# THE PRESIDENT'S FISCAL YEAR 2009 BUDGET

## HEARING

BEFORE THE

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

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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# THE PRESIDENT'S FISCAL YEAR 2009 BUDGET

**THURSDAY, FEBRUARY 7, 2008**

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

The Committee met, pursuant to notice, at 9:35 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

# *ADVISORY*

## FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 31, 2008
FC–18

CONTACT: (202) 225–5522

# Chairman Rangel Announces a Hearing on the President's Fiscal Year 2009 Budget with U.S. Department of the Treasury Secretary Henry Paulson

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2009. **The hearing will take place on Thursday, February 7, 2008, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be limited to the invited witness, the Honorable Henry M. Paulson, Jr., Secretary of the Treasury. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

## FOCUS OF THE HEARING:

On February 4, 2008, President George W. Bush will submit his fiscal year 2009 budget to Congress. The budget will detail his tax proposals for the coming year, as well as the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Rangel said, **"I have enjoyed working with Secretary Paulson during his tenure as Treasury Secretary and look forward to hearing from him before the Committee as he presents the President's budget. This year's budget will be released at a time of growing concern about the economy. It will be very helpful for us to hear from the Administration's top economic policy official as we seek further ways for Democrats and Republicans to work together to find solutions to the issues facing American families."**

## DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

**Please Note:** Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, email and ***ATTACH*** your submission as a Word or WordPerfect document to the email address provided, in compliance with the formatting requirements listed below, by close of business **Thursday, February 21, 2008**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

**FORMATTING REQUIREMENTS:**

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

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

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

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

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

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

Chairman RANGEL. The Committee will come to order. We ask our guests to please take their seats. Of course, we welcome our distinguished Secretary of Treasury, Hank Paulson. First, we have had meetings where we all have agreed that you have made an outstanding contribution to attempting to bring a sense of bipartisanship between at least the House and the Administration—the President, that is—and we assume that you have done the same with the other body, but we will wait until we see how their votes come on this package before we overextend our congratulations to your efforts.

We are a little disappointed—at least the majority side—that this budget has come to us without some type of an attempt to see what we could have worked out in the last year of this Administration, as opposed to a budget that really politically does not make any sense. Most all of the revenue saving provisions, especially as it relates to health provisions, have been rejected by the Congress.

The idea that we would have in this budget an extension of the President's tax cuts of 2001 and 2003, and the underfunding—at least the reporting of the underfunding—of the war provisions not being there, as though the war is going to stop, the whole idea that for 7 years we have not discussed tax reform at all—even though, in my projected tax bill, which is merely a talking point for the Administration—we bent over backward to bring corporate relief, because we know that any loophole closings we have, without bipartisan support, they are going to be listed as tax raises.

Of course, what is most befuddling to me is how you handle the alternative minimum tax. You know, that is not the Congress's fault. That is our government's fault, that 23 million, 24 million people will have this burden moved off every year, temporarily, and continued additional expenses of billions of dollars, without just getting rid of the darn thing, especially after 8 years, that you include the revenues in the future in the budget, as though you never intend to get rid of it, and yet the rhetoric is that it's just unfair for it to be here.

So, I don't mean to be offensive, but I kind of think this budget is a political statement, and that Congress has got to work and try desperately hard to see how we raise money to pay for provisions that neither Republicans or Democrats are prepared to accept, as relates to the cuts in programs that we think are essential to our constituents, and therefore, the country.

I suspect that the die is cast, and that there is very little wiggle room for us to move away from your so-called balanced budget. But I'd like to believe that, to the best that we can in this election year, that we continue to enjoy your cooperation, and attempt to avoid confrontation where it does not help us as a Congress, it does not help this Committee.

Quite frankly, I don't think it helps our candidates, Republicans or Democrats, for President when this is the President's last year. I know the dedication that you have given to the Administration, and what you have given up as a sacrifice, that we do hope that, after we get past this, that we can find some way to get back on track with the outstanding working relationship that we have enjoyed with you.

I would like to yield to Mr. McCrery, who, without his support, I could not have enjoyed this working relationship with your office. Mr. McCrery?

Mr. MCCRERY. Thank you, Mr. Chairman. Welcome, Mr. Secretary. It's nice to have you with us today. I look forward to your remarks. I particularly look forward to hearing your comments on the state of the economy, and how Congress can respond, in the short term, to the real challenges facing our economy.

Tuesday's sharp drop in the Institute for Supply Management Index suggests real challenges in the months to come.

Thank you, Mr. Secretary, for your work with Speaker Pelosi and Leader Boehner on crafting a stimulus package that we hope Congress will act on quickly. I believe the incentives to business to increase their purchases through bonus appreciation will be a real shot in the arm for our weakening economy, and the other provisions, I believe, will also be helpful.

Our short-term economic challenges shouldn't completely obscure the need, though, to pursue pro-growth policies that will pay dividends for our economy in the future. I, therefore, applaud you and the President for your long-term focus on economic growth and job creation, and your recognition that preventing a looming tax increase is critical to that effort.

If we learned anything in 2007, it was that the majority's allegiance to PayGo, as it's currently constructed, demonstrated in their budget proposals, and in the Chairman's own tax reform proposal, and in the December debate over the AMT patch has, unfortunately, set the cruise control for a $3.6 trillion tax increase over the next decade.

Unless we tap the brakes and shirk the yoke of this particular PayGo, the issue for Congress next year won't be whether revenues as a share of GDP will climb. The issue will be whether the revenues will come from higher marginal rates, a return of the marriage penalty, higher taxes on capital gains and dividends, smaller child tax credits, or whether the Congress will find some other taxes to raise, instead.

It is true that we could avoid those tax increases by passing spending cuts. I would encourage my colleagues on this Committee to begin thinking seriously about using our jurisdiction to start the ball rolling on meaningful entitlement reform, which will create savings. To that point, I applaud the President for highlighting the fact that our entitlement system is in desperate need for reform. Only an ostrich with the longest neck could continue to ignore the fact that Medicare, Medicaid, and Social Security, if left unchecked, will impose massive costs on future generations of Americans.

Congress must make some difficult choices on entitlement programs. This budget asks us to begin to meet those challenges. I hope the Congress takes the gravity of this situation to heart.

Mr. Chairman, I thank you for your continued cooperation and working with me and the Members of the minority on this Committee to develop issues before our Committee's jurisdiction. I am hopeful that we will have another fruitful year.

Chairman RANGEL. Well, I am certain the Secretary will be doing the best that he can to see that we do the best that we can.

We recognize that you have a time limitation, so I will ask the Members to keep the record open for any opening statement that they would want to have included. That would give you the maximum time after the Secretary's statement to inquire.

Mr. Secretary, welcome once again to our Committee.

## STATEMENT OF THE HONORABLE HENRY PAULSON, SECRETARY OF THE TREASURY, UNITED STATES DEPARTMENT OF THE TREASURY

Secretary PAULSON. Mr. Chairman, Congressman McCrery, Members of the Committee, I will also keep my remarks quite brief. I am pleased to be here this morning to discuss the President's budget for fiscal year 2009.

My highest priority is a strong U.S. economy that will benefit our workers, our families, and our businesses through a measured approach that balances our Nation's needs with our Nation's resources. The President's budget supports that priority.

This is especially important now, as after years of unsustainable home price appreciation, the U.S. economy undergoes a significant and necessary housing correction. This correction, combined with high energy prices and capital market turmoil, caused economic growth to slow rather markedly at the end of 2007.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. I believe that our economy will continue to grow, although at a lesser pace than we have seen in recent years. Yet the risks are clearly to the downside, and President Bush knows that economic security is of the utmost importance to the American people.

In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great. So, we are gratified that Congress is advancing a growth package to support our economy as we weather the housing correction. We believe that a growth package must be enacted quickly, it must be robust, temporary, and broad-based, and it must get money into our economy quickly.

The House has passed legislation that meets these principles. If we keep moving along a fast track, and Congress sends the President a bill that meets our shared principles, rebate payments can start in May and be completed this summer. Together, the payments to individuals and investment incentives for businesses will help create more than a half-million jobs by the end of this year.

In addition to an economic growth plan to help us weather this housing correction, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. This includes encouraging the HOPE NOW alliance's outreach to struggling homeowners. Congress can do its part by finalizing the FHA modernization and GSE regulatory reform bills, and by passing legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs.

We continue to monitor capital markets closely, and to advocate strong market discipline and robust risk management. Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying policy issues because it is just as important to get the long-term policy response right.

While we are in a difficult transition period as markets reassess and re-price risk, I have great confidence in our markets. They have recovered from similar stressful periods in the past, and they will do so again.

The Administration will also continue to press for long-term economic policies that are in our Nation's best interest: a pro-growth tax system; entitlement reform; and a balanced budget. To that end, the President's budget makes the 2001 and 2003 tax relief permanent, and keeps the Federal budget on track for a surplus in 2012.

In the future, as in the past, our long-term economic growth will also be enhanced by supporting international trade, by opening world markets to U.S. goods and services, and by keeping our markets open. Congress can help create jobs and economic opportunities by passing the pending free-trade agreements with Colombia, Panama, and South Korea.

I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and I look forward to that spirit continuing as we work through this period. Mr. Chairman, thank you very much.

[The prepared statement of Mr. Paulson follows:]

# U.S. Treasury Department Office of Public Affairs

**Embargoed Until** 9:30 a.m. (EST), February 7, 2008
**Contact** Brookly McLaughlin, (202) 622-2920

## Statement by Secretary Henry M. Paulson, Jr. on the President's Fiscal Year 2009 Budget before the House Committee on Ways and Means

**Washington, DC**— Chairman Rangel, Congressman McCrery, Members of the Committee: I am pleased to be here to discuss the President's budget for fiscal year 2009. As Treasury Secretary, my highest priority is a strong U.S. economy that will benefit our workers, our families and our businesses. Through a measured approach that balances our nation's needs with our nation's resources, the President's budget supports that priority.

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I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and look forward to that spirit continuing as we work through this period. Thank you.

-30-

Chairman RANGEL. Thank you, Mr. Secretary. I think the record should be made perfectly clear that, as relates to Panama, the problem doesn't exist in this Committee or in this House.

I also have been under the impression that the Administration is trying to improve the agreement with Korea. So, those issues are not in front of us, legislatively or politically, at this time, even though Colombia does represent a problem.

Since you are not a politician, maybe you can tell politicians how we can explain some of the President's positions. I refer specifically to the extension of the President's 2001, 2003 tax cuts. Politically, we do recognize that if they're not extended in whole or in part, they could legitimately be perceived as a tax increase. It should be made clear it wasn't the intention of the Congress to have them expire, but the President had them to expire.

Yet, while we talk about extending this, there is no talk about removing the alternative minimum tax. There is no talk about tax reform. It seems to me, as a businessperson, this is totally inconsistent, especially when, originally, the Administration would put the expiration of these 2010 provisions into a stimulus bill, which economists say has to be timely, targeted, and temporary.

Having said that, it seems to me that when we talk about the stimulus program, that once again we are talking about helping business. Because no one talks about the compassion of the hundreds of millions of people that can't afford to put food on the table, clothes on their kids' back, or get them an education or pay the rent. We are talking about finding hundreds of millions of Americans, most of whom work hard every darn day, some under the poverty line. But, at the end of the day, we have designated them—Republicans and Democrats—as people that are in dire need. If you give them some money, they're going to spend it.

I don't know whether it's in the budget, Mr. Secretary, but it seems to me that there is something bad with that picture, to believe that the only time we can find some equity in the tax system or equity in the support system is when we need these poor people out there to spend money to buy goods and services and to spur the economy.

I am not asking for a do-good statement, because it is too late for compassion. We have to get something out fast. But I do hope that you can point out some place in your budget where you're saying, "As soon as we get this economy back on its feet—and we will—that we will never be put into a position that we go into a recession, not because we're not productive and competitive, but because our American, hardworking people can't afford to buy."

I think that whether you are Republican or Democrat, that should be a painful experience that we are going through. So, if you can find any compassion along the line in response to anyone's question, it would help us a great deal to be able to say why this document is before us, which deals with tax cuts and raises taxes on the people trying to get health care the most.

So, I am not here to embarrass you, but I do ask for your help in trying to explain to me and others the questions that I have raised, and I do hope there is flexibility to see what we can do, before the year ends, to work some of these major differences out. I yield to Mr. McCrery for questions.

Mr. MCCRERY. Well, Mr. Chairman, you raised a number of questions. You lost me on the raising taxes on people trying to get health care. I didn't follow that one, because the only thing——

Chairman RANGEL. If you look at some of the Medicare provisions, you will see them.

Mr. MCCRERY. Well, but the President's—if you are talking about health insurance, the President's budget proposes that we reallocate the tax expenditures from spending it on the wealthy, people like you and me, to people who don't have insurance through their place of employment, and we will give them a tax expenditure for going out in the marketplace and purchasing insurance, which they can't get today.

So, I think that is compassionate. I think it is forward-looking. I think it is a very vital part of meaningful health care reform in this country, if you want to make the government's expenditures more rational and more compassionate. So, I would hope you would look at that part of the budget, as well, and——

Chairman RANGEL. Well——

Mr. MCCRERY [continuing]. Commend the President for bringing forward some progressive reform in the area of health care.

Chairman RANGEL. If the gentlemen will yield——

Mr. MCCRERY. Sure.

Chairman RANGEL [continuing]. It is my understanding—and the Secretary could correct it—that employee-provided insurance would not be given the deduction in tax benefits. So, I thought that would kind of hurt the beneficiary, if the incentives for employers to provide health care was taken away.

Mr. MCCRERY. Well, as I said, Mr. Chairman, those tax expenditures, through health insurance provided in the workplace, go to people who are relatively well off.

Chairman RANGEL. Okay.

Mr. MCCRERY. The President's proposal more evenly distributes those tax expenditures throughout the income brackets, and gives it to people who don't get insurance through their place of employment. It gives them a chance to go out in the marketplace and get some health care or health insurance for their families. It is a very progressive reform.

I would prefer tax credits, frankly. But you—I would think the majority, and in their sense of compassion for people who need help, would be supporting a reallocation of those tax expenditures from the way they are today, which is very tipped toward upper-income, higher-income people.

Chairman RANGEL. I hope these people aren't eligible for a rebate, too, you know?

Mr. MCCRERY. Mr. Chairman, in the House compromises, you know they are not. We are not eligible, with our incomes, and higher-income people are not. So, I think it was a good compromise that your staff worked on, and my staff worked on, and the speaker's staff and Leader Boehner's staff, and Secretary Paulson and his staff.

So, I think the House compromise is pretty good, along those lines. You all got a lot of what you wanted, and we got some of what we wanted. So, that's what this is all about. I was very pleased with the bipartisan cooperation that led to that agreement, and the very quick passage of the stimulus bill here in the House. We, of course, are waiting to see what the Senate does with that.

But I think our package was very good, and represented a high mark in the cooperation between the majority and the minority in this house.

Mr. Chairman, I am having copies made of a chart, a graph, and having it distributed, because I think it is instructive on the issue of tax reform, tax revenues, PayGo. So, I hope the Members will take a look at this graph, as it rather demonstrably shows the ills of the PayGo system that is in place currently.

I don't know if we can put it on the screen, did we ever get capability to put it on the screen? No? Okay.

Well, if you just take a look at your graph, the top dotted line is the line that represents the percent of GDP of revenues to the Federal Government under the PayGo system. As you can see, the line rather quickly gets up to right at 20 percent of GDP for revenues.

Mr. Chairman, it doesn't matter how you get there, whether you let the 2001 and 2003 tax cuts expire, whether you continue to let the AMT kick in, whether you raise taxes on upper income people, or whatever else. The fact is, under your PayGo rules, you're going to get us to over 20 percent of GDP and revenues. That's a tax increase. No matter how you construct it, it's a tax increase, compared to where we are today.

The redline is basically what is in the President's budget. Now, it is true that, in the President's budget, he doesn't describe what he would do to reform the Tax Code. Eventually, some president is going to have to work with the Members of this Committee, I think, to reform the Tax Code.

But what the President does—I think wisely—in his budget, by saying, "Let's extend the 2001 and 2003 tax cuts, but count the revenues from the AMT in the out-years"—or at least passed this year—you get the red line, which keeps revenues—they spike in the first year up to 19 percent of GDP, but then it comes back down and levels off. In every year for the next 10 years, it's above the historical average of revenues to the Federal Government.

The dotted line with a dash and dotted line represents the historical average, which is about 18.3 percent of GDP and revenues. So, you can see in the President's budget, with his construct, he keeps revenues, as a percent of GDP, above the historical average.

Then, you can see the green line and block graph represents current law. So, if we just extended current law—which is to say, Mr. Chairman, if we extended all the tax cuts that are in place from 2001 and 2003, if we extended all the expiring provisions, and if we kept the patch on the AMT, you would get that line.

Yes, Mr. Chairman, I think that line may be too low, in terms of producing revenues to the Federal Government. So, does the President, evidently, because he keeps revenues above the historic average.

So, I just thought the Members ought to see this very clear representation of the various views on revenues to the Federal Government and the PayGo rules would produce, Mr. Chairman. Frankly, your bill would produce that dotted line that is way, way up above everything else, and certainly way above the historic average.

So, I just thought I would lay that groundwork before we get into listening to the Secretary. Thank you.

Chairman RANGEL. Mr. Secretary, do you have any response to our positions here?

Secretary PAULSON. Okay, you covered a lot of ground. In the interest of time, I will just go over some of the points you made quickly.

First of all, I know AMT is on everyone's mind here. I would just make the point that I think the budget is quite transparent. This year we would patch it. I think we are all in agreement—at least I sure hope we are—that we do not need to raise taxes, we should not raise taxes this year, and we should not subject so many Americans to added uncertainty. Let's not wait any longer than we need to. Let's patch it.

Now, in the out-years, you are right. Those revenues are in the budget. What I think needs to be done—and I think Congressman McCrery really got to the point—is that it is going to need to be addressed in the context of several questions.

First of all, we need to look at it, in the context of what we do with the major budget issues this country is facing over the intermediate term, which are entitlements. Second, it is going to need to be addressed in the context of what percentage of our economy do we want to be taken up by taxes. The tax——

Chairman RANGEL. When do we address this, the next Administration? I mean, it has been 8 years that we've been pushing it off and including it in the budget revenue.

Secretary PAULSON. Mr. Chairman, I appreciate your frustration. I had a little frustration myself, and I just have to recognize what is doable. I started off really hoping that we could get people on both sides of the aisle to come to the table on a bipartisan basis with no preconditions, really look at the question of our entitlements, and look at all of these things. It did not work out.

I understand the frustration. I feel the same. This is going to have to be worked out at some time. But, again, I will just say the budget is transparent. We have these revenues in the budget, we recognize that this has to be addressed. We feel strongly it should be patched this year.

Now, just quickly on the other topics that you all talked about, I reacted very much the same way that Congressman McCrery did to the proposal on the standard deduction for health insurance.

And here is the way I thought about it. When I looked at the Tax Code, and looked at tax preferences, the biggest tax preference is $3.3 billion, over a 10-year period, for employees of companies that provided health insurance.

And so, this privileged group receives this big preference. It does not go to all of the people that do not have health insurance, those who work for companies without this benefit—waitresses, and construction workers. And then, even in the companies that provide insurance benefits are at the high end who received gold-plated insurance plans receive the greatest amount of the tax benefits.

Now, when we put this idea out here, it wasn't that this was the be-all or the end-all, or that this was the solution to all of the health care problems, or the solution to getting more insurance to those that are uninsured. But it was a step in the right direction.

I was hopeful that people on both sides of the aisle would say, this is something we can work with, this is a benefit that is really quite regressive, this is unfair in many ways, and it could make a difference if we work together toward getting more insurance to more people who need it.

It did not work that way, but I just make the point that this year and in the years ahead, when you grapple with this issue, there is a significant pot of money there that is being allocated in a way, that I think is not optimal. I think it is being misallocated, and we look at the revenues, this is something to work with.

On your last point on stimulus, let me just say something there, because I too think the bipartisan agreement with the House was a very important step, and I think it does a lot for individuals and consumers. And I also need to say, making the tax cuts permanent, as important as that is to this President, our Administration, and all of us, was never part of a proposal on a stimulus package. From the day I first had conversations with the President, that was never in the package. That was on a separate track.

But the starting point was what you did in 2001: was to make payments, the rebates, and have theme go to those who pay Federal income taxes. This was quickly broadened, and I think wisely so. But it was broadened to apply to working families, and with a big component of it going to children, through the child credit.

And now, the Senate has been talking about extending it to low-income seniors and disabled veterans, and our approach has been to say that we could work something out on that. So all of this is stimulus. It's broad-based.

And when you say, where is the compassion, I will tell you that for a working family that has $3,000 of earned income and several children, and that is going to be getting a check for at least $1,200. There is some stimulus, and I think there is real compassion. I think it is something that you all on this Committee can be proud of.

Now, whenever you're doing something on a bipartisan basis. And where there is compromises, there are going to be people on each side that aren't entirely happy. Mr. Chairman, let me end on that note. Thank you.

Chairman RANGEL. Mr. Levin?

Mr. LEVIN. Thank you, Mr. Chairman. You are welcome, Mr. Secretary. We very much enjoyed working with you. You are here today, though, as spokesman, spokesperson, for the Administration, not as an individual. So, let me just say a few things that relate to the budget, and discuss a few issues.

By the way, I think we should be careful in saying that those who have employer health coverage are privileged. They worked hard to get that coverage. If there hadn't been a deduction, an exemption, there wouldn't be health insurance today as extensive as it is. So, I don't think they are privileged, and these policies aren't gold-plated, in most cases.

I am glad I read your testimony, that you don't use the words that were in the State of the Union, that the "economic picture is uncertain." That term was used by the President, "uncertain." Because I think there are certain things that are very certain. There are problems that are real.

Also, I won't ask you about some of the budget cuts, because they're not really in your domain. Cutting out the manufacturing extension program, I don't know how that fits into economic growth. Eliminating the COPS grants, cutting CDBG by over 30 percent, cutting the water—the state water revolving fund by 20 percent, safe and drug-free schools by two-thirds, I think those are essentially dissembling, and in some cases, disgraceful.

But let me just—you are not here really to discuss that, the deficit—I don't know of any economist who thinks that the President's budget is going to lead to a surplus in the year 2012. But let me ask you about an item that is very much within your jurisdiction, or mention we have talked about China.

I have read the latest report from the Treasury Department, and it says that the appreciation on a trade-weighted basis, the yuan has been 5.68 percent, trade-weighted, which I think is the accurate way to look at it. So, there is a long, long ways to go. I think you should expect this Committee to continue working on this, and working on this this year.

Let me spend a couple of minutes, because you said in your testimony that the rebates can be—start in May and be completed this summer. If unemployment comp is extended, the payments would go out in February or March. You said before the Senate Finance Committee, I think, that there hasn't been an extension when unemployment has been lower than 5 percent.

Mr. Secretary, the number of people who have exhausted their benefits is twice what it was in the first month of the last recession. I read this, "The exhaustion rate for regular unemployment benefits today is higher than at the beginning of the last five recessions, going back to 1973."

So, I don't know how you defend, simply by saying the unemployment rate is only 5 percent, when you have a basically historic level of exhaustion of benefits. A million and a half, or a million four hundred thousand people, it's projected that another million four or five hundred thousand will exhaust their benefits in these 6 months.

So, how, as a spokesperson for the Administration, defend your adamant resistance to extending unemployment compensation benefits, when the exhaustion rate is at a historic high? At least in the last decades, with the last five recessions. I mean, speak as a spokesperson for the Administration. I don't want to ask you how you feel, personally. A lot of us have come to know you, and I want to resist that, because you're not here in that capacity. But how do you defend it? How do you defend that?

Can you go to any state where a fifth or a quarter, a third of the people unemployed have exhausted their benefits and say, "We are not going to extend your benefits?" What would you say to them?

Secretary PAULSON. Okay. Well, first of all, thank you Congressman. I guess you wanted me to comment on two things, you wanted me to comment on China and currency, and unemployment insurance?

Mr. LEVIN. We can talk—yes, if there is time. The red light—we will talk more about the China currency.

Secretary PAULSON. Oh, okay.

Mr. LEVIN. I wanted just to point that out.

Secretary PAULSON. Okay. On the unemployment insurance, I take your point. That there is a structural issue, and that there are more people that have been unemployed for an extended period of time. I understand that point.

But, again, it is very simple. When you look at the current situation, not 5 percent, but 4.9 percent unemployment, we have a situation where unemployment in this country is low by any historical standard. I looked at 5.7 percent, that's the lowest unemployment rate that it's ever been when we have extended the benefits.

Mr. LEVIN. Okay. Well, what do you say to this million-and-a-half people now and a million-and-a-half people who have exhausted their benefits? What do you say to them when you strongly oppose the extension of—you say to them, "The national rate is 5 percent?" What do you say to them?

Secretary PAULSON. I understand there are different levels of unemployment in different states. We have a system in our country where there are people who have various programs aimed at dealing with their specific situation.

I just think the signal we sending the wrong to the whole world, by extending unemployment benefits with the unemployment rate, at 4.9 percent.

Mr. LEVIN. To the world?

Secretary PAULSON. It is rather unusual, it is not to have unemployment of 4.9 percent?

I am talking to a fair number of economists, who are giving me a hard time and saying, how is it we are moving too quickly with a stimulus package to throw money into the economy, and support the economy, at a time when it is not at all clear that we are going into a recession?

They also say, Mr. Secretary, you have said you think the economy is going to continue to grow. So, my answer is that we are on this, we are going to have an aggressive stimulus plan that is going to give money to a lot of people who it will help. Again, in terms of the stimulus, I think rather than a few dollars a week, we are talking about giving people big checks, and giving it to them——

Mr. LEVIN. The unemployment check—my time is up—the unemployment check, in most states, would be considerably larger, and in many states, per month. So, you can't say to the unemployed person who has exhausted their benefits, "We are going to give you $300, and that's it."

Secretary PAULSON. The unemployed person is—it will be $300, unless that person has kids, in which case, he or she will receive more.

Mr. LEVIN. Okay.

Secretary PAULSON. The other thing I will say to you is that when this package was crafted, it did not have things that people on both sides wanted, but it came together with something that worked and would be stimulus.

Mr. LEVIN. But we want an unemployment——

Secretary PAULSON. I am saying here that if the situation continues to deteriorate, as I hope it will not—and I do not expect the economy to get much worse—but if it does, then this will be a matter that you will be discussing right here, and we will be discussing it with you.

Chairman RANGEL. Mr. Burger? Mr. Herger, sorry.

Mr. HERGER. Thank you, Mr. Chairman. Secretary Paulson, I want to thank you for appearing here today. I want to also thank you for your strong advocacy of free trade.

As you know, we are the world's number one trading nation. Some 4 out of 10 American employees, Americans, are affected or involved in trade, some 42 percent. Again, I thank you for your work in this area.

With our current economic situation, I would like to ask you the—your opinion on some proposals that are before Congress. Last week, the Fed stated that our financial markets remain under considerable stress. Credit is tight, and inflation has been rising. Would it be in the U.S. interest to further upset the apple cart by applying anti-dumping, or counter-veiling duty laws to industrial, agricultural, or consumer goods to China to address any of our undervaluation of Chinese currency?

We are all aware that the RMB needs to appreciate. But, given our economic uncertainty, would piling on additional economic shocks by raising tariffs on imports through dumping and countervailing duty laws by helpful or harmful to our economic interests?

Secretary PAULSON. Congressman, I think a simple answer is it will be harmful, but it is more than a simple answer. Because, obviously, Congressman Levin has said—we all are focused on this. We all realize that we would like the Chinese to move quicker in appreciating their currency. We have been working hard to that end.

They have recently begun to appreciate it much more quickly over the last year. In the last 3 months, it's appreciated 4 percent. So, there is movement there, and important movement. Again, I think that although our objective is the same, the idea of putting tariffs on to deal with another country's currency, as sovereign nations, would not be a wise thing to do, given what's going on in the markets. I just think it is a dangerous course.

Mr. HERGER. You have raised concerns about the unintended consequences of legislation that proposes significant changes to our trade remedy laws, particularly to address currency concerns. As you pointed out, such bills could lead to WTO problems and retaliations by our trading partners against U.S. exports.

I am also concerned about copy-cat legislation that targets the recent weakness in the U.S. dollar. Given that our continued and strong export growth is crucially important to our economic growth, what kind of threat does retaliation and copy-cat legislation pose to our exports?

Secretary PAULSON. Congressman, today, of course, we are more reliant on exports than I can remember at any time in the recent past. It is very important to us to keep markets open. So, I am a big proponent for trade. Again, when we look at how to deal with trade differences, I would say one route is negotiation, and we pursue that aggressively. Another is the dispute resolution procedures that the WTO has, and we pursue that very aggressively.

I think it would be counterproductive for one nation to try to legislate another's macro-economic policies, or currency policies. We are making progress, though. I would just simply say that in the IMF right now is much more active. I think the G–7 has also come together, and has taken a strong position on China's currency.

So, I think there will be more productive ways of moving ahead. But I just about everybody shares a common objective. So, going back to what we are just talking about, I would agree with you, that legislation is dangerous, and I think it could be counter-productive course.

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

Chairman RANGEL. McDermott is recognized.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Mr. Paulson, it's good to have you here. As I sit out there looking at you, I couldn't help thinking of Colin Powell, going up to the general assembly, trying to sell the justification for the Iraq War.

This budget, I look at it, and I try and figure out where is the war in all this. I see very little. So, I went back and did a little historical research. You look on the monitors, and you will see what revenue did during the Civil War. It went up to almost 14 percent of gross domestic product. You look at the first world war, and the revenue went up to almost 24 percent of gross domestic product. Then, in the second world war, we went up to almost 45 percent of gross domestic product.

So, we were—in wars, we taxed. But then, if you look at the line for Iraq, all you see is it's going down. I don't understand how you could come up here with a budget—I mean, I try to imagine if you were Goldman Sachs and a company came in with their budget, and they left out a huge element of their operation, how you would—how you could evaluate them, when you leave out the war in the budget here.

What is the reason? I mean, give us the explanation for the thinking that is going on in the White House that says, "We can leave the budget out of the war, just do that on the side," and not have the revenue. I—explain that to me.

Secretary PAULSON. I will give you a couple of explanations. First of all, to those who say there is no transparency, I disagree, because the number you see in 2009, the $70 billion, is a placeholder. That is all it is. We have been very transparent, by saying that that number is yet to be determined, and we are going to wait to hear what General Petraeus says, what the other advisors are going to recommend. Everyone knows that number is going to be substantially bigger.

I read where Secretary Gates gave a very, very rough estimate yesterday in his testimony, so I would——

Mr. MCDERMOTT. But the Republican candidate leading for President says we're going to be in Iraq for 100 years.

Secretary PAULSON. Okay.

Mr. MCDERMOTT. So, you're telling me about 1 year, there is a placeholder for 2009. What about the long-term layout of that?

Secretary PAULSON. Well, I think that is something we all have to expect that there will be a number there for a while. That is an uncertainty. But that is—there is no mystery. I mean, there is no hiding the ball. It's just a number that hasn't been determined yet.

So, again, here is how I think about the budget question. The one thing we can all take some comfort in is that, despite the cost of this war and despite some of the other unforseen costs like hurricanes and so on, people on both sides of the aisle—all of us—have been surprised on the upside with the rate at which revenues have been coming in.

Even last year, when I thought maybe for the first time it would not beat our estimate, revenues came in quicker. So, the short-term deficit, the deficit we closed the year with, was, as a percentage of GDP, a very small number. It was 1.2 percent.

So, the questions we are dealing with are really—the longer-term questions, or the entitlement questions, which are very serious questions—and I appreciate your frustration at not being able to pin down the cost of the war, but you know what it is this year——

Mr. MCDERMOTT. I just want to—let me just—my time is escaping here.

Secretary PAULSON. Right.

Mr. MCDERMOTT. I want to say one other thing. What I don't understand about Republican fiscal policy is I arrived in Congress at 1988, at the end of the glory years of Reagan. I sat through the mess of the Banking Committee of the savings and loan crisis.

Now, 20 years later, we've got the great Bush Administration practically out the door with the housing crisis. If you can believe these business magazines, this is "Business Week," and it says there is a meltdown, worse to come, a 25 percent drop in housing prices. What is it about a Republican ability to manage the economy, that they always leave a problem on the doorstep when they leave? What is that?

Secretary PAULSON. I don't know if that's a rhetorical question. If you want an answer, I——

Mr. MCDERMOTT. I would like an answer.

Secretary PAULSON. I would essentially say that what we see going on here, in my judgment, has been building for a long time. For years we have seen housing prices appreciate at levels that are unsustainable. So, you are getting a necessary correction.

Now, I read very carefully. I got that magazine, I read it, read the article. There are all kinds of projections, in terms of what may or may not happen. But there is no doubt that this housing correction is the biggest risk to our economy right now, and it is something we are very much focused on.

Mr. MCDERMOTT. Thank you.

Chairman RANGEL. Mr. Camp?

Mr. CAMP. Thank you, Mr. Chairman. I want to thank you, Mr. Secretary, for being here to talk about the revenue proposals and the President's budget, and I just wanted to get back to that for a minute.

As one who supported the stimulus bill, I want to commend you for working with us in the House in a bipartisan way. This bill received the support of virtually everyone on this Committee—nearly everyone—but I think it will quickly deliver relief to American families and job providers, and I just want to wish you good luck with the Senate on that.

As one who supported the stimulus, I worry, though, that if we only focus on the next quarter, and risk ignoring economic trends for the next decade, how we continue to get the U.S. economy to grow and to be competitive and create jobs, I think we need to examine the Tax Code's fundamental flaws.

In 1960, America was home to 20 of the largest corporations in the world; 30 years later, we were only home to 8 of those companies. I think the reason being partly that virtually every industrialized nation has reduced tax rates, leaving the United States with the second highest corporate rate in the world.

I commend the President for calling on Congress to make permanent the 2001 and 2003 tax cuts. Those reduced rates provided marriage penalty relief, relieved us of the death tax, lowered taxes on savings and investment. Revenue to the treasury flowed, and the economy grew.

But in addition to those permanent reductions, I think we need to reduce the corporate tax rate, say to the average of the OECD, at 31 percent. Then the U.S. can really compete for jobs. With that increased investment, we would see job growth.

Since it has been 20 years since Congress really looked at comprehensive tax reform, really a comprehensive plan to lower taxes and streamline the Code and lower the tax burden, I wish that I had seen the Administration take a chance to really push for fundamental reform.

But I have two questions for you. One, what are the Administration's views for achieving long-term economic growth? Two, using the power of the Tax Code to increase the number of people with health insurance is critically important. I think those ideas are essential, that—not just for those that already have employer-provided insurance.

So, under the President's plan, how many more Americans do you estimate would have insurance?

Secretary PAULSON. Congressman, we estimated 8 million Americans would have insurance under the President's plan. I would also say, going back to what Congressman Levin said about all of those who have health insurance, who are working for corporations, that they are not just privileged, and that they have earned this, and I could not agree more. I am all for employer health insurance plans. I think they're good things, and they're important.

I am just saying that this is a big pot of revenues we have to work with, and we think about doing things more equitably and getting some of the things that we would all like to achieve. Yes, you are right, this would, we think, add at least 8 million people who are uninsured to the insured rolls.

Mr. CAMP. Then, what do you think about economic growth in the long term? I appreciate the short-term work on the stimulus, and——

Secretary PAULSON. The long-term is what is important, and I am going to just build off what you said, because we at the Treasury Department have done, and are doing, a lot of work to document something, which I think this Committee has to increasingly be focused on, and that is economic growth and corporate taxation.

Of course, we need taxes, you need tax dollars, everybody knows we need revenues. So, the questions with taxes are really what percentage, how big should taxes be, as a percent of our overall economy, and then what form of taxes will give us the most growth, will give us the most jobs?

The corporate taxes, I believe, are among the most expensive revenues we raise, in terms of what they do to jobs and growth, and to inhibit them. What we're finding is that other countries are reducing their rates below ours. We are becoming a relatively high taxer.

But even more important to me is that their form of taxation is changing in ways in which it is more conducive to growth, while ours is antiquated. And, the trend is going in the way those countries that are continuing to reduce their taxes.

So, how do we think about this? Although I do believe that reducing the headline rate for corporates will make a difference, I do not believe it is as simple as just reducing it by a few percentage points. I think we need to take a really fundamental look at all of this.

Mr. CAMP. All right. Thank you. Thank you, Mr. Chairman.

Chairman RANGEL. The chair recognizes Mr. John Lewis, of Georgia.

Mr. LEWIS OF GEORGIA. Thank you very much, Mr. Chairman. Mr. Secretary, thank you for being here today, and thank you for your service.

You said in your testimony that working through the current stress on the economy is your top concern. I don't think it takes much for us to know and realize that the economy is tanking. It is not good.

The American people are scared. They are worried. They are hurting. They are losing their jobs, their health care. They cannot afford to send their young people to college. I want to know, do you think that this budget, with the same, old, worn-out ideas is the best medicine right now? Is this the best prescription for our economy? Will extending the 2001 and the 2003 tax cut help the thousands of our citizens in a city like Atlanta that are losing jobs?

Just a few days ago, a company opened a store in Atlanta for 400 jobs. More than 7,500 people showed up. Another major company headquartered in Atlanta laid off 500 individuals out of its headquarters.

Where do we go? I do not see the sense of urgency.

Secretary PAULSON. Congressman——

Mr. LEWIS OF GEORGIA. Another thing, Mr. Secretary. You know, the budget should be a reflection of our values. I just don't see it. I don't feel it here. I would like for you to sort of——

Secretary PAULSON. Okay.

Mr. LEWIS OF GEORGIA [continuing]. Give me some sense that I can feel a little bit better.

Secretary PAULSON. Okay. Well. First of all, Congressman, let me say that you are right, the economy is slowing. I would——

Mr. LEWIS OF GEORGIA. Are we in a recession right now?

Secretary PAULSON. I don't believe we are, no sir. I think we are slowing, and I hoped you would have sensed a sense of urgency with the stimulus plan.

Mr. LEWIS OF GEORGIA. But some people saying that the stimulus package is good.

Secretary PAULSON. Right.

Mr. LEWIS OF GEORGIA. But it's a little too little too late.

Secretary PAULSON. Well. Again, I appreciate your view on that. I would say there are plenty of people on the other side that say boy, this is almost unprecedented, getting here as soon as it slows down, while we are still growing. It is unprecedented to move quickly with that.

Then, I would say, in terms of the budget, these are complex, comprehensive issues, and there are many tradeoffs. There are programs in the budget that I am sure you like, there are others you would like to be bigger.

Even on the tax issues, because there has been a lot of conversation about the Tax Code and making the tax relief permanent, as I look at it—and, again, I was not here to participate in that—I think those were great actions.

But as you look at this, as you look at lower-income people, I see a family of four making up to $42,000 and not paying Federal income taxes. I look at what has happened with the child credit and earned income tax credit.

So, in terms of tax relief at the low end, I see that as being very meaningful. Five or six million people who are not paying Federal income taxes right now as a result of what has been done, which I think is something that we can all be pleased about, and be proud of.

Mr. LEWIS OF GEORGIA. But, Mr. Secretary, something went wrong. The previous Administration created more than 23 million new jobs. People were doing very well. Now people are losing their jobs, people are not doing very well. People are owning and buying homes, especially minorities—Spanish, African Americans, and others. Something went wrong with this Administration, and with the previous budget and this budget that you're proposing now.

Again, I ask you, is this good medicine? Is this a good prescription for our economy?

Secretary PAULSON. I think the best thing we can do for our economy is everything we can to keep it growing, because for those people who are struggling, and struggling to make ends meet, their situation becomes worse if our economy is not growing and we are not creating jobs.

We have created jobs for 52 straight months. Last month, for the first time, we had a slight decrease in jobs. Who knows whether that will be restated or not; December's numbers were restated up. Overall we are increasing jobs. We need to keep the economy growing, and I think that is very important to the economy.

Again, I am hoping that the stimulus package will help. I am working very hard on this to prevent avoidable foreclosures, and working very hard with our HOPE NOW alliance to help all those homeowners, many of them in inner cities who were put into mortgages that were not explained properly, and who were in danger of not being able to keep their mortgage if their rates move up. I think we have a program that is going to be more effective than many people believe in dealing with that, in fast-tracking those mortgages into modifications that will often result in interest rate freezes.

So, we are doing what we can to deal with the problems that you see out there.

Mr. LEWIS OF GEORGIA. Well, thank you, Mr. Secretary. My time has expired. Thank you.

Chairman RANGEL. Mr. Johnson from Texas.

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate it. I appreciate you being here, Mr. Secretary. I would like to talk to you about a problem in the Tax Code that has come to my attention, and see if it is something that you agree we ought to try to fix.

Back in 1989, a section of the law was written to require cell phones to be used more than 50 percent for business purposes. If you remember, in 1989 cell phones had a battery the size of a car battery, and the phone itself was about as big as this thing here. Air time was expensive.

Clearly, time and technology have marched on, and companies have given employees cell phones and Blackberries with unlimited minutes, and these communication devices are really just an extension of the business day and place to anywhere, anytime. Because air time minutes are often unlimited and are free after certain hours—and free, sometimes, during the day—employers generally have no interest in keeping track of employees' cell phone or Blackberry use.

Yet, the IRS is at it again. They're after us. The dadgum auditors are questioning employers' normal and ordinary business deductions for cell phones and Blackberries, because employers have not been keeping records on employee cell phone or Blackberry use. The IRS wants employers to track employees, or be forced to give up the normal deduction.

Right now, the law does not require employers to track use of the phone at an employee's desk, or the use of e-mail or computers for personal purposes. I think the law needs to be changed to bring it up to date, with the fact that their office, cell, and Blackberry is just an extension of their desk phone and computer.

Secretary Paulson, don't you think it's time to modernize our tax laws, so that employers are not required, for tax purposes, to track personal cell phone use of their employees when there isn't any charge involved anyway, generally speaking? I will be introducing a bill on this point in the next couple of days, and I would appreciate help from you guys on the Committee, if you want to join with me. Would you comment on that, please?

Secretary PAULSON. Congressman Johnson, it sounds like the right idea to me, and I appreciate your leadership on that.

Mr. JOHNSON. Well, you know, we've been after the IRS for as long as I have been up here. They keep harassing people. That's their only job, it seems like, and we need to stop them if we can.

I would like to ask you also, we saw an increase in Federal receipts, a 6.9 increase, to a total of $2.5 trillion, and this is on top of fiscal year 2006, 11.7 increase. Over that 2-year span, spending grew by 5.2 percent per year.

I would like to know if we can continue rapid spending increases, given the future demands represented by the aging of the Baby Boomers, and to Social Security/Medicare eligibility, and still expect our revenues to cover our costs.

Secretary PAULSON. The answer to that, as you know, is of course not. We have been surprised for some time at the rate at which revenues have been growing. That is a very good thing.

But when you look at what we have staring us in the face, there is a huge issue coming. It is one that I know every Member of this Committee understands, and I know the Chairman and the Ranking Member would like to do something about it. And, I hope at some time in the not-too-distant future, it will get worked out.

Mr. JOHNSON. Yes. I can tell you for sure the Chairman is interested in fixing Medicare, Medicaid, and Social Security. Thank you so much. I yield back.

Chairman RANGEL. I would like to recognize Mr. Richard Neal. If he hears anything at all from the White House of how we can reform the corporate tax legislation, you let me know.

Mr. NEAL. Thank you.

Chairman RANGEL. Mr. Neal.

Mr. NEAL. Thank you very much, Mr. Chairman. Mr. Secretary, I've listened to Secretary O'Neill, and Secretary Snow, and Secretary Paulson tell this Committee, and tell the American people, what a serious problem alternative minimum tax is, and how we have to deal with it. We always get the same answer, as the clock runs down. "Let's borrow the money." How much have we borrowed now to patch AMT since 2001?

Secretary PAULSON. I do not have the numbers here, in front of me, but I know the cost this year is roughly $60 billion, and——

Mr. NEAL. What was it last year?

Secretary PAULSON. It was much the same, I think it was $56 billion.

Mr. NEAL. Okay. What is the interest on that, over a 10-year period? Does $29 billion sound as though it might be in the ballpark?

Secretary PAULSON. You would have to tell me if it is in the ballpark. I can get the number for you.

Mr. NEAL. We rely upon you to give us that sort of an answer, Mr. Secretary.

Secretary PAULSON. I think we have been pretty clear with you in saying——

Mr. NEAL. You've been clear about the fact there is a problem, you haven't been clear about the fact that we need to get an answer.

Secretary PAULSON. We have been clear about the answer. The answer was, patch it quickly, don't raise taxes. You ultimately did it. It took throughout the year to do it, but it got done. There was a lot of uncertainty that was inflicted on the American people. I think this year we should all get together and agree we are going to patch it quickly, and then deal with the bigger issue.

I really do think the bigger issue is one you would agree with. This needs to be looked at in the context of the bigger question of entitlements.

Mr. NEAL. If I might interpret what you've said, then you're suggesting that we all ought to get together early on and borrow the money.

Secretary PAULSON. It is in the budget, right.

Mr. NEAL. Well, I just want to get that part of it correct. We should get together and borrow the money to fix AMT.

Secretary PAULSON. I wouldn't say it exactly that way. You can——

Mr. NEAL. Well, is there another way to say it?

Secretary PAULSON. I would say that the AMT is an unintended tax. It is unexpected by many taxpayers. There would be a lot of Americans who would have been hit hard, and would have been surprised by that tax had it not been patched. So, I think we have been pretty transparent, and Congress and the Administration together have passed a patch one year at a time.

Mr. NEAL. Mr. Secretary, I have great personal regard for you.

Secretary PAULSON. Thank you.

Mr. NEAL. There are only two options here. One, to pay for it, or two, to borrow the money. Which one are you suggesting.

Secretary PAULSON. I do not think it is that simple, to pick one area out of the budget. But there is no doubt, though, that we do not want to raise taxes to pay for it this year, and we want to be very clear on that.

Mr. NEAL. Well, you will forgive me for suggesting that I don't think you were very clear on it.

Secretary PAULSON. Well——

Mr. NEAL. Now, let me ask you another question.

Secretary PAULSON. You do not think it is clearly in the budget, that——

Mr. NEAL. I think it's clearly in the budget, but you're suggesting we borrow the money, Mr. Secretary.

Secretary PAULSON. We borrow the money to pay for a whole range of things, and we have revenues coming in.

Mr. NEAL. All I need you to say is you're suggesting we borrow the money.

Secretary PAULSON. I am suggesting that we are going to have a deficit this coming year, and that the deficit will be larger than the cost of AMT.

Mr. NEAL. Well, my sense is that when you were running a major company in the boardroom, you were much more direct than you've been today.

Now, let me ask you this, Mr. Secretary. As a percentage of the $410 billion projected deficit this year, could you inform the Members of this Committee what percentage of those deficits are due to the Bush tax cuts?

Secretary PAULSON. I think that would be a very difficult thing to do, and I will tell you why, that——

Mr. NEAL. Well, one third. Does that sound good?

Secretary PAULSON. No. I will tell you why I think it would be difficult, because I think all of us have been surprised at the rate at which revenues have been coming into the economy.

And so, I do not think static economic analysis paints the whole picture. I would never argue to you that the tax cuts entire pay for themselves. But I would say to you that economists struggle to understand why the revenue growth has been so significant, leaving us with a deficit of only 1.2 percent of GDP at the end of this last year.

Mr. NEAL. Mr. Secretary, Mr. McCain's chief economic advisor, who was well regarded in this Congress for his clarity and for his integrity, has suggested that tax cuts don't pay for themselves. Are you in agreement with that?

Secretary PAULSON. I would say that they don't pay for themselves entirely, that's right.

Chairman RANGEL. Thank you, Mr. Secretary. Mr. Secretary, former Chairman Greenspan said the only reason he supported the tax cuts is because he assumed—and that's what he said—that we would cut programs by the same amount.

Do you agree with that statement that he had in his recent book?

Secretary PAULSON. I have no idea what he was assuming, and what he supported or did not support. I would just simply say to you that when I was in the private sector, I watched the economy respond to the tax relief. I watched the economy respond, I watched the markets respond.

All I can say to you is that revenues have poured in faster than CBO projected, faster than Democrats or Republicans projected they would have come in, and it is remarkable. It is remarkable that we could be paying for the cost of the war, funding the recovery from the hurricanes, and have the deficit at only 1.2 percent of GDP at the end of——

Mr. NEAL. Mr. Chairman?

Chairman RANGEL. Yes?

Mr. NEAL. Would you yield?

Chairman RANGEL. Yes.

Mr. NEAL. Are we paying for the cost of the war, or are we borrowing the money for the cost of the war?

Secretary PAULSON. I would say to you that the cost——

Mr. NEAL. Mr. Secretary, are we going to be asked again to borrow money before the year is out for the war in Iraq?

Secretary PAULSON. We are going to be asked to borrow money, and I would say——

Mr. NEAL. That's my point, Mr. Chairman.

Secretary PAULSON. But are you surprised that the deficit is 1.2 percent of GDP?

Mr. NEAL. If you consider how the American economy has grown for the last 20 years, no, I am not. What I am arguing is that the theology that is frequently purported to be fact doesn't square with the numbers when we project a $410 billion deficit for next year.

When the Administration came to authority in 2001, we were projecting trillions of dollars of surplus. Granted, the events of 9/11 set us back, but the failure to acknowledge the role that the tax cuts have played with those deficits doesn't stand up under the magnifying glass, Mr. Secretary, that's my point.

To say that—to say here that we're paying for the war, when the truth is we're not paying for the war, we're borrowing the money to pay for the war.

Secretary PAULSON. Well, I think you understood my point, that despite that cost, the deficit, as a percentage of GDP, is relatively low.

Now, I think the thing that you are in agreement with, and everyone on this Committee is in agreement with, is that we have a serious budget issue staring us in the face, and I am not making light of that. I think it is a very significant one, and I think it is one that has to be dealt with, and that's entitlements.

Mr. MCCRERY. Mr. Chairman?

Chairman RANGEL. Mr. McCrery?

Mr. MCCRERY. Will you yield?

Chairman RANGEL. Yes.

Mr. MCCRERY. Thank you. In response to Mr. Neal's question about how much the tax cuts represent, as a share of the deficit this year, I have a fact that is very interesting. It doesn't necessarily answer your question completely, but it is relevant.

Back in the year 2000, in January of 2000—this is before George W. Bush was President, before the tax cuts—CBO, in their estimates, said that in the year 2007, revenues would be $2.572 trillion. That was their projection before the tax cuts. The actual revenues for 2007, last year, came in at $2.568 trillion. That is a difference of $4 billion.

So, if you just look at the revenues that were projected, and the revenues that actually came in, only $4 billion of last year's deficit was due to the tax cuts. It's a fact. I mean, those are facts.

Mr. NEAL. Would the gentleman yield?

Mr. MCCRERY. Sure. It's not my time, but I'm sure the Chairman would.

Chairman RANGEL. It's Mr. Weller's time.

Mr. WELLER. May I claim my time?

[Laughter.]

Mr. MCCRERY. We will talk.

Chairman RANGEL. Mr. English is recognized for 5 minutes.

Mr. ENGLISH. Thank you, Mr. Secretary. Mr. Secretary, thank you so much for coming forward. We appreciate the Administration has put together a difficult budget. It's one where I disagree with some of the particulars. But I recognize that you have been attempting to deal with broad parameters, including dealing with a broader fiscal situation, tackling our deficit, and, at the same time, providing the right fiscal mix to deal with our current economic circumstances.

Now, Mr. Secretary, you were instrumental in the development of a stimulus bill which has come through. The premise of that stimulus bill, which most of the House supported, was that right now we need a fiscal stimulus to provide a tonic against a potential recession.

Now, one of the main features of your budget, I think, is a natural follow-on of that stimulus policy, which is to say you have made an effort to extend, from the immediate future, a massive tax increase that was accepted for the future, as part of the budget that passed the House last year.

We have heard, on the Joint Economic Committee, testimony to the effect that this looming, large tax increase has played a significant role in creating the environment where, clearly, there is a falling off of growth, and a legitimate concern about a recession. The looming tax increase has contributed to the environment that may be creating a recession.

You are a long-time observer of the economy and of Wall Street. Can you comment on the importance of making it a priority in the budget to push into the future tax increases that were incorporated into the last budget, as a consistent policy to provide confidence that we're not going to do the wrong thing, and allow the last decade's tax rates to be imposed on an economy that may be softening? Your comment, Mr. Secretary?

Secretary PAULSON. Yes. Congressman, clearly I believe that certainty is something that is valuable. And certainty helps businesses plan, it helps them make the decisions they need to make. I clearly believe that when you look at the intermediate term and the longer term, the most important thing is our long-term tax policy, making that relief permanent.

But we were able to separate that track, because that is on a different track from the stimulus, which we are very much focused on this year.

Mr. ENGLISH. I understand that also, as part of your budget, the Administration has made a concerted effort to identify programs that no longer represent the priorities or the function that they were originally designed for, that the Administration has done something unusual in Washington, and that is, try to weed out programs that may still have political constituencies, but no longer represent the spending priorities that Congress originally embraced.

Would you care to comment on that, and the importance of prioritizing and cutting spending, as part of our overall budget strategy?

Secretary PAULSON. I think that is a very, very important point. There are two sides of any budget. There is the revenue side, and there is the outlay side. They are equally important, and it is, I think, very important to focus on outlays, and focus on spending.

Again, there is discretionary spending and non-discretionary. One thing that hits any observer who looks at the budget for the first time is the increasingly smaller portion of the budget that is discretionary, and how much of it is mandatory. This again brings you to the need to deal with some of the entitlement outlays that are baked into our fiscal picture.

Mr. ENGLISH. Mr. Secretary, I am running out of time, but, again, I want to thank you for the effort that you have made to bring a blueprint to the House that can form at least the basis of our kick-off of deliberations on what I think could be perhaps the most important budget in a decade. Thank you, Mr. Chairman.

Chairman RANGEL. Thank you. The chair would like to recognize Mr. Becerra, from California.

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Secretary, good to have you with us. Let me focus on these—on the tax side of things here a bit. We all have to make our choices, delineate our priorities.

I know the President, in his budget, calls for the permanent extension of his 2001 and 2003 tax cuts. My understanding is that if you were to calculate those into a 10-year budget window, we are looking at about $2.2 trillion for the cost of those tax cuts. When you add in the debt service—in other words, the interest that you would have to pay because we would have to borrow the money to do those tax cuts that go mostly to wealthy folks, it would be about $2.6 trillion over the next 10 years, if we did nothing to the AMT.

So, in other words, if we allow 20-some-odd million Americans to get hit by the alternative minimum tax, those would be the costs of the Bush tax cuts to be extended.

Now, I think most of us believe—and you just had a conversation with Congressmen Neal about the President's proposal to provide a patch, a safe harbor for tens of millions of Americans from being hit by the alternative minimum tax.

So, that, if we were to continue to do that over the next 10 years, the cost of the Bush tax cuts that go principally to wealthy folks would actually go beyond the $2.2 trillion, or the $2.6 trillion over 10 years, to actually over $3.5 trillion in cost to the treasury to extend the Bush tax cuts that are principally geared toward wealthy folks over the next 10 years.

My question to you is in the President's budget, which you are defending, it seems you have made a choice. You provide for a permanent extension of the President's tax cuts that are aimed principally toward wealthy folks. More than a third of those tax cuts, for example, will go to just the top 1 percent of America's wealthy people.

Whereas, in the President's budget, the President, over this next 5 or 10 years, doesn't call for a permanent fix to alternative minimum tax that hits middle-income families, it calls for just a 1-year patch.

So, a decision was made in the President's budget—I suspect with his advisors all talking about priorities—and a priority, I guess, was made. It was more important to provide tax relief to the wealthiest Americans at the cost of $2.5 trillion to $3.5 trillion, depending on how you calculate it, as opposed to providing tax relief to the tens of millions of Americans in the middle, who will get hit by the alternative minimum tax, so that relief for them would be provided for only 1 year, but relief for our wealthiest citizens would be provided permanently. Did I misstate that?

Secretary PAULSON. Yes, sir. I think you did. So, let me——

Mr. BECERRA. As quickly as you can, because I want to go on to something else.

Secretary PAULSON. Okay. I will then say pretty clearly that I think when you look at the tax relief that we would like to make permanent is and at the Tax Code right now, I don't think the Tax Code has ever been more progressive.

Mr. BECERRA. Okay, Mr. Secretary, let me stop you. Tell me—let me just—because I know we could have a philosophical disagreement, but let me ask this. The budget, the President's budget, does call for the extension of the 2001 and 2003 Bush tax cuts.

Secretary PAULSON. You bet it does.

Mr. BECERRA. Okay.

Secretary PAULSON. And——

Mr. BECERRA. The President's budget only calls for a 1-year patch to the alternative minimum tax.

Secretary PAULSON. Yes. What the President's budget says is let us fix the AMT this year——

Mr. BECERRA. Okay. But let me——

Secretary PAULSON. Okay.

Mr. BECERRA. Rather than we get into philosophical——

Secretary PAULSON. Okay.

Mr. BECERRA [continuing]. Let's just talk facts.

Secretary PAULSON. Okay.

Mr. BECERRA. So, the President's budget provides for a permanent extension of the Bush tax cuts. I won't categorize them as for the wealthy. Just facts.

Secretary PAULSON. Yes. Okay.

Mr. BECERRA. The Bush tax cuts of 2001 and 2003 would be permanently extended.

Secretary PAULSON. Right.

Mr. BECERRA. The relief for middle-class families that are going to get hit by the alternative minimum tax would be provided—extended for 1 year, the relief, in the President's budget.

Secretary PAULSON. It is for 1 year——

Mr. BECERRA. Okay.

Secretary PAULSON [continuing]. The AMT patch, and then we——

Mr. BECERRA. Okay. So, those facts are correct.

Secretary PAULSON. But we——

Mr. BECERRA. Now, how you characterize them could be differently portrayed by the two of us. So, rather than get into that with you, we can let others, then, decide what that means——

Secretary PAULSON. Okay.

Mr. BECERRA [continuing]. In terms of extending the Bush tax cuts, versus extending, permanent relief under AMT.

Let me go to another issue. Do you—I know that this isn't within your sphere, as a Secretary in Treasury, but do you believe that, by the end of this year, that the President will have removed all of our troops from Iraq?

Secretary PAULSON. I am not going to speculate how many troops will be in Iraq——

Mr. BECERRA. Okay. Well——

Secretary PAULSON [continuing]. But I think the President has been pretty clear, and I think all knowledgeable observers are pretty clear that we are going to need a presence in Iraq for some time.

Mr. BECERRA. Well, since my time has expired, I won't ask the question, but just make the final point. We are spending about $10 billion a month right now in Iraq, Afghanistan. The President clearly says he's not going to try to remove the troops any time soon.

Your budget calls—or the President's budget—provides $70 billion—that's 7 months of spending—for Iraq, total, for all of fiscal 2009, and does nothing over the 5 or 10 years to account for any cost for Iraq, Afghanistan, or anything else.

So, I was going to ask, but I will just make the point it seems to me that not only did you low-ball the estimates, but you're playing hide and seek with the American public on this. Because to not account for the cost of a war which the President doesn't seem to want to end is to mask the out-year cost to the American people of the President's proposal.

So, there is no way you balance your budget in 2012, if you don't even account for the cost of the war in Iraq, Afghanistan, and anywhere else we may go in. So, again, rather than try to characterize politically and otherwise, I thank you for your time. Mr. Chairman, I thank you for yielding me the time.

Chairman RANGEL. I thought you would want to have a chance to respond.

Secretary PAULSON. I will say what I said the last time the war came up, which is, again, I do not think there is a lack of transparency. We know that the number next year is going to be greater than $70 billion.

Mr. BECERRA. So, why isn't it in the budget?

Secretary PAULSON. That is because we don't know what the number is. And——

Mr. BECERRA. But you know it's going to be——

Secretary PAULSON. It will be greater. So it is pretty clear, that is a challenge. The number will be greater than $70 billion, and it will get filled in this spring.

Mr. BECERRA. Mr. Secretary, I have never seen a family have to budget the way that the President is budgeting for America.

Chairman RANGEL. It's my understanding, Mr. Secretary, that the views expressed by you are not necessarily your views, but those of the Administration.

I would like to recognize Mr. Weller. We got to get back together in New York next year, you know.

Mr. WELLER. Thank you, Mr. Chairman. Mr. Secretary, welcome. It's good to have you before the Committee again. I have a couple of questions I want to ask you.

But before I ask my questions, I do want to make a comment, and I want to begin by commending you and the President and others in the Administration for your leadership on moving forward the Colombian free trade agreement, our agreement with—between the United States and Colombia.

You know, in Latin America, President Uribe is perceived to be the United States's most reliable and strongest partner. He is the most popular political figure in Latin America. I think any president that has approval ratings of 60 to 70 percent, continuously, demonstrates that the people appreciate the progress he has made on reducing violence and extending the presence of a democratically-elected government to every municipality in the country.

You have led congressional delegations, you have done a tremendous amount of work, and I want to commend you for that. I also want to note that that agreement is good for Illinois manufacturers, good for Illinois workers, good for Illinois farmers. I believe that we should ratify that agreement. So, I want to urge you to continue your efforts.

All Latin America is watching how this Congress handles the Colombia and U.S. free trade agreement. I, for one, believe the consequences of failure to ratify this agreement will be a very long-term consequence, because of the perception and role that President Uribe plays in relationship to the United States. So, I want to urge you to continue that effort.

My question here, Mr. Secretary—and my friend, Mr. Levin, talked about unemployment levels. You noted that our economy today is not in a recession, it's in a—you know, the economic growth is slowing. You noted that unemployment this past month was 4.9 percent, which is less than the average rate of unemployment during the Clinton Administration, which I believe was, like, 5.2 percent. You noted that Congress had never created an unemployment benefits program when the unemployment rate was this low. In fact, in 2002 it was 5.7 percent.

My question for you, Mr. Secretary, do you believe that the existing extended benefits program that we have in place, which is triggered according to the unemployment situation in each state which has a trigger, which provides more benefits, do you believe that that's more adequate, if there is a slow-down in certain parts of this country that would cause unemployment to rise in certain parts of the country?

Secretary PAULSON. I believe it is adequate today. I think that, as I have said earlier, if the situation worsens to the point which we are not projecting or expecting it to, it is something we should discuss and take up at that time.

Mr. WELLER. But do you believe that the existing program is adequate? Do you think that we should look at the existing extended benefits program, and see what we can do to fine-tune the existing extended benefits program, rather than creating an additional extended benefit program on top of the one we already have?

Secretary PAULSON. Yes. I would say if there were to be some action, that would be the way to go at this time.

Mr. WELLER. Okay. I wouldn't—you know, with the role I play on the Subcommittee with jurisdiction over unemployment insurance, I would welcome the ideas from the Administration that you—and I realize you're not the Secretary of Labor——

Secretary PAULSON. Right.

Mr. WELLER. But your compatriots within the Administration, if they can share ideas of how we can fine-tune the existing program to make it work better when there is an economic slowdown—again, today's unemployment rate is 4.9 percent, and during the glorious years of the 1990s, it was, on average, 5.2 percent—so I would welcome those initiatives, and hope that you would share them. Thank you, Mr. Chairman.

Chairman RANGEL. Thank you. Mr. Lloyd Doggett, of Texas.

Mr. DOGGETT. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for your testimony. Though I disagree with many aspects of the policy, I do believe that this budget is an excellent reflection of the Administration's true priorities.

When it comes to energy policy, while the President did discover that America was addicted to oil, I think that this budget speaks much louder than any of his words. The budget embraces every single tax subsidy, tax preference, tax benefit for fossil fuels currently in our Tax Code, but it totally rejects even a 1-year extension of the tax credits for wind energy, or for biodiesel, or for solar energy.

Of course, all of those would be in place and in law today, had it not been for the fact that, with the determined opposition of the Administration, you were able to hold us to 59 votes in the Senate, 1 vote short of the super-majority necessary to move America in the direction of a sound, new, renewable energy policy, and rejected all of the work of this Committee in that area.

I want to ask you, first, in contrast, the position that you have taken on the initiative that Mr. McCrery applauded that you and I had a bit of a disagreement on last year when you testified, and that is your health insurance tax proposal.

If I understand that proposal—and I disagree with it on its merits—but one thing that I do applaud you on, as proposed in this budget, just as last year, is that it is a revenue-neutral proposal. It does not add anything to the national debt, does it, if we adopted your proposal in full? Is that correct?

Secretary PAULSON. I think it sure is intended to——

Mr. DOGGETT. Right.

Secretary PAULSON [continuing]. To be revenue-neutral.

Mr. DOGGETT. The way you achieve that revenue neutrality—and this is what you and I got in a debate on last year, and you finally conceded the point—that in order to do what you think is a benefit, a positive step for 80 percent of the people that have these health insurance policies, and maintain revenue neutrality, you, as you said in your testimony, 20 percent of the people, about 30 million or 38 million Americans, "will have the opportunity to restructure their insurance"—and these are your words—"or they will pay more taxes."

So, in order to get this health insurance program that Mr. McCrery and you applaud, and the Administration has endorsed, now 2 years in a row, you raise taxes on 30 million or 38 million people in order to maintain revenue neutrality. You tell them that their tax bill will be higher if they—or they can restructure their policy. They cannot follow that conduct.

My question to you is, is there any offset that the Administration will accept for renewable energy, so we can comply with our PayGo rules and get renewable energy tax incentives? I understand you don't want to do anything to the fossil fuel industry. Or, is the only renewable energy tax incentive policy that you will support, as an Administration, one that requires us to go out and borrow more money and incur more national debt?

Secretary PAULSON. Congressman, first of all, thank you for your comments. There is no doubt that energy security is as big an issue as we have in this country. It ranks right up there with the entitlements issues we were talking about. So, that's number one.

Number two, I felt—and I think a lot of people did—that the energy bill that was done last year was a big step forward. So, you know——

Mr. DOGGETT. Well, we just couldn't get your votes for it, though.

Secretary PAULSON. Well, I have to tell you——

Mr. DOGGETT. I think the President applauds the objectives, he just doesn't want to pay the cost of getting them.

Secretary PAULSON. The other thing I would say to you is it is quite natural that people look to the Tax Code as a way to achieve certain objectives. But that runs counter to some of the things we would like to do to keep it simple.

Mr. DOGGETT. I understand that.

Secretary PAULSON. So——

Mr. DOGGETT. Just given that—of course, my 5 minutes is about to expire—let me rephrase the question again.

Is there any way that this Administration will embrace these renewable energy tax credits, extending them without requiring us to go out and borrow the money to do it?

Secretary PAULSON. I do not think what we should be doing right now is looking to raise taxes. So, I——

Mr. DOGGETT. So, you think the—so the answer is, in fact, that the only renewable energy tax credits this Administration will support—unlike your health insurance program, where you pay for it—

the only ones you will support is if we borrow the money to provide those tax credits.

Secretary PAULSON. I would say in health insurance we are going to be paying for it——

Mr. DOGGETT. But you don't want to pay—you comply with PayGo on your health care, health insurance.

Secretary PAULSON. Well——

Mr. DOGGETT. But you refuse to do it here.

Secretary PAULSON. Well, let me say——

Mr. DOGGETT. If I might, Mr. Chairman, ask him one other very important point, because you have embraced the general approach in your legislation of what Secretary Paulson has done, in what I think was a remarkable conference about corporate tax changes.

You said, in your background paper that you came and briefed our Committee on, that the resources, in terms of revenue foregone, spent providing narrowly tax provisions could be used instead, to provide sector-wide incentives for economic growth.

It is unfortunate that this budget that you have to defend today totally forgot and rejected your approach. In fact, they not only rejected it and ignored it, they did just the opposite, because they proposed to extend at least one of the tax credits, permanently, that you said you would rely on to lower corporate tax rates.

You were in favor of responsible PayGo—pay as you go—but this Administration has rejected it, not only for energy tax incentives, but for anything else. The only kind of tax relief it will support is relief done on borrowed money. I suppose there is no limit to how much money this Administration is willing to borrow and get the nation in hock for. Thank you very much.

Chairman RANGEL. Mr. Brady is recognized for 5 minutes.

Mr. BRADY. Thank you, Mr. Chairman. Good to see you, Mr. Secretary.

I am not so sure that we should be jumping on this Administration about the alternative minimum tax. I know serving here in 1999, a Republican Congress repealed the alternative minimum tax. Unfortunately, President Clinton vetoed that bill, saying it was tax relief for the wealthy. As we all know, it's a real tax burden on more and more middle-class Americans. We would not be in this mess today, but for that veto.

I also don't think we ought to be jumping you about the war costs.

Chairman RANGEL [continuing]. Impeachment——

Mr. BRADY. If I recall, this new Congress came in—do I need to yield to you, Chairman?

If I recall, this new Congress came into office, promising to pay for the war. Yet, last year, I think we did $80 billion or more to support our troops, and not a dime was paid for. My guess is this year we will do the same. So, we ought to probably be looking in the mirror on both of those issues, and dealing with it together, both parties in this Congress, rather than blaming you.

Here is my question. What if I told you there was a sector of the American economy that's growing so fast that last year it represented one quarter of all our growth? This year it continues to grow so quickly that it will be almost 40 percent of our economic growth here, in America.

This sector is growing across the country. It accounts for one of every three acres that we grow. It accounts for one of every manufacturing job we have in America, two out of every five technology jobs. What would you guess that sector of the economy is?

Secretary PAULSON. Trade.

Mr. BRADY. It is. It is exports. Mr. Secretary, given the growing consensus that it's not enough to just buy American, we have to sell American products and services all throughout the world, and that when we have free trade agreements, our sales to those countries are twice as fast and twice as large as they are for countries we don't have agreements with, given the economy we have today, and the fact that that is a sector that continues to create jobs and opportunity here in America, how important is it for Congress to pass, this year, the free trade agreements that are pending with Colombia, South Korea—which is a huge market—and Panama?

Secretary PAULSON. Very important. And I agree with the Chairman. We have more work to do to get Korea in shape. But Colombia we could get done right away. Of course, Korea is very, very important, in terms of the economic impact. Colombia is very important, in terms of the economic impact and the geopolitical impact.

So, again, it has been one of my frustrations, not just in Congress, but looking at the perception that the American people have, that we need to understand how important trade is to our economic well-being, now and in the future.

Mr. BRADY. Well, we are not the only ones out there doing trade agreements. Obviously, our competitors are, as well. We find that when U.S. companies go out to compete around the world, that almost three times as much of the world is tilted against us——

Secretary PAULSON. Yes.

Mr. BRADY [continuing]. As give us a level playing field. So, don't these free trade agreements not only create two-way trade to these countries, they give our U.S. companies and our states an equal chance to sell our products, which is all we're asking to do?

Secretary PAULSON. Absolutely. You've got it.

Mr. BRADY. Thank you, Chairman. I yield back.

Chairman RANGEL. Ms. Tubbs Jones, from Ohio?

Ms. JONES. Mr. Chairman, thank you for the opportunity. Good morning, Mr. Secretary.

Secretary PAULSON. Good morning.

Ms. JONES. How are you? I recall prior Secretary Snow coming before this Committee, having a discussion about the budget. Early on, nowhere in the budget was there any money included for the war. I asked him why there was no money in the budget for the war, and his statement to me was that the President didn't want to go to war, and so, therefore, there was no money in the budget. Yet, he couldn't explain the number of tankers that were out there in the ocean, the soldiers that were on the tankers, the cost of the military expenditures, such as clothing, et cetera, et cetera.

Tell me, how long have you been the Secretary now, Sir?

Secretary PAULSON. About a year-and-a-half.

Ms. JONES. About a year-and-a-half? In that year-and-a-half, we have been doing supplementals on the war. Is that correct?
Secretary PAULSON. That is correct.
Ms. JONES. So, when you look at a budget, a supplemental is not included in the budget. So, therefore, there is no pay-for for the cost of the war, when it's not in the budget. Is that correct, Sir?
Secretary PAULSON. You are right, we have been using a supplemental, which, again, I think is right there for everyone to see.
Ms. JONES. Well, that's not my question. I said there is no pay-for required on a supplemental. Is that correct?
Secretary PAULSON. I am—in terms of the way——
Ms. JONES. You are the Secretary of—excuse me? Is there a pay-for required on a supplemental?
Secretary PAULSON. In terms of your rules, and how you apply them, clearly, everything that is done is going to be ultimately paid for by the American people.
Ms. JONES. Mr. Secretary?
Secretary PAULSON. Yes?
Ms. JONES. Don't play words with me.
Secretary PAULSON. Right.
Ms. JONES. With regard to a supplemental, there is no required pay-for, is there, Sir?
Secretary PAULSON. Under your rules, you're correct.
Ms. JONES. So, how much money is there not required to be paid for that has been expended on the war since you have been Secretary?
Secretary PAULSON. I do not have that number for you.
Ms. JONES. Could you get it for me?
Secretary PAULSON. I can get it for you, yes.
Ms. JONES. Can you get it quickly, so the American people know what that number is?
Secretary PAULSON. We will——
Ms. JONES. It's not about—you are trying to play words with me about transparency. My question is, if it's supplemental, it's not in the budget. So, therefore, it's not required to be paid for. There is a deficit operating out here on this war. Correct?
Secretary PAULSON. I——
Ms. JONES. Yes or no, Sir.
Secretary PAULSON. Those are your words, Madam.
Ms. JONES. No, I'm asking the question. They should be my words. What is your answer?
Secretary PAULSON. I will get you your answer.
Ms. JONES. Thank you. Now, before you became Secretary, in fact, there was some amount of money that was spent on the war as a supplemental, that was not included in the budget. Is that correct, Sir?
Secretary PAULSON. Apparently.
Ms. JONES. Yes or no, Mr. Secretary.
Secretary PAULSON. I will tell you, I will say everything that has been spent on the war to date has been in a budget or supplemental request.
Ms. JONES. It's not been in the budget, it's been spent as a supplemental, not required for a pay-for.
Secretary PAULSON. Okay, it's——

Ms. JONES. Is that correct?

Secretary PAULSON. It has been spent through a regular appropriation or through a supplemental. The——

Ms. JONES. So, therefore, it's not required to be paid for, like in a family budget, where if you spend $10, and you have $10, it's accounted for. But under—the way we do it, with a supplemental, it is not accounted for. Is that correct?

Secretary PAULSON. Well, I would say this. To me, whether it is a supplemental, whether it is in the budget, whether it is a pay-for or not, Madam, it's all in the budget, and it's ultimately all paid for.

Ms. JONES. It's not all in the budget, Mr. Secretary. Would you run a business like you're running the government, with a supplemental that is not paid for?

Secretary PAULSON. I have to tell you I would not run a business like we are running the government. I mean, the budget is a budget in business. You have got all kinds of rules and pay-fors. But I would say to you that——

Ms. JONES. When you say "you've got all kinds of rules," you mean the President has all kinds of rules, and has the ability to have a supplemental. I don't have that ability, do I, Mr. Secretary?

Secretary PAULSON. The pay-for rules are congressional rules.

Ms. JONES. Which makes sense, don't they? They should be paid for. What we spend should be paid for.

Secretary PAULSON. Everything we do spend is paid for, Madam.

Ms. JONES. Oh, you know what, Mr. Secretary? Let's go on to something else, because I don't want to play words with you. You actually recognize the problem we face, as the United States of America, is the fact that the war is not paid for, and you continue to have it offline, and that creates some of the dilemma we're facing right now, yes?

Secretary PAULSON. They're your words.

Ms. JONES. Boy, oh boy, Mr. Secretary, I thought you would be straight with me, instead of playing games. But let me go on to something else, seeing how I know the answer to those questions.

Let's go to the housing problem that we're facing right now, Mr. Secretary. In the budget, there are several things that you or the President has put forth with regard to the housing problem. They're really not going to fix the problem that generation after generation—you know, in minority families and working families, a house is usually the greatest asset we pass from one generation to the next.

So, in fact, the housing problem that we face right now is not only going to affect this generation, it's going to affect generations moving forward, correct?

Secretary PAULSON. Housing is one of the most important assets that any family owns. So, it is very, very important.

Ms. JONES. So, the problem is not only going to affect this generation, it's going to affect generations moving forward.

Secretary PAULSON. It will certainly have a long-term impact. As we go through this housing correction and are very focused on this. This is a serious issue, and it is one——

Ms. JONES. But your focus is only on a certain year with a certain group of families, not all of them, correct?

Secretary PAULSON. We need to deal with this year, and this group of families. We are dealing with the problems where we are finding them. And——

Ms. JONES. Thank you, Mr. Secretary, for not answering my question.

Chairman RANGEL. Mr. Thompson of California?

Mr. THOMPSON. Mr. Secretary, thank you for—down here.

Secretary PAULSON. Oh, sorry.

Mr. THOMPSON. Kind of hidden on the end. Thank you for being here.

Secretary Paulson, how much money does the budget contain to fund the wars in Iraq and Afghanistan?

Secretary PAULSON. How much does the budget contain? There is, obviously, another $108 billion supplemental this year that hasn't——

Mr. THOMPSON. Well, no, that's supplemental. In the budget.

Secretary PAULSON. Oh, in the budget?

Mr. THOMPSON. I understand there is $70 billion?

Secretary PAULSON. $70 billion, which is——

Mr. THOMPSON. $70 billion.

Secretary PAULSON. Right.

Mr. THOMPSON. Does that mean that the President thinks that that's what it's going to cost, $70 billion, to conclude our operation in Iraq, and to bring our troops home?

Secretary PAULSON. I think everyone has been pretty clear that is not what he thinks that is going to include. That is a placeholder, and that number will be filled in later this year, when we have a more precise estimate.

Mr. THOMPSON. It's a placeholder. Tell me why it is that the budget just came out, and there is $70 billion in it, yet the Secretary of the Army is saying that we're going to need approximately $170 billion to conduct our operations in Iraq and Afghanistan?

Secretary PAULSON. Well, I read in the paper this morning that the Secretary of Defense Gates had put that out as a very rough estimate, and said that it would become more precise as he had more information.

Mr. THOMPSON. Well, if—everybody recognizes it's going to cost more than $70 billion—even you say it's a placeholder. The Secretary of Defense said his best guesstimate would be $170 billion. With that kind of disparity, how is it that the American people can believe that there is any credibility in this budget at all? Just on that point, alone.

Secretary PAULSON. That was a question, or a statement?

Mr. THOMPSON. It's a question. How do you expect the American people to believe that this is a credible document?

Secretary PAULSON. As I said, this is a complex document. I think it is just as credible to put out a number as a placeholder and say it's going to be above that, and as soon as we get the number——

Mr. THOMPSON. Well, I guess that——

Secretary PAULSON [continuing]. We will fill it in.

Mr. THOMPSON. I guess that it is even less credibility when there is a statement by the Administration that this budget is expected to be balanced, I think, by 2012 or something, whatever that date was, when there is not even an accurate number for the war funding.

I find it very troubling that this same document—and this document is not just a fiscal document, but this is the priorities, as—for this country, and the people of this country, as seen by the President of the United States, and by his Administration.

To add insult to injury on the war funding issue, you're asking in this document to come back to veterans, veterans who have sacrificed, veterans who have put their life on the line, veterans who have been injured in this war, and asking them to pay more for the medical services that they are going to receive. I find that very, very troubling. There is a substantial increase on the cost that veterans will pay for their medical benefits in your document.

Let me ask also, shifting gears, there is no mention of extending the renewable energy incentives, or the qualified tuition deduction in this document. Does that mean that the President's position on extending these provisions is that he does not support that, he wants to see these taxes increased?

Secretary PAULSON. It does not necessarily mean that. Some of them are clearly extended, and others we are quite prepared to talk about. And——

Mr. THOMPSON. But it's not in the document.

Secretary PAULSON. It is not in the document, you are right.

Mr. THOMPSON. So, is extending these provisions built into the baseline?

Secretary PAULSON. It is not built into the baseline.

Mr. THOMPSON. I couldn't hear you.

Secretary PAULSON. If they're not extended, they're not built into the baseline.

Mr. THOMPSON. Okay. The other thing I wanted to ask, you also are a Medicare trustee, and I would like to just quickly get your comment on how the 45 percent number was selected, in regard to the revenue limit for the trigger. Do you know?

Secretary PAULSON. I do not know the history of that, as to how it was selected, but it is clearly something we are focused on.

Mr. THOMPSON. Mr. Secretary, I just have a little bit of time left, but you have been very helpful—or you've shown a willingness to work with me regarding some American viticulture issues, and it's really damaging to the U.S. wine industry. I appreciate your help.

But this thing has been dragging on forever. TTB has not concluded their work. It's a major threat to the industry, not only in my district, but in wine growing regions across the country. I have had a lot of trouble getting answers to specific questions. I have some questions here that I would like to submit to you, and ask you to answer me in writing, and ask that you do it within the next couple of weeks, because this has been dragging on, and it's hurting a pretty important industry in our country.

Secretary PAULSON. Yes. You and I have talked about it several times. We will keep working with you. As you know, we are still getting comments on these regulations.

Mr. THOMPSON. Right.

Secretary PAULSON. I appreciate how much you care about this.

Mr. THOMPSON. So, Mr. Chairman, could I submit this for the record, and ask that the Secretary respond in the next couple of weeks? Thank you.

[The information follows:]

[The information was not received by the time of publication.]

Chairman RANGEL. We have four votes on, and the Secretary has to leave at 12:30. Suppose we have the remaining Members take 2 minutes and ask their questions, and then see whether or not the Secretary can give some broad response?

We will start with Rahm Emanuel, Mr. Blumenauer, Mr. Kind, Mr. Pascrell, Ms. Berkley, Mr. Crowley——

Mr. EMANUEL. Mr. Chairman, although you called me first, why don't you let Mr. Larson go first, and then I will go after him?

Chairman RANGEL. Sure.

Mr. LARSON. Thank you, Mr. Chairman. Mr. Secretary, thank you for your great cooperation with the Chairman and our leadership, with respect to putting this very important fiscal package for relief that we needed in a very timely and targeted fashion.

Just a couple of—three quick questions for you. One of them has to deal with what this Committee has taken up, as it relates to alternative energy, and——

Chairman RANGEL. Yes.

Mr. LARSON. I noticed that nowhere in the Bush budget are there provisions for alternative energy tax credits.

In light of—my question, my first one is, in light of the incredible profits by Exxon and Mobil, and the fact that this Committee last year suggested that we pay for the alternative energy tax credits by ending tax subsidies for oil and gas, do you think that that's the right way to proceed? If so, why wasn't it included in the Bush budget?

Second one has to deal with getting the stimulus package out, a number of—I visited the volunteer income tax assistance clinic in Hartford, in my district. These clinics are crucial to the outreach program, to make sure that the money gets into the hands of these hardworking people that, of course, will impact the stimulus. Yet, the Administration proposes cutting funding for taxpayer assistance centers.

Is this consistent with the IRS' goal for earned income tax credit outreach? What would you suggest here, in terms of making sure that they get their—we expedite this process, so that we can, in fact, provide the stimulus that we're seeking to do within the process?

Secretary PAULSON. Let me start with the last question first, because I do think that this has got to be a very high priority. I have done a number of events, I did one recently, and I know many of you do similar events. The earned income tax credit is hugely important. I think we are doing a better job, but there is still maybe up to a quarter of the people that qualify for the earned income tax credit, who do not know about it, do not get it.

So, there is a big outreach effort that is necessary, and I will pledge to you that I am just going to keep the IRS focused on that. That is very important.

In terms of your question about the different renewable energy tax credits, and again, I would like to come back to something I tried to say earlier to Congressman Doggett, that there is a natural tendency to want to do some things through the Tax Code. I understand that. That tends to make the Tax Code more complex. I think, often, we are better off just doing it through other measures, other than the Tax Code.

One of the disadvantages that we have in doing these things through the Tax Code is the IRS and the Treasury Department are not energy experts, as opposed to the Department of Energy as we administer some of these things. So, again, I would just make that general comment.

Chairman RANGEL. This is not going to work, so let's cut it down to a minute.

Secretary PAULSON. Okay.

Chairman RANGEL. We can—what you can't cover, you can send a response for.

Secretary PAULSON. I will get it.

Chairman RANGEL. Mr. Emanuel.

Mr. EMANUEL. Thank you, Mr. Chairman. You know, there is—I do have—I will try to be really quick, and run through this. Given that you referred to the war, the $70 billion, as a placeholder, Mr. Secretary, somehow Secretary Gates, the Defense Secretary, knew it cost $170 billion, but somehow you and Chairman Nussle did not know it was $170 billion.

In all due respect, since the budget was just out this week, and Secretary Gates testified $170 billion, you're off by $100 billion, because you're playing—either one concludes you're playing fast and loose with the numbers, A, or B, the right hand and the left hand are not talking around the cabinet table when you draft budgets. I have been around the cabinet table drafting a budget. Somehow the Defense Secretary knows a number that neither you nor the head of OMB know.

I am not asking you to answer it, because it's not a pleasant answer.

Second, you said that the 2001 and 2003 Tax Codes were unbelievably progressive. I would like to borrow your glasses, if I could. In 2001, 36 percent of the entire tax revenue went to people earning over $200,000. In 2003, over 60 percent—close to 63 percent—of the tax revenues went to people earning over $200,000. There was no way, by any estimation, they could be called progressive.

Then, lastly, the President, in the State of the Union, said the budget has to show constraint. You said don't use the Tax Code for support on energy. We are supporting Exxon, Mobil, and other companies, to the tune of $15 billion in tax subsidies, and yet not providing that to wind, solar, and power. We are tying ourselves in our Tax Code to the energy sources of the 20th century, and strangling those that are going to be the energy sources of the 21st century.

I know enough about your record in the past, and your commitment in environmental policy and energy policy, that there is no way the Hank Paulson who was head of—Chairman of Goldman Sachs, who is involved in NRDC and other entities, would believe that the Tax Code should be supplying an energy source of the 20th century, and strangling those of the 21st century.

I think that was done within a minute and 30 seconds, Mr. Chairman.

Chairman RANGEL. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. Mr. Secretary, in my 1 minute I will just frame something that I will forward to you in writing.

One of the areas that I am deeply concerned about deals with the funding for infrastructure, the highway trust fund. For the first time in history, it's going into deficit.

The Administration proposes not to deal with it, not to work with us to move it forward. Even the Chamber of Commerce agrees that we ought to raise the gas tax for the first time since 1993.

I am concerned that, instead of borrowing from mass transit, which just shoves that into the red, that there ought to be some way to work together to figure out, as you're leaving office, to help lay the foundation so we can deal with long-term infrastructure needs of the country.

With your permission, I will just submit something in writing, your direction.

Secretary PAULSON. Good. I will also share that with Mary Peters.

Mr. BLUMENAUER. Thank you very much. Appreciate it.

Chairman RANGEL. Mr. Pascrell.

Mr. PASCRELL. Mr. Secretary, just a couple of questions, and then you can respond. If you don't have time, please get back to us in writing. I would appreciate that.

Do deficits matter, in your view?

Secretary PAULSON. Of course they do.

Mr. PASCRELL. You don't have to answer now. I would like to finish the questions. I want to get these on the record. But would you answer the first one? If you insist, go ahead.

Secretary PAULSON. Of course they do.

Mr. PASCRELL. Now, what are the long-term consequences for our economy, if we are to maintain deficits for the foreseeable future?

Secretary PAULSON. It's unsustainable. That's why we need to solve the entitlements——

Mr. PASCRELL. Third question is, what is the annual average income for people in the top 1 percent of the tax bracket?

The 2001 and 2003 tax cuts plus the AMT relief are permanently extended. If that happens, the top 1 percent of households would receive more than $1.1 trillion in tax benefits over the next decade. Why should Congress provide $1.1 trillion to the wealthiest 1 percent, instead of using this $1.1 trillion to pay down the national debt?

Chairman RANGEL. Mr. Van Hollen.

Mr. PASCRELL. Chairman, can the Secretary get back to us on the answers? Thank you.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. Mr. Secretary, thank you for your testimony. Obviously, we will be quick here.

My understanding is, if you look at the 10-year cost of an extension of the President's tax cuts, you're talking about roughly $2.2

trillion over 10 years. An extension of the AMT, if you do not provide AMT relief for that period of time, we're talking roughly $800 billion. If you could, get back to me on whether or not, number one, those figures are consistent with yours, as well.

I heard, in response to Mr. English's question, that you said this kind of predictability is important, this kind of certainty for the taxpayer and the Tax Code. The question is, doesn't that also apply to AMT taxpayers?

My question is this. Given that you were trying to hit a certain—a balanced budget within a 5-year period, why didn't you take some of the revenue that's lost for—in extending the Bush tax cuts, just the portion that goes to the highest income earners, and use some of that money in your budget to provide AMT relief for more middle-income Americans? Why didn't you make that choice?

Secretary PAULSON. Would you like me to answer that now?

Mr. VAN HOLLEN. Yes.

Secretary PAULSON. I——

Chairman RANGEL. I want to thank you very much for staying here, and it's just a question of time for the votes, and I think we've got 2 minutes. So, Mr. Secretary, thank you. And——

Mr. POMEROY. May I tee up an issue? I have yet to speak.

Chairman RANGEL. What is it?

Mr. POMEROY. I have yet to speak. In 1 minute, I would just like to put an issue before the Secretary.

Chairman RANGEL. Yes. If you need it on the record, or do you want to stay here with the Secretary?

Mr. POMEROY. Well, I would love to stay, but I hate to miss the vote. But I would just like to put an issue before the Secretary.

Chairman RANGEL. Go ahead.

Mr. POMEROY. Mr. Secretary, I am very concerned about—in this time of economic challenge—we are going to have pension plans being canceled. Mark-to-market accounting on long-term liabilities is going to be extremely punishing, relative to employers that want to keep their defined benefit pension plans in place.

The plan assets will reflect the downturn in the market. The forward casting of assets matched to liabilities will reflect lower interest rates. So, fully funded plans last year are going to look underfunded this year, simply by a feature of this mark-to-market accounting.

We need to enact smoothing legislation to ease the hit to employers on funding requirements, and I would just very much appreciate Treasury comment on that, going forward. Thank you.

Chairman RANGEL. Adjourned, and we look forward to getting responses for Mr. Pomeroy's question. Thank you.[Whereupon, at 11:44 a.m., the hearing was adjourned.]

[Submission for the Record follows:]

**Statement of Joseph E. Powell**

Let me start by writing that I appreciate the opportunity to submit this letter regarding the FY 2009 Executive Budget Proposal and be heard.

However, and truthfully, I cannot believe what I have learned about it. To me, it does not seem at all rational to say the least. As we are staring into the teeth of a domestic recession, our Chief Executive Officer puts together a so-called budget that increases deficit spending and totals 3.1 trillion dollars. This is totally unbelievable. This should be stopped dead and a new rational budget be formulated.

We are told that the Administration wants to make up the deficit spending by cutting domestic programs. Which to me (and many others like me) is not acceptable and also not the least bit rational.

A temporary tax rebate measure made up of more borrowed money? Devaluing our own currency to the enjoyment of all of our competitors in the marketplace.

Spending out of control in Iraq. Billions of dollars missing/unaccounted for. No clue where it is. And the war dragging on for five (5) years.

Just allow me a word on the war please. If this country is involved in a life or death ideological struggle of the age—then use the nuclear weapons in our arsenal and put an end to the struggle a positive winner—do not drag it out for generations/forever spending the priceless blood of our youth as if it were saltwater and bankrupting our country's treasury. The subprime mortgage debacle—another great injustice allowed to happen by deregulation.

Adding 1100 Diplomats to the Federal payroll. Just what we need—more overhead.

I should say this spending is anything but Conservative. It appears FAR RIGHT WING RADICAL EXTREME NEO-LIBERAL to me.

Stop spending all of our money overseas attempting to build nations and markets for only those who are already rich beyond belief.

Spend our money here at home. Our domestic programs need to be bolstered and made solvent. Social Security Solvency and Universal Health Care For All Citizens (Medicare For All) needs to happen NOW. Every other major country in the world has it and knows it is the right thing for a government to do for its general population. Our money buys $3.00 a gallon gasoline/expensive fossil fuels to heat our homes and enriches and provides cradle to grave domestic care for those we are purchasing from. That in itself is mad.

The way I see it we should install Trade Regulations that level the field in the world market. Doing so will create incentive to produce more here at home. Domestic business will prosper. When the appropriate Trade Regulations take affect and we purchase fewer products from overseas, our overseas trading partners will lose market share and will increase the cost of their products to consumers within their borders to fund their corporations—further leveling the field. They will then borrow from us to keep their corporations in business.

Stop selling out our country by making it more profitable for business (including manufacturing) to move out of country.

People living in this country have a much higher cost of living than those people in 3rd world overseas economies. People cannot earn a living in this country being paid $1.00 to $3.00 per hour—they need a good job that pays a good wage and at least a living wage as opposed to a minimum wage.

Here in Northeast Ohio the economy (especially my economy) is horrible. Last year was the worst year in business that I can remember. Fifty percent down from the year previous.

It seems every measure taken by every segment of our government is another attempt (greater than the previous) to euthanize our private sector domestic economy.

This needs to be fixed and it's going to take a government that is responsive to the people to fix it.

This Administration and it's policies cannot end quickly enough to suit me.

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