budget, even on——

Mrs. BLACK. But we don't have—and I am going to reclaim my time because I only have 48 seconds left here. We did not see bold measures in this budget reform, because what I have read in there and what I have seen is that the way that this administration determines that we should balance this budget at this point in time with the Medicare is on the backs of our providers.

Secretary GEITHNER. Well, we are proposing $370 billion roughly, you can decide whether that is bold or not, over 10 years. It is a substantial chunk of money. And you are right, we think this is fair. We are putting those primarily on pharmaceutical providers and on other providers of health care.

Mrs. BLACK. Like physicians.

Secretary GEITHNER. Not significant on physicians actually. And some modest changes to beneficiaries in that context. But you know you can choose a different of doing it, but if you don't do it that way, you are going to do it on beneficiaries.

Chairman RYAN. Ms. Bass.

Ms. BASS. Thank you, Mr. Secretary, for your time.

I just wanted to ask you a couple of questions, and then I thought before my time is ended that you might want to take a few minutes to respond to several things that you didn't really have an opportunity to respond to because your time ran out.

But you said a few minutes ago that you felt that the budget that you are presented stabilizes the debt burden in a few years as a percentage of the GDP, I think you said down to 3 percent. But I wanted to know if you could specifically describe a few ways that that happens?

Secretary GEITHNER. It takes $4 trillion in deficit reduction over 10 years to get the deficit down to the level where you achieve that measure of sustainability, and we have proposed to do that with a mix of spending cuts and revenue increases in the ratio of roughly 2.5 to one. The spending cuts come in the form of the trillion dollars in caps and cuts on discretionary, meaning defense and nondiscretionary spending we agreed to in August, combined with an additional $1.5 trillion in spending cuts that are composed in part of substantial reforms to Medicare and Medicare and other mandatory programs, like, for example, farm subsidies. Then alongside that, we have proposed a little more than $1.5 trillion in revenue increases, which is roughly 1 percent of GDP.

The combination of those things would reduce the deficit over the next 5 to 7 years to below 3 percent of GDP, which again is the level you need to achieve what people call primary balance. That is the place where revenues cover your expenditures minus interest. And for an economy like ours, which normally grows at 2.5 percent, that is a level that would stabilize our debt burden at a manageable level. Again, that only buys us 10 years or so. Ten years is a long time though, a pretty substantial contribution. We will have to go beyond that and build on the Affordable Care Act Reforms and these Medicare reforms and do other things to help get our health care commitments to a more sustainable level.

Ms. BASS. Thank you, I appreciate that.

You know, as I listen to my colleagues on the other side of the aisle, especially in the early questioning, there were several questions that came up around tax reform and also entitlement reform. And I am new here as a freshman Member, so it is just my second year, but I wanted to know if maybe historically you could give a couple of examples where a President put forward a budget that included major policy changes along with the budget? Because it would seem to me, and I certainly want to see tax reform especially, but I don't know if it would even be appropriate for it to be included in a budget.

Secretary GEITHNER. Well, you are right. I think the Chairman would know this in some ways better than I, but you are right that the major tax reform changes that come were not proposed in budgets. They were done through a separate process, normally beginning with broad frameworks from the administration and then that started a process of negotiation on the Hill, and the tax-writing committees normally took over the burden of that responsibility.

On the entitlement reform side, you are also right to point out that probably the most successful example we have seen of entitlement reform, which is the Social Security agreements reached under President Reagan, came out of reforms that were proposed by a bipartisan commission chaired by Chairman Greenspan at that point. Also they were not included in Reagan's budget. So that is good history and good example.

So we have laid out both in the budget and outside the budget some framework for reforms, but that can only be the beginning of the process. It is never intended to be the end of the process, because as you know, the way the balance of power is written in the Constitution, Congress has the power of the pen and has to write the laws of the land.

Again, finally, it is just obvious to say this, and this is the challenge we face, you cannot do these things without finding bipartisan agreement. And we did some—I know we were disappointed by the outcome, but we did some very important foundation laying over the summer in those negotiations with the House Republican leadership and Democratic leadership. And we did some important foundation laying even in the supercommittee dialogue, and we are going to build on that going forward to figure out how to find a way to come closer together.

Ms. BASS. Maybe we need to see some of those proposals, because it seems like my colleagues on the other side of the aisle haven't seen some of the proposals that have been put forward, one by the administration and maybe some proposals that the Republican leadership might have been considering.

Secretary GEITHNER. Well, again, you have got to start by exchanging ideas, and you have to start by debating the fundamental principles. Once you have agreement on a broader framework, then it is easier move forward on some of the details. But I think to be fair, we are not really debating whether plans exist. We are debating whether we like our plans or not, and you guys like your plans, and we like our plans at the moment, and we have to figure out how to make them overlap a bit.

Chairman RYAN. Mr. Ribble.

Mr. RIBBLE. Well, Mr. Secretary, thanks. It is good to see you again.

Secretary GEITHNER. Good to see you.

Mr. RIBBLE. I am sure this isn't always the funnest part of your job.

Secretary GEITHNER. Actually, I know it doesn't look it, but I enjoy this discussion because these are debates we have to have that are about fundamental things. And, as I said, you know, we like our plans. We know you like yours. We have got to figure out, you know, how to do something together.

Mr. RIBBLE. I completely agree with you. Let me tell you, I ran for this seat after spending 35 years in the private sector owning my own company.

Secretary GEITHNER. What were you thinking, is what I want to ask you.

Mr. RIBBLE. That is a legitimate question to ask, but I will answer that question for you, and then we will talk. I ran because I am afraid for my grandchildren, and it is straight and forward and as simple as that.

I am here for them, because we have a problem. And if we cannot somehow, the administration and the Congress, Republicans and Democrats, finally recognize that we have a major problem and admit it and be honest with the American people and honest with each other, we cannot solve this problem. And I think we both agree on that.

Secretary GEITHNER. I completely agree with you.

Mr. RIBBLE. So I would ask my Republican colleagues and my Democratic colleagues, I would plead with them on behalf of my grandchildren to stop demonizing every good idea and instead debate it on its merits and come up with a solution. And I am willing to do that, and I am willing to work with you to do that. We need solutions. Here are some concerns I have.

Last week, Mr. Bernanke said the best approach would be to put in a long-term strategy.

Secretary GEITHNER. Absolutely. I agree with that.

Mr. RIBBLE. I understand that going beyond a 10 year window is difficult. But I am concerned on two things——

Secretary GEITHNER. He meant 10 years I think though.

Mr. RIBBLE. What is that?

Secretary GEITHNER. I think he meant 10 years. He would be thrilled with 10 years.

Mr. RIBBLE. He probably would be thrilled with 10 years, but we haven't really got a strategy to address some key drivers that I am concerned about, and one is cost of Medicare. We came up with an idea, and it got pretty badly demonized last year, and they are going to use it as television commercials, but it was an idea that warranted debate.

And the other one is interest payments. I am going to talk to you about interest, because I think interest is really critical. You have got nearly $5 trillion of interest over the next decade. By the end of the decade, interest payments almost triple from almost 6 percent of outlays to just a little over 16 percent of outlays.

Could I have figure three brought up on the screen here while we are talking.

Based on the projection, if we look the at trend lines here, it is going to go to 25 or 30 or 40 percent, given that the estimates that you use for interest payments, interest rates stay pretty much the same. I want to know what your feelings are about confidence regarding interest rates if we continue—if the trend line there continues beyond 2022.

Secretary GEITHNER. Excellent question, and it is a very important point. You are using the nominal deficit number, and what matters for confidence and credibility in interest rates and growth is whether your debt burden as a share of the economy stabilizes at a moderate level. And if you were to do that chart as a percentage of GDP, which one of your colleagues did I think today earlier today at least, you will show that deficits down to the level that it stops the debt from growing, and that is the test we need. And if we were able to achieve that, then you could be very confident, you could be very, very confident that we would not face a rise in interest rates in later years that would damage economic growth.

Mr. RIBBLE. So you are pretty comfortable with the interest rates projections that you have in your budget?

Secretary GEITHNER. Absolutely I am, because they assume, they have to assume that Congress would enact proposals to bring the deficits down that far.

Mr. RIBBLE. Right. In the last 4 years of your budget, we have an increasing, although not a percent of GDP, but an increasing dollar value of debt each year.

Secretary GEITHNER. True. But, again, this is very important. You know, we are a $14 trillion economy. We are going to grow in nominal terms by 5 percent a year. So you have to measure the debt as a share of the economy. It is not helpful to look at it economically or financially——

Chairman RYAN. Bring up chart 5-1 from analytical perspectives then. I mean, that is what he is saying.

Secretary GEITHNER. It shows you that it stabilizes as a share of the economy in the second half of the decade. Now, as I acknowledged, that is not enough, because if you just did that and went home, then 20, 30 years out, it would start to grow again, and that is the problem.

Mr. RIBBLE. It is a major problem, especially when you pile on 16 percent of outlays on top of Medicare. This becomes just—here we go, practically a crisis problem. And although I realize you are concerned with the 10-year window, my youngest grandson is 6. I am concerned beyond 2022.

Secretary GEITHNER. I am here for the same reason, of course, and I totally agree with you. And I want to make sure you understand, I am not minimizing the long-term problems. I know them better than almost anybody. All I am saying to you is that we budget in 10-year windows. That is our obligation. And we are proposing a balanced budget to meet that simple test, like Simpson-Bowles did in that context.

Mr. RIBBLE. I wish the President accepted Simpson-Bowles, but he didn't, and it was his own commission. And we hear often Simpson-Bowles being brought up, but it was his own commission, and he didn't even accept it.

Actually, I yield back. I am out of time.

Chairman RYAN. We are at Mr. Honda now.

Mr. HONDA. Thank you, Mr. Chairman, and welcome.

On the Simpson-Bowles, I think that one of the principles they laid out when we talk about the Medicare and Medicaid, Social Security, the principle they laid out for us was do not address that on the backs of the vulnerable. And I think that is a principle that the President has been looking at and watching it, and that is the point I think of disagreement that we have here, it seems to me.

Secretary GEITHNER. Can I say something on Simpson-Bowles in that context? I think it is good. A few differences on Simpson-Bowles, Congressman. Simpson-Bowles cuts much deeper on defense than we do and your side would be comfortable with. It has a Social Security package that it was disproportionately weighted to benefit cuts, which gave us some concerns.

But if you look beyond those two differences, and those are important differences, we are very close in broad strategy to Simpson-Bowles. On the tax side, we are very close. We go deeper on discretionary spending, on nondefense discretionary than Simpson-Bowles proposed, and we have a pretty substantial set of Medicare savings, Medicaid savings that are pretty substantial relative to what they proposed in their 10-year window. So we are actually very close on broad strategy to Simpson-Bowles, with those two exceptions. And the proposals we made last April and last September, not just in—they are built on the budget, we show you how close we have come to that basic context.

Where you guys are apart from Simpson-Bowles is on two things. One is you have much higher defense levels than they do, much higher, and you have much lower revenues. And that is the difference. But if we could use that as a foundation for negotiating something, which again we tried over the summer several times, then we would be in a very good position.

Mr. HONDA. Thank you.

Like my friend, Mr. Ribble, perhaps something in writing explaining that, we could probably work with it. There was another comment earlier regarding small businesses, and I think you were attempting to define what small businesses were and also trying to indicate where the 2 percent would be falling. Could you do that, take some time and describe that?

Secretary GEITHNER. Okay. Based on the evidence we all use by the independent arbiters, allowing the Bush tax cuts on what we call the top 2 percent to expire as scheduled would affect 2 to 3 percent of small businesses.

Mr. HONDA. Would you describe that? What kind of businesses are those?

Secretary GEITHNER. And using the definitions that we all adopted to use, that would include businesses that are neither small nor of moderate income nor your typical Main Street hardware store, because in that definition, any individual partner in a law firm or in a hedge fund or private entity fund or a lobbyist is treated as an individual small business. And, yes, if that individual person, partner, makes more than $250,000, we are proposing to raise their effective tax rate.

We do that because we are comfortable, given the experience in the 1990s, that they can handle it. That was a great period for job creation and investment and productivity growth. But we also know if we don't ask them to bear that larger burden, then somebody else will have to do it, and we don't think that would be fair or good for economic growth.

Mr. HONDA. So that population in the small businesses does not even come close to looking like mom-and-pop businesses that we——

Secretary GEITHNER. A tiny fraction of the businesses affected by this would meet that definition of a mom-and-pop store. To be in the definition, they would have to be a mom-and-pop store, employ people, and after expenses, after expenses, earn more than $250,000 a year. Now, I know a lot of people don't think that is a lot of money, but we are proposing to raise—and you have to look at the effective tax rate—a modest increase in their effective tax rate that would restore it basically to where it was in the second half of the 1990s, which, frankly, small businesses would love to have the economy they had in that period of time.

Mr. HONDA. So I think that for the purposes of those that are watching this, that the folks understand the distinction between what you are talking about, small business that I guess would be under the—what is it, S corporations or——

Secretary GEITHNER. Actually, it is businesses formed as partnerships and have pass-through income.

Mr. HONDA. Versus the small business that we usually go to and trade on a corner or with our family businesses or our family restaurants.

Secretary GEITHNER. Those may be structured that way, too. But, again, the point is you have to have income after expenses more than that threshold to be caught by it, and most of those 2 percent of businesses that get caught by that, about 50 percent, maybe slightly higher, make more than $1 million in income after expenses.

Mr. HONDA. Thank you very much. I appreciate that.

Chairman RYAN. Mr. Flores.

Mr. FLORES. Thank you, Mr. Chairman.

Thank you, Secretary Geithner, for joining us today.

I want to continue the line of discussion that my colleague Reid Ribble started. The reason I am here also is I came from a perfectly good job in the private sector, and things were happening here that I thought were going to damage the future of my family. My granddaughter's picture is on the back of my voting card. That reminds me why I am here and that every decision I make not only affects next year, the next 5 years, the next 10 years, but affects her when she is 75. So let's put figure 12 up for a minute if we can.

Now, it is 2065—figure 12, the next one. There we go. And I know you think that these projections are no good. If you wanted to, we could go to figure 3. Either one of them. Directionally they both say the same thing. Do you think the direction is wrong?

Secretary GEITHNER. Well, as I said, even if we stabilize it for the next 10 years, it starts to grow again. Absolutely.

Mr. FLORES. Right. Even what OMB says is that after 2022, we have a problem, that things begin to deteriorate.

Secretary GEITHNER. Absolutely. And I am not saying—I just want to make it clear. I am in violent agreement with you. That does not mean, just the fact that it only starts to grow in the second and third decade, doesn't mean we should wait until then. I totally agree with you.

Mr. FLORES. That is where I am going. So why would a budget be prepared that would kick the can down the road? I mean, let's assume it is 2065 and your granddaughter has just been appointed by the new Republican President to be Secretary of the Treasury. How are you going to tell her to finance this?

Secretary GEITHNER. I hope for her sake she is not.

Mr. FLORES. Well, she saw the light.

Secretary GEITHNER. I think it is worth reminding everybody that we fought a very tough fight, not just to extend health care to tens of millions of Americans, but to lock in reforms that on CBO's measure will take $1 trillion out of those long-term forecasts in the second decade——

Mr. FLORES. But that is already in this number, right?

Secretary GEITHNER. It is. And then we are imposing another 370 on top of that just in the first decade that will grow over time——

Mr. FLORES. That is built in this number, too.

Secretary GEITHNER. But we are making a difference on that, on that process, and if we can find a way to go beyond that, we would be happy to do that.

Our problem is that the way you have laid out to do that, in our judgment, would shift too much of the burden to a middle-income retiree. Now, I am trying to say it in the most gentle way.

Mr. FLORES. Well, let's rephrase it then. You have a clean sheet of paper, and let's say you can't blame anything on me, plus I have only been here 13 months, so how would you fix this? These are your projections.

Secretary GEITHNER. What I would do is—that is a very good question. So what I would do is I would lock in a sustainable outcome for the next decade, and I would do that as quickly as we can. And then I would take the experience we will have at that point and what we are doing to help encourage people to use health care more efficiently—and the debate we are having, and Chairman Ryan deserves enormous credit for this, the debate we are having is what model of how we provide health care to people is best likely to improve how that is used and provided so people use less of the stuff that has less value. That is what we are debating.

Mr. FLORES. Figure 3, please. Well, forget that one for now. Let me go to a different question. What percentage of the total tax load should the top 2 percent pay under the President's definition of fairness?

Secretary GEITHNER. In our judgment, they should pay more than they pay now.

Mr. FLORES. Okay.

Secretary GEITHNER. By the amount we laid out.

Mr. FLORES. So what percentage of total tax revenues is that?

Secretary GEITHNER. Well, I am not sure I can do it that way, but I will say it this way. We are proposing to put over a 10-year period of time an additional $1.5 trillion on the top 2 percent of Americans.

Mr. FLORES. I was able to read that. I just want to know, surely——

Secretary GEITHNER. I will be happy to give you the answer. But I think the basic division we have, and, you know, this is a rich debate we are having, but our judgment is in a system where we have progressive taxation, we think it is fair to have a modest increase in the effective tax rate for the top 2 percent. And the reason why we say this is because if we don't do that, where are we going to find the savings. We have to ask middle class Americans to pay more taxes, which I don't think you want to support, or you have to, as I said, cut defense, cut Medicare, cut infrastructure.

Mr. FLORES. No, I will tell you what my proposal would be. Let's grow the economy. Let's make the Federal Government small and make the private sector large. Even Secretary Bernanke—excuse me, Chairman Bernanke when he was here just last week said if you had to choose to allocate resources between a big government solution or a private sector solution, the private sector is going to get it right. That is the reason I would make a choice any day between a Keystone versus a Solyndra.

My time has expired. Thank you.

Chairman RYAN. Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Mr. Chairman.

Thank you very much, you are doing a great job. I am enjoying just watching actually. I was going to just yield my time to a Republican. It is much more entertaining.

Mr. FLORES. Thank you.

Mr. RYAN OF OHIO. Not that Republican. You know, it is interesting, our friends on saying on the other side, Simpson-Bowles, Simpson-Bowles. We had a vote in this committee and there were some members of this committee who were actually on Simpson-Bowles who voted against it, and we had a vote in this committee that talked about just the structure, not even necessarily the details of Simpson-Bowles, that a lot of the Republicans voted against. And you could not get one Republican on the other side to raise their hand and say, yes, I would be for some tax increase on the wealthiest 2 percent, 1 percent, .5 of the top 1 percent. You could not get one of them to raise their hand——

Secretary GEITHNER. In the House. In the Senate, you got some.

Mr. RYAN OF OHIO. In the House, and say they were for it. Exactly. So that it is the holdup. That is where the compromise would come in. And we are saying——

Chairman RYAN. Would you yield, Mr. Ryan?

Mr. RYAN OF OHIO. I would be happy to yield.

Chairman RYAN. House Democrats voted against Simpson-Bowles as well. The Speaker of the House at the time opposed Simpson-Bowles, your leader.

Mr. RYAN OF OHIO. I understand.

Chairman RYAN. And many of us put out alternatives in place of it.

Mr. RYAN OF OHIO. I agree with you, Mr. Chairman, but I am not the one sitting here blaming the administration for not adopting Simpson-Bowles. I voted for that amendment that was in the committee. It was me and Heath Shuler were the only two. I remember exactly. And so the point is that those accusations being made against the administration when there are very members of this committee who had voted against Simpson-Bowles and then turn around and blame the administration for not adopting Simpson-Bowles, and the reason is because we can't get a Republican to say they would raise taxes on Warren Buffett. That is the bottom line. That is what this all comes down it.

And, you know, it is interesting, we have this debate every time we have a major Cabinet official, we have got all this nostalgia for Ronald Reagan. So I had to do a little homework here. Tax Equity and Fiscal Response Act of 1982, tax increase by Ronald Reagan; Highway Revenue Act of 1982, tax increase by Ronald Reagan; Social Security Administration of 1983, tax increase by Ronald Reagan; Deficit Reduction Act of 1984, tax increase by Ronald Reagan; Consolidated Omnibus Budget Reconciliation Act of 1985, tax increase by Ronald Reagan; Omnibus Budget Reconciliation Act of 1985, tax increase; Superfund amendments, tax increase; a CR in 87, tax increase; omnibus Budget Reconciliation Act 1987, tax increase; continuing resolution of 1988, tax increase by Ronald Reagan. Which we now look back and say that was a fairly responsible thing to do.

And to think of this man, who they put the candles up and they burn the incense and have the big picture of Ronald Reagan, to think of him running in a Republican primary today, he would be behind Ron Paul—he would probably be out of the race right now. I mean, we got to think about this when we are talking about how we are all going to sit down and figure this out. And I think everybody is willing to make tough decisions.

I think anybody that has been watching this recognizes that the Speaker and the President had some semblance of a deal that couldn't get passed an ideology. And nobody here wants to sit here and say we need to raise taxes. But for God's sake, if we can't at least ask Warren Buffett so we can continue to invest in infrastructure, Pell grants, the kinds of things that are going to lead to long-term investments.

I have one or two questions, very briefly. When you say the tax rate may go up on someone who makes over $250,000, is it for every dollar they make after $250,000, or it is for the entire thing?

Secretary GEITHNER. No, it is just for the margin you earn above that late.

Mr. RYAN OF OHIO. So the first $250,000 would be taxed at the current rate, and everything after your first $250,000 would be taxed at the higher rate.

Secretary GEITHNER. That is right. It is called a change in the marginal tax rate.

Mr. RYAN OF OHIO. A change in the marginal tax rate. And so what does that mean for someone who makes $250,000 a year, or say they make $300,000 or $350,000 a year. What would it mean as far as an increase goes?

Secretary GEITHNER. It is a very, very small increase.

Mr. RYAN OF OHIO. Hundreds of dollars? Thousands of dollars?

Secretary GEITHNER. I don't know. I would be happy—I can't do the math in my head, but it could be $1,000. But it is modest, and you are making the point well.

Mr. RYAN OF OHIO. So someone who made $350,000 next year, in 2013 or 2014, would pay an additional say $500 to $1,000, depending on how much they made more than $250,000. They would pay an extra $500 or 1,000 bucks, as our country, as we see from all these charts, we are all worried about our kids and grandkids and nieces and nephews. We are all concerned. We all have pictures of them in our office. No one has the high ground on that. It is how do we fix it. And we are saying to ask these folks to maybe pitch in an extra $500 or $1,000 when they make $300,000 or $400,000 a year is a small price to pay.

Chairman RYAN. Thank you.

Mr. MULVANEY.

Mr. MULVANEY. Mr. Chairman.

At the outset, I would like to yield 15 seconds to my colleague from Texas, Mr. Flores.

Mr. FLORES. Thank you, Mr. Mulvaney.

Secretary Geithner, I do want to follow up on your offer. Would you please send me a response to my question about what percentage the top 2 percent will pay of the total taxes under your formula?

Secretary GEITHNER. Sure. Absolutely.

Mr. FLORES. Thank you. I yield back.

Mr. MULVANEY. Thank you, Mr. Chairman.

Secretary Geithner, it is always good to see you. I am going to go a different direction and ask you on something that I don't believe you have been asked today. I want to talk about a global minimum tax, which is a concept that has been raised just recently for I believe the first time. It was earlier this week when the director of the White House National Economic Council, Gene Sperling, said, and I am quoting now, that we need a global minimum tax so that people have the assurance that nobody is escaping doing their fair share as part of a race to the bottom.

And then yesterday I believe in Milwaukee the President said something similar but not exactly the same when he said that from now on, every multinational company should have to pay a basic minimum tax and every penny should go toward lowering taxes for companies that choose to stay and hire in the United States of America.

This is a concept that is new to me, and I am curious as to whether or not you can shed any light as to what they are talking about, what you are seeking to accomplish, how it would work, just generally what is this global minimum tax we are starting to hear about?

Secretary GEITHNER. Not as new as you think, because when Chairman Camp laid out his proposals for corporate tax reform last fall, I think, he proposed a global minimum tax to try to achieve the same objective, to make sure that people can't take advantage of tax havens just to shift income and investment and avoid paying their fair share. So it is a principle that many countries have embraced, and I think Chairman Camp recognized it in that context.

The challenge is in trying to design it and set it at a level that is consistent with the other objectives we have, which is try to make sure that American companies are competitive and we are improving investment incentives here in the United States. And as I said, I think before you came in, we are going to outline to the Congress in the next couple weeks a broad framework for comprehensive corporate tax reform, and in that context, we will give you a broader rationale for what we think the right balance is.

Mr. MULVANEY. Let me tell you what concerns me, because I went to—there was a reference in one of the publications that I read this week to an America built to last, which is a document the President and the administration put out right around the time of the State of the Union, and one section actually speaks to this same topic and calls upon us to remove tax incentives to locate overseas through an international minimum tax, and says the President is proposing to eliminate tax incentives to ship jobs offshore by ensuring that all American companies pay a minimum tax on their overseas profits, and this is the part that got my attention, preventing other companies from attracting American business through a unusually low tax rates.

How would you propose do that?

Secretary GEITHNER. Well, again, you are giving me a little bit more credit for the idea than we deserve in some sense, because Chairman Camp proposed a similar strategy. What we are both trying to do——

Mr. MULVANEY. I will be happy to ask Chairman Camp how he would propose to do it, but right now I am asking you, how would you propose it?

Secretary GEITHNER. We are going to give you a little more detail in the next couple weeks on the framework, and we can talk about it in fuller detail then. Because what you want to do is look at the overall mix of a reduction in the overall corporate tax rate, broadening the base and other types of reforms in this context. But our common challenges, and we have the same challenge, and this is an American challenge, not a Republican or Democrat challenge, is that we have a tax system now which at the margin, encourages people to shift investment income to lower tax jurisdictions, and we would like to have a tax system that improves the incentives for investing in the United States.

It is a hard thing to do, particularly if you are trying to do in a way that is fiscally responsible. But that is why we are talking about a broad rate lowering, base-broadening corporate tax reform, with safeguards to prevent people from shifting income and investment overseas.

Mr. MULVANEY. And you are not the first member of the administration to say those words in the 13 months that I have been here; get rid of loopholes, broaden the base, simplify the Tax Code. And it is music to my ears.

Secretary GEITHNER. Why have we waited so long, as you say?

Mr. MULVANEY. Why isn't it in this year's budget?

Secretary GEITHNER. Well, as your colleagues know, because on the tax writing committee, we talked about this in some detail in the spring, is we put together a pretty comprehensive plan, but, you know, we had to spend a lot of time trying to talk some of your colleagues out of defaulting on the country, on the government. And we lost a little time in that context. The supercommittee wanted to take a run at it. The supercommittee wanted to take a run at it. We gave them a bit of time.

Mr. MULVANEY. Reclaiming my time, Mr. Secretary, listen, I am mildly encouraged by your answer because I was fully expecting you to blame President Bush for it. So I am glad it is my fault.

Secretary GEITHNER. No, no, no, I am not saying that. We have a limited amount of time.

Mr. MULVANEY. My concern is with this rationale, if we are starting to talk about preventing other countries from attracting American businesses through unusually low tax rates, that philosophy concerns me because that same philosophy could be applied domestically as well as internationally. And I live in a State that works very hard to lure business to South Carolina with a favorable tax environment, and I would be very concerned if this administration starts using this language, not only internationally but domestically as well.

Secretary GEITHNER. I can assure you there is no risk of that.

Chairman RYAN. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman.

Mr. Chairman, first of all, I want it associate myself with the remarks of my colleague from Florida, Ms. Castor, related to taxpayer identity theft and the resources Treasury expends in pursuing that. We have the worst problem in the country in Florida. I can't tell you the exponential increase in calls from constituents to my office. A lot of our casework now is helping constituents comb through the morass of having to untangle the identity theft impact on their lives. So it is really important.

Secretary GEITHNER. I couldn't agree with you more, and again, we are happy to spend some time walking you through what the IRS thinks which can do and what more we might need more in terms of authority.

Ms. WASSERMAN SCHULTZ. Specifically, though, and I had a chance to talk to Mr. Zients about this as well, but I was glad to hear some of our colleagues on the other side of the aisle in reference to their grandchildren and the concern that that they have about the long-term impact of deficits on their grandchildren's lives, because that to me means there is an opening for them to oppose the extension of the 2001 and 2003 Bush tax cuts for the wealthiest, most fortunate Americans, which adds $700 billion to the deficit. So hopefully, the Members that have made those references will go back and take a hard look at their own records, because they have certainly been participants, willing, very enthusiastic participants, of adding to the deficit in recent months.

But my question of Mr. Zients yesterday, and I want to ask you to proffer your opinion, is in terms of the balance that the President proposed in his budget in dealing with the deficit short term and long term, that there is a cut side of the ledger and a revenue side of the ledger. The economic experts, the folks who have testified here, have all cautioned about the potential for short-circuiting recovery that we are on, the 23 straight months of private sector job growth. So can you talk about the balance that the President took in proposing the budget the way he did and, in the alternative, the way we have heard others propose that we should essentially get to deficit reduction purely through cuts.

Secretary GEITHNER. Okay, two really important questions in this context, which is can you do fiscal consolidation responsibly without doing anything for growth in the short term and without a balanced package that includes revenue? And our judgment is no. And the reason why we feel that way is, of course, we have an economy still healing from the financial crisis. Growth is not strong enough to bring the unemployment rate down as fast as we think is fair to the American people. And that is why we proposed, like we did in the payroll tax cut and as we proposed in the last 3 years, a series of targeted measures to help job creation right now.

Now, you have to do those in a way that is responsible. You have to make sure you pay for them. And you want to make sure they are tied to long-term reforms so people have more confidence we are going to go back to living within our means. So that is why we proposed the combination of near-term things for growth today married with long-term reforms to reduce our long-term deficits.

The second key test for growth, although we seem to disagree on this, is, should you do it with a balanced package, modest revenues, more spending cuts, or a spending cut-only approach?

Ms. WASSERMAN SCHULTZ. And the ratio of spending cuts to revenues is $2.50——

Secretary GEITHNER. It is two and half to one, depending on how you measure it; some say three to one. If you do it with no revenues though, you have to ask yourself, if you are going to achieve the same deficit targets, and, again, your side wants to go much deeper on the deficits, so you make the problem much greater. Then you have to cut spending much more deeply and you will find it very hard to find $1.5 trillion to $1.9 trillion in spending cuts from defense, from Medicare, from low-income programs, from infrastructure. And even if you try to do it, you will probably do a lot of damage to the economy.

Ms. WASSERMAN SCHULTZ. Just in my final 45 seconds, as we have heard especially the reverence to Ronald Reagan and his approach to deficit reduction and addressing economic recessions, I want to quote him in 1985: We are going to close the unproductive tax loopholes that have allowed some of the truly wealthy to avoid paying their fair share. In theory, some of those loopholes were understandable, but in practice, they sometimes made it possible for millionaires to pay nothing while a bus driver was paying 10 percent of his salary, and that is crazy. It is time we stopped it.

I couldn't have said if better myself, and I yield back the balance of my time.

Chairman RYAN. I will take the 10 seconds to simply say he was selling tax reform at that time; Presidential leadership, saying lower rates broaden base. Precisely what we would love to see.

Mr. VAN HOLLEN. Mr. Chairman, if I could just take 5 seconds, as part of it, I think we should remember that some the adjustments he made was to tax capital gains and dividends at the 28 percent level, the same rate that the bugs driver was paying there. In other words, he wasn't showing preference to hedge fund owners and others. He said everybody needs to be treated equally. So I would be interested to hear if that is one of the——

Chairman RYAN. That is below 35 percent.

Mr. VAN HOLLEN. Well, it is a 28 percent level versus 15 percent for the hedge fund guys today.

Chairman RYAN. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman.

I appreciate the questions and the discussion of balance. I had a question I asked of the administration representative yesterday and tried to get an answer. But defining balance is spending that is less than or equal to revenue. Again, about 99 percent of Americans would probably agree with that. When does the Obama budget balance?

Secretary GEITHNER. It doesn't balance in the next 10 years, which is the only thing we project in that context. I think in the Republican budget——

Mr. HUELSKAMP. Does it balance in the next 20 years?

Secretary GEITHNER. Well, in the Republican budget, it balances in 2037. We probably balance——

Mr. HUELSKAMP. Does it balance in the next 55 years?

Secretary GEITHNER. Well, it sort of depends on what choices the Congress makes. But, again, what we do——

Mr. HUELSKAMP. In your budget, when does it balance?

Secretary GEITHNER. We only forecast for 10 years. But you are right, we don't achieve balance in 10 years, and we don't know how to do that, just like you guys don't.

Mr. HUELSKAMP. The answer is never does it balance. I just like you to—he probably wouldn't say that word.

But one thing I want to talk about though is a lot of times we hear a lot of information from you, Mr. Secretary, about what it is going to do to the economy if we do the following initiatives or if we don't. And tomorrow will be the third anniversary of what you and the administration projected would be the economic salvation of this country; that would be the passage of the stimulus package. I wonder if we could part a chart up to see the what the results have been from that package.

If you look at that chart, and, again, this is the prediction from your office, from your President, of what would happen if we passed the stimulus package. Again, the third anniversary is tomorrow. And you find out that it didn't work, Mr. Secretary. You were wrong. I am still visiting here.

You find out the end here, and these are just numbers, but when you get to the end, you see we have an Obama jobs deficit of 5.4 million Americans; 5.4 million Americans without a job, based on your economic theory. Look at that unemployment rate. We were promised at this time, we would be almost 6 percent unemployment. We are well above that. Again, the Obama jobs deficit is 5.4 million jobs.

And I know you have many proposals in the budget that hopefully would tackle the jobs deficit that has been created by I think bad economic policy.

But can you tell me which tax increases that you are proposing, which tax increases will help eliminate the Obama jobs deficit, which ones will create new jobs for Americans?

Secretary GEITHNER. Let me just start by referring you to CBO's analysis or the Republican economist, who was John McCain's economic adviser's analysis of the economic impact of the Recovery Act, and they both agree that the Recovery Act helped substantially in restoring growth to the economy and saved millions of jobs.

Mr. HUELSKAMP. Mr. Secretary, my question is about tax increases. These are your numbers. They are not mine. I was not up here. And we can blame everybody in this room, but there are a few freshmen like me who weren't here. So can you explain which tax increases will close the Obama jobs gap? We were promised an additional 5.4 million jobs that didn't appear. Can you describe again which tax increases will help—out of your $1.9 trillion of tax increases, which one will put 5.4 million Americans back to work?

Secretary GEITHNER. I want to first dispel you of the illusions in your presentation.

Mr. HUELSKAMP. Mr. Secretary, this is your number. Not mine. This is your number.

Chairman RYAN. If the gentleman will yield, it is the Roemer and Bernstein presentation, so it came from the administration.

Secretary GEITHNER. It is not really the right question. The right question is did the Recovery Act——

Mr. HUELSKAMP. I will ask the correct question. Mr. Secretary, these are your numbers. And the numbers in your budget are based on a similar philosophy, the President's tax increase will create new jobs.

Secretary GEITHNER. The budget contains a comprehensive and balanced set of reforms, both spending and tax reforms, combined with investments that in our judgment, and you can ask CBO to judge it, whether it would be good for growth or not, and we are very confident it will be good for growth.

Mr. HUELSKAMP. And honestly, I hope you are right, but you are 5.4 million jobs wrong. And you have been wrong again and again and again. And for this room, it is about numbers. For people in America, it is about real jobs for their families.

Secretary GEITHNER. I would say an adolescent perspective on how to think about the impact of economic policy. The right question is——

Mr. HUELSKAMP. Mr. Secretary, let me tell you a quick story for someone that has actually been in the private sector and actually helped create jobs, which I know that is not your background. You have never started a business, as I understand.

Joe in Junction City said if the President raises the capital gains tax, let me tell you, there is seven people in Junction City, Kansas, that he won't hire because of your tax increases. And you can say, well, that is not really what is going to happen. But you tell Joe in Junction City that, no, really, we are going to create jobs by raising taxes. It didn't work in your stimulus package, and I don't think it is going to work again.

So thank you, I yield back my time.

Chairman RYAN. Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman. Thank you, Mr. Secretary. Can we go back to figure 8, please? I guess not. Figure 12.

Secretary GEITHNER. You can start. I will catch up to you.

Mr. ROKITA. I just want to understand, and this has been alluded to a few times. Figure 8 is fine. These are the numbers we projected from our budget last year, and it is in contrast to what would happen if we did nothing. So you see, as you mentioned earlier, with the baby boomers retiring at 10,000 per day, what happens?

Then we go to figure 12, please. And that is your chart, I believe. And it correctly indicates the plateau that you talk about within the 10-year budget window, or you claim to stabilize the-debt-to-GDP ratio. But you see a similar tidal wave after that.

Now, from that I take that you and the administration are prioritizing a constituency in the here and now. Republicans, Democrats, Americans in the here and now, whoever they are, that can vote for you, vote to reelect you, vote to reelect or punish all of us now at the expense of a constituency that will never reward any of us.

Secretary GEITHNER. No, I don't agree with that.

Mr. ROKITA. That will never reward any of us. Because why? Because whether they are Democrats or Republicans, they don't exist yet. They are the children of tomorrow. They are the children of my two boys.

You don't agree with that. Go ahead.

Secretary GEITHNER. I don't agree with that.

Mr. ROKITA. How so?

Secretary GEITHNER. If you can go back to figure 8.

Mr. ROKITA. Go back to figure 8.

Secretary GEITHNER. What is interesting about that chart is, again, once you get past the next 10 years and you get to the deepest fog of uncertainty about the decades beyond that, is why does your green path—you call it path to prosperity—why does that decline?

And the reason why it declines—and, Mr. Chairman, I apologize for saying it this way, but I think it is true—is that you guys propose to take hundreds and hundreds and hundreds of billions of dollars out of low-income and middle-class retirement programs. And that is why you get that number down.

Now, the reason why we are having this debate is because we don't think that is the fair, right way to do it. Now, you all are invoking your children, which of course I respect. I have children, too. And I spent my life in public service. And I am in this job because I care so much about the basic economic future of the country. We share that basic obligation.

I would just make the suggestion that, as President Reagan recognized and I think most Presidents have had to confront, you cannot govern a country if you commit never to raise taxes on anybody, because things change, wars happen, crises happen, and millions of Americans are retiring.

Mr. ROKITA. If that is the case, reclaiming my time, thank you, Mr. Secretary, if that is the case, what is the proper amount for a Federal Government to confiscate from its people in order to run its operations?

Secretary GEITHNER. Well, in our budget—that is a good question, although I wouldn't use that word——

Mr. ROKITA. Well, no, you are confiscating property. You are confiscating the work and the money of individual citizens to run your operations. And if the current level is not accurate, is not appropriate, what is appropriate if it is arbitrary, what is the appropriate amount for a Federal Government to confiscate from its own people in order to run itself?

Secretary GEITHNER. Can I just ask this question? Do you think a tax to pay for the defense budget——

Mr. ROKITA. Reclaiming my time. This is a simple question. If we are wrong and we are not taking enough, what is the proper amount to take?

Secretary GEITHNER. Okay. In our question, since you are not using "confiscation" again, in our budget——

Mr. ROKITA. What amount is it proper to confiscate?

Secretary GEITHNER. In our budget, if you were to adopt it, revenues would rise to slightly more than 20 percent of GDP by the end of the decade, which is lower than the revenue forecast implied from the policies in the Simpson-Bowles plan for which many of you have showed so much affection.

Mr. ROKITA. Okay. So about a fifth of the GDP is appropriate?

Secretary GEITHNER. Slightly higher than the historic average, but lower than what Simpson-Bowles proposed.

Mr. ROKITA. But right now we are a little bit below average, but historically it has been about 18 to 20 percent?

Secretary GEITHNER. Yes.

Mr. ROKITA. So it is not a revenue problem historically that we have; it is a spending problem, if you agree with that figure or if you agree with your own figure, figure 12?

Secretary GEITHNER. Well, we propose to reduce spending to about 22 percent of GDP, a little higher than 22 percent of GDP. And the reason why it is that high is because Americans are retiring. So we can't suspend the reality of people retiring, because we give people retirement security and health care security in Medicare and Social Security, that causes those spending levels to rise.

Mr. ROKITA. Thank you. I yield back.

Chairman RYAN. Mr. Lankford.

Mr. LANKFORD. I do agree with you, by the way. This is a long-look issue. We have a lot of people retiring right now. We do have to make sure the safety net is there, we do have to make sure Medicare is there, we have to make sure Social Security is there.

A lot of the issues that we face are budget issues based on population right now. We get that. So this cannot be some immediate, we are going to solve it tomorrow. My concern is, and we talked about this some last year, the term "primary balance" and "sustainable debts and deficits" gives the clear impression we will never balance, and we never plan to pay down principal, ever. And I understand the process of buying bonds and bills and all that, so I understand it is not like a mortgage.

But there is some concern to say if the whole focus of the administration is let's try to get us to a spot that we can handle this, we are never planning to ever pay down principal, ever. Is there something inherently bad about balancing the budget?

Secretary GEITHNER. That is not quite fair, again, because if you get the deficit, as we propose to, below 3 percent of GDP, and you hold it there, then you do start to bring the level of debt down as a share of the economy.

Mr. LANKFORD. No, no. Real dollars is what I am talking about. I understand you are mixing the numbers there. You are trying to get below the 3 percent of GDP. I am talking about real dollars. Is it wrong to ever actually balance the budget? Should that be a goal to balance the budget?

Secretary GEITHNER. I don't think I would say—it is maybe not the ultimate way to think about an ultimate objective. I guess I would say that you got to start—you are starting from somewhere now. And it is hard to imagine governing a country—I mean, just think about World War II, not to imagine the average recession.

Mr. LANKFORD. That is an anomaly, obviously. Dealing with World War II and a recession.

Secretary GEITHNER. These wars are pretty expensive, too.

Mr. LANKFORD. I am asking even at a point in the future, is it an idea to say this should be our goal as a Federal Government to balance our budget?

Secretary GEITHNER. Well, again, over the long run I would not try to talk you out of having an objective to try to get to balance. I wouldn't try and talk you out of that. But it is all in how you get there and, frankly, how much flexibility you leave the Chief Executive and the Congress to deal with the unanticipated war or recession or a huge demographic boom.

Mr. LANKFORD. I understand. So—never mind. Let me ask about a couple of things that just came up there that I am not sure we have addressed. One of the things that has come up is about the energy taxes that are in here and the shift on that. Can you be more specific, because it is fairly vague on it as far as where that target is, this $40 billion.

Secretary GEITHNER. Well, we are pretty specific in the budget in a series of tax reforms—the energy sector, which would reduce and remove a fair amount of expensive subsidies.

Mr. LANKFORD. So give me a specific type. There are eight major—for instance, on the traditional fuels, there are eight major tax pieces that are there. Which pieces would you eliminate?

Secretary GEITHNER. Do you want me to read you from the budget right now?

Mr. LANKFORD. No. Just give me the big ones. Like intangible drilling costs, for instance.

Secretary GEITHNER. I think it is better for me to do it in writing for you. I can't pull it out for you right now. But maybe I could explain why we are doing it, if that helps.

Mr. LANKFORD. No. Let me ask why, and some of it is a concern for me on—because the President was very clear, and I was glad he was, during the State of the Union Address, saying we need to be in all the above energy, we need to be in domestic energy. He talked about how we have this increase in production, which is a good thing for us as a State. Here is the concern. If we now say, great, that is good, we are getting more production, let's tax that more, do we get less of that or do we get more of that as we tax?

Secretary GEITHNER. Good question and a helpful way to think about it. We are in the middle of, and we are very competent we are going to see a huge expansion in energy production in this country, oil and natural gas, that is going to come for a long period of time. We want to see a substantial expansion on renewables, and we also want to see the country use energy more efficiently for obvious reasons. Now, the effective tax rate paid by the energy industry today is in the high teens.

Mr. LANKFORD. Right. And because of that, we have huge production coming on line because it is so capital-intensive.

Secretary GEITHNER. Well, I don't think I agree about the economics of it. But again, it is true we are proposing to increase the effective tax rate so we are closer to the average everybody else pays, because we don't think there is a compelling case for that generous a subsidy to the energy industry, so we are proposing to dial it back. But I don't think there is any risk that is going to get in the way of the huge boomer in the midst of energy exploration and production in the United States.

Mr. LANKFORD. I would disagree with you on that only because it is incredibly capital-intensive and because most productions are coming from smaller producers. It is not coming from your larger—I mean, your larger companies, like your Exxons and such, are different than the bulk of the production that is done nationwide from very small companies, 12 to 40 people in a lot of these companies. And this very capital-intensive focus, they have to have that, and their model is built on that. If that goes away, then so does that production.

Secretary GEITHNER. Even with these changes, and I would be happy to talk in more detail about this, even with these changes, the economics of a debt-financed or a mixed-equity-financed investment in a capital industry will be pretty favorable still in energy, really quite favorable in energy. And that is favorable today.

Mr. LANKFORD. I understand. That is just a tough gamble when we are finally starting to get on top of it. I yield back.

Chairman RYAN. Nine minutes off.

Secretary GEITHNER. How are we doing?

Chairman RYAN. We are done.

Secretary GEITHNER. Do you want to keep going?

Chairman RYAN. But we said we would try to get you out of here at 4:30. It is 4:39.

Let me just close, saying we just see things differently and we will just have to agree to disagree on a lot of these things and we will have you come back another time. Thanks for taking the time.

Secretary GEITHNER. Can I just say one final word, just one final word?

Chairman RYAN. This could go on for a while. Okay. Go ahead.

Secretary GEITHNER. I think you could embrace it. Which is, if you listen carefully to the debate, as I know you do, and you look at how much Democrats have moved on Medicare and Medicaid and other mandatory, to date it exceeds the amount of movement you have shown on revenues for the high end. So if you can come a little closer, we can get a little closer, but we are not there yet.

Chairman RYAN. Backroom deals are not what the American public are looking for. They are looking for budgets that show the country what we believe in. They are looking for us to lead, to govern, to propose ideas and then to get things done. That is what we are trying to do.

Our friends in the Senate aren't even trying. You are trying. You put a budget out. That is the law and you did that. But your descriptions of your budget we just take issue with. I think we can have a better economy through broad-based low-rate tax reform. I think you agree with that. And you can get a higher share of taxes from higher earners with a better tax system that doesn't compromise growth.

Secretary GEITHNER. Not without a modest increase in effective tax rate. But we will get there, I am sure we will.

Chairman RYAN. You really, really want to have that last word. I am just not going to let you have it. This hearing is adjourned.

[Questions submitted for the record and the response follows:]

QUESTIONS SUBMITTED FOR THE RECORD BY HON. TODD ROKITA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Secretary Geithner, as the European financial crisis continues to unfold, American taxpayers rightfully continue to be concerned about their exposure to a default by any one of the EU members. As the largest contributor to the International Monetary Fund with quota contributions totaling $65 billion, the United States provides an additional line of credit to the IMF—known as the New Arrangements to Borrow (NAB) which totals $100 billion. Our understanding is approximately $9 billion in additional NAB funds have already been tapped for Portugal and Ireland bailouts—countries that have debt to GDP ratios of 93.36 and 92.5 percent (less than the US debt to GDP ratio I might add).

1. Would you clarify what is the exact exposure to taxpayers? Secretary Geithner, this question is important particularly since these bailouts are going to countries that don't even meet their own requirements for membership in the EU, the bailouts are well above the quotas submitted by the members, and the IMF doesn't have enough resources to continue bailing out countries at their current pace.

2. In 2010, the Board of Governors agreed to require members to double their quota contributions. This means the United States would owe an additional $65 billion. As you know, Congress must approve this request. When do you plan to make it. What kind of assurances do we have that our future participation in these bailout packages are not just allowing countries "to kick the can down the road" so to speak.

RESPONSE TO MR. ROKITA'S QUESTIONS SUBMITTED FOR THE RECORD

As the European financial crisis continues to unfold, American taxpayers rightfully continue to be concerned about their exposure to a default by any one of the EU members. As the largest contributor to the International Monetary Fund with quota contributions totaling $65 billion, the United States provides an additional line of credit to the IMF—known as the New Arrangements to Borrow (NAB) which totals $100 billion. Our understanding is approximately $9 billion in additional NAB funds have already been tapped for Portugal and Ireland bailouts—countries that have debt to GDP ratios of 93.36 and 92.5 percent (less than the US debt to GDP ratio I might add).

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When the IMF draws on U.S. resources, the United States' relationship is with the IMF—not the borrowing countries. U.S. transactions with the IMF involve an exchange of assets, and when the IMF draws on U.S. resources, the United States receives an equivalent increase in interest-bearing assets in our international reserves. The IMF has a solid balance sheet, large reserves, and de facto preferred creditor status, which is recognized by its European members.

As of April 30, 2012, the United States had contributed $23.2 billion to total IMF loans outstanding through quota resources and $10.9 billion through the NAB.

2. In 2010, the Board of Governors agreed to require members to double their quota contributions. This means the United States would owe an additional $65 billion. As you know, Congress must approve this request. When do you plan to make it. What kind of assurances do we have that our future participation in these bailout packages are not just allowing countries "to kick the can down the road" so to speak.

We have not yet decided when we will submit a request for the necessary legislation.

When the IMF lends, it does so subject to appropriate conditions and with safeguards to assure it is repaid. Countries first and foremost bear the burden of adjustment. But the IMF can promote more orderly adjustment by offering financing to support economic reforms, thereby providing some breathing space to countries in overcoming their problems in ways that are less disruptive.

America's economic growth and job creation benefit substantially from continued recovery in Europe and stable international financial markets. The IMF's engagement alongside the European Union to help restore macroeconomic and financial stability is in the best interests of the United States.

[Whereupon, at 4:40 p.m., the committee was adjourned.]

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