THE PRESIDENT'S FISCAL YEAR 2015 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JACOB J. LEW

HEARING

BEFORE THE

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

ONE HUNDRED THIRTEENTH CONGRESS

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THE PRESIDENT'S FISCAL YEAR 2015 BUDGET PROPOSAL WITH U.S. DEPARTMENT OF THE TREASURY SECRETARY JACOB J. LEW

THURSDAY, MARCH 6, 2014

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

The Committee met, pursuant to notice, at 9:32 a.m., in Room 1100, Longworth House Office Building, Hon. Dave Camp [Chairman of the Committee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
Thursday, February 27, 2014
No. FC–15

CONTACT: (202) 225–3625

Chairman Camp Announces Hearing on the President's Fiscal Year 2015 Budget Proposal with U.S. Department of the Treasury Secretary Jacob J. Lew

House Ways and Means Committee Chairman Dave Camp (R–MI) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2015. **The hearing will take place on Thursday, March 6, 2014, in 1100 Longworth House Office Building, beginning at 9:30 a.m.**

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

BACKGROUND:

On March 4, 2014, the President is expected to submit his fiscal year 2015 budget proposal to Congress. The proposed budget will detail his tax proposals for the coming year as well as provide an overview of the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction.

In announcing this hearing, Chairman Camp said, **"A tax code that is simpler and fairer will make the economy stronger so there are more jobs and bigger paychecks. It is important that any closing of special-interest loopholes be used to lower tax rates—not to pay for new spending—so employers can start hiring again, families can save more and wages can start to grow. The Tax Reform Act of 2014, released last week, achieves these goals and includes ideas advanced by Democrats and Republicans in Congress, as well as those offered by the Obama Administration. This hearing will provide the Committee an opportunity to review the President's tax proposals and Treasury Secretary Lew the opportunity to share ideas in the President's budget designed to meet those same goals."**

FOCUS OF THE HEARING:

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

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, March 20, 2014**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman CAMP. Good morning. This hearing will come to order. Welcome, Secretary Lew. We appreciate you being here with us this morning, and your full written testimony will be made part of the record.

Given that the House of Representatives is scheduled to begin voting at approximately 10:00 a.m. this morning. I would ask that you would provide a brief oral summary of your testimony, so we can move more quickly to questions from Members of the Committee. But in order to give as many Members as possible the opportunity to question the Secretary, Ranking Member Levin and I will forgo our opening statements. And, in addition, we will reduce to 3 minutes the time for questioning.

So, Secretary Lew, welcome, and please begin.

STATEMENT OF THE HONORABLE JACOB J. LEW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary LEW. Thank you very much, Mr. Chairman, Ranking Member Levin, Members of the Committee. I appreciate the opportunity to testify today on the President's budget.

Before I begin, let me say a few words about the situation in Ukraine. President Obama has explained in no uncertain terms that the steps Russia has taken to violate Ukraine's sovereignty, Ukraine's territorial integrity, and—are a breach of international law. As the President announced this morning, he has signed an executive order to authorize sanctions on individuals and entities responsible for activities that undermine the democratic process, threaten the peace, security, stability, sovereignty, or territorial integrity of Ukraine, or misappropriate state assets within Ukraine.

This executive order is a flexible tool that will allow us to sanction those who are most directly involved in destabilizing Ukraine, including the military intervention in Crimea, and does not preclude further steps, should the situation deteriorate.

These sanctions build upon previous actions that the United States has taken. But, at the same time, as the President has said, we are prepared to work with all parties to de-escalate the situation, and we call on Russia to take the necessary actions to resolve this crisis. It is in Russia, the United States, and the world's best interests to have a stable and prosperous Ukraine. And as the Ukrainian government prepares for elections in May, it is critical that the international community work together to support its efforts to restore economic stability.

I have spoken with the Ukrainian prime minister a number of times, and he has told me that the government is ready to adopt vital economic reforms. We have been working closely with international partners and Congress to develop an assistance package that will help the Ukrainian Government implement reforms needed to restore financial stability and return to economic growth. As part of this international effort, the United States has developed a package of bilateral assistance focused on meeting Ukraine's most pressing needs. This package will include $1 billion in loan guarantees and IMF quota legislation, which would support the IMF's capacity to lend additional resources to Ukraine, and help preserve continued U.S. leadership within this important institution at a critical time.

While the United States will not increase our total financial commitment to the IMF by approving the 2010 reforms, it is important to note that, for every dollar the United States contributes to the IMF, other countries provide $4 more. At a time when the U.S. is at the forefront of international calls in urging the fund to play a central and active first-responder role in Ukraine, it is imperative that we secure passage of IMF legislation now, so we can show support for the IMF in this critical moment, and preserve our leading influential voice in that institution.

I want to be clear that, even as we deal with the unfolding events in Ukraine, we continue to focus on our central objective, which is expanding opportunity for all Americans. Over the past 5 years, we have accomplished a number of important things to make our country stronger and better positioned for the future. In fact, since 2009 the economy has steadily expanded. Our businesses have added 8.5 million jobs over the last 47 months. The housing market has improved and rising housing prices are pulling millions of home owners from under water. At the same time, household and business balance sheets continue to heal, exports are growing, and manufacturing is making solid gains.

The truth is, as the President said in his State of the Union, we are more ready to meet the demands of the 21st century than any other country on earth. Nevertheless, our economy was thrown against the ropes by the worst recession of our lifetimes. And, while we are back on our feet, we are not where we want to be yet. Everyone here understands that. And the question is, what are we going to do about it?

The President's budget lays out a clear path to move us in the right direction. It not only fulfills the President's pledge to make this a year of action, it offers a framework for long-term prosperity and competitiveness. This budget addresses the critical issues we face as a Nation. It recognizes that while corporate profits have been hitting all-time highs, middle-class wages hit a plateau, with long-term unemployment and ongoing challenge. It recognizes that while the stock market has been vibrant, saving for retirement and paying for college is little more than a dream for millions of American families. It recognizes that while our national security threats are shifting, and we are bringing the war in Afghanistan to a responsible end, soldiers, military families, and veterans struggle to succeed in our economy. And it recognizes that while work is being done to put the final pieces of financial reform in place, reforms like the Volcker Rule have made our financial system stronger, and an engine for economic growth once again.

The solutions in this budget flow from a frank assessment of these challenges. They are carefully designed to show the choices we can make to increase opportunity and bolster the middle class.

For instance, a cornerstone of these proposals is to expand the earned income tax credit, so it reaches more childless workers. We know this credit is one of the most effective tools for fighting poverty, and it is time to adjust it so it does an even better job rewarding hard work. This tax cut, which would go to more than 13 million Americans, will be fully offset by ending loopholes that let high-income professionals avoid the income and payroll taxes that other workers pay.

Another initiative that will make a difference for hard-working men and women is myRA. This retirement security program will be available later this year, and it will allow Americans to start building a nest egg that is simple, safe, and can never go down in value.

While this budget puts forward essential pro-growth initiatives, it also calls on Congress to reinforce our growth-enhancing strategies by passing measures like comprehensive immigration reform and trade promotion authority. But even as it does these things, make no mistake; this budget is also serious about building on the success we have made together to restore fiscal responsibility.

The fact of the matter is, the deficit, as a share of GDP, has fallen by more than half since the President took office, marking the most rapid decline in the deficit since the period of demobilization following the end of World War II. The deficit is projected to narrow even more this year. And today we are charting a course that will push the deficit down to below 2 percent of GDP by 2024, and rein in the national debt relative to the size of the economy over 10 years.

Last year, the President put forward his last offer to Speaker Boehner in his budget as part of a balanced compromise. This year's budget reflects the President's vision of the best path forward. While the President stands by his last offer, he believes that the measures in his budget are the best way to strengthen the economy now. As this budget demonstrates, the President is firmly committed to making tough choices to tackle our fiscal challenges and our fair and balanced solutions represent a comprehensive approach to strengthening our Nation's financial footing.

This approach shrinks the deficit and debt by making detailed responsible changes to Medicare, while eliminating wasteful corporate tax loopholes and subsidies that do not help our economy, and by scrapping tax breaks for those who do not need them.

Increasing basic fairness in our tax code is not just about improving our Nation's fiscal health, though. It is also about generating room so we can make investments that will strengthen the foundation of our economy for years to come. This means helping to create more jobs by repairing our infrastructure, increasing manufacturing, boosting research and technology, and fostering domestic energy production. It means training Americans so they can get those jobs by promoting apprenticeships and upgrading worker training programs. It means improving our education system by expanding access to preschool and modernizing high schools. And it means making sure hard work pays off by creating more Promise Zones, increasing college affordability, and raising the minimum wage to $10.10 an hour, and indexing it to inflation.

In closing, let me point out that this budget represents a powerful jobs growth and opportunity plan. It is carefully designed to make our economy stronger, while keeping our fiscal house in order.

What is more, it offers Washington a real chance to work together. As everyone on this Committee knows, for far too long brinkmanship in Washington has been a drag on economic growth. But we have seen a significant amount of bipartisan progress in recent months that has helped improve economic momentum. Some cynics say it is fleeting, some call it election year posturing, but I don't agree. I believe this progress is real, I believe we can keep finding common ground to make a difference, and I believe we can continue to get serious things done on behalf of the American people by working together.

I thank you, and I look forward to answering your questions.

[The prepared statement of Secretary Lew follows:]

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WRITTEN TESTIMONY OF SECRETARY JACOB J. LEW BEFORE THE HOUSE WAYS AND MEANS COMMITTEE ON THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2015 MARCH 6, 2014

Chairman Camp, Ranking Member Levin, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2015 Budget.

The President's Budget invests in the United States economy to promote economic growth in the short-term and to strengthen the foundations for sustained prosperity in the long-term. The Budget builds on recent bipartisan achievements to make fiscal consolidation more balanced and incorporates initiatives to foster innovation, rebuild infrastructure, promote national security, and ensure economic, health, and retirement security for all Americans.

Introduction

When the President took office five years ago, the fiscal outlook for the federal government was bleak. The fiscal deficit was large—at nearly 10 percent of GDP—before any of his policies were enacted. Moreover, the economy was in the throes of the worst recession the nation had seen in generations. Since that time, both the sustained economic recovery and the policies put in place have resulted in a sharp decline in the deficit, putting us on a sustainable fiscal path.

From fiscal year 2009 to 2013, the deficit as a share of GDP fell by more than half to 4.1 percent. This 5.7 percentage point decline in the deficit is rapid by historical standards—over the past several decades, only the period of demobilization following the end of WWII has seen a faster pace of fiscal consolidation. For fiscal year 2014, the projection is for another reduction in the deficit, to 3.7 percent of GDP. A growing economy and our policy choices have dramatically improved our fiscal trajectory. Unfortunately some of the deficit reduction, particularly arbitrary spending cuts imposed by the sequester, have been a notable drag on the economy. More generally, the contentious political environment in Washington, governing from crisis to crisis, has held back the recovery that would have otherwise created more jobs for working Americans. Over the past couple of months, we have seen real progress in returning to regular order in conducting fiscal policy, and so I am hopeful that the bipartisan progress we have seen can continue. But such progress necessarily takes compromise to stimulate growth and curb the deficit. The President's FY 2015 Budget continues this trend. Under the FY 2015 Budget, the deficit will decline to less than 2 percent of GDP by 2024. Debt held by the public as a share of the economy will stabilize in FY 2015 and decline steadily thereafter until the end of the forecast horizon to 69 percent of GDP in 2024.

Over the past 4½ years, the United States economy has made clear and substantial progress recovering from the worst recession the nation has seen since the Great Depression. Although far more work remains to be done, the economy is poised to accelerate this year, continuing the recovery and putting millions more Americans back to work. While the economy has grown at an average rate of 2.3 percent since the recession, last year it grew 2.5 percent. Since February 2010, when the economy began producing jobs again, we have added 8.5 million new private-sector jobs, including 2.3 million over the past year. The housing market, which was the locus of much of the distress in the economy, is now rebounding, as rising house prices benefit millions of homeowners and activity in the sector shows signs of a building recovery.

Since the last time I testified on the President's budget, the economy has improved; but we cannot yet be satisfied with where we are. The unemployment rate fell to 6.6 percent in January, its lowest level since October 2008, but there are still millions of Americans in search of work as well as part-time workers in search of full-time opportunities. Moreover, the benefits of the growth we have seen are not being shared by all Americans. Median income for American families has been stagnant for years, while income at the very top has seen substantial growth.

Our recovery from the worst economic recession since the Great Depression continues to strengthen, but more needs to be done to accelerate growth and ensure the benefits of economic growth are not overly concentrated. The President's Budget presents a considered plan to build on the momentum of the recovering economy, to invest in long-term, sustainable growth for all Americans, but to remain dedicated to the need for fiscal responsibility. The recovery in the U.S. economy has helped to drive the world economy. At the G20 meetings, there was agreement that more needs to be done to stimulate growth around the world. With the building strength in our economy, we can maintain our leadership in the global community.

While the FY 2015 Budget adheres to the 2015 budget caps, it also includes a $56 billion Opportunity, Growth, and Security Initiative that will allow for additional discretionary investments to help expand economic growth and opportunity. This initiative follows the Bipartisan Budget Act (BBA) model of providing equal dollar sequestration relief for defense and non-defense outlays and is fully offset by a combination of revenue and non-health mandatory spending reforms. The initiative highlights the type of balance that the President has long been calling for by funding critical domestic initiatives. This Budget proposes to restore discretionary spending to a path that would support economic growth, opportunity, and security. In particular, while the BBA replaced half the discretionary sequestration cuts for 2014, it replaced just one-fifth of the scheduled cuts in discretionary funding for 2015. As a result, taking into account projected growth in programs such as veterans' medical care and other factors, the BBA non-defense discretionary funding levels for 2015 are several billion below the levels the Congress provided in 2014. They are also below 2007 funding levels adjusted for inflation, even though the need for pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath.

The proposals in the President's Budget aim for balance to achieve long-run fiscal responsibility while promoting economic recovery and growth by eliminating waste, investing in the future, and reforming certain mandatory programs. The Budget calls for business tax reform that will make our companies more competitive but that will be revenue neutral in the long run. It introduces a plan to repair our existing infrastructure and expand it to support our economy for the next generation. The Budget increases the resources we are putting toward national security both at home and abroad because economic prosperity and fiscal responsibility cannot come at the expense of our safety. The Budget also proposes initiatives to improve early childhood education and skills training because investing in our nation's human capital will provide the best long-run return for the economy.

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Taking appropriate steps today will make our fiscal challenges easier tomorrow. A stronger economy today will ease those fiscal challenges and improve the lives of working Americans. A credible plan, built on the recent bipartisan cooperation that we have witnessed, is the best way to secure long-run growth.

Investing in Jobs and Opportunity

The strength of our country remains our ability to innovate, the greatest workers in the world, and our strong businesses. The United States competes in a global economy, and to continue to provide jobs and opportunity for Americans, we need to invest in American innovation, strengthen our manufacturing base, and keep our nation at the forefront of technology.

The President has called for the creation of a national network of manufacturing innovation institutes across the country. This network will bring together the private sector, universities, and the government to cooperate to develop world-leading technologies that will support domestic manufacturing. In 2011, the President launched SelectUSA, creating the first Federal effort to attract foreign business investment in the United States, and the Budget expands that effort.

The Budget calls for investing in a wide array of research and development (R&D), from advanced manufacturing and clean energy technology, to health care and agriculture. To support private-sector applied R&D, the Budget reforms and makes permanent the Research and Experimentation tax credit.

In order to secure America's energy future and to protect the planet for future generations, the Budget helps increase American low-carbon energy production while improving energy efficiency. Over the President's first term, the United States cut oil imports by more than 3.6 million barrels per day. To accelerate the progress toward energy independence, the Budget establishes an Energy Security Trust to help fund efforts to shift cars and trucks away from oil. The budget also combats climate change. It does this by investing in clean energy technology, promoting cleaner fossil fuels, supporting the development of carbon pollution standard for power plants and efficiency standards for appliances and buildings, expanding the Better Buildings Challenge and, encouraging international efforts to reduce greenhouse gas pollution.

Building a 21st Century Infrastructure

Long-term economic success depends on the infrastructure that supports our economy. That is why the Budget includes a proposal that uses one-time transition revenue resulting from business tax reform to fund a four-year, $300 billion surface transportation initiative that will improve our roads, bridges, and railways and will also create jobs across the country. And because funding is one of the most significant obstacles to getting infrastructure initiatives started, the Budget offers innovative ways to finance them. It continues to call for an independent National Infrastructure Bank with the ability to bring together private and public capital in support of a broad range of infrastructure projects, including transportation, energy, and water. At the same time, the Budget creates an America Fast Forward Bonds program to attract new sources of capital for infrastructure investment. Finally, the President has called for streamlining and accelerating the

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permitting process for infrastructure initiatives, and the Budget includes funding for a new Interagency Infrastructure Permitting Improvement Center to help with these efforts.

Supporting Education and Providing Skills

The single greatest resource that our economy has is our people, and it is critical that Americans have the skills and knowledge to compete in the global economy. Research has shown that investing in early childhood education pays great dividends for years to come. The Budget includes the Preschool for All initiative, which was first proposed by the President last year. This initiative involves partnering with States so that all low- and moderate-income four year olds have access to high-quality preschool and creating incentives for the States to expand these programs to reach additional children from middle-class families and establish full-day kindergarten policies. The Budget also provides $150 million for a new program to redesign high schools so students get relevant educations that meet the demands of current and future employers.

As important as it is for us to modernize and expand programs for young people, it is equally important that we modernize and expand job-training programs for current workers and job seekers. One way the Budget does this is by helping to increase registered apprenticeships, so that workers can "earn and learn" in cutting edge fields. Because long-term unemployment remains a pressing economic and social issue, the Budget provides resources for new public-private partnerships to help get the long-term unemployed back into paying jobs.

Promoting Economic Opportunity and Mobility

As I noted earlier, the economic recovery from the Great Recession has gained traction, but more work remains to be done, particularly to ensure that current and future opportunities are enjoyed by all Americans. Although the unemployment rate has fallen 3.4 percentage points since its peak in 2009, the long-term unemployment rate remains stubbornly high. At the end of last year, Emergency Unemployment Compensation for these Americans lapsed. Congress should renew this vital support for Americans in need, both because of the human suffering that it would reduce, but also because it would add strength to the economy. To increase opportunity for Americans, the Budget supports the Promise Zone initiative, which establishes partnerships with the Federal government, State governments, and businesses to create jobs, expand educational opportunities, and increase access to affordable housing.

In his State of the Union address earlier this year, the President called on Congress to raise the federal minimum wage to $10.10 per hour and to index it to inflation. No American who works full time should have to live in poverty, and the proposed new minimum wage would pull an estimated 1.6 million Americans out of poverty and add spending to the economy. The Earned Income Tax Credit (EITC) also provides support to low-income working Americans. The Budget expands the EITC available to workers without children and non-custodial parents, including by making the EITC more available to younger workers to encourage more young Americans to join the workforce at the critical beginning stages of their working lives. Improving the security of Americans in retirement is also an important policy goal. To that end, the Administration is moving forward with the myRA "starter" retirement account, and the

Budget proposes to establish automatic enrollment IRAs to provide even broader access to retirement savings vehicles for Americans who do not currently have access to a workplace savings plan.

Ensuring Our Nation's Safety and Security

Sustained economic growth is only possible to achieve if our country is safe and secure, and the President's Budget bolsters national security both domestically and abroad. The Budget invests in the President's Now is the Time initiative to reduce gun violence, supports additional background checks for firearms dealers, and continues to support the Comprehensive School Safety Program and other programs that make our schools safer. Protecting our national security around the globe is equally important, and the Budget reflects a focused effort to address our highest defense priorities—bringing the war in Afghanistan to a responsible end, working to disrupt and disable terrorist networks, and assuring that our military is ready to respond to new threats such as cyber-attacks or attacks on the nation's critical infrastructure. Given the critical role our military plays, this budget provides significant resources to support veterans' medical care, help military families, assist soldiers transitioning to civilian life, reduce veterans' homelessness, and improve the disability claims processing system.

Health Care Reform

With continued implementation of the Affordable Care Act (ACA) and the opening of the Health Insurance Marketplace, millions of people have enrolled in either private insurance or received coverage through Medicaid and the Children's Health Insurance Program. The Budget fully funds the ongoing implementation of the ACA to make sure that coverage is affordable, to drive down long-term health care costs, and to improve the quality of health care for Americans.

At the same time, the President is committed to meaningful reforms to entitlement programs. The Budget includes $402 billion in savings on health care spending. The Budget includes proposals to increase care quality and efficiency and to reduce fraud in our Federal health care programs. The Budget also includes structural changes to Medicare that encourage beneficiaries to seek high-value healthcare services. The Budget proposes a reduction in the Federal subsidy of Medicare costs for those who need the subsidy the least. For new beneficiaries beginning in 2018, the Budget proposes a modified deductible for Medicare Part B and a modest copayment for some home health services. The Budget also has several proposals to contain the costs of medications, including encouraging the use of generic medications when clinically appropriate and closing the prescription drug coverage gap faster than current law. The Budget also seeks to align Medicare and Medicaid drug payment policies, addresses excess payments to hospitals and physicians, and increases access to generic drugs and biologics.

The Budget seeks to preserve the existing partnership between States and the Federal Government, while making Medicaid more efficient and sustainable. The Budget would limit Federal reimbursement for a State's Medicaid spending on certain durable medical equipment services to the equivalent Medicare payments in that State and includes targeted policies to lower drug costs in Medicaid. The Budget strengthens Medicaid and CHIP by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse, and make it easier for eligible children to get and maintain coverage. The Budget also includes other program improvements aimed at improving efficiency and effectiveness as States expand Medicaid.

Lastly, the Budget proposes a budget neutral pilot initiative under the Program for All-Inclusive Care for the Elderly (PACE) to test whether PACE programs can effectively serve a younger population without increasing costs. The Budget also supports a streamlined, single beneficiary appeals process for managed care plans that integrate Medicare and Medicaid payment and services. Finally, the Budget authorizes a permanent program to provide retroactive drug coverage for certain low-income Medicare beneficiaries through a single plan.

Reforming the Tax Code

The tax code should encourage public confidence and provide a simple level foundation for economic growth. However, over time, it has become unnecessarily complicated and a burden on the economy. Comprehensive tax reform holds the promise of improving economic growth by reducing complexity for individuals and small businesses, by curbing inefficient tax subsidies that distort individual and business decision-making, and by reducing the deficit. While the Administration's position is that tax reform should raise revenue, unfortunately, there is not agreement in Congress on whether tax reform should raise revenue or be revenue neutral. The President's Budget, however, builds on the bipartisan support for business tax reform. In February 2012, the President provided a framework for how business tax reform could be achieved. The Budget uses that framework to simplify and strengthen tax incentives for research and clean energy, to begin closing loopholes and eliminating special-interest subsidies, and to begin reforming the international tax system. The proposals would prevent U.S. companies from shifting profits overseas and prevent foreign companies in the U.S. from avoiding taxes that they owe. These proposals are part of a comprehensive—and long-run revenue neutral—business tax reform plan that would also cut the marginal tax rates for businesses.

As I noted above, the Budget also expands the earned income tax credit (EITC) for childless workers. The EITC has been a particularly effective tool at reducing poverty in this country, it has been supported by both parties, and creates crucial incentives to boost employment. The President proposes to strengthen the EITC, especially for young people that are just entering the labor force. Beyond these measures, the President is committed to working with the Congress to reform the tax code further to make it fairer, to promote economic growth and job creation, and to improve competitiveness.

Comprehensive, Pro-growth Immigration Reform

The President believes that we need to fix our broken immigration system by continuing to strengthen border security, by cracking down on employers who hire undocumented workers, by fixing our broken legal immigration system, and by providing a pathway to citizenship for hardworking men and women who are already here and contribute to our nation every day.

Immigration reform will encourage economic growth and help achieve better fiscal policy. The President has laid out principles for immigration reform but wants to work with Congress to craft specific legislation. But, the Congressional Budget Office estimates that the immigration bill

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that passed with bipartisan support in the Senate last year – and which is largely consistent with the President's vision – would reduce the deficit by about $160 billion in the first decade and by almost $850 billion over 20 years. Similarly, the Social Security Actuaries have found that the Senate bill would reduce the Social Security shortfall by $300 billion over the first 10 years. The Administration supports the Senate approach, and calls on the House of Representatives to act on comprehensive immigration reform this year.

Conclusion

In summary, the U.S. economy has made clear progress in the recovery from the Great Recession, but we cannot be satisfied with where we are. The labor market is clearly improving, but millions are still looking for work. This budget is a comprehensive and balanced approach to the realities we face. It supports the ongoing recovery and invests in long-term growth, while also building on the progress that has already been made to ensure a sustainable path for the debt and deficit.

The Budget is a credible, common sense plan that makes hard choices. It focuses on economic fundamentals that will help drive growth, create jobs, and expand opportunity for all Americans, unlocking a brighter future for future generations. I believe, as does the President, that the recent bipartisan cooperation on Capitol Hill demonstrates that we can find common ground to move our country forward. I look forward to working with Congress to get this done.

Chairman CAMP. Well, thank you very much, Mr. Secretary. The Administration's budget proposal assumes that three temporary tax provisions that were first enacted in 2009 and expire in 2017 are permanent. This means that making them permanent doesn't "cost anything," as they don't have to be offset. Making these provisions permanent relative to current law is estimated to cost about $154 billion. What standard did you use to determine what extenders would be assumed to be permanent and not offset, and which would not?

Secretary LEW. Mr. Chairman, you are asking a question about the baseline that we used, and baselines are a complicated technical matter. We have tried——

Chairman CAMP. I am fully aware of that.

Secretary LEW. I know. I understand you know that. And we have tried for the last number of years to have the baseline reflect, as best as it can, the things that are, in practice, more permanent, and really part of the ongoing, you know, challenge of funding government.

We believe the refundable tax credits, the earned income tax credit, the items you were referring to, should be made permanent. We made that case, obviously, many times over. It actually doesn't make a difference whether it is in the baseline or not, in terms of what the final bottom line is. A budget has to cover all of the spending and revenue flows in it.

And the bottom line is that when you look at our budget, by reducing the deficit to 3 percent of GDP, and on a path to 1.9 percent of GDP, we have put together a package that accommodates it. It is a technical decision that I think is the right one. Others, the Center for Responsible Budgets, the Senate Budget Committee, others, have made a similar decision. I understand there are technical issues in the baseline that——

Chairman CAMP. And—well, and if I might, there are many tax extenders that have been part of the tax code for a lot longer than those three provisions, such as Section 179 for small business expensing, which was part of the 2001 and 2003 tax relief, or the R&D tax credit, for example, which was enacted in 1981. So I think a strong case can be made that these provisions should be permanent, as well.

And, obviously, when I released the discussion draft on comprehensive reform, I specifically asked for feedback on that particular issue. And I would just ask you your thoughts on a discussion about which tax extenders should be part of the baseline, and do you think that is an appropriate discussion to have.

Secretary LEW. Mr. Chairman, I actually think that when we do tax reform, coming out of tax reform, we would be better off if we had more of a sense of permanence because certainty about what is in the tax code and what isn't helps to contribute to—more certainty is a better environment for investment.

The challenge we have had is—with the extenders is there has been an ongoing debate about which ones to extend, and whether or not they are permanent. And we believe that the tax credits that we put in the baseline are items that have a different character.

You know, we did propose, as a matter of policy, to make our—the research and experimentation tax credit permanent. So we totally agree that there are items that should be made permanent. And what is policy and what is baseline is something we are happy to talk about. Coming out of tax reform—and I will note that in the plan you put forward there are some very clear paths there which—you know, some of it overlaps considerably with what we are talking about——

Chairman CAMP. Well, thank you. And I look forward to having that discussion with you on those issues.

On another topic, a lot of people are angry about how complicated the tax code is, and I certainly hear that from people in my district who are hard-working taxpayers. You know, as we have talked about in this Committee, the code has 15 different provisions for saving for college. The IRS has a 90-page instruction booklet on that. The draft reform legislation includes the bipartisan proposal by Congressmen Davis and Black and to consolidate and modernize certain tax breaks.

Now, my question to you is, are there certain opportunities to reform and simplify the code, particularly for parents trying to save for college education, our hard-working taxpayers, that we can accomplish without necessarily having to resolve the question about whether comprehensive reform should raise revenue or not?

Secretary LEW. Mr. Chairman, there, I think, is always room for conversations about what we can do to make the tax code more efficient, more effective, and easier for people to use. I do think that, as we get to the conversation of comprehensive tax reform, it is inherently tied to the fundamental question of whether revenue is part of a long-term fiscal plan.

On the question of the education provisions, you know, simplification is a desirable goal, but we also have different objectives that are achieved by different pieces of the code now. And I think the challenge, and a conversation we look forward to having with you, is how to get the balance right, so that we still are encouraging the kind of behavior that we think makes a difference for the economic future of both families and the country. And I know, in your plan, you know, there are changes, some of which we have questions about in terms of, like, the AOTC. And I think those are important questions for us to work through.

Chairman CAMP. Yes, and I was obviously asking about not necessarily a comprehensive approach, but on individuals.

But last, the Administration says that the business tax reform is long-run revenue neutral. And that strikes me as being inaccurate, given that, the way I read your budget, you are really proposing $150 billion business tax increase in the first decade to pay for infrastructure. And then the proposal would be revenue-neutral in years 2011 and beyond. I think, put another way, I think it could be described, if you looked at year one to the long run, it is really a $150 billion tax increase. Because I think, truly, to be revenue-neutral, you need to calculate the $150 billion as part of that approach. Don't the first 10 years count, as well?

Secretary LEW. Mr. Chairman, the challenge is that the—any tax reform is going to throw off a certain amount of revenue at the beginning, as there is a transition that won't be there in the long run. So, if one were to take that revenue and lower rates permanently, it almost forces you to lose revenue after the introductory period. So, years 2011 through 2020 would start to lose revenue.

There is a choice what to do with the one-time flows. You could reduce the deficit with it, and that is a perfectly legitimate decision to make, or you could do one-time expenditures. We believe that a one-time expenditure on building infrastructure would be good for the economic future of this country, and that is why we proposed it. I actually think that—when I talk to CEOs, one of the things that they raise with me, even before tax issues, is the need for infrastructure. So I actually think that there is support in the business community for the idea.

Chairman CAMP. Yes. Outside of the motivation for it—but it is a $150 billion cost in the first decade. But I think—am I accurate in that it is revenue-neutral in years 2011 and beyond? So if you look at the entire time frame in question, it is actually not revenue-neutral to the tune of $150 billion——

Secretary LEW. There is a dilemma, Mr. Chairman, that if you crank the savings, the revenues that come for one time when there are timing shifts, or when new provisions go into effect, into permanent rate changes, you will lose money in the out-years. So you would have to step down rates as you got to year 2011 to be truly revenue-neutral. We think our proposal is a better approach than that.

Chairman CAMP. All right. Mr. Levin.

Mr. LEVIN. Welcome. I welcome your statement and the President's actions on Ukraine. And I hope all of us will rally together to be supportive of the President's action.

And I think the Chairman has started this off on the right step, if I might say so, so that we talk about your testimony and issues relating to that, including tax reform. I think that is the way we should be doing this hearing, and not wander off into other subjects. So let me ask you about two portions of your comprehensive testimony.

On page four you say, "Because long-term unemployment remains a pressing economic and social issue, the budget provides resources for new public-private partnerships to help get the long-term unemployed back into paying jobs." I think that is right on target. Just, if you would, state briefly the position of the Administration on extension of unemployment compensation to the long-term unemployed, now over two million who have lost their benefits.

Secretary LEW. Congressman Levin, we strongly support the extension of long-term unemployment benefits. You know, as we look at the unemployment statistics, it is clear that short-term unemployment is coming back down to a more normal range. But long-term unemployment is staying stubbornly high.

That means there are people who are looking for work who can't find work, and we need to continue, as we have every time unemployment has been at these kinds of levels, respond with long-term unemployment benefits that phase out as the unemployment rate comes down.

You know, I think the important thing for us to do is deal with the short-term need by extending long-term unemployment benefits, but also focus on what we do to get the economy growing faster, creating more jobs, which is why we focus on things like rebuilding our infrastructure, on skills training, and manufacturing hubs, the things that will be job-creators, to create opportunities for people.

Mr. LEVIN. Good. My time will be up soon. I just wanted to refer on page two to your statement about non-defense discretionary funding levels. And I hope, during our discussion, you will have a chance to analyze this. Because I think the way we are headed, non-defense discretionary funding levels are now being lowered to levels that we haven't seen in decades.

Secretary LEW. Congressman, that is definitely true. Part of—we have done an enormous amount of deficient reduction, most of it through spending reduction, most of it through discretionary spending reduction. I think that what we are trying to do in this budget is make a case that on both the defense and the non-defense side, in order to meet the needs of our Nation, we are going to have to find ways to hit our fiscal targets, while restoring the ability to invest in our future and defend the country.

Mr. LEVIN. Thank you very much.

Chairman CAMP. Mr. Brady is recognized.

Mr. BRADY. Thank you, Mr. Chairman. Yesterday's decision by the White House to allow canceled insurance plans under the ACA to continue past the election, was that primarily a political decision?

Secretary LEW. Congressman, as you know, that decision was a decision that was in the purview of the Department of HHS, not Treasury. I think I could speak generally to it, but not specifically.

In general, our approach to the implementation has been to do everything we can to implement the Affordable Care Act in a smooth, effective way. Obviously, there were some bumps at the beginning. We have fixed the technical issues, and we are moving forward.

Mr. BRADY. But this is not a technical issue. I mean, until recently, both you and the President described these plans as substandard. As these plans still viewed as substandard?

Secretary LEW. Congressman, again, I am going to leave the discussion of——

Mr. BRADY. Well, it is in your budget.

Secretary LEW. Yes.

Mr. BRADY. That is what we are here to talk about.

Secretary LEW. And the goal in implementing the Affordable Care Act has been to make sure that we—the new plans can be in place——

Mr. BRADY. But I guess my question is——

Secretary LEW [continuing]. The exchanges can be in place, and we are working hard——

Mr. BRADY. But what has changed? If these were substandard plans, as described by the President—and I believe he said, "Americans deserve better"—are they still viewed as substandard plans?

Secretary LEW. You know, Congressman, I think we have been clear that we think that the right level of coverage is prescribed in the Affordable Care Act, and we have exchanges in place, both State and Federal, to offer that coverage. And we are going to work very hard to get people into those plans.

Mr. BRADY. But, obviously, with the White House continuing to delay or change these, clearly, something is wrong or they would have left it in place.

So, my question is, is this primarily a political decision? Because the substandard plans, as described by you and the White House a couple weeks ago haven't changed. So what has changed?

Secretary LEW. We have been working since the enactment of the Affordable Care Act to, step by step, implement it as effectively as possible. I think the announcements yesterday are the last major changes that affect individuals and businesses. And it provides a clear path for the time forward——

Mr. BRADY. Well, is——

Secretary LEW [continuing]. And I think that clarity is important.

Mr. BRADY. Obviously, for something to change, the view has to be that forcing people into the Affordable Care Act is more harmful to them than allowing them to stay on substandard plans, correct?

Secretary LEW. No, I——

Mr. BRADY. I mean it has to be one or the other.

Secretary LEW. I think——

Mr. BRADY. It is great as it is, or there is a problem with making them change plans.

Secretary LEW. I think, through the Affordable Care Act, we are offering people choices. Those choices are good choices. People are signing up at very rapid rates——

Mr. BRADY. If they are good—I don't mean to interrupt, but if they are good choices, why the change, if not for politics?

Secretary LEW. I want to just repeat what I said, which is that we are looking at the implementation of the Affordable Care Act, to have it be as smooth as possible, and——

Mr. BRADY. Are there any other delays being considered?

Secretary LEW. I think that we have now put in place the major pieces for individuals and for businesses, and our goal is to——

Mr. BRADY. No other changes? Can you commit to us, and people who are wondering, will there be any more delays of the ACA?

Secretary LEW. Yes, we are going to continue to implement the Affordable Care Act in as effective a way as we can. And I am not aware of any other changes, but, obviously, I can't tell you what we will discover, going forward.

Chairman CAMP. All right, thank you. Mr. Rangel.

Mr. RANGEL. Thank you. I want to thank the Chairman for bringing up the important question of tax reform. And we haven't enjoyed too much of a bipartisan atmosphere here.

Mr. Secretary, do you have any reason to believe that the Administration would be able to have some form of tax reform with the Republican Majority in the House, other than the bill—the draft, rather—being presented?

Secretary LEW. Congressman Rangel, I actually believe that there is space for us to work together. I think we have made it clear that, on the business side, we think that there is a convergence of thinking. If you look at the draft bill that the Chairman put out, and the white paper that the President put out, there are a lot of areas, not of identical provisions, but overlap. I think we could work together on large pieces.

As I said in my response to the Chairman, I think there is a fundamental question on individual reform that we disagree on whether it should be revenue-neutral, or whether it should contribute to the long-term fiscal plan.

Mr. RANGEL. Let me reframe my question——

Secretary LEW. And I think that is a bigger obstacle——

Mr. RANGEL. It is absolutely no question that there is vast areas that we could be working together. My question to you, have you received any indication, other than the submission of a draft bill, that the Congress is going to work with the Administration toward any type of tax reform?

Secretary LEW. Well, I have conversations with the Chairman of the Ways and Means Committee on a regular basis. I——

Mr. RANGEL. And have you reached a conclusion that, with this conversation, it is possible that we could do something?

Secretary LEW. I am a big believer in possibility. I think if people keep talking, anything is possible.

Mr. RANGEL. Well, let me—you know, we have a lot of problems with unemployment. And the results of this has been a vast boom in homelessness. And I am glad to see that there is expansion and target of giving support to the homeless, as well as affordable housing. Is there any way for you to give to, us the congressional districts that are suffering with unemployment, as well as affordable housing, have you got that broken down to statistical data? I just can't believe that only Democrats are suffering.

Secretary LEW. Congressman, we obviously don't do the unemployment data. The Treasury Department, the Department of Labor does. I am happy to have somebody go back and ask if it is available on a congressional district——

Mr. RANGEL. I would really appreciate to see how many Americans are suffering because the Congress is not moving forward——

Secretary LEW. Yes.

Mr. RANGEL [continuing]. With support of legislation. I yield back the balance of my time.

Chairman CAMP. Thank you. Mr. Tiberi.

Mr. TIBERI. Mr. Lew, thank you for being here. I raised an issue last year, when you were before us, regarding a situation that—impacting many of my Ohio constituents. And I have yet to receive a reply. And so I was hoping to broach it with you again, and don't expect you to answer it today, but, if you could, make sure your staff replies.

This week marks 2 years since the IRS issued a memorandum taxing aircraft management services as commercial aviation, subject to the ticket tax, instead of general aviation, subject to the fuel tax. This is contrary to congressional intent, with a law that was passed in 1970, and contrary to IRS practices for 40 years. This just changed 2 years ago, and we still haven't been able to get a reason as to why they have done this. So, about a month ago, a little over a month ago, I sent you a bipartisan letter on the issue, and I haven't heard back.

Again, don't expect you to answer it today, but if you could flag it, and have——

Secretary LEW. I will flag it, Congressman.

Mr. TIBERI [continuing]. Your staff get back to us, because there is bipartisan concern about what is happening.

Another issue I just want you to touch on briefly, if you could, is you have been around this town a long time, and you understand, like all of us understand, that the structural driver of our debt is mandatory spending. So, no matter what happens, and no matter what we do on the discretionary side, we continue to have an increase in mandatory spending. And we see that as far as the eye can see.

And so, for my kids, we are doing them a disservice by not tackling what really is the true driver of our national debt. You, in the President's budget, arguably take a step backwards. You still do some provider cuts. But when are we, you and me—I am not making this a partisan issue—Democrats and Republicans, with leadership from the White House, going to start tackling through reforms, substantive reforms, the structural driver of our debt?

Secretary LEW. Congressman, I think we should start by recognizing that we have actually done a lot. And I know we don't all agree on the Affordable Care Act. But I think we can agree that if we look at what has happened to health care costs in this country, the rate of growth is coming down. And I believe that the action taken in the Affordable Care Act is part of that. If health care costs come down, that has an enormous impact on what the direction and the slope of the growth of entitlement costs is. So we have done quite a lot.

In our budget we have, as you noted, some more provider savings. But we also have some things that are tough policy, like income-related premiums, where, in bipartisan conversations, it has been one of the reforms that we have looked at. The President made clear when he put his proposal on chain CPI in the budget that he was doing it because that is something that we were—we understood was necessary to have a bipartisan discussion on an overall package. It was never his first choice.

Since we are not in the middle of a bipartisan discussion, I wouldn't describe it as a step back. He has put his vision of where we are going forward. He has also said when there is—if there is an interest in the last offer, it is on the table.

I think that, you know, we have to look at what we have accomplished. We have reduced the deficit by half. We are on a path where we are at 3 percent of GDP, going down to less than 2 percent of GDP. I don't disagree that we have challenges on the revenue and the entitlement side, tax reform and entitlement reform, that we are going to need to deal with. I don't think we have the kind of emergency that we had, you know, a few years ago, when we were looking at deficits as a percentage of GDP that were an immediate problem. We have a challenge now where what we have to do is get a bipartisan spirit together so everything can be on the table. And when everything is on the table, I think we can do it.

Chairman CAMP. All right. Thank you very much. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Jack, I am pleased that you are here, talking about the budget. And I want to—really have a minute or two, so I want to focus on one issue, and that is the whole issue of the minimum wage.

It strikes me that, year after year, the basket of goods that people can buy has dropped over the course of time with the minimum wage. And I put this graph up there so that people could see where the minimum wage has been. Now, in 1938, when Charlie and I were born, or so, it was $.25 an hour, and has gradually risen to $7.25. And the value of its ability to buy, what—its value in buying has dropped. And you can see the red dots. You can't buy as much as you could with the minimum wage in the past.

And the President—in the State of Washington we are at $9.19. We have already—we are leading the country. Oregon is right behind us at $8.85, I think. Talk about what the increase in the minimum wage means to the economy.

Secretary LEW. Congressman, I think that you got to start with what the minimum wage means to a working family. Anyone who is working full-time in this country should have a wage that is at least at the poverty level. And that is what a minimum wage of $10.10 would do.

I think we all know that somebody who is taking home wages at that level is spending the money as they earn it. So it is going straight into consumption, straight into demand, and that goes into the economy. We also know that we have a disparity of income in this country, and that for people at the high end, they are not—they shouldn't be spending all of their earnings, but it is not an environment where the money is finding its way all back into the economy. A lot of money is sitting on the sidelines.

I think that raising the minimum wage right now would actually be good for the economy. You know, there are economists who have made arguments in both directions. You can have competing studies. I think that it is the right thing to do, and it is good for the economy. And our experience, when we have seen the increases in the minimum wages in states, or when the Federal Government raised the minimum wage in the 1990s, was that it was basically neutral, in terms of the economy. I think right now, given where we are, it would actually be helpful.

Mr. MCDERMOTT. Is there any study any place that shows that raising the minimum wage depressed the economy?

Secretary LEW. Look, there are all kinds of studies out there, so I don't want to say there are no studies showing. The studies that I find persuasive support the argument that I made.

Mr. MCDERMOTT. Okay, I guess we all do that. I yield back the balance of my time.

Chairman CAMP. Thank you. Mr. Reichert.

Mr. REICHERT. Thank you, Mr. Chairman. Secretary Lew, in 2009 the Administration economists predicted that, under the Administration's trillion-dollar stimulus plan, the unemployment rate would never rise above 8 percent, but we all know that is what happened. Unemployment rates soared above 8 percent for 3 years. It has fallen to 6.6 percent, only because, I think, millions of people have stopped looking for work, and are no longer counted as officially unemployed.

So, that is nowhere near the 5 percent unemployment rate the Administration said we would have by now. In fact, in your current budget, the Administration doesn't expect the unemployment rate to return to 5 percent, ever. The best we will ever see is 5.4. Why has this been the weakest recovery for jobs, ever?

Secretary LEW. Congressman, when we came in in January, 2009, we knew the economy was bad. But when the statistics were finalized as to how bad it was, the deep hole from that recession was much worse than anyone knew at the time. So I think you have to look at it in perspective of how bad the situation was. It was much worse than when those projections were made. It was much worse than anyone understood.

I think if you look at the path of the recovery, given how bad it was when we started, bringing the unemployment rate into the mid-sixes is a lot of progress. We have said it is not enough——

Mr. REICHERT. Excuse me, Mr. Secretary. We are now going on 6 years. And why should we believe the Administration's policies in this budget will work any better to promote job creation and reduce unemployment?

Secretary LEW. Well, I actually think that, if you look at the record of this Administration between the Recovery Act, and the Dodd-Frank Act, and the actions we took, we contributed in a very significant way to the recovery. And if you compare the United States to other developed economies, we have a stronger economy that is growing——

Mr. REICHERT. Sir——

Secretary LEW [continuing]. Better because we——

Mr. REICHERT. Sir, the budget that you are presenting today, how can we have faith that it will speed up our economy?

Secretary LEW. Well, I think the policies stand on their own. I am happy, when we have the time, to make the case on——

Mr. REICHERT. I think the unemployment rate speaks for itself.

Secretary LEW. But I think the record of where we are, compared to other developed economies, is a very compelling case.

Mr. REICHERT. And I know my time is limited. Real quickly, can you assure us that by next week you can have to this Committee a request of Dave Camp, as the Chairman has repeated over and over, the emails and documents from Lois Lerner?

Secretary LEW. You know, I know that there has—we have been back and forth on that issue, and there are conversations with the IRS on that. I am going to leave that to the conversations that we have had.

Mr. REICHERT. Can you commit to providing those documents by the end of the week, next week?

Secretary LEW. We have worked to respond to the Committee's——

Mr. REICHERT. No commitment?

Secretary LEW [continuing]. Requests, and we will continue to be cooperative——

Mr. REICHERT. It is not happening, sir. Can you commit to make it happen without a deadline? Can you make it happen? Yes or no?

Secretary LEW. Congressman, we will continue to work with this Committee——

Mr. REICHERT. Can't do it? Okay. Thank you, I yield back.

Chairman CAMP. Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman. Thank you very much, Mr. Secretary, for being here. Many of us, Mr. Secretary, feel that it is our duty to ensure that the IRS has the tools it needs for taxpayer service and enforcement. In the past few years, the budget of the IRS is being reduced. I noticed in the President's budget it is getting a small increase. I believe the budget has been cut by $1 billion. The President's budget proposed $12.5 billion in funding for the IRS. It is small. It is necessary to increase the IRS budget. How can the IRS provide the service to the people we represent if the budget is steadily being cut and not increased? Reduce service? Reduce employees?

Secretary LEW. Congressman, I agree 100 percent that the IRS needs resources to do its work for two reasons. First of all, it is just a bad business decision to not fund the IRS so that it can collect taxes effectively. And our system of voluntary compliance, depends on an effective IRS.

You know, second, when individuals, citizens, call the IRS for help, they ought to be able to get somebody on the other end of the phone. And if you don't have people there, they can't get their phone calls answered. So I think funding the IRS is of critical importance. And we put in our budget, actually, a substantial increase to demonstrate how important we think it is, about a 7.5 percent increase.

And I know it is a difficult time, given budget constraints. But I think the dollars put into the IRS pay off in many ways, not the least of which is we collect revenue that is due.

Mr. LEWIS. Yes, sir. Worth it, and good investment.

Secretary LEW. It is a good investment. And, you know, look. I know that it is not a good thing when people call and ask for advice or an interpretation and explanation, and nobody answers the phone. We owe people to be there to answer the phone.

Mr. LEWIS. Well, thank you very much, Mr. Secretary. Mr. Chairman, I yield back.

Chairman CAMP. Thank you. Dr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. Welcome, Secretary Lew. It is widely acknowledged, and we agree that a key economic policy is moving forward on trade, international trade with TPP and TTIP. And yet we have trade promotion authority legislation, specific legislation, bipartisan, bicameral, that has been introduced.

Can you—it is widely acknowledged, too, that the Administration cabinet have not put in the political capital going forward to get this passed and—with the exception of perhaps Ambassador Froman, who has been vigorously, you know, pursuing this.

Can you commit on the part of the Administration that this legislation, this specific legislation, H.R. 3830, the Bipartisan Congressional Trade Priorities Act, is a priority for this Administration, and to seek passage of this?

Secretary LEW. Congressman, the President addressed this issue in his State of the Union very clearly.

Mr. BOUSTANY. One sentence. And it really was a bland statement. Our trading partners are looking for a definitive statement, because they are not going to negotiate to finality on these agreements until we have trade promotion authority——

Secretary LEW. I spend a considerable amount of my time talking to our trading partners. The finance ministers have a piece of these trade negotiations in the financial area. And I have spoken to most of my counterparts in TPP countries, trying to advance our interest in trade negotiations, because the test here is bringing back a TPP and a TTIP that meet our standard of a high-quality agreement.

Mr. BOUSTANY. Absolutely.

Secretary LEW. And we have worked—I have worked with the Chairman on issues related to the TPA. We do have a new Chairman on the Senate Finance Committee, he has expressed an interest in going and having some additional consultation on this. There is no question whether we support—we are putting a huge effort into——

Mr. BOUSTANY. So all the work done in getting a bipartisan, bicameral agreement on this legislation is going to be for naught if we are basically starting over on it.

Secretary LEW. Well, I am not going to speak for anyone else, in terms of whether it is starting over or working from where you are. That is really—you know, the Chairman is going to have to make his own judgement——

Mr. BOUSTANY. So that Administration is not committed to this specific piece of legislation.

Secretary LEW. I think we have made clear that we support TPA. We support TPA that addresses the critical issues. And we are available to work with Congress on this, and we want to get it done as quickly as possible.

I don't think we should take our eye off of the trade negotiations themselves, because I don't agree with your characterization in terms of the progress made. I just this week had some conversations with some of our principal, you know, counterparts, where I have gotten concessions on important issues that advance the process.

Mr. BOUSTANY. Well, I have no doubt that is the case, but——

Secretary LEW. So we are working very hard on it.

Mr. BOUSTANY. But to really get to the point of seeing these countries, our negotiating partners, making tough domestic political decisions to complete this, Congress is going to have to pass TPA, and we have specific legislation.

Secretary LEW. Yes.

Mr. BOUSTANY. It is ready to go. I don't understand why the Administration is not putting a full court press into this to get this——

Secretary LEW. What I have said to our trading partners in my conversations is we are committed to getting these agreements finalized, we are committed to getting TPA. And we are committed to getting across the finish line on these things. Now let's get to work. And they get back to work.

So, I don't think we should feed the idea that you can't make progress on TPP or TTIP.

Chairman CAMP. All right, thank you.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Chairman CAMP. The Committee stands in recess until 11:00.

[Recess.]

Chairman CAMP. The Committee will be in order. First of all, I want to publicly thank the Secretary for accommodating the schedule today. It has been rather disruptive, and we very much appreciate your making yourself available.

Secretary LEW. My pleasure.

Chairman CAMP. Mr. Neal is recognized.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Secretary, just a word of applause to your efforts on EITC, auto-IRA, and continued support for new markets tax credits. And then I want to use my time to give it to you for the purpose of talking about a much underreported budget outlook from where we were 5 years ago. So, perhaps you could lay out for the Committee where we were and where we are.

Secretary LEW. Well, Congressman, you know, I don't—it is hard to exaggerate how much improvement we have seen from 5 years ago until now. I mean we obviously saw an economy that was in freefall, and deficits that were growing, and the need to respond to that economic crisis, and deficits that were, you know, at historically high levels. We have cut the deficits in half. We have gotten the debt and the deficit as a percentage of GDP under control.

And, clearly, we have challenges for the long term, and I think we all know that there are challenges that we are going to have to deal with over the next number of years. But we have actually reached a point where, unlike the last number of years, we don't have an urgent, immediate fiscal crisis. We have, actually, a very sustainable path for the period of time covered by this budget, which actually gives us an important opportunity to shift our attention to what does it take to build a strong, growing economy. What are the foundations of a growing economy? Which is why, in this budget, we focus so much on things like infrastructure and skills training and manufacturing hubs.

And it doesn't mean that we don't have to do it in the context of a responsible fiscal policy. Obviously, we have in our budget the way we think you make the trade-offs to stay on the right fiscal path. It is a world of difference from what it was 5 years ago.

And I think if you look at what—I was a little earlier talking about in terms of the comparison of the United States to other developed economies. We are in a world of better shape. We have a lot more to do before we are going to be satisfied. But when I meet with my international colleagues and I talk to them about struggling to get over 3 percent of GDP growth, they think getting to 1 percent would be more than they could imagine. And so, we are doing much better.

Mr. NEAL. Thank you, Mr. Chairman.

Chairman CAMP. All right——

Mr. NEAL. Thank you, Mr. Secretary.

Chairman CAMP. Thank you. I also will note that the Secretary has a hard stop at 12:00, noon.

Mr. Roskam is recognized.

Mr. ROSKAM. Thank you, Mr. Chairman. Mr. Secretary, I want to draw your attention to the interchange between your Department and Chairman Camp on the question of (c)(4)'s, subject of a lot of debate and discussion recently.

The Chairman sent a letter to you and then your assistant secretary responded on February 25th. And in the response, the assistant secretary made four very—in my view—broad conclusions. And this is in paragraph three of the February 25th letter. And I want to walk them through you, point out that—the claims I think are not meritorious.

So, the letter claims that the proposed rule doesn't restrict any form of speech. And in terms of the proposed rule, we are talking about the Administration's proposed rule on (c)(4)'s. And yet, both the American Civil Liberties Union, and the Heritage Foundation have come to a very different conclusion on that. I mean—and the ACLU really comes out with an admonition. They say that it will—your rule, your proposed rule, "will pose insurmountable compliance issues that go beyond practicality and raise First Amendment concerns of the highest order."

So, ironically, the Administration has been able to bring together the ACLU and the Heritage Foundation in criticism. But why would the Department be just so completely dismissive of that First Amendment claim, and just make an assertion, basically, in paragraph three of the letter? Do you stand by that assertion, or do you understand the level of concern that people have about the chilling effect on First Amendment——

Secretary LEW. Congressman, I understand that these—this issue raises very strong feelings on both sides. I think it actually——

Mr. ROSKAM. It is not the feelings I am concerned about. It is the merits of the argument. Do you think it encroaches on First Amendment?

Secretary LEW. Look, I think that the challenge of defining what is and is not covered by this is very—it is a big challenge. And the reason we put out draft rules the way we did was to invite the kind of comment that we are getting.

I think that we were very clear that this is an area where we need the benefit of a lot of views being expressed. I am not sure we envisioned 150,000 views being expressed, but we have gotten more comment on this than on any other rule that we have ever issued, and we are now looking at it. And we are going to take everything under advisement, and we are going to look at the issue. The IRS will continue to work on it. And we are very open to hearing what the pros and cons of different approaches here is.

And this is something that, if it was easy to deal with, you know, probably would have been dealt with a long time ago. And I think we are at the beginning, not the end of the process of working our way through.

Mr. ROSKAM. You can sense a bit of reluctance in my voice in that it seems the Department has made a decision already about the nature of the proposed rule. When the assistant secretary is making an assertion, and the assertion is it does not restrict any form of political speech—that is paragraph three, second or third sentence——

Secretary LEW. Well, that is certainly our view. But the reason we took comment was to evaluate different perspectives.

Mr. ROSKAM. Good, fair enough. I am glad to hear that you are open. Are you similarly open about the other claim?

Chairman CAMP. I am afraid time has expired.

Yes, 3 minutes goes quickly.

Mr. ROSKAM [continuing]. Pretty quick. Thank you.

Chairman CAMP. And we have other Members. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Secretary, thank you for your patience and in letting us return to inquire of you.

Can I make a quick comment? First, thank you so much for a forward-looking budget, one that tries to invest in our people, that tries to build an economy that works for all Americans. There is a particular aspect of your budget that you submitted on behalf of the President that I wanted to touch on, because it is an issue that often escapes notice as an economic engine of growth, and that is immigration reform.

Many of us know that if we are finally able to fix our broken immigration system, not only is it good for our national security, not only is it good for families that will no longer be torn apart, but it is also extremely good for our workers, for our businesses, and our economy, in general. You include within the budget immigration reform, and it scores as giving a net positive to the economy and to American businesses and workers. Can you comment on that?

Secretary LEW. Congressman, I think that the immigration reform issue is one that there are many reasons to be for. It is the right thing to do, it is good for our economy, and it is who we are, as a people.

The economic argument is, I think, undeniable. You look at the CBO estimates that were done on the immigration bills—bill that came out of the Senate. It makes clear that it grows the workforce, it grows payroll taxes, it helps to fund Social Security and Medicare. It has a material positive impact on the economy.

And you look at our businesses in this country, whether it is the Fortune 500 or the high-tech firms, where innovation is greatest. A disproportionate number are founded by either immigrants or first-generation Americans. It has been the American story that we constantly replenish the, you know, innovative spirit of this country with people who come here in search of better life and in building a better America. And I think the economy reflects that, and the numbers reflect that.

Mr. BECERRA. And most of what you have just said reflects American values. Maybe now, give me a sense in terms of the hard numbers. In terms of the budget, the hard numbers, what is the impact of including immigration reform in your budget?

Secretary LEW. Congressman, I may have the exact number with me. If not, I will get back to you. The—you know, the estimates are that the deficit would be reduced by about $850 billion, you know, over the long term, and the economy would grow by about $1.4 trillion over the next two decades. So we are talking about large impacts.

Mr. BECERRA. So, if you were to take out immigration reform from your budget, we would lose that close to $1 trillion in deficit reduction, and over $1 trillion in economic growth.

Secretary LEW. The effects of immigration reform, if you don't do immigration reform, would be removed. Our budget is a policy budget.

Mr. BECERRA. Thank you very much. Mr. Chairman, I yield back.

Chairman CAMP. Thank you. Mr. Gerlach.

Mr. GERLACH. Thank you, Mr. Chairman. Secretary, thank you for coming today. I want to focus on your initial comments about Ukraine by way of disclosure. I co-chair the Ukraine Caucus here in the House, so I was very interested by your initial comments in your testimony.

First of all, let me say thank you to the President and the Administration for this action they have taken on this executive order to block the assets and the property of a number of people. If you have the information now, great. If not, if you can, provide it to me. Do you have any estimates or approximations about how many people this particular executive order would impact, in terms of those people that have property or assets within the jurisdiction and the authority of the United States that can be blocked, or frozen? Do you have any rough estimates at this point what that is?

Secretary LEW. Congressman, I don't have that right now. What we did this morning was we laid down a very clear framework. It is flexible, it is something that can be directed in a number of different directions. You know, it is aimed at identifying individuals or entities that are undermining democratic processes in Ukraine, not just Ukrainians, threatened the peace, security, and stability, and sovereignty of Ukraine that contribute to the misappropriation of funds, or that purport to assert authority inappropriately over the Ukraine. So it gives us a tool that is very flexible to work with so that we can respond in a proportional way to the situation, as it develops.

Mr. GERLACH. Okay. Do you get a sense, based on your discussions within the Administration, do you get a sense yet about the European Union partners of ours, whether they are going to be willing to move forward with aggressive sanctions the way is necessary, and I think is going to be continued to be debated and discussed here in Congress and with the Administration? Do you get a sense that the European Union countries——

Secretary LEW. Well——

Mr. GERLACH [continuing]. Are going to also be as aggressive as necessary with this situation?

Secretary LEW. The European Union just the other day, yesterday, took action, really, following on what we did almost immediately, when our financial center put on a watch list individuals who might be moving Ukrainian money inappropriately out of government and public accounts.

The—yesterday the European Union did designate a number of Ukrainians. I know the leaders in Europe are meeting today, even while this hearing is going on. We have obviously made the case for solidarity in dealing with this issue in a very united way. And I—just to reference my own comments this morning is one of the reasons we think it is so important that the IMF issue, the IMF reform issue, is relevant, that is one of the things that we need to do to show that we have the leadership role, or we can press others to do what they need to do at the IMF, and to speak with a real voice of leadership on this issue.

Mr. GERLACH. Thank you.

Chairman CAMP. Thank you. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman. Thank you, Mr. Secretary. On the question of further changes in the way we tax international transactions, you have a number of new proposals in your budget. You refer in the budget documents to stateless income, to tax havens, to incentives that are in our tax code, to export jobs overseas. In terms of measuring the extent of the change that needs to occur in the short term, if I read the documents correctly, you say that over the next 10 years there are about $276 billion in additional revenues that should be in our treasury that are not, as a result of these loopholes and special provisions.

Secretary LEW. Congressman, I have to go back and check the numbers to see if that is exactly right. But it is a significant impact. And it reflects, really, what we think is both an important policy issue, and something that there should be bipartisan agreement on, which is that our tax code should not encourage the export of American jobs. We need to close down the provisions that offer preferential treatment for those kinds of practices.

Mr. DOGGETT. There is one new provision there, and I believe you discussed it with Chairman Camp. He has a provision in his proposal also that would use the transition monies in changing the system overall to fund our serious problems with highway infrastructure.

I know the issue of a temporary tax holiday has come up several times in the past, and the Administration has opposed that. When I asked President Obama about it when he was here at the Capitol last year, he said we have looked at the math and it just doesn't work to have a temporary tax holiday, as distinguished from perhaps some future transition. Does the Administration continue to oppose this unwise—any temporary tax holiday or short-term tax holiday of the type we had in 2004 to fund transportation or anything else?

Secretary LEW. Congressman, we think that the proposal that the President made in July and that is now in our budget is the right way to do it, which is to have a transition to a new reform tax system, which is very different from a one-time tax holiday. We think the scoring would be different. We think the policy is different. We think that is the right way to do it.

And I hope we can work together on an approach to business tax reform, where we can get this done. And we are very open to that conversation, and would love to engage in it.

Mr. DOGGETT. Thank you very much.

Chairman CAMP. Thank you. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman, and thank you, Secretary Lew, for taking the time to be here today. I would like to associate myself briefly with Mr. Boustany's comments and concerns relating to the various issues. But while countries such as Japan are taking positive steps to open up to more U.S. agriculture, it is vital we have trade promotion opportunities, actually, to ensure we get the strongest assurances our trade partners in Asia and Europe will not continue to use unscientific barriers to discriminate against American producers. And I hope that we can work together to address these issues.

Relating to the budget more specifically, though, I hope that, with tax reform, we can help more hard-working taxpayers than just corporations filing under the C-corporation designation. And also, looking at various other things, I know that in your statement you indicated the President's budget adheres to agreed-to discretionary spending caps, but also includes an additional $56 billion discretionary spending fund above and beyond that. Can you explain why that occurred?

Secretary LEW. Yes, Congressman. It was very important that there was a budget agreement in December, very important that Congress passed appropriation bills in January, and that we are on a path—we are including the enactment of borrowing authority. We are doing business in a more orderly way, and it is good for the economy, it is good for the country.

The President laid out a budget within the boundaries of the budget agreement. He also said that, as a matter of policy, just as the December budget agreement had a way of paying for increased discretionary resources with other changes, we need to continue down that path because as we go forward we don't have the right discretionary levels. We are going to need things to invest in, both our economy and our security. And—but we have to pay for it. And he offered his proposal of how to do that. He was very clear that he has a budget within the caps, and then he has things that he would propose as policy changes, where we hope we can get that conversation going. Obviously, if we can't agree on how to pay for it, we are left with lower spending levels.

Mr. SMITH. Well, I would hope that with the $17 trillion debt that we are facing, this is an agreed-upon situation or analysis, that we can pursue policies that can help reverse that. And thank you.

Secretary LEW. The only thing I would add, Congressman, is that when the Budget Control Act was enacted, it was set up for sequestration not to happen. It was set up to have an overall budget agreement make sequestration unnecessary. And the President's budget really is consistent with that, saying, "Here is another way to back out some of those cuts that we did not ever really think were right, nor, on a bipartisan basis, did anyone say they wanted at the time."

Mr. SMITH. Well, and I hope that, moving forward, we can work together on some fantastic opportunities to grow our economy, tax reform—comprehensive tax reform—being a priority.

Secretary LEW. Look forward to working together.

Mr. SMITH. Thank you.

Chairman CAMP. Thank you. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. Mr. Lew, we appreciate your taking time to join us and visit us. I appreciate the Chairman, in his work dealing with tax reform, carved out some space for infrastructure investment. I also appreciate the strong words that we have had from the President supporting infrastructure. It was part of the Affordable—the Recovery Act. It has been referenced, going forward. And that there is a proposal that has been included.

In the off chance that neither your proposal or the Chairman's proposal are enacted in the next six months, we are facing a deadline. We have basically exhausted the trust fund. We have contracts that are not going to be—that the Department of Transportation is going to be withholding money this summer. States and localities, as a result, are going to be pulling back this spring. We are facing a 30 percent reduction over the next 10 years. And we need a stable, long-term, consistent source of funding.

Now, I am not suggesting that the Administration dive in to another area. You will fight for your proposal, and we will see what happens. But I would hope that we would be—that there is a possibility of being open to a proposal that I have introduced that is supported by the AFL–CIO, the U.S. Chamber of Commerce, the AAA, truckers, contractors, local government, a number of individual unions, professional groups, to raise the gas tax to be able to replenish it.

Would the Administration, if their proposal is not accepted, if the Chairman's proposal is not enacted, would the Administration be open to working with Congress on the first gas tax increase in 21 years? Would you entertain that, at least?

Secretary LEW. Congressman, I also was pleased to see in the Chairman's tax reform proposal that he was, as we are, looking for a way to fund infrastructure. We have tried in our budgets a number of different approaches to engage in a serious, bipartisan conversation about how to fund something that I think we all agree we need to do, which is maintain, you know, our infrastructure for economic growth in the future.

We have put in our budget what we think is the best way to deal with it, and we are going to continue to advocate for that. But if you look at the budget proposals we have put in in past years, we have said we remain available to work with Congress on a bipartisan basis to find a mutually acceptable funding mechanism. And that remains at the core of our belief today.

Mr. BLUMENAUER. Thank you, Mr. Lew. Mr. Chairman, I would hope that some time in the near future we might be able to have a hearing on transportation finance, since that is our jurisdiction. The clock is ticking, and I think it would be enlightening to at least hear, so we can prepare for our responsibilities later in the spring.

Chairman CAMP. I know we are looking and working with you on maybe trying to do something in that vein in the near future.

Mr. BLUMENAUER. Super. Thank you very much, Mr. Chairman.

Chairman CAMP. Ms. Jenkins is recognized.

Ms. JENKINS. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here.

This year, President Obama chose to unveil his budget—late again—at a D.C. elementary school. And in his remarks he said, "My budget is designed with their generation and future generations in mind. And at a time when our deficits have been cut in half, it allows us to meet our obligations for future generations without leaving them a mountain of debt." That is the end of the quote.

However, just last month, CBO said the deficit will start to grow again in just 2 years. By 2022, we will again be running trillion-dollar deficits, even though we will be taking in historically large amounts of revenue. And this is just because spending will grow twice as much as revenue. Over the next 10 years we will add $10 trillion more to our national debt, for a grand total of $27 trillion. A quote from CBO said this, "Such large and growing Federal debt could have serious negative consequences, including restraining economic growth in the long term."

In the latest forecast, CBO projected that our Nation's growth potential over the next 10 years will be much slower than the average since 1950. Contributing to this lost potential, CBO states, "The economic and incentives caused by Federal tax and spending policies that are expected to keep hours worked and output lower than would be otherwise expected." CBO now expects Federal budget deficits between 2014 and 2023 to be about 7.3 trillion, which is a trillion larger than predicted last year, due primarily to weak growth.

If the President's budget were to become law, even by the President's own number crunchers our Nations' debt would still reach $25 trillion. It would add 8.3 trillion to the debt, and hike taxes by over a trillion, and fails to ever reach balance. Not too long ago, back in 2008, when candidate Obama criticized his predecessor as unpatriotic and irresponsible for the debt growing from 5 trillion to 9 trillion in his 8 years in office. In his words—and I quote—"He is taking out a credit card from the Bank of China in the name of our children." End quote.

Can you help explain to us, and square the words of candidate Obama with President Obama?

Secretary LEW. Congresswoman, you know, as somebody who was director of OMB for the only 3 years in modern times when we ran a surplus, I understand the value of fiscal policy that puts this country in a solid place. You know, when I left OMB in 2001, there was a $5 trillion surplus over the next 10 years being projected. When I came back to OMB, we had a huge deficit because the money had been spent on tax cuts we couldn't afford, on wars we didn't pay for, and then we had the worst financial crisis since the Great Depression.

Ms. JENKINS. But under this budget——

Secretary LEW. President Obama came into office——

Ms. JENKINS. Since our time is limited, under this budget, what year will the Federal Government stop taking in—or stop spending more money than they take in?

Secretary LEW. Congresswoman, as I have said——

Ms. JENKINS. Do we have a year?

Secretary LEW. This budget——

Ms. JENKINS. Or is it true that in this budget we never, ever can point to a point in time where we will stop spending more money than we take in?

Secretary LEW. If you look at the——

Ms. JENKINS. I am just asking. Is that true?

Secretary LEW. If you look at the period covered by this budget——

Ms. JENKINS. Is that true or false?

Secretary LEW [continuing]. It puts the deficit into a place where it is sustainable. When we came into office, it was out of control. We have more work to do, going forward. But this budget is——

Ms. JENKINS. So it never, ever balances, ever?

Secretary LEW. It gets the—it takes the deficit down to less than 2 percent of GDP——

Chairman CAMP. All right, time has expired. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. You know, I commend the President for his focus on increasing work and opportunity within the budget. And I want to highlight the expansion of the earned income tax credit and exclusion of Pell income from education credit calculations as critical changes needed. I have advanced similar legislation solutions for years, and am pleased to see the Administration embrace these changes.

For years, I have actively promoted expanding the earned income tax credit for single workers within my fatherhood bill. I heard from my constituents years ago that the EITC was not helping single men as it could and should, and the research supports their concerns. My fatherhood bill originally focused on expanding the EITC for non-custodial fathers who are current on their child care obligations. In the last few years, we have expanded our focus to include all single workers, including those without children, given the strong positive effects on lowering the unemployment rates, increasing marriage rates, and reducing incarceration rates for single men.

The EITC has been one of the most effective anti-poverty programs in our tax code, which is why there is a long history of bipartisan support. Indeed, the largest expansions were led by conservative Republicans such as the former Majority leader Dick Armey. I applaud the President for incentivizing work through an expansion of the EITC, and promise to work with the Administration to do so.

Further, I am extremely happy to see the improvements to how the code handles Pell grants. I have championed this fix for years, because it will make college more affordable for our lowest-income students. Mr. Secretary, could you comment on how these policies would improve opportunity and decrease policy?

Secretary LEW. Congressman, I think I agree 100 percent that the earned income tax credit has been one of the most important policies we have had in the last quarter-century to deal with both incentives to work and ending poverty. I have had the privilege of working on it since the Ford Administration. And it has been expanded in Democratic and Republican Administrations by Democratic and Republican Congresses because it works. So, we have put a proposal on the table to deal with a population that is not now getting as much benefit from it as they might. And we think it is an important policy, and we look forward to working with the Congress on it.

In terms of educational opportunity, we know that the difference between opportunities in life are dramatic for people who have and have not had a higher education. So, whether it is Pell grants or AOTC, our budget is aimed at giving every American a chance to succeed in this economy.

Chairman CAMP. All right, thank you. Thank you. Mr. Schock is recognized.

Mr. SCHOCK. Thank you. Mr. Lew, I would like to draw your attention to an Internal Revenue Service memorandum that our

Committee got permission from the taxpayer yesterday to use before the Committee. This is the first victim of the IRS's targeting of Tea Party groups dating back to February of 2010. This is the memorandum that was used to transfer this case to Washington, D.C. It was an application by the Albuquerque Tea Party for 501(c)(4) status.

On this memorandum the folks in Cincinnati could have checked box A when transferring this case, which says this application involves an issue in which there is inadequate published precedent or rules necessary. Obviously, that is what they check when there is confusion about precedent. But Cincinnati did not check that box, Mr. Lew. They checked box B, and then wrote in the reason, which was "per an email response from Holly Paz on February 26th of 2010, this application should be transferred to D.C., due to the potential for media interest."

Sir, this is the first of hundreds of Tea Party cases that were held up not in Cincinnati, but rather, based on this memorandum and hundreds of others that we have, were held up by directives from Washington, D.C., specifically. This conflicts, obviously, with the Administration's assertion, when this news first broke, that nobody in Washington, D.C.'s IRS office or the Administration knew anything about it, that it was solely isolated to Cincinnati.

As you know, Holly Paz is second-in-command—or was—at the IRS for exempt organizations. She has since resigned. The first in command, Lois Lerner, has pled the Fifth. And this Committee has struggled to get the information from the IRS, particularly the emails of Lois Lerner. And I hope that you can confirm with this Committee you are going to do everything in your power to get us 100 percent of Lois Lerner's emails. Right now we have gotten a couple percent of Lois Lerner's emails. Made very difficult, quite frankly, to reach some determination.

My question, Mr. Lew, is this. The rule that you have put out in November states this rule is necessary because there was some confusion within the IRS about how to handle these Tea Party—these groups' tax-exempt status. But, sir, this email, or this memorandum and subsequent emails, suggest otherwise. This suggests that, throughout 2009 and early 2010, hundreds of these similar-like Tea Party applications were approved, screened, went through the normal process, and it wasn't until Washington, D.C. got involved through a directive via email to Cincinnati that instructed them to uphold or to withhold approval, and rather, to start batching these applications.

So, why the inconsistency between D.C. really being the directive, versus Cincinnati making this decision on their own?

Secretary LEW. Mr. Chairman, do I have the time to——

Chairman CAMP. If you could, make a brief answer.

Secretary LEW. Congressman, first, to—I am reading this piece of paper that has been put in front of me. And just to be clear, what it says is that the application should be transferred to the EO technical, which is what is standard procedure when an office doesn't know what to do and it is complicated. So it doesn't say exactly what you described.

Second——

Mr. SCHOCK. Well——

Secretary LEW [continuing]. The issue of ambiguity and confusion in the rules, it was not my observation alone. The IG that did a report on this reached that conclusion and said it was necessary to clarify it. So it is not—I don't think it is just a question of my saying that there is ambiguity. There was a finding by the IG, which is one of the things that triggered the review that led to the proposal.

And, as I have said earlier, we know that this is a complicated area, we invited comment. It was not even a full proposed rule. It was a draft of a proposed rule saying we need comment to make sure we get this right. We got 150,000 comments, and we are working our way through them.

Mr. SCHOCK. Lerner's emails?

Chairman CAMP. Thank you. Time has expired. I would just say, Mr. Secretary, we don't have all the documents. And I have sought your assistance in trying to make sure that we get all the documents in the future.

Mr. Thompson is recognized.

Mr. THOMPSON. Thank you, Mr. Chairman. Mr. Secretary, thank you very much for being here. I have just one question, given the time constraints, and that is on the provision in the President's budget that repeals the LIFO tax provision, Last In First Out. And it is my understanding that it doesn't just end the LIFO opportunities or practices, but it does it somewhat retroactively, where it reaches back and requires a repayment from companies, large and small, of the benefits that they have received from LIFO over the years. Is that correct?

Secretary LEW. Congressman, the policy is to shift so that we make sure we don't end up with a permanent avoidance of taxation because the accounting system permits the increase in value of inventory to go—to not be captured.

If you sell something that you made for $1 at $10, and the last one costs you $10 to make, and you deduct $10, there is no taxation——

Mr. THOMPSON. I understand how the LIFO practice works. But my interest is in the retroactivity of the provision in the President's budget. I don't know how it can be fair where you could go back 60 or 70 years and basically re-assess someone and their tax liability. It would be like your tax bracket going up and we go back 10 years and require you to pay that under that new provision.

Secretary LEW. So the policy repeals LIFO, so that has the effect of treating it as an accounting change, which is reversed. And that is how it was designed. I would be happy to follow up with you on your concerns about the impact of that.

Mr. THOMPSON. Well, I have talked to you about it in the past, because it is not the first time that it showed up. And I am—I would be honored to be able to sit and talk to you, and explain how this particular provision would be harmful to many constituents in my district, but in other districts, as well. But it just seems grossly unfair to change the taxing provisions and then go back 60 years and collect on that.

If that happens, this is going to have the effect of putting people out of business, and that is not maybe they will have a tough time, maybe they won't be able to make it, but it is going to be—have a crippling effect on a pretty important part of our economy.

Secretary LEW. Yes. I don't think we agree that the impact would be as you have described it, but I am happy to follow up.

Mr. THOMPSON. Great, thank you very much. I yield back, Mr. Chairman.

Chairman CAMP. Thank you. And, Mr. Thompson, I would just say I appreciate the concerns you are raising, and that is why the draft—at least the discussion draft—pairs that with a lower rate for manufacturers on that.

Mr. Buchanan.

Mr. BUCHANAN. Yes. Mr. Secretary, thanks for being here today. I do a lot of town halls. A lot of us do. I got here in 2007. And the budget that you were proposing today, I think the biggest issue that comes out of those meetings is debt, deficit, and spending. But the budget we are proposing today, the revenues are going to be what, and the spending is going to be what, for the record? Just quickly. I am not asking you per dime, I mean, but——

Secretary LEW. No, I understand. But I don't want to give you a number and have it be wrong.

Mr. BUCHANAN. Anyway, let me just say this, because we got 3 minutes. I think it is about $700,000, $800,000 difference.

Here is my point I am trying to make. You had mentioned that we made some progress, we have cut the deficit in half, $1.3 trillion down to $700 billion, or something like that. But the big concern is—and you mentioned about 2 percent of the GDP and that is all the deficit is going to go up. But I got here in 2007, and I have been hearing it for the last 7 or 8 years. The fact of the matter is, in that year, the debt was $8.5 trillion, roughly. We were running a $130 billion deficit. Today it is $17 trillion, quickly going on, by the time this Administration finishes up, going to be $20 trillion in debt. If you look at the normal cost of money—this is what I hear every day—normal cost of money is 4 or 5 percent. You could have a trillion dollars in interest, which is 30 percent of the whole budget, in terms of reduction.

And so, I say this to you because I was born in Detroit, I grew up in the Detroit area. Detroit is bankrupt. And I am concerned about the future of our country. What I hear from business people in my community and other places is that they are concerned about the uncertainty because of the debt and deficit spending.

So, I guess I just ask you, what would you tell my constituents? When I have to deal with this everywhere, they say nowhere else on the planet do they do what they do in Washington. In the State of Florida, we had less revenues, we made the adjustments. But here, we are leaving a bankrupt country to our children if we don't change the way we do business. And it seems like the Administration has to lead on this. Congress has got a responsibility. And I will say it is not just Democrats, it is Republicans, if you look over 50 years. But if we don't change this, we are going to use—it is going to be devastating to our children and grandchildren.

So, I would like to have you look at the debt long-term deficit, as well, but what would be your comments to my constituents?

Secretary LEW. Congressman, you know, as I said earlier, as somebody who was the budget director for 3 years when we ran a surplus, we balanced the budgets, we ran a surplus, I took a lot of pride in having accomplished that. It was policies that were enacted between 2001 and 2008 that dug a hole that got—we didn't have a surplus any more, and then we had the worst economic crisis since the Great Depression.

So, now we do have a deficit of $649 billion in 2014. But the numbers, as a percentage of GDP, really matter. During the same period, from——

Mr. BUCHANAN. Let me just say I know what you are saying. You don't think the debt matters. I mean $17 trillion, going to $20 trillion——

Secretary LEW. No, but Congressman, all——

Mr. BUCHANAN. You don't think—that is what—I am telling you what people are telling me. They are concerned about the future——

Secretary LEW. Yes.

Mr. BUCHANAN [continuing]. For Medicare, Social Security, and their children when they see this debt continue to skyrocket. And I think that is a game that has been played, frankly, in Washington with Republicans and Democrats over the last 50 years. It is that debt that has got everybody concerned.

Chairman CAMP. Yes, and if you could, just answer briefly.

Secretary LEW. Yes. We have cut the deficit in half, and we have the deficit in the last year, as a percentage of GDP, under 2 percent. GDP will grow from $17 billion to $27 billion over that period. So nominal numbers and percentage of GDP are very—both important numbers. And the percentage of GDP shows the progress we have made.

So, it is—I know it is hard to explain because GDP is a complicated concept. But it is a much bigger economy in——

Mr. BUCHANAN. Come to Sarasota, Florida and do a town hall with me, and we will see what we got.

Chairman CAMP. All right. Mr. Reed.

Mr. REED. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here today. I wanted to go into—you made a comment that we are kind of through this emergency-type—we now have a crisis looming over our head in some of your testimony. And one of the things that I am very concerned about is the overall entitlement bomb that I see going off with Medicare insolvency, Social Security insolvency, and those are long-term issues.

But something that really touched me last night when I was reading the budget and looking through your written testimony is I saw no reference to Social Security disability and the insolvency that is going to hit in January 2016, with the Social Security disability program. In fact, in your testimony, the only reference to Social Security was in relationship to its relationship with immigration reform.

So, my concern is, if the White House doesn't see this impending $35 billion problem in 2016, where Social Security disability recipients are going to receive a 20 percent cut in their payments monthly as a result of this insolvency with the disability trust fund, that is—I care about those people. Those are millions of people that are going to wake up, and the best we are doing right now in Washington, D.C. is to say we are not even putting it in our budget, we are not even going to address it as a crisis, as an impending entitlement bomb going off.

To me, it is the canary in the coal mine, that if we don't get our act together—and I encourage the White House to please highlight this issue and come up with a solution, because I am not seeing it in the budget, I don't see it in your testimony. And I don't want to look at a Social Security disability recipient, as I have in town halls, and said, "I am trying to fix it. But I will tell you, Washington, D.C. is not listening."

Secretary LEW. Congressman——

Mr. REED. What do you have to offer?

Secretary LEW [continuing]. I totally agree that we need to address the situation of the Social Security disability trust fund. And we do—have said—I have said that there is only one solution the technical experts believe can work in the time frame between now and 2016, and that is a reallocation of the tax rate, as we have done in the past.

At the same time, we have proposed in our budget program integrity provisions that will make sure that we do an even better job making sure that only people who are qualified get disability payments. We will clear out the backlogs of reviews. And we need to work together on that, and we look forward to working together on it. It is something we need to deal with——

Mr. REED. I wholeheartedly agree with you, we need to work together.

Secretary LEW [continuing]. 2016 is close. And we do have a little more time——

Mr. REED. The problem with reallocating the tax is aren't you then hurting the actual—the solvency of Social Security itself, by shortening that period of time?

Secretary LEW. Given the difference in size between the trust funds, it has a very small impact on the duration of——

Mr. REED. So you are willing to sacrifice the viability of Social Security itself——

Secretary LEW. I am just saying that none of the policies you could put in place would have an effect in time for 2016. Long term policies take a long time to have effect. I think technical experts on both sides agree that if you don't want to cut benefits, which none of us want to do on disability, there is going to need to be a reallocation. And we look forward to working together——

Mr. REED. But, just so I am clear, so the White House position is—to the fix—is that—for this—is to reallocate the tax?

Secretary LEW. Well, in the short term. But I said we also have program integrity provisions in place, and we look forward to working together to take a look at the longer-term issues in disability.

Mr. REED. Appreciate that.

Chairman CAMP. Thank you.

Mr. REED. Thank you.

Chairman CAMP. Time has expired. The Secretary has been very accommodating by coming back today, and I know he has to leave directly at noon. So we will have one more question, a 3-minute period, from Mr. Young, and then we will conclude.

Mr. YOUNG. Thank you. Mr. Secretary, in your opening statement you indicated that last year the President put forward his budget as part of a balanced compromise. And this year's budget instead reflects the President's vision of a best path forward. Are bipartisan compromises not part of a best path forward?

Secretary LEW. Congressman, as somebody who has spent most of my professional life molding bipartisan compromises—bless you—I very much believe that bipartisan compromises are in the best interest of this country. But you usually start with different positions that get worked out.

What we did in last year's budget was we kind of cut to the chase to say we almost had an agreement, let's finish it. Frankly, there wasn't a lot of take-up on our proposal. It was out there, and we didn't get it done. At some point you have to go back and say we have our view, you have your view, and then we work for a bipartisan compromise.

Mr. YOUNG. I see. So your view, your best path forward, as indicative in this budget, presumably includes never bringing our Nation's accounts into balance?

Secretary LEW. Well, Congressman, I think, as I have said before, we do an enormous amount on this budget to put our fiscal house in order and keep it in order. I think that, you know, the challenge we had in 2009 was gargantuan. We have cut the deficit in half. We are on a path towards a 2 percent of GDP——

Mr. YOUNG. We are looking at a path forward here in the budget, not 2001 to 2008. Interesting segment of time you choose. But the path forward would indicate that it never comes into balance. This doesn't appear to me to be a budget, as popularly understood by, say, the business community or rank-and-file Americans. Instead, it is, for those of us who celebrate Christmas, a Christmas list.

If you could indicate what year it comes into balance and how you intend to bring it into balance, it would be easier to negotiate between our figures, balancing in 10 years in the past, and your figures, balancing currently at infinity. Then bipartisan compromise, as I see it, could happen. What say you, sir?

Secretary LEW. So, Congressman, you know, we came very close to a bipartisan agreement along the lines of last year's budget. That didn't happen. But that didn't come to balance in 10 years. It was not—there was not a negotiation about coming to balance in 10 years.

We believe that the urgent need right now is to make sure the engine of growth in this country is kicked into high gear. And we have put together a budget that has a responsible fiscal policy and a growth strategy, and we look forward to working in a bipartisan way to reach a consensus.

Mr. YOUNG. If this is your optimal path forward, the country deserves better. History will remember you as the Treasury Secretary who presided over a period when plans were not put forward as our Nation started to drown in a sea of red ink. And I would not want to have that sort of legacy.

It is regrettable that you won't work with us to make the largest programs of government sustainable. Thank you so much for coming here today and offering your perspective on why you haven't done that.

Secretary LEW. Congressman, I would just point out that, as the only living OMB director in history to have a surplus for 3 years, I am proud of my record.

Mr. YOUNG. Thank you, sir. Thank you for your service. I yield back.

Chairman CAMP. Thank you. Without objection, all Members may submit questions for the record.

Again, I want to thank the Secretary for his time this morning, and for accommodating a very disjointed schedule. With that, this hearing is adjourned.

[Whereupon, at 12:02 p.m., the Committee was adjourned.]

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