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THE PRESIDENT'S FISCAL YEAR 2014 REVENUE AND ECONOMIC POLICY PROPOSALS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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THE PRESIDENT'S FISCAL YEAR 2014 REVENUE AND ECONOMIC POLICY PROPOSALS

TUESDAY, APRIL 16, 2013

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

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

Present: Representatives Ryan, Price, Garrett, Campbell, Calvert, McClintock, Lankford, Black, Flores, Rokita, Woodall, Nunnelee, Hartzler, Walorski, Messer, Williams, Van Hollen, Schwartz, Yarmuth, Pascrell, Castor, McDermott, Lee, Cicilline, Jeffries, Pocan, Lujan Grisham, Huffman, Cardenas, Blumenauer, Schrader.

Chairman RYAN. All right. The hearing will come to order. First, I would like to start on a somber note, Just to say that our hearts and our prayers go out to the victims of the terrorist attack in Boston. And we have some colleagues here from that neck of the woods, and we think about them at this time. And this is a moment where those of us who have kids, hug them a little tighter. And those of us who attend these Intel briefings and vote on these issues see the human side of it. So, it goes without saying but it needs to be repeated that, you know, our hearts and minds go out to those who were the victims of the explosion in Boston yesterday.

Secretary LEW. It is nice to call you Secretary. You have been here a number of times as OMB director. Congratulations on your new post. I hope that your signature has improved since before. You and I have had some good jokes about that. It is nice to have you here in your new capacity as treasury secretary. I know that despite our agreements, we appreciate you taking the time to join with us today. You have four budgeting hearings as treasury secretary, and we appreciate you giving us this morning of your time.

Yesterday was tax day. And tax season was a lot more stressful than it needed to be. Our tax code is a Rubik's cube that Americans spend six billion hours each year trying to crack. Today the code is four million words long, enough to fill 70,000 pages. In fact, it is so long, that roughly 90 percent of Americans pay for professional help to file their tax returns. This costs them $160 billion each year, $160 billion spent by Americans each year just filling out their taxes. And then after all that trouble, the process leaves them, as our colleague Todd Young put it the other day, feeling like either a crook or a sucker.

We also have the highest corporate tax rate in the industrialized world, which hurts workers most of all. A high corporate tax rate means that they will take home less pay than they otherwise would. So I am glad that the president's budget calls for corporate tax reform. And we agree on the problem. A complex code does not help anybody but the well-connected. Now, we need to work on a solution because we cannot simply stop at the corporate rate. Under the president's budget, the big companies would pay no more than 28 percent of their income in taxes. But small businesses would pay up to 39.6 percent of their income in taxes. That, in our opinion, is unfair. It hurts jobs.

We need to reform the individual tax code as well. The Administration wants to limit deductions at the individual level but they do not want to use the money to lower the rates to spur economic growth. Instead, they want to use it to pay for more spending. In fact, the president's budget, which just was released last week calls for $1.1 trillion tax hike to pay for a nearly $1 trillion in new spending. In short, the president's plan is to take more from families to spend more in Washington. We think that is the wrong approach, and we do not think that is going to help the economy. And we have seen this movie before. Under this budget, we will have to run deficits at or close to $1 trillion for five straight years. Yet millions of Americans are out of work or are living in poverty, the highest rates we have seen in a generation. This Administration's response seems to be more of the same: more spending, higher taxes, and record debt.

Well, we cannot keep spending money we just do not have. We need a new approach. We need an approach that encourages economic growth. The longer we delay fundamental reform, the longer we delay a real recovery, because our national debt is weighing down our country like an anchor. It is weighing down our economy. It is making it harder for us to get ahead. The Administration claims that if we approve this budget, we will have reduced the deficit by $4.3 trillion. This is not true. But I want to break this down, and Chart 1 will show me how.

The Administration says that we have reduced the deficit by $2.6 trillion since Republicans took control of the House in 2010. They start their clock a little late. The president is responsible for all the policies that were enacted before then when he was in office for the first two years. And if you add back the money for stimulus, for the payroll tax holidays, for the extension of unemployment benefits, for the 24 percent increase in domestic discretionary spending, then total deficit reduction, when you net it all out, comes to only about $500 billion that has already been achieved, not the higher $2.6 trillion number. You see, you have to add both sides of the ledger book. And all those savings have already been signed into law. So, that $500 billion is really kind of irrelevant to this new budget. So this budget claims that the deficit is going to be reduced by $1.8 trillion. That is the second line on the chart. But once you take out all the baseline games and add back all the nearly $1 trillion in spending increases in this budget, when the gimmicks are removed, when the spending is counted, the total deficit reduction comes to a paltry $119 billion.

So we see this budget as a disappointment because it is a missed opportunity. We need a new approach in Washington to meet the country's most pressing challenges. And that is what we are offering. We offered a plan to balance the budget. We offered a plan that balances it in 10 years, which we think is critical to growing a healthy economy. We extend opportunity for the young. We guarantee a secure retirement for the seniors. And we think that we need to get back to work to repair the safety net so that it is there in a reliable, responsible, sustainable way for the most vulnerable. But we cannot simply dwell on our differences. We have to move forward. We have got three plans on the table, which is something we have not been able to say for a number of years. So even if we cannot agree on everything, we need to agree on something. We need to have a down payment on our debt.

So I would like to learn more about the president's proposals today. I would like to explore where are those areas we can finally, maybe, find some common ground with you, Secretary Lew. And I am hoping that at the end of the day, we can make a down payment for the country, and make this divided government work in any way we can. And with that, I would like to yield to Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

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

Welcome, everybody. To start, I want to thank Secretary Lew. Mr. Secretary, I want you to know that despite our disagreements, we appreciate your taking the time to join us today.

Well, yesterday was Tax Day. And tax season was a lot more stressful than it should have been. Our tax code is a Rubik's Cube that Americans spend 6 billion hours each year trying to crack. Today, the code is about 4 million words long—enough to fill 70,000 pages. In fact, it's so long that roughly 90 percent of Americans pay for professional help to file their returns. That costs them $160 billion each year. And after all that trouble, the process leaves them—as my colleague Todd Young put it—feeling like either a crook or a sucker.

We also have the highest corporate tax rate in the industrialized world—which hurts workers most of all. A high corporate tax means they will take home less pay than they otherwise would. So I'm glad this budget calls for corporate tax reform. We agree on the problem. A complex code doesn't help anyone but the well-connected. Now, we need to work on a solution—because we can't stop at the corporate rate. Under the President's budget, the big companies would pay no more than 28 percent of their income in taxes. But small businesses would pay up to 39.6 percent. That's unfair. That hurts jobs. We need to reform the individual code too.

The administration wants to limit deductions at the individual level. But they don't want to use that money to lower rates and spur economic growth. Instead, they want to use it to pay for more spending. Their budget calls for a $1.1 trillion tax hike to pay for nearly $1 trillion in new spending. In short, the President's plan is to take more from families to spend more in Washington.

We've seen this movie before. Under this budget, we will have run deficits at or close to $1 trillion for five years straight. Yet millions of Americans are out of work or living in poverty. This administration's response is more of the same: more spending, higher taxes, record debt. We can't keep spending money we don't have. We need a new approach—one that encourages economic growth. The longer we delay fundamental reform, the longer we delay a real recovery—because our national debt is weighing down our economy like an anchor.

The administration claims that if we approve this budget, we will have reduced the deficit by $4.3 trillion. But that's not true. Let's break this number down:

• The administration says we've reduced the deficit by $2.6 trillion since Republicans took control of the House. They start the clock a little late. The President is responsible for all the policies he enacted before then. Add back the money for the stimulus, for the payroll-tax holidays, for the extensions of unemployment benefits, for the 24 percent increase in discretionary spending, and total deficit reduction comes to only about $500 billion.

• And all those savings have already been signed into law. So that $500 billion is irrelevant to this new budget.

• So the President then claims that this budget reduces the deficit by $1.8 trillion. But once you take out all the baseline games and add in the nearly $1 trillion spending increase in this budget, the total deficit reduction comes to a paltry $119 billion.

So the President's budget is a disappointment—because it's a missed opportunity. We need a new approach in Washington to meet our country's most pressing challenges. That's what our side is offering. Our plan balances the budget in ten years to foster a healthier economy and to help create jobs. Our plan expands opportunity for the young. It guarantees a secure retirement for seniors. And it repairs the safety net for the most vulnerable.

We can't simply dwell on our differences. We've got to move forward. We've got to find common ground. Even if we can't agree on everything, we need to make a down payment on our debt—now. So I want to learn more about the President's proposal today—and see where we can find common ground.

With that, I yield to the ranking member.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I want to start by joining the Chairman by keeping in our thoughts and prayers the people of Boston, especially the victims and their families. And I would also to join you, Mr. Chairman, in welcoming Mr. Lew to this Committee, the first time as secretary of the Treasury. Congratulations to you, Mr. Lew, and thank you for your service, and thank you for being here to talk about the president's budget. And I believe the president's budget accomplishes two important objectives. One, and foremost, it focuses on job growth now. We all know that we have seen job growth in our economy over the last 30-plus months. But we also know that it is still not where we want it to be. Second, the president's budget reduces the deficit in a steady, credible, and balanced way, such that it is under 2 percent of GDP at the end of the two-year window.

Now, I saw, Mr. Secretary, that one of your first visits overseas was to talk to some of our European partners, and that trip generated headlines like these: "Treasury Secretary Jack Lew Pushes Europeans to Focus on Growth over Austerity." And I think that is good advice in Europe. It is also good advice right here at home. And while the president's budget does focus on growth over austerity, unfortunately, the House Republican budget does not, because the House Republican budget would keep in place the very immediate and deep sequester cuts which the non-partisan independent Congressional Budget Office says will result in 750,000 fewer jobs by the end of this year alone. And the Congressional Budget Office projects that three-quarters of the fiscal year 2014 deficit is due to slow employment levels, underemployment in the economy. So we need to be focused on that right now rather than pursuing European-style austerity in the budget as our Republican colleagues' budget does.

You also had a visit to China. I think your first visit, Mr. Secretary, was to China. And I mentioned in the last budget hearing we had that I have a major biotech company in our district, that last year, laid off more than 1,000 people because of "the uncertain budget environment here at home with respect to investment in science and research." And this year, because of the sequester, they have a hiring freeze in place. The one place they point out they are hiring is in China. It says, "We have instituted a hiring freeze across the company with China being the only exception." And they point out, "It is not because of lower wages paid in China. It is because the Chinese are copying what has historically been a very successful U.S. model of investing in science and research." And it would be very shortsighted if we pursue the austerity approach to cut those investments at a time when many of our major international competitors are following that successful model. So I appreciate the fact that the president's budget focuses on those investments and shows that we can continue to make important investments at the same time that we reduce our deficit in a steady way. And for some of our members who are new to this Committee, the last time we had a balanced budget in this country was when Jack Lew was the head of OMB during the Clinton Administration.

Chairman RYAN. That was the last time he was the head of OMB.

Mr. VAN HOLLEN. When he was the head of what now? You are right. When he was head of OMB during the Clinton Administration, and, of course, when he left that post, we had projected surpluses. That was before two wars on the credit card. That was before we put a new prescription drug plan on the credit card, and, of course, it was before two back-to-back tax cuts that disproportionately benefitted the very wealthy.

So, Mr. Lew, it is good to continue to have you on the president's economic team, and I would just point out that the approach you have taken here to reducing the deficit is a balanced one; meaning you continue to build on the cuts that have been made, $2.5 trillion in deficit reduction already, but you do it in a targeted way, and you do it in part by closing some of those tax loopholes that the Chairman mentioned. The difference is that the Republican budget does not close one single tax loophole for the purpose of reducing the deficit, whereas the president's budget does close those tax breaks for folks at the very high end for the purpose of reducing the deficit in a balanced way.

Let me just close, Mr. Chairman, by urging us to try and come together as soon as possible to bridge the differences between these budgets. The Chairman said we need to get together and move forward; I agree. And that is why we call upon the Speaker to immediately appoint conferees to a budget conference. There has been a lot of discussion in this Committee about how to president's budget was somewhat late. In the law, in the budget law, the conference committees are supposed to have completed action by April 15. So as right now, the Congress is out of compliance with the Budget Act. The fastest way to try and come into compliance as fast as possible is to appoint conferees and follow the regular order, something our Republican colleagues have been calling for. So let's get on with this. Mr. Speaker, you should appoint conferees to a budget conference right now so we can begin to bridge those differences and move forward. Thank you, Mr. Chairman, thank you Mr. Secretary.

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER, COMMITTEE ON THE COMMITTEE

Thank you Mr. Chairman, I want to start by joining the Chairman in keeping in our thoughts and prayers the people of Boston, especially the victims and their families. And I'd also like to join you, Mr. Chairman, in welcoming Mr. Lew to this

Committee—the first time as Secretary of the Treasury. Congratulations to you, Mr. Lew, and thank you for your service, and thank you for being here to talk about the President's budget.

And I believe the President's budget accomplishes two important objectives. One, and foremost, it focuses on job growth now. We all know that we've seen job growth in our economy in the last 30-plus months, but we also know that it's still not where we want it to be. Second, the President's budget reduces the deficit in a steady, credible, and balanced way, such that it's under 2 percent of GDP at the end of the two year window.

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Thank you, Mr. Chairman, and thank you, Mr. Secretary.

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

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

Secretary LEW. Thank you, Mr. Chairman, Ranking Member Van Hollen. I also would like to begin by expressing sympathy for the people of Boston. Our thoughts and prayers are with them. And as the president said yesterday, we are sparing no effort as the investigation goes on into this horrible act.

It is a pleasure to be here with you today to testify on the president's budget. I would like to begin by kind of reviewing where we are in our economy. Our economy is stronger today than it was four years ago. But we must continue to pursue policies that help create jobs and accelerate growth. Since 2009, the economy has expanded for 14 consecutive quarters. Private employers have added nearly 6.5 million jobs over the past 37 months. The housing market has improved, consumer spending and business investment have been solid, and experts have expanded. But very tough challenges remain. While we have removed much of the wreckage from the worst economic crisis since the Great Depression, the damage left in its wake is not fully repaired. Families across the country are still struggling, unemployment remains high. Economic growth needs to be faster. And while we have made progress, we must do more to put our fiscal house in order. At the same time, political gridlock in Washington continues to generate a separate set of headwinds, including harsh indiscriminate spending cuts from the sequester that will be a drag on our economy in the months ahead if they are not replaced with sensible deficit reduction policies like the ones we are proposing.

This budget is animated by the simple notion that we can and must do two things at once: strengthen the recovery in the near term while reducing the deficit and debt over the medium and long term. This has been the president's longstanding approach to fiscal policy, and when you compare the trajectory of our economic recovery with those of other developed economies in recent years, it is clear why the president remains committed to this path. It is important to bear in mind that our deficits are already falling. In the last few years, the president and Congress have come together to hammer out historic agreements that substantially cut spending and modestly raise revenue. When you combine these changes with savings from interest, we have locked in more than $2.5 trillion of deficit reduction over the next 10 years. And now we are putting forth policies that will lower the budget deficit to below 2 percent of GDP, and bring down national debt relative to the size of the economy in 10 years.

We restore the nation's long term fiscal health by cutting spending and closing tax loopholes, taking a fair and balanced approach. At the same time, the budget incorporates all elements in the Administration's offer to Speaker Boehner last December, demonstrating the president's readiness to stay at the table and make the difficult choices to find common ground. Consistent with that offer, the budget includes things the president would not normally put forward, such as means testing, Medicare through income-related premiums, and adopting a more accurate but less generous measure of inflation, known as chained CPI. It includes these proposals only so we can come together around a complete and comprehensive package to shrink the deficit by an additional $1.8 trillion over 10 years, and to remove the fiscal uncertainty that hampers economic growth and job creation. This framework does not represent the starting point for negotiations. What it represents is a fair balance between tough entitlement savings and additional revenues from those with the greatest incomes. The two cannot be separated and were not separated last December when we were close to a bipartisan agreement.

This budget provides achievable solutions to our fiscal problems, but as crucial as these solutions are, we have to do more than just focus on our deficit and debt. The significance of balancing the budget is clear. As Ranking Member Van Hollen noted, during the Clinton Administration I helped negotiate the groundbreaking agreement with Congress to do just that. And as budget director, I oversaw three budget surpluses in a row, and worked with many on the left and right on a plan to pay off our debt. But that does not mean we should only make deficit reduction our one and only priority. In addition to ensuring that we have sound fiscal footing, this budget lays out initiatives to fuel our economy now and well into the future. Every one of these initiatives is paid for in our deficit reduction package, meaning they do not add a dime to the deficit.

As the president explained in his state of the union address, the surest path to long-term prosperity is to strengthen the middle class. His budget does that by zeroing in on three things: bringing more jobs to our shores, equipping American workers with the skills that they need for the United States to be more competitive, and making sure hard work amounts to a decent living. We will strengthen manufacturing and domestic energy production, invest in infrastructure and worker training, and expand opportunities for children and those hardest hit by the recession. The president has provided a detailed blueprint for growing our economy and cutting our deficits, and, as his budget shows, we do not have to choose between the two, and indeed, we must not. We can adopt a powerful jobs and growth plan even as we embrace tough reforms to stabilize our finances.

The debate we are engaged in is very important. It is part of a complex sorting-out process that will determine our nation's future. But as everyone on this Committee knows, the path before us is going to be a struggle. It will require difficult decisions that will directly affect the daily lives of millions of Americans, and it matters that we get this right. I thank you and look forward to answering your questions.

[The prepared statement of Jacob Lew follows:]

PREPARED STATMENT OF HON. JACOB J. LEW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Chairman Ryan, Ranking Member Van Hollen, and members of the committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2014 Budget.

The President's Budget is based on a belief that an agreement to achieve balanced deficit reduction is consistent with making—and fully paying for—targeted investments critical to continued economic growth and job creation. The Budget includes the President's compromise offer to Speaker Boehner to reduce the deficit by an additional $1.8 trillion, in addition to the more than $2.5 trillion already enacted, and fully pays for all new initiatives to ensure that they do not add to our deficit burden.

I. INTRODUCTION

The United States economy has made substantial progress toward recovering from the worst financial crisis since the Great Depression. Despite significant headwinds—both as a result of the crisis and from other temporary shocks—the economy has grown at an average annual rate of just over 2 percent over the last three and a half years. We have seen steady improvement in the labor market, where private sector employers have added nearly 6.5 million jobs since the trough of the labor market in February 2010. The housing market, which had been a significant drag on economic growth throughout the recession and into the early stages of the recovery, is now gaining upward momentum.

While our economy is stronger today, more work must be done to help create jobs and accelerate growth. Even though the unemployment rate, at 7.6 percent, is at its lowest level in four years, it is still too high. Too many Americans are still struggling to find work. Despite recent improvements in the housing market, many families remain underwater on their mortgages and credit-worthy borrowers continue to have trouble getting the financing they need to buy a home or refinance existing mortgages. Although corporate profits are at an all-time high, America's middle class continues to struggle.

The President's Budget addresses these challenges in a way that builds on the momentum of the economic recovery. It takes a credible approach to bringing our deficits down to a sustainable level; at the same time, it makes important investments to help build a foundation for sustainable economic growth. These proposals are based on the conviction that an agreement is within our reach, and that it is also possible to achieve both our fiscal goals and our long-term priorities.

While deficit reduction is necessary to put our nation on a sound fiscal course, we have to bear in mind that the recovery remains fragile. Cutting spending too deeply or too soon would harm the recovery in the near term, undermining our shared fiscal goals and our ability to make necessary investments for growth over the long term.

The proposals in the Budget are targeted at growth and opportunity—cutting where we can and investing where we will see the strongest return, both now and into the future. Specifically, the Budget calls for increased investment in innovation and infrastructure to make the United States a more attractive place for job creation. It introduces initiatives to bolster education and worker training so Americans have the necessary skills to compete in a global economy. And it puts forward policies that are designed to give all Americans the opportunity to share in the benefits of economic growth. These measures will help grow and strengthen the middle class, which has been the key engine of prosperity in the United States. Additionally, they are fully paid for, so they will not add to the deficit.

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

II. BALANCED DEFICIT REDUCTION

When the President came into office four years ago, he inherited a large fiscal deficit—projected to be more than 9 percent measured as a share of the economy before any of his policies were enacted. As the economy has been healing, both the expiration of cyclical spending and a pickup in economic growth have contributed to a more sustainable path for the country's finances.

Over the past two and a half years, we have made considerable progress in reducing the size of the deficit, which fell to about 7 percent of GDP in FY 2012—the fastest pace of deficit reduction over a similar time frame since just after WWII. Moreover, following current policy, the deficit will continue to decline over the next 10 years, owing to a mix of spending cuts and tax reforms including $1.4 trillion in spending cuts to discretionary programs (as a result of both the Budget Control Act of 2011 and other appropriations bills enacted since 2011), as well as over $600 billion in revenue from the American Taxpayer Relief Act of 2012. Taking into account interest savings, this amounts to more than $2.5 trillion in deficit reduction over the 10-year window, not including savings from winding down the wars in Iraq and Afghanistan. But we need to do more to ensure that our long-term fiscal outlook continues to improve.

We must continue to achieve deficit reduction in a balanced way. It must include entitlement reform and spending reductions. We must also pursue tax reform that closes loopholes and addresses deductions and exclusions that allow the wealthy to pay less in taxes as a percentage of income than many middle-class families. Individual tax reform must be coupled with reform of the U.S. business tax system to enhance American competitiveness, lower rates, broaden the tax base, and level the playing field for companies without losing any revenue. All told, these initiatives constitute a balanced approach to deficit reduction. Such a balanced approach does not force unnecessary cuts to education, energy, and medical research and does not endanger Medicare and Social Security.

The President's Budget takes this balanced approach with additional spending cuts and increased revenues through tax reform. These policies will reduce the deficit to roughly 1.7 percent of GDP by the end of the budget window and put the nation's debt on a declining path, reaching 73.0 percent of GDP by 2023.

The additional $1.8 trillion in deficit reduction proposed in this Budget comes from closing tax loopholes and reducing tax benefits for those who need them least; continued health care reform; savings from mandatory programs; additional cuts to discretionary spending; and savings from using a more accurate measure of inflation, plus the reduced interest payments resulting from lower borrowing.

The most important pieces of the compromise offer made by the President include:

- Tax Reform: $580 billion in additional revenue from tax reform that closes tax loopholes and reduces tax benefits for those who need them least and that will support the creation and retention of high-quality jobs.
- Health Savings: $400 billion in health savings that build on the health reform law and strengthen Medicare.
- Other Mandatory Savings: $200 billion in savings from other mandatory programs, such as reductions to farm subsidies and reforms to federal retirement contributions.
- Discretionary Savings: $200 billion in additional discretionary savings, with equal amounts from defense and non-defense programs—that is $200 billion below the Budget Control Act spending caps that were lowered even further by the American Taxpayer Relief Act of 2012.
- Consumer Price Index: $230 billion in savings from switching to the use of chained-CPI.
- Interest Payments: Almost $200 billion in savings from reduced interest payments on the debt and other adjustments.

I will address each of the key elements of the President's compromise offer, all of which are in the Budget.

COMPONENTS OF BALANCED DEFICIT REDUCTION

Tax Reform

As a first step toward balanced deficit reduction and tax reform, the President proposes enacting two individual tax reform measures that would raise $580 billion by broadening the tax base for high-income taxpayers, and ensuring that the very wealthy pay federal tax rates at least equal to those paid by middle-class Americans. The first measure sets a 28 percent maximum rate at which upper-income taxpayers could benefit from itemized deductions and certain other tax preferences to reduce their tax liability. The second puts in place the Buffet rule, which requires those individuals with incomes over $1 million to pay no less than 30 percent of income after charitable contributions in taxes. At the same time, the Budget includes business tax reform that will provide greater certainty and improve global competitiveness while preserving the revenue collected today.

Health Care Reform Savings

The President's Budget builds on the health care cost savings driven by the Affordable Care Act by reducing excess payments for health care services and supporting reforms that boost the quality of care. The Budget also includes structural changes that will help encourage Medicare beneficiaries to seek high-value health care services, while preserving the basic structure and promise of the program. These actions would save an additional $400 billion.

Other Spending Cuts and Savings

The Budget calls for a total of $400 billion in additional discretionary and non-health mandatory spending cuts over the next 10 years. Savings in mandatory programs outside of health care include reforms to agricultural subsidies and federal retirement benefits as well as from a variety of smaller savings initiatives across the agencies.

The budget includes an additional $200 billion in spending cuts, split evenly between defense and nondefense spending. On its current trajectory, discretionary spending is projected to decline to its lowest level as a share of the economy since the end of the 1950s; the discretionary cuts included in the President's offer to

Speaker Boehner would push discretionary spending even lower. The President's cuts are coupled with targeted investments that are imperative to growth and opportunity, such as early childhood education.

In addition, the Budget includes additional savings of $230 billion by changing the standard measure of inflation used to adjust spending programs and the tax code from the standard CPI to a chained CPI, coupled with protections for the most vulnerable. The chained CPI is a more accurate measure of inflation in that it does a better job of reflecting the substitution of goods in response to relative price changes.

III. STRENGTHENING THE MIDDLE CLASS BY INVESTING IN THE U.S. ECONOMY

In addition to the proposals to stabilize our finances, the President's Budget offers a number of policies aimed at making targeted investments to promote long term growth. These policies make domestic job creation more attractive by increasing investment in innovation, infrastructure, and manufacturing. The Budget also offers policies to increase access to and the affordability of education and job training programs. At the same time, it includes proposals so that the gains from these policies can be shared by all Americans.

Promote Greater Competitiveness in Global Markets

A number of proposed initiatives are designed to enhance our ability to sell American-made goods and services to the rest of the world. The Budget increases funding for agencies involved in trade promotion and trade financing so that these agencies can help the United States achieve the goal set in 2010 by the National Export Initiative (NEI) to double U.S. exports over a five-year period. In addition to the NEI, the Budget prioritizes completing ongoing trade negotiations—such as the Trans-Pacific Partnership—and opening new negotiations—like the Transatlantic Trade and Investment Partnership with the European Union—to help strengthen trade ties with the Asia-Pacific region and the European Union, respectively. In addition, more resources for trade enforcement will help make sure that our workers and businesses exporting their products and services overseas are operating on a level playing field.

Currently, the U.S. corporate tax system provides incentives for companies to relocate operations abroad by allowing them to reduce their tax liability. The President's Budget changes that by reforming the corporate tax system to encourage domestic job creation without losing any revenue. Part of that effort will include removing deductions for moving production overseas and providing a new tax credit for firms that bring foreign operations back to U.S. soil.

Investing in Innovation, Infrastructure, and Manufacturing

As global markets become more open and as economic activity abroad continues to strengthen, it is crucial that U.S. firms and workers remain on the technological frontier. That is why we need to invest in Research and Development (R&D), infrastructure, and our manufacturing base. These investments will help foster job creation, raise living standards, and keep our nation competitive in a global economy.

The President's Budget increases funding for non-defense R&D investment to $70 billion, a roughly 9 percent increase over its 2012 level of $64 billion. These investments are targeted to areas most likely to unleash transformational technologies that will create the businesses and jobs of the future. History has shown that federal support for R&D has helped spur new technologies, including the internet, global positioning systems, and clean energy.

Similarly, federal investments in public infrastructure projects, such as the national highway system, have led to significant gains in our nation's productive capacity. In recent years, however, work to maintain and improve public infrastructure has failed to keep pace with the rate of deterioration and obsolescence. As CEOs tell me every time we meet, our aging infrastructure has become a detriment to our future growth prospects, and modernizing infrastructure must be a national priority.

The President meets this obligation by directing $50 billion toward infrastructure upgrades and repairs. And to get started on the most urgent projects as quickly as possible, the Budget would create a "Fix it First" program that puts people on the job right away to clear out the backlog of deferred work on highways, roads, bridges, transit systems, and airports. But taxpayers need not shoulder the entire cost of these projects: the President's Budget calls for a Partnership to Rebuild America. This program helps leverage private investment in infrastructure by starting a National Infrastructure Bank as well as by enacting America Fast Forward bonds, which help facilitate and reduce the cost of financing new projects. These initiatives will help lay the foundation for long-term economic growth and also help generate new high-quality middle-class jobs today.

Growing our manufacturing sector also generates new, high-quality middle-class jobs. The Budget makes a one-time down payment of $1 billion to establish manufacturing innovation hubs in various regions around the country. The Budget also includes funding to launch Manufacturing Technology Acceleration Centers oriented toward improving supply-chain efficiency. Finally, the Budget prioritizes investments and initiatives to make the United States a world leader in clean energy.

Investing in the American Workforce

If we want to make America more competitive in the global economy, we must equip America's workers with the high-tech skills that the 21st century requires.

The Budget takes a number of steps to help Americans acquire these skills. It proposes to work together with states to make high-quality preschool available to every four-year old in America. It rewards school districts that develop new partnerships with colleges and employers, and focus on science, technology, engineering, and mathematics (STEM) so that high school students are better prepared for the jobs of tomorrow. And it expands access to higher education by making college more affordable. The Budget makes the American Opportunity Tax Credit—which helps students pay for college expenses—permanent. At the same time, it reaffirms the Administration's strong commitment to the Pell Grant program, which provides grant assistance to low- and moderate-income students and provides a mechanism to keep interest rates for student loans from rising—at a time when market rates are low.

In addition to investing in education, the Budget strongly supports training and employment programs to help workers gain skills and find new jobs or careers. One specific focus is on modernizing, streamlining, and strengthening government delivery of job training services. The Budget proposes a Universal Displaced Worker program that would reach over 1 million workers per year with a set of core services, combining the best elements of two more narrowly targeted programs. In addition, starting in fiscal year 2015, the Budget provides $8 billion for the Community College to Career Fund; this Fund supports state and community college partnerships with businesses, thereby enhancing the skills of American workers.

Strengthening the Middle Class

Investing in U.S. firms and workers is critical to maintaining competitiveness, but it is also important to make sure that all Americans have an opportunity to benefit from the resulting economic gains.

To this end, the President's Budget includes tax proposals that are geared toward rebalancing the tax code in a way that eases the burden on the middle class, including closing specific loopholes that benefit only a small group of the wealthiest Americans. The Budget also contains a number of proposals designed to build ladders of opportunity so that hard work is rewarded and inequality and poverty are reduced.

The Budget creates a Pathways Back to Work fund to make it easier for workers, particularly the long-term unemployed, to remain connected to the workforce and gain new skills for sustained employment. The Budget would also increase the minimum wage to $9.00 an hour by the end of 2015 and index it to inflation thereafter.

Taken as whole, the policies put forth in the President's Budget enhance America's competitiveness and, in doing so, create a healthy environment for fostering a strong, growing middle class—a key engine for sustainable economic growth in which hard work is rewarded and every American has an opportunity to advance and succeed. At the same time, we maintain our commitment to our most vulnerable citizens and to our seniors.

Moreover, these new policy initiatives are fully funded, so that the Budget is able to make essential investments in the nation's future while also reducing the deficit.

IV. CONCLUSION

In summary, the U.S. economy has made significant progress toward recovering from the worst financial crisis since the Great Depression. However, it is important to recognize that we should be doing more to secure the recovery, create jobs, and improve the future prospects of the nation.

We have made significant gains in the labor market, but unemployment remains unacceptably high at 7.6 percent and too many Americans are still looking for work. Congress has already passed some parts of the American Jobs Act. We can further support the recovery in the private sector by passing the rest. Similarly, activity in the housing market appears to be gaining momentum, but we need to do more to support credit-constrained families who want to buy a house or refinance their existing mortgage.

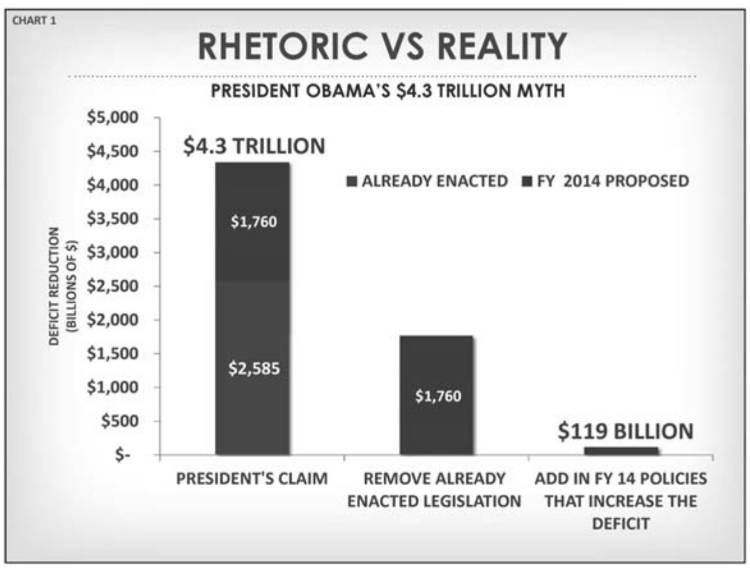
The President's FY 2014 Budget, by including the components of the President's December compromise offer to Speaker Boehner, reiterates a commitment to coming together around a balanced plan to reach more than $4 trillion in total deficit reduction over the 10-year budget window. At the same time, it prioritizes growth-oriented policies that are designed to enhance U.S. competitiveness and strengthen the middle class, ensuring that the resulting economic gains can be shared broadly among all Americans.

In conclusion, it is important to note that this framework does not represent the starting point for negotiations. It represents a fair balance between tough entitlement savings and additional revenues from those with the greatest incomes. The two cannot be separated, and were not separated last December when we were close to a bipartisan agreement.

This is my first opportunity to appear before you as Treasury Secretary, but this is far from the first budget that I have worked on. There is no doubt that this is a serious proposal at a serious time. There is a path to a bipartisan agreement that moves the country forward. This budget deals with the world as it is now and as it will be in the future. It makes difficult choices. It includes a powerful jobs and growth plan. And it is the right course of action for our nation and our economy, and a path for bipartisan agreement to move the country forward.

Thank you. I look forward to taking your questions.

Chairman RYAN. Thank you. If you could bring up the first chart, please.



I wanted to explore tax reform with you a bit. Your budget calls for lowering the corporate tax rate to 28 percent. Question one: Do you propose to do that on a static revenue-neutral basis?

Secretary LEW. Mr. Chairman, do you mean do we plan to use traditional scoring?

Chairman RYAN. Yeah.

Secretary LEW. Yes, we do plan to use traditional scoring.

Chairman RYAN. But the 28 percent lowering, you plan on offsetting that and paying for it within base broadening, is that correct?

Secretary LEW. Well, Mr. Chairman, to be clear, we propose that business tax reform be done in the context of overall tax reform, and that the overall tax reform needs to fill a gap that we have to get our fiscal house in order of $580 billion of additional revenue. I think that the business piece, we have said, should be done in a way where we broaden the base and lower the rates so that American can be more competitive. But the overall tax package is going to have to raise revenue.

Chairman RYAN. Okay, but at least we agree in the first thing that you said, which is, lower rates, broaden the base in order to lower the rates. And you do not specify how to pay for lowering the rates, just that we should do it through base broadening to be determined through tax reform, correct? I am not trying to lay a trap.

Secretary LEW. We have had a number of indicative provisions in there, but I think there will have to others, and the business of broadening the base is a difficult one. It is going to require a lot of bipartisan consensus because each of the provisions that we would consider base broadening, has, you know, zealous advocates saying that they need it desperately.

Chairman RYAN. The point I am trying to make is some have been critical of our proposals, which were to lower the rates and the broaden base, and do it through tax reform. It sounds like you are basically saying do the same thing, but on the corporate rate. Well, the point is, it is tough to do. It is a lot of zealous advocates to certain tax expenditures, and so we need to do this together through broad based tax reform through base broadening. So all I am saying is there is an area of consensus on the proper approach.

Secretary LEW. I think there is some agreement, but I do not want to exaggerate. To be clear, the president's budget and the president's policy is he needs to have raisers, and the raisers would come from high income taxpayers.

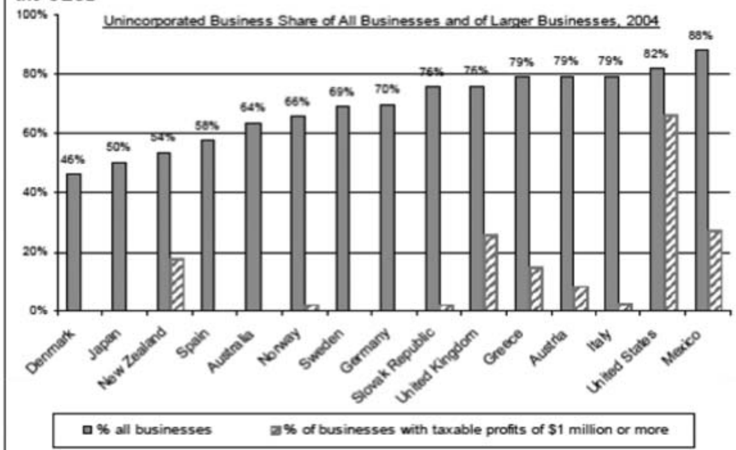
Chairman RYAN. Well, I want to get to that in a second.

Secretary LEW. Yeah, who are the people who benefit from when corporations do well.

Chairman RYAN. I want to get to that in a second. Here is what is unique about us, us being the U.S. Among, I know this chart is kind of tough to see, among the OECD countries, the industrialized world, we have a unique disproportion of businesses that file as individuals.

Most other countries do not do this. Most other countries tax their businesses all sort of the same as businesses. And so when you see the international corporate tax rate at 25 percent, that means most businesses in other nations are taxed at the average rate of 25 percent or lesser or higher based upon the average. The problem is, in America, most of our businesses file as what we call pass-throughs, subchapter S corporations, partnerships, LLCs. And what you see here is, the red bar, these are all businesses that make in excess of a million dollars in profits, so not even the small of the small businesses. Most of our companies in American are not corporations. They are pass-throughs. And eight out of 10 of our businesses according to your data, are pass-throughs; nine out of 10 in states like Wisconsin.

Chart 3.2: The U.S. Has Among the Largest Unincorporated Business Sectors Within the OECD



Source: OECD, Center for Tax Policy and Administration, "Survey on the Taxation of Small and Medium-Sized Enterprises: Draft Report on Responses to the Questionnaire," revised 5 July 2007; Tables 1-3.

And so here is the question. If we now have a 39.6 statutory tax rate on these pass-through businesses, but we go down to a 28 percent tax rate on corporations, do you not think that is kind of unfair? Do you not that that puts those successful small businesses at a competitive disadvantage where they are paying a tax rate that is 10 percentage points higher than their corporate competitor that is a C corp?

Secretary LEW. Mr. Chairman, I think this Administration has had a very strong record of putting forward tax proposals to benefit small businesses. We have had 18 separate proposals. So we very much agree that there need to be incentives for small businesses.

Chairman RYAN. But what I am asking you is the rate, their actual rate that they pay. First of all, we were at 35 for years. Now the top statutory rate is 39.6 for these businesses, 35 for corporations. You want corporations to go to 28, but keep the small businesses at 39.6. Do you not think that difference is discriminatory? Do you not think that puts them at a competitive disadvantage?

Secretary LEW. One of the reasons that it is important, just as an intellectual matter, do individual and business tax reform at the same time, as those businesses make their decision how to organize, they need to know what the individual tax code is and what the business tax code is. There will be opportunities for small businesses to perhaps file as corporate taxpayers and get the benefit of lower rates when we have a statutory rate that is lower because we have eliminated a lot of the special provisions that keep the statutory rate high. I think as we all know, the average rate is much lower than the statutory rate.

Chairman RYAN. So you are suggesting that we keep the statutory rate high, and if a business does not like it, they should become a corporation? Is that kind of what you are saying, the relief that the Administration envisions for them?

Secretary LEW. I think that we share the concern for small businesses. We have proposed, on 18 separate occasions, tax benefits to help small businesses. We would look forward to working on a bipartisan basis to make sure that there are strong incentives for small business. I think that the rate that you are describing is not, for the most part, raising revenue because it is hitting small businesses. It is hitting a lot of people with considerable income that comes from corporate income, that comes from financial services income, that comes from law firm income. So I think it is important that we not mix things up. If we want to encourage small business, we can work together. I think we agree we want to encourage small businesses.

Chairman RYAN. Yes, see, there is the issue, which is we can add more loopholes to the code to try and alleviate pressure from taxes, but instead of having the loopholes, why do we not plug the loopholes and just lower the rates. That way, these businesses get to decide for themselves what to do with their capital, how to invest their capital, how to create jobs. There is where we are going to have an issue when it comes to tax reform. I do not want to dwell on this because I am putting myself on a clock as well so we can get to everybody else here. Has the president made any proposals since he has been president that raise taxes on families earning less than $200,000, or $250,000 for joint filers?

Secretary LEW. The president's pledge that his tax policies should not hit people below 250 have been borne out by the policies that we have enacted and by the policies we propose. I know there is some disagreement in categorizing certain things, but I would be happy to have that conversation with you.

Chairman RYAN. Well, I am not trying to lay another trap, I am just trying to say, first of all, the Supreme Court says that the health insurance mandate is a tax that obviously hits everybody. The 2.3 percent tax on medical devices, that hits everybody, including people making less than $200,000. The cigarette tax, smokers do not just make about $250,000. But the new 28 percent tax rate limitation on deductions, that kicks in at families making $223,000. The point I am trying to make is, you are already kind of reneging on this promise, and the biggest tax increase proposal you have in your budget does that as well. It taxes families below your definition of middle-income thresholds. And the point I am trying to make here is, you cannot get all of this revenue you want to fuel all of the spending without taxing middle class people. There just are not enough high income earners there, the kind of money that you are looking for from taxes, to pay for all of this spending. And I think your budget acknowledges this by the fact that you are actually proposing to tax people below the threshold that you define as being middle income.

Secretary LEW. Mr. Chairman, I would be happy to go and give you a quick answer on those issues. In terms of health care, it was designed as a responsibility fee to make sure that everyone had coverage, and that when people go to the hospital, they are carrying their own fair share of the burden. We designed it that way, Congress designed it that way. The fact that the Supreme Court chose to see it as something that fell under the taxing powers does not make it a tax in terms of the way it was enacted, the way it was conceived, or what it does.

Chairman RYAN. Irrespective of the fact that your lawyers argued it was a tax in order to maintain its constitutionality.

Secretary LEW. You know, legal arguments can define categories that have different boundaries for different purposes. I think that the reality is that if you do not have health insurance and you go to the hospital, somebody else is paying the bill. And it is a way of making sure people pay their own way. On the cigarette tax, we dearly hope that people decide not to buy cigarettes, not to smoke, that fewer young people smoke. We will get more benefits to this country from lower health care costs and better health, and we will be net-net better off. So it is something that people make the choice on whether or not to smoke. It is designed to discourage smoking.

Chairman RYAN. That is fine. Look, the fact is it hits people who are middle income. The point I am trying to make is, if you want to get all this kind of tax revenue you are talking about, it does not just come from the movie star or the hedge fund manager. It does, from your own budget's acknowledgement, come from middle income people, lower income people. I have got a minute left. Secretary Lew, when do you project the X date to hit? This is on the debt limit. As you know, May 19 is the statutory date where the clock is so-called reset. You have extraordinary measures. What is your latest projection on when you think those extraordinary measures play out?

Secretary LEW. Mr. Chairman, it is very challenging this year to make a precise prediction, and we do not have, at this moment, a precise prediction. It was a late filing season in the tax code this year because the law was enacted in January. So we do not have even a good sense of what the cash flow on revenues is.

Chairman RYAN. What month do you think it is going to hit?

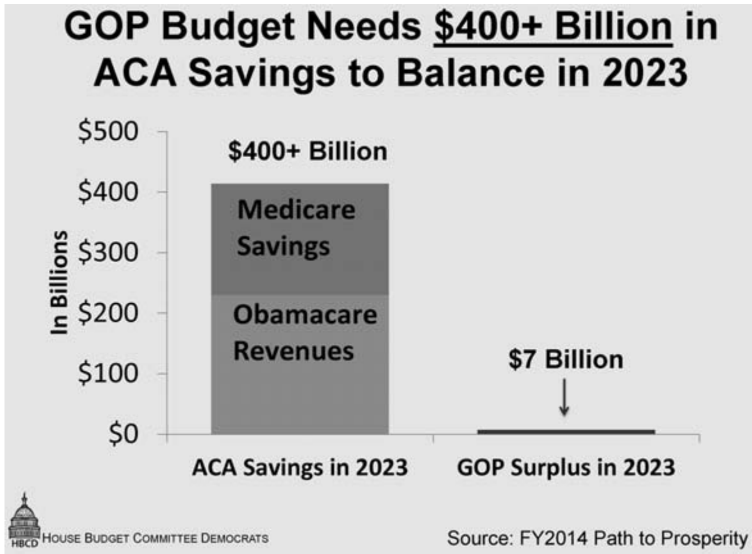
Secretary LEW. I hate to answer when I do not know with clarity. You know, the sequester? We do not have a good sense of what the outlay impact month to month will be of the sequester, and there is some very uneven payments that we cannot schedule the timing of. So we could be plus or minus quite a considerable period of time if I were to give you an estimate today. So we are going to need to keep working on this.

Chairman RYAN. Well, just keep us updated, all right?

Secretary LEW. I think the important thing that we need to recognize is that May 19 was set as a statutory limit. It was a date that was set, not a number that was set. And the right thing to do is to extend the debt limit to remove any uncertainty so we are not in this place where people are wondering how many days or weeks do we have. May 19 was set as a date, and we certainly hope Congress will act accordingly.

Chairman RYAN. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. Again, Mr. Secretary, thank you for being with us. And I had not planned to raise it, but the Chairman once again raised the ObamaCare issues, including the fees, which he referred to as taxes, whatever you want to call them. I think it is important to point out that the Republican budget assumes that stream of revenues. In fact, they claim to balance their budget over 10 years, but as the chart up here will show, at the 10-year mark, their budget is about $7 billion in surplus, but they count on two sources of savings from ObamaCare.



One, the Medicare savings, which we achieve by ending overpayments to some of the insurance companies and modernizing the incentive structure, but also the revenue stream included in ObamaCare. Without those elements, or some substitute which they have not told us about, their budget would not be in balance. And I think that is an important point to make.

Chairman RYAN. Gentleman care to yield on that?

Mr. VAN HOLLEN. I am happy to yield with extra time.

Chairman RYAN. See his explanation on corporate tax reform.

Mr. VAN HOLLEN. So let's now go to the issue of taxes because the Chairman suggested the president's plan could have an impact on middle income taxpayers. As you pointed out, the president has been very clear on drawing the distinction between asking higher income individuals to pay their fair share of the burden and not put additional burdens on middle income taxpayers. I know you have had a chance to look at the math in the Republican budget where they would drop the top individual rate from 39 percent to 25 percent, claim to do it in a manner that is deficit-neutral, and the analyses that I have seen, including those from the Administration, show that the only way to accomplish those two objectives is if you, in fact, increase the tax burden on middle income families by somewhere, on average, of $2,000 to $3,000. Could you comment on that?

Secretary LEW. Congressman, first of all, I want to go back and agree with you on the question of how to think about the health care bill. The fact that people are paying for health insurance and getting health insurance is very different than leaving the payments there but not giving them the health insurance. And it is just they cannot be compared. On the question of the budget that the majority here has put forward, it has an enormous reduction in tax rates. It does not specify how to pay for it, and there are not enough tax deductions at the top to pay for it. So if you are going to lower the top rate as much as that budget would do, it would put billions of dollars, trillions of dollars of burden on middle income taxpayers. How it was designed would have to be something that was worked out, but there is just not enough room at the top in order to pay for it. So if you are going to lower the rates at the top, even if you were to eliminate the benefits, you could not manage to pay for that rate reduction without raising taxes on people below. Whether it is $1,000 or $2,000, you would have to look at a specific design to know. I cannot comment at that level of specificity. But it would be a significant increase, I think, on middle income taxpayers.

Mr. VAN HOLLEN. No, I appreciate that, and just to amplify on the earlier point you made where the Republican budget actually gets rid of the health care benefits but keeps the savings, including the revenue stream in the budget, is sort of giving people the toughest end of the bargain on both ends, right? And it would also create havoc in our health care system if you were to take away the new people who will now be covered by insurance going into the exchanges in that process.

Could you just elaborate a little bit more on this distinction that you made? There is a lot of talk about how businesses that file as pass-through entities are small businesses. There is a lot of misconception about that. When you dig a little deeper, you find out that those so-called small businesses include businesses on the Fortune 100 list, they include a whole lot of Washington lobbyists who are making hundreds and hundreds of thousands of dollars, Washington attorneys, other folks. So as we talk about tax reform and this distinction between pass-through entities and corporate tax entities, I think it is important to remember that the Administration's proposals have always protected true small businesses, mom and pops, but do believe that some of those very high income filers should pay more. Could you elaborate on that?

Secretary LEW. Congressman, if you look at where the revenue at the top end of the spectrum comes from, it is mostly coming from very wealthy individuals and larger businesses. I think that when we had a bipartisan agreement at the beginning of this year to resolve the issue of the top rates, it was not raising taxes on small businesses, you know, in any kind of a broad way. I do not disagree with the notion that we need to encourage small business. That is why we have had a lot of specific incentives for small business. But we have to be very targeted in how we do. If we are going to try to help small businesses, we ought to make sure the benefits go to small business, not to the wealthiest individuals who really can afford to pay more.

Mr. VAN HOLLEN. You are right, and there is a long list of corporations that I am sure most Americans would not consider small businesses, who filed as pass-through taxpayers. Let me just say word about the compromises. You pointed out the president included in his budget proposals that have been made by Speaker Boehner and Republican Senate Leader Mitch McConnell, including chained CPI, which creates concerns among many of us, many in the president's party. And yet the House Republican budget does not include the provisions that they themselves asked for, nor do they include any revenue from closing the tax breaks that we hear a lot of talk about on the Republican side. We know that Speaker Boehner during, those discussions with the president last winter, talked about a trillion dollars in revenue that could be generated from closing tax loopholes, and he specifically said by closing tax loopholes and breaks that disproportionately benefit very wealthy people. Early on in the process, he made a big announcement about how he could find $800 billion by closing tax breaks that disproportionately benefit very wealthy people.

So you would have thought the in the spirit of compromise, that Speaker Boehner and the House Republicans would have included those things that the Speaker put on the table, and I hope that since the president has gone way out there and moved to meet the Republicans at least halfway, that in the coming weeks, we will see our Republican colleagues put back on the table the things the Speaker himself had called for.

And we all know that one of the issues we are going to be confronting in the next weeks and months, as you and the Chairman pointed out, is the debt ceiling. And I hope we have all learned from our experience in the summer of 2011 that it is irresponsible and reckless for the United States to suggest that it will not meet its financial obligations, whether they are to bondholders, whether they are to Social Security recipients, whether they are due to other people who have contracted with the United States government. Now, in the House in the next couple weeks, we are expected to take up a bill that says, “You know what? We can prioritize our debts. You know, there are some debts that we will say come first, but other debts and obligations that the United States government, including this Congress, have taken on. You know what? They do not have as high a priority.” Could you, Mr. Secretary, as secretary of the Treasury now, comment on what impact it would have on our economy, and what signal it would send to the international economy, if the United States were to default on any of its obligations.

Secretary LEW. Congressman, I have to say that the notion that you can prioritize which of the obligations that Congress has authorized should be paid is one that just does not work. It does not prevent default, it just shifts what obligation you are defaulting on. And we have never in the history of this country defaulted on our obligations, and we cannot even let that be considered as an option. I do not think there is any alternative but for Congress to pass an extension of the debt limit. It would be a mistake to repeat the kind of brinksmanship that we saw in 2011; it hurt confidence in our economy. And there is no alternative. Congress cannot reduce the spending that it has already obligated. Those are obligations, and the United States pays its bills.

Mr. VAN HOLLEN. I am not sure lots of people recognize that the last point that you made very quickly, which is these are obligations which the United States Congress has already voted to undertake, right?

Secretary LEW. Correct.

Mr. VAN HOLLEN. The Congress has voted to take on these obligations. The United States has made commitments based on those commitments. Could you just amplify that point?

Secretary LEW. Congressman, there is no spending that has taken place that has been authorized by Congress. It has either been appropriated or it is provided for through permanent legislation. And when the United States undertakes an obligation, whether it is an obligation to pay rent, to pay for materials, to pay for labor, or to pay bondholders, they are all obligations that were authorized by Congress. Failing to pay an obligation that has been authorized would be unprecedented. It would be a form of default. And all the prioritization does would sequence which bills would be paid, but it would not leave you in a position to pay all your bills.

Chairman RYAN. Thank you. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. I want to welcome you, as well, Mr. Secretary. I think it is important as we work through this budget season to talk about the goals of budgets. And the goal of our budget on the Republican side was to create, is to create, the greatest amount of opportunity for the greatest amount of success for the greatest number of people to return and to expand the American dream. We believe that our budget would do that. Sadly, we do not believe that the president's budget gets us moving in that direction as the president's budget, your budget that you submitted, increases debt, increases dependency, increases spending, increases taxes, in fact, grows the government instead of growing the economy, with a budget that never, ever, ever gets to balance, unlike your experience in one of your periods at OMB.

That being said, though, I am intrigued by a couple things that you said. One, I think I heard you say that the Administration is interested in moving forward with corporate and individual tax reform simultaneously. Is that correct?

Secretary LEW. Correct, as part of an overall fiscal plan.

Mr. PRICE. As part of an overall fiscal plan in order to lower the corporate rate; does the Administration contemplate removing deductions, credits, expenditures on the individual side to cover a decrease in corporate tax rates?

Secretary LEW. Our notion has been that we cannot lose any revenue through corporate tax reform, and so I would think that we can only lower the rate on the business side as much as we are able to broaden the base on the business side. I think we have a pretty big hole to fill in terms of a fiscal plan, $580 billion.

Mr. PRICE. If you go to silos.

Secretary LEW. Well, I think if you view tax reform overall, it is going to have to raise $580 billion. If you did the corporate business side on a revenue-neutral basis, that means that the 580 would come from the individual's side, and we think it should come from the top end.

Mr. PRICE. So there is some potential to utilize closure of expenditures on the individual's side.

Secretary LEW. No, I did not say that. We have not entertained the notion that there would be individual revenue raisers to pay for business rate cuts.

Mr. PRICE. A couple other quick points. I know that you have recently met with some of the European officials, France and Germany, I believe, and you are certainly aware that the EU countries are contemplating a raising a new tax on U.S. retirees and other investors by taxing financial transactions here in the United

States. I know that last week in response to a question from Congressman Neal, you said that it was the Administration's policy that it is not acceptable policy, from our perspective, for other countries to create a tax that has an extraterritorial reach and would levy a tax on a transaction in the United States. Would you support legislation that would prohibit that kind of tax from the EU?

Secretary LEW. Congressman, I have delivered a very clear message to our European friends that it is unacceptable, and I think we need to work with the various institutions in Europe to make sure that they do not impose taxes here. I think we would have to look and see what the shape of it was before I could answer that question. So I do not know what the impact of the legislation would be. I think, from the question you are asking, I think we totally agree that it is unacceptable for a foreign government to levy a tax in the United States.

Mr. PRICE. We have got a bipartisan group that is moving forward with a piece of legislation on that.

Secretary LEW. I look forward to working with you on that.

Mr. PRICE. I want to move to IRAs. You propose in your budget a cap to IRAs, and the White House has said, curiously, some individuals can accumulate substantially more than is needed to fund reasonable levels of retirement. Is it the Administration's position that it is the role of the federal government to define what a reasonable level of retirement is, not from the governmental subsidy standpoint, but from what individuals are allowed to accumulate?

Secretary LEW. No, to be clear, our policy does not limit what people can save for retirement, it just limits the availability of tax benefits. And we have said that $3 million is a limit that is where the tax benefit should no longer be available. But we have never said that people should not save as much as they choose to for their retirement.

Mr. PRICE. So you do not believe that it is the federal government's role to define a reasonable level of retirement?

Secretary LEW. Well, our policy would have no impact on people's decisions, you know, without regard to taxes.

Mr. PRICE. But it does. The tax policy affects activity, does it not?

Secretary LEW. Well, the tax benefit does not have to be there. If somebody sees the value of saving and the compounding over time, and they want to save more, they can do that.

Mr. PRICE. But if you tax something, you get less of it, correct?

Secretary LEW. Well, the special tax incentive for saving for retirement, the average American has on the order of $50,000 saved for retirement. I think our goal has to be to have more and more people participate in retirement savings to build that leg of the stool so that more Americans have it. And in a world of tough choices, the tradeoff between a $3 million-plus retirement and getting people into the system is clear.

Mr. PRICE. We would suggest, Mr. Secretary, that it is not the federal government's role to define what that reasonable level is, and that all individuals ought to be treated the same and equally so that greater opportunity, greater success, greater dreams being realized.

Secretary LEW. And to be clear, we do not discourage people from saving without the benefit of the special tax provision.

Chairman RYAN. Ms. Schwartz.

Ms. SCHWARTZ. Thank you. Just to be clear on that last point, I would say that I agree with you that people should be able to save all they want, but to understand that if we are actually creating a tax benefit to do that, that those middle class families and lower middle class families are subsidizing those who are then saving over $3 million. So it is really not a question of government. It is really a question of what do taxpayers, most of whom are middle income or lower middle income, subsidizing multi-millionaires. That is the question.

So, what I wanted to ask you about was about economic growth, and the focus of the president's budget on deficit reduction, on meeting our obligations but also on economic growth, and the role we could play in getting the tax policy right and the incentives right to stimulate and to engage with the private sector to build private sector jobs. I do want to ask specifically about manufacturing and advanced manufacturing, and as I do, I want to say that I believe very strongly, I think that Mr. Van Hollen said this, that we do need to do the basic research, and we do need to incentivize that by funding NIH and some of the energy work we do. But then we also want to be able to produce those products here in the United States.

Now, so, three points I want to make, and then I would like you to respond to them. I very much appreciate the fact that, I am representing Pennsylvania, there are communities that have struggled after a loss of a major plant closing, base closing. So I wanted you to just take a moment to talk about the initiative that is in the budget that would encourage communities hard-hit by plant closings or changes in the economy, if you would define that better about what kind of incentives would be available to bring manufacturing back, particularly advanced manufacturing, a very skilled workforce. I recently visited with Acting Secretary Rebecca Blank at a training facility that is run by a union, a few new unions, about workers, new skills that are really quite high tech, I have to say. So I wanted you to talk about that.

Also, I wanted to bring up the fact that I actually have, it is a bipartisan bill to incentivize manufacturing of innovative products, those products that are made off of a patent. Again, we are competing internationally. We have seen the EU interest, and Britain just reducing the tax rate for advanced manufacturing for products made off of patents. I wondered if you would speak to the possibility of doing something like that in the United States so that we do not do all the research, create the product, have the innovation, get the patent, and then go make it somewhere else. And so if you would speak to that.

And third, just to follow-up on the conversation about the corporate tax rate and small business tax rate, the fact is that that is a choice that businesses are making. That is their choice to be treated as a pass-through, to use the individual rates, and, truthfully, they do it because it is cheaper for them. That is what they do. They could decide, and some of them have thousands of employees, Mr. Ryan talked about the fact that he is concerned about those businesses that have profits of over a million. This is not your mom and pop cleaners on the corner, or a little store that has profits. This is not receipts. These are profits of over a million dollars, possibly considering themselves to be big business at this point in corporations. So I hope we get that right. I co-chair the working group on the Ways and Means Committee on small businesses, and we are deeply concerned about this very issue, about what kind of rate they receive or can make the choice for.

So, long question, I apologize. But those three areas are a keen concern to us about how to incentivize manufacturing, make sure that not-such-small businesses pay the proper rate, and as we lower corporate rates, that you can take advantage of those, which they certainly can. So, Mr. Lew.

Secretary LEW. Congresswoman, I will quickly try to answer all three pieces. In terms of our incentives for what we call the new manufacturing communities tax credit, it is really designed to be of assistance to communities that have been hit by the kinds of dislocations that you described. We have left open, a little bit, the design of it. It could either be designed like the new markets tax credit or more like the advanced energy credit.

Ms. SCHWARTZ. Which would work very well.

Secretary LEW. And we would look forward to working with Congress on a bipartisan basis to getting it right in terms of designing it.

Ms. SCHWARTZ. I would be very interested, and also which kind of communities get hard-hit could be able to take advantage of this.

Secretary LEW. On the question of corporate tax rate, you know, I think for any entity that chooses to go into a system with a top rate that is higher, they are doing it because the net tax burden is lower. So I think your fundamental point is correct. Our goal is, when we look at the business tax side, is answering this question of why are companies moving overseas. There are lower statutory rates overseas which are driving some companies to make the decision to relocate in other countries. That is not good. It is not good for headquarters jobs, it is not good for long-term job growth in America. So we view it as being part of our growth and jobs agenda to have the corporate business tax rate be more competitive in the world.

Ms. SCHWARTZ. Which is why we are all interested in lowering those rates.

Chairman RYAN. Thank you. Mr. Garrett.

Mr. GARRETT. Thank you. Mr. Secretary, thank you. I want to talk about transparency from a practical and policy perspective, first of all with regard to your answers on the Affordable Health Care Act, since the term you are using is responsibility fee. Okay, I understand that. Would you support, then, if I dropped in a piece of legislation saying going forward that that is exactly what the ObamaCare or Affordable Health Care Act is, it is a responsibility fee. Will the Administration support legislation designating that since that is what you just said?

Secretary LEW. I think that we have legislation, we are implementing legislation.

Mr. GARRETT. No, no, no. Yes or no. I am going to give you a bunch of yes or no questions.

Secretary LEW. We are happy with the ACA as it stands.

Mr. GARRETT. Okay, so you will not support what you just gave testimony to the Committee. With regard to transparency on practicality policy, is it true, I just want to get through this one quickly, that as you come here as secretary that you formerly worked on in the financial sector working for a firm that crafted a unique provision in your contract that you would be paid an extra bonus for taking a federal position like you have now?

Secretary LEW. That is not what my employment agreement said.

Mr. GARRETT. Anything close to that?

Secretary LEW. I receive no extra compensation. I just did not lose my pay for the prior year.

Mr. GARRETT. So the articles in the Wall Street Journal saying that there is a $400,000 payment, that you were able to keep that payment if you got a job.

Secretary LEW. I went through all these issues at my confirmation hearing.

Mr. GARRETT. I understand. But I am not a senator, I am a congressman. So is it yes or no? You were not able to keep that money because you took this Administration. I have never had anybody come before this Committee that ever had language in their contract. That is why I was just curious about that.

Secretary LEW. I was paid for my work in the prior year.

Mr. GARRETT. Okay. Regarding transparency, then, with regard to the GSEs, right now there are explicit guarantees for the GSEs that has cost American taxpayers $183 billion to bail them out. Would it not be appropriate, and honest, and transparent if we actually put the GSEs on budget?

Secretary LEW. You know, we have moved to put all of the expenses that the federal government expects to take on budget.

Mr. GARRETT. All of GSEs, their debt should all be on budget.

Secretary LEW. We have put on budget the things that have an impact on budget.

Mr. GARRETT. Well, obviously there is a continuing impact of the GSEs, and we are going to continue to pay out for them if they go the other way, so business, the private sector, where it used to be, is not allowed to have these things off budget anymore, so should that not be the way here on the federal government level, too?

Secretary LEW. Well, Congressman, we are showing on the federal budget the impact on the federal budget. What we are also doing is we are winding down the assets that are in conservatorship and reducing the taxpayer's exposure.

Mr. GARRETT. The answer is no, you do not to be totally transparent and put the entire GSE obligation on budget.

Secretary LEW. I am describing what we have chosen to do.

Mr. GARRETT. Which is not to put it on.

Secretary LEW. Which is put the burden that shows up on the federal government on the budget.

Mr. GARRETT. Reclaiming my time. With regard to FHA, they originally, in their projection, showed a negative cost cohorts from 1992 to 2011, which basically means that we were able to expend that money on our side. At the end of the day, the actual amount came out to be $18 billion on the upside, which means they were off by around $22 billion. In light of the fact that there is an automatic line of credit, does this concern you, and does it concern you that they are not treating the FHA with a fair value basis accounting?

Secretary LEW. I think that we do treat the FHA properly. I think that the legislation that provided for the FHA provided a band within which they are functioning.

Mr. GARRETT. Right. But, obviously, they have been wrong with their projections from 1992 to 2011 every single year, and so they have been wrong in part because they did not have to use fair value accounting.

Secretary LEW. I do not believe that is the reason.

Mr. GARRETT. Are you saying you have you tried to change that?

Secretary LEW. I do not believe that is the reason the estimates have changed.

Mr. GARRETT. But they have been wrong during each one of those years, correct?

Secretary LEW. The estimates have been corrected in both directions over the period of time you are describing.

Mr. GARRETT. Well, collectively, it is an over $40 billion collective figure.

Secretary LEW. I am just saying, I do not think it is an issue of fair market accounting. It has to do with the levels of activity.

Mr. GARRETT. You think that you were going to propose to make it more transparent and accurate in their protections of their revenue?

Secretary LEW. We have shown in this budget the impact as it is presently estimated.

Mr. GARRETT. With regard to the GSEs, your predecessors made promises for four years with regard that they were going to do and reform in that area; do you have any intentions in the short term to make any recommendations?

Secretary LEW. We have continued to work on it. There is policy being discussed. I think the important thing is that as we are working on a longer term plan, we are winding down the assets.

Mr. GARRETT. Do you have a date you have coming for us?

Secretary LEW. I cannot give you a date right now.

Mr. GARRETT. With regard over the counterswap markets, we understand there are two plans going out with the SEC and the CFDC; do you believe that is an appropriate arbitrate that is going on between these two, and will you take any role to make sure that they act jointly in their manner going forward on this?

Secretary LEW. Well, through the FSOC, there is a discussion that goes on at in a lot of these.

Mr. GARRETT. More than discussion, will you actually action like you have with the money market fund?

Secretary LEW. As chair of FSOC, I will use the authority that I have. I do not take the place of the regulatory agencies.

Mr. GARRETT. You do in other areas.

Secretary LEW. It is not a broad power to tell them what to do, but we are working closely on the important issues of implementing Dodd-Frank.

Chairman RYAN. Thank you. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman, and Secretary Lew, nice to see you here today. I want to get to the issue of tax fairness on the individual, and I agree with my Republican colleagues. A lot of times when I resist the notion to talk about fairness because that is always going to be in the eyes of the beholder, and what somebody at moderate or lower income considers fair is going to be a lot different than what somebody at a higher income level would think. And you use the word of the wealthier Americans can afford a certain tax payment. I kind of resist that word as well because just the ability to afford it is not a rationalization for any tax rate, lower or higher. I am interested, though, in the concept of what has happened with income growth in the country over the last few years because this seems to me to be the justification to asking wealthier Americans to pay more, because it is not just because they are wealthier, it is just that they are making more and more of the national income. Could you give us a little bit of data on what has happened with the upper 1 percent of income growth as opposed to everybody else?

Secretary LEW. Congressman, I think that is exactly the point. We have seen income growth at the high end eclipsing income growth in the middle and the bottom. You can only tax income where it falls, so if you end up with very disparate distribution of income, the tax system ought to reflect that. And I do not think it is a question of saying it is because they can afford it. Obviously, that is part of it. You do not want anyone to be bearing a burden they cannot afford. But it is also where the income is, and if we want to do anything to correct the distribution of income in this country, our tax laws have to be part of that. I think we made big progress at the beginning of this year in raising the top rate to 39.6. I think that was an enormous step. It was the biggest step in a long time in terms of dealing with some of that inequity. I do not think you can do it expressly through the tax code. We have to look at growing the economy and creating good, high-paying jobs, and there needs to be a really strong engine of middle class job creation in this country. And that is what our budget is really aimed at doing.

Mr. YARMUTH. That is a perfect segue into my next question, because a lot of people are concerned about what a federal budget, whomever it comes from, does to promote job growth, and you have incorporated many of the provisions of the American Jobs Act in the budget, and I am very happy about that. The Republican budget seems to rely solely on the dynamic of cutting taxes as a way to create more jobs. There is nothing else in there that I can find that has any kind of job creation effect. So judging from the fact when we cut taxes in 2001 and 2003, those tax cuts did not result in robust job growth, as far as I can remember. And so is there any reason to believe that the economy has changed in such a way over the last 10 years that the dynamic would change and significant tax cuts at this point would result in job growth?

Secretary LEW. Congressman, I think we have seen there are some tax policies that actually stimulate economic growth. The payroll tax cut was a very effective way for a short period of time because it put money in the pockets of people who spend most of their paycheck. Tax cuts at the high end do not seem to stimulate the economy very much because a lot of the benefit of the tax cut is going into savings. And if you are trying to stimulate demand, it is getting money into the hands of people who are spending their paycheck. So I think it depends on the nature of what the tax policy is.

I think if you look at this budget one of the important things it does is it backs out the sequester. The sequester was not designed to be good policy, it was designed to be bad policy, and that turns out to be something you can accomplish. If you set out to design bad policy, you can deliver bad policy. The reason it was meant to be bad policy was to create an incentive for Congress to act and reach a bipartisan agreement on good policy. The sequester will be a drag on the economy. It will cost us a half a percent of GDP if it stays in place. Now, at a time when we are struggling to get in to the mid 2s in terms of GDP growth, if we could have another half a percent of GDP, that is hundreds of thousands of jobs. Now, I think that is an important enough reason to come together in the sensible center. If you look at the specifics, our budget promotes not just pieces of the Jobs Act, but it has short-term spending increases of infrastructure to jumpstart building, what every CEO I meet with tells me we need to compete in the future, which is the roads, the bridges, the seaports, and the airports to compete in the 21st century.

And I do not think education can be left out. Education is both the opportunity for the future, and it is real short-term employment. This is the first recovery that I have ever seen where state and local hiring is a headwind the way it is in this recovery, and the more we can put people back to work teaching, the better we are going to be in the future and the short term.

Chairman RYAN. Thank you. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman, and thank you, Mr. Secretary. The vast majority of people who smoke in America are low and moderate income people. So the cigarette tax increase in the president's budget will, generally, largely hit low and moderate income people with a tax increase that is in the president's budget of somewhere between $6.5 billion a year to $10 billion a year, depending on the year. That is just fact, but that is actually not what I want to focus on. What in the budget you did was the cigarette tax increased funds and a new entitlement program. This was done in California, my home state, some time ago, and guess what? You said that you expect the cigarette tax revenues to decline because you hope it will discourage people from smoking. Your budget numbers do not quite reflect that, but let's presume that is the case. That has been the case in California. Then what you have is you now have an entitlement created that runs out of money. In fact, we have that situation in California, where this entitlement will completely run out of money by 2016. Even in your budget, in the president's budget, it shows that this new entitlement, at the end of the 10-year budget window, has a deficit of $5 billion, and over time, the entitlement will increase while the revenue source will decrease. Is this not exactly what got us into the deficit problem we are in, and you are just replicating it with a new program?

Secretary LEW. Congressman, I think the budget projection shows what we expect the revenue will be. I was, earlier in the hearing, expressing my hope that we would see a decline in smoking. It is not what is reflected in the numbers or the analysis.

Mr. CAMPBELL. But then the deficit would be even worse.

Secretary LEW. If I could just respond to your question. If we get the revenue, then we pay for the program, and that is within the budget estimate. I have to look at what the last year issue that you are describing is. I was not working on the year-to-year numbers as treasury secretary of the spending side. The benefit of reduced smoking, if it were to occur, would reduce spending dramatically. I mean, if you look at what is driving health care costs in this country, it is things like smoking and obesity. So either way, we are going to cover the cost. We are either going to cover it with a revenue, or there will be savings because of better health care outcomes.

Mr. CAMPBELL. But not in this new entitlement that has been created, because you show a deficit in the entitlement, so you have an entitlement that will not have a funding source.

Secretary LEW. We have proposed a funding source to cover it through this period. What happens after the period, I have to look at.

Mr. CAMPBELL. And I know you have not been able to look at every line item, but it actually does not. By your own numbers, it runs a deficit through most of the 10-year window. Let me ask you about another thing in the budget. The funding for the International Monetary Fund, the IMF, I believe you have $63 billion in there, which, on the margin, everything we spend will be borrowed, so that $63 billion which we will borrow in order to increase funding to the International Monetary Fund. And you also propose to make it a mandatory program, basically an entitlement. So given the domestic programs under pressure currently, given the deficit that we have, do you, does the president believe that borrowing $63 billion to further fund the IMF is a good use of resource?

Secretary LEW. To be clear the proposal that we are making on the IMF is to swap what we have contributed to the new agreement to borrow into the IMF. It is really a shifting.

Mr. CAMPBELL. But we could get that money back.

Secretary LEW. We have made the commitment. We have made that commitment already. We are proposing just moving it to a different place because it has better effect there.

Mr. CAMPBELL. It is kind of almost in an escrow account now. This will actually be moving it to the IMF is what you propose, but, so, you believe that that is something we should and should spend money on, even given that the amount of it, $63 billion, is almost the amount of the sequester.

Secretary LEW. Yeah, I think when you look at the IMF, it is complicated because we had assets that back up what we put in the IMF, so in terms of what the actual exposure is, it is not quite the same as direct spending. But I think the important thing about IMF is the policy. The policy is that we have a veto in the IMF, we have a controlling voice when we need to, we have leverage so the United States can influence the economic decisions around the world, and it is something that our international leadership depends on.

Mr. CAMPBELL. In my last 25 seconds, I believe you want to also make it a mandatory program, effectively making contributions to the IMF an entitlement, to use another word. Why do you want that?

Secretary LEW. I am sorry, could you repeat that?

Mr. CAMPBELL. You make it a mandatory program, the IMF, contributions to the IMF; why?

Secretary LEW. I mean, it actually could be done either way. It is an existing funding stream, we are proposing moving it, and we would be open to working with the Congress on doing it in the most expeditious way. And I would just point out, I think that one of the reasons we are talking about different numbers on the tobacco tax covering the program is that you are looking at budget authority and we are looking at outlays, but I would be happy to follow up.

Chairman RYAN. Thank you. Mr. Pascrell.

Mr. PASCRELL. We have heard, Mr. Chairman, plenty of rhetoric about how the budget House Democrats propose never balances. And good morning, Secretary, great to see you.

Secretary LEW. Good morning.

Mr. PASCRELL. When was the last time we had a balanced budget in this country, Mr. Lew?

Secretary LEW. It was in 2001.

Mr. PASCRELL. And what were you doing?

Secretary LEW. I was the director of the Office Management of Budget.

Mr. PASCRELL. How many times after World War II, where we ran up a massive war time deficit, but before the Clinton administration; before the Clinton administration, did the budget balance?

Secretary LEW. There were years when there was balance, but there was no other period when there were three consecutive years of balance or surplus.

Mr. PASCRELL. How did we end up reducing our public debt throughout that time period without technically balancing the budget the entire time? How did we do that? Is that magic? Is that finagling the numbers?

Secretary LEW. The truth is our economy was growing faster than were deficits, and as long as the economy is growing faster, you are making progress, and we were able to, through growth in the interwar period, very much reduce, almost eliminate, the deficits that were built up to pay for World War II.

Mr. PASCRELL. Before I ask my next question on that, then we go back to 2008, we had a choice, 2009, when we had no growth, to continue and sustain what we were doing, and that was nothing the federal government, and trying to improve the job market and the economy, and I listen to folks on the other side who tell me, “Well we had this great deficit in 2009, 2010, and debt,” and they are absolutely right. But are they suggesting, Secretary Lew, that we should have done nothing, had no February supplemental 2009? Is that what they are suggesting? What would have happened if that happened?

Secretary LEW. Congressman, I cannot speak to what others are suggesting. I can tell you that when I left office in January of 2001, we projected a surplus of $5.6 trillion for the next 10 years. When President Obama took office, it was the exact opposite. So before he began, the surplus had been turned in to a deficit.

Mr. PASCRELL. Was our budget, Mr. Secretary, in primary balance in those years I was just talking about before? With the economy growing faster than the annual budget deficits, is that what you are saying?

Secretary LEW. That is the definition of primary balance or surplus.

Mr. PASCRELL. Now does the budget the president propose, which you are advocating, your running point on this, does that get the primary balance?

Secretary LEW. It does.

Mr. PASCRELL. Tell us how we do that.

Secretary LEW. Well, we reduce the deficit as a percentage of GDP in the end of the 10-year window to less than 2 percent, and somewhere just around 3 percent, you go in to primary balance. It depends on what interest rates are year to year, what the exact number is. But for the second half of the budget window, we are in primary balance and surplus, in terms of primary balance calculations.

Mr. PASCRELL. I think it is important, that question needs to be asked over and over again, and your response needs to be remembered. I am pleased that this budget also includes an exemption to annual state volume cap on tax exempt qualified private activity bonds; for the furnishing of water, for the furnishing of our sewer system which needs billions and billions of dollars in order to keep up with the time. In fact, if you add up the needs of the infrastructure, whether it be the sewage, whether it be the drinking water, whether it be the waste water, it adds up to $1,200,000,000,000. So you started a down payment on this, and recommending what you recommended. And by the way, for every billion dollars that is invested into the very things I am talking about, we create about 150,000 jobs. Does that grow the economy?

Secretary LEW. When we are investing in businesses and growing jobs, we are growing the economy.

Mr. PASCRELL. So when you talk about growing the economy, you do not necessarily have to be talking about cutting taxes.

Secretary LEW. Cutting taxes do not directly grow the economy. It is business activity that grows the economy. It is creating jobs that grows the economy. It is creating demand that grows the economy.

Mr. PASCRELL. Was there very much business activity in 2008?

Secretary LEW. Our economy was sliding, and with no obvious endpoint in 2008. If we had not stepped in strongly in 2009, both to deal with the financial crisis and the economic crisis, there was no telling where things would go. And you look at the experience we have had versus others who went right into austerity, we are growing, and they are not.

Mr. PASCRELL. And there is no doubt, Mr. Secretary, that if we did not have that money voted upon in February 2009, we would have been in a worse place.

Chairman RYAN. Thank you. Mr. McClintock.

Mr. CLINTOCK. Thank you, Mr. Chairman. Mr. Secretary, I am a big fan of your work with the Clinton administration, I will get to that in just a moment. But first, I have to take strong exception with your testimony that a provision to support the public credit by assuring the first call on revenues goes to support the public credit is somehow unworkable or cannot amount to defaulting on our other obligations. The fact is most other states have provisions in their constitutions to do so, and have for hundreds of years. Last year, Fed Chairman Ben Bernanke told the Senate that he credited the relative stability and municipal markets, quote, he says, "which suggests that investors still are reasonably confident that there will not be any default among major borrowers. One reason they might believe that is because most states have rules which put debt repayment and interest payment at a very high priority above many other obligations of the state and locality," end quote. Mr. Bernanke sat right you are sitting now and told this very Committee, quote, "My concern is about defaulting on the debt, and for me that is a very high priority so a debt prioritization bill would help on that count very much."

Now, since Mr. Bernanke is the president's appointee, I have got to believe that internally the administration is of two minds on this subject, and I would urge you to listen to your Fed chairman and look to centuries of experience of other states. No state has ever used such a provision to protect their credit as an excuse not to pay for their other bills. On the contrary, these provisions protect their credit, and actually support and maintain their ability to pay all of their obligations in the event of a shortfall. Protecting the public credit supports all of the other obligations of the government, and it is a necessary provision in a government like ours that is now borrowing nearly 40 cents of every dollar it spends. Put it very simply, when you are depending on your credit cards to pay your bills, you better make the minimum payment first, and I urge you to reconsider your position on that.

But now to the happier discussion of the success of the Clinton administration under your management. Is it correct that President Clinton decreased federal spending by nearly 4 percent GDP during his eight years in office?

Secretary LEW. There was a big cut in spending while he was in office; there was also a lot of economic growth and more revenue.

Mr. CLINTOCK. Is it correct that President Bush increased federal spending by 2 percent of GDP during his eight years that followed?

Secretary LEW. I would have to go back and check the numbers, Congressman.

Mr. CLINTOCK. I believe it is, and I believe you might also find that it is correct that President Obama has increased federal spending by another 2 percent of GDP just in the last five years. Is it correct that President Clinton dramatically decreased entitlement spending by signing the Welfare Reform Act?

Secretary LEW. He did sign Welfare Reform, yes.

Mr. CLINTOCK. Is it correct that President Bush dramatically increased entitlement spending with his Medicare Part D?

Secretary LEW. I cannot disagree with that.

Mr. CLINTOCK. In fact, the biggest expansion of entitlement spending up until that point since the Great Society, as I recall.

Secretary LEW. It was a program I thought at the time should have been paid for.

Mr. CLINTOCK. And is it correct that President Obama has dramatically increased entitlement spending even more with his so-called Affordable Care Act?

Secretary LEW. Yeah. The Affordable Care Act net saved the bottom line, so I think it is actually very distinguishable from the prescription drug benefit.

Mr. CLINTOCK. Do you not agree that it is a massive expansion of entitlement spending?

Secretary LEW. So, Congressman, I would be happy to address the issues you raised.

Mr. CLINTOCK. The issue I have raised is very simple. Why can the president's budget not be more like President Clinton's and a lot less like President Bush's?

Secretary LEW. The reality of demographics, and the difference in where we were in the 1990s and where we are today, is that my generation, the baby boom, is starting to retire. We have tens of millions of people coming onto Social Security and Medicare, and that is what is driving those percentages of spending. So I think we have a fundamental question: Are we going to keep faith with that generation?

Mr. CLINTOCK. Now the biggest single expenditure in the history of the United States was the so-called Stimulus Bill at the outset of this Administration that cost almost as much as the entire Iraq war from start to finish. So, you know, do not give me, "Well this beyond our control;" it was entirely within your control. It was within President Clinton's control, and, again, my only problem with President Obama and his budget is not that he has changed George Bush's policies. The problem is he has taken the worst of them and doubled down on them.

Secretary LEW. Congressman, we have agreed in 2011 to over a trillion dollars of savings on discretionary spending. It is much larger than the reductions in discretionary spending made in the Clinton years. We have had major savings in the Affordable Care Act that added to the life of Medicare trust fund. We are proposing in this budget considerable new savings including fundamental structural reforms in entitlement programs. So I do not disagree that we need to have more savings, but we also need revenue to get to the goal.

Chairman RYAN. Ms. Castor.

Ms. CASTOR. Good morning, Secretary Lew. Thank you for being here to discuss the president's budget. It is a balanced plan. It reduces the deficit by $1.8 trillion over the next decade. And I would like to commend the Administration and you for including an element that boost jobs and economic growth that is starkly missing from the Republican budget plan. But I would mostly like to thank the Administration for standing with American families, especially our older neighbors, our parents, and our grandparents because President Obama keeps the promise of Medicare, unlike the Republican plan. The Republican plan, again, proposes to turn Medicare into a voucher. It does not decrease costs. Over time, it simply shifts the costs to our older neighbors, and our parents and grandparents. It is not consistent with American values. And at the time when, as you noted, we have this new demographic crisis with the retirement of this big baby boom population, you keep the promise, and you achieve savings in Medicare through very important reforms. So thank you for that.

The other stark contrast is in long-term care for our older neighbors. I mean, it has not gotten a lot of attention because people know and understand Medicare a lot more, but the horrendous cuts that the Republican budget makes to the ability of our parents and grandparents to live their retirement years in dignity really is scandalous, in my view. What Medicaid is, is it allows people to stay in their homes and not enter skilled nursing, but then, at the end of their life, or with a severe diagnosis, they are able to have dignity, and get the skilled nursing and long-term care that they need. In contrast, the president stands with families to ensure that that lifeline will continue to exist. I want to commend the Administration again for standing with families all across this country.

But I wanted to direct your attention to another important issue. It has been a scourge on the state of Florida and my community, and because you are here, this is a good opportunity for me to raise it directly with you, and that is the problem with tax refund fraud tied to identity theft. Something that all of us can agree on is preventing criminals from stealing billions of taxpayers' dollars through fraudulent tax returns. There are many bipartisan efforts underway. I have a bill with my Republican colleague, Rich Nugent from Florida, that addresses the issue, but it really comes down to your oversight and the IRS stopping these fraudulent refunds from being issued. Tax refund fraud tied to identity theft is an epidemic. If it has not happened in your district yet, you just wait. It is spreading across the country, and it must be stopped.

The treasury inspector general, Mr. Secretary, for tax administration estimates that the IRS could issue $21 billion in fraudulent refunds tied to identity theft over the next five years, and the taxpayer advocate reported in January that identity theft case receipts increased by more than 650 percent from fiscal year '08 to '12, and at the of '12, the IRS had almost 650,000 identity theft cases in its inventory. What is happening is organized criminals are stealing the Social Security numbers of children, seniors, even the deceased. They are filing tax returns using stolen taxpayer names and Social Security numbers, and when the real taxpayer files for a refund, or claims their refund, that return is rejected, and their life is severely impacted for years. And the problem is, for those of you that have dealt with these complaints, is they face a labyrinth of procedures, drawn-out timeframes for resolution. It is an epidemic in Florida, Georgia, New York, California, Texas, Ohio, but, Mr. Secretary, this is spreading, and what are you doing to urge the IRS to get in front of this problem so we do not have this huge hole in the Treasury? Thank you.

Secretary LEW. Congresswoman, I am not sure I have time to respond. I would be happy to if I did. The IRS is getting very much ahead of it and trying to deal with the problem as we know it today. Made a good deal of progress. The problem is that the hackers just keep figuring out new ways to get in. So this is not a problem we can solve once and consider it over. We have to be vigilant on an ongoing basis in order to make sure we are doing what I think we all agree is right to protect our tax payers, our Social Security recipients from that kind of attack and fraud.

Chairman RYAN. Thank you. Mr. Lankford.

Mr. LANKFORD. Thank you, Mr. Secretary, for being here. Can you define for me a term that you used earlier, that is primary balance? You say in the second half of the president's budget they reach primary balance.

Secretary LEW. Yeah, Congressman, primary balance is a term that economists use to describe when the only deficit that we have is the debt service for previously accumulated debt.

Mr. LANKFORD. What is our interest payment right now?

Secretary LEW. I would have to look up the exact number, Congressman.

Mr. LANKFORD. It is around $224 billion a year, is my understanding. Do you remember what the interest payment is anticipated at the end of the 10-year window?

Secretary LEW. Yeah, it is several hundred billion higher than that. It grows because we have a very large debt, and because interest rates are going to go up over that period.

Mr. LANKFORD. If it is consistent with CBO's estimation, by the end of this 10-year window, it is $857 billion a year in interest payments. So I am a little confused by your statement to say we get to balance all but about that last trillion dollars. That last trillion dollars we still have not balanced, but we call it balance except for $857 billion of that. Does that seem consistent?

Secretary LEW. In that last year, the deficit is less than 2 percent of GDP, and that means that with the economy growing faster than that, debt, as a percentage of GDP, is coming down.

Mr. LANKFORD. I do, I understand, because we see that in our budget where we actually get to actual balance where we are paying out what we are bring in, and an actual balance because of the growth as well. I have seen some of the growth estimations on it. I do want to ask you a little bit about, the president's budget has quite a bit about oil, and gas, and coal taxation. Why were those three specific industries picked out to say normal business expensing will be taken away from those three?

Secretary LEW. Well, that is not actually what the budget says, that normal business expensing will be taken away. It is the exact opposite.

Mr. LANKFORD. So wages, fuel, vehicles, all that; that is normal business expensing.

Secretary LEW. We would apply normal business expensing. We would not give the extraordinary treatment that the extracted industries have gotten in the past.

Mr. LANKFORD. So like the 199 that every domestic manufacturing gets? They should get that as well?

Secretary LEW. I would have to look at the specific provisions.

Mr. LANKFORD. Well, I would say, the 199 manufacturing tax credit, right now, every domestic manufacturer of anything gets this 199 tax credit right now. So that should be left in because that is a normal business tax?

Secretary LEW. What drives the policy that is in our budget on oil and gas is that for, really, the better part of 100 years, we have had very generous tax treatment for oil and gas. It helped build the oil and gas industry in this country. That is an industry that is very competitive and no longer needs the special depletion and other rules that go to it. It should be treated at a level playing field with other kinds of businesses.

Mr. LANKFORD. So current businesses now should not have normal business expensing because 30 years ago, 40 years ago, businesses were successful. This business is successful. What I am trying to figure out is the philosophy, I guess, behind it.

Secretary LEW. Well, the philosophy, I can tell you, is clear. It is that they should be treated more like normal businesses, not in an extraordinary way they have been treated.

Mr. LANKFORD. Okay.

Secretary LEW. And if there are specific issues to work through there, we would look forward to working through those.

Mr. LANKFORD. The budget, the Greenbook actually coming out of Treasury, actually uses the term "neutral." They want to have neutral investment into oil and gas and coal on that. Or, actually, they use just the term neutral investment in energy. But it is interesting, there is about $40 billion normal business expenses taken away from oil and gas and coal, and in just in one line item, there is about $20 billion that is added to a lot of other areas. Is that neutral to take away from one and give to another, because at one point it refers to it being neutral energy policy, want to just make all our tax treatment neutral, and the other areas, it gives significant to clean energies, which, by the way, I have no problem with. As far as having clean are in our American portfolio, that is a good thing.

Secretary LEW. We have made clear in our budget that our goal is to encourage investment in renewable and clean energy, and, in a sense, give them the benefit that the extractive technologies got when they were young industries.

Mr. LANKFORD. Is it the anticipation that in the next 10 to 15 years, that all of the renewables will be able to catch up and surpass what is currently done with oil and gas and coal? Do you have a guess on how long the time would be?

Secretary LEW. I do not have an estimate.

Mr. LANKFORD. See the problem I have is, I have no problem with wind and hydro-electric and all that, solar. I have no problem with those. But the assumption that we are going to take away normal business expensing from oil and gas and coal, and which will slow down the production and which will increase price, it is the same as the cigarette tax. The cigarette tax we have currently, in the budget it actually says, we want to decrease usage of cigarettes by increasing the price. So we are going to get revenue and also get this outcome. It seems to be the same with oil and gas and coal. We are going to decrease usage of that by increasing the price at the pump, for home-heating oil, for electricity. We will increase the price of those, and try to then supplement off onto other areas, which every economy that I have seen that deals with energy economy, says those technologies are not there probably not for 30 years or more to even get close to catching up. It is about 9 percent of our portfolio now. We are trying supplement the other 91 percent.

Secretary LEW. Congressman, I actually do not think that is how our proposals on the oil and gas industries would work, but I would be happy to follow up with you.

Chairman RYAN. Thank you. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. Welcome, Secretary Lew. I have sat here and listened to this debate about debt, and cutting and cutting and cutting, and then I thought about what the president proposed, which is really a vision for the future of investment. And I was thinking to myself, you have big shoes to fill. I mean, I can imagine Albert Gallatin coming in here and explaining why they bought the Louisiana Purchase. Why did they make an investment in a bunch of land way out there with nothing on it that anybody could see? And we would have said, in this climate, "Oh, we should not spend the money. We should not invest," I am sure. And the same with Secretary Seward who bought that famous icebox; we call it Alaska. We would have never invested in that because, "Well, why are we wasting our money? We have got a civil war going on. And why should we be out there spending and investing on something like Alaska?"

And what I would like you to talk about is we have watched Europe deal with the same economic situation we are dealing with, and they have had such magnificent success with their austerity measures. I think the unemployment rate in Spain is now 22 percent, and something similar in Italy, and yet we have continued to invest despite the resistance of the Republicans. We have continued to invest, and we are moving forward. I would like you to contrast what is going on in Europe with what is going on here because I think the lesson is clear.

Secretary LEW. Congressman, when I was in Europe last week, I tried to emphasize both what we have in common and where we have taken a different path. What we have in common is that we all need to deal with the realities of middle and long-term fiscal realities where we have got to reduce deficits and get our fiscal house in order. But we have to do it in a way that is balanced so that we can also get the growth and the job creation that will enable us to have the kinds of healthy economies that will make it possible to achieve those goals. I think if you do your cutting upfront, what you are doing is actually slowing down your ability to rebound, grow, and get the kind of fiscal correction that we need here and they need there.

So it is a question of timing and balance, not a question of are we acknowledging the need for both. The president's budget is very clear. He accomplishes more than $4 trillion of deficit reduction in this 10-year window. But he does it in a way where we grow the economy and we create jobs while we are doing it. I do not believe you can cut your way out of these problems alone. If we do not educate the next generation to have the jobs we need, there will be millions of jobs that go unfilled, or those jobs will go elsewhere. We have to have the best-trained workforce in order to grow. And I think that same argument can be made on infrastructure and many other areas. Now we cannot do it without regard to the fiscal reality. We need to be on a path where five years from now, 10 years from now, we are steadily reducing the deficit, and the debt is a percentage of GDP. And the president's budget does both.

Mr. MCDERMOTT. As the jobs increase, and more people are being paid and, therefore, are paying taxes, that helps the itself by making the GDP increase.

Secretary LEW. Absolutely. We balanced the budget in the 1990s because we encouraged the kind of confidence in the economy that kept the economy growing and jobs being created.

Mr. MCDERMOTT. Can you give me any reason why the sequester cuts to the National Institutes of Health would be good for the economy? And do you see any way the Republicans can justify those cuts to the National Institutes of Health?

Secretary LEW. No, Congressman, I cannot. I mean, for 30 years I have worked on issues related to the funding to the National Institutes of Health, and there has always been a broad bipartisan agreement that it was the right thing to do to grow our economy, to have the intellectual power to compete in the future, and to solve the mysteries that are associated with the worst diseases we have in this country. I cannot imagine that there would be any willingness to affirmatively enact the kinds of cuts that the sequester would impose on NIH.

Mr. MCDERMOTT. My mind or my memory is not perfect, but it seems to me during the Bush administration we made a major increase in our investment in the National Instiues of Health.

Secretary LEW. We did.

Mr. MCDERMOTT. I hear one of my colleagues sort of saying that the Bush era was a terrible one because all these things went up, and the debt went up, and all the rest. But is it not true that we made a major investment under Bush in the National Institutes?

Secretary LEW. There was a major investment in the Clinton administration, there was a major investment in the Bush administration, and there has been a major investment in the Obama administration. It has been something that there has been bipartisan agreement on. I would note that the head of NIH in the Bush administration, Dr. Zerhouni, has been very critical of the impact of the cuts on sequester, both in terms of medical research and in terms of future economic growth.

Chairman RYAN. Thank you. Ms. Black.

Mrs. BLACK. Thank you, Mr. Chairman, and thank you for being here, Mr. Lew. I want to go back to questioning from the gentleman from Georgia related to the limit on individual tax advantage retirements. Mr. Lew, this cap would apply equally to men and woman, is that correct?

Secretary LEW. It is neutral with regard to gender.

Mrs. BLACK. So do you think that woman need less retirement income than men do?

Secretary LEW. No, I do not think that this is a revision that say men or women need more or less. This is a provision that says that the tax benefit should only be available up to a certain amount, and the amount is $3 million.

Mrs. BLACK. Okay, so in that case, then, I am at a loss on this policy because your limit is based on a gender-neutral contribution, and women do live longer than men, and so annuities are more expensive. And this means any cap on a tax advantage retirement plan that is set equally for both males and females, a female will necessarily be unable to really actually purchase the same level of annuity that a male would be able to. So did the president take this into consideration before putting this policy forward on how it would affect woman disproportionately?

Secretary LEW. Congresswoman, the vast majority of Americans have retirement savings that are under $100,000. The average is more like $50,000. So we are talking about very, very few people. If you would like to work together on ways to make sure it is adjusted by life expectancy, we could look at things like that. But this was really a way of saying that in a world of tough choices, to have tax incentives for very, very large retirement savings is something we could not afford.

Mrs. BLACK. Well, let me just say this. I believe, after being in the public sector for a number of years, that carrots are always better than sticks, and I want to put a carrot out there to encourage people to do all they can on their own to be able to save and have as much as they can for their retirement as they would like to have, and I do not know if this policy really does that.

Secretary LEW. If I could say on that, we think that one way to put that carrot out there would be to have auto IRAs where people are automatically signed up and opt out so that more people end up getting into the practice of saving for their retirement. The more Americans that save for their retirement, the better off we will be.

Mrs. BLACK. I do not discount the fact that we need to do everything we can with a carrot to get people to save. I do not believe the government should get involved with sticks. So let me go back to, in your opening remarks, I found it very interesting that you did talk about since the president came into office that the economy now is stronger, unemployment is lower. But you said something, and I did not get all of it down. I did write down your reference to political gridlock stopping the economy from moving forward. Am I correct in what I heard you say, that it was political gridlock that you attributed to the lack of full recovery?

Secretary LEW. I was referring to political gridlock being something that is a drag on the economy. We cannot say there is only one thing. If you look back to 2011, political gridlock was not a good thing for the economy.

Mrs. BLACK. So let me to go to what I hear from my constituents, in particular the job creators in my district. I ask them all, "What keeps you up at night?" And this is what they tell me. They tell me one thing that keeps them up are the massive deficits which create the crushing debt that they do not know what is going to happen to them next with a new tax. Secondly, the mandates that are put upon them. In particular, right now, their hair is on fire. We are trying to decide, since we do not even have the regulations out there about what they are going to do with keeping health insurance for their employees. And third are all the new regulations that hit them. I hear it many times from the banking industry with the Dodd-Frank. But I hear it continually from my industries that it is the EPA and the new regulations that come out that are not always cost benefit analysis done, or scientific information to say that they are really necessary. And so this is what I hear, this is what I hear continually, constantly from my 19 different counties, and that is really what gets the economy growing is jobs.

And then my final question, and I have very little time here for you to answer this, but you made another comment that just really bothered me, that what we have to do is correct the distribution of income. Is this really what the Administration's policy is, is that the policy of government to correct the distribution of income in a policy?

Secretary LEW. So, Congresswoman, that is quite of number of issues that I can very quickly try to run through. On the regulatory side, this Administration has had a stronger record on cost benefit analysis than any recent administration; stronger than the Clinton administration, stronger than the Bush administration. And in areas like EPA, we have done things like the Clean Car Rules where it has been trailblazing in terms of the kind of agreement where business and environmental interests come together for better economic outcome.

On the questions on the new laws, we are working to implement them as quickly as possible. You know, it was a little challenging in the early years because Congress was resisting appropriating money, and it was a challenge to keep up with it, but we are getting there, and we will implement both the Affordable Care Act and Dodd-Frank on schedule.

In terms of the income distribution question, what I meant to be saying and what I believe is that we have a problem in this country that we have had disparity of income growing, and it is just something that has to inform how we make our policies, and I do believe the tax code should be a force for correction in that.

Mrs. BLACK. We are out of time, Mr. Chairman, I realize that, but I would like in writing a little more explanation on income distribution because I do not believe that is the government's responsibility. Upward mobility for everyone is what we should be doing. Thank you.

Secretary LEW. I agree with that, but I am happy to respond in writing.

Chairman RYAN. The gentleman will respond to the gentlelady in writing. Ms. Lee.

Ms. LEE. Thank you very much, and good to see you. And congratulations, Secretary.

Secretary LEW. Thank you.

Ms. LEE. And thank you and everyone at Treasury on behalf of the American for the work that you do each and every day.

Secretary LEW. Thank you.

Ms. LEE. Of course, the president clearly sees the link between the morally correct thing to do and the economically smart thing to do. After all, the budget is a reflection of our nation's values. He prioritizes job creation before blindly making these broad cuts to programs that millions of Americans rely on for economic security. Vital nutritional programs are protected in this budget, investments in mental health, and crime prevention, and also effective treatment of HIV and AIDS. Also, I am glad to see these very innovative strategies as it relates to, for instance, the Promise Neighborhood, commitment to education, as well as universal preschool for every child in America which is a huge factor in reducing poverty throughout our country. Also, the budget extends the very important expansion of the child tax credit, the earned income tax credit. I could go on and on, but I just have to say, in stark contrast to the Republican budget where their $6 trillion tax cuts for the wealthiest of Americans, and 66 percent of the Republican budget, they cut our nation's safety net, yet we have 50 million people living in poverty. And so I just want to thank you and the president for that because much of our discussion here since I have been on this Committee has been, how do we look the strategies to lift the 50 million people who are living in poverty now out, and put on a pathway out of poverty. So thank you for this.

I want to ask you one thing, a couple questions. When nearly 50 million people are living in poverty, and they are cut off from the economic security of our country, how does that impact our overall economic security of the country? Secondly, one of the parts of the budget that is very troubling to me, personally, and others is chained CPI. You came up, I think, with the protections that are put in place to shield the very elderly and the most vulnerable from this, but yet, if it is not so bad, why do you come up with protections when middle income seniors rely on this also? And so I do not quite understand the protections, yet it is okay to do.

With regard to Cuba, the Office of, what is it, Foreign Asset Control? You continue to spend resources on enforcing strict travel and trade sanctions with Cuba, a country that, dating back to 1998, the Defense Intelligence Agency said it was not a threat to United States National Security, yet it is still on the list of terrorist countries. And so what in the world is going on and over at OFAC? And, in fact, how many times have you blocked or intercepted terrorism-related financial transaction supported by the Cuban government?

Secretary LEW. Congresswoman, starting with the question that you asked on the economic impact of people below poverty not being fully integrated into the economy, not getting the full benefit, it is a real issue. I mean, you look at the job listings in this country. We have millions of jobs that are not filled while we have millions of kids who have never had a job. That is not good for the economy, it is not good for the kids who are not getting into the labor market and developing the work history that will make them be stronger as individuals and stronger contributors to the economy. Our budget tries to deal with that. It tries to deal with the fact that we have to make sure that our young people get the skills they need, and I have not heard anyone stronger supporting that than CEOs who are trying to invest in the United States. They come and they say, "We need to make sure we have the workers we need for the future and the infrastructure to get our products to market. That is where the government can help us." And I think we have that obligation, if we care both about our people and or economy, to get that right.

On chained CPI, you know, it does the effect of lowering the increase. Not the base benefits, but the increase because it is a different level of inflation. I think that the president made clear that it is not something he would have chosen to do, but in an attempt to find an agreement, we have been told time and again that it is something that would have to be part of an agreement that would be acceptable to Republicans in this environment. It is something we can defend on a technical basis because it is more accurate, and because for middle class people, it is a burden that is relatively small. Even $10 a month for the most vulnerable is a big deal. If you lived to be 90 years old, and all you have is your Social Security, that $10 can be the difference between food the last couple days of the month. So I think we do have to distinguish between what impact going to a more correct measure would have. And we have put it in in a way that we think is fair by saying that the most vulnerable will have their benefits go up. Not because we have the overall adjustment being faster, but because we will make the decision to go in and make sure they are not hurt.

Chairman RYAN. Thank you. Mr. Flores.

Mr. FLORES. Thank you, Mr. Chairman. Thank you, Mr. Secretary Lew, for appearing here again today. I have four sets of questions that I am going to run through quickly, and then you can answer at the end or answer supplementally. First has to do with the CPA, I always looks at the underpinnings of the budget, how it is constructed because the choice of the underpinnings or the assumptions can drive the outcome substantially. And, in particular, I noticed that the president used estimates related to GDP growth, unemployment, inflation, and interest rates that were generally more optimistic than either the CBO or the Blue Chip forecast. So I would like to have the information about two things. Why did we use these more optimistic rates, number one. Number two, what would happen if we reset these rates to the assumptions that the CBO is using?

Secondly, I think that you and president, and we in the House of Representatives all agree on one thing with respect to moving this country forward, and that is, we need to grow economic pie, we need to grow opportunity for everybody. And so the questions on that subject are kind of like this: How do we grow the economic pie and opportunity when we are raising taxes on the economy? The president is proposing to raise taxes to a level as a percentage GDP that were higher than even during the Clinton administration. So how do we think that is going to generate more jobs and more economic growth? The second part of this question is this: If you raise taxes on business, how do you expect that business to invest more in R&D, and hiring people, and property, plant, and equipment? How do we expect those businesses to produce more and better products and services at lower cost? Those are things we need to think about.

In particular, I think about the woman in Bryan, Texas who owns a chain of dry-cleaning and laundry shops, and right now she is just locked down. She just got her taxes filed last week. Now she is locked down. She has got 19,000 pages of regulations related to ObamaCare that are crushing her, and she is not hiring today because of that. And so my question is this: On top of that, how is she going to better off and able to hire more employees, and pay them a better wage, and invest in new locations when the president is proposing to raise taxes on her? Another example is the president has this attack on oil and gas companies which already pay the highest effective tax rate in the country at 41 percent versus what most companies pay at 26 percent. So how does this encourage more investment in natural gas which has done more than any government policy to clean our air? Our emissions today are lower than the Kyoto Protocol, and it is because of the investment in natural gas. And so now the president says we want to raise taxes on this industry so we can get less investment in natural gas, and therefore dirtier environment, theoretically.

The third thing, and I would assume that you believe, and the president believes, and we in the House believe that we need a more accountable and a more efficient government, so I would bring up a slide to remind us about the way this government seems to operate. This picture of Jeff Neely sitting in a hot tub. As we may remember, Jeff Neely was a GSA employee who wasted millions of taxpayer dollars on conferences. This person is back on the payroll, and he makes just under $220,000 a year. He got bonus during his last year. So I have not seen anything in the president's budget that creates a smaller, more accountable, more efficient government. We have got a GAO report here that identifies tens of billions of dollars in waste, and overlap, and duplication. I did not see any attempt in the president's budget to take care of that. Another area, and part of the stimulus, the Department of Energy had a slush fund it used to invest in things like Solyndra and Fisker, and in light of the stellar results of those organizations or those investments, I would like to have an answer as to why are we doubling down on more stimulus types of payments? Why do we think that that is going to somehow work better this time than it did the last time?

The next area is what I am going to call trying to help people come out of poverty. Since the war on poverty was started, we have spent $19 trillion, but we have got more people in poverty than ever before under our current economic policies. We have also got more people on food stamps than ever before. Why did the president not propose a plan to scrap current welfare and poverty programs and start with something new so we can focus on getting paychecks for these folks and give them a hand up instead of keeping them locked down where they are today? So why do we not stop the White House parties? You know, for every day, every hour that we keep Air Force One unused, we can pay for 18 days to keep the White House open for visitors? Why are we taking so many presidential vacations?

I have run out of time. I have a rhetorical question. How can we call the president's budget using a balanced approach when the budget never balances? Thank you, I yield back.

Chairman RYAN. I'll give the gentleman the ability to respond in writing. Mr. Cicilline.

Mr. CICILLINE. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here, and congratulations. You know, there has been a lot of discussion this Committee about deficit reduction, both in this hearing and in all of our budget considerations, and the president's budget cuts the deficit by an additional $1.8 trillion over the next 10 years, reducing the deficit to 1.7 percent of the economy of GDP by 2023, and, again, importantly in a downward path beginning in 2016. That is, of course, in addition to the deficit reduction we have already done combined of $2.5 trillion, so we are now, with those two figures combined, at, or actually exceeded, the deficit reduction recommend by Simpson-Bowles. And there is a lot of discussion about that, but the reality is, as you know, Mr. Secretary, deficit reduction in and of itself is not an economic development strategy or a growth strategy. And one of the most effective ways that I believe we can grow the economy, and ultimately deal with this deficit, is to really get people back to work and to grow jobs in this country. And this budget reflects, for me, three important ways that we can do that that will really help to strengthen the foundation of our economy.

You said in your testimony cutting taxes alone does not create jobs, and it is, of course, the demand of the middle class, a good job, a middle class family demanding the goods and services business produces that really creates jobs. So people talk about the job creators. The job creators in the country are the middle class families who have a job, who are purchasing the goods and services the business produces. My friends on the other side of the aisle proposed a budget that the Economic Policy Institute says will cost 2 million jobs in 2014; add to that the sequestration which is not replaced, a loss of another 750,000 jobs. And so what I would like to ask you to speak about is really what this budget does to create growth and create jobs because, to me, that is the real crisis facing this country.

I am from a state that has either the first, or second, or third highest unemployment rate in the country, and what my constituents want to know is, how is our federal budget reflecting the urgent priority of getting people back to work? The three areas that I am particularly pleased that the president is focused on is manufacturing and the development of manufacturing innovation institutions to really rebuild American manufacturing, which is a real growth opportunity for Rhode Island, and I think for this country. Investing in infrastructure to rebuild our bridges, roads, ports. If we are going to have an economy to compete in the 21st century we need to have infrastructure capable of supporting that economy. It is a way to put people back to work and rebuild America. And third, education. The great investments in pre-K, protecting the student loan interest rates from doubling; the STEM initiative that I hope you will turn in to STEAM, and add art and design is part of that, you know, STEM to STEAM, but the education investments are critical. So if you could speak to those three areas, and how they really get to the most important area, I think, we facing our country, and that is getting people back to work.

Secretary LEW. Well, Congressman, I could not agree more the fundamental goal we have is growth and job creation. It is really the idea that is infused in every part of this budget, and it is the goal that everything comes together towards. At a macro level, we have things that we know we can do to create a better rate of growth and more jobs. Replacing the sequester, which is costing us jobs, with sensible, middle, and long-term deficit strategies that are balanced between revenues and spending, that will create jobs by creating economic growth. Economic growth means jobs. A half percent of GDP makes a big difference.

In the specific areas that you have raised, manufacturing, infrastructure, and education, these are obviously pillars of what the president sees both as the keys to our economic future, but also things that we can do today to create jobs. The truth is, our manufacturing initiatives are not about 10, 20, 30 years from now. They are about this coming year; it is incentives to invest now. The research and development is about the future, but the manufacturing tax incentives are for today. Infrastructure, we ought to be working in now, not 10 years from now, to repair or bridges, our ports. We will regret it if we find ourselves in better economic times with higher interest rates and more problems with our bridges and our ports. We do not get to put that off forever. And education, I would say that it is, again, good for the economy today and good for the economy in the future. Every opportunity we create for early childhood education, or higher education, or middle school education, that means teachers in the classroom, it means schools being open, and it means our young people getting the skills they need, so that 10, 20, 30 years from now we still have the best-trained workers in the world. That is what this budget is about. Thank you.

Chairman RYAN. I understand you have a time crunch, Secretary Lew. Can you hang until 12:30 so we can get through the rest of our witnesses? Is that possible? And if so, what I would propose, and I hate to do this to my fellow colleagues, but Mr. Van Hollen and I have been talking about this, is knocking the time down to three minutes each, in order to get to accommodate everybody, if you can stay until 12:30. Does that work for you Secretary Lew?

Secretary LEW. Yes, Mr. Chairman, I can.

Chairman RYAN. All right, thank you. So we will knock it down to three minutes. And it is Mr. Williams. Mr. Williams is next. Yep.

Mr. WILLIAMS. Thank you for being here. I am a small business owner; have you ever run a business?

Secretary LEW. I have worked in businesses, I have not had my own business.

Mr. WILLIAMS. But you have not run one.

Secretary LEW. I do not have my own business.

Mr. WILLIAMS. Okay. Are you concerned that the debt our country is obtaining is going to eventually go into higher interest rates?

Secretary LEW. Well, I think economic growth will lead to higher interest rates. I think we have to plan, as our budget does, on a time of higher growth and higher interest rates.

Mr. WILLIAMS. Where do you think the interest rates will be five years from now?

Secretary LEW. Well, our budget projects interest rates coming slowly back to a more normal level.

Mr. WILLIAMS. Five percent, 6 percent?

Secretary LEW. I do not think our budget goes that high.

Mr. WILLIAMS. If you are in business and you have low interest rates like we do today, most businesses right now are paying down their debt. They are not waiting for higher interest rates. Do you not think it would be a good idea to start paying our debt down?

Secretary LEW. Well, look, I think we should not have built the debt up with tax cuts we could not afford, and putting wars on the credit card, and the Medicare prescription drug benefit we could not afford, so I am going to take back seat to nobody. I ran three surpluses. We are not there. When we hit a recession, we had no capacity to deal with it other than by, we were in deficit, we had a bigger deficit; we now have to slowly work our way out, and this budget gets us to a solid, stable place.

Mr. WILLIAMS. What is the highest rate that you think can be charged to a small business?

Secretary LEW. I am sorry?

Mr. WILLIAMS. We are at 39 percent now, one of the highest in the nation. I can tell you, that does not help small business. What is the highest rate you and president think we can charge small business before they just collapse, and break, and quit hiring people?

Secretary LEW. Well, obviously, businesses choose whether to organize on the corporate side or the individual side. We have proposed bringing the business tax rate down to 28 percent. We have not proposed any increase beyond the current 39.6 on the individual side, and the better we do at broadening the base, the better we will do at lowering the rates.

Mr. WILLIAMS. Was not the sequester President Obama's idea? I have heard you talk about it today as a bad policy. The bottom line is, was it not his deal?

Secretary LEW. You know, it is not as simple a question as that. It was a very difficult negotiation where we were negotiating with the Republicans who refused to put taxes on the table, and it was the only thing everyone could agree on.

Mr. WILLIAMS. All right, I get it. Let me just close by saying this. I am a small business owner, and I can tell you, you are not helping small business, okay. The burden that this Administration is putting on small businesses is unbelievable. I would suggest you look at Texas, maybe even North Dakota, and see what less government and competition, what it does. When you start talking about raising minimum wage and capping the maximum wage in this country, that is a bad deal. It should be a country of unlimited opportunity, not unlimited liability, of which you all are putting us in. Small business is hurting. You need to understand that. And I hope we do not get to where the norm is 7.8 percent unemployment, where you can save $50,000, and that is all you can save. Fifteen percent of the people in poverty; I hope that is not the norm. I fear that it is, and I just think that it is a dangerous course for our country. Thank you.

Chairman RYAN. Thank you. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. Of course, the proposal from the Administration is not to cap something at $50,000, it is to stop having taxpayers subsidize savings beyond 3 million; big difference, I think. Secretary Lew, we appreciate your patience. You have been here countless times, and the balanced approach you are attempting to do with the Administration. I would just put one item on the table that we would like to explore with you further, dealing with infrastructure finance. In the past, the Administration has supported an effort to reinstitute the superfund tax which expired in 1995, so there is virtually no money in the superfund. And it stalls clean up around the country. This was a deal that was made with the petrol/chemical industry years ago; gave them a little escape hatch which they still enjoy, but they are not investing to help clean it up, and I hope that we can talk with the Administration about that, and, at some point, have a conversation about what we are going to do with the transportation trust fund in freefall because of the outstanding efforts of the Administration to improve fuel efficiency. If we are going to fund transportation based on gallons pumped, we are going to be in a downward spiral over time, and we need to have an opportunity to look at that. And

I hope that there is an opportunity to, at some point talk, about a vehicle mile travel fee that would help stabilize and move forward.

But I wanted to just get your brief reaction, I know you are not Secretary of Defense, but the top line considerations where you have moved to try and help offset some of the costs of the sequestration, looking at bases which are far surplus to what we need at home and abroad, and maybe stopping the decline in the percentage that military personnel pay retirees for their health care, which is actually going down, but is going up for everybody else. Some of my friends on the other side of the aisle, particularly those in responsibility, are somehow pretending that this would be outrageous, that it is a violation of all that is holy and it is not going to get their support. Can we move forward with the Department of Defense if we do not start looking at some of these areas?

Secretary LEW. Congressman, while it is not currently in my area of responsibility, I spent a good deal of time working with the Defense Department on its strategic plan when I was OMB director and chief of staff, and I think that the strategic plan the Defense Department put together to save $500 billion over 10 years is one of the best pieces of strategic budget planning that I have ever seen. It is hard choices without a doubt, but it reflects the military and civilian leadership making the balanced choices of how do we secure our national defense and still hit the target. I think the sequester is the opposite. The sequester is across-the-board cuts that do not make sense, that do not move our national security interests forward, and it is something that should be replaced by sensible policy.

Mr. BLUMENAUER. I hope Congress will be able to make some tough decisions along with you.

Chairman RYAN. Thank you. Mr. Rokita.

Mr. ROKITA. I thank the Chairman and I thank Mr. Lew for joining us here today. Good afternoon now, by the way, appreciate you staying.

Secretary LEW. Good afternoon.

Mr. ROKITA. I want to pick up on some of the things that Mr. McClintock was saying. Of course, he has this bill that is going to prioritize our payments, and I would associate with his comments in saying that it works in several states, and I heard your testimony that said, well, it just will not work for the federal government. But let's assume for a minute that we have a prioritization bill that becomes law. What level of detail would you expect from Congress so as the Treasury Department could not override or ignore the prioritization process that that bill, which would become law again, would have in it? That is to say, under what circumstances do you think you can override a law that would direct prioritization?

Secretary LEW. Congressman, and to be clear, I did not say that you could not write a law that would say which bills you pay first. Clearly, you could write a law that says which bills you pay first.

Mr. ROKITA. No, you said we would go into default; does not matter what area we would go into default.

Secretary LEW. What I said, what I believe is correct and is something we really need to focus on, is that if you were to do that, if you were to lock in this idea that if we pay one set of bills and not the others we are avoiding default, that is not correct. If you do not pay all of our obligations, it is one or another form of default. You are just choosing what to default on.

Mr. ROKITA. Let's go back to my question. Assuming you have this law, all right, what level of detail would you expect so that you, as the Department of Treasury, could not override anything it says?

Secretary LEW. Well, I am not sure that I understand. I mean, we comply with laws when they are written, and were you to write a law, we would comply with the law. That is not the issue. The issue is that that law does not solve the problem.

Mr. ROKITA. It is my time, I just want to be clear that if a bill came out of this Congress and it was a law, you would intend to follow it to the letter.

Secretary LEW. We always endeavor to follow the law.

Mr. ROKITA. Okay, all right, just want to be sure. But you will follow it? Endeavoring and following, it is slightly different, right?

Secretary LEW. Yeah, I cannot comment on a law that I have not read. The truth is there are sometimes ambiguities, and if there are ambiguities, we need to discuss them. But if you are asking me the question, could you set an order, of course you can set an order. I am saying it is a mistake to think that solves the problem. The only thing that solves the problem is Congress extending the debt limit so we can pay all our obligations and avoid default.

Mr. ROKITA. Understood what you are saying. I do not necessarily agree, but I understand what you are saying. On this $3 million cap that would pay out roughly $205,000 a year, new policy, can you tell me, and, by the way, the Wall Street Journal estimates that 6 percent of the population will be impacted by this new cap. I remember your testimony saying it will be a very small amount of people, but Wall Street Journal, at least, says 6 percent. I heard a lot of complaining about the 1 percent. Are we now targeting the 6 percent, and what after them?

Secretary LEW. No, Congressman, our position is clear. We want all Americans to save for their retirement. We want to encourage people who do not save to save, and we want to make it easier, not harder. But in a world of tough choices when most average families have less than $100,000, an average of $50,000 saved for retirement, saying that the tax benefit ends at $3 million is a reasonable trade-off to make.

Chairman RYAN. Thank you. Mr. Huffman.

Mr. HUFFMAN. Thank you, Mr. Chair, and Mr. Secretary, thanks for being here. I want to associate myself with those who have expressed opposition to you over chained CPI, but I also appreciate the fact that the administration has very specifically linked that to hundreds of billions of dollars in new tax revenue that, so far, our Republican colleagues have flatly rejected. So I do not know how likely that bargain is at this point, but one thing that strikes me as very possible, if not likely in this Congress, is comprehensive immigration reform. And so I wanted to ask your thoughts as we think about the budget horizon that we are discussing today about how comprehensive immigration reform could affect these budget numbers and our broader economy as well.

Secretary LEW. Congressman, I have not been, in my current capacity, working on immigration reform, but I have worked on the issue on many occasions over the last 30 years, and I think as a student of American history, one can only conclude that one of the things that has made us the strong country we are is that we are constantly refreshing ourselves with people who want to come here and work hard, play by the rules, and make a contribution. I think immigration reform would open the opportunity to fair legal participation in our economy to many people whose only goal is to contribute to society, and that is going to be good in terms of the economy. The fact is, our economy has work to be done, and I think there is hopefully going to be a bipartisan agreement that is fair, that protects our borders, that is very much in keeping with both concerns that we bring people out of the shadows, but that we also insist on compliance with our laws.

Mr. HUFFMAN. With respect to both the deficit and the debt at the 10-year horizon, would it be fair to assume that comprehensive immigration reform would have a positive effect on both of those things?

Secretary LEW. I would have to go back and look analytically at the numbers. Intuitively, I think that makes sense, but I have not seen an analysis.

Mr. HUFFMAN. Thank you, Mr. Secretary.

Chairman RYAN. Fifty-three seconds to spare. You will learn. Mr. Nunnelee.

Mr. NUNNELEE. Thank you, Mr. Chairman. Thank you, Mr. Lew, for being here.

Secretary LEW. Good to be here.

Mr. NUNNELEE. January 1 we had a $600 billion tax increase added to a $1 trillion tax increase that went into effect as part of the Affordable Care Act. And then shortly after that, we had cause for additional tax increases. The president's budget has got an excess of a trillion dollar increase in taxes, so I guess the start of the question, does the Administration think that the American people are not paying enough money to Washington?

Secretary LEW. Congressman, the Administration has had consistent view that we have a very, very big hole in our budget, a fiscal gap that has to be closed with a fair balance of $2 of spending to $1 of revenue. In December there was extensive discussion where Republican leaders were saying we could raise a trillion dollars by broadening the base and closing loopholes. We want to work together to do that and get the job done in a balanced, fair way, with $2 of spending cuts for $1 of revenue.

Mr. NUNNELEE. But you got 1.6 trillion January 1. We did not get any $2 spending cut for that.

Secretary LEW. Well, no, we enacted the spending cuts first. In 2011, we enacted over a trillion dollars of spending cuts. So we have already got over twice as much spending cuts as we do revenue. We need to finish the job. We need to look at everything we have done since we started trying to close this $4 trillion gap. And it will get to 2:1 if the president's plan is the basis for an agreement.

Mr. NUNNELEE. The Administration continues to say that balanced budgets are not necessary. At what point does our national debt cause a problem? Is there a ceiling?

Secretary LEW. Look, our national debt cannot continue to grow as a percentage of GDP without it becoming a problem. That is why the president's budget brings it down to around 73 percent, the debt as a percentage of GDP, at the end of this 10-year window. That is why the budget deficit is brought down to under 2 percent of GDP at the end of this window. You know, I wish that the hole was not as deep as it was when the president took office. I wish that we did not have an economy that was in freefall that needed to be brought back to health. But that was what the world looked like in 2009. Our economy is now growing. We need to be on a path with the kind of balanced deficit reduction that is consistent with growth and job creation, and we would to look forward to working on a bipartisan basis to get that done so we can get the confidence in the economy that would, I think, be really good for the economy.

Mr. NUNNELEE. All right, and then the president came forth with a plan to address some of the problems with Social Security, and then he started blaming the Republicans. Does the president stand by his plan?

Secretary LEW. I am not sure which plan you are referring to right now.

Mr. NUNNELEE. The issue dealing with growth and Social Security.

Secretary LEW. Well, the president has, for a number of years, and continues to believe that we should work on a bipartisan basis to have a balanced, fair approach that protects Social Security's basic structure but that, along the lines of the 1983 agreement, has a bipartisan approach for long-term, 75-year solvency. It is best to do that not in the context of the budget.

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

Chairman RYAN. Thank you. Mr. Jeffries.

Mr. JEFFRIES. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for your testimony. There seems to be a consistent narrative amongst many in the House, amongst many on the other side of the aisle that this Administration has taken us on a fiscally unsustainable course, pursuant to that narrative, as a result of an unlimited desire to expand and an unwillingness to get that spending under control. But am I correct that it is this Administration that has reduced the deficit by $2.5 trillion over the last several years?

Secretary LEW. Congressman, yes, we, together with Congress, reduced the deficit by $2.5 trillion. We have also reduced the deficit as a percentage of GDP in half, and we are on a track towards taking it down to under 2 percent.

Mr. JEFFRIES. Now we have a constitutional obligation to protect the full faith and credit of the United States, and this has played itself out as it relates to the flirtation with possibly defaulting in connection with the debt ceiling. And part of the reason why some have suggested that the debt ceiling is problematic and our need to raise it is problematic is because of a misconception as it relates to what the debt ceiling represents. The debt ceiling is a backwardlooking vehicle that gives the Administration the opportunity to pay for bills that have already been incurred, is that not correct?

Secretary LEW. That is absolutely correct, Congressman.

Mr. JEFFRIES. And most of the obligations that have already been incurred, or many of those obligations relate to policies and decisions that were made during the eight years of the prior administration. Is that not correct?

Secretary LEW. They relate to all the permanent laws that are in place and all the annual appropriations that have been enacted.

Mr. JEFFRIES. So that would include the tax cut in 2001 and in 2003 that were not paid for, correct?

Secretary LEW. Absolutely.

Mr. JEFFRIES. And that would include the prescription drug benefit backed by the pharmaceutical industry that was not paid for in 2003, correct?

Secretary LEW. Yes.

Mr. JEFFRIES. And that would include the war that was entered into as it relates to Iraq for weapons of mass destruction that were never found. Is that correct?

Secretary LEW. All spending that was authorized by Congress is included, and the spending that you have described is all part of what is being covered.

Mr. JEFFRIES. And now based on your experiences in the Clinton administration, would it be fair to say that perhaps the best strategy in order to deal with the debt problem as well as the deficit issues that we confront, as evidenced by the fact that the Clinton administration turned over a surplus that was subsequently blown by the Bush administration, is not the best strategy to invest and to grow our economy?

Secretary LEW. I think that the best strategy is a growing economy, growing jobs, and balanced bipartisan deficit reduction where you have a mix of spending and tax measures to get the job done in the right timeframe.

Mr. JEFFRIES. Are there alternatives other than the chained CPI that could help strengthen the solvency of Social Security moving forward?

Secretary LEW. There certainly are other measures that would strengthen the solvency of Social Security.

Mr. JEFFRIES. Thank you.

Chairman RYAN. Thank you. Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman, and thank you, Secretary Lew, for extending your time and joining us today. I am going to join in the efforts by many of my colleagues before me today that I appreciate your responses about moving the economy and investing in jobs, and I have mentioned to other folks who have come before this Committee that I am in a state that has got negative job growth, and I think the only state in the country, as we are seeing some improvements with negative job growth, so I am very excited about many provisions in the president's budget proposal that invest in job growth. I would also like to thank you for your investments in the budget for Indian Health Services. I actually proposed an amendment to the Republican budget that would fund HIS, which is woefully under-funded, and the health care sector grows by 30 percent if we fully invest in health care jobs, and so I appreciate all of those efforts in bringing jobs to rural New Mexico.

I also, quickly, since I have got such a little time, want to thank the Administration for prioritizing veterans, and I want to just highlight a couple. So we have got 63.5 billion for the Administration. It is an 8.5 increase over 2012, and it provides mental health care, telehealth, specialized care for women, veterans, and benefits for caregivers. Seven billion set aside for mental health services such as PTSD, sexual trauma, which is at 15.4 increase over the 2012 level, and $136 million to deal with the back log. Can you tell me, with these investments, and that we are working hard to get our veterans back to work, and with companies in New Mexico not hiring because of the sequester, can you give me a sense about how many jobs this might create, and how many veterans might be able to get back into the employment pipeline?

Secretary LEW. Congresswoman, I can tell you the direction, but I would have to get back to you or have someone get back to you on the exact number of jobs.

Ms. LUJAN GRISHAM. Well, feel free to make a statement about that direction, what you see globally for the country, but please get back to me in writing about that job growth and those developments for veterans.

Secretary LEW. The first principle is we have a sacred obligation to our veterans who have put their lives on the line to protect our country, to treat them right when they come home, and that means helping them to get the job training or the jobs they need, and the health care they need, and the support in their community that they need. This budget invests, in a very tight budget, billions of dollars to try and keep that promise. Now, apart from just the basic decency and fairness associated with our policy, it is good for the economy. Our soldiers come back with leadership skills, management skills, the ability to make a contribution that we cannot afford to lose. And it is only a plus when we match up a veteran with the kind of opportunity that gives them the chance to contribute as civilians as they did when they were in the military.

Ms. LUJAN GRISHAM. As my time wraps up, we have got the highest suicide rate by veterans that we have ever seen before in this country, and the number one homeless group is women returning veterans in my district. Thank you.

Secretary LEW. Thank you. Mr. Cardenas.

Mr. CARDENAS. Thank you, Mr. Chairman. Thank you, Secretary Lew, for being here and extending your time with us. I was taken aback by one of my colleagues that talked about that it seems that some small business owners lose sleep at night because they are worried about the federal debt. I think that if people stop watching Fox News right before they go to bed, they might not have that problem. I used to own a small business, and never once, never once, was the federal debt ever on my mind. Really what was on my mind is focusing on my business, wondering, knowing, trying to figure out what I am going to do tomorrow, what I am going to do next month, hoping and looking forward to access the capital so that I could go ahead and hire more people, and grow my business, and therefore impact the economy locally, and, quite frankly, make more money for me and my family as well. So one of the things that I would like to ask you is, the president's budget, does it look to invest in education and training our current workforce and our future workforce?

Secretary LEW. Yes, Congressman. We have a proposal, a number of proposals, that would help people get the skills training they need, really starting from high school all the way through workers who are displaced by the economy.

Mr. CARDENAS. Well, the president's budget actually talks about continuing and increasing investment in preschool as well.

Secretary LEW. Correct. From preschool all the way through.

Mr. CARDENAS. Yeah.

Secretary LEW. And, you know, one thing I would say from the perspective of how small businesses make decisions, I think all businesses make decisions based on where the order book is and where the market is. If we grow the economy, and if small businesses see that they are doing business in an environment where it is growing business, they are going to make the decisions to invest and hire. If they are afraid the economy is going to be shrinking, they are not going to take a risk by investing. I think that they fundamentally look to the bottom line of their business when they make their decisions.

Mr. CARDENAS. Well, I have a question for you in your vast experience in looking at budgets and understanding the dynamics between government and private industry. Do successful businesses grow while having debt on their books in this country?

Secretary LEW. Many businesses have debt for their capital investment and other purposes.

Mr. CARDENAS. And so, basically, when we look at the economy and we look at the president's budget, the president's budget actually acknowledges that we have debt. The president's budget actually acknowledges that the best way that we need to grow our way out of this dynamic is to make sure that we continue to grow the economy, and even though the economy has been growing at a slower pace than any of us would like, the bottom line is that it has been growing pretty much throughout the majority of his presidency, correct?

Secretary LEW. It has been growing for 14 consecutive quarters, and we need to continue that and increase the rate of it, but we also need to make the tough decisions to finish the work of making policy changes in a fair and balanced way.

Mr. CARDENAS. So running government like a business would mean continue to do growth, but, at the same time, acknowledging debt.

Secretary LEW. Correct.

Mr. CARDENAS. Thank you.

Chairman RYAN. Thank you. Mr. Pocan.

Mr. POCAN. Thank you, Mr. Chairman. Thank you, Mr. Secretary. I also just want to add I am really looking forward to seeing your signature on our currency. It will be an affirmation for many of us who received harassment from our teachers growing up in penmanship, so thank you.

As a small business owner for over half my lifetime, I just want to reiterate a little bit about that. What you are doing by growing the economy, investing in infrastructure and research and development, having tax fairness in this budget that helps small business owners and middle class, and stopping the sequester that is hurting small business owners are all very much appreciated by those of us who are still in that part of the economy. I do want to ask you a question about taxes, but let me just, if in one minute, if you could try to answer. People kept talking about actual balance in the GOP budget, and, you know, there is a lot of fuzzy math in there, especially around the Affordable Care Ac. I mean, you can keep saying there is actually a balance. I can keep saying that I have a thick mane of hair, but I do not. Can you just reference that, the actual balance question on the GOP's health budget?

Secretary LEW. I think that without knowing how that budget will pay for the tax cuts that it has proposed, we do not really know what it is going to accomplish. It is a pretty big hole. It is like a $5 trillion hole to cut tax rates. It is either going to have to raise taxes on middle class taxpayers, or it is not going to cover the tax cut that is proposed.

Mr. POCAN. Since we are on taxes, this is specifically what I would like to ask. You know, we just had tax day yesterday. Small business owners across south central Wisconsin paid their taxes, the vast, vast, vast majority of them. However, we do have offshore tax abuse, and the GAO report that came just a little while ago talking about some of the tax expenditures talked about how this growing right now in the country. Specifically, can you just address a little about the Administration position on this? I mean, you know, I hear that there are 18,000 corporations in a five-story building in the Cayman Islands. I mean, clearly, that is nothing but tax avoidance. Can you just address that from the Administration perspective?

Secretary LEW. The Administration very much wants to close opportunities to avoid taxation through abusive practices, and, you know, we have done a lot to create transparency so that we can see when businesses and individuals are taking income offshore in order to avoid taxation. I think there is a secondary issue, which is, what is legal that should not be, where we need to work together to look at how do we close some loopholes that should not exist. So there is the illegal forms of tax avoidance which we need to close down on, and we need to work together to try and shut down ways of legally avoiding taxes.

Mr. POCAN. Would the Administration be open to some kind of language that might better define what a business operation is when it is overseas?

Secretary LEW. It is something that we would look forward to working together on.

Mr. POCAN. Great. Thank you very much.

Chairman RYAN. Thank you. Thank you, Secretary Lew. We have got you done with seven minutes to spare. I appreciate your indulgence. You are three out of four. You have got your last one this afternoon. We are going to agree to disagree on some of these things. But I would like to think that we have explored a few possibilities where we can find common ground.

Secretary LEW. I hope so.

Chairman RYAN. So thank you very much. The meeting is adjourned.

Secretary LEW. Thank you, Mr. Chairman.

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

QUESTIONS SUBMITTED FOR THE RECORD BY CHAIRMAN RYAN

To gain a better understanding of the relationship of outlays, receipts, deficits and debt on a unified basis with daily Treasury statements, debt subject to limit, and the daily change in debt subject to limit, please respond to the following four questions and provide supplemental information that would help explain these relationships.

1. While the Daily Treasury Statement contains helpful information, it is not clear how the reported daily outflows and inflows relate to the reported changes in total federal debt subject to the statutory debt limit. To help better understand that relationship, please provide a daily breakdown of spending, taxes and other receipts, intra-governmental transactions, and the change in the operating cash balance that fully accounts for and explains the change in the opening and closing balances of total public debt subject to the statutory limit for each business day for the months of June and July 2012. In addition, please provide a table that crosswalks from the change in the operating cash balance to the change in the debt subject to limit for each of the days in this time period.

2. Please describe the process for the preparation of the Fiscal Assistant Secretary's daily cash balance projections. Historically, how accurate are these cash balance projections?

3. Were the cash balance projections to show expected cash outlays in excess of expected cash balances, what measures are available to Treasury?

4. In an August 2012 report to Sen. Hatch, the Treasury Inspector General stated that "because Congress has never provided guidance to the contrary, Treasury's systems are designed to make each payment in the order it comes due."

a. Please identify which of Treasury's systems are relevant to this statement and describe any rules and procedures governing the operation of these systems.

b. Is the limitation described in the statement a technical limitation or a matter of policy?

5. During testimony about the Chained-CPI, Secretary Lew stated that the use of Chained-CPI can be defended "on a technical basis because it's more accurate."

a. Did the Administration exempt means-tested programs from Chained-CPI because they do not believe it is a more accurate measure for these programs?

b. If they do believe it is a more accurate measure—why did they not apply Chained-CPI to these programs and address any concerns they have with the subsequent change in benefits through direct changes to the laws governing means-tested programs directly?

QUESTIONS SUBMITTED FOR THE RECORD BY HON. DIANE BLACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE

1. Can you please explain to me what you meant in your comments that, "[if] we want to do anything to correct the distribution of income in this country, our tax laws have to be part of that. I think we made big progress at the beginning of this year in raising the top rate to 39.6. I think that was an enormous step that was the biggest step in a long time in terms of dealing with some of that inequity."

Do you believe that Congress should redistribute wealth through the tax code?

2. You mentioned in your remarks before the House Budget Committee that the administration has run the "most aggressive cost-benefit analysis of the regulations released by each agency."

Have you run a report projecting the cost of the 14,000 pages of regulations released by various departments related to the Patient Protection and Affordable Care Act (PPACA)?

What is that cost? How do you measure the cost-to-benefit ratio?

Do you have a time frame for when the PPACA law will be fully implemented? At the end of the implementation process, do you play on sending a full estimate of the cost of the final PPACA regulations? Do you have an estimate of what that cost would be?

3. In the Treasury Green Book, the administration proposes expanding the small business health insurance tax credit included in the health care law.

How will this help small businesses since the administration has chosen to delay the small business exchanges ("SHOP exchanges")?

I've looked through the materials the administration has released. The firms must fill out seven worksheets to determine their eligibility and many of the small businesses in my district are confused, burdened, and are deterred from providing health insurance and even creating jobs as a result. How do you plan on guiding small businesses through this process?

4. The President's budget extends and expands various refundable tax credits, which are actually cash transfer payments to individuals who, in many cases, do not pay any income taxes (and, in some cases, do not even pay payroll taxes). Of particular note, the budget proposes to reinstate, extend, or expand a variety of tax provisions that have substantial outlay components, such as the Earned Income Tax Credit, the American Opportunity Tax Credit, the Build America Bonds program, renamed as Fast Forward bonds, and the proposed Promise Zones.

How does all of this increased spending through the tax code help with deficit reduction?

How does this increased spending through the tax code help simplify the tax system to further the goals of fundamental tax reform?

QUESTIONS SUBMITTED FOR THE RECORD BY HON. BILL FLORES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

CONTEXT

Secretary Lew commented that people who exceed the $3 million cap can still contribute, but will simply not receive a tax break. This is a contradiction of the Treasury Department explanation where it says: "If a taxpayer reached the maximum permitted accumulation, no further contributions or accruals would be permitted, but the taxpayer's account balance could continue to grow with investment earnings and gains".

Transcript from hearing last week:

LEW: And we're not saying people can't contribute. We're just saying that the tax benefits aren't going to be the same. So you can still contribute. You just can't get it with before tax dollars. You can't contribute it before tax dollars.

QUESTIONS FOR SECRETARY LEW

1. There are multiple proposals in the budget that will negatively impact retirement savings, including the 28% cap on itemized deduction, the $3 million cap and the chained CPI proposal (which will limit annual inflation adjustments for contribution and comp limits), has the government considered the effect that these three proposals could jointly have on individuals saving for a secure retirement?

2. Have you looked at any behavior models to understand the potential impact on qualified plan formation or continuation, particularly in the small business context where a small business owner would lose the incentive to save within the qualified plan system?

3. While I understand the $3 million cap is to target millionaires, we all recall the economic downturn not too long ago, and I am concerned that with any similar downturn, couldn't we have someone's supposed secure $3 million turn into $1 million, which would then not be enough to fund a comfortable retirement?

ADDITIONAL QUESTIONS

1. In terms of the proposal to place a $3 million cap on savings, won't this discourage savings more broadly? And wouldn't that be the wrong message for the government to send?

2. Would you envision individuals needing to pay taxes immediately if they have funds over $3 million in their account? How about spouses who have inherited IRAs and may need that money to live comfortably?

3. In terms of the actual number the government is proposing, what happens with a potential economic downturn? Or a changed life situation? Such a limitation does not take in account any possible changed circumstances.

4. Has the government looked at how this could impact ESOP formation? Current ESOP participants?

QUESTION SUBMITTED FOR THE RECORD BY HON. TOM RICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Secretary Lew, I am deeply interested in a report from the Treasury Inspector General for Tax Administration regarding the Additional Child Tax Credit. You may recall this report. It was issued on July 7, 2011.

Specifically, the report highlights the gross misuse of filers using individual taxpayer identification numbers to claim the Additional Child Tax Credit. In other words, filers who do not have a social security number and are not authorized to work in the United States.

As you may know, ITIN filers' claims for the Additional Child Tax Credit have increased from $924 million in 2005 to $4.2 billion for 2010. This information is detailed in the Treasury Inspector General for Tax Administration's report.

We are giving billions in tax credits to individuals who are not authorized to work in our country. There is also evidence of ITIN filers claiming multiple children who do not even reside in our country.

The Treasury Inspector General for Tax Administration's report directed both the IRS and the Department of Treasury to look into this staggering issue. Since the report was issued almost two years ago, I am very interested in the IRS and Department of Treasury's progress. What efforts have your agency made to end this blatantly fraudulent activity?

QUESTIONS SUBMITTED FOR THE RECORD BY HON. BARBARA LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

ON POVERTY

We know that unemployment remains too high, and income inequality is near historic highs, with incomes for low and middle income workers stagnating or even falling.

While big corporations have more than recovered and are posting massive profits, Main Street families continue to struggle and small businesses across America don't have enough customers coming in their doors.

1. What would be the economic impact of successfully implementing a national plan to cut the national poverty rate in half in a decade?

ON THE IMPACT OF CHAINED CPI

Today, the White House released a document outlining the protections put in place to shield the very elderly and families who rely on means tested programs from the impacts of Chained CPI.

2. If Chained CPI does not amount to a $230 billion dollar benefit cut, why does anyone need protections from the impacts of Chained CPI as outlined by the White House yesterday?

ON CUBA AND OFAC

Given the tight budgets, it is vitally important that we effectively allocate resources to the highest priority endeavors. One such office that I believe needs a thorough review is the Office of Foreign Asset Control (OFAC) which is tasked with a critical role in our nation's fight against acts of terrorism and the funding of groups and actors who support terror.

OFAC continues to unnecessarily spend resources on enforcing strict travel and trade sanctions with Cuba, a country that, dating back to 1998, the Defense Intelligence Agency has not considered a significant threat to U.S. national security.

3. Mr. Secretary, when was the last time that the office of Office of Terrorism and Financial Intelligence or the Office of Foreign Asset Control blocked or intercepted a terrorism related financial transaction supported by the Cuban government?

ON THE DISPARITY IN THE UNEMPLOYMENT RATE

The national unemployment rate is now at 7.6%, and has been slowly ticking downward for the last several months now. However, the rates for minorities—particularly African Americans at 13.3 percent and Hispanics at 9.2—have remained well above national average throughout the unemployment crisis, and are still unacceptably high.

As part of the Omnibus Appropriations Act for FY2009—which was signed into law—the Department of Labor was required to provide a report outlining actions which can be taken related to reducing disparities in employment rates.

4. Many economists find that increasing equitable access to economic opportunity is a better economic model that will lead to greater economic growth for all Americans, do you agree?

5. How can the Treasury and our entire government act to effectively address this pervasive issue of unemployment in these communities?

[Response to questions submitted follow:]

SECRETARY LEW'S RESPONSE TO QUESTIONS SUBMITTED FOR THE RECORD

CHAIRMAN PAUL RYAN QFRS FOR SECRETARY LEW

To gain a better understanding of the relationship of outlays, receipts, deficits and debt on a unified basis with daily Treasury statements, debt subject to limit, and the daily change in debt subject to limit, please respond to the following four questions and provide supplemental information that would help explain these relationships.

Question 1: While the Daily Treasury Statement contains helpful information, it is not clear how the reported daily outflows and inflows relate to the reported changes in total federal debt subject to the statutory debt limit. To help better understand that relationship, please provide a daily breakdown of spending, taxes and other receipts, intra-governmental transactions, and the change in the operating cash balance that fully accounts for and explains the change in the opening and closing balances of total public debt subject to the statutory limit for each business day for the months of June and July 2012. In addition, please provide a table that cross-walks from the change in the operating cash balance to the change in the debt subject to limit for each of the days in this time period.

The Daily Treasury Statement summarizes the cash and debt operations of the U.S. Treasury. It consists of eight tables; five contain information about cash flows while three contain information about changes in debt outstanding and debt subject to limit.

In some instances, daily cash flows are related to changes in the debt subject to the limit. For example, when Treasury auctions securities to the public its cash position increases by roughly the same amount. (Treasury's auction decisions are based on its goal of funding the government at the lowest possible cost to the taxpayer, and generally are not directly tied to the expenditures of any single day.)

Other transactions may affect Treasury's cash position, but do not necessarily affect the debt subject to the limit. For example, various expenditures decrease Treasury's cash, but do not affect the outstanding debt, unless it is necessary to issue debt to finance those expenditures. Likewise, there are transactions that increase the outstanding debt subject to limit that do not have any impact on cash, such as the periodic payment of interest to Federal trust funds, which are invested in Treasury securities.

Still other transactions create an indirect linkage between cash flows and outstanding debt subject to the limit. For example, when Treasury receives Federal withheld income and FICA tax payments, a portion of those payments is deposited in the Social Security trust funds, and that deposited amount is then invested in Treasury securities, as required by law. This investment increases the outstanding debt subject to the limit.

The tables below summarize cash and debt activity appearing in the Daily Treasury Statements which covers all business days in June—July 2012. (See attachment 1.)

Question 2: Please describe the process for the preparation of the Fiscal Assistant Secretary's daily cash balance projections. Historically, how accurate are these cash balance projections?

Treasury's Office of the Fiscal Assistant Secretary (OFAS), staffed exclusively by career officials, prepares estimates of Treasury's cash balances.[1] These estimates depend on projections of receipts, outlays for government operations, and net cash flows from Treasury securities sold at auction (marketable activity) and the issuance and redemption of certain other Treasury securities, including State and Local Government Series (SLGS) and savings bonds (non-marketable activity).

OFAS prepares "baseline" cash balance projections on a quarterly basis. Treasury's projected marketable borrowing needs and assumed end-of-quarter cash balances for the current and next calendar quarters, as calculated in the baseline, are announced publicly as part of Treasury's quarterly refunding announcements.

OFAS updates its baseline projections on a regular basis. These updates inform daily cash position management decisions. Updated cash projections are also used by Treasury debt managers to adjust marketable financing plans to help ensure that Treasury has adequate cash to fully cover obligations presented for payment.

There is necessarily a margin of error applicable to Treasury's projections. The margin of error for a projection one week in the future (at a 95 percent confidence level) has typically been roughly plus or minus $10 billion, and the margin of error for a projection two weeks in the future (at a 95 percent confidence level) has typi-

[1] OFAS also prepares estimates of Treasury debt outstanding and debt subject to limit.

cally been roughly plus or minus $17 billion. At the 99 percent-plus confidence level, the margins of error are $14 billion for projections one week in the future, and $26 billion for projections two weeks in the future. In April 2013, receipts for the month came in a record $53 billion stronger than projected as of the end of March. There is also significant volatility with regard to the receipts of a single day: on one day in recent years, Treasury recognized $9.6 billion more of receipts than it had forecast that same morning; on another day, Treasury recognized $15.7 billion less of receipts than it had forecast the business day before.

Question 3: Were the cash balance projections to show expected cash outlays in excess of expected cash balances, what measures are available to Treasury?

Treasury maintains an appropriate cash balance to ensure that unforeseen fluctuations in cash balances do not negatively impact our debt management strategy. While Treasury strives to maintain a regular and predicable auction schedule, we also have the capacity to announce, issue, and settle a same-day cash management bill (CMB) should cash balance projections suggest that we are facing a cash shortfall.

Question 4: In an August 2012 report to Sen. Hatch, the Treasury Inspector General stated that "because Congress has never provided guidance to the contrary, Treasury's systems are designed to make each payment in the order it comes due."

a. Please identify which of Treasury's systems are relevant to this statement and describe any rules and procedures governing the operation of these systems.

Each year, Treasury issues over one billion payments valued at over $2.4 trillion. Treasury issues these payments on behalf of Federal agencies and programs. An agency submits an electronic payment request to Treasury specifying the amount and recipient of the payment. Treasury then prepares the electronic payment or, in some cases, a paper check.

This is a highly automated process where Treasury uses one of three centralized systems: one for domestic payments, one for international payments, and one for letter-of-credit or "draw down"-type payments.

Because of the volume of payments, this is a precisely scheduled operation where agencies electronically transmit large batches of payment requests for processing by Treasury. A single batch may contain millions of payment requests.

There is little time delay between when an agency submits a batch of requests and when Treasury releases the resultant payments into the banking system. During that brief period, Treasury's automated systems perform four sequential functions to:

1. Ensure the internal integrity and consistency of the thousands of payment requests in the batch;
2. Confirm that the payment recipients are screened through Treasury's Office of Foreign Asset Control. (In the future, Treasury is scheduled to start pre-payment screening of all payments except tax refunds); [2]
3. Offset any eligible payments to collect delinquent debt owed to Federal and State Governments[3] and other authorities; and,
4. Create the necessary accounting entries to update the financial reports of the agency and Treasury.

On average, Treasury issues approximately 80 million separate payments per month; the automated systems that perform these four functions operate almost continuously.

b. Is the limitation described in the statement a technical limitation or a matter of policy?

Given the volume of payments and the time it takes to process them, we process payments as they arrive, not based on policy matters, other than improper payments and debt collection requirements.

Question 5: During testimony about the Chained-CPI, Secretary Lew stated that the use of Chained-CPI can be defended "on a technical basis because it's more accurate."

a. Did the Administration exempt means-tested programs from Chained-CPI because they do not believe it is a more accurate measure for these programs?

b. If they do believe it is a more accurate measure—why did they not apply Chained-CPI to these programs and address any concerns they have with the subsequent change in benefits through direct changes to the laws governing means-tested programs directly?

[2] Improper Payments Elimination and Recovery Improve Act of 2012 (Public Law 112-248).
[3] Debt Collection Improvement Act of 1996 (Public Law 104-134).

In the interest of achieving a bipartisan deficit reduction agreement, the President's FY2014 Budget contains the President's compromise offer to Speaker Boehner from December. As part of that offer, the President is willing to accept proposals to switch to the chained CPI, but the Presidents' openness to chained CPI depends on two conditions: the change must be part of a balanced deficit reduction package that includes substantial revenue raised through tax reform, and the change must be coupled with measures to protect the vulnerable and avoid increasing poverty and hardship. That is why the Budget chained CPI proposal includes a Social Security benefit enhancement for the very elderly and others who rely on Social Security for a long period of time and does not apply the chained CPI to means-tested benefit programs.

REPRESENTATIVE TOM RICE QFRS FOR SECRETARY LEW

Question 1: Secretary Lew, I am deeply interested in a report from the Treasury Inspector General for Tax Administration regarding the Additional Child Tax Credit. You may recall this report. It was issued on July 7, 2011.

Specifically, the report highlights the gross misuse of filers using individual taxpayer identification numbers to claim the Additional Child Tax Credit. In other words, filers who do not have a social security number and are not authorized to work in the United States.

As you may know, ITIN filers' claims for the Additional Child Tax Credit have increased from $924 million in 2005 to $4.2 billion for 2010. This information is detailed in the Treasury Inspector General for Tax Administration's report.

We are giving billions in tax credits to individuals who are not authorized to work in our country. There is also evidence of ITIN filers claiming multiple children who do not even reside in our country.

The Treasury Inspector General for Tax Administration's report directed both the IRS and the Department of Treasury to look into this staggering issue. Since the report was issued almost two years ago, I am very interested in the IRS and Department of Treasury's progress. What efforts have your agency made to end this blatantly fraudulent activity?

Since the release of the TIGTA Report in July, 2012, the IRS has taken significant steps to protect the integrity of the ITIN program and the Additional Child Tax Credit. There reforms include adopting TIGTA's recommendation that filers be required to submit originals of their identity documents in order to obtain ITINS, as well as other measures. In a follow-up report on this issue released in June, 2013, TIGTA concluded, "The IRS initiated corrective actions to address the majority of recommendations included in our prior audit report. These actions are significantly improving the identification of questionable ITIN applications."

The Treasury Department and the IRS have considered this issue carefully and have concluded that, under current law, individuals filing with Individual Taxpayer Identification Numbers (ITIN)s are eligible for the Additional Child Tax Credit, and the IRS does not have authority under current law to deny the refundable child credit to Individual Taxpayer Identification Number (ITIN) filers. Nothing in the Internal Revenue Code requires that the individual claiming the credit must have a Social Security number, in contrast to the earned income tax credit, which does contain such a requirement. Nonetheless, to address issues of improper payments, the IRS has internal procedures to identify potentially improper claims for refundable credits, including the Additional Child Tax Credit, which it refines on an ongoing basis. Under these procedures, refunds associated with potentially improper claims may be frozen until the IRS audits the return to determine whether the claim should be allowed.

REPRESENTATIVE DIANE BLACK QFRS FOR SECRETARY LEW

Question 1: Can you please explain to me what you meant in your comments that, "[if] we want to do anything to correct the distribution of income in this country, our tax laws have to be part of that. I think we made big progress at the beginning of this year in raising the top rate to 39.6. I think that was an enormous step that was the biggest step in a long time in terms of dealing with some of that inequity."

Do you believe that Congress should redistribute wealth through the tax code?

I believe that the tax code can be effectively and appropriately used to make the distribution of after-tax income somewhat less skewed towards the very well off than it would be otherwise. I also believe that it is appropriate for the most-well-off American families to bear a somewhat higher share of the cost of the provision of government services than they did in the prior decade. It is only fair that those who benefit the most from our system of government contribute a modest share of income toward its cost.

Question 2: You mentioned in your remarks before the House Budget Committee that the administration has run the "most aggressive cost-benefit analysis of the regulations released by each agency."

Have you run a report projecting the cost of the 14,000 pages of regulations released by various departments related to the Patient Protection and Affordable Care Act (PPACA)?

What is that cost? How do you measure the cost-to-benefit ratio?

Do you have a time frame for when the PPACA law will be fully implemented? At the end of the implementation process, do you play on sending a full estimate of the cost of the final PPACA regulations? Do you have an estimate of what that cost would be?

OMB designates and reviews "significant regulatory actions" as that term is defined in section 3(f) of Executive Order 12866. These include rules with an annual economic impact greater than $100 million. For any rule that is covered by E.O. 12866 and reaches the $100 million threshold (i.e., "economically significant" regulatory action), Treasury analyzes the costs and benefits of the proposed rule and its alternatives, consistent with OMB Circular A-4. For rules that do not reach the economic threshold, but that are designated by OMB as significant regulatory actions, Treasury adheres to the principles set forth in Executive Orders 12866 and 13563. With respect to IRS rules, pursuant to OMB guidance implementing E.O. 12866, and longstanding agreements between OMB and Treasury, only IRS legislative rules that constitute "significant regulatory actions" are subject to E.O. 12866 review. Thus, pursuant to longstanding practice across several Administrations, most IRS rules are not subject to E.O. 12866 review.

The timeframe for implementing the Affordable Care Act is generally determined by the statute, and we are working diligently to meet that timeframe. As is the case with any new tax provision, we carefully evaluate whether transition rules are appropriate to relieve new statutorily imposed compliance burdens. Many provisions have already taken effect and have been fully implemented. Most of the major coverage-related provisions take effect in 2014 and will generally be reflected on returns filed in 2015. As with other provisions of the tax code, we may continue to address issues and provide guidance on implementation even after provisions take effect.

Question 3: In the Treasury Green Book, the administration proposes expanding the small business health insurance tax credit included in the health care law.

How will this help small businesses since the administration has chosen to delay the small business exchanges ("SHOP exchanges")?

I've looked through the materials the administration has released. The firms must fill out seven worksheets to determine their eligibility and many of the small businesses in my district are confused, burdened, and are deterred from providing health insurance and even creating jobs as a result. How do you plan on guiding small businesses through this process?

The small business exchange, or SHOP, is under the jurisdiction of the Department of Health and Human Services (HHS). My understanding is that for the 2014 coverage year, the SHOP will be open and many small employers will be able to purchase coverage and receive a tax credit for providing that coverage to their employees.

The IRS has a dedicated webpage and has devoted other resources to help small employers benefit from the small employer tax credit. And while many small employers have already claimed the credit, we have received feedback suggesting that the tax credit be made simpler, more generous, and available to even more businesses. In response to this feedback, the President's last two Budgets have proposed a package of changes that would (1) increase the maximum size of a firm eligible for the credit from firms under 25 full-time employees (FTEs) to firms under 50 FTEs, (2) adopt a more generous phase-out schedule, and (3) simplify the credit calculation by eliminating the uniformity requirement and the cap based on average premiums in the state where a firm is located. We look forward to working with Congress to improve this tax credit.

Question 4: The President's budget extends and expands various refundable tax credits, which are actually cash transfer payments to individuals who, in many cases, do not pay any income taxes (and, in some cases, do not even pay payroll taxes). Of particular note, the budget proposes to reinstate, extend, or expand a variety of tax provisions that have substantial outlay components, such as the Earned Income Tax Credit, the American Opportunity Tax Credit, the Build America Bonds program, renamed as Fast Forward bonds, and the proposed Promise Zones.

How does all of this increased spending through the tax code help with deficit reduction?

These tax credits support important social or economic goals, many of which benefit lower and middle-income American families. For example, the Earned Income Tax Credit is highly effective in preventing poverty among working families. Continuing these tax credits has a budgetary cost, but the Administration believes that this cost is justified by the benefits they provide. In the Administration's Budget, these costs are more than offset by other changes.

How does this increased spending through the tax code help simplify the tax system to further the goals of fundamental tax reform?

Simplicity is one goal of a desirable fiscal system, but it is not the only goal, and the best choice of policies will involve appropriately managing trade-offs among competing goals such as simplicity, efficiency, and equity. It might indeed be the case that the important policy goals of such programs as the Earned Income Tax Credit and the American Opportunity Tax Credit can be achieved more simply under a fundamentally reformed tax system. I look forward to working with you in developing a tax reform proposal that improves equity and efficiency and raises adequate revenue in a simple manner.

REPRESENTATIVE BARBARA LEE QFRS FOR SECRETARY LEW

On Poverty: We know that unemployment remains too high, and income inequality is near historic highs, with incomes for low and middle income workers stagnating or even falling.

While big corporations have more than recovered and are posting massive profits, Main Street families continue to struggle and small businesses across America don't have enough customers coming in their doors.

Question 1: What would be the economic impact of successfully implementing a national plan to cut the national poverty rate in half in a decade?

The national poverty rate has declined dramatically over the past half century, from 22.4 percent in 1959 to 11.3 percent in 2000. The largest decline over this period occurred prior to 1970, largely as a result of social programs enacted during the 1960s. Over the past decade, the poverty rate has trended upward and in 2011 stood at 15.0 percent. Cutting the poverty rate in half from its current level would lower the national poverty rate to approximately 7.5 percent, well below the previous historic low of 11.1 percent recorded in 1973.

Economic growth is critical to poverty reduction. The World Bank estimates that, on average, a 1 percent increase in economic growth reduces poverty by 1.25 percent. The Administration is concerned about the long-term consequences of rising poverty for the nation's economic prospects and remains focused on reducing poverty by increasing broad-based economic growth and expanding economic opportunities for all Americans.

On the Impact of Chained CPI: Today, the White House released a document outlining the protections put in place to shield the very elderly and families who rely on means tested programs from the impacts of Chained CPI.

Question 2: If Chained CPI does not amount to a $230 billion dollar benefit cut, why does anyone need protections from the impacts of Chained CPI as outlined by the White House yesterday?

The adoption of chained CPI for indexation of federal programs is estimated to reduce deficits during 2014-2023 by $230 billion. Lower outlays account for approximately $130 billion of this reduction and are achieved through slower growth in benefits.

The President's FY2014 Budget contains the President's compromise offer to Speaker Boehner from December. As part of that offer, the President is willing to accept proposals to switch to the chained CPI, but the Presidents' openness to chained CPI depends on two conditions: the change must be part of a balanced deficit reduction package that includes substantial revenue raised through tax reform, and the change must be coupled with measures to protect the vulnerable and avoid increasing poverty and hardship. That is why the Budget chained CPI proposal includes a Social Security benefit enhancement for the very elderly and others who rely on Social Security for a long period of time and does not apply the chained CPI to means-tested benefit programs.

On CUBA and OFAC: Given the tight budgets, it is vitally important that we effectively allocate resources to the highest priority endeavors. One such office that I believe needs a thorough review is the Office of Foreign Asset Control (OFAC) which is tasked with a critical role in our nation's fight against acts of terrorism and the funding of groups and actors who support terror.

OFAC continues to unnecessarily spend resources on enforcing strict travel and trade sanctions with Cuba, a country that, dating back to 1998, the Defense Intelligence Agency has not considered a significant threat to U.S. national security.

Question 3: Mr. Secretary, when was the last time that the office of Office of Terrorism and Financial Intelligence or the Office of Foreign Asset Control blocked or intercepted a terrorism related financial transaction supported by the Cuban government?

As Cuba is designated as a state sponsor of terrorism, the Treasury Department reports the blocking of millions of dollars each year related to Cuba in the Terrorism Assets Report. However, because our sanctions regime on Cuba targets not only the Government of Cuba, but also its nationals, defined to include entities and individuals, the reported figures include assets in which either the Government of Cuba or a Cuban national has an interest. In the most recent Terrorism Assets Report, Treasury reported a net increase of $8.1 million of blocked funds related to Cuba in 2012, for a total of $253.1 million of blocked funds related to Cuba.

On the Disparity in the Unemployment Rate: The national unemployment rate is now at 7.6%, and has been slowly ticking downward for the last several months now. However, the rates for minorities—particularly African Americans at 13.3 percent and Hispanics at 9.2—have remained well above national average throughout the unemployment crisis, and are still unacceptably high.

As part of the Omnibus Appropriations Act for FY2009—which was signed into law—the Department of Labor was required to provide a report outlining actions which can be taken related to reducing disparities in employment rates.

Question 4: Many economists find that increasing equitable access to economic opportunity is a better economic model that will lead to greater economic growth for all Americans, do you agree?

We agree. Despite the progress we have made under President Obama, more needs to be done to get America's job seekers back to work. Too many Americans still lack opportunities to make use of all of their talents and potential. All of us would benefit from a fuller employment of their skills. That is why the Administration supports programs such as the universal preschool initiative outlined in the FY 2014 Budget that help in giving all children the tools they need to succeed. It is also why the Administration is addressing challenging labor market conditions through programs that equip individuals with the skills and tools they need to succeed, encourage the creation of jobs in in-demand industry sectors and occupations, and strengthen actions that address discriminatory practices.

Question 5: How can the Treasury and our entire government act to effectively address this pervasive issue of unemployment in these communities?

The Administration is very concerned about the persistent high level of unemployment and is committed to policies that aim to improve labor market conditions. These include employment subsidies, worker retraining, and investment in infrastructure, among other policies. For instance, efforts are currently underway to upgrade and revitalize America's community colleges so that any individual will have the opportunity to further their education, gain skills, and acquire industry-recognized credentials. The FY2014 budget introduces several initiatives to encourage job growth as well as bolster education and worker training, such as modernizing, streamlining access, and strengthening the delivery of job training services through the American Job Centers.

REPRESENTATIVE BILL FLORES QFR FOR SECRETARY LEW

Context: Secretary Lew commented that people who exceed the $3 million cap can still contribute, but will simply not receive a tax break. This is a contradiction of the Treasury Department explanation where it says: "If a taxpayer reached the maximum permitted accumulation, no further contributions or accruals would be permitted, but the taxpayer's account balance could continue to grow with investment earnings and gains".

Transcript from hearing last week:

LEW: And we're not saying people can't contribute. We're just saying that the tax benefits aren't going to be the same. So you can still contribute. You just can't get it with before tax dollars. You can't contribute it before tax dollars.

Question 1: There are multiple proposals in the budget that will negatively impact retirement savings, including the 28% cap on itemized deduction, the $3 million cap and the chained CPI proposal (which will limit annual inflation adjustments for contribution and comp limits), has the government considered the effect that these three proposals could jointly have on individuals saving for a secure retirement?

The provisions that you note are unlikely to have any discernible effect on most individuals' ability to save for a secure retirement. While we all agree that too few Americans are saving enough for retirement, that concern does not extend to the few individuals who have accumulated amounts in tax-preferred savings vehicles that are sufficient to provide more than $205,000 per year for the life of the participant and an assumed spouse (and would be subject to the cap on tax-advantaged retirement accumulations to which you refer, and which today would currently be approximately $3.4 million). Similarly, the 28-percent limit on certain tax expenditures will have little impact on retirement security because only high-income taxpayers are subject to the 28 percent limitation on the value of the tax benefit from retirement contributions, and even with that limitation, they would still receive a larger tax incentive to save for retirement than most middle-class families. Furthermore, the proposal recognizes that retirement savings are taxed when they are distributed, and allows affected taxpayers an adjustment to basis for the additional tax paid as a result of the 28-percent limit. The proposal to use the chained-CPI instead of the current CPI slows the growth of contribution limits to bring them in line with what most experts regard as a more accurate measure of average change in the cost of living. As noted in the Budget, this last proposal would only be considered in the context of a comprehensive deficit reduction effort.

Question 2: Have you looked at any behavior models to understand the potential impact on qualified plan formation or continuation, particularly in the small business context where a small business owner would lose the incentive to save within the qualified plan system?

We agree that tax incentives for both higher- and lower-wage employees (including the self-employed) are an important part of our system of voluntary saving for retirement. The proposal will have little if any impact on this incentive for the vast majority of beneficiaries. Almost no small business employers would ever reach the cap on retirement savings, which is an amount sufficient to provide an annuity of $205,000 per year. Even those who do will have an incentive to continue to offer tax-subsidized plans for their employees because retirement plans are an important recruitment and retention tool.

Question 3: While I understand the $3 million cap is to target millionaires, we all recall the economic downturn not too long ago, and I am concerned that with any similar downturn, couldn't we have someone's supposed secure $3 million turn into $1 million, which would then not be enough to fund a comfortable retirement?

Fluctuating values in retirement accounts is an important concern. However, the proposal to limit the tax benefit to accumulations sufficient to provide an annual income over $200,000 will have little if any impact on retirement security. First, a $205,000 annuity should be more than sufficient to provide for a secure retirement. Second, the few individuals who would be subject to this provision are still free to save additional amounts outside of the tax-favored system. And third, if accumulated levels fall below an amount sufficient to fund the maximum allowable tax-favored annuity, the taxpayer would be permitted to resume contributions.

Question 4: In terms of the proposal to place a $3 million cap on savings, won't this discourage savings more broadly? And wouldn't that be the wrong message for the government to send?

The proposal will not have any discernible impact on overall saving. While we all agree that too few Americans are saving enough for retirement, that concern does not extend to the very few individuals who have accumulated amounts in tax-preferred savings vehicles that are sufficient to provide income of $205,000 per year. Moreover, those few affected individuals are still free to save additional amounts outside of the tax-favored system. There is little evidence that tax-preferences for retirement saving substantially increase the amount saved by higher-income individuals once a reasonable amount has been accumulated, and thus little reason to believe they will save less if those tax benefits are modestly curbed.

Question 5: Would you envision individuals needing to pay taxes immediately if they have funds over $3 million in their account? How about spouses who have inherited IRAs and may need that money to live comfortably?

No, a taxpayer who has already accumulated sufficient retirement saving to fund an annuity of more than $205,000 (in today's dollars) will not have to pay tax immediately. The taxpayer would continue to enjoy tax-deferred growth of retirement saving and would merely be prohibited from making additional tax-favored contributions.

The proposal would have no impact on IRAs inherited by a spouse.

Question 6: In terms of the actual number the government is proposing, what happens with a potential economic downturn? Or a changed life situation? Such a limitation does not take in account any possible changed circumstances.

If a taxpayer's account balance falls below the limit (assets sufficient to fund a retirement annuity of $205,000), because of an economic downturn or other reasons, he or she will be allowed to resume making contributions. Note that the limit is the same as the maximum defined benefit pension today, and that a $205,000 annuity should provide for a secure retirement.

Question 7: Has the government looked at how this could impact ESOP formation or current ESOP participants?

ESOPs receive additional tax preferences beyond that of a typical qualified retirement plan and have desirable non-tax related features that can also benefit firms, which would not be affected by this proposal. Therefore, the proposal would have little, if any, impact on ESOP formation. Since very few ESOP participants would ever reach the limit, the vast majority of current ESOP participants would be unaffected by the proposal.

Summary of Cash and Debt Activity Reported in the Daily Treasury Statement for June and July 2012 (millions of dollars)

	Cash Activity from Table II				Debt Activity from Table III								
	Total Deposits (excluding transfers)	Total Withdrawals (excluding transfers)	Change in Operating Balance	Operating Balance	Total Issues (marketable + nonmarketable)	Total Redemptions (marketable and nonmarketable)	Net Change in Public Debt Outstanding	Debt not Subject to Limit Other	Daily Change in DSL	Net Marketable Financing	Government Account Series	Other	Notes - Primary reason for change in DSL
Jun 1 2012	18,680	79,941	(61,261)	51,108	243,181	288,959	(45,778)	11	(45,767)	190	(39,090)	(6,878)	GAS (-$23 billion for Social Security EFT Benefit payments, other Trust funds with large redemptions tied to benefit payments include: the CSRDF, the Medicare Trust funds, and the Military Retirement fund), Other (-$7 billion for net SLGS redemptions)
Jun 4 2012	14,338	9,588	4,750	55,859	239,986	236,781	3,205	34	3,239	237	2,966	2	
Jun 5 2012	5,098	11,207	(6,109)	49,749	238,328	233,031	5,297	11	5,308	80	4,679	538	
Jun 6 2012	13,574	9,282	4,292	54,040	234,016	232,829	1,187	11	1,198	80	562	545	
Jun 7 2012	96,591	104,903	(8,312)	45,729	328,432	329,659	(1,227)	(17)	(1,244)	(2,917)	731	959	
Jun 8 2012	8,881	12,680	(3,799)	41,931	232,408	230,414	1,994	15	2,009	79	2,132	(217)	
Jun 11 2012	13,522	11,437	2,085	44,015	233,396	230,849	2,547	32	2,579	238	2,411	(102)	
Jun 12 2012	6,571	9,177	(2,606)	41,410	236,440	229,990	6,451	11	6,462	79	5,946	426	
Jun 13 2012	15,075	20,237	(5,162)	36,248	230,996	240,174	(9,178)	11	(9,167)	80	(9,871)	613	GAS (-$11 billion for redemptions for Social Security Benefits)
Jun 14 2012	110,526	107,982	2,544	38,792	332,312	330,523	1,789	(17)	1,772	(2,922)	3,853	858	
Jun 15 2012	132,787	53,436	79,351	118,143	304,626	269,420	35,206	12	35,218	35,370	3,124	(3,288)	
Jun 18 2012	22,521	10,322	12,199	130,343	233,547	229,585	3,962	33	3,995	237	3,760	(35)	
Jun 19 2012	19,953	10,520	9,433	139,775	238,319	229,781	8,537	11	8,548	79	8,173	285	
Jun 20 2012	21,179	21,075	104	139,880	234,344	241,066	(6,722)	11	(6,711)	80	(7,568)	766	
Jun 21 2012	98,789	104,793	(6,004)	133,876	325,753	324,064	1,689	(18)	1,671	(2,928)	2,932	1,685	
Jun 22 2012	10,329	13,912	(3,583)	130,293	230,777	231,982	(1,205)	12	(1,193)	79	(1,390)	106	
Jun 25 2012	13,592	10,075	3,517	133,810	229,678	225,546	4,132	33	4,165	238	3,937	(43)	
Jun 26 2012	4,739	10,993	(6,254)	127,556	235,878	229,344	6,534	11	6,545	80	6,108	346	
Jun 27 2012	11,396	21,028	(9,632)	117,923	232,036	242,189	(10,153)	10	(10,143)	78	(10,679)	448	
Jun 28 2012	125,644	131,457	(5,813)	112,110	361,653	359,604	2,049	(69)	1,980	67	(13)	1,995	
Jun 29 2012	25,925	46,616	(20,691)	91,419	632,244	556,877	75,367	105	75,472	7,205	68,743	(581)	GAS (primarily due to investment of non-cash semi-annual interest)
Jul 2 2012	127,565	94,569	32,996	124,415	341,730	309,355	32,375	1,342	33,717	41,715	2,101	(11,441)	SLGS (-$12 billion)
Jul 3 2012	6,536	33,443	(26,907)	97,508	249,136	256,891	(7,755)	11	(7,744)	(30)	(7,886)	161	GAS (-$23 for Social Security benefits, somewhat offset by investments for CSRDF contributions and premiums and FICA tax receipts from July 2)
Jul 4 2012	-	-	-	97,508	-	-	-	-	-	-	-	-	
Jul 5 2012	100,282	104,097	(3,815)	93,693	321,515	325,849	(4,334)	(7)	(4,341)	(4,839)	260	245	
Jul 6 2012	7,565	13,291	(5,726)	87,967	234,333	231,456	2,876	11	2,887	(31)	2,913	(6)	
Jul 9 2012	13,411	13,866	(455)	87,513	231,155	231,417	(262)	31	(231)	(92)	146	(316)	
Jul 10 2012	6,149	9,255	(3,106)	84,407	237,094	230,506	6,588	15	6,603	(31)	5,740	879	
Jul 11 2012	12,008	21,129	(9,121)	75,287	232,995	242,392	(9,397)	11	(9,386)	(31)	(10,145)	779	GAS (-$11 billion for Social Security benefit payments)
Jul 12 2012	92,129	104,781	(12,652)	62,635	325,286	330,232	(4,945)	(17)	(4,962)	(7,303)	1,504	854	
Jul 13 2012	10,367	12,860	(2,493)	60,142	230,302	230,648	(345)	11	(334)	(30)	(298)	(17)	
Jul 16 2012	95,051	82,829	12,222	72,364	319,564	314,996	4,568	34	4,602	879	4,913	(1,224)	
Jul 17 2012	4,558	9,868	(5,310)	67,054	257,363	248,942	8,421	12	8,433	(29)	8,133	317	
Jul 18 2012	10,680	19,064	(8,384)	58,670	249,681	259,791	(10,109)	11	(10,098)	(29)	(10,450)	370	GAS (-$11 billion for Social Security benefit payments)
Jul 19 2012	91,983	99,833	(7,850)	50,820	341,469	341,150	319	(16)	303	(2,439)	1,586	1,172	
Jul 20 2012	7,749	12,382	(4,633)	46,187	247,792	247,281	511	12	523	(29)	787	(247)	
Jul 23 2012	13,580	11,309	2,271	48,459	249,685	247,327	2,358	34	2,392	(92)	2,499	(49)	
Jul 24 2012	5,370	11,170	(5,800)	42,658	252,819	247,562	5,257	12	5,269	(28)	5,296	(11)	
Jul 25 2012	15,372	19,771	(4,399)	38,258	252,192	259,824	(7,632)	11	(7,621)	(29)	(8,317)	714	GAS (-$11 billion for Social Security benefit payments)
Jul 26 2012	117,807	125,297	(7,490)	30,768	385,955	381,258	4,697	(61)	4,636	(970)	5,633	34	
Jul 27 2012	9,881	11,342	(1,461)	29,308	253,450	254,631	(1,182)	12	(1,170)	(30)	(979)	(173)	
Jul 30 2012	12,971	9,424	3,547	32,855	254,206	258,813	(4,607)	35	(4,572)	(87)	(4,096)	(424)	
Jul 31 2012	128,336	70,706	57,630	90,485	371,872	312,405	59,467	318	59,785	58,918	376	173	

Cash Activity Reported in the Daily Treasury Statement for June and July 2012 (millions of dollars) - Deposits from Table II

	Agriculture Loan Repayments (misc)	Air Transportation Security Fees	Cash FTDs Received (Table IV)	Commodity Credit Corporation	Custom and Certain Excise Taxes	Deposits By States Supplemental Secuirty Income	Deposits By States Unemployment	Education Department Programs	Energy Department Programs	Estate and Gift Taxes	Federal Reserve Earnings	Foreign Deposits, Military Sales	Housing and Urban Development Programs	Individual Income and Employment Taxes, Not Withheld	Interest Received from Cash Investments	Justice Department Programs	Postal Service	Public Debt Cash Issues (Table III-B)	Other Deposits - Troubled Assset Relief Program (TARP)	Other Deposits - Deposit Insurance Fund	Total Other Deposits	Total Deposits (excluding transfers)
Jun 1 2012	77	-	14,459	43	50	2	48	75	6	59	-	1,519	-	191	-	6	307	1,397	---	---	439	18,680
Jun 4 2012	20	2	12,190	34	69	3	31	89	10	58	-	3	9	350	-	15	398	943	---	---	114	14,338
Jun 5 2012	55	-	1,841	34	70	3	17	149	16	30	-	61	54	558	-	16	480	1,314	---	---	401	5,098
Jun 6 2012	22	1	8,553	48	75	2	118	70	15	50	1,519	52	3	1,142	-	9	360	1,396	22	---	138	13,574
Jun 7 2012	19	-	1,808	27	58	3	17	96	4	5	-	14	1	513	-	5	347	93,318	---	---	356	96,591
Jun 8 2012	29	-	6,156	29	54	220	171	123	5	10	-	7	5	757	-	6	329	740	---	---	241	8,881
Jun 11 2012	19	-	10,988	26	68	2	16	86	9	35	-	8	1	1,108	-	4	334	764	---	---	54	13,522
Jun 12 2012	35	-	2,746	43	82	3	18	123	5	21	-	3	-	1,895	-	34	374	1,188	---	---	-	6,571
Jun 13 2012	18	1	8,723	22	82	3	17	70	5	68	1,678	20	33	2,582	-	6	275	1,466	5	---	5	15,075
Jun 14 2012	27	-	11,605	20	124	10	41	128	6	29	-	10	-	1,341	-	7	275	95,386	358	---	1,517	110,526
Jun 15 2012	28	-	56,085	25	374	3	13	144	29	60	-	538	3	2,305	-	13	276	72,633	---	---	258	132,787
Jun 18 2012	26	2	17,272	44	80	4	25	151	28	37	-	6	-	3,264	-	7	333	810	---	---	431	22,521
Jun 19 2012	23	-	1,753	41	98	3	20	141	17	52	-	175	5	15,569	-	7	382	1,041	247	---	628	19,953
Jun 20 2012	17	1	7,976	45	78	2	19	77	62	66	1,762	6	1	8,584	-	24	258	1,517	72	---	686	21,179
Jun 21 2012	22	1	2,166	40	98	4	28	89	28	42	-	7	119	2,916	-	13	283	92,245	---	---	691	98,789
Jun 22 2012	38	3	5,603	28	1,596	6	15	158	8	10	-	15	1	1,396	-	5	261	942	---	---	243	10,329
Jun 25 2012	44	1	11,093	22	72	2	11	99	44	15	-	9	1	810	-	14	310	749	120	---	296	13,592
Jun 26 2012	72	4	1,950	30	81	5	35	131	57	141	-	8	32	599	-	10	347	1,112	125	---	125	4,739
Jun 27 2012	19	1	6,633	42	66	5	41	74	76	71	1,899	3	3	750	-	17	285	1,234	126	---	176	11,396
Jun 28 2012	30	33	2,121	22	55	296	643	86	37	27	-	54	4	307	-	8	282	120,979	---	---	660	125,644
Jun 29 2012	230	151	9,369	42	115	9	20	190	30	66	-	76	9	231	-	71	282	9,064	---	467	5,968	25,925
Jul 2 2012	247	3	22,191	101	73	4	10	93	22	14	-	1,624	4	332	-	23	347	101,374	---	---	1,103	127,565
Jul 3 2012	49	1	3,384	60	81	5	16	141	6	167	-	20	2	342	-	16	434	1,298	229	---	513	6,536
Jul 4 2012	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	---	-	-
Jul 5 2012	35	-	8,701	29	63	4	29	91	11	60	1,238	8	44	574	-	173	386	88,357	---	---	480	100,282
Jul 6 2012	18	-	5,273	24	54	4	27	89	5	66	-	6	14	207	-	11	388	824	---	---	555	7,565
Jul 9 2012	23	-	10,937	30	69	6	31	116	13	27	-	5	1	326	-	24	722	759	---	---	321	13,411
Jul 10 2012	35	-	1,668	34	75	7	35	196	6	78	-	10	1	274	-	1,525	442	1,677	---	---	86	6,149
Jul 11 2012	8	-	6,810	24	86	3	41	73	4	65	2,361	3	34	437	-	7	339	1,604	40	---	108	12,008
Jul 12 2012	27	-	2,087	23	68	5	38	56	6	45	-	181	3	187	-	17	297	89,020	1	---	68	92,129
Jul 13 2012	11	-	8,739	32	108	4	52	131	16	14	-	23	1	162	-	4	279	791	---	---	-	10,367
Jul 16 2012	45	2	24,718	30	73	3	52	159	40	15	-	8	3	298	-	39	328	68,690	281	---	549	95,051
Jul 17 2012	55	-	2,130	34	81	5	73	177	16	89	-	11	1	276	-	10	365	1,095	7	---	140	4,558
Jul 18 2012	8	1	7,235	41	90	4	82	69	8	28	1,033	2	1	544	-	27	273	1,141	14	---	92	10,680
Jul 19 2012	24	-	1,626	30	94	5	87	84	10	50	-	12	1	190	-	8	270	89,346	4	---	146	91,983
Jul 20 2012	54	1	5,362	34	100	3	108	85	53	17	-	118	3	212	-	18	271	774	---	---	536	7,749
Jul 23 2012	32	1	11,138	26	142	2	104	117	39	42	-	8	127	205	-	26	327	762	---	---	481	13,580
Jul 24 2012	21	-	1,373	45	1,709	4	123	233	15	81	-	11	2	274	-	16	350	791	---	71	322	5,370
Jul 25 2012	38	2	6,637	61	97	2	3,404	98	50	22	1,754	3	7	422	-	10	270	1,485	39	---	1,008	15,372
Jul 26 2012	16	5	2,420	21	77	3	185	73	63	72	-	28	39	183	-	8	271	113,520	---	561	824	117,807
Jul 27 2012	436	1	6,872	35	131	2	262	91	25	28	-	7	1	129	-	17	267	764	450	---	814	9,881
Jul 30 2012	55	6	10,186	24	116	4	395	157	105	16	-	4	2	185	-	8	316	786	---	61	607	12,971
Jul 31 2012	122	172	5,192	44	286	299	3,209	348	124	45	-	2	15	220	-	15	369	115,927	794	---	1,948	128,336

Cash Activity Reported in the Daily Treasury Statement for June and July 2012 (millions of dollars) - Withdrawals from Table II

Commodity Credit Corporation Programs	Defense Vendor	Education Department Programs	Energy Department Programs	Federal Employees Insurance Payments	Federal Highway Admin Programs	Fed Salaries	Food and Nutrition Service	GSA Programs	HHS Grant Programs	HUD Programs	Interest on Treasury Securities	Justice Department Programs	Labor Department Program (excl. unemployment)	Medicaid	Medicare	NASA Programs	Postal Service Money Orders and Other	Public Debt Cash redemptions (Table III-B)	Social Security Benefits	Supplemental Nutrition Assistance Program (SNAP)	Temporary Assistance for Needy Families (HHS)	Transportation Security Administration (DHS)	Unemployment Insurance Benefits	Veterans Affairs Programs	Total, Other Withdrawals	Total Withdrawals (excluding transfers)	Change in Operating Balance	Operating Balance
16	1,192	587	161	175	246	441	152	408	409	2,583	388	22	150	1,193	16,466	-	103	8,764	23,492	7	24	-	168	345	22,449	79,941	(61,261)	51,108
12	569	572	101	277	133	30	670	38	263	172	1	68	46	383	1,294	99	209	942	34	27	66	-	291	200	3,090	9,588	4,750	55,859
16	1,916	574	123	240	118	288	353	59	344	206	1	108	27	1,334	1,221	135	186	776	34	10	81	21	520	136	2,382	11,207	(6,109)	49,749
20	1,239	606	77	240	147	386	413	114	207	207	-	108	31	488	1,418	58	150	852	68	2	41	1	390	213	1,805	9,282	4,292	54,040
38	1,271	802	143	197	205	188	423	103	406	179	1	56	59	1,636	1,186	218	162	95,380	60	11	174	1	236	110	1,658	104,903	(8,312)	45,729
23	1,299	908	171	158	319	3,098	404	32	454	174	2	53	88	994	1,194	88	151	958	63	9	34	1	143	117	1,745	12,680	(3,799)	41,931
26	1,231	1,021	78	593	81	1,409	1,036	62	329	181	1	66	48	406	837	23	255	866	46	27	78	1	245	206	2,205	11,437	2,085	44,015
13	1,230	557	112	227	165	428	422	64	319	168	1	77	43	1,211	1,071	44	156	764	32	9	79	1	518	110	1,357	9,177	(2,606)	41,410
12	1,497	573	109	223	127	106	419	54	376	170	1	46	26	1,332	1,204	37	110	854	10,780	1	16	1	386	140	1,637	20,237	(5,162)	36,248
21	1,399	524	172	371	225	898	465	138	375	265	1	45	65	1,874	1,345	90	124	97,557	40	44	130	1	247	124	1,444	107,982	2,544	38,792
31	1,742	1,178	222	179	157	200	403	33	441	184	1,079	54	50	1,218	1,442	53	137	39,588	48	22	78	1	138	116	4,641	53,436	79,351	118,143
16	2,150	584	78	218	229	80	770	67	277	162	1	56	53	767	1,678	58	151	846	42	9	89	1	331	181	1,424	10,322	12,199	130,343
7	2,364	603	95	253	213	92	305	73	363	228	1	53	58	758	1,975	23	120	757	37	6	67	12	505	154	1,400	10,520	9,433	139,775
10	1,262	607	95	298	230	74	297	62	401	169	1	63	61	1,131	2,581	51	93	752	10,613	4	55	-	417	166	1,581	21,075	104	139,880
11	1,957	522	134	178	376	101	294	109	311	177	-	30	55	1,897	2,325	70	99	93,598	42	12	70	13	246	104	2,062	104,793	(6,004)	133,876
54	2,039	1,050	183	222	281	3,067	269	53	305	165	1	42	65	1,415	1,890	55	106	836	47	15	29	1	133	101	1,486	13,912	(3,583)	130,293
20	1,355	459	79	62	192	1,437	545	39	378	184	1	41	52	382	1,558	70	204	794	47	3	31	1	270	176	1,694	10,075	3,517	133,810
11	1,656	916	132	474	138	453	187	52	500	161	1	38	78	870	2,105	82	148	767	43	7	68	1	517	107	1,481	10,993	(6,254)	127,556
16	1,344	1,106	112	224	230	68	213	111	634	172	1	25	58	873	1,538	64	76	788	10,780	5	20	1	371	124	2,075	21,028	(9,632)	117,923
19	1,690	833	299	524	307	837	166	122	525	260	2	73	63	1,576	1,353	-	105	119,078	(2)	12	159	1	275	104	3,074	131,457	(5,813)	112,110
28	1,743	702	376	208	117	336	189	68	676	159	(17)	63	162	946	20,424	-	327	2,069	(4)	24	27	-	152	312	17,527	46,616	(20,691)	91,419
24	1,118	937	65	254	175	231	432	479	320	2,314	6,751	67	55	285	1,454	-	184	70,645	228	3	19	-	222	225	8,080	94,569	32,996	124,415
17	1,549	575	139	224	177	533	279	39	369	395	1	56	45	747	1,277	272	158	1,138	23,176	11	93	-	512	120	1,542	33,443	(26,907)	97,508
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,508
23	1,454	553	173	300	295	110	721	53	320	228	1	92	83	1,857	1,830	118	151	92,922	44	23	77	32	429	110	2,098	104,097	(3,815)	93,693
30	1,247	1,291	135	219	181	3,043	375	132	375	162	1	65	54	826	1,741	64	181	830	30	5	26	1	203	201	1,874	13,291	(5,726)	87,967
17	1,132	596	91	223	286	1,493	1,201	67	351	187	1	70	48	2,171	1,322	38	298	1,076	30	34	73	1	295	190	2,574	13,866	(455)	87,513
7	1,410	708	102	391	152	448	443	57	367	123	2	63	38	1,313	1,375	44	209	799	30	4	38	1	515	108	507	9,255	(3,106)	84,407
18	939	651	126	421	94	83	371	64	279	160	1	42	34	862	1,572	69	118	825	10,874	11	78	1	407	155	2,871	21,129	(9,121)	75,287
19	1,038	1,182	198	351	160	873	399	98	347	148	1	46	54	1,164	1,221	28	118	95,468	41	42	168	1	248	124	1,244	104,781	(12,652)	62,635
24	1,455	1,674	298	158	156	188	356	29	409	246	1	57	41	964	1,156	26	115	809	32	12	13	1	146	113	4,381	12,860	(2,493)	60,142
14	1,501	532	136	256	78	55	923	42	246	148	5,921	96	35	1,041	1,417	65	158	67,368	38	11	76	1	263	218	2,188	82,829	12,222	72,364
13	2,743	355	70	247	203	87	323	66	414	145	1	97	41	758	1,124	74	115	779	36	7	138	11	518	119	1,383	9,868	(5,310)	67,054
21	1,396	511	90	38	110	92	300	98	325	168	1	71	127	726	1,380	51	93	773	10,693	11	29	37	386	121	1,416	19,064	(8,384)	58,670
60	1,858	393	117	327	235	112	238	112	316	202	1	60	52	1,696	931	99	100	90,611	37	12	20	1	231	115	1,898	99,833	(7,850)	50,820
18	2,582	540	165	209	154	3,101	213	38	303	155	1	53	54	627	1,481	65	124	1,022	34	6	15	1	147	123	1,151	12,382	(4,633)	46,187
19	1,562	685	127	156	138	1,450	508	57	266	147	1	50	27	363	1,851	538	254	815	36	9	24	42	260	175	1,750	11,309	2,271	48,459
9	2,672	853	115	411	186	442	217	63	296	143	2	64	32	662	1,681	44	157	803	33	8	30	1	515	106	1,626	11,170	(5,800)	42,658
15	1,337	622	149	416	223	101	229	70	321	189	1	47	109	475	1,667	90	104	772	10,915	4	5	1	366	164	1,380	19,771	(4,399)	38,258
14	2,326	821	145	503	173	802	159	103	463	132	1	86	59	1,037	1,594	120	174	114,500	40	19	33	1	242	95	1,655	125,297	(7,490)	30,768
13	1,886	808	235	159	511	122	136	67	591	149	1	50	127	1,126	1,643	129	132	938	38	15	72	1	138	115	2,139	11,342	(1,461)	29,308
40	1,304	528	157	261	174	72	334	49	504	194	1	73	46	387	1,462	-	133	1,209	-	12	178	1	233	227	1,842	9,424	3,547	32,855
8	1,293	577	269	285	202	90	156	66	657	156	5,966	34	44	804	1,322	-	370	56,006	(2)	18	33	21	516	124	1,691	70,706	57,630	90,485

Debt Activity Reported in Table IIIA of the Daily Treasury Statement for June and July 2012 (millions of dollars)

	Bills - Regular Series	Bills - Cash management series	Notes	Bonds	Inflation Protected Series	Federal Financing Bank	U.S. Savings Securities - Cash Issue Price	U.S. Savings Securities - Interest Increment	Government Account Series	Hope Bonds	Domestic Series	Foreign Series	State and Local Series	Other	Total Issues (marketable + nonmarketable)
Jun 1 2012	(1)	-	-	-	191	-	3	488	241,105	-	-	-	659	735	243,181
Jun 4 2012	(1)	-	-	-	238	-	4	-	238,805	-	-	-	206	734	239,986
Jun 5 2012	-	-	-	-	80	-	2	1	236,934	-	-	-	585	727	238,328
Jun 6 2012	-	-	-	-	80	-	2	1	232,539	-	-	-	668	726	234,016
Jun 7 2012	90,784	-	-	-	79	-	2	1	235,010	-	-	-	1,492	1,064	328,432
Jun 8 2012	-	-	-	-	79	-	3	1	231,588	-	-	-	18	719	232,408
Jun 11 2012	-	-	-	-	238	-	3	-	232,394	-	-	-	42	719	233,396
Jun 12 2012	-	-	-	-	79	-	3	1	235,172	-	-	-	467	718	236,440
Jun 13 2012	-	-	-	-	80	-	3	1	229,449	-	-	-	747	717	230,996
Jun 14 2012	93,282	-	-	-	79	-	1	-	236,819	-	-	-	1,056	1,071	332,312
Jun 15 2012	-	-	56,742	13,918	80	-	2	1	232,956	-	-	-	209	718	304,626
Jun 18 2012	(1)	-	-	-	238	-	3	-	232,498	-	-	-	96	712	233,547
Jun 19 2012	-	-	-	-	79	-	2	1	237,197	-	-	-	329	710	238,319
Jun 20 2012	-	-	-	-	80	-	2	1	232,745	-	-	-	806	709	234,344
Jun 21 2012	89,415	-	-	-	79	-	2	1	233,398	-	-	-	1,732	1,124	325,753
Jun 22 2012	-	-	-	-	79	-	2	-	229,755	-	-	-	226	715	230,777
Jun 25 2012	-	-	-	-	238	-	4	1	228,690	-	-	-	31	715	229,678
Jun 26 2012	-	-	-	-	80	-	2	1	234,686	-	-	-	396	714	235,878
Jun 27 2012	-	-	-	-	78	-	2	1	230,722	-	-	-	518	714	232,036
Jun 28 2012	117,927	-	-	-	80	-	2	1	240,512	-	-	-	2,001	1,129	361,653
Jun 29 2012	-	-	-	7,000	205	-	1	-	623,551	-	-	-	748	739	632,244
Jul 2 2012	-	-	100,010	-	130	-	4	549	239,481	-	-	-	751	804	341,730
Jul 3 2012	-	-	-	-	(30)	-	2	1	247,867	-	-	-	562	734	249,136
Jul 4 2012	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jul 5 2012	87,002	-	-	-	(59)	-	3	1	233,187	-	-	-	301	1,081	321,515
Jul 6 2012	(1)	-	-	-	(30)	-	2	-	233,539	-	-	-	83	741	234,333
Jul 9 2012	-	-	-	-	(92)	-	3	-	230,487	-	-	-	16	740	231,155
Jul 10 2012	-	-	(1)	-	(30)	-	2	1	235,446	-	-	-	936	739	237,094
Jul 11 2012	-	-	-	-	(31)	-	2	-	231,421	-	-	-	863	739	232,995
Jul 12 2012	87,003	-	-	-	(30)	-	2	1	236,268	-	-	-	900	1,144	325,286
Jul 13 2012	-	-	-	-	(30)	-	2	1	229,541	-	-	-	54	735	230,302
Jul 16 2012	-	-	53,001	13,000	(90)	-	3	-	252,541	-	-	-	371	737	319,564
Jul 17 2012	-	-	-	-	(29)	-	2	1	256,296	-	-	-	364	729	257,363
Jul 18 2012	-	-	-	-	(29)	-	2	1	248,568	-	-	-	411	728	249,681
Jul 19 2012	87,010	-	-	-	(29)	-	2	1	252,125	-	-	-	1,241	1,121	341,469
Jul 20 2012	-	-	-	-	(29)	-	2	1	247,046	-	-	-	39	732	247,792
Jul 23 2012	(4)	-	-	-	(88)	-	3	1	249,011	-	-	-	31	731	249,685
Jul 24 2012	-	-	-	-	(28)	-	2	1	252,055	-	-	-	59	730	252,819
Jul 25 2012	-	-	-	-	(29)	-	2	-	250,735	-	-	-	754	730	252,192
Jul 26 2012	112,000	-	-	-	(29)	-	1	-	272,391	-	-	-	381	1,210	385,955
Jul 27 2012	-	-	-	-	(30)	-	3	1	252,715	-	-	-	19	743	253,450
Jul 30 2012	-	-	-	-	(87)	-	4	1	253,507	-	-	-	37	745	254,206
Jul 31 2012	-	-	113,999	-	(29)	-	2	1	256,775	-	-	-	287	837	371,872

	Bills	Notes	Bonds	Federal Financing Bank	U.S. Savings Securities	Government Account Series	Hope Bonds	Domestic Series	Foreign Series	State and Local series	Other	Total Redemptions (marketable and nonmarketable)	Net Change in Public Debt Outstanding
Jun 1 2012	-	-	-	-	37	280,195	-	-	200	7,791	736	288,959	(45,778)
Jun 4 2012	-	-	-	-	39	235,839	-	-	-	164	740	236,781	3,205
Jun 5 2012	-	-	-	-	45	232,255	-	-	-	4	728	233,011	5,297
Jun 6 2012	-	-	-	-	36	231,977	-	-	-	89	726	232,829	1,187
Jun 7 2012	93,780	-	-	-	35	234,279	-	-	-	494	1,072	329,659	(1,227)
Jun 8 2012	-	-	-	-	40	229,456	-	-	-	200	719	230,414	1,994
Jun 11 2012	-	-	-	-	43	229,983	-	-	-	104	719	230,849	2,547
Jun 12 2012	-	-	-	-	45	229,226	-	-	-	-	719	229,990	6,451
Jun 13 2012	-	-	-	-	38	239,320	-	-	-	99	717	240,174	(9,178)
Jun 14 2012	96,283	-	-	-	31	232,966	-	-	-	167	1,075	330,523	1,789
Jun 15 2012	-	35,370	-	-	38	229,832	-	-	-	3,459	720	269,420	35,206
Jun 18 2012	-	-	-	-	36	228,738	-	-	-	96	714	229,585	3,962
Jun 19 2012	-	-	-	-	46	229,024	-	-	-	-	711	229,781	8,537
Jun 20 2012	-	-	-	-	39	240,313	-	-	-	5	709	241,066	(6,722)
Jun 21 2012	92,422	-	-	-	33	230,466	-	-	-	24	1,119	324,064	1,689
Jun 22 2012	-	-	-	-	35	231,145	-	-	-	87	715	231,982	(1,205)
Jun 25 2012	-	-	-	-	36	224,753	-	-	-	43	715	225,546	4,132
Jun 26 2012	-	-	-	-	42	228,578	-	-	-	10	714	229,344	6,534
Jun 27 2012	-	-	-	-	33	241,401	-	-	-	40	715	242,189	(10,153)
Jun 28 2012	117,940	-	-	-	30	240,525	-	-	-	6	1,103	359,604	2,049
Jun 29 2012	-	-	-	-	34	554,808	-	-	-	1,291	744	556,877	75,367
Jul 2 2012	-	57,095	-	1,330	42	237,380	-	-	-	12,705	803	309,355	32,375
Jul 3 2012	-	-	-	-	46	255,753	-	-	-	357	735	256,891	(7,755)
Jul 4 2012	-	-	-	-	-	-	-	-	-	-	-	-	-
Jul 5 2012	91,782	-	-	-	37	232,927	-	-	-	30	1,074	325,849	(4,334)
Jul 6 2012	-	-	-	-	35	230,626	-	-	-	53	742	231,456	2,876
Jul 9 2012	-	-	-	-	41	230,341	-	-	-	293	741	231,417	(262)
Jul 10 2012	-	-	-	-	43	229,706	-	-	-	16	740	230,506	6,588
Jul 11 2012	-	-	-	-	40	241,566	-	-	-	46	739	242,392	(9,397)
Jul 12 2012	94,276	-	-	-	36	234,764	-	-	-	9	1,147	330,232	(4,945)
Jul 13 2012	-	-	-	-	38	229,839	-	-	-	29	743	230,648	(345)
Jul 16 2012	-	65,032	-	-	37	247,628	-	-	-	1,565	734	314,996	4,568
Jul 17 2012	-	-	-	-	48	248,163	-	-	-	-	731	248,942	8,421
Jul 18 2012	-	-	-	-	36	259,018	-	-	-	7	729	259,791	(10,109)
Jul 19 2012	89,420	-	-	-	36	250,539	-	-	-	41	1,115	341,150	319
Jul 20 2012	-	-	-	-	39	246,259	-	-	-	249	734	247,281	511
Jul 23 2012	-	-	-	-	41	246,512	-	-	-	42	732	247,327	2,358
Jul 24 2012	-	-	-	-	42	246,759	-	-	-	29	731	247,562	5,257
Jul 25 2012	-	-	-	-	35	259,052	-	-	-	6	730	259,824	(7,632)
Jul 26 2012	112,941	-	-	-	32	266,758	-	-	-	329	1,198	381,258	4,697
Jul 27 2012	-	-	-	-	43	253,694	-	-	-	149	745	254,631	(1,182)
Jul 30 2012	-	-	-	-	39	257,603	-	-	-	429	741	258,813	(4,607)
Jul 31 2012	-	55,052	-	-	45	256,399	-	-	-	68	841	312,405	59,467

Debt Activity Reported in Table IIIC of the Daily Treasury Statement for June and July 2012 (millions of dollars)

Total Public Debt Outstanding	Debt Not Subject to Limit - Other Debt	Debt Not Subject to Limit - Unamortized Discount	Debt Not Subject to Limit - Federal Financing Bank	Debt Not Subject to Limit - Hope Bonds	Guaranteed Debt Fed agencies	Adjustment for Debt not subject to Limit and other obligation subject to limit	Total Subject to Limit	Daily Change in DSL	Net Marketable Financing	Government Account Series	Other	Notes - Primary reason for change in DSL
15,724,907	486	31,314	8,441	493	10	(40,724)	15,684,182	(45,767)	190	(39,090)	(6,878)	GAS (-$23 billion for Social Security EFT Benefit payments, other Trust funds with large redemptions tied to benefit payments include: the CSRDF, the Medicare Trust funds, and the Military Retirement fund), Other (-$7 billion for net SLGS redemptions)
15,728,112	486	31,281	8,441	493	10	(40,691)	15,687,421	3,239	237	2,966	2	
15,733,409	486	31,270	8,441	493	10	(40,680)	15,692,729	5,308	80	4,679	538	
15,734,597	486	31,259	8,441	493	10	(40,669)	15,693,927	1,198	80	562	545	
15,733,369	486	31,275	8,441	493	10	(40,685)	15,692,683	(1,244)	(2,917)	731	959	
15,735,364	486	31,261	8,441	493	10	(40,671)	15,694,692	2,009	79	2,132	(217)	
15,737,910	486	31,228	8,441	493	10	(40,638)	15,697,271	2,579	238	2,411	(102)	
15,744,361	486	31,217	8,441	493	10	(40,627)	15,703,733	6,462	79	5,946	426	
15,735,182	486	31,206	8,441	493	10	(40,616)	15,694,566	(9,167)	80	(9,871)	613	GAS (-$11 billion for redemptions for Social Security Benefits)
15,736,971	486	31,222	8,441	493	10	(40,632)	15,696,338	1,772	(2,922)	3,853	858	
15,772,177	486	31,211	8,441	493	10	(40,621)	15,731,556	35,218	35,370	3,124	(3,288)	
15,776,139	486	31,178	8,441	493	10	(40,588)	15,735,551	3,995	237	3,760	(35)	
15,784,677	486	31,167	8,441	493	10	(40,577)	15,744,099	8,548	79	8,173	285	
15,777,955	486	31,155	8,441	493	10	(40,565)	15,737,388	(6,711)	80	(7,568)	766	
15,779,643	486	31,173	8,441	493	10	(40,583)	15,739,059	1,671	(2,928)	2,932	1,685	
15,778,439	486	31,162	8,441	493	10	(40,572)	15,737,866	(1,193)	79	(1,390)	106	
15,782,570	486	31,129	8,441	493	10	(40,539)	15,742,031	4,165	238	3,937	(43)	
15,789,104	486	31,118	8,441	493	10	(40,528)	15,748,576	6,545	80	6,108	346	
15,778,951	486	31,106	8,441	493	10	(40,516)	15,738,433	(10,143)	78	(10,679)	448	
15,781,000	486	31,176	8,441	493	10	(40,586)	15,740,413	1,980	67	(13)	1,995	
15,856,367	486	31,071	8,441	493	10	(40,481)	15,815,885	75,472	7,205	68,743	(581)	GAS (primarily due to investment of non-cash semi-annual interest)
15,888,742	486	31,049	7,112	493	-	(39,140)	15,849,602	33,717	41,715	2,101	(11,441)	SLGS (-$12 billion)
15,880,986	486	31,037	7,112	493	-	(39,128)	15,841,858	(7,744)	(30)	(7,886)	161	GAS (-$23 for Social Security benefits, somewhat offset by investments for CSRDF contributions and premiums and FICA tax receipts from July 2)
15,880,986	486	31,037	7,112	493	-	(39,128)	15,841,858	-	-	-	-	
15,876,652	486	31,045	7,112	493	-	(39,136)	15,837,517	(4,341)	(4,839)	260	245	
15,879,529	486	31,033	7,112	493	-	(39,124)	15,840,404	2,887	(31)	2,913	(6)	
15,879,266	486	31,002	7,112	493	-	(39,093)	15,840,173	(231)	(92)	146	(316)	
15,885,855	486	30,988	7,112	493	-	(39,079)	15,846,776	6,603	(31)	5,740	879	
15,876,458	486	30,976	7,112	493	-	(39,067)	15,837,390	(9,386)	(31)	(10,145)	779	GAS (-$11 billion for Social Security benefit payments)
15,871,512	486	30,993	7,112	493	-	(39,084)	15,832,428	(4,962)	(7,303)	1,504	854	
15,871,167	486	30,982	7,112	493	-	(39,073)	15,832,094	(334)	(30)	(298)	(17)	
15,875,735	486	30,947	7,112	493	-	(39,038)	15,836,696	4,602	879	4,913	(1,224)	
15,884,156	486	30,936	7,112	493	-	(39,027)	15,845,129	8,433	(29)	8,133	317	
15,874,047	486	30,924	7,112	493	-	(39,015)	15,835,031	(10,098)	(29)	(10,450)	370	GAS (-$11 billion for Social Security benefit payments)
15,874,365	486	30,940	7,112	493	-	(39,031)	15,835,334	303	(2,439)	1,586	1,172	
15,874,876	486	30,929	7,112	493	-	(39,020)	15,835,857	523	(29)	787	(247)	
15,877,234	486	30,894	7,112	493	-	(38,985)	15,838,249	2,392	(92)	2,499	(49)	
15,882,491	486	30,882	7,112	493	-	(38,973)	15,843,518	5,269	(28)	5,296	(11)	
15,874,859	486	30,871	7,112	493	-	(38,962)	15,835,897	(7,621)	(29)	(8,317)	714	GAS (-$11 billion for Social Security benefit payments)
15,879,556	486	30,932	7,112	493	-	(39,023)	15,840,533	4,636	(970)	5,633	34	
15,878,374	486	30,920	7,112	493	-	(39,011)	15,839,363	(1,170)	(30)	(979)	(173)	
15,873,767	486	30,885	7,112	493	-	(38,976)	15,834,791	(4,572)	(87)	(4,096)	(424)	
15,933,235	486	30,567	7,112	493	-	(38,658)	15,894,576	59,785	58,918	376	173	

[Whereupon, at 12:23 p.m., the Committee was adjourned.]

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