

# TREASURY DEPARTMENT FISCAL YEAR 2010 BUDGET

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## HEARING

BEFORE THE

## COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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HEARING HELD IN WASHINGTON, DC, MARCH 5, 2009

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## TREASURY DEPARTMENT FISCAL YEAR 2010 BUDGET

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THURSDAY, MARCH 5, 2009

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

The committee met, pursuant to call, at 10:08 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Schwartz, Kaptur, Becerra, Doggett, Berry, McGovern, Tsongas, Etheridge, McCollum, Yarmuth, Andrews, Edwards, Scott, Langevin, Larsen, Bishop, Schrader, Ryan, Hensarling, Diaz-Balart, Campbell, Jordan, Lummis, Austria, Nunes, and Harper.

Chairman SPRATT. We call the committee hearing to order. We convene the committee today to discuss the President's budget for 2010 and the Treasury's prominent role in that budget. For that purpose, we are pleased to have the Secretary of Treasury, Mr. Tim Geithner. Given the number of places you have to be these days, it is a miracle you could attend us, but this is an important part of the process and we very much appreciate your being here today to testify.

As we all know, President Obama inherited an economy in crisis and a budget deficit, so deep in deficit that spending from the prior administration overtakes revenues by \$1.3 trillion during this fiscal year alone. The President has recognized that we have not one but two—really, several deficits. The first is an economy clicking on four of six cylinders, running at 6.8 percent below potential. And to put that economy back on its feet and to realize some of that potential, the President has signed into law a recovery package that will increase consumer demand, which is desperately short, and create 3 million new jobs by reinvesting in fiscal and human infrastructure.

It is almost impossible to balance the budget when the economy is buckling like in the recession we are now experiencing. It is even more difficult to do that when we have to make—what we do to make the economy better oftentimes makes the deficit worse, at least in the short run.

But here is the stark reality we are confronted with. The deficit that President Bush left behind was 9 percent of GDP, the highest since World War II. And here is President Obama's bold response. Over the next 4 years, he proposes a budget that will pare the deficit down from 12.3 percent of GDP to 3 percent of GDP, an ambi-

tious goal but a worthy goal and certainly a track we hope to adopt.

The President's budget cuts the deficit by more than two-thirds in 4 years, \$533 billion 4 years from now in 2013. But it is not so consumed with or committed to deficit reduction that it overrides other compelling needs. It takes on topics, in fact, that other budgets have ducked, topics that others have thought too hot to handle: climate change, health care for all Americans, and particularly the 46 million who don't enjoy insurance. It slows down the increase in defense spending; it revises the alternative minimum tax, puts it in the code; and it seeks to lay the groundwork for bending the curve and making health care more affordable for all Americans.

Now, there are going to be critics who single out instances where additional revenue is raised as in allowing certain concessions for upper-bracket taxpayers to expire. But look carefully, and look again, and you will see that the bigger picture will show that this budget leaves in place the middle income tax cuts that were adopted in 2001 and 2003, the 10 percent bracket, the child tax credit and the marital penalty relief measures. It indexes the AMT to keep it from burdening middle-income taxpayers; it extends the State tax at the 2009 levels; and it helps working families by renewing Make Work Pay.

Most importantly, the President's budget extends \$2.2 trillion of tax cuts over 10 years to 95 percent of workers relative to current law; \$2.2 trillion in net tax cuts. This is a pro-growth budget.

The committee is eager to hear the Treasury's plan to address the crisis in the housing market, which is a source of the recession we are now experiencing. Sinking home values and homeowners who find themselves under water in mortgages are at the heart of this crisis that we are undergoing.

The President's budget is a huge undertaking, but what he has sent us is just the beginning. But it is a bold beginning for the 2010 budget. We will want to add and see more detail before we can write a resolution, so this is not by any means the end of the process. But it is the beginning; it is a bold beginning. And we appreciate your coming here, Mr. Secretary, to testify on behalf of it and to answer questions.

It is my understanding that you need to leave in order to get to the Health Care Summit, so you will need to leave here at 12:30.

Let me then turn to Mr. Ryan for his opening statement. We will make a few housekeeping details and then we will get right underway with your testimony. Mr. Ryan.

Mr. RYAN. Thank you, Chairman. Welcome again, Secretary. You have been a busy man. It is nice to see you over here on the Budget Committee from the other day's Ways and Means appearance.

First I want to start by acknowledging the very serious challenge you face. Solving our banking crisis and stabilizing our financial markets is absolutely critical to our economy and our job growth, and we want you to achieve success in doing that. There is no perfect solution to this very grave problem we face. But while I have concerns about how the past and the current administration has handled the TARP, the best thing we can do for our economy is get the credit markets flowing again. And I genuinely appreciate your hard work and efforts on that front.

That said, you won't be surprised to hear that I have profound disagreements with the President's budget. It is a historic expansion of the tax, borrow, and spend philosophy which concentrates resources and power in Washington and smothers the freedom and resources of the very entrepreneurs and small businesses that are needed to turn this economy around.

Of particular relevance to you and of this hearing are the tax and debt increases called for in this budget. Let us begin with taxes. The budget proposes \$1.4 trillion in net tax increases; in other words, a tax increase that totals roughly 10 percent of the entire economy today. Now, what would be bad enough in itself would be just the raising of taxes, but there is no economist on the planet, whether a Keynesian supply-sider, or somewhere in between, who would suggest proposing tax increases in the midst of one of the most painful recessions in the generation.

Now, your colleague, Budget Director Peter Orszag, says reassuringly that these tax hikes won't start until 2011 when the economic recovery ought to be underway. We hope it is. But businesses are forward-looking and they make investment and hiring decisions today based on expectations of future after-tax returns. And nothing affects a business' bottom-line more than taxes. If you are running a business right now, why would you start expanding or hiring the kinds of activities this economy desperately needs, with a threat of a huge tax increase in just a year and a half down the road.

Now, let us take a look at some of these specific tax increases. You raise tax on what the President calls, quote, "the wealthiest of Americans," but many of these, quote, "wealthy" people are small business owners, the people who create nearly 80 percent of the jobs in this country.

Then there is the carbon cap and tax proposal, which will effectively impose an additional tax burden on more than \$800 billion—and that is a low-ball estimate—on everyone who uses gasoline, natural gas, home heating oil or electricity. I think we can argue that covers most Americans, not just wealthy people.

You penalize people for buying houses, making charitable contributions and building up savings to leave to their families. You would also tax U.S.-based international companies, making it harder for them to compete with their foreign counterparts, directly contrary to what we should be trying to accomplish at this time.

And then there are also the deficits and the debt that are resulting from this budget. The 2009 budget deficit swells to \$1.8 trillion, more than triple the previous record. Obviously you inherited some of this, but you are raising it by another \$540 billion, which is higher—the increase is higher than any budget deficit we have ever had. The budget would also double the national debt in the next 8 years. In addition to all these things is the budget's staggering failure to actually control spending. It even adds more than a trillion dollars to entitlement spending, worsening the most severe fiscal problems we have.

As I said earlier, this is a challenging time and no economic or fiscal plan is ever going to be perfect. But the President's budget tries to spend, tax, and borrow our way into prosperity. It is an economic recipe that simply just doesn't work. Nevertheless, I do want

to work with you to stabilize financial markets. We want to work with you to get our economy back on track in the short term and to address the challenges to our longer-term economic growth, and that is the looming entitlement crisis.

With that, Chairman, I yield time and I look forward to your testimony.

Chairman SPRATT. Thank you, Mr. Ryan.

I would ask unanimous consent at this point that all members be allowed to submit an opening statement for the record. It will be entered at this point in the proceeding.

[The statement of Mr. Connolly follows:]

PREPARED STATEMENT OF HON. GERALD E. CONNOLLY, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman, I would like to thank you for holding this hearing and asking Secretary Geithner to appear before the House Budget Committee to testify with respect to the Fiscal Year 2010 budget. This Administration has my support in its efforts to clean up the unbelievable economic and fiscal mess left by the previous administration and I believe the President has taken a number of positive steps to that end. As we look to address the unprecedented fiscal crisis that we have inherited, I welcome the newfound concern from my colleagues across the aisle about the massive budget deficits. It was a concern that was heard from the other side of the aisle in the previous eight years, despite the fact that it left our nation with the largest budget deficit in history.

I was pleased to support the American Recovery and Reinvestment Act and I will support the Helping Families Save Their Homes Act, in concert with the Administration's efforts to restore stability to our ailing economy. I welcome the bold vision and approach of the President and his team, not only to stop the economic hemorrhaging and build stability, but also to tackle our long term challenges such as health care, energy policy, education, the environment and entitlement reform.

I continue to support the Administration's agenda and I look forward to continue helping our nation move forward. Having said that, I do have some concerns that I would like address.

The public must see the concrete benefit of TARP—the Troubled Asset Relief Program—and our enormous investment in the financial industry. So far they haven't. We cannot repeat the mistakes of the previous administration, where the first installment of a financial services stability recovery package went to large institutions to right their balance sheets, while little of it went to homeowners in distress or small businesses seeking credit assistance to make purchases and meet payrolls. We need a plan to reassure the financial markets of our commitment to restoring stability and we must assure the public that this aid will get to them as well.

We must also focus on the health of one of the largest drivers for employment and economic expansion, the municipal bond market. As a former local government official, I know full well the benefits that local governments offer to the economy when they construct needed capital improvements. From police stations to bus stops, from schools to parkways, local governments put people to work building and maintaining the critical infrastructure that we rely on daily. They accomplish this feat through the issuance of municipal bonds.

As the credit crisis expanded, local governments found the capital markets dried up, and were unable to move forward with the necessary investment in our nation's infrastructure. This matter was compounded by the collapse of the private insurance industry which made it impossible for municipalities to improve the grade of their bonds on the market. I hope that the current administration will make helping local governments access credit a priority.

I represent a district that is estimated to have one of the largest concentrations of federal employees of any district in the nation. The issue of pay parity between civilian federal employees and the military is an important one for my constituents. It comes up every year and I had hoped that President Obama's budget would take a different approach on the matter than past budgets, but it hasn't. Understanding that President Obama has only been in office six weeks, it is my hope that he will, upon further review, come to understand the importance of pay parity. Let me assure you it is a central concern for the tens of thousands of federal workers in my district and in many other districts in the Washington metropolitan areas and

across the nation. It is my intent to address this disparity in the budget resolution this year.

I was encouraged to see the Administration has included a permanent fix for the Alternative Minimum Tax, which this Congress addressed temporarily for only one year in the American Recovery and Reinvestment Act. The AMT was never designed to affect millions of middle income families and this fix will provide those working families the long-term guarantee to plan their future finances without threat of onerous tax increases.

Finally, while we understand the importance of reexamining the tax cuts of the previous administration, which helped create the red ink we are all concerned about, I hope to have an opportunity to discuss the income thresholds and flexibility with respect to tax relief in the upcoming budget process.

I look forward to Secretary Geithner's testimony and working with him as we fashion a budget in the months ahead.

Mr. SECRETARY, as I have said before, your testimony will be made part of the record in its typewritten form. You may proceed as you wish in summarizing it, but you are the only witness today, so take your time. There are many questions to be asked and answered and we look forward to your testimony. Thank you again and the floor is yours.

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

Secretary GEITHNER. Thank you, Chairman Spratt. Thank you, Ranking Member Ryan. And thanks to all of you for giving me the chance to appear before you today.

I want to outline the broad strategy presented in the President's budget, what it means for our economic future and the choices we are presenting for the Congress and the American people. As you both said, we start with a deepening recession, an intensifying housing crisis, a financial system still under stress. Since the recession began, 3.6 million Americans have lost their jobs. Millions more have lost and are at risk of losing their homes and are struggling to obtain loans for homes, for cars, to finance their kids' education. Many businesses across the country are finding it harder to obtain credit. This crisis and the policies that preceded it have helped cause a dramatic deterioration in our fiscal position.

We start this Congress and this administration with a \$1.3 trillion deficit, the largest as a share of our economy the Nation has faced since the Second World War. And the increases that you see immediately are increases necessary to solve the crisis we start with. As a Nation today, we face extraordinary challenges and these challenges require extraordinary actions.

Now, in passing the Economic Recovery and Reinvestment Act, the administration and the Congress have put in place a very powerful mix of programs to get Americans back to work and to help stimulate private investment. The combined effect of these investments and tax measures—and we are moving very, very quickly to put them in place—will be to save or create between 3 or 4 million jobs and to increase real GDP by 3.2 percentage points by the end of 2010 above the level it would have achieved in the absence of these measures.

Now, alongside the Recovery Act, the administration is moving quickly to repair our financial system so that it can provide the credit necessary for businesses across the country to expand and for families to finance what they need to finance. The deepening recession is putting greater pressure on banks, and in response many

banks are pulling back on credit. Right now, critical parts of our financial system are damaged and are working against recovery, and this is a dangerous dynamic. And to arrest it, to break it, we need to make sure that our banks have the resources necessary to provide credit, and we need to act to get the credit markets flowing again directly.

Finally, the President has launched a very broad plan to help address the housing crisis. This plan will help homeowners meet their mortgage obligations, enable them to refinance and take advantage of low-interest rates. Yesterday we took the very important step by releasing details of our loan modification plan and Treasury guidelines for servicers. These guidelines will enable struggling borrowers to make lower payments, starting right away. And if you look at the impact of this program already on mortgage rates, those have come down significantly, even just over the last couple of weeks, not just over the last several months.

Now, these actions in all three areas—recovery, to get credit flowing again, and in the housing area—are absolutely necessary to lay the foundation for recovery. But the President's budget builds on this foundation to set us up on a path to long-term growth.

Now, the first step in addressing our Nation's fiscal problems is to be honest and candid about them. This budget breaks from the past by transparently presenting the stark fiscal challenges facing the American people. We include the cost of fixing the AMT each year. We include reimbursements to Medicare physicians. We include the likely cost of future foreign wars and natural disasters. And in an abundance of caution, we include the potential need for additional financial resources to get credit flowing again.

We offer a 10-year rather than a 5-year budget presentation. This budget also proposes a series of ambitious, innovative policies to help address the most critical challenges facing our economy in health care, in energy and in education. And the President does this within a framework that gets us on a path to fiscal responsibility, to fiscal sustainability.

As all of you know, the soaring cost of health care is crippling families, businesses, and our long-term budget prospects. There is no path to addressing our long-term entitlement challenges that does not start with and go through major health care reform. Our budget begins this process by reducing costs and inefficiencies, by increasing quality of care and preventative care, and by moving towards affordable coverage for all.

To cite just one example, the Hospital Quality Improvement Program proposes to pay for performance and to reimburse hospitals for the quality of the services they provide rather than just the quantity of the services they provide. Health-care reform is a moral imperative, it is an economic imperative, and it is a fiscal imperative for our country.

Now, our budget also puts forth a significant commitment to reduce our dependence on foreign oil and carbon-intensive energy sources. This dependence threatens our economy, our environment and our national security interests. Investments in energy efficiency and renewable energy will help create new American jobs in industries and lead the path to a new, greener economy.

And if we are truly committed to making our Nation both more prosperous and more just, we must recognize that it defies both our basic values as a country and our common sense to deny any child in America access to the quality education they need to compete in this global economy. Our budget calls for substantially more resources for early childhood education, new incentives to improve teacher performance and a significant increase in the Pell grant, together with President Obama's American opportunity tax credit, which provides up to \$10,000 of tax relief for a single student going to 4 years of college.

Now, on the tax side, this budget rewards work, encourages growth, investment, and savings. Important provisions include making permanent the make-work-pay tax credit, which makes the tax credit available to 95 percent of working Americans; the expansion of the earned income tax credit; a zero capital gains provision for small businesses; and a permanent extension of the R&E tax credit.

This budget also proposes to make substantial progress in reducing the tax gap by tackling tax shelters and other efforts that allow people to abuse our tax laws. And over the next several months, the President will propose a series of legislative and enforcement measures to reduce tax avoidance.

I want to emphasize that we propose no new revenue increases in our budget, none, until we are safely into recovery in 2011. And at that point, with the consensus that private forecasters project significantly positive growth rates for the overall economy, the budget restores tax rates to the pre-2001 levels for families making more than a quarter of a million dollars.

Now, I just want to pause here for one second. Those proposed changes in tax rates would apply to only 2 to 3 percent of small business owners across the country. Only 2 to 3 percent; 95 percent of small business owners of the country have incomes below that threshold of \$250,000. Now, even with these critical long-term investments, the President keeps overall nondefense discretionary spending well below its long-term averages as a share of GDP. And overall outlays as a share of GDP, once you account for the interest costs associated with our inherited deficits and once you account for the effects of the aging baby boom and rising health-care costs and entitlements, overall outlays as a share of GDP return to historical norms.

Now, the President and I share a commitment to working with this committee to put our Nation back on a path of fiscal sustainability again, once recovery has been firmly established. The budget does this by making the tough choices to cut the deficit in half, to bring it down over 5 years to 3 percent of GDP, so that our overall debt is no longer growing as a share of the economy. If we do not do this, then we face the risk that government borrowing will crowd out private borrowing, raising interest rates and threatening growth.

Now, when I last served in the Treasury Department in the 1990s, fiscal responsibility helped create a virtuous circle of greater confidence, strong private investment, strong productivity growth, higher overall income more broadly shared across the American economy. Addressing these problems that confront the Nation will

not be easy, but we are a strong and resilient country. We have overcome challenges like this in the past. And if we accept this responsibility we share with the American people, we will meet those challenges effectively and successfully as a country.

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

Chairman SPRATT. Thank you very much, Mr. Secretary.

[The statement of Timothy Geithner follows:]

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

Chairman Spratt, Ranking Member Ryan, and members of the Committee, thank you for providing me the opportunity to appear before you today to discuss the President's Budget at this moment of economic crisis, but also of real possibility, for the United States.

What I propose to do in the remarks that follow is to:

- Describe the economic and financial challenges that greeted us upon our arrival in office, and discuss how we are addressing them;
- Lay out the intermediate and long-term threats to our fiscal condition, and explain how the President's Fiscal Year 2010 Budget will return the nation to a sustainable fiscal position; and
- Explain how this Budget puts the nation on a path towards energy independence, better educational outcomes, and a reform of health care that both lowers costs and expands access.

CURRENT ECONOMIC AND FINANCIAL CHALLENGES

The economy suffers from a severe lack of aggregate demand, both from families and businesses—a problem that is driven by a slumping job market, where 3.6 million jobs have been lost in just over a year—the largest number as a fraction of total employment in more than a quarter century and the largest number in absolute terms in over a half century. This problem is made worse by a contraction of demand from many of our key trading partners.

Businesses, facing or projecting fewer customers for their goods and services, are laying off workers or cutting back on their hours or wages, causing families to further reduce their demand and businesses to respond with more layoffs and cutbacks.

This dynamic is made worse by a financial system that is unable to provide the credit necessary for recovery. You can see this across America as families find it difficult to get the financing they need to buy new houses and cars while businesses have trouble lining up the credit necessary to meet payroll.

The contraction in credit is causing more job losses and further declines in business activity, which, in turn, is adding more pressure on the financial system.

Both our economic and financial problems are being compounded by problems in our housing market, where a record 2.5 million families faced foreclosure last year, undercutting overall home prices, shrinking Americans' real estate wealth by \$2.8 trillion from its peak, causing further reductions in demand, more layoffs and a greater credit squeeze that threatens another round of foreclosures.

You can see the scale of the damage in last Friday's announcement that the Gross Domestic Product, the broadest measure of the nation's output of goods and services, dropped at a 6.2% annual rate during the final quarter of last year. That was its worst performance in more than a quarter century, and the third worst in more than a half century.

In addition to a deepening recession and financial troubles, the Obama Administration inherited the worst fiscal situation in modern American history, with a federal budget deficit of \$1.3 trillion, equal to nearly 10% of GDP—the largest that the nation has faced since World War II—not counting the economic recovery or other legislation undertaken by the Obama Administration.

And we begin our time in office after a long period in which our government was unwilling to make the long-term investments required to meet critical challenges in health care, energy and education.

This is the reality that we face today. These are the challenges that shape both the American economy and the Administration's strategy. I want to outline for you today the President's program for addressing these challenges.

Let me start with our immediate response to the acute problems confronting the country.

## A COMPREHENSIVE ECONOMIC RECOVERY AND FINANCIAL STABILITY PLAN

*Economic Recovery Plan*

Immediately upon taking office, the President and the Administration worked with Congress to enact the American Recovery and Reinvestment Act, a package of targeted investments and tax cuts designed to get Americans back to work and get the economy growing again.

Every agency of government is moving quickly to implement the recovery plan in order to reignite economic growth. In the last week alone, we introduced three of the plan's major tax provisions—the Making Work Pay tax credits of \$400 a year for individuals and \$800 for working families; a first-time homebuyer credit that could get up to \$8,000 into the pockets of those buying homes before December 1, 2009; and a subsidy to ensure that unemployed Americans and their families can keep their health insurance.

We estimate that the plan will save or create at least 3.5 million jobs over the next two years, and will boost GDP—over where it would have been had we not acted—by almost 1% this year and more than 3.2% next year.

*Financial Stability Plan*

But reviving economic activity is not enough because without a regular flow of credit to families and businesses, recovery will be impeded. Therefore, we have taken another critically important step.

We have introduced a Financial Stability Plan to get our financial system operating so that it promotes recovery rather than prevents it, by supplying the necessary credit for Americans to once again buy homes, purchase cars, go to college and turn good ideas into flourishing firms.

The stability plan will ensure that banks have the capital cushions they need to keep lending under currently troubled economic conditions and, as a precaution, under even worse conditions as well. It will help thaw our important, but now largely frozen, non-bank financial markets so they can go back to generating the credit that families and businesses must have. And it provides a method for the government to join with private investors to begin buying the mortgage-backed securities at the center of so many of the financial system's problems, but whose resumed trading is so important to the stability of the system.

## HOMEOWNER AFFORDABILITY AND STABILITY PLAN

Just as economic recovery requires financial stability, stabilizing our financial system requires us to improve conditions in our housing market.

The Administration's affordability plan will help all Americans buy and refinance their houses by encouraging low mortgage interest rates. In addition, it will offer to help 4 to 5 million homeowners to refinance. And it will help another 3 to 4 million homeowners who are at risk of foreclosure through no fault of their own to convert their unaffordable mortgages into affordable ones.

These three plans form our immediate and integrated response to the nation's economic and financial challenges. All three are carefully linked to our 2010 Budget.

The Budget: A Plan for Fiscal Sustainability and Investments for Shared Prosperity

The President's Budget carries forward and expands upon our immediate response to the acute problems confronting America.

It also marries these efforts to an honest plan for how to proceed after recovery has taken hold and the financial system has stabilized. It lays out how to achieve long-term deficit reduction by reversing the short-term increases that are now necessary to achieve recovery and stability—increases that will have to be substantially reduced in order to get the nation back into fiscal shape. And it provides a blueprint for the investments in health care, education and energy that are so critical to our long-term future.

## BUDGET HONESTY

The President's Budget begins by offering an honest assessment of the dimensions of the problems facing the country in the intermediate and long-term.

The President's Budget ends the practice of only recognizing the costs for overseas contingency operations—such as the wars in Iraq and Afghanistan—for as little as one year at a time and instead acknowledges that there is multi-year cost that must be reflected in the Budget. Although the budget includes estimated costs of these operations in the out-years to be fiscally conservative, these estimates do not reflect any specific policy decisions. Several strategy reviews are underway that will inform out-year costs, and it would be premature at this time to prejudge those reviews.

It takes into account the possibility of a natural disaster such as Hurricane Katrina, instead of assuming that the country will be free of such disasters and the costs of helping Americans put their lives and communities back together.

It ends the practice of assuming an increase in revenues from the Alternative Minimum Tax (AMT). The AMT has been “patched” year after year, but for the first time our Budget reflects the cost of doing so.

It acknowledges that, as expensive as it already has been, our effort to stabilize the financial system might cost more. It establishes a placeholder to help ensure we can cover any additional financial stability costs.

I should note here that the existence of the \$250 billion placeholder for financial stability in the President’s Budget does not represent a specific request. Rather, as events warrant, the President will work with Congress to determine the appropriate size and shape of such efforts, and as more information becomes available the Administration will estimate potential cost.

Finally, the President’s Budget gives a fuller view of the government’s finances by looking out ten years, rather than the five years which has been the practice with budgets in recent years.

#### REDUCING THE DEFICIT TO RETURN TO FISCAL SUSTAINABILITY

We have set an ambitious, but economically crucial goal for bringing our deficits down dramatically once the recovery is firmly established and financial stability has returned.

We project that the deficit for the current fiscal year, including the recovery and stability plans, will be \$1.75 trillion, or 12.3% of GDP. Of that, \$1.3 trillion, or 9.2% of GDP, was already in place when we assumed office.

The President is determined to cut this \$1.3 trillion deficit by at least half in four years. The budget would bring the deficit down to \$533 billion by fiscal year 2013. More importantly, it would reduce the deficit to about 3% of GDP.

By bringing the deficit down to the range of 3% of GDP, we can keep our national debt—the aggregate total of our past deficits—from growing faster than the economy itself and keep the size of our debt relative to the economy from rising towards the end of our ten year budget window.

Failure to reduce deficits to this level would result in higher interest rates as government borrowing crowds out private investment, leading to slower growth and lower living standards for Americans.

#### KEY REVENUE PROVISIONS IN THE PRESIDENT’S BUDGET

Our revenue provisions are designed to encourage growth and recovery, improve the fairness of the tax code and support the President’s critical priorities in a fiscally responsible manner.

Our recovery plan reduces the overall tax burden on the American economy to help get the economy back on track.

The President’s Budget takes up where the recovery plan leaves off, cutting taxes for 95% of working Americans by making permanent the Making Work Pay tax credit of up to \$400 for individuals and \$800 for families. The Budget provides additional tax relief by expanding the earned income tax credit for lower-income families and extending the American Opportunity Tax Credit that provides up to \$2,500 toward higher education. All of these are in the recovery plan that Congress enacted last month, but only in temporary form. The Budget also expands the Saver’s Credit as part of the President’s commitment to help Americans rebuild their savings.

The President’s Budget includes tax provisions to help small businesses. It recognizes that many small businesses are operated as sole proprietorships or through partnerships and other flow-through entities, and leaves the individual income tax rates at which these small businesses are taxed unchanged in 2009 and 2010. By extending the current rate structure for families earning less than \$250,000 after 2010, it ensures that 97% of small businesses will receive additional tax relief at that time or see their rates remain unchanged.

Moreover, the President’s Budget will provide small business owners with a new zero capital gains rate on new investments in their businesses, which should help them plan for expansion and succession.

In addition, the budget will help provide more incentives for innovation and increase stability in the tax code by making the Research and Experimentation tax credit permanent.

By 2011, when the economy is projected to have recovered, it will be important for the nation to put in place policies that restore fiscal responsibility. For this reason, our Budget includes revenue changes that become effective at that time. Those making less than \$250,000 will not see taxes increase. The marginal rates for the

top 2% of income earners will return to where they were during the powerful economic expansion of the 1990s.

The Budget also seeks to restore fairness to the tax code. For example, the Budget proposes to tax the compensation paid to hedge fund managers, private equity partners and others in the same way that we tax the wages paid to ordinary American workers. By closing this “carried interest” provision, the tax code will provide equal tax treatment for wages regardless of whether an individual works as a teacher or a hedge fund manager.

The Budget addresses the serious issue of the “tax gap,” the difference between what taxpayers legally owe and the amount that they pay. Building on the recently enacted proposals to increase information reporting, the Budget includes a new proposal to require additional information reporting for rental property expense payments. We will make additional information reporting proposals when the full Budget is released.

The Budget also seeks to close the “tax gap” by tackling tax shelters and other efforts to abuse our tax laws, including international tax evasion efforts.

The Budget addresses the use of offshore structures and accounts by U.S. corporations and individuals to avoid and evade U.S. taxes. Over the next several months, the President will propose a series of legislative and enforcement measures to reduce such U.S. tax evasion and avoidance.

Some proposals will focus on the rules in our tax code that put those who invest and create jobs in the United States at a disadvantage. We will propose rules to both reform U.S. corporations’ ability to defer foreign earnings and deter high income individuals and corporations from using tax havens to avoid taxation.

#### PATH TO PROSPERITY: INVESTMENTS IN HEALTH CARE, EDUCATION AND ENERGY

The President’s Budget will put the nation back on a sustainable fiscal path that is so important for long-term growth. But the Budget is about much more than deficit reduction. In it, the President reverses our government’s long neglect of critical investments in health care, education and energy in order to improve the economy’s performance and lift the standard of living of this generation of Americans and of future generations.

##### *Investing in Health Care*

Without a plan to reform and bring down costs throughout our entire health care system, budget deficits will start climbing again as the costs of Medicare and Medicaid increase with rising overall health system costs. And we will not have taken a single step toward the time when every American—no matter their income—receives the quality, affordable health care they deserve.

In recent years, most proposals for how the government should cope with its rising health care costs have centered on trying to hold the growth of Medicare and Medicaid costs below that of the overall system. But there is wide agreement among experts that this is not a long-term solution for containing health care spending.

Any effort to slow the growth of Medicare’s and Medicaid’s costs requires slowing down the costs of the overall system and that, in turn, is helped by substantially expanding access to care. To do otherwise would result in economically distorting cost shifts, where those who are covered end up paying higher prices to pick up the medical tabs of those who are not.

That’s why this President is committed to achieving a goal that has eluded presidents since Franklin Delano Roosevelt, which is to reform America’s health care system to make it less costly, more comprehensive and fairer.

We already have made a down-payment on this effort by including over \$20 billion for health information technology, comparative effectiveness and prevention in our recovery plan and by extending and expanding the Children’s Health Insurance Program for eleven million children.

The President’s Budget will greatly advance that effort by setting aside a reserve fund of more than \$630 billion over ten years to help finance reforms. The fund will be financed on a roughly 50:50 basis from new revenues from those Americans who can best afford this sacrifice and health system savings associated with, among other things, reducing drug prices by speeding access to affordable generics.

##### *Investing in Education*

Without the President’s new investments, we risk leaving a generation of workers unequipped to compete in the 21st century’s global economy. In order to ensure that our workers are prepared to compete and that the economy can continue to grow, we must increase the number of Americans who have the opportunity and ability to earn a college degree.

This is particularly important because of the projected slowdown in the growth of our labor force over the coming decades. And it is particularly important for those in our society—such as those from minority and lower-income families—who have traditionally had lower rates of college success.

In this light, the higher education provisions in the President's economic recovery plan are essential to our long-term economic strategy because during periods of economic stress, the students who are most likely to drop out or never attend college are those for whom cost is the biggest barrier.

The President's Budget includes substantial strides towards ensuring that a college education is affordable for all Americans. The American Opportunity Tax Credit will provide up to \$2,500 a year of tax relief for a student going to college. The combination of the partially refundable nature of the credit and a sizeable increase in the maximum Pell Grant to \$5,500 a year embodies the President's commitment to ensuring young people at all income levels can obtain a college degree.

At the same time, the President's Budget ensures that more young adults will be ready for college by starting them on the right track in early childhood.

The President's commitment to quality early childhood education reflects the belief of experts ranging from child psychologists to the Minneapolis Federal Reserve and Nobel Prize-winning economist James Heckman that these programs are among the highest-paying investments not only for children, but for the economy as a whole. That is why the President's Budget includes measures to help states improve their early education programs, along with funding to expand Head Start and double the number of children in Early Head Start.

#### *Investing in Reducing America's Dependence on Foreign Oil*

Without the President's new investments, the nation will remain dependent on uncertain supplies of foreign oil and carbon-intensive energy—a dependence that threatens our economy, our environment and our national security.

The President's energy investments reflect our efforts to use broad-based market incentives to move us as efficiently and as quickly as possible towards a clean energy economy, while also providing relief to those who may bear a temporary increase in expenses during that transition.

The recovery plan includes \$65 billion in investments in clean energy technologies for programs like creating a smart electricity grid, improving energy efficiency, and investing in green jobs. As the President has made clear, we will work with Congress to develop an economy-wide emissions reduction program to bring emissions down approximately 14% from 2005 levels by 2020 and approximately 83% from 2005 levels by 2050. This program should include a 100% auction of emissions allowances—ensuring that the biggest polluters don't profit on the basis of past pollution—and should use a cap-and-trade system that has worked effectively in the past as a mechanism to combat acid rain.

The funds raised through this auction could be used to invest an additional \$15 billion a year in clean energy technologies. It would also go towards covering the cost of making the Making Work Pay tax credit permanent, providing 95% of American families with tax relief. If there are any additional revenues, those could go back to the American people, with a focus on compensating vulnerable communities, businesses and families.

The government will set the example by, among other things, retrofitting its buildings in order to improve their overall efficiency and save taxpayers billions of dollars.

In all of the President's Budget proposals, as in our recovery, stability and affordability plans, we will make good on the imperatives set by the President to operate in the bright light of day so that taxpayers can know how their money is being spent and can hold us accountable.

The problems that confront this nation are daunting. But we are a strong and resourceful country. Faced with great challenges in the past, we have shown the will to overcome adversity and carve a path back to prosperity. We will do so again.

A budget is about more than columns of numbers and trend lines across a page. This Budget embodies our values, our aspirations, and our will to overcome the current crisis and usher in a new prosperity.

I look forward to working closely with you in this great endeavor.

Chairman SPRATT. Mr. Secretary, your testimony includes reference to a \$250 billion place holder, yet it cannot provide us with any detail because that is still being defined. Could you give us some idea of the magnitude, the gross size of this fund, these additional funds that will be required; because what is reflected here,

as I understand it, is just that portion that impacts the budget and has an impact on the deficit.

And secondly, could you tell us what categories, what generally speaking—what does this go to? Does it go to fund consumer credit? Does it go to build capital resources of the Nation's banks? Broadly speaking, where will they be used?

Secretary GEITHNER. Thank you, Mr. Chairman. A very important issue. As you and the Ranking Member said, getting credit flowing again is absolutely critical to recovery. The impact of the recovery reinvestment program, even as powerful as that is, will be undermined if we don't get the banking system and the economy as a whole providing the credit that businesses need to expand. So the business that would otherwise benefit substantially from the provisions in the recovery act, will be less able to take advantage of it if they can't borrow. So this basic imperative, getting credit flowing again, is a critical priority for us.

Now, in the budget, the President put in a reserve fund in an abundance of caution against the possible contingency that we may need additional resources. It is not a request for resources at this time. And when we get to the point, if we get to the point where we believe additional resources are essential to achieve this objective, then we will come to the Congress and to this committee with a specific proposal and lay out there exactly where those resources will go.

Congress has already authorized substantial resources for this purpose, and we are moving very quickly to make those resources available in areas which we think will have the most effect on the economy as a whole.

Now, if you look at what we have done so far and laid out—and as I said in my opening statement, we need to make sure there is capital available to strengthen banks. We need to provide very substantial direct funding to help get credit markets working again. These are the markets that are critical for small business, lending for consumer credit, for auto finance, a range of other different markets. And as you have seen, we have committed to use a significant number of resources to help finance the housing plan that is going to benefit millions of Americans and have them take advantage of opportunities regarding refinance and to lower their mortgage payments.

Those three areas—capital resources for banks where they need it, direct support for credit markets, and target initiatives in housing and other areas—will be necessary going forward, and those are the three critical pieces of the broad financial plan we laid out. But as I said, this is a reserve fund in the budget, very much in the spirit of how we account for foreign wars and natural disasters. It is not a request at this time or an estimate of what we think we ultimately need.

Chairman SPRATT. Let me show you some charts with respect to your budget and see if they comport with your numbers. First of all, a very simple back-of-the-envelope chart dealing with tax cuts and tax increases and the net tax that would be imposed by the budget you are recommending. The first shows revenue changes in President Obama's budget and indicates that by extending the 2001 and 2003 tax cuts for those under \$250,000, that amounts to

a net tax cut of \$2 trillion. Is that consistent with your understanding?

Secretary GEITHNER. Looking at these provisions now—and you are right—they do highlight the fact that we are extending tax cuts that affect 95 percent of Americans. We are proposing to make permanent the Make Work Pay tax credit, which reduces taxes for 95 percent of the working families. And we have a variety of other provisions in the bill that go directly towards reducing the tax burden on small businesses. And again, I think this is a very strong budget for small businesses. And if you look at the combined impact of these changes, with the investments we are making in reducing health-care costs and education, this is a very good budget for the long-term growth prospects of the American economy.

Chairman SPRATT. There are some revenue increases. Cap and trade would be one. The number we have here is simply one we have taken from the administration's request. It could be any range of numbers, an infinite variety of ways to do cap and trade or carbon taxes. That would be a revenue increase. There are some loophole closures and there are some other provisions, such as the limitation on itemized deductions for people making more than a certain income level. Those would be tax increases. But according to our back-of-the-envelope arithmetic, the total tax cuts, the net tax cuts after you have backed out the tax increases, are \$2.2 trillion.

Secretary GEITHNER. Mr. Chairman, I just want to emphasize that the estimate for resources raised from cap and trade is an estimate. And as the President said in the budget, we are going to use those resources to finance making the Make Work Pay tax credit permanent, providing additional resources to help facilitate this transition to more efficient, more green energy technologies. And if we raise additional resources, we will target those to people who might face increased energy costs associated with this plan.

Now, what you refer to as loophole closures, international reforms, these include measures to reduce tax avoidance, address the tax gap. They have broad bipartisan support as a basic imperative. It is very important that we do that.

Now, the last thing on your list, which is the proposed limit on deductibility, I just want to say a few things about this. Those proposals would affect only 1.2 percent of taxpayers who itemize; 1.2 percent. All they do is restore deductibility to the level that prevailed at the end of the Reagan administration; 28 percent is still double what the typical American enjoys in terms of that tax benefit. We think this is fair and reasonable and it is consistent with this imperative we all share, to present the American people a path to bring our deficits down to a sustainable level.

Chairman SPRATT. The bottom line is, once again, a net tax cut of \$2.2 trillion. That comports with your numbers and your understanding of the budget?

Secretary GEITHNER. Mr. Chairman, absolutely. What we are laying out is something that we think is going to be good for growth, good for business, good for the long-term growth potential of the American economy.

Chairman SPRATT. Let us look at another chart, the chart dealing with other cuts that are made in the budget, random savings that are proposed in order to generate revenues to pay for some of

the initiatives. Jose, flip back to that one. That will be fine. Jose, the previous one. There we go. Leave it there.

Program Integrity Savings. That is our one-liner for seeking to recover fraud, waste and abuse and other compliance measures. At the Treasury, do you have responsibility for the oversight of this effort?

Secretary GEITHNER. Mr. Chairman, I believe I share that responsibility with a number of my colleagues in the Cabinet and, of course, with OMB. But I am glad you highlighted this because as you can see, we are trying to be as careful as we can to bring efficiency improvements and improvements in program design. So we are using the resources that the American people give us much, much more efficiently. This is just one example of concrete measures that we are committing to in the budget that achieve that.

Chairman SPRATT. Let us take tax compliance. The Internal Revenue Service is under your jurisdiction. Does this assume some additional funding for auditors, and for more audits, and for more compliance measures so that taxes that are owed but not paid can be recovered?

Secretary GEITHNER. It does, Mr. Chairman. In the budget we are proposing—and I hope there is broad support for this—a carefully designed increase in enforcement resources for the IRS, which is a necessary part of trying to close the tax gap and trying to get ourselves to a more fair position where people who owe taxes are paying their taxes, so that the overall burden of people who have been paying their taxes is reduced.

Chairman SPRATT. And does the Treasury have an estimate of what it will cost at the front end for more audits and more auditors and more compliance measures in order to reap this \$16.6 billion?

Secretary GEITHNER. We do. In the budget that is working its way through the Congress now, we have a specific proposal for a significant increase, but I think a responsible increase in enforcement resources. And I would be happy to provide the detailed numbers to that committee. But they are modest relative to these proposed savings.

Chairman SPRATT. If you would provide that for the record, we would appreciate it.

Now, in the interest of time and allowing every member to ask questions, we will move on to further questions. Thank you very, very much again for your testimony. Mr. Ryan.

Mr. RYAN. Jose, could you bring up the first chart? This one right here.

Secretary GEITHNER. I will have to bring some charts next time, Mr. Chairman.

Mr. RYAN. We have battling charts around here. But I am going to use the Chairman's chart, if it gets up on the screen.

Chairman SPRATT. You may want to get yours out. It sounds like he is loaded for bear here.

Secretary GEITHNER. I am looking forward to it, Mr. Chairman. I am really looking forward to it.

Mr. RYAN. Just to try to shed some light on this statistical distortion that is occurring here. When we say you are raising taxes by \$1.4 trillion, that is not our interpretation of your budget; that is your interpretation of your budget.

Secretary GEITHNER. On that thing—

Mr. RYAN. Just let me—please. Negative \$3.5 trillion. If you take a look at those things, what it is basically saying here, there is—I will put those aside. What it is basically saying here is that by not raising taxes, we are cutting taxes. No, you are just not raising taxes on the AMT and these other things. So to suggest failure to increase taxes is the same as a tax cut, it is just intellectually dishonest; and therefore, you can't claim these things are net tax cuts. They are net tax increases.

But let me move on because I want to give these members a chance. We sit here writing budgets and trying to pass budgets. And I just want to try and impress upon you the enormity of the task before you, under any situation, any administration. And this budget, I think, you are going to have challenges and I just think you ought to sort of know that. When we do the vote counts around here, we had a budget last year on the floor, which was to the right of this budget and that is the Congressional Progressive Caucus budget that came to the floor last year, I think by Congresswomen Lee and Waters. And this budget is so far to the left of the Congressional Progressive Caucus budget, that this plan on an apples-to-apples basis, spends \$2.8 trillion more than the Progressive Caucus budget. It results in deficits that are \$14.7 trillion higher than the Congressional Progressive Caucus budget, and I won't even give you the debt numbers on how much more debt this applies to our children and grandchildren than the Congressional Progressive Caucus budget. But if you look at the votes, the Congressional Progressive Caucus budget failed by 98 to 322; 131 Democrats voted against that budget, 15 of which are right here on this Budget Committee, the Democrats.

So you just need to understand the enormity of the task to bring this massive borrow and spend and tax budget to Congress. I think you are doing something that I want to compliment you on, which is the stress-testing of banks which I think everybody believes is the right thing to do. And under your stress test, I think you are doing the right thing by having these different baselines that you are applying to banks. You have your alternative scenario and your average baseline scenario. The average baseline scenario used for your stress test that Treasury is imposing on banks is roughly the same as the Blue Chip's consensus forecast. But the forecast underpinning your budget is much, much higher than this average baseline budget.

And so basically I want to ask you this: Under your average baseline, this budget would have deficits that are \$758 billion higher. That is, using OMB's rule of thumb. Under your adverse scenario baseline, this budget would have a deficit cumulative that is \$1.2 trillion higher. And I understand that you and former Secretary Treasury Summers want to get our deficit down to at least 3 percent of GDP, because you obviously believe for the credit markets that is a healthy thing to do. But under either of the stress test baselines that you impose yourselves, this doesn't do that. This budget deficit, if you apply your baselines, not OMB's baseline, you don't even get close to 4 percent of GDP for the next 10 years. So my question is: Shouldn't we apply the stress test to the Federal budget that you are applying to the banks?

Secretary GEITHNER. Congressman, thank you for raising this. And let me just respond quickly on these things and then I want to come back to some of the things you said at the beginning in your opening statement. This capital assessment, health assessment stress-test thing is designed by your Nation's—our Nation's financial authorities. And what they did is, they took a consensus of private forecasters for a baseline scenario and then they looked at what is a more extreme scenario, a scenario with a much lower probability, but again in an abundance of caution to look at that. What they did is as you might expect. What they did is to make sure it is done independently. They took a private forecast for that.

Now, the President's budget and the forecast that is in the President's budget is within the estimate CBO presented taking into account the Recovery Act. It is within the estimates of a broad consensus of private forecasters. Our judgment is it is a realistic forecast and it shows, like all private forecasters show, the economy coming back to positive growth in the second half of this year and, in 2010, showing more significance to sustain a recovery. It is a realistic forecast and it meets our basic test for bringing more integrity and accountability to the budget framework.

Now, you said several things that I need to respond to in this context. Just go back to the starting point in the deficit and the debt trajectory. We start today before anything happened with the \$1.3 trillion deficit. The additional increment to the deficit that has to happen in 2009-2010 is what is necessary to solve this crisis. A big chunk of that is the Recovery and Reinvestment Act. There is an additional increment to that. It is the cost of fixing parts of our financial system that, again, we started with, that need some repair. That is what we start with.

So the deficit increase you have seen in the near term is the consequence of not just the inherited burden of the recession, but what it is going to take to fix this crisis. Now, we share together this very important imperative of showing the American people that we are going to have the will and ability to bring those deficits down over time. I know you believe deeply in that imperative. But we are going to disagree on some important things, which is really how to do that.

Now, what the President proposes is to return tax rates that apply to a very small percentage of Americans and a very small percentage of small business owners to the levels that prevailed in 2001. That is what the President's budget proposes. For the vast majority of Americans and businesses, taxes will not go up, and they will go down if we make Make Work Pay permanent.

Now, you may disagree about whether that is the right way to bring these deficits down, but I know you agree that we have to bring those down deficits to get the recovery back on track. Because if we don't do that, the Americans today, looking at the future, will be more concerned about the future and recovery will be interrupted today.

Now, a very important point about our disagreements on this. The proposed changes on the tax front which apply, again, to only 2 to 3 percent of small business owners and to a very small percentage of the highest income Americans, are levels that prevailed back in 2001.

Now, just to come back to the decade of the 1990s, when those rates applied, we had during that period a sustained period of very high rates of growth and private investment, very high rates of productivity growth, very broad-based income gains across the country. There is no plausible way you can look back at that period where those tax rates prevailed and say that the economy at that point was not performing exceptionally well, not just relative to the past American performance, but that of other major economies.

Mr. RYAN. Can I get you there? A number of things. And this is a great dialogue. I really appreciate this. First off, in 2001, we were heading into recession. We cut tax rates and growth occurred and actually revenues increased. But I am glad you mentioned the CBO, because the CBO baseline says that if we didn't pass this budget, the deficit would get cut by three-fourths over the next 4 years. You are actually slowing down—

Secretary GEITHNER. You know as well as I do—but what the CBO baseline assumes is AMT is not extended, all the tax cuts expire fully—

Mr. RYAN. No, no, no. You have to use the alternative baseline that goes down.

Secretary GEITHNER. No. Again, in the forecast, their post-stimulus forecast has a range of outcomes, and our forecast was in those outcomes. So this is a more candid, more honest, more transparent picture of our fiscal future than you have seen in years and years and years.

Mr. RYAN. Look, I don't want—

Secretary GEITHNER. It is more realistic.

Mr. RYAN. Obviously we don't agree with that. But let me just say this. Using that Blue Chip consensus forecast that you are using for your own stuff, the deficit is \$758 billion higher. It never gets to 3 percent of GDP. It is always 4.5 or higher or something like that. So the concern we have is if these great scenarios that you are projecting in the economy don't occur—and, boy, we sure hope they do—if they don't occur, then our deficit is going to get out of control.

But here is the concern we have, just so you understand it. Saying to investors, to small businesses, boy, if you are going to hunker down and try to invest and bring new people back on the payroll, we are going to get you with higher taxes in a year-and-a-half time. Let me say it this way. Increasing taxes on the assets that make up our pension funds, our 401(k)s, our college savings plans, by a minimum of 33 percent, how is that going to help recover the wealth that has been lost? I mean, I have talked to so many 60- and 70-year-olds who are so worried about their retirement because their portfolios are down by 48 percent and we are going to say in a year-and-a-half time we are going to increase taxes on these assets that make up this portfolio by at least a third? I mean, this is not good economics.

And so our concern is that your rosy scenarios don't materialize, the private sector consensus forecast does, and the deficit is completely out of control. And in this budget, by the time that this budget is done, both Medicare and Social Security go on a path of permanent insolvency. So we just don't think we are being fiscally conservative.

Secretary GEITHNER. Let us go through these provisions. The most important thing for us to do together is to get recovery back on track. I think we all agree on that. This budget does not raise taxes. In fact, it reduces taxes on the economy as a whole during this period of time.

Now, again, what the President is proposing is when all private economists agree we will be back on a path to growth, that we are going to restore the tax rates that prevailed in 2001 that only apply to a very small percentage of Americans and a very small percentage of small business owners.

Now, you are saying, you are implying something that is not true, which is that we are proposing today a broad-based tax increase on the American economy 2 years out when recovery is established. Now, that is not—

Mr. RYAN. Yes, you are.

Secretary GEITHNER. That is not remotely plausible.

Mr. RYAN. Your own budget acknowledges that.

Secretary GEITHNER. No. But it is just a critical fact; 97 percent or 98 percent of small business owners have incomes below \$250,000. Now, just one more important fact. The most wealthy, most fortunate, richest 1 percent of Americans received 75 percent of the gains in income across the overall economy over the last 6 to 8 years. This restores some basic fairness to the American economy in a fiscally responsible way that will leave our economy stronger for the future. Now, if we did not do this, Congressman, as I think you know as well as anybody, then we would be leaving the American people with the prospects of rising deficits in the future, and that would be bad for growth.

Mr. RYAN. Now, I want to get to a TALF question, because I want to—but turning on electricity, putting gasoline in your gas tank, heating your home, which is pretty expensive where I come from in Wisconsin, and having a government program that makes that more expensive—you may not want to call it a tax, but it is a tax. If it acts like a duck, if it quacks like a duck, it is a duck.

Secretary GEITHNER. You are talking about cap and trade now?

Mr. RYAN. Yes. So to suggest that you are only taxing wealthy people, when in fact you are taxing anybody who consumes energy, that is just not straight. But I want to—let us get beyond that.

Secretary GEITHNER. That would be a good discussion to have.

Mr. RYAN. If you can, I want to ask you a sincere question about the TALF. Some analysts are telling us that in order to boost the effectiveness of the TALF in the current economic climate, the program should be expanded to cover securities rated below AAA to just secondary market securities. Are you considering heading in that direction?

Secretary GEITHNER. I want to do cap and trade really quickly. It is very important. I know that you keep coming back to this. Again, this is very important. It is critically important for our country that we begin the process now of changing the incentives Americans face for how they use energy. It is important to reduce our dependence on foreign oil, it is critical for climate change. You can't achieve that objective, again, without changing the incentives Americans face.

Now, what the President does is take a program that has been used successfully to reduce acid rain emissions used in countries around the world to help begin that process. This cap and trade program will raise resources, but those resources are going to be devoted to making the Make Work Pay tax credit, which benefits 95 percent of working Americans, permanent to help facilitate this transition to renewable energy. And if we raise additional resources, it will be targeted to offset those costs of higher energy costs. I just want to say this because it is important.

Now, on TALF—I am glad you raised this thing on TALF. What the Fed and the Treasury laid out on Tuesday was a program for broadening the class of assets we are going to provide financing, increasing the scale of financing we provide, and we are going to continue to look at ways to make that program more effective. Open to any suggestions, happy to receive feedback on this. We are getting a lot of feedback from market participants. But I am glad to hear you emphasize the importance of this program because, again, to get credit flowing again, we do not just have to reinforce banks, we need to make sure we are going around banks to get those securitization markets going again.

Mr. RYAN. Thank you. I want to be generous to my colleagues. I have already taken enough time. I appreciate it.

Ms. SCHWARTZ. Thank you. And I think I am going to toss out my question and try and deal a little bit with what Mr. Ryan was pointing out. There is no question, it seems to me, on any factual basis that this budget is far more honest about what really we expect is going to happen. Now, of course, it includes some forecasts on what we think is going to happen in the economy. You have to make some forecast assumptions. But the notion, I believe, that Mr. Ryan actually said that the AMT relief on 26 million Americans—he didn't mention the number—the fact that we are going to eliminate, repeal, AMT on 26 million Americans is a tax increase, is stunningly incorrect.

Mr. RYAN. I said it the other way around. I said imposing it is a tax increase; not imposing it is not a tax cut.

Ms. SCHWARTZ. Reclaiming my time. I think that is what the record would show, is—

Secretary GEITHNER. Do not extend what would be a substantial tax increase.

Ms. SCHWARTZ. Yes, exactly. So I just want to be really clear that we have been talking about. Exactly. Mr. Ryan has at least in previous moments said that he wants to see the AMT relief, and the fact that we are budgeting it forward is an important thing to do. So let me just be very clear that this is tax relief for literally tens of millions of Americans. And in the recovery package, didn't we actually provide tax relief to 95 percent of Americans?

Secretary GEITHNER. We did.

Ms. SCHWARTZ. Right. So—

Secretary GEITHNER. And we propose to make that permanent.

Ms. SCHWARTZ. And we propose to make that permanent. Absolutely. So what this budget does, in addition to being honest about where we stand on taxes, and, yes, returning to some tax fairness, I think that there will be some debate about some of the specifics, but some of the limitations for the wealthiest 1 to 2 percent of

Americans—we are not eliminating tax deductions for charitable donations. There will be a 28 percent which is, as you pointed out, double what most Americans get. Is that not correct?

Secretary GEITHNER. That is correct. And it is the level that prevailed at the end of the Reagan administration.

Ms. SCHWARTZ. Again, we will have a debate here in Congress about some of those specifics, how many of those exactly stay as they are. I think that is our responsibility to have a shared discussion.

Number two. To suggest that is somehow going to hurt American business and American competitiveness is something that really is just blankly a difference of opinion for sure. So what I did want to ask, because I think it is important for us to communicate, is that not only is this budget honest about what we believe is going to happen in the future, but it also—and provides tax relief to many, many Americans, but it actually tackles some of the major issues that have been hurting our economic competitiveness. The failure to make investments in education, in educating our people, in energy efficiency and energy independence and—an area of my particular interest in health care—in innovation, in technology, in cost containment, which will affect our fiscal health and our economic competitiveness for our businesses.

Could you just elaborate on—you mentioned—it was a very nice line about the—both the moral and economic and fiscal imperative of taking actions. We are making up for 8 years of failure to make those kind of investments that is putting us in an economic disadvantage for our businesses. On health care alone, our businesses, small businesses and large, cannot sustain a double-digit inflation on their health benefits. Could you speak to why this is so important for our economic dependence, particularly our small businesses?

Secretary GEITHNER. Thank you. I think if you look at surveys of small businesses, what their priorities are, at the top of every business priority is to address the rise in health care costs. Now, if you look at what we spend on health care as a country, we spend almost twice what the typical mature economy spends on health care. And despite that, we don't provide materially better results in terms of life expectancy and we have large parts of our economy that don't benefit from quality care. So there is a competitiveness imperative, an economic imperative of addressing those health care costs. Unless we do that, we are going to face progressively higher fiscal deficits in the future.

And it seems to me the reasonable thing, to say that Americans should enjoy access to better quality care regardless of the circumstances of their birth. It is a clean, simple, stark imperative, but it is not enough. And if you just look at on the education front, what we are doing is trying to make sure that we are laying the foundation for a more productive economy by making sure that our children are going to benefit from much higher-quality education outcomes. And these are areas where our government has been unable to make significant progress over a long period of time. We can't afford to wait on that front. In this budget, we are trying to lay out for the American people a path to a more productive economy where the income gains are going to be more broadly shared.

Ms. SCHWARTZ. And it will help us with our fiscal stability of our budget as well. The other side of the aisle has been very concerned about the costs of entitlement, but the fact is, wouldn't you say that we are actually making some very important steps now to contain the cost both for businesses and for the Federal budget as well?

Secretary GEITHNER. And because of the hard work of people in this room, the Recovery Reinvestment Act starts that budget. So the budget continues it, builds on it, but we started that process in the Recovery Act.

Ms. SCHWARTZ. Thank you, Mr. Secretary.

Chairman SPRATT. Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman. And again, welcome, Mr. Secretary. And let me agree, you do have a great challenge in front of you and we acknowledge and appreciate your service.

Can we pull up Figure 6, please? Both you and the Chairman spoke about, I believe, if I heard you properly, about inheriting deficits; which begs the question what is inherited and what is manufactured and who did you inherit it from?

This chart is entitled "Deficit Under Democratic Budgets." And I want to make very certain for the record I said "Democratic" for those who are sensitive about the uses of suffixes, participles, gerunds and that type of thing. But we all know that under our Constitution that the President can't spend a penny that isn't either authorized or appropriated by the United States Congress. And in this chart we saw declining deficits when Republicans controlled the Congress down to roughly, I believe, 160 billion. And now we are seeing that the 2009 OMB estimate is roughly 1.8 trillion.

So, number one, if you inherited deficits, you inherited them from a Democratic Congress, number one. And, number two, I believe and certainly you have your economic justification, but if you were inheriting 1.2 trillion and you are proposing 1.8, aren't you adding—isn't it true you are adding, I believe, \$540 billion to that deficit, Mr. Secretary?

Secretary GEITHNER. Congressman, can I just say two things about this? One, is if you go back to the year 2000, to 1999, you will see that we started—we ended that period with surpluses. So your chart starts a little late to be fair to history. The other thing I want to point out is that in 2009—

Mr. HENSARLING. Mr. Secretary, are you saying this is an inaccurate chart?

Secretary GEITHNER. No. I am saying it starts in 2004. If you went back to 2009—

Mr. HENSARLING. I am sure it would go back to 1789 as well. But is it not true, is it not true that in the last year of the Republican Congress it was \$160 billion and you are proposing 1.8? Is it true or is it not true?

Secretary GEITHNER. Congressman, as you know, the national debt doubled during the last 8 years, after a period where we started with surpluses.

Mr. HENSARLING. Let us talk about that for a second. I am sorry, I don't have the advantage of having unlimited time as—

Secretary GEITHNER. Can I just say this one thing you raised here? In 2009—again, this is very important to do—we start with no additional policies to fix the crisis. We start with a deficit of \$1.3 trillion. That is a deficit produced by the policies that preceded it and by the deepening recession. Now, to fix this crisis, we have no choice but to move aggressively to put in place this economic recovery program, and that program—

Mr. HENSARLING. I appreciate that. And you had that opportunity to say that earlier. I understand that you have a justification.

Secretary GEITHNER. But you asked that question, which is a very important thing to do. So it is 1.3 with no action, but no action will leave us with a deepening recession, higher long-term deficits.

Mr. HENSARLING. All we are saying, Mr. Secretary, is when you talk about inheriting deficits, at least admit that you are adding to that deficit. And let us talk about the debt for a second. The President in his State of the Union address, said we have the responsibility to ensure that we do not pass on to our children a debt they cannot pay. Is it not true—can we go to Figure 7, please—that under the administration's proposal, that we will double the national debt in 8 years? Is that true, Mr. Secretary?

Secretary GEITHNER. Congressman, let me say what is critical about the long-term fiscal picture.

Mr. HENSARLING. Is it true or not true?

Secretary GEITHNER. No. But this is very important. If we don't get the recovery back on track, if we don't act to fix this recession and address it, then as a country we will face lower long-term growth rates, huge damage to the productive capacity of our economy, much higher unemployment rates and higher long-term deficits. Now, what the President's budget does is bring our deficits down to 3 percent, and will stabilize that debt to the—what matters is the level of debt relative to the economy as a whole.

Mr. HENSARLING. Mr. Secretary, I think we all agree we need more economic growth, but again are you not—are you or are you not proposing to double the national debt in 8 years under your budget?

Secretary GEITHNER. Congressman, what we are proposing to do is to fix the crisis we inherited and to make our economy more productive in the future, and to do so in a way that is fiscally responsible and brings our deficits down to the level where we stabilize the overall level of debt to GDP. So if—

Mr. HENSARLING. It is clear that you do not wish to answer the question. I understand that. And I have a limited amount of time.

The last question I would like to ask, though, is when you talk about the need for more credit in order to create jobs, promote economic growth, why then—why would you have a budget that proposes increasing the tax on capital up to one-third? I have got to tell you, Mr. Secretary, for many of us, it seems to be ideological, and at a time when our Nation desperately needs more capital, you are going to increase taxes on it up to one-third. It simply makes no sense, Mr. Secretary.

Secretary GEITHNER. I would just come back again to say what the budget proposes to do to bring us back to fiscal sustainability.

And I think we all agree we to have get back to a sustainable path. I think we all agree that is critically important.

So what the President's budget does is, when recovery is established, to restore those tax rates that apply to the richest Americans to the levels that prevailed in 2001. And, again, if you want to look at the record and performance of our economy during a period when those tax rates applied, it looks exceptionally good relative to the decades that preceded it, and it looks very good relative to the last decade.

Again, if you just look at the things we all care about, which is how productive is our economy, how much does private investment grow, that was an exceptionally good record of performance for the economy as a whole. Income growth was rapid and it was broadly shared. And I think that is the right test of our policies.

Ms. SCHWARTZ. Mr. Chairman, could I just inquire—I just wanted to inquire just a point of fact. When the budget that you presented reflects the deficit, that is actually a reflection of reality and honest budgeting. It is not a proposal. You are not proposing increasing the deficit. You are reflecting the reality of the deficit that the administration has inherited. Is that just a point of information?

Mr. HENSARLING. May I ask whose time she is on?

Chairman SPRATT. She was asking for a point of inquiry.

Mr. HENSARLING. Wait. That was a parliamentary—

Chairman SPRATT. Would the witness please answer the question in two sentences or three?

Secretary GEITHNER. We do propose to increase the deficit in the near term because we have to do that to address the crisis we started.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Well, Mr. Secretary, how do you like your job so far?

Secretary GEITHNER. This is a critical debate for the country. I am pleased to have it. I think it is a really important debate, and I think it is my tribute to all of you, which is that this is the kind of debate that the American people want us to have. This is about some important choices. And we owe them an open and honest debate about how we are going to fix these problems.

Ms. KAPTUR. Well, Mr. Secretary, we sure want to help you on that. And we are going to put up here the accumulated budget deficits under the Bush administration, including \$1 trillion of war costs that were unpaid for. So that is where we start.

But let me just say, Mr. Secretary, that unless we deal with the seized-up credit markets, none of our budget proposals on either side of the aisle are going to work. And I really want to focus my beginning questions on these today.

During the 1980s, our Nation faced worse financial problems in the financial sector than we actually do today. Although, every day that passes seems to get worse. Back then, we had 3,000 insolvent institutions, saw the banks in Texas fail but one. Continental Bank of Illinois, as you know, went down.

Have you had an opportunity yet to meet with the senior statesmen in our country who were responsible for resolving that situation at no cost to our taxpayers?

Secretary GEITHNER. I have looked very carefully at the record of what they did during that period of time, and I have had the chance to talk to many of those who were there at that time. Yes.

Ms. KAPTUR. I would like to bring Mr. Seidman and Mr. Isaac over to see you some time, and I hope you find time for us.

Secretary GEITHNER. I would welcome that.

Ms. KAPTUR. I think it is really worth hearing about what happened. And I think you were about 2 then, I don't know, but I think it might be very interesting for you.

Secretary GEITHNER. Unfortunately, I was much older then, but older today.

Ms. KAPTUR. All right. Let me talk about frozen credit lines. The district that I represent has unemployment rates in Toledo, Ohio, of 14.3 percent. Going over into Ottawa County, a rural area, 17 percent, and growing worse each day.

At the same time, we are one of three leading solar centers in the hemisphere. We have struggled through 20 years of the loss of manufacturing jobs, and I have factory floors right now that cannot get loans to hire hundreds and hundreds of people. What can you do to help us?

The second part of that question is in the automotive sector. I represent the most popular vehicle in America, the Wrangler and Chrysler Jeep, and the best GM facility in the hemisphere, GM hydromatic with the new 60 transmission. Our unions, our companies have worked together. If America is going to rebuild its automotive industry, it is going to be from the heart of the Ninth District of Ohio.

We are stuck into this architecture that we can't seem to extricate ourselves from. Both companies are owned by Cerberus. How can you help us let our industry compete? We are ready to do that, and we are handcuffed. Again, it is dealing with frozen credit lines and being a part of an architecture by which we can't win, solar and auto.

And then my final question to you is, what is your position on whether we need to reinstitute the regulations on short sellers the SEC removed in 2006?

Secretary GEITHNER. Let me go quickly through those. The last is really a question for the SEC.

Ms. KAPTUR. I hope you have an opinion.

Secretary GEITHNER. I do not believe that particular measure, but this is the SEC's responsibility, would be effective in the current environment. But the SEC Chairman is looking at a range of things as part of her new responsibilities to be responsive in that area, and I am sure she would be happy to talk to you about those details.

On the automobile industry, as you know, we are looking at how to try to help bring about the very fundamental reconstruction that is going to be necessary to get this industry back on a path to long-term viability without government support. This industry is facing extraordinary challenges. The financing environment is making it dramatically worse, you are absolutely right, and we are looking at how best to support that process.

Now, the Recovery Act and the budget has very, very substantial increases in tax incentives, and other support for clean energy, in-

novative new technologies, which will be very powerful and beneficial. And I want to come back to where you began, which is small businesses across the country are finding it much harder to borrow. And that, to fix that requires that we get capital into the system where it is necessary and that we are providing direct support to get these lending markets going again.

The stimulus package has a very substantial increase in loan guarantees from the Small Business Administration, which we are very, very supportive of, and we are looking at whether we can bring these initiatives together to provide more substantial support for businesses across the country on the lending side.

Ms. KAPTUR. Mr. Secretary, I appreciate that.

And I would hope there would be an iterative process by which we could bring some of these companies to you, whether it is tele-video, whether you assign somebody in your office. But every day that goes by and our unemployment gets worse and I have companies that can't get credit, I am saying something, somehow, we need to be able to link to what you are doing. I see TARP money flying out the window, and I am looking at our companies and saying, something isn't working here.

Secretary GEITHNER. And we are open to meet with anybody. We are meeting with people across the country all the time. And as you know, in the automobile industry, we are in daily contact with the full range of people that are critical to making that restructuring plan work.

Chairman SPRATT. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

And thank you for being with us here today, and thank you for agreeing to take on a pretty tough job.

There are about 4 million people now that are roughly paying the AMT, alternative minimum tax, roughly. In your proposal, those numbers would more or less be the same throughout the next years. Correct?

Secretary GEITHNER. We are proposing to extend it and, as you know, continue to extend it and to index it.

Mr. DIAZ-BALART. But roughly we are dealing with about the same number of people paying the AMT. And then you are going to still keep those that are not paying it, which are roughly now, I don't know, 20-plus million, from not paying it. Correct?

Secretary GEITHNER. I am not sure where you are going. I would be happy to give you the detailed numbers on the estimated impact.

Mr. DIAZ-BALART. The reason I am asking that is, because those that are not paying the AMT are going to continue to not pay the AMT, in your numbers though, you are considering that a tax reduction to them? In other words, you are including in your tax cuts the AMT, even though most people don't pay it and are going to continue to not pay it. So it is not a tax cut for those who are not paying the AMT. Correct?

Secretary GEITHNER. Congressman, again, I am not sure where you are going. You know, we can talk about baselines as much as you want to talk. What matters to the American people and to the economy as a whole is, what are we doing, going forward, to overall tax rates across the economy? And what is critically important is

to recognize that, for the next 2 years, we are reducing taxes for—reducing the tax burden for the overall American economy. And when we get recovery back on track, we are proposing very modest increases that apply to a very limited section of the most affluent, most fortunate Americans.

Mr. DIAZ-BALART. Well, let's talk a little bit about that, because in Florida, where not everybody is affluent, yet everybody uses electricity. And as you know, at least in Florida, and I know it is around the country but let's talk about Florida, those are regulated industries. They pass on the cost of increases to energy to the consumers. And yet, you do have anywhere between \$600 plus to \$800 billion in this cap-and-trade deal on a tax on energy production.

So let me ask you this. Is it not wrong that—who is going to pay the money for that cap-and-trade? Energy producers?

Secretary GEITHNER. Congressman, this is a good issue, an important issue, so let's just go through it.

What the President's proposal does is beginning in what we expect to be 2012, not tomorrow but in 2012, just to put in place a program tried, based on things that have worked in the past that is designed to change the incentives for how Americans use energy so that—

Mr. DIAZ-BALART. By charging more?

Secretary GEITHNER. By reducing our dependence, that we reduce our dependence on foreign oil.

Mr. DIAZ-BALART. When you talk about incentives, is it by charging more?

Secretary GEITHNER. Well, you can't change behavior, how people use energy, unless you affect the incentives for how they face this economy.

Now, the really important thing is that the resources this will raise are going to—go back to 95 percent of working Americans. And, there is \$15 billion in the President's proposal to help facilitate this transition to cleaner energy technologies. So that is the way to think about it. Remember, it is a program that will take effect in 2012, and the resources raised will go back to 95 percent of working Americans.

Mr. DIAZ-BALART. Sure. That is like what we are told in the stimulus that some families, many families, will get up to \$800 back in tax credits. However, every household is being charged \$9,400. That, by the way, is the kind of math that frankly scares me.

Secretary GEITHNER. I don't understand that math. I don't think that is a remote reflection of reality in the budget. Again, it is very important.

Mr. DIAZ-BALART. That was in the stimulus.

Secretary GEITHNER. For the next 2 years, for this period of challenge we are going through in this economy, the overall tax burden on the American economy comes down; 95 percent of working Americans get a significant tax credit; there is expanded earned income tax credit, expanded child care tax credit.

Mr. DIAZ-BALART. We are talking about the cap-and-trade here. I am trying to see if I can get you to answer that.

Secretary GEITHNER. I did. On cap-and-trade, I said that in 2012—

Mr. DIAZ-BALART. There is going to be an increase.

Secretary GEITHNER. We want to work with Congress on a program based on something that has worked to bring down acid rain emissions that will generate resources that we will put back into—

Mr. DIAZ-BALART. When you say generate resources, that is through?

Secretary GEITHNER. Through changing the cost of energy use, which you have to do.

Mr. RYAN. Will you yield?

Mr. DIAZ-BALART. Yes, I will yield to the ranking member.

Mr. RYAN. Are you suggesting that the \$15 a week in the Make Work Pay fully offsets the higher energy prices?

Secretary GEITHNER. Well, what I am saying, and this is the really important thing, which is, the resources that cap-and-trade we estimate will raise will go back into the economy, concentrated on 95 percent of working families. Now that—

Mr. DIAZ-BALART. So you can't answer the question, really.

Secretary GEITHNER. It is good policy. It is fair policy. And if you believe in the importance of reducing our dependence on foreign oil and reducing our dependence on carbon-intensive energy uses, then you have to be prepared to change the incentives for how people use energy.

Mr. DIAZ-BALART. In other words, if you believe in that, and then it is okay to charge people more for their energy, is in essence what you are saying.

Now, let me ask you a little bit because in the few seconds that I have—I am out of time. Thank you.

Chairman SPRATT. The time of the gentleman has expired.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

Thank you, Secretary, for your important leadership.

With that we could eliminate the first 4 years of the Bush administration and its horrible effect on the world as quickly as the Republicans have eliminated it from their chart. I can hardly blame them for wanting to forget and push away the disaster that was the first 4 years; I am surprised they didn't eliminate the entire 8.

As far as the suggestion that they are concerned about borrow and spend, that was the principle theory of the last 8 years, as they drove our debt up literally by the trillions. I think they may have certainly borrowed more money from abroad than all previous Presidents put behind—that came before them. And these are the same folks that still want a free lunch. They are the folks that endorsed what the Senate did during the recovery, economic recovery debate that proposed trillions of dollars of additional tax breaks that we would borrow money to achieve.

I applaud the fact that you make the hard choices to raise a little of the revenue along with some of the spending cuts to help us get to more fiscal reality.

And I appreciate very much your testimony in the Ways and Means Committee, where you endorsed our effort to stop tax haven abuse. The President has spoken courageously over recent months about the need to stop tax provisions that are designed to encour-

age companies to export jobs overseas. It is more than just the Stop Tax Haven Abuse bill that Senator Levin and I have introduced. There are a whole series of measures that are needed that are revenue raisers but accomplish other purposes.

I know that some of our colleagues, both Democratic and Republican, have promoted the idea that we need a significant reduction in corporate taxes. Secretary Paulson, when he explored that issue last year, was not proposing a reduction in revenues. In fact, he was willing to challenge some of the most popular provisions that corporations rely on to reduce their taxes today. And I think it is critical as you go forward on this that while you hear people complaining about the corporate tax rate, that we look at the effective corporate tax rate and the steady reduction in corporate revenue that is being contributed from those taxes.

In terms of gross domestic product, I believe that only Korea and Mexico have corporations that contribute less than ours do.

And then in a separate area that you have talked about very articulately, the whole issue about cap-and-trade, what you have said is very important. The Treasury has unique expertise to conduct the auction system, which is what has been proposed in legislation that I have and a number of our colleagues have suggested. And a cap and trade system that is guided not by extreme ideology and not by political expediency, but is guided by good science, wherever that science leads us in terms of what we need to do. But a system where we put a limit on carbon pollution, and then we rely on a market system, which works so effectively on acid rain, to help us achieve the important objectives of moving to a less energy—more energy independence and less dependence on carbon pollution.

I think, sadly, as the questions and comments here, just as in the Ways and Means Committee, as the administration develops its plan, I hope it will continue reaching out, as it has, to try to include people of all political parties. We don't have a monopoly on truth. But, sadly, the comments indicate that we will get the same level of bipartisanship, the same level of cooperation that we got on the economic recovery package in the House. And we have to realize that moving forward on this critical objective.

Let me just ask you one unrelated long question that I would ask for perhaps a follow-up in writing. In 2007, there was a review by Fitch Ratings of mortgage-backed securities that were backed by subprime mortgages. It found evidence of fraud and misrepresentation in just about every file. Given the suspicion that is widespread that loans underlying some mortgage securities are incompletely documented or fraudulent on their face, my question would be whether Treasury has sampled all the loan files that it is proposing to obtain for evidence of misrepresentation and fraud before it offers any type of direct or indirect guarantees; and, if you have not, whether you will commit to conducting such a review so that we can have this question about fraud and misrepresentation answered in a credible and a transparent way.

Secretary GEITHNER. A very important issue. I am happy to respond to you fully in writing on the range of things we can do to help address that risk.

I think it is very important, though, to point out that, as we come to Congress with comprehensive proposals for financial reform, we are going to need to do a lot of things to make sure we fix this mortgage market, and we don't put the American people in the position again where anything like this could happen in the future. And that is going to require a lot of changes.

Chairman SPRATT. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for entering the maelstrom here.

First, a couple of quick TARP questions. How much of the original \$700 billion is currently remaining and has not been invested?

Secretary GEITHNER. Congressman, I would like to give you an accurate accounting of the detailed numbers in writing, rough orders of magnitude.

Mr. CAMPBELL. Approximately.

Secretary GEITHNER. I think the commitments outstanding are, in terms of money committed and spent, are in the range of just under \$400 billion. That would leave something around \$300 billion left. But we have already laid out a variety of potential uses for those resources.

Mr. CAMPBELL. Which comes to my next question. Approximately, when do you believe you will have an opinion or be able to assess whether the remaining TARP funds are adequate to stabilize the financial system, in your view?

Secretary GEITHNER. I don't have a judgment on that yet. Again, we are moving as quickly as we can to use the resources we have as effectively as possible. We are trying to bring a comprehensive set of reforms to the programs so we deliver more transparency and accountability. The assistance comes with tougher conditions to protect the taxpayer to make sure that these resources aren't going to benefit shareholders and senior executives, to make sure they result in higher lending than would otherwise take place, and that they are targeted to parts of the economy that are likely to benefit most from the assistance.

So we are trying to reform the program completely, use the resources as quickly and effectively as we can. And in that context, we are looking at what is next and what might be necessary to get ahead of this. And what I really want to point out, and I am very glad to hear the recognition of this across the aisle, that if you look at the history of financial crises, most governments make the tragic mistake of not doing enough soon enough. They underestimate the costs; they are too tentative. And that leaves the system more at risk and the economy, therefore, more at risk. And it is very important we find a way to work together to make sure that we are getting credit flowing again.

Mr. CAMPBELL. Is CitiBank too big and too interconnected to fail?

Secretary GEITHNER. Congressman, I want to say something about our banking system. We have a system of 9,000 banks. The vast bulk of this system was not part of the problem. It is going to be part of the solution. They are going to be able to provide the credit that their communities need.

Now, there are parts of the system that are going to need some carefully conditioned, temporary, financial support as a bridge to private capital coming in. And it is very important that your gov-

ernment, and we will do this, make sure we make those resources available. Right now, because of the intensity of this recession and what we are going through, the markets are unwilling and unable to provide that capital. And so we are going to do what is necessary to make sure those resources are available, because if we don't, you are going to see less credit available, and that might create the risk of deepening the recession.

Mr. CAMPBELL. Is that a yes?

Secretary GEITHNER. Congressman, again, I want to just—this is a very important thing, and I want to say it—

Mr. CAMPBELL. I agree.

Secretary GEITHNER. Carefully and clearly. The President said in his State of the Union, your Nation's financial authorities have said it; it is very important, and we will do this, to make sure that the major institutions in our country have the resources and the funding and the ability to play their continuing role in our markets going forward. And that is a very important commitment. The President has made it. The Chairman of the Federal Reserve has made it. The Secretary of the Treasury has made it. We have made it together as an entity. And I will repeat that.

Mr. CAMPBELL. Let me get, if I can, to just one other line of questioning which is relative to the numbers, budget assumptions, which basically assume 3 percent plus growth by next year, up to 4.6 percent growth 2 years after that, and all with virtually no inflation, inflation of 2 percent or under all those years. That is what is in the budget assumptions.

Do you at Treasury, does that comport with your present best estimate of what you believe will occur?

Secretary GEITHNER. Congressman, the way the budget process works is the Council of Economic Advisers independently comes up with their best judgment of the likely path of the economy, growth, inflation, interest rates.

Mr. CAMPBELL. Correct.

Secretary GEITHNER. And that represents their best judgment at that time. And it is very important to point out, because there has been a lot of concern about this, if you look at that forecast against CBO's latest range of estimates, it is within that range. So we believe it is a realistic forecast. And all economists agree that it is realistic to expect the economy to begin to recover beginning late in this year and into next year.

Now, one last thing.

Mr. CAMPBELL. I have 30 seconds, so let me just say and then you can go ahead. It is just that, when I would make budgets in my business sometime ago, it is very easy to increase sales by 5 percent, increase margins by 5 percent, hold expenses, and, boom, profit is enormous. And so the budget numbers here are highly sensitive to things like the inflation numbers and the growth numbers. And if these growth numbers are not met or the growth numbers are met with substantially higher inflation, which I think a lot of people believe that, if you are to have these growth numbers, you would have more inflation, then the numbers will be—then the budget numbers are highly sensitive then. And if you are off at all, even these numbers, which we obviously on this side of the aisle don't like very much, but that they would be significantly worse.

Secretary GEITHNER. Mr. Chairman, can I just respond? This is very important. I don't think this budget faces that risk. Again, if you look at the long-term inflation forecasts by private economists, look at the long-term growth forecasts for private economists, which are the most important things to our long-term fiscal position, CEA's estimates are right there on those things. And, again, that is a realistic budget. And I agree with you about the concerns you expressed, but this budget is not vulnerable to those risks.

Chairman SPRATT. Mr. Berry.

Mr. BERRY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for your service. I know you are having a wonderful time.

I generally judge administration testimony by how I think it would fare at the breakfast table at the Rice Paddy Motel in Gillett, Arkansas. I think you would do pretty good. You hold your own.

Secretary GEITHNER. Is pretty good good, or is pretty good—

Mr. BERRY. Sir?

Secretary GEITHNER. Thank you for saying that, Congressman.

Mr. BERRY. I meant that as a compliment. Sometimes people don't understand me very well.

Secretary GEITHNER. Is that an invitation?

Mr. BERRY. I talk too fast.

I find it interesting here this morning that my colleagues across the aisle are suddenly obsessed with intellectual integrity, deficits, and fuzzy math. And we have been underwater with those things since January of 2001, after leading this country out of the fiscal economic wilderness that we were in, successfully. And so I appreciate what you are saying. I may not agree with all of it, but I appreciate it, and I know you are doing the best that you all can come up with.

I want to make one point. Repeatedly, regardless of the administration, the party, or anybody else, the value of cheap food in this country is continually ignored by the people that make economic policy. Production agriculture has been assaulted by this administration publicly. And I think it would be a good thing for people in positions like yours and others in the administration to take a serious look at the value of agriculture to this country. It is still 20 percent of our economy. It is about the only industry that has not appeared on our doorstep right now begging for some kind of relief. They are actually getting less help now than ever before. But I think they are due some credit for the great way they produce and feed this country in a safe and cheap way. And I would hope that that would at least rise to the surface and to the point where someone in the administration might even recognize it in a positive way.

So I am just an old dirt farmer and love it. And I don't think that the American agricultural community has to apologize to anybody for the contributions that they have made to the success of this country. And I thank you for listening to me, and I invite you to the Rice Paddy Motel any time you have got time. We will go down there and show those boys something.

Secretary GEITHNER. I welcome that, and would be happy to do it.

Mr. BERRY. Thank you.

Secretary GEITHNER. And I, of course, agree with you that the future of American agriculture is critical. We have a level of productivity in agriculture which is the envy of the world, and it is important we recognize that.

And you are right, and I think you are saying this, that we do propose in the budget to reduce some subsidies to those at the highest end. And you understand why we are doing that.

Mr. BERRY. Yes, but pardon me for interrupting you. They are the people that produce the food. That is where that stuff comes from.

Secretary GEITHNER. And it just underscores how difficult these challenges we face. And we are going to have to make some hard choices together, and we are going to have to do it as carefully as we can to make sure we are not burdening the economy in ways that we can avoid. But we are going to have to get back to a path of fiscal sustainability, and it is going to be hard to do that. But I respect and understand the point you are making, and I will always listen carefully.

Mr. BERRY. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Secretary, we appreciate you joining us this morning and appreciate some of what I would call good things in the budget dealing with the AMT. I think an acknowledgement that we have some real concerns in our entitlement programs, we certainly appreciate that language as well. But let me just kind of lay it out. And you have touched on this, but I want to package it and frame it in a way that it gets framed for me back home in the Fourth District of Ohio when I talk with families and small business owners. And our district, just so you understand, of the 435 districts in this country, the Fourth District in Ohio is 16th in manufacturing jobs. And, frankly, we were doing pretty well until of late with this auto industry, and now, obviously, we are feeling the impact just like the rest of the Midwest and, frankly, the rest of the country is.

But when I talk with folks back home, here is the picture they get. And I know you are going to disagree with some of it. But, frankly, they see—and I would argue any one of these things done at any time is difficult for our economy, but when you attempt all four in the midst of a recession, I think it is scary, frankly:

Raising taxes. And I know there has been a debate here in this committee. But the way we look at this is there is a net tax increase over the 10-year time frame of your budget. Taxing the successful out there. Not necessarily a good message to send to the business owners when we are trying to get out of a recession.

An unprecedented level of spending, whether you start with the \$780 billion in the stimulus, the 410 in the omnibus with the 9,000 earmarks, and now a budget that projects a doubling of the national debt over the next 10 years.

Further, nationalization of health care, setting aside the billions of dollars you set aside to do the things in health care.

And then, finally, the one that I would, frankly, if you could, Secretary, focus on the most is the cap-and-trade. Because when you

come from a district like I get the privilege of representing, with that much manufacturing, the cap-and-trade proposal scares me. Just like yesterday in the Detroit News where they talked about, I think the headline was, "Cap and Trade Will Sink Michigan," was the headline of this editorial from the Detroit News. It concerns those kind of districts that, where you have heavy industry. And, frankly, the cap-and-trade will disproportionately impact the Midwest, where so much of our energy comes from coal-fired power plants and oil and gas those things.

So respond, and, again, this is straight from the good families and business owners I get the privilege to represent. I happen to think they are right when they come with these four concerns, all done as we are trying to get our economy recovered from this recession.

Secretary GEITHNER. Thank you very much for raising those. So, let's just go through this because it is very important to do.

Small business owners in America today will face the prospects of a zero capital gains tax rate; substantial reductions in the rate of growth in health care costs; a range of other incentives that are very important to getting us to a clean energy economy; keeping their overall tax burden unchanged except for 2 to 3 percent of the highest earning small business owners, and, again, those increases only come beginning in 2011, and they only restore those tax rates to the level that prevailed going back to 2001.

So it is not reasonable or fair or true to represent this budget as increasing the tax burden on small businesses who are struggling so much across the country. In fact, this budget is very good for businesses across the country.

Now you said several times—

Mr. JORDAN. Focusing on the cap-and-trade, I mean, laying out the four issues, cap-and-trade is the one that concerns. Again, that is why I talked about the type of district I represent. I talked about the Detroit News editorial yesterday.

Secretary GEITHNER. I would like to do that, and I would be happy to do that again. But I just want to reinforce something you said. Now, you said we are going to substantially increase taxes on the American economy over time and substantially—

Mr. JORDAN. \$1.4 trillion. \$1.4 trillion over 10 years.

Secretary GEITHNER. Let's just go through those. If you look at the President's budget, you will see that the overall tax burden, revenues to GDP over this horizon are quite close to long-term average. Now, another thing you will see is that the overall level of spending in the budget relative to GDP after you account for interest rate costs for these inherited deficits and you account for the effects of the aging of the Baby Boom, the overall size of the government relative to GDP is very close to historical norms. So this is not a budget that raises materially the overall tax burden.

Mr. JORDAN. Mr. Secretary, isn't it true that your 10-year budget doubles the national debt? I mean, your numbers, when you add them up, we go from 11-point-something trillion to doubling that.

Secretary GEITHNER. What increases the national debt is the size of the—

Mr. JORDAN. Too much government spending. That is what increases the size of the national debt.

Secretary GEITHNER. No. It is the size of the deficits we have inherited and the costs of getting us out of this recession.

Now, if we were starting from a different place, if we were starting from where we were at the end of the last decade, if we were starting without a recession this deep, then we would be able to give the economy a path for higher growth rates, lower deficits for the future.

Now, given where we are, though, our common obligation and our only choice really is to move aggressively to try to get us out of a recession and fix our financial system, and that costs resources. If we did not do that, then growth will be weaker, unemployment higher, more small businesses would fail, and we would face higher deficits in the future because our overall productive capacity of the economy, future revenues would be lower. And that is very important to start with.

Now, briefly on cap-and-trade, just to repeat, what the President is proposing is to put in place a cap on emissions with a market-based mechanism for allocating those credits; it will generate resources, but we are going to put those resources back into the hands of working Americans.

Now, you are framing this in a way that—

Mr. JORDAN. If a working American has to pay more for the car they purchase, for the energy bill they pay each month, all their utility bills, and then you give them some back, aren't they going to have to pay more on those bills than they are going to get back on the tax credit?

Chairman SPRATT. The gentleman's time has expired, more than expired. And we have got to move on because there are three votes coming up on the floor, one of which will occur in about 10 minutes; it is a resolution. I plan to stay here through at least that. There are a couple of suspensions coming up behind it. But I will stay here at the sacrifice of a vote so that other members can ask questions.

Let's move now to Mrs. Tsongas.

Ms. TSONGAS. Thank you, Mr. Chairman.

And thank you, Mr. Secretary. This has been quite a discussion.

I would like to move on to the issue or focus on the issue of housing. I am from Massachusetts. I represent three old industrial cities, one of whom happens to have the highest foreclosure rate in the State. So I was very grateful to see the action that your administration, President Obama's administration, has taken, and I look forward today to supporting legislation that will help further that.

We know it is only one piece, one leg of the stool. But I am curious; one of the challenges we have had ongoing is we are constantly playing catch-up around dealing with the foreclosure issues. So what do you look at as the benchmarks as to whether or not this is working, sort of the timing around how you will measure those? And what are you thinking in anticipation of any potential problems that may arise?

Secretary GEITHNER. Excellent question. The best things to look at are what is happening to overall mortgage interest rates. And as I said earlier, they are coming down. What is happening to the amount of refinancing? That is a measure of how many people are benefiting from lower interest rates, and those numbers are re-

ported at relatively higher frequency. And, as important, you are going to see relatively detailed high frequency reporting of the number of loan modifications that are going to occur that will help make mortgage payments more affordable for, we estimate, between 3 and 4 million Americans. And you will be able to see how many are occurring and the broad benefits. Those are the right measures.

Ms. TSONGAS. Is there sort of a minimal level that you are going to look at?

Secretary GEITHNER. In terms of interest rates?

Ms. TSONGAS. No, just in terms of refinancing.

Secretary GEITHNER. In the President's program, we laid out some initial estimates of people who would be eligible to take advantage of this new refinancing program; and again, I think those estimates are in the 3 to 4 million range. And so you can measure how many happen against that benchmark.

Now, outside that program, you see hundreds of thousands of families now every week taking advantage of lower interest rates to refinance, and that is another measure, too. So you see broad refinancing trends in this program, outside this program. And those are the right measures. Overall interest rates, number of refinancing, and the kind of sustainable loan modifications necessary to help responsible families stay in their homes.

Ms. TSONGAS. And if we start to see the kind of issues we had with Hope for Homeowners, where in spite of our best intentions, it just didn't work, it wasn't effective, how quickly can you deal with those kinds of obstacles?

Secretary GEITHNER. Well, the legislation changes that are under consideration now will make Hope For Homeowners, we believe, substantially more effective. And we want to move to put those in place as quickly as possible.

Ms. TSONGAS. Thank you.

Chairman SPRATT. Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for your time this morning and your hard work. People don't realize the hours you are putting in, and I had the privilege to chat with you at the Ways and Means the other day.

But I don't know in my lifetime of any administration that has inherited the challenge that this one did before they came in office and then faced the Armageddon almost since you have been there.

So let me change the tone. And I want to associate myself with Mr. Berry's comments as relates to agriculture, and I will come back to that at the end if I have time. But let me change the tone for just a minute, because I am very pleased that the President has placed such a strong emphasis in this budget on education.

I spent 8 years as State superintendent of schools before I came here. I was the first in my family to graduate from college. So education is a critical piece, and it is the foundation we are going to build, I think, a future on. So let me ask you to comment on two pieces in here very quickly, because I think the American Opportunity Tax Credit in the economic recovery piece was a good piece to start, but now we are talking about in this budget building on it. And that goes back to early childhood education, actually a crit-

ical component. If we are going to stop dropouts, we have to stop them before they really get to be dropouts.

And the other piece is that it is critical to say to a young person, some say in high school, I do it in middle school: You can go to college, and here's the pathway. And I hope you will take a minute or so and cover that, and then leave me time to ask one other question, maybe, because I think it is important to get that on the record again. This is a long-term commitment for the future of our country.

Secretary GEITHNER. I completely agree.

And, again, just to say the three key parts of it, and we have got a terrific Secretary of Education with huge credibility in this area, and a President deeply committed to progress in this area.

Substantial resources to early childhood education, proven programs make big impact on outcomes; a sustained commitment, range of different ways to help improve quality of teaching in our elementary/secondary education; and a greater financial commitment to help people afford higher education, both community colleges and 4-year colleges. Those three things, there is a rich ray of other things in there, but those are really the critical things.

Mr. ETHERIDGE. Called Pell grants, which are critical to a lot of youngsters who would not have an opportunity to ever enter the doors of a college or university.

You know, Margaret Mead once said: "Never doubt that a small group of thoughtful committed citizens can change the world." And, indeed, it is the only thing that ever has. I think we are at that point in history. I think we have that opportunity.

Mr. Berry mentioned earlier about agriculture, and let me just touch on that. And you don't really have to comment on that, but I want to have an opportunity to work with you because my home State of North Carolina, about one in five jobs are tied to agriculture, as many as high tech jobs as we have and major universities and all the things we do, and we are currently going through a major crisis. There is about \$130 billion annually to the whole U.S. economy, as he had indicated, and 14 percent of the workers. In North Carolina, it is about 20. So it is much higher. But we are going through a unique crisis. And I think if we don't deal with it quickly, it could grow, and that is credit in the rural sectors that could—things that are happening on Wall Street may very well hit the country road. And we have seen where a lot of the poultry growers, who are people who really are affected, contract; they aren't fitting any of the categories. They don't get unemployment. They aren't fitting in these categories. And I hope you will allow us to work with you to find a way that we can, through maybe the Department of Ag or through the Treasury, to reach out and help these folks until this thing turns around. They aren't asking for a hand out; they are just asking for a hand up. And I hope you will allow us to work with someone in your office to deal with that. It is not just my State. It deals with Louisiana, Arkansas, and I think Pennsylvania and other places as well.

Secretary GEITHNER. Congressman, we have had a chance to talk about that already. And I will absolutely commit to work with my colleagues at the Department of Agriculture on how we can best be responsive to that concern.

Mr. ETHERIDGE. I appreciate that. And I thank you very much. Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman.

Mr. SECRETARY, welcome to the committee. My Republican colleague Mr. Ryan said that the Obama budget plan and proposal, and this is a quote, is not good economics.

Mr. Chairman, I would like to put that criticism in a little bit of perspective.

This is the chart that shows when the Bush administration took office. So that we are reading this chart correctly, the blue line is where we were at that point. That meant there was a surplus of nearly \$200 billion a year when they took office.

I would also point out that Mr. Ryan, who is genuine in his economic beliefs, articulate in expressing them, but I would also say, in fairness and in due respect, he was one of the chief architects of the good economics, if that is what he wants to call it, of the Bush era.

So, Mr. Chairman, this chart shows what happened once the good economics of Mr. Ryan and the Bush administration went into place. We went from the largest surpluses in American history to the largest deficits in American history. And I see my chart didn't even go to 2009. I am glad this one has been amended, because the chart would have to be rewritten because the deficit is so bad in fiscal year 2009 left by the Bush-Ryan good economic programs that there wasn't enough room on the chart to show what the actual deficit is. Am I correct, the deficit, you said the Obama administration assumed is \$1.3 trillion. Is that correct?

Secretary GEITHNER. And I think, just to be fair, that understates the underlying deficit because that is a deficit we start with. But we start also with a deepening recession and a financial crisis that is putting a lot of pressure on the economy. And so the right measure of where we are starting from has to incorporate the cost of fixing it. So I think we are starting with a deficit that is enormously high because of the deep challenges we all face.

Mr. EDWARDS. And I can understand why Mr. Ryan and others might feel threatened that the American people voted for a change to try a different approach, because the good economics of the Bush-Ryan programs led us into not only the largest deficits in American history but the worst economic mess we have faced perhaps since the Great Depression. And following the advice that insanity is doing the same thing over and over again and expecting a different outcome, I am, frankly, glad that the Obama administration is trying to do this differently, in a more responsible way, even if those who are the architects of the worst disaster economically in my lifetime call this not good economics. So I consider that criticism, frankly, to be a compliment.

I want to be correct in understanding a statement you made. You said something to the extent that approximately 75 percent of the income growth of the past 7 to 8 years has gone to 1 percent of Americans. Could you clarify that? If it is anywhere close to that, if my understanding is correct, that is just an astounding fact.

Secretary GEITHNER. I am looking for the precise fact, Congressman.

Mr. EDWARDS. Is that approximately correct? We can fine tune the answer.

Secretary GEITHNER. That is an independent assessment that I believe is correct. But let me just paint the context. We face this very long-term rise in inequality across the country. That rise in inequality accelerated over the last several years.

Mr. EDWARDS. That was another result of the good economics of the previous 8 years.

Secretary GEITHNER. And I will read the exact quote, and these are from analysis based on data from 2002 to 2006 during the last expansion: The top 1 percent took home 73 percent of all income growth.

Mr. EDWARDS. So one of the primary problems we face today is not that the wealthiest 1 percent of Americans don't have enough money after paying their taxes; it is, frankly, that the middle class has lost ground and real income over the last 7 or 8 years. Would that be a correct statement to make?

Secretary GEITHNER. The basic troubling challenge that the economy has faced over the last decade is you saw income growth for average Americans slow significantly. And we need to bring about the kind of substantial changes in the basic direction of economic policy to try to address that basic challenge. And that is one reason why it is so important that we do a much better job of improving education outcomes and bring some more fairness and balance to the overall—

Mr. EDWARDS. So this administration wants to pursue policies and help the middle class in the belief it creates more wealth in America if we have a healthy middle class. Some who were the architects of the good economics that led us through the worst crisis since the Great Depression want to continue policies to cut education, and health care programs, and job training programs that help the middle class while actually pushing for more tax cuts for the wealthiest Americans.

So I compliment you for not following the good economics of the past 8 years and trying it a different way.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Edwards.

Mr. SECRETARY, we have votes on the floor. And we will be coming back as quickly as we can. We are mindful of your need to get out of here by 12:30, and we will abide by that. In the meantime, if you need some office space just behind us, you are welcome to use these facilities.

Secretary GEITHNER. Thank you, Mr. Chairman.

Chairman SPRATT. That applies to your entire staff.

Secretary GEITHNER. Thank you, Mr. Chairman.

Chairman SPRATT. We will be back as quickly as we can.

[Recess.]

Chairman SPRATT. We will go first to Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair.

And thank you for your testimony today and for your patience during our voting interruption.

I want to focus on health care for a little bit. I just find it totally unacceptable that in the wealthiest nation in the world, 46 million Americans don't have health insurance and millions more encoun-

ter a health care system that is unresponsive and inadequate to meet their basic medical needs. And along with that, there are too many that are underinsured. And underinsurance leads to poor medical outcomes. It leads to more expenses for families. And it is my opinion that health care should be a right in this country, basic access to health care, and not just a privilege for those who have financial means.

Now, this budget makes it really clear that you are not going to wait to do health care reform. You are going to move forward. President Obama is living up to his promise to provide health care for America. Families and businesses are struggling. They can't afford to pay for their health care. I hear this all the time about the increasing costs and the decreasing coverage along with that increase in cost. So with the current economic conditions, the economic forecast dilemma that we find ourselves in, the housing crisis, families are continuing to be squeezed. And I am just, for the record, going to put in a few things for an example here: 1 percent of the increase in the unemployment rate, it is estimated that as many as 1.5 million Americans lose their health care coverage. Over 2.5 million American families face foreclosure every year. Every year, 2.5 million American families face foreclosure because of medical costs. They lose their homes because of that. So, clearly, we know medical costs have an impact on workers' wages, it reduces their take-home pay. We know it makes them have to make hard choices about children going to college, making repairs on their homes, sometimes staying in their homes, let alone preparing for retirement. So as a member of this committee, the Budget Committee, and the Appropriations Committee, I am very interested to hear what some of the economic consequences you think that there will be if we do not address this problem of rising health care costs in a very fiscally responsible way? So could you maybe talk about the impacts that will increase access to health care and lowering costs that are in this budget and the effects, not just of the short-term but the long-term? And then if you could maybe touch on how decreasing health care costs, what that means for the future of Medicare and other programs for our families, seniors and that?

And with that, I will listen to your answer. Thank you.

Secretary GEITHNER. You said it very well. The President in the budget laid out a set of broad principles to guide our common effort to reform our health care system. And those principles are to protect families' financial health; make health care coverage affordable; to aim for universality; to provide portability of coverage; to guarantee choice; to invest in wellness and prevention; to improve patient care and quality care; and to maintain long-term fiscal sustainability. I think those broad principles provide a framework in which we can come together and reach consensus on how best to fix this system.

And I think you said it exactly right, which is that it is not just a moral imperative, because in a country with these resources, it is just hard to understand why we can't deliver better health care more broadly spread to all Americans, again regardless of how fortunate they are in life. And our system does not deliver high enough quality care, despite how much we spend on it. So you see businesses facing huge increases in costs. Those get passed on to

families. And that is a big burden on the overall economy as a whole. Again, our approach is to try to reduce the level of cost by improving the effectiveness of care, by using information technology in a way to help get a lot of these inefficiencies out of the system, to preserve for people the basic framework of choice that is so important. And this is going to cost money, so we have got to figure out a way to do it that is fiscally sustainable.

What we did in the President's budget is to lay out some very specific ideas for how we can pay for these changes. But it is a critical priority. And as the President said in the State of the Union, it is time to move on this. We can't afford to wait. And I think it is a really important part of the broad set of programs in the budget to give Americans a sense that we are going to be moving towards fixing these long-term problems in ways that will make our economy more productive in the future, grow more rapidly than it otherwise would.

Ms. MCCOLLUM. Mr. Chair, I thank you.

And I believe we are going to see savings when we take care of health care for Americans. And I would hope at some point, we will figure out a way to capture the savings on property taxes, insurance costs, and all the other hidden ways we are paying for this poor health care and lack of health care that we have now.

Chairman SPRATT. Thank you, ma'am.

Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

And thank you, Mr. Geithner, for being willing to participate in this lively debate.

And I want to tell you that, coming from the Mountain West, from Wyoming, you are scaring the wits out of my constituents, you are scaring the wits out of the American people, and this is how it is happening. You have a \$646 billion cap-and-trade proposal in these budgets. And while you expressed a concern that the President wants to undo the huge damage to productive capacity of our economy, cap-and-trade is the biggest damage you can do to the productive capacity of this economy.

We are an energy-producing State; 50 percent of the electricity in this country comes from coal; 20 percent comes from nuclear, both of which are targets of your budget. And yet even if you wanted to go to the cleanest-burning hydrocarbon, natural gas, this budget creates disincentives for the production of natural gas and leads the American people to the assumption and belief that solar and wind can replace nuclear, coal, oil and gas. It cannot. It cannot do it.

And yet you are going to put in a cap-and-trade system that you believe will not impact the American people; yet we know it is a regulated industry and that people who are producing electricity go through a regulatory process that guarantees them a profit as part of their investment. That doesn't happen with the producers of oil, gas, coal, uranium, wind and solar. So your proposal will destroy, I am serious, destroy the productive capacity of my economy.

Here is a couple of ways that it does it. One, it takes the AML moneys, the Abandoned Mine Land Moneys, that were guaranteed to the States under SMACRA and a more recent agreement by Congress for which President Obama voted when he was a U.S.

Senator and takes it away. He is undoing a previous piece of legislation that was agreed on by easterners and westerners, unions and non-unions, Republicans and Democrats, and was supported by President Obama.

Furthermore, you take away the intangible drilling costs deduction for oil and gas producers domestically, domestically. So what you are going to do is send oil and gas production overseas. You are not increasing energy production in the United States. You are making us more dependent on foreign oil and gas. And to take a commodity like natural gas, in particular, that is the cleanest-burning hydrocarbon, and punish it and punish the people in this country that produce it, is the most counterproductive thing that you can do and gets away entirely from the President's goal of not reducing the productive capacity of this country.

So I challenge the statements that you have made. They are inconsistent with the realities of this budget. And I strongly encourage you to revisit the effects of cap-and-trade energy production in this country which will be retarded and it will increase our dependence on foreign oil. And of course, I want your reaction to the fact that you are scaring the wits out of the people in this country that produce energy.

Secretary GEITHNER. I welcome that challenge.

The President is proposing to do what we have not been able to do as a country, which is to put in place an energy policy that will put us on the path to more efficient use of energy, cleaner energy, and to help make that process work more quickly. Now, this proposal will reduce the cost of energy, some forms of energy, to the American economy. It will increase the cost of some other forms of energy to the economy, and we are proposing that for very clear reasons, which is that the American people want us to be more efficient in how we use energy, particularly those forms of energy that contribute to global warming, because of the long-term costs it will present to the economy as a whole.

And you have to look at the overall package in this budget. And the overall effect of these measures will make this economy stronger than it is today, and will lead businesses in this country with a set of powerful incentives instead of—for an example, a zero capital gains rate for small businesses, a very important example. Many small businesses will enjoy lower taxes under this because of Make Work Pay going forward. You need to look at the overall package. And this package of proposals will make the American economy more productive in the future.

Now, I understand your concerns about the impact of these cap and trade proposals. But as a country, it makes no sense for us to continue to actively subsidize the use of energy that is going to contribute to more damaging effects on the environment. And unless we address it as a country, we are going to be less secure and less prosperous.

Chairman SPRATT. We have got time for one more question, and that is from Mr. Scott.

Mr. SCOTT. One more questioner or one more question?

Chairman SPRATT. One more round.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. SECRETARY, a lot of concern has been expressed by those with incomes over \$250,000. I know during the 1990s, the Dow Jones Industrial Average more than tripled for those with those incomes that had investments in stocks, bonds, 401(k)s and that kind of thing showed a substantial increase in assets. It seems to me that improving the economy where the Dow Jones Industrial Average will get back on track to going up rather than down would mean more to people in that income bracket than a 3 percent differential in marginal tax rate. Could you say something about the value of getting the economy back on track as it affects people in the higher income brackets?

Secretary GEITHNER. I think you are absolutely right. The most important thing for us to do is to focus on policies that are going to get growth back on track as quickly as possible; to bring the recession to an end as quickly as possible; and to get our economy back to a place where we are growing at a sustainable rate. The President has proposed and this administration has moved with unprecedented speed to not just work with Congress to pass a very powerful recovery reinvestment act, but to move to take actions to get credit flowing again, to address the housing crisis and propose a very dramatic bold set of proposals in the budget that will again make this economy stronger in the future. The most important thing you can do and that we have to do is to get recovery back on track. That will be overwhelmingly more important than anything else, not just for our long-term fiscal future, but for, again, reducing the damage that a recession like this is going to bring to businesses and families across the country.

Mr. SCOTT. And it would be in the interest of those with incomes over \$250,000 to get the economy back on track much more so than whatever the marginal tax rates that we are discussing would—whatever difference they may make?

Secretary GEITHNER. I completely agree. Another way to think about it, unless we get the recovery established and lay out to the American people a framework that brings our deficits down over time, then recovery will be delayed and growth will be weaker, there will be less private investment and less overall gains in income across the economy as a whole.

Mr. SCOTT. Thank you.

In terms of the auto bailout, would it be cheaper for the government to buy cars rather than lend the corporations money? The advantage there would be that workers would actually have more work to do. After you have done that, it certainly should be just as likely to prop up the auto industry. An added benefit is you get some cars to show for it.

Secretary GEITHNER. You are right to say we need to look at what is going to be the most efficient, the least costly way for the government to help facilitate the kind of restructuring we need. And we will look for the most effective use of taxpayer resources, if we feel there is a case for using taxpayer resources to help facilitate a restructuring.

The really important thing to recognize is that we are going to need substantial restructuring to put these companies on the path to viability. And it is going to require a lot of sacrifice by all the stakeholders in those companies. And we are embarked on a very

careful process of trying to make sure that we can improve the odds of that kind of restructuring.

Mr. SCOTT. And finally, the auto dealers, some of them complained that some of their buyers can't get loans. Is that true? And if so, what are we doing about it?

Secretary GEITHNER. You are right that the financing environment has deteriorated dramatically for the companies and for the overall financing available for cars. And the government has already taken action to put capital into the finance company. And it is—we are, through these direct lending programs we announced on Tuesday, trying to get the auto finance market to start to open up again. But any effective solution to address the crisis facing the auto industry is going to have to directly address these problems in the financing markets, which are making everything harder.

Chairman SPRATT. Mr. Secretary, could I ask you to take one question each?

Secretary GEITHNER. Absolutely.

Chairman SPRATT. Go ahead, Mr. Nunes. One question if you will.

Mr. NUNES. Thank you, Mr. Chairman.

Mr. SECRETARY, I was glad to hear that you are a supporter of American agriculture. I sent a letter—actually two letters now to President Obama regarding a regulatory drought that we are experiencing in California where we are on the verge of idling 500,000 acres of the most productive farmland in the world. UC Davis just came out with a study that said that that was going to cost us 80,000 jobs. My home county is at 15 percent unemployment, likely headed to 20 if this occurs. I would invite you, President Obama, we can all go have a big job-saving party. All we have to do is turn on the pumps in the delta so that we can pump water south. This is a regulatory drought dealing with ESA issues. But this is a very, very serious issue that we absolutely—I wanted to raise with you here today so that you know the seriousness of it. I want to talk a little bit about—

Chairman SPRATT. Mr. Nunes, would you—basically would you reduce it to a question because he has got to get to the White House for a function at 1:00 and he needs to leave here—12:30 was the agreed-upon time, and we have stretched it out.

Mr. NUNES. That was a statement. Can I just ask a quick question on cap-and-trade?

Chairman SPRATT. A quick question would be fine.

Mr. NUNES. The point I want to make is that, in California, we attempted to limit greenhouse gases. I think that we can all agree that that is a good thing to do and you won't have any argument from me.

However, what we have seen in California is we went to 14 cents a kilowatt in our cost of electricity now which is contributing to this outflow of migration leaving the State and jobs leaving the State. This is—just to throw out there, this is kind of an example. But in the stimulus bill, we spent a trillion dollars roughly. That trillion dollars would build at least 200 new nuclear reactors, which would get us, just hypothetically here, would get us to almost 80 percent of our electricity produced emission-free from nuclear power. And I think if you and I sat down and came up with a real

plan how we are going to provide cheap, abundant electricity on the market, that at the end of the day, we could go through solar, wind, fossil fuels, and we would always come back to the same thing, that we have to invest in new nuclear power reactors. And I would hope that—and I would like to hear your answer to this, that we would look at building these 200 reactors or some number. And do you guys have a plan of getting these reactors on line and how many should we expect should be built in the next 5 to 10 years? Or should we expect any at all?

Secretary GEITHNER. Excellent question, but it deserves a more thoughtful response than I can give you here. I would be happy to talk to my colleagues on the energy side and come back to you with a detailed response to that question.

Mr. NUNES. Well, fair enough. I hope that we can look seriously at reducing the burning of fossil fuels, and I think nuclear power is going to be the way to do it.

Mr. Chairman, I want to thank you for indulging me.

Chairman SPRATT. Mr. Yarmuth, one question quickly.

Mr. YARMUTH. Thank you, Mr. Chairman. I won't make a speech. If I picked up a newspaper on Sunday and saw a sale that was, for 2 days only, 40 percent off, and that was Monday and Tuesday. And I went into the store on Wednesday, and I had missed the sale and was back to regular price, would I have a legitimate argument in saying that they had raised the price or just that I had missed the opportunity to take advantage of that? And my question is, is that an apt analogy to the issue of whether we are actually raising taxes under this budget? And is there any evidence that the tax—that sale that we gave to the wealthiest individuals in the country over the last 6 to 8 years has had any measurable benefit to anyone in the economy outside of those individuals?

Secretary GEITHNER. Understand the analogy. I think that it is fair to say that economists are debating what the impact was.

I think what you can say is you saw relatively small benefits on actual growth rates relative to what it did to our long-term fiscal costs. And in looking at all these kind of things, what you want to do is just find a measure, a set of measures that have substantial effects on incentives and growth at the least cost for long-term fiscal prospects. And that is the balance you want to achieve. And in my judgment and the judgment of many economists, we got that balance wrong in the earlier part of this decade.

Chairman SPRATT. Mr. Garrett, one question, please, sir.

Mr. GARRETT. Thank you.

Thank you. There was a total lack of—or disbelief when the administration and yourself rolled out your reform efforts several weeks ago and the markets reflected that. There continues to be a lack of confidence in the market with this administration as regards to the proposal they have laid out. And now the administration says that they want to have a total regulatory reform basically in place, not just principles in place, for the G-20. How do you intend to reestablish that confidence by doing a rush to judgment on regulatory reform and a continued vacillation on some of these other proposals and establish that in a short period of time?

Secretary GEITHNER. Congressman, I just want to say that we have two important obligations now. One is to move together to try

to get credit flowing into the financial system. And we have laid out a framework of efforts to do that, and we are moving quite quickly to put in place a program of capital support and direct credit lending on a substantial scale to help get credit markets flowing again.

But we also need to move to demonstrate to the American people and to the world that we are prepared to put in place the set of reforms necessary to prevent a crisis like this from happening again. We are not going to rush to judgment. It is going to be hard to do. And we are going to have to do it very carefully working with you. A lot of work has been done on this area. You are right to say it is going to be a complicated task, but I think it is important that we start that process quickly. And we look forward to working with you and your colleagues on how best again to begin that process of putting in place reforms to prevent this from happening. Because if we don't do that, then we are going to be leaving people with, I think, a deeper concern about whether we have the will together to fix this broken system.

Mr. GARRETT. I appreciate that.

Thank you.

Chairman SPRATT. That concludes the hearing. Thank you very much, Mr. Secretary, for your excellent and forthright answers. And we look forward to working with you on this problem in the months ahead.

Secretary GEITHNER. Thank you, Mr. Chairman.

Chairman SPRATT. Before we finally adjourn, all members who did not have the opportunity to ask questions will be given 7 days to submit the same for the record.

Without objection, so ordered.

[Questions for the record, submitted by Mr. Aderholt, and their responses follow:]

QUESTIONS FOR THE RECORD FROM HON. ROBERT B. ADERHOLT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA, AND SECRETARY GEITHNER'S RESPONSES

*1. The President says he is reducing taxes for 95 percent of the population. Will the cap and trade proposal affect those making less than \$250,000?*

The President's clean energy agenda begins with an effort to lower the energy costs of American families through the American Recovery and Reinvestment Act (ARRA). A variety of tax credits, including credits for residential energy efficient investments, will reduce the carbon footprint of families and facilitate the transition to a clean energy economy while also reducing energy use and thus costs. In addition, the weatherization program provided for in ARRA will also lower energy bills by improving the energy efficiency of low-income residences.

The Administration is looking forward to working with key stakeholders and the Congress to fully develop a program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. The program will be implemented through an economy-wide cap and trade program in which all emission allowances will be auctioned to ensure that the biggest polluters do not enjoy windfall profits. The Administration's budget reflects the proceeds from the emission allowance auction only to the extent they are reserved for clean energy technology initiatives and to compensate families through the Making Work Pay Tax Credit. Additional revenues generated from an emission allowance auction above those shown in the budget will be used to compensate vulnerable households, communities, and businesses for increased energy costs. The exact form and amount of compensation will be determined as the emission reduction program is developed.

*2. How much of the national debt is held by foreign investors? Considering that the Chinese are now developing their own economic stimulus plans, how will that affect their inclination to continue holding our debt?*

China's economic stimulus plan should not have a material effect on China's willingness to hold Treasury securities relative to any other securities in their portfolio of foreign exchange assets. We have long encouraged China to shift towards domestic demand—particularly household consumption—as a source of future Chinese growth. Such a shift would reduce global imbalances and the requirement to finance them, and would help assure sustainable global growth.

3. *Through TARP, Treasury has already guaranteed up to \$25 billion in loans for automakers GM and Chrysler. In an annual report released in March 2009, GM stated that it might have to seek bankruptcy protection. Will GM and Chrysler be receiving additional TARP funds?*

The Presidential Task Force on the Auto Industry (including Treasury) remains committed to providing Chrysler and GM with sufficient assistance to help give them a chance to achieve financial stability. The task force is evaluating their restructuring efforts and the alliance being proposed for Chrysler. As the President laid forth in his announcement on March 30th, we will not be making any further decisions until the self-imposed deadlines, which was 60 days to the date for GM and 30 days to the date for Chrysler.

For Chrysler, as the President noted in his announcement on April 30th and his commitment on March 30th to provide both adequate working capital to help Chrysler through this restructuring period and a loan up to \$6 billion to the Chrysler-Fiat Alliance, the U.S. government has committed to provide assistance sufficient to help give Chrysler a chance to achieve financial viability. Working capital: The U.S. government is prepared to provide approximately \$3.3 billion in debtor in possession financing to support Chrysler through an expedited chapter 11 proceeding.

- Loan to the New Chrysler: Upon closing, the U.S. government loaned \$6.6 billion to New Chrysler including proceeds of \$6.3 billion and a guarantee of \$350 million that is expected to remain undrawn. This loan was made in the form of a term loan with \$2.0 billion due in 30 months and the balance 50% due on the 7th anniversary and 50% due on the 8th anniversary of the loan. The interest will be an appropriate combination of cash and payment-in-kind. There is also an additional note of \$288 million which is a fee for making these loans. The loans will be secured by a first priority lien on all of Chrysler's assets.

- For GM, after the President's March 30th announcement, the Administration provided GM with \$6 billion of working capital for 60 days while the Company developed a more aggressive restructuring plan and a credible strategy to implement such a plan. During that time period, Treasury also placed \$361 million in an SPV for the Auto Warranty Commitment Program, which will not be drawn, and Treasury exchanged an \$884 million loan to GM for a portion of GM's equity interest in GMAC. From the date of GM's filing for bankruptcy until the completion of the 363 sale of assets to the New General Motors, the Administration funded \$30.1 billion of debtor-in-possession financing to the company.

[Questions for the record, submitted by Mr. Blumenauer, and their responses follow:]

QUESTIONS FOR THE RECORD FROM HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON, AND SECRETARY GEITHNER'S RESPONSES

ENERGY AND CLIMATE CHANGE

1. *As the President's budget indicates, global warming is one of the greatest challenges the world faces. The Ways and Means Committee is poised to play an important role in legislative solutions, including the cap and trade proposal outlined in the budget. In addition to new legislation, however, we should examine existing policies to ensure that our federal efforts are not working at cross-purposes. For example, the federal tax code is replete with incentives, some direct and others unintentional, that encourage carbon-intensive activities. To address these concerns, this Committee drafted a provision that was included in the energy tax package that passed the House last year requiring a "carbon audit" of the tax code. Under this provision, Treasury Dept. must contract with the National Academy of Sciences to undertake a "comprehensive review of the Internal Revenue Code to identify the types of and specific tax provisions that have the largest effects on carbon and other greenhouse gas emissions and to estimate the magnitude of those effects." Do you know whether the Department has initiated this study yet? If not, when do you plan to do so?*

*(FYI: we sent a letter, co-signed by Reps. Doggett, Larson, and Stark, to then-Treasury Secretary Paulson back in December urging them to start and requesting a response. We never heard back. A copy of this letter is included.)*

**Congress of the United States**  
Washington, DC 20515

December 9, 2008

Henry M. Paulson, Jr.  
Secretary of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

Dear Secretary Paulson:

We write in strong support of the important provision of the Emergency Economic Stabilization Act of 2008 (P.L. 110-343, Division B, Title I, Sec. 117) that requires a "carbon audit" of the tax code and seek its quick implementation.

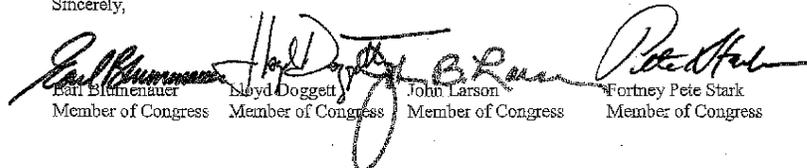
Under this provision, the Secretary of the Treasury must contract with the National Academy of Sciences to undertake "a comprehensive review of the Internal Revenue Code of 1986 to identify the types of and specific tax provisions that have the largest effects on carbon and other greenhouse gas emissions and to estimate the magnitude of those effects." The study will greatly assist our legislative response to global warming.

As you are aware, global warming is one of the greatest challenges the world faces. To reduce greenhouse gas emissions and avoid the most devastating consequences to our planet, Congress and the administration will need to move quickly to develop legislative solutions. The Ways and Means Committee is poised to play an important role in this effort. In addition to new legislation, however, an examination of existing policies is also warranted to ensure federal policies are not working at cross-purposes. For example, the federal tax code is replete with incentives, some direct and others unintentional, that encourage carbon-intensive activities. The required study will enable Congress to avoid unintended consequences and seize new opportunities to transition to a carbon-constrained economy.

The required study will provide the administration and the Ways and Means Committee with the unbiased, scientifically-based information necessary to help us formulate tax policies aimed at reducing emissions and mitigating climate change. The National Academy of Sciences is ready and eager to move forward with this study.

Thank you for your attention to our request that you act expeditiously to initiate this study. We look forward to a response from you regarding your expected timeline for the implementation of this provision.

Sincerely,

  
 Earl Blumenauer    Lloyd Doggett    John Larson    Fortney Pete Stark  
 Member of Congress    Member of Congress    Member of Congress    Member of Congress

PRINTED ON RECYCLED PAPER

Section 117 of the Energy Improvement and Extension Act of 2008 (Division B of the Emergency Economic Stabilization Act of 2008) requires the Secretary of the Treasury to enter into an agreement with the National Academy of Sciences to undertake a carbon audit of the tax code and authorizes the appropriation of \$1.5 million to carry out this requirement. Although authorized, the funds that would enable the Treasury Department to enter into an agreement with the National Academy of Sciences have not yet been appropriated.

2. I was pleased to see the comprehensive climate change legislation proposed in the President's budget. The summary document indicates that the program will be implemented through a cap-and-trade system which will include 100% auction to "ensure that the biggest polluters do not enjoy windfall profits," and that a majority of the auction revenues will be spent on "investments in a clean energy future" and "returned to the people." Do you have any more details on how the administration

*envisions spending the revenues? In addition to the “Making Work Pay” tax credit, does the administration envision other tax policies to support its greenhouse gas reduction goals?*

The President’s clean energy agenda begins with an effort to lower the energy costs of American families through the American Recovery and Reinvestment Act (ARRA). A variety of tax credits, including credits for residential energy efficient investments, will reduce the carbon footprint of families and facilitate the transition to a clean energy economy while also reducing energy use and thus costs. In addition, the weatherization program provided for in ARRA will also lower energy bills by improving the energy efficiency of low-income residences.

The Administration is looking forward to working with key stakeholders and the Congress to fully develop a program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. The program will be implemented through an economy-wide cap and trade program in which all emission allowances will be auctioned to ensure that the biggest polluters do not enjoy windfall profits. The Administration’s budget reflects the proceeds from the emission allowance auction only to the extent they are reserved for clean energy technology initiatives and to compensate families through the Making Work Pay Tax Credit. Additional revenues generated from an emission allowance auction above those shown in the budget will be used to compensate vulnerable households, communities, and businesses for increased energy costs. The exact form and amount of compensation will be determined as the emission reduction program is developed.

[Questions for the record, submitted by Mr. Connolly, and their responses follow:]

QUESTIONS FOR THE RECORD FROM HON. GERALD E. CONNOLLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA, AND SECRETARY GEITHNER’S RESPONSES

*1. Under the previous Administration, the initial TARP funding was directed to banks and large institutions. With its Housing Affordability and Stabilization Plan, does the current Administration believe that individual homeowners were underserved by the economic recovery efforts of the past?*

All of the initiatives the Administration has introduced under the Emergency Economic Stabilization Act (EESA) have had the common goal of stabilizing the financial system in order to avoid systemic failures and to prevent a deeper recession and further damage to the productive capacity of the American economy. Rather than focusing on specific constituencies or segments of the population, the Administration has laid out a broad strategy designed to address the major challenges facing the financial system in order to support the broader economy and benefit all Americans. The Administration’s housing initiatives address one of these major challenges while complementing other Financial Stability Plan initiatives focused on strengthening confidence in financial institutions, re-starting credit markets, increasing liquidity for legacy assets, and developing a modern financial regulatory regime.

The ongoing adjustment in the housing market remains at the center of the economic and financial crises. Falling home prices are a major financial challenge for many families. At the same time, financial losses related to the housing sector adjustment continue to be a significant headwind for banks and other financial institutions. Foreclosures are particularly problematic because they not only impose significant financial and emotional burdens on families; they are also costly for communities and neighborhoods. For all these reasons, addressing the housing crisis and reducing foreclosures is an important objective. We have taken aggressive action to prevent avoidable foreclosures with up to \$75 billion (\$50 billion of which is from TARP funding) pledged to the Home Affordable Modification Program and will reduce monthly mortgage payments to an affordable and sustainable level for as many as 3 to 4 million struggling borrowers. We have also introduced a Home Affordable Refinance Program to help as many as 4 to 5 million borrowers who—through no fault of their own—have suffered home price declines that had prevented them from taking advantage of today’s low rates. We have also taken important steps to strengthen confidence in Fannie Mae and Freddie Mac, and alongside the Fed we have helped push mortgage rates to historic lows, increasing refinancing nationwide.

*2. You recently reported that almost one in five mortgages in the country have zero or negative equity. With continuing falling housing values, millions more Americans will find themselves underwater unless we act on their behalf. In my home district, the 11th of Virginia, housing values this past year fell almost 13% in Fairfax County and 32% in Prince William County. As you noted in your written testimony, 2.5 million Americans lost their homes last year. In addition to the over 10,000 foreclosures*

*in my district, many thousands more homeowners currently owe more on their principal mortgage than the value of their home. How will the President's Housing Affordability and Stability Plan assist homeowners with negative equity, but not currently facing foreclosure?*

Falling home values in Fairfax and Prince William counties, as in other counties across the country, have made it challenging for families to refinance their mortgages or sell their homes. Even borrowers with perfect credit who are current on their mortgages may be unable to take advantage of historically low interest rates if they have insufficient equity in their home. The Making Home Affordable Refinancing program is designed to allow borrowers with mortgages owned or guaranteed by Fannie Mae or Freddie Mac to refinance even if the loan-to-value (LTV) ratio on their first mortgage increases to as high as 105%.

The Administration's housing plan also provides support for families who are struggling with their mortgage payments and, because home values have dropped, are unable to sell or refinance. The Making Home Affordable Modification program can help homeowners with negative equity reduce their mortgage payments to affordable levels. There is no LTV ceiling to qualify for the modification program, so being underwater does not disqualify borrowers from taking advantage of the program.

The Home Affordable Modification Program uses incentives to servicers and investors to reduce borrowers' interest rates—or write down their principal, if the servicer chooses—to bring down the monthly payment to a level the borrower can afford. Additional incentives are available to borrowers to help them pay down their principal more quickly. The Administration also supports amendments to make Hope for Homeowners, a program designed specifically to help underwater borrowers, more widely available.

*3. The credit crunch that precipitated the difficulties in the financial sector has had troubling effects on municipal governments and their ability to issue municipal debt in order to fund critical infrastructure programs across the country. While Congress looks for a legislative solution to allow municipalities to access credit, do you anticipate a role for the Treasury Department in removing the barriers to capital?*

*Thank you for your time, Secretary Geithner; I look forward to working with you and the Administration as we fashion the Fiscal Year 2010 budget.*

Treasury is currently evaluating developments within the municipal market and analyzing potential policy options to address liquidity concerns. As part of this process, Treasury continues to maintain an ongoing dialogue with various market participants, government entities and other experts. Effective policy options should satisfy the following broad principles:

- Minimize the burden on U.S. taxpayers;
- Encourage private markets and avoid anti-competitive solutions;
- Preserve market integrity; and
- Increase market liquidity.

Once this process is completed, Treasury will be better positioned to offer possible recommendations for implementation.

[Questions for the record, submitted by Mr. Langevin, and their responses follow:]

STATEMENT AND QUESTIONS FOR THE RECORD FROM HON. JAMES R. LANGEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF RHODE ISLAND, AND SECRETARY GEITHNER'S RESPONSES

Secretary Geithner, thank you for testifying in front of this committee today. Each passing day paints a clearer picture of the stark economic challenges we currently face—just in my home state of Rhode Island, our unemployment is at 10.3 percent, we have seen a sharp contraction in manufacturing output, home values remain in decline and millions of properties continue into foreclosure nationwide.

At the center of this crisis are our capital and credit markets, which have become virtually paralyzed in the wake of the subprime mortgage meltdown. In an attempt to address this, Congress has appropriated hundreds of billions of dollars for the Troubled Asset Relief Program (TARP) and the Recovery Act. We will now be considering a request for an additional \$250 billion contingent reserve for further financial stabilization in FY10.

It appears very clear to me that one of the key drivers of our economy is small business, as is the case in Rhode Island. And yet the media has been dominated by reports of relief to our country's financial and manufacturing giants.

## QUESTIONS FOR THE RECORD

*1. Can you please take this opportunity to specifically outline how the tax relief set forth in the budget will impact our nation's small businesses?*

The President's Budget proposes several steps that will help small businesses.

Eliminate capital gains taxation on small businesses. The President's Budget will provide small business owners with a new zero capital gains rate on new investments in their businesses, which should help them plan for expansion and succession. Current law provides individuals a 50-percent exclusion from tax for capital gains realized on the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of \$10 million or 10 times the taxpayer's basis in the stock. For stock issued after February 17, 2009 and before January 1, 2011, the exclusion is 75 percent. The Administration proposes to increase the exclusion to 100 percent.

Make permanent the 2010 limits for small business expensing. The President's Budget will prevent the small business expensing provision (section 179) from returning in 2011 to the levels in effect before 2003. Instead of reverting to a maximum deduction of \$25,000 that begins phasing out at \$200,000 of total qualifying investment, the 2010 levels will be made permanent, meaning a deduction of up to \$125,000 and with the phase-out beginning at \$500,000 of total qualifying investment (indexed for inflation after 2006).

Extending the current rate structure for families earning less than \$250,000 after 2010. Most owners of small businesses pay taxes on their business income at their individual rate, and thus extending the current rate structure for single filers with income below \$200,000 and for joint filers with income below \$250,000 means that over 97 percent of small business taxpayers will either receive a tax reduction or see no change in their taxes when the rate structure is extended.

Make permanent the tax credit for research and experimentation. By making this credit permanent, the President's Budget will help provide more incentives for innovation and increase stability in the tax code.

*2. What percentage of small businesses will see their taxes reduced under this plan?*

Most small businesses are organized in ways that the businesses themselves don't pay taxes, but the owners do. This is true for sole proprietorships, partnership, and S corporations. We estimate that over 97 percent of small businesses will receive additional tax relief or see their rates remain unchanged when the current rate structure for families earning less than \$250,000 is extended after 2010.

*3. You just recently announced a new "Financial Stability Plan" to provide up to \$1 trillion in financing capacity. While I am sure there are many details that still need to be worked out, I am very interested in learning more about how this plan will be used to leverage financing for small businesses.*

*What programmatic steps will be taken and investments made to restore liquidity to the frozen secondary credit markets and increase SBA lending—particularly within the SBA 7(a) loan program?*

In 2008, the Small Business Administration (SBA) typically guaranteed about \$18 billion in loans, but this year new lending is trending below \$10 billion. While some of this decline is due to the weakening macroeconomic environment, much of the slowdown in lending is due to problems in the secondary market for SBA securities. In the past, banks would originate SBA-guaranteed loans to small businesses, and then sell a portion of these loans to a broker. The broker would then bundle a number of similar loans together into a security, which was ultimately sold to investors. This process of securitization was an important source of liquidity for banks, and accounted for over 40 percent of all loans guaranteed by the SBA.

However, since October 2008, this market has ground to a halt. The investor base for these securities has essentially walked away, leading to a backlog in credit markets that has had a profound impact on small business lending. Given that there are fewer investors willing to purchase these securities, banks throughout the country have become less willing to originate new small business loans. If banks do not believe that they can sell a portion of their SBA loans into the secondary market, they are less willing to originate new loans to creditworthy small businesses.

As part of its Financial Stability Plan, the Obama Administration has implemented several programs to strengthen our banking system and provide financial institutions with the capital and the confidence they need to restart lending to businesses and families. But Treasury has also taken steps directly targeted towards unlocking credit for small businesses:

- Higher Guarantees and Lower Fees for SBA Loans: Treasury worked closely with the SBA to ensure that \$730 million was included in the American Recovery

and Reinvestment Act to—among other measures—temporarily raise guarantees to up to 90 percent in the SBA’s 7(a) loan program and temporarily reduce SBA fees for eligible loan guarantees. The 7(a) program—the SBA’s largest—is specifically designed to help small businesses who cannot find credit elsewhere access capital by guaranteeing loans up to \$2 million, and 7(a) loans can be used to finance purchases of land, buildings or equipment as well as working capital. Higher SBA loan guarantees will ensure that lenders have greater safeguards against possible losses, which should encourage lending to small businesses. Temporarily eliminating certain SBA loan fees—which could save a business owner \$31,500 if he or she took out a \$1 million 7(a) loan with a 90 percent guarantee—will help encourage small businesses to borrow, and banks to lend.

- **Efforts to Improve the Terms of the TALF for SBA Loans:** The Term Asset-Backed Securities Loan Facility (TALF) provides investors with financing in an effort to stimulate demand for asset-backed securities—including securities backed by SBA loans—and unlock frozen secondary markets. In February, Treasury and the Federal Reserve worked together to improve the terms with which the TALF lends against SBA securities to make it more attractive to use TALF financing to purchase these assets. Coupled with the Treasury’s purchase program described below, we expect the TALF to encourage private investment in SBA securities.

- **\$15 Billion in Direct Purchases:** In an effort to build on those earlier steps, Treasury announced its intention in March to make up to \$15 billion in direct purchases to unlock lending in SBA’s secondary markets. By doing so, Treasury is providing an assurance to banks and other lenders that if they originate a new 7(a) or 504 first-lien loan, there will be a buyer in the secondary market, which will provide them with money they can use to extend more credit to other borrowers. This measure works together with the temporary increase to up to 90 percent loan guarantees and the temporary elimination of SBA loan fees to help encourage banks to lend. These efforts mean that lenders will know both that they have greater protection against losses during these difficult economic times and that they can securitize loans to get new money to lend to more small businesses.

- **Call for Banks to Increase Reporting for Small Business Lending:** Last month, Treasury announced that the 20 largest recipients of assistance through our Financial Stability Plan will be required to report their small business lending every month. In addition, we called for bank supervisors to require all banks nationwide to report their small business lending every quarter—rather than simply once a year. Together, these changes should make it easier for us to track whether or not banks are lending to small businesses, and how well government efforts are doing to stimulate this lending.

- **Targeted Tax Relief for Small Businesses:** As part of the Recovery Act, the Obama administration has implemented several tax cuts that increase liquidity for small businesses, including a provision that allows small businesses to “carry back” their losses for up to five years instead of two, effectively allowing them a rebate on taxes paid in recent years.

As President Obama said on March 16, these efforts are only part of the Administration’s plan to improve the flow of credit to small businesses. In the coming weeks, we intend to further our efforts to ensure creditworthy small businesses can borrow the money they need to maintain and expand their operations, and I am open to any ideas from Congress as to how we can best accomplish that goal.

#### *4. How much small business lending is expected to be leveraged under these initiatives?*

As noted above, while the SBA has typically guaranteed about \$18 billion in loans in 2008, that figure was trending below \$10 billion for 2009 prior to the actions taken by the Administration through the American Recovery and Reinvestment Act and the Financial Stability Plan. In the first quarter of FY2009, lending in the 7(a) program was down 57 percent from the previous year. As much as \$3 billion in loans remains on the books of community banks, preventing them from making new loans even to businesses with strong credit histories.

It is difficult to project exactly how much small business lending will be leveraged through our efforts, but our pledge to make up to \$15 billion in direct purchases is an illustration of our commitment to stand ready to make any purchases necessary to restart the secondary market for SBA loans. As in any recession, we anticipate that demand for small business loans will remain somewhat diminished, despite our efforts to increase access to credit. However, in the weeks following our March 16 announcement, average weekly loan volume for the 7(a) program is up more than 20 percent over the period from January 1 to mid-March. While we cannot identify an exact figure for increased lending for the rest of the year, we do anticipate that the actions we take across several different channels will provide banks

with the confidence to originate significantly more lending than they would have otherwise done.

5. *Broadly speaking, when do you anticipate we will start to see an impact of the recovery package that Congress passed last month?*

Some parts of the American Recovery and Reinvestment Act (ARRA) have already begun to have an effect. For example, starting in early April, withholding was reduced to allow the speedy distribution of tax relief. The unfolding of recovery programs is being carefully monitored and publicized at an easy-to-use government web site, which is updated nearly every day ([www.recovery.gov](http://www.recovery.gov)). We expect to see noticeable benefits from the stimulus program in the second half of 2009, with strong growth continuing through 2010 and 2011.

Among the highlights of recent announcements related to the provisions of ARRA:

- **Providing State Fiscal Relief:** The Department of Health and Human Services has made approximately \$87 billion available to States through increases in the Federal Medical Assistance Percentage (FMAP), which defines the percentage rate at which the Federal government provides matching funding for most Medicaid and certain foster care and adoption assistance expenditures. This change results in an increase in the Federal portion (and a corresponding decrease in the non-Federal portion) of such expenditures. With respect to Medicaid, States to date have drawn down nearly \$17 billion of the approximately \$87 billion in additional Federal funds, which contributes to State fiscal relief. States will have until December 2011 to draw down Federal funds at this higher matching rate.

- The federal government will send out \$250 economic recovery payments to people who receive Social Security and Supplemental Security Income (SSI) benefits beginning in early May 2009 and continuing throughout the month.

- The U.S. Department of Housing and Urban announced in mid-March that, subject to HUD approval, public housing authorities can begin spending nearly \$3 billion to make significant improvements to tens of thousands of public housing units nationwide. HUD is informing 3,122 local housing authorities in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands that spending can begin on a backlog of previously underfunded capital improvement projects.

- On April 1st, Secretary of Education Arne Duncan made available \$44 billion for States and schools under the American Recovery and Reinvestment Act (ARRA). These funds will help avert teacher layoffs in public schools and tuition increases in public colleges, while driving crucial education reforms. On April 13, the Secretary released an additional \$108.8 million in Recovery Act funding.

- **Making Work Pay Tax Credit:** The Making Work Pay (MWP) Tax Credit provides a tax credit for more than 95% of working families—over 120 million households—in the United States, providing up to \$400 for working individuals and \$800 for working households, and increasing families' net income by more than \$65/month. According to ADP, the nation's largest payroll service provider, more than 80% of workers paid through ADP received the MWP tax credit in paychecks dated March 1 or later and essentially all their clients began using the new withholding tables by March 6th. During the recovery period, MWP is expected to put more than \$100 billion into the pockets of hard-working Americans.

- **Expansion Of The First-Time Homebuyer Tax Credit:** On February 25, 2009 Treasury announced the expansion of the First-Time Homebuyer Tax Credit which allows eligible taxpayers to receive a tax credit of up to \$8,000 on either their 2008 or 2009 tax returns. Unlike with the prior first-time homebuyer credit, individuals do not need to pay this credit back. This credit will contribute to stabilizing the housing market and is estimated that it will help 1.4 million Americans purchase their first home by providing over \$6.5 billion in credits. Over \$3 billion of credits have already been paid out to first-time homebuyers.

- **Build America Bonds:** The Build America Bonds, Qualified School Construction Bonds, and Qualified Zone Academy Bonds programs are intended to help states and localities pursue needed capital projects, such as infrastructure development and public school construction. Based on the most recent available data from Bloomberg and Treasury calculations, as of July 10, 2009, approximately \$14.844 billion in Build America Bonds had been issued in approximately 159 bond issues. Some have estimated that over the next year to 18 months, between \$100 billion and \$150 billion may hit the market.

The hearing is concluded.

[Whereupon, at 12:38 p.m., the committee was adjourned.]