

**PRESIDENT'S FISCAL YEAR 2010
BUDGET OVERVIEW**

HEARING
BEFORE THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED ELEVENTH CONGRESS
FIRST SESSION

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MARCH 3, 2009
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**PRESIDENT'S FISCAL YEAR 2010
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TUESDAY, MARCH 3, 2009

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

The Committee met, pursuant to notice, at 12:35 p.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 24, 2009
FC-2

CONTACT: (202) 225-5522

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2010 Budget Overview with U.S. Department of the Treasury Secretary Timothy F. Geithner

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on the overview of President Obama's budget proposals for fiscal year 2010. **The hearing will take place on Tuesday, March 3, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 12:30 p.m.**

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

FOCUS OF THE HEARING:

On February 26, 2009, President Barack Obama will submit an overview of his fiscal year 2010 budget to Congress. The budget overview will detail his tax proposals for the coming year, as well as provide an overview of the budget for the Treasury Department and other activities of the Federal Government. The Treasury plays a key role in many areas of the Committee's jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Rangel said, **"I believe the Administration has gotten off to a promising start. I enjoyed working with Secretary Geithner on the economic recovery package and look forward to hearing him present an overview of the President's budget. This year's budget comes at a time of great concern about the economy and presents us with an opportunity to work together to move our fiscal policy in new directions and seek bipartisan solutions to the economic challenges facing American families."**

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "111th Congress" from the menu entitled, "Committee Hearings" (<http://waysandmeans.house.gov/Hearings.asp?congress=19>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, complete all informational forms and click "submit" on the final page. **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, March 17, 2009. Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman RANGEL. The Committee on Ways and Means will come to order.

This is a crisis in our country. A historic role for the Congress and our Committee, and we are fortunate to have someone that has dedicated his life to his country. We welcome the Secretary to come here and to share with us the direction which he and our President would like to take. We can't promise you unanimity, but we can promise you civility as we all are concerned, Republican and Democrat, majority and minority, with the welfare of our great Nation.

Because of the restriction on your schedule, I will ask formally what I requested of the minority Ranking Member of the Committee, whether we would consider reducing the normal amount of time for each Member to 3 minutes so that everyone would have the best chance that we can to ask their questions.

Mr. CAMP. Yes, Mr. Chairman, I think that would certainly help give us all a chance to have an opportunity to question. So, thank you.

Chairman RANGEL. Thank you. Well, we have a major problem, of course, with our economy. The fact that we inherited it doesn't mean that we don't have the responsibility to work our way out of this.

It is clear that we are going to be asking some severe sacrifice from our constituents, but at the end of the day, we would know that we will be making major investments in the health of our country, the education of our country, the building of our infrastructure. We will try to make certain that we do this with a budget that America can understand, that certainly would include the

cost of national defense, the AMT, which we know is not going to go away, the reimbursement of doctors, the realistic view of funds that may be necessary as it relates to disasters.

This means some painful decisions have to be made, and some have already been made. So we look very closely—we look to work very closely with you, Mr. Secretary, because you are going to have to give us the confidence to be able to go get the votes and have the confidence of the American people.

So, at this point in time, I would like to yield to the ranking minority Member and thank him for the cooperation that he has extended in recognizing that a lot of these decisions would have to be political, but we will try to make it as easy as possible for you to negotiate through the legislation and the budget that you will be recommending to us. At this time, I yield to Mr. Camp.

Mr. CAMP. Well, thank you very much, Mr. Chairman. Welcome, Mr. Secretary. Mr. Secretary, the President's budget increases taxes on every American and does so during a recession. Let me also point out that what the President gives in some tax relief, he more than takes away in his new energy taxes.

As the President has said, and you can read on the screens, and I quote, "under his plan of cap and trade system, electricity rates would necessarily skyrocket. Coal power plants, natural gas, you name it, whatever the plants, where, whatever the industry was, they would have to retrofit their operations. That will cost money. They will pass that money on to consumers."

The \$0.20 an hour you might get under Make Work Pay would barely cover the added \$1.60 a gallon that EPA says that gas could cost, let alone the potential for an 80 percent jump in electricity rates. Of course, both of these pale in comparison to the potential jobs losses which the National Association of Manufacturers estimates to be in the range of 3 to 4 million. That hit would be absolutely devastating to my home State of Michigan.

I am equally concerned that this new tax would have the perverse effect of harming our shift to cleaner renewable fuels right here in America. To manufacture the energy technologies of tomorrow, we need to utilize the abundant and low cost energy sources of today. Take, for example, Hemlock Semiconductor and Dow Corning, both with facilities in my district. One makes the raw materials while the other manufactures the initial portion of the next generation of solar panels.

As you can well imagine, I and many in the region are supportive of and excited about this new growing venture. However critical to their growth and the region's economic recovery would be massive sources of energy and clean coal would provide that source of energy.

Now, Mr. Secretary, my concern turns to the viability of such projects under your new energy tax proposals. If these projects are to be saddled with new regulations and new costs, which the President rightly noted would be passed on to consumers, how do they get off the ground? How do we grow our economy without new energy sources?

As much as we may wish we could, you can't power a plant with solar alone. You can't fly a commercial airliner with wind alone.

You certainly cannot expect American families to prosper under massive new energy costs.

There is much in this budget I hope we have the chance to discuss. Taking a pass on Social Security reform, higher taxes on the American energy producers, higher taxes on small businesses, higher taxes on investments. But I am most interested in hearing your explanation as to how dramatically increasing the cost of energy in this country, A, helps families, and, B, helps create jobs.

This and many of your other proposals have failed to ignite confidence in the market. In fact, since the President's election, the stock market has declined a staggering 28 percent, \$3 trillion. Frankly, Mr. Secretary, that drop has decimated the savings, investments, and retirements of millions of Americans.

I sincerely hope we will hear today how you hope to reverse that direction and get our economy moving against so that Americans can go back to work. With that, I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Levin is recognized. Well, I assume that the Administration's position still was the reduction of taxes for 95 percent of the tax base. I assume he still wanted climate control. So, I don't know whether there is any real differences. You may respond.

Secretary GEITHNER. Should I proceed with my opening statement?

Chairman RANGEL. Yes, the Secretary is recognized.

**STATEMENT OF HON. TIMOTHY F. GEITHNER, SECRETARY,
UNITED STATES DEPARTMENT OF THE TREASURY**

Secretary GEITHNER. Thank you, Mr. Chairman, Ranking Member Camp and Members of the Committee. Thank you for giving me the chance to appear before you today to discuss the Administration's fiscal year 2010 budget. It is an honor to appear before you. I look forward to working with you. We have much to do for our country and we are going to need to work together to make that happen.

I have submitted a more detailed statement for the record. I just want to summarize my statement with a few opening remarks.

Mr. Chairman, we start—we start this debate about the budget, we start this Administration and this Congress with a deepening recession, an intensifying housing crisis, and a financial system under stress. Since the recession began, 3.6 million Americans have lost their jobs and millions more have lost or are at risk of losing their homes. Consumers are struggling to obtain loans to purchase the financing of a car or a home or higher education and many businesses across the country are finding it harder to get credit.

This crisis, and the policies that preceded it, have helped cause a dramatic deterioration in our fiscal position. As a country we start—again, we start—with a \$1.3 trillion deficit. The largest deficit as a share of GDP the Nation has faced since the Second World War. As a country today, we face extraordinary challenges and these challenges require extraordinary action.

In passing the American Recovery and Reinvestment Act, the Congress has put in place a very powerful mix of programs to get Americans back to work and to stimulate private investment. The

combined effect of these investments and tax measures will be to save or create between 3 and 4 million jobs and to increase GDP in real terms by 3.2 percentage points relative to what would have occurred in the absence of had program.

This legislation—and this is critical—also lays the foundation for very important, long overdue investments that will make our economy more productive in the future.

Now, alongside the Recovery Act, the Administration is moving 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 the purchase of a home or a new car. The deepening recession is putting greater pressure on banks, and in response many banks are pulling back on credit. So, right now, critical parts of our financial system are working against recovery. This is a dangerous dynamic, and to arrest it, we need to make sure that our banks have the resources necessary to provide credit to our economy and we need to act to make sure that we get credit markets working again. Where we provide assistance, we need to do so with conditions designed to help the taxpayer and to make sure that that assistance is going to improve and increase the amount of lending above levels that would otherwise happen.

Finally, the President has launched a broad plan to help address the housing crisis. We are moving quickly with a comprehensive set of programs to help keep mortgage interest rates low, to help millions of Americans refinance, and to help make mortgages more affordable again for millions of Americans.

Now, these actions are absolutely essential to lay the foundation for recovery. But President's budget builds on this foundation to set us on a path toward long term sustainable growth. The budget breaks from the past by honestly and transparency presenting the reality of existing policies. By making tough choices, it presents a fiscally responsible path to cutting our deficit in half in 4 years. At the same time, it lays out innovative policies to provide middle class tax relief, to reduce health care costs, to promote a clean energy economy, and to invest in education for all Americans.

The first step in addressing our fiscal problems is to be honest and candid with the American people about them. This budget is straightforward with the American people about the challenges we face. We include in the budget the likely future cost of foreign wars, about natural disasters, the cost of fixing the AMT each year, reimbursement for Medicare physicians, and the potential need—the potential need for more resources to address this financial crisis. We offer a 10-year rather than a 5-year budget presentation.

This proposal lays out some carefully designed but very substantial changes to policy to address our most critical long-term challenges in the areas of health care, energy, and education. We make these commitments within a framework that puts us on a path to fiscal responsibility and fiscal sustainability.

The soaring cost of health care presents a crippling burden for families and businesses and our long-term fiscal path. Our budget begins the process of major reform by lowering cost, improving quality, and expanding access. Just to give one example, the hospital quality improvement program proposes to pay for performance

and reimburse hospitals for the quality services they provide rather than merely the quantity of services they provide.

There is no path to addressing our long-term entitlement challenge, our long-term fiscal problems, that does not begin with major health care reform. Any effort to simply reduce the growth of Medicare and Medicaid without holding down the growth of the overall system would lead to a two-tiered health care system in which the poor and elderly receive lower quality care than private patients. We need health care reform that moves to affordable coverage to all, increasing quality and prevention, and reducing cost inefficiencies. This is a moral imperative, an economic imperative, and a fiscal imperative for the country.

Now, this budget also puts forth a significant commitment to reduce our dependence on uncertain supplies of foreign oil and carbon intensive energy, a dependence that threatens our economy, our environment, and our national security interests. Investments in energy efficiency and renewable energy will create new American jobs and industries and lay the way to a new green economy.

If we are truly committed to an economic policy that will make our Nation both more prosperous and more just, we cannot short-change our commitment on education. It defies our basic values and our economic common sense to deny any child the quality preschool, the quality teachers, and the quality higher education they need to compete in this 21st century global economy.

Mr. Chairman, these are causes you have fought for your entire public life and they are issues that our budget champions as well. The budget calls for more resources for early childhood education, new incentives for teacher performance, and a significant increase in the Pell grant, together with the President's American Opportunity Tax Credit, which provides up to \$10,000 of tax relief for a single student going to 4 years of college.

On the tax side, this budget targets tax relief at middle class families that have lost ground during the last 8 years. We reward work through Making Work Pay tax credit for 95 percent of working Americans and the expansion of the Earned Income Tax Credit. An expanded savers credit, an automatic IRA and 401(k) provisions, help promote savings and rebuild wealth. Other tax cuts are also pro growth, including a zero capital gains tax provision for small businesses, a permanent expansion of the R&E tax credit, and most of all these changes are paid for with other savings in the budget to ensure fiscal responsibility.

This budget also seeks to close the tax gap by tackling tax shelters and other efforts to abuse our tax laws, including on the international front. Over the next several months, the President will propose a series of legislative and enforcement actions 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. At that point, when the consensus of private forecasters projects significantly positive growth rates for the economy, the budget restores tax rates to the pre-2001 tax rates for families making more than a quarter of a million dollars.

Even with the critical long-term investments in health care, energy and education, proposed in the budget, overall, nondefense

discretionary spending in this budget will fall to levels well below its long-term average as a share of the economy. The overall amount of government outlays as a share of the economy rise only slightly above the long run average once you account for the interest cost associated with our inherited deficits and the impact of the aging of the baby boom generation on entitlement costs, and of course, the health care costs that are burdening the economy as a whole.

The President and the entire Administration share a commitment to fiscal responsibility, and we look forward to working with you, Mr. Chairman, and your colleagues to confront the dramatically difficult fiscal challenges that lie ahead. We must remain committed to a fiscally responsible path over the longer term. Investing in health care, energy, education, and a fairer Tax Code will help generate a stronger economy over the longer term, but we have to make those investments in a framework that brings us back to the point where we are living within our means as a Nation.

A critical part of laying the foundation for economic recovery is a clear commitment now that, when recovery is firmly established, we bring the deficits down to the point where they are sustainable. The budget does this by making the tough choices to reduce the deficit down sharply to the point where 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, causing higher investments and weaker growth. When I last served in the Treasury Department in the nineties, fiscal responsibility helped create a virtuous cycle of greater confidence, strong private investments, strong productivity gains, higher overall growth and income gains for the broader American economy.

Now, the problems that confront our Nation are daunting, but we are a strong and resilient country. We have faced these challenges in the past and we will confront them effectively. This will not be easy but we have a great responsibility to the American people to work together to confront these challenges.

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

Chairman RANGEL. Thank you, Mr. Secretary.

[The prepared statement of Secretary Geithner follows:]

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Secretary Timothy F. Geithner
Opening Statement
House Ways and Means Committee Hearing
March 3, 2009

Chairman Rangel, Ranking Member Camp, 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.

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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.

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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.

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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.

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. This 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.

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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.

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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

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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 \$5500 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 \$43 billion in investments in clean energy technologies for programs like creating a smart electricity grid, improving energy efficiency, and investing in green jobs.

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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 carbon permits – 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 percent 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 RANGEL. I am very anxious to find out at this hearing and subsequent hearings as to what the differences will be as we approach this very serious economic crisis. I don't know whether an alternative has been presented to you by the minority. I am under the impression that most all economists agree that we have to do something to stimulate the economy. No one can challenge the fact that we are taking the education of America—the access to education to a historic high. That no one can challenge the fact that a healthy America through universal health insurance means a more productive America. When we find those who know best about our National security, we will have tremendous savings there.

Everyone says that you should not increase taxes during a time of recession, so we move into 95 percent of taxpayers who would have it reduced.

Climate control. I don't think the President has made a commitment as to how we are going to distribute the equity in terms of the cost that it is going to take, but I know that is something that we all have to be working together on.

Of course, the whole concept of a green society and new jobs and new scientific research projects is something that is going to make this a better and stronger country.

Recognizing that there will be pain felt by other people, could you kind of just share with me what appears to be the biggest complaint that is made by those people who are not completely supportive of the direction in which the President is taking us? Because with most of the complaints that people have at a time of what has to be done, you don't find unanimity in terms of the end goal.

So, could you share with us what we would have to overcome in order to reach the President's goal?

Secretary GEITHNER. Mr. Chairman, I think that what the economy requires, what the American people demand, is that we move as aggressively as we can to get growth back on track. That at the same time, we lay the foundation for these critical investments in improving education outcomes, laying the foundation for a greener economy, and addressing the health care crisis in the country, which is again presenting a crippling burden on American business.

You know, as a country, we spend almost twice what other major economies spend on health care and we do so in ways that still does not deliver the kind of high quality health care to the average American that our people deserve.

These things are critically important to our economic future. I don't believe that we have any alternative as a country except to make those investments and to do so as carefully and quickly as we can.

That is not enough. We also have to demonstrate to the American people, given the size of the deficits that we start with and we inherited, that we are going to work with the Congress to put our country back on a fiscally sustainable path. We have laid out a very ambitious set of targets that once recovery is firmly established, we are going to bring those deficits down and that is very important to do. You have seen the benefits of what those policies

did in the nineties and you can understand and imagine the cost for our country if we do not do that.

The alternative would be we would face higher interest rate costs and a greater burden on growth going forward. So, I believe this is the right package for the country. It is critically important to do and challenging to do, hard to do, and we have to do it together with the Congress. But I am confident, Mr. Chairman, that this is the right path for the country.

Chairman RANGEL. Thank you. Mr. Camp.

Mr. CAMP. Well, thank you, Mr. Chairman.

Mr. Secretary, President Obama stood before the Congress and said that his budget won't raise taxes on anyone who makes less than \$250,000 a year, but the budget before us assumes large amounts of money from cap and trade, or as we learned last week in this Committee, tax and trade. That means higher prices for Americans for food, for gas, for electricity and in a State like Michigan, for home heating, pretty much anything that they buy.

Won't that hit more than the top 2 percent of taxpayers? My question is what Americans won't end up paying more for virtually every item, they purchase because of this higher tax on energy?

Secretary GEITHNER. Congressman, thank you for raising those questions and I want a chance to respond, and also to what you said in your opening statement, because this is very important. The overwhelming priority for the country today—and this is what the Recovery Act does—is to get people back to work and stimulate private investment. The Recovery Act does that by reducing in a very substantial way, the overall tax burden on the American economy as we go through this recession. That is good economic policy. It is necessary economic policy. There is broad-based support for doing that. During this period, while we are still going through a recession before recovery comes, we do not raise any taxes.

Now, in the budget, the President proposes to make permanent tax reductions that would benefit 95 percent of working Americans and the overwhelming majority of small businessowners, people who receive small business income. It also includes very, very substantial benefits in terms of reducing health care costs that will be very important to businesses across the country improving long term growth rates.

Now, it is also important that we move to reduce our dependence on foreign oil and that requires that we do things to change the incentives our country faces and how we use energy. The resources generated by that program, that cap and trade program, will be directed to paying for this commitment to Make Work Pay to provide additional support to facilitate the transition to cleaner energy sources. If there are additional resources we will compensate to offset the cost for people who might be most affected by that.

Now, if people don't change how they use energy, then they will face higher costs for energy. But there is no way to try to get us on a path to energy independence and address the critical problems without changing the incentives that are—

Mr. CAMP. I appreciate that and time is so short, and I am almost out of it. The concern is, I think you mentioned that this Make Work Pay tax relief would offset the costs. The problem is, a lot of people don't get Make Work Pay. If you are unemployed,

you don't qualify. If you are a student you don't qualify. If you are a retiree or a family earning more than \$190,000 a year, you don't qualify. The problem is \$0.20 an hour will not offset the higher costs of energy in this proposal.

I realize my time has expired. I am very concerned about the proposal and its impact on charities that limits the itemized deduction. We are in a recession and taxing the top 2 percent, which is what you are trying to do by limiting this deduction, actually hurts those most in need. Those who rely on philanthropy, on food banks, the Red Cross, on Salvation Army. So, I would ask that you reexamine that proposal. Thank you.

Secretary GEITHNER. Mr. Chairman, can I respond briefly on those two points? They are very important issues raised and I would like to clarify in this case. Let me start with the charitable contribution that you referred to.

What the President is proposing is beginning in 2011 as part of an effort to make sure that we do health care reform in a fiscally responsible way, that we would reduce the tax deductibility of charitable contributions for—and this would only affect 1.2 percent of taxpaying Americans, and those Americans account for a modest fraction of charitable contributions, and we are only restoring those rates to the level that prevailed at the end of the Reagan Administration.

The combined effect of this change in the President's budget will be substantially beneficial, not just the sake of local governments, but to businesses across the country and to universities and to nonprofits. Very important to look in that context.

The typical American only gets to deduct 15 percent. We are reducing that rate to 28 percent. We think that is fair. Again, this is as part of a comprehensive health care program that we want to work with the Congress to design that we are paying for a fiscally responsible way.

Mr. CAMP. Far more than the top 2 percent rely on those charities for their help and support.

Secretary GEITHNER. But this provisions only affects a very small fraction of Americans, 1.2 percent is the estimate given us by independent—

Mr. CAMP. The phaseout of the deduction, yes. But the actual contribution to the charity which will be hurt by that tax proposal will affect those at the lowest end of the economic ladder.

Secretary GEITHNER. Only if they change their behavior in response to this provision. The evidence is mixed as to whether they would do that. The biggest impact we could have on charitable contributions is by getting this economy back on track and addressing the long-term challenges.

Just one more thing, Mr. Chairman, back to where Mr. Camp began on cap and trade. The President's proposal is to take these resources and use them to finance making permanent a tax reduction that will benefit 95 percent of working Americans. That is the critical fact. Additional resources will go to help facilitate this transition to clean energy. If there are additional resources raised, they will be directed to those people who are most affected by the potential increase in their costs. But you can't address the problems of

climate change or dependence on foreign oil without changing the incentives people face for how they use energy.

Chairman RANGEL. The Chair recognizes Mr. Levin from the troubled City of Detroit.

Mr. LEVIN. Thank you. Mr. Secretary, let me ask you two questions that I would like you to answer based on your years, really a couple of decades with experience with economic fiscal and monetary issues. One relates to carried interest. You comment on this in your testimony. You say by closing this carried interest provision, the Tax Code will provide equal tax treatment for wages regardless of whether or not an individual works as teacher or as a fund manager.

Secondly, if you would comment on the enormity of the economic challenge that you have faced coming into the Treasury Department.

Secretary GEITHNER. Thank you Congressman. On the first issue, the President's budget proposes to treat income that Members of partnerships get in payment for services provided to the partnership the same way they are treating ordinary income. We propose to do that for all partnerships. That is a fair thing to do. I think the American people understand why that is fair and it restores a basic imbalance in our current system in a way that helps us meet in a fiscally responsible way these deep long-term challenges we face. So, I think it is good policy and we very much hope that will become law.

We began, as I said, with a recession that is deeper and broader globally than we have seen in generations. What has happened in the United States today, which you see in the loss of jobs and businesses struggling across the country, you are seeing really around the world. This crisis is powerful in part because it comes after a long period in which you had a huge boom in credit, people taking risks they didn't understand, people borrowing more than they could afford, governments borrowing beyond their means, and that was unsustainable. We are seeing the other side as an adjustment to that long period of excess growth and leverage.

That was a product of many failures in policy and oversight. We are going to have to bring about very comprehensive reform of our financial system, here and around the world, to prevent this from ever happening again. But you need to look at everything we are doing through the prism of the magnitude of the economic challenge we start with. Because if as a country we don't move aggressively to get people back to work and provide support for demand in growth, then we are going to be living with a longer deeper recession that will cause much more damage to the American people.

The President's judgment, based on the lesson of watching countries deal with crisis in the past, that unless we move aggressively, the cost of the crisis will be much more damaging. So, the choice we are making, and it is the fiscally responsible choice, not the just the economically sensible choice, is to provide substantial support for demand, fix the economy, fix the financial system, get credit flowing again. Because to not do so would live us with a longer deeper recession with much greater cost to the American people.

It makes everything we are trying to do much harder, but we have no choice as a country but to try to work through this. We

want to make sure that the American people understand that we are going to keep after this, we are going to keep at it until we can fix it, until we lay a foundation for not just recovery, but an economy that is going to be stronger in the future.

Chairman RANGEL. Thank you. The Chair recognizes Mr. Herger from California.

Mr. HERGER. Thank you, Mr. Chairman. Mr. Secretary, I have been examining this document and I must confess I am very troubled by what I see. While I would like nothing more than to work with you and the President to put our country back on the path to fiscal responsibility, when I look at this budget, I see a net tax increase of about \$1.4 trillion, a tax increase that will fall especially hard on job-creating small businesses and charitable organizations. But in spite of this tax increase, this budget also manages to increase the debt held by the public by \$7 trillion over the next 10 years. That comes out to some \$60,000 per household. It is as if we had bought every family in America a brandnew luxury car fully loaded, but completely unpaid for. It seems to me that this kind of overspending is exactly what got us into this financial mess.

My question is where is this money going to come from? Does the global economy have the capacity to absorb this much additional government debt and is China going to be able to keep buying our debt at this rate?

Secretary GEITHNER. Thank you, Congressman. Let me start out by pointing out that the deficit that we start with, which is a product of the policies of the last many years and is the product of this deepening recession, leaves us with a \$1.2 trillion deficit. Now to fix this crisis, to address it, to arrest the decline in the economy as a whole, Congress has decided already to provide substantial stimulus to the economy and provide substantial resources to fix the inherited problems in the financial system.

Those are what produced this temporary increase in the deficit. That is absolutely necessary to solve this crisis. There is no alternative. As Congress has already realized, it has to act quickly to address the recession, mitigate the recession with substantial support from the government.

Now what this budget does is commit to bring those deficits down to a level that is sustainable, in a way that is fiscally responsible, in a way that does not pose undue burdens on the American people.

It is very important to point out that 93 percent—97 percent of small businesses have incomes below \$250,000. The tax provisions in this budget will reduce taxes on 95 percent of working Americans. The only parts of the economy that see an increase in the marginal tax rates are those at the very highest end and there we are just restoring to the levels that prevailed in 2001 and only after recovery is firmly established.

This is a remarkably fiscally responsible budget. I don't think you have seen a budget this fiscally responsible in a very long time.

If we were not able to do this, to commit to get us down, then as a country, we would face the prospect of higher interest rate cost, lower investment, lower growth in the future. That you are absolutely right. We have no choice as a country that as we try to

address the recession that we make people confident, both here and around the world, that we will have the will and the ability to bring these deficits down.

But this is a very pro-growth budget. It is very favorable to small businesses across the country. It is very favorable to the average working American. It makes very important investments in things that we have not been investing in over the last decade and at great substantial cost to our economy.

The alternative path for us which is to sit back, hope this crisis burns itself out, would mean a much deeper recession with much greater damage to American businesses and families, with much greater fiscal damage to our economies leaving us with much greater deficits in the future. The judgment we are making—and it is absolutely the right judgment—is that as a country, given where we started, we have no choice but to move aggressively on these fronts. We are trying to do so in a way that is as fiscally careful and responsible and is going to leave our economy stronger, not weaker, in the future.

Mr. HERGER. Mr. Secretary, I respectfully disagree with you. But my question is where is this money going to come from? Is China going to be able to continue with a bad economy to continue investing in us as they have in the past?

Secretary GEITHNER. Congressman, the best way to for us to sustain confidence in our country is to act to solve these immediate problems we inherited and to try to get the economy back on the path to sustainable growth going forward.

Now, that is a necessary condition. It is not sufficient. As we do it, we also have to commit to bring these deficits down in the future. If we do those things together, we are going to be able to sustain confidence in the American economy and the American financial system. The alternative path as I said—for us to stand back and hope this resolves itself—would leave us with a deeper recession, higher deficits, higher debt, and much greater risk of long-term cost to our economy and the capacity to grow as a country.

Mr. HERGER. I don't think anybody is recommending that we do nothing.

Chairman RANGEL. Mr. McDermott.

Mr. MCDERMOTT. Mr. Secretary, as I look at you, you remind me of a dilemma of a battlefield medic who finds a patient in the field bleeding from a variety of sources. He starts a transfusion, \$700 billion, into the problem, but it continues to bleed. What I don't understand is what is preventing you from taking him back to the hospital, nationalizing the banks as the Swedish did, and deal with some things like shared appreciation mortgages.

That issue has been laying there for 25 years with uncertain tax consequences. Banks could use it to work out loans with various people who have gotten in trouble whose loans are under water. But the tax consequences have been on the no-ruling list for 25 years so they don't know how to do it.

So, I am asking you why don't you use the more powerful instruments of the Federal Government to force the lending? I mean, we can continue to give money to banks but it if they say, well, I haven't got enough capital yet, then they are not going to lend. So, I would like to hear you talk about that.

Secretary GEITHNER. Thank you. You are absolutely right that fixing the financial system so that credit flows again is really important for our economy. If we don't do that then the big, powerful impact of the Recovery Act is going to be limited and we will be living with a deeper more protracted recession. It is very important that we do this and do it aggressively in a way that will improve the amount credit available to the economy, and that is what we are doing.

We are doing it through two very important strategies. The first is to try to make sure that banks who need capital are going to have access to capital.

Mr. MCDERMOTT. But who decides when they have enough to lend?

Secretary GEITHNER. That is a combination of judgments that are complicated to make. But the key thing is to make sure they have enough so they can lend. Now, when we do that we don't do it for the benefit of the banks. We are not doing it because we want to give assistance to the banks. We are doing it because the people who depend on banks, small businesses and families across the country, need access to credit in order to expand and grow and finance their dreams.

Mr. MCDERMOTT. Or keep the doors open.

Secretary GEITHNER. Exactly. Exactly. But you have to do it in part by making sure that banks have enough capital to lend. Our country, we have a remarkably diverse financial system. We have 9,000 banks, large parts of our financial system were not part of the problem and they are going to be part of the solution and they will be expanding and growing in this context. But parts of the system are going to need some temporary assistance on tough conditions. We are going to provide that assistance in ways that provide greater transparency and accountability to the American people, on tough conditions designed to make sure that that assistance increases lending and doesn't go to benefit shareholders or to senior executives, and that leaves these institutions stronger, not weaker. We are going to do that in ways that we think have the best benefits to the economy as a whole at the least cost to the American taxpayer.

But that is not enough. We announced today a very important program to provide direct support to help get the credit markets working again for small businesses, for student loan markets, for auto financing markets. In our system, banks are important, but typically, 40 percent of lending comes through the securitization markets and those markets are not functioning well. So, we are going around banks also by doing something only that government can do, which is on appropriate terms to protect the taxpayer try to get those credit markets opening up again.

Now, on the housing context quickly, the President's plan on housing is a very powerful package of measures to help keep interests rates low, mortgage rates low for everyone; to make sure that people can refinance—take advantage of those lower rates; and to help lower mortgage payments through a combination of interest and principal reductions for citizens who can afford to stay in their home if they are allowed to restructure.

That I believe brings together the best ideas in the country to solve this crisis. You are referring to a very interesting idea, which may be a necessary part of any long-term reform to the mortgage market. I would be happy to come and talk to you and your staff about that specific provision. But I think the President's plan is a very powerful plan.

Mr. MCDERMOTT. Thank you.

Chairman RANGEL. The Chair recognizes Mr. Johnson of Texas.

Mr. JOHNSON. Thank you, Mr. Chairman. Mr. Secretary, the President's proposed a new mandate on every business in America that employers will be mandated to set up 401(k) accounts or automatic IRAs. The Pension Protection Act permitted employers to do that and I was a big supporter of that provision. However, it was a far cry from mandating that every small business in America create account for their employees, take money out of their paychecks, and then put the money into a stock market that is in decline.

I can only imagine how angry they will be when they find out their employer has taken money out of their paychecks and they have lost money. This new mandate is being proposed at a time when many employers have existing 401(k) plans and are no longer making matching contributions because they can't afford to.

Finally, page 37 of the budget document mentions that this new mandate on employers lays the groundwork for future establishment of a system of automatic workplace pensions on top of and clearly outside of Social Security.

So, you are planning another mandate on employers and employees on top of the 12.4 percent that Americans are already mandated to set aside in the Social Security program, when that program now is not able to fund the promises made. These are new taxes and a further reduction in take-home pay. A citizen tax, a new citizen tax. Could you address that problem?

Secretary GEITHNER. Thank you, Congressman. Let me start out by saying how important it is that all Americans have the opportunity to save for retirement in the way that you would typically have if you worked for most of the majority of companies across the country.

Mr. JOHNSON. But you don't mandate it.

Secretary GEITHNER. But the administrative costs in compliance are modest. We think it is good economic policy. We think it is fair because it gives the average working American a benefit that many typical Americans have. We think it is a responsible thing to do at this time.

Now, it is very important that we look for ways to responsibly use the Tax Cost Code to encourage savings and investment. That is a important challenge. We think this is consistent with that. That is an objective that many people share across the aisle. I think a broad cross section of economists believe this is good economic policy in this context. The specific burden of administratively complying with this we think is a relatively modest burden.

Mr. JOHNSON. Well, it should be voluntary. You force people to put money into a stock market that is flopping around—

Secretary GEITHNER. This doesn't force people to put money in the stock market. It gives them the opportunity to save for retirement in the same way that many Americans have the opportunity

to do. Where that money is invested is a choice they make and they can make in the context of the advice of their investment professional. It doesn't require them to put money in the stock market.

Mr. JOHNSON. Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes that the 2 minutes is very awkward, but I want to let the minority and majority know that the Secretary has agreed to meet with us in more informal type of setting where the Members would have the opportunity to ask intelligent questions and get adequate responses. In connection with that, since the Secretary has a sharp limitation on his time today, we will also—with the consent of Mr. Camp—have the Democrats double up because of the differences in numbers of people that are here today.

So, the Chair will recognize Mr. Lewis of Georgia.

Mr. LEWIS. Thank you very much, Mr. Chairman. Thank you very much Mr. Secretary for being here today.

Mr. Secretary, the tax policies of the last Administration led to extreme income inequality. I am very proud to see that you and the President with this budget are trying to restore some equity and balance to our Tax Code. It is making the Tax Code more fair. By repealing the tax breaks for the wealthiest among us we will now be able to target tax relief for the working family. Was this your intent?

Secretary GEITHNER. Absolutely. A critical objective of the President is to bring more fairness and balance to our Tax Code. That is why the budget proposes reducing the overall tax burden on 95 percent of working Americans and a range of other benefits for people that are at the lowest end and face the most challenging lives in our country.

It is an important objective and we think it is critical to improving overall confidence in the policies of our country and allowing us to try to address these long term increases and inequalities that have been so damaging to confidence in frankly the American dream.

Mr. LEWIS. Mr. Secretary, can you tell us if you really know, why does the President believe that this is so important? Does he really feel that this is important?

Secretary GEITHNER. Yes. I would say—and of course, you have heard this from him directly—that this is a deep moral imperative to make our society more just. But it is very good economic policy too. Because it will mean that there is, again, a fair, more equitably shared tax burden on the vast majority of Americans and will allow us to help us pay for, in a fiscally responsible way, these very important improvements in education reform, to reduce health care costs, and put us on the path of energy independence. It is that mix of policies that we believe will make our Nation stronger, not just more just.

Mr. LEWIS. Mr. Secretary, long before these economic difficulties, so many of citizens had been left out and left far behind. Is there some way even during these difficult times to help to intervene for those who have been on the edge for a long time?

Secretary GEITHNER. Absolutely, and you have seen in the Recovery Act that the Congress passed and you helped shape—and

you did important work early on to shape this bill—a very, very, substantial set of benefits targeted to those Americans who face the most challenging immediate future. Both in the tax provisions, both in what you see in terms of direct aid. There are very, very substantial benefits in there. Those are sustained for a period that we believe will extend beyond the point of the recession.

So, this is a very powerful package of support not just for the economy as a whole and the American people, but targeted to those people who are most at risk. In fact, they are most likely to benefit from the tax changes and financial incentives that the budget provides.

Mr. LEWIS. Thank you very much, Mr. Secretary.

Chairman RANGEL. Thank you. In order to bring some balance to this, the Chairman recognizes Mr. Neal of Massachusetts.

Mr. NEAL. Thank you very much, Mr. Chairman. Mr. Secretary. Mr. Secretary, compliments on the Auto-IRA. It is a good concept. It is my bill. I am working with the Administration. It was based on that proposal, and a reminder: That legislation has been endorsed by the Heritage Foundation.

To talk about bipartisanship, a Massachusetts Democrat and the Heritage Foundation, it is a winner.

Mr. Secretary, a decade ago I submitted legislation, a series of bills, in fact, on the use of derivatives, calling for greater transparency, more regulation, greater clarity. They have, I think all would agree, put us in a very disadvantaged position as it relates to our economy, AIG being the case in point.

I held a hearing last year for my Subcommittee, asked the Treasury for some guidance on how to go forward, particularly on credit default swaps, and despite that request for comments dating back to 2004, I haven't had any additional information.

At a minimum, we need some clarity on the proper tax treatment of those instruments, and I would encourage you to make that a priority item in tax policy as you move forward. I think, had we been more aggressive on that front in the past, that we certainly wouldn't be looking at the problems that AIG has today.

I would, maybe, have a quick response from you, because I do have another question I want to raise as well.

Secretary GEITHNER. You were prescient then and I think you are absolutely right today. I think that, as part of what we do to put in place comprehensive financial reform, we are going to have to make sure there is strong, sophisticated, tough oversight over all parts of the financial system that pose this kind of systemic risk to the economy.

We did not have that going into this crisis. It made the crisis much worse. It is a critical thing.

We also need to make sure we are bringing a level of oversight to these markets, including derivatives that are so critical to market functioning. I have spent a huge part of my recent professional life trying to improve the basic infrastructure that supports those markets to make them safer and more stable. But we have more to do in this front—look forward to working with you on this area.

Finally, one more thing is that we also need to make sure we have better capacity for dealing with and preventing—not just preventing, but dealing with potential failures of these large, complex

financial institutions—better to prevent them from ever happening in the beginning, but we need to, as a country, make sure we have better tools to manage these things.

These will be the critical components of the financial reform agenda we bring to the Congress.

Mr. NEAL. Mr. Secretary, domestic reinsurance: I filed legislation time and again to deny deductions for excessive offshore reinsurance, that is, reinsurance that exceeds the industry norm. It is similar to earnings stripping, already in the Code.

Now, this legislation has broad support from the domestic reinsurance industry. They feel that by keeping an American address, they are at a distinct disadvantage in terms of competition. This issue from time to time has raised its head around here, and I hope the Administration is true to the budgetary outline that you have offered to do something about cracking down on international tax avoidance.

Secretary GEITHNER. You are absolutely right. There is a whole range of areas where we are going to have to do a better job at addressing international tax avoidance. You saw in the budget a commitment to come to the Congress with a comprehensive set of proposals.

We are going to need to work with other countries, too, which the President is committed to do.

Mr. NEAL. Thank you, Mr. Chairman.

Thank you, Mr. Secretary.

Chairman RANGEL. The Chairman recognizes the gentleman from Texas, Mr. Brady.

Mr. BRADY. Welcome, Mr. Secretary.

I applaud the President's effort to submit an honest budget and a fiscally responsible budget, but when you look closely, it doesn't appear to fit the bill on either of those cases. At the heart of this bill are the economic assumptions, what will our economy do over the next few years? Yet when I look at the assumptions that are included in the budget, they are unrealistic and overly optimistic and, I think, hide the true deficits and debts to come. In fact, my worry is, looking at this, it looks like—and not you—it looks like someone is cooking the books to hide a \$2 trillion deficit for this year and much higher deficits in the future.

The Congressional Budget Office believes your estimate is dramatically low. Chairman of the Fed, Ben Bernanke, his estimate is much higher than this. Blue chip consensus is much higher.

Is there a—do you know of a single economist who believes that we will contract only 1 percent this year?

Secretary GEITHNER. Congressman, thank you so much for raising this point. It is very important.

The Administration's forecast is within the range of CBO's poststimulus forecast; it is within the range of the full range of private forecasters out there. Now, it is true that in some ways it does predict a somewhat more rapid recovery than some private forecasters predict. That is because we are committed to and we are confident that the recovery act and the range of other measures we are going to take to address this crisis are going to be effective.

Now, the critical thing that matters for the long-term fiscal path is the long-term assumptions about long-term growth rates. Those

assumptions are absolutely within and at the closer-to-the-center of long-term private forecasts.

So, I believe this is a realistic forecast and within the range of—

Mr. BRADY. Mr. Secretary, Mr. Secretary, if you look at what Chairman Bernanke said just last week, 2 percent contraction this year, 2 percent growth next year, you are nowhere near those numbers. If you look at CBO's numbers, neither that. In truth, the basis of your 5-year deficit are these near numbers, not the outlying 8-, 9-, 10-year numbers.

So, there is—again I will come back to, is there an economist we can look to who says we are only going to contract 1 percent this year? Because with that basis, I clearly think we are going to a \$2 trillion deficit this year alone.

Secretary GEITHNER. Congressman, as I said, the President's—the forecast that underpins this budget, which is a carefully designed forecast, designed to be realistic, is within the range of CBO's estimates and the range of private forecast estimates out there.

Now, you are right that what our economy is going through is a deepening recession. That is where we started from. Our central obligation to the American people is to try to make sure we are moving quickly to help arrest that process. As I said, because these deficits are large that we are starting with, we are also going to have to make sure we convince them that we are going to have the will and the ability to bring these deficits down over time.

But this is a realistic forecast. We will have the chance to reflect on it when we do our normal—through the normal calendar forecasts. We will be very careful to make sure that we are looking at this with a cold, hard set of eyes. Again, we are within the range of not just CBO's ranges, but the private forecasters out there.

Mr. BRADY. I beg to differ. It is nowhere close.

In April, when Director Orszag brings back the fleshed-out budget, will he have more accurate economic numbers?

Secretary GEITHNER. Congressman, we will make sure that the forecast that underpins our budget reflects a realistic assessment of the risks and challenges ahead for the economy as a whole. I believe this forecast does that.

Mr. BRADY. Thank you, Mr. Secretary.

Chairman RANGEL. The Chair recognizes the gentleman from Tennessee, Mr. Tanner.

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

Thank you, Mr. Secretary, for being here. Following up on Mr. Neal's line of questioning, many of us on the Committee feel that a reduction in the corporate tax rate would be good public policy. The Chairman has introduced a bill to that effect. I was wondering if the Administration had plans to flesh out—that we tried to close some loopholes in the last Congress and were unsuccessful—I understand that what Mr. Neal was talking about, the offshore business. This, I think, would be somewhere we could go and get some broad bipartisan support.

So, thank you, sir.

Secretary GEITHNER. Congressman, we are hopeful that we will find the basis, working with you and your colleagues, to try to

bring a broad reform to the corporate tax system. We want to consult with you on how best to do that.

I think it is an important link to look at, and I think there are opportunities there.

Chairman RANGEL. The Chair recognizes the gentleman from Texas, Mr. Doggett, for 3 minutes.

Mr. DOGGETT. Thank you very much.

Just following up on these same questions, I think, as the President's budget recognizes, we cannot expect the American people to help us dig out of the giant hole the Republicans have gotten us into unless there is more tax fairness. You have a number of specific proposals that are helpful as you finalize the budget.

I would just ask you to take a close look at the Stop Tax Haven Abuse Act that Senator Carl Levin and I and a number of Members of this Committee have refiled—Senator Obama was a cosponsor last year—and even in addition to that legislation, that you look closely at those that are coming and asking for a government bailout, like Morgan Stanley, which has 158 subsidiaries in the Caymans, Citigroup with 90, and Bank of America with 59, to explain why it is equitable for them to be able to avoid taxes at the same time they are asking for so much tax money.

Secretary GEITHNER. Thank you.

Mr. DOGGETT. The second issue I would like to raise with you quickly, Mr. Secretary, is a concept that was truly alien to the last 8 years of the Bush Administration, and that is the concept of accountability.

When I am talking to my constituents down in Texas about what has been going on here these last few months, and what I know are complex and difficult challenges you face, they see AIG writing contracts to insure mortgage-backed securities which are done in a way to avoid any regulation. Just like Bernie Madoff, who bought no stocks for his Ponzi investor victims, AIG set up few, if any, reserves, as you know, on its quasi-insurance policies.

I think the principal difference that many of my constituents see between some of these companies that come here asking for a bailout and Bernie Madoff is that Bernie Madoff isn't asking for a bailout, at least not yet.

In the period since this crisis developed, I have yet to learn of one single Federal employee who was disciplined or dismissed because of dereliction of regulatory duties. When we look at what happened in the timeframe between the first AIG bailout and at least last Friday, unlike some of the conditions that were imposed on the auto manufacturers, there is no indication that there is any effort to get different management. One gets the message that the only way to get out of this crisis is to rely on some of the scam artists who got us into it.

Don't the American taxpayers have good reason to demand some accountability in the private sector and from Federal employees concerning this crisis?

Secretary GEITHNER. They do, and you are absolutely right.

Let me just start by saying that we fully support the legislation you referred to, championed by your colleagues, on offshore tax centers, and we look forward to working with you—

Mr. DOGGETT. Thank you very much.

Secretary GEITHNER [continuing]. As part of a broader effort to address international tax evasion, close the tax gap.

Let me just say a few things about AIG. AIG is a huge, complex, global insurance company attached to a very complicated investment bank hedge fund that was allowed to buildup without any adult supervision, with inadequate capital against the risks they were taking, posing putting your government in a terribly difficult position. Your government made the judgment back in the fall that there was no way that you could allow default to happen without catastrophic damage to the American people. That judgment, I am sure, was the right judgment at the time.

Today we are in a situation where the world is dramatically worse. You are seeing pressures across broad parts of the economy in the financial system. Those pressures are facing AIG, too. But we are still in the position where, given the nature of the entity, given the nature of the broad environment and legal tools we have, given the risks AIG poses to the economy, the most effective thing to do is to try to make sure that that firm can be restructured over a period of time and—so that we get through this. To let it—to allow a disorderly unwinding to happen right now in this context would cause enormous damage.

Now, that initial intervention back in September came with very substantial conditions. Management was changed right then. There have been substantial changes in the composition of the board, and the government has a very substantial ownership stake in that institution. The government, since it came with very tough conditions designed to force a very comprehensive restructuring—and that is under way today.

So, I completely understand the concern. I agree with you about the broad concern. It is very important that people understand the assistance we provide is going to come with conditions that are designed to make sure that we are protecting the overall economy and the American people and that we are demanding accountability. I completely share your view about the importance of that objective.

Chairman RANGEL. The Chair recognizes the gentleman from Georgia, Mr. Linder.

Mr. LINDER. Thank you, Mr. Chairman.

Mr. Secretary, according to today's paper, it seems that President Obama has found one more high-level appointee who thought he was above paying taxes. I believe that it was five people that chose not to pay taxes; and maybe, to be charitable, the Tax Code is too difficult to understand.

So, tell us what is in this—you have referred to simplification on three occasions so far. What are you doing in this proposal to simplify the Tax Code?

Secretary GEITHNER. Fair question, Congressman. Fair question.

You know, the President in his campaign proposed a very simple, innovative way to reduce the problem of compliance for millions of Americans. This is for the IRS to automatically fill out a tax return for those Americans. That is an important, good step toward simplification.

But we think there is a range of other things we are going to have to do, and we look forward to working with you and your colleagues on how best to do that. I think any effort to try to improve the overall Tax Code will have to have, as part of it, efforts to make it more simple to comply. There is a range of opportunities in this Tax Code, as I am sure you understand better than I do, for trying do that; and we look forward to with working with you on how best to do that.

Mr. LINDER. Thank you. I look forward to that.

You have made three references in this last hour or so to saying that the tax increases at the margin will not go into effect until the economy has turned around. What metrics are you going to use to tell us in 2011 that the economy has now successfully turned around? Would you not raise those taxes if the economy had not turned around?

Secretary GEITHNER. Thank you, Congressman.

I would say again, if you look at the broad-spectrum opinion among private forecasters today, I really think there is almost universal agreement that in 2011 our economy will be back on a path for very substantial growth rates. Everything we are doing right, now working with the Congress, is designed to improve, to achieve that outcome.

I just want to emphasize again that if you look at the pattern of government responses to past crises, there is risk; governments have made the mistake in the past that they applied the brakes prematurely, and we are going to be very careful not to do that.

So, what the budget does is, again, makes sure that recovery is firmly established before we put the deficits back on a path toward sustainability. That process begins starting in 2011, which is outside the timeframe that almost all economists believe we are going to have recovery in place.

Mr. LINDER. Thank you.

Chairman RANGEL. The Chair recognizes the gentleman from North Dakota, Mr. Pomeroy, for 3 minutes.

Mr. POMEROY. Mr. Secretary, thank you for your testimony. Thank you for your role in preparing this budget, which at last accounts for what all of us knew were accruing liabilities of the Federal Government, but not reflected in the budget. It was time for those budget games for the American people to end, and I believe you ended it with the budget submission of the Administration.

There is considerable discussion about the new taxes that might accrue on the wealthiest in this country. I would like you to tell us something of what have been the economic trends relative to accumulation of wealth, the relative distribution of income in this country leading up to this budget reflected through, perhaps, the years since the turn of the millennium.

Secretary GEITHNER. Thank you, Congressman.

Again, if you look back, we have this long-term rising trend in inequality, and over the last decade in particular you see the largest income gains going to the small fraction of the most affluent Americans. So, that is an inexorable long-term trend. You can see it in all the numbers.

As you said, what the President is proposing to do is bring more fairness and balance to the overall Tax Code. The vast majority, 95

percent of working Americans, will see a reduction over time in the taxes applied to them.

Mr. POMEROY. How did that group fare relative to wage earnings during, for example, the years of this decade?

Secretary GEITHNER. You are absolutely right, the income gains for those richest Americans rose at a dramatically more rapid rate than they did for the average American.

Mr. POMEROY. I believe a statistic that I have heard—on average, so it is not entirely revealing—but 7 percent annually on vast income, while the middle class, over the cumulative years, \$1,000 all together. Does that sound roughly—

Secretary GEITHNER. That may be roughly right, sounds rough orders of magnitude.

Mr. POMEROY. Do you believe that we can sustain an economic recovery with the stalling out of the middle class and the concentration of wealth at the very top of this country?

Secretary GEITHNER. I don't believe so. I think our country will be stronger if we are giving all Americans a greater chance to participate in our economy, make sure they have access to education so they can do so, make sure they have the type of assistance they need to get through hard times. That will make our economy not just more just, but more productive in the future.

Mr. POMEROY. I have looked at some of those tables, and I haven't seen distribution imbalances like that until the years leading right up to the Great Depression. I am personally convinced there is not a coincidental relationship about the economic tailspin we had then now and the economic tailspin we have now.

A final point, Mr. Secretary: I sent a letter to Treasury—you don't have to respond to this; I just want to call it to your attention now that I have you here—pensions are suffering some deep trouble. There is a call made by Treasury that made their funding crisis worse at this moment. It can be administratively addressed. I believe the circumstances would, in fairness, drive Treasury to that action. I will be telephoning you to discuss this further.

Secretary GEITHNER. Thank you for your letter. I have read your letter and understand your concern, and we are looking very carefully at how we can—whether we can address that problem.

Mr. POMEROY. Thank you, Mr. Secretary.

Yield back.

Chairman RANGEL. Thank you.

The Chair recognizes Mike Thompson from California.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I just have three quick points I would like to leave you with. One, car dealerships throughout the country are suffering, and it looks though—as though the GMAC, which was a recipient of TARP funds, is doing everything they can to make sure a lot of these guys fail. I think that would do irreparable damage to communities across the country, and would really like you to look into that.

Second, we briefly chatted about this, the last Administration, the Alcohol and Tobacco Tax and Trade Bureau promulgated some rules that would do lasting damage to the wine industry, and I would like to make sure that those two rules are permanently dis-

posed of, and I would like to have an opportunity to talk to you about that.

Then, lastly, this Committee did great work to ensure that we put on the front burner renewable energy in the stimulus bill. If all works as planned, a lot of businesses and a lot of homeowners are going to be installing solar panels and doing some great things to move us to a renewable-based economy and society.

We also put in a provision providing for a green manufacturing tax credit for the people that manufacture the components that people are going to be installing, and that is going to keep those manufacturing jobs right here; the worst thing in the world that could happen is, everybody goes solar and all the equipment is built in China or Germany.

I would like to urge you to quickly promulgate rules—and I think you have to work with the Department of Energy on that—but get those things wrapped up so we can make sure that not only we move to a renewable future, but the equipment is manufactured right here in this country, making more jobs and improving our economic situation.

I yield back the balance of my time.

Secretary GEITHNER. Thank you.

Chairman RANGEL. The Chair recognizes the gentlelady from Florida, Congresswoman Brown-Waite.

Ms. BROWN-WAITE. Thank you very much, Mr. Chairman.

Mr. Secretary, I have mixed emotions about your being here. It seems every time that a statement is issued by you the stock market plummets. I am sure that is not something that you feel good about.

What exactly do you think is going to help the public's confidence in the economy, in the business model that has made our country so great? You know, when you look, the Dow was at 9,034 January 2nd; yesterday it went down to 6,763. Americans are frightened. They truly are frightened, whether it is their 401(k) or their company's pension plan or perhaps some investments that they have.

My constituents—and I don't have a wealthy constituency, sir; I need to tell you that right at the outset—but my constituents are frightened of where is the bottom and why is government throwing so much money at what some would consider zombie banks? I would like you to also address that.

Secretary GEITHNER. Thank you very much. It is very important to start by recognizing that what is happening in our economy and around the world is causing a lot of damage. It has a lot of force momentum to it still. As you saw on the fourth quarter GDP numbers, our economy declined by 6.2 percent in that quarter. What you saw here you are seeing around the world.

This is a—there is just no way around it, this is a serious economic crisis, something we haven't seen, really, in generations. That is being reflected in greater pressure on the financial system, and you see the effects of that really across the country.

The obligation we all share is to make sure that our government does as much as we can to try to put support to get Americans back to work, to help stimulate private investment, and help get credit flowing again. There is no alternative except for us to move together to try to do that as forcefully and aggressively as possible.

Part of that requires that we make sure banks are strong enough that they can provide credit, and that is what our plan is going to do.

We will do that with the necessary force and speed because, again, the alternative is for us to live with a situation where the financial system continues to be more defensive over time. That will leave, again, businesses and families without the credit they need to do what they need do.

Ms. BROWN-WAITE. Sir, have we unwittingly invested hundreds of billions of dollars to create zombie banks? When will Americans know exactly if that is what we have?

Secretary GEITHNER. Right.

Congresswoman, again, we have a very diverse financial system. There is a lot of strength in our banking system. There are pockets of the system that ultimately are going to have to be shrunk and closed and shut down. That is happening now through the established mechanisms the FDIC created.

But it is very important that Americans have confidence that our major institutions are able to provide the critical role they provide in providing credit. No economy works without credit. No economy can function without a well functioning financial system. That requires, in a crisis like this, that the government provides conditional assistance where it is needed so, again, that credit can flow.

Very important to point out that the alternative to doing that would be a deeper recession and a deeper crisis. If you look very carefully at the lessons of past crises, what happens is they get deeper, they last longer, they cause higher, long-term deficits; they cause more damage, they are more expensive to the taxpayer when governments don't move quickly to try to provide that assistance.

Now, of course, we want the assistance to leave a stronger system, not a weaker system. We want it to come with conditions to protect the taxpayer, to ensure accountability to make sure the assistance is going to improve credit. That is what our program is designed to do.

Ms. BROWN-WAITE. I yield back the balance of my time.

Chairman RANGEL. The Chair recognizes the gentleman from Oregon, Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Secretary, I am pleased you are here. I am pleased that you didn't respond to questions about public perceptions by contrasting the confidence the public has in Congress, particularly some of us in Congress, versus the Administration. I admire your self-restraint as I admire your professionalism.

I have a request and a question. My request focuses on the troubled Transportation Trust Fund, which is locked into a downward spiral. We have had to transfer money the last 2 fiscal years, and the projection going forward does not even come close to sustaining the current funding level.

At this current time, we are watching a vast coalition that is forming around the country that includes organized labor, the U.S. Chamber of Commerce, AGC, local governments, State governments, professional organizations, all who agree that we must put resources into transportation and would actually support revenue increases, which, as you know, have not been increased since 1993.

Now, I appreciate the Administration is in the process of formulating its approach, you are staffing up. But I wonder if you would work with us on this Committee as we move forward for perhaps a hearing or a work session that talks about the choices and opportunities to return to long-term stability with transportation. Would that be possible?

Secretary GEITHNER. Yes. Happy to work with you, and look forward to a chance to hear your concerns and suggestions on this issue.

Mr. BLUMENAUER. Thank you, sir.

I was disappointed, but not surprised to hear some of my friends on the other side of the aisle start the hearing today focusing on some small pieces of a very large mosaic that you and the Administration are bringing forward. It is the same mindset that prevented any reform recently, because any adjustment that wasn't a cut for everybody was somehow a major tax increase.

I am wondering if you might be able to make some observations and again help us look at the big picture. My friend is concerned about people in Michigan who are paying a tax now in terms of higher gas prices this last year, the effects of global warming, drought, flood, forest fires, global instability; and you have a package that would help with health care, energy, tax cuts. Can you speak about the big picture that would be reflected by the approach that you are offering up?

Secretary GEITHNER. Thank you, Congressman.

I think it is very important again to look at the combined effect of the entire package of programs that are in the budget. You are absolutely right; I think it is tempting to look at a piece of it and see, well, that is going to disadvantage some particular business. But you need to look at the impact of that in the context of everything else that is there.

So, you see again in the stimulus package, in the recovery act, just very, very substantial support not just to State and local governments, not just downpayments on long-term investments in energy efficiency, clean energy, in education, but support at levels you just haven't seen in decades.

But beyond that, if you look at the budget itself—again, by taking on the challenge of health care costs, we are confronting directly what is probably the most crippling burden on American businesses. In that area too, as well as the full range of measures that have helped reduce taxes on small businesses, on working Americans, it is a very powerful package of incentives.

These things will have tangible benefits quickly, not just over the long term. But I think you make a good point, you want to look at the net effect of everything.

Mr. BLUMENAUER. I see my time has expired, but I wonder, Mr. Secretary, if you could work with us to develop pictures of how this affects the average farmer, the average small business, the 97 percent of which make below the \$250,000 threshold, so we could look at the interactions with your help.

Secretary GEITHNER. I welcome that suggestion, and I think it is an important way to illustrate the overall effects.

Mr. BLUMENAUER. Thank you very much, sir.

Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes the gentleman from Washington for 3 minutes, Mr. Reichert.

Mr. REICHERT. Okay. You skipped Mr. Davis, but I will be happy to go, sir.

Chairman RANGEL. What is it? I am sorry, according to the list, you came before the gavel.

Mr. DAVIS OF KENTUCKY. Okay. I was in before the gavel also.

Chairman RANGEL. It may be a question of just seniority; is it not?

Mr. REICHERT. I will yield to Mr. Davis for now.

Chairman RANGEL. Mr. Davis, you are recognized. Unfortunately, we will correct the error here. Mr. Davis is recognized for 3 minutes.

Mr. DAVIS OF KENTUCKY. Thank you, Mr. Chairman.

We talk about large mosaics, the devil is always in the details. I appreciate my friend from Oregon making the comment earlier. I am going to come back with a practical question on the impact to create the environment to stimulate private investment means that you have got to be able to manage that in a way with a volatile economy. I want to come to one of the devils in the details, as one of the only manufacturing professionals who is in the Congress right now. It has to do with your proposal to repeal last in, first out accounting.

We talk a lot about helping manufacturing, but I see this as something that would be quite devastating, particularly to capital-intensive businesses. LIFO mistakenly has been called a loophole or an exotic tax shelter. In fact, it is a conventional and well-established accounting practice designed to minimize artificial inflation gains, to maintain and reflect accurate replacement costs; and it has been expressly permitted in the Tax Code since 1936, in the height of the Great Depression.

It is important to many industries. Specifically, in Kentucky, this proposal is alarming to our bourbon distilleries, to our precision manufacturing in aerospace industries. In the distillery example, distilled spirits have to be inventoried for many years before being sold.

At the same time, in high technology, precision manufacturing and aerospace, companies like General Electric, many of our small, specialized machine tool operations are required to carry large inventories for parts for AOG conditions; and my concern is that the repeal of LIFO would have a devastating impact in requiring an additional \$61 billion in taxes, falling heavily on our manufacturing companies that are already challenged. It reduces capital for investment. It reduces job security and ultimately job creation.

I also think that it creates a problem in the U.S. economy because we would be doing this regressively, already having the second highest business tax in the world. What I would like you to do is elaborate, if you would, on your proposal to repeal LIFO, and specifically address the issue of smaller businesses, small manufacturing and development firms.

Secretary GEITHNER. Thank you, Congressman, for raising this issue.

I think that it is fair to say that there is a lot of difference of opinion on the overall impact of this stuff. There is a body of tax professionals who think this is good policy for the country and is, overall, beneficial for the country. But I understand those concerns, and absolutely would be happy to spend some time and understand those concerns more directly.

Mr. DAVIS OF KENTUCKY. Reclaiming my time, Mr. Secretary, the one thing that I would make a comment, I think some of those tax professionals have never actually run a factory at a time—particularly with the monetary policy that we are engaged in.

At some point you and the Chairman of the Fed are going to have to pull money out of circulation, once inflation begins, and this, in fact, would create—the very problem that they say would be good for the country is going to actually depress manufacturing.

Secretary GEITHNER. Just to be quick, yes, I will be happy to work with you and listen to your concerns on this as we think about how to design it.

But I just want to emphasize a really important point, which is, again, we start with a more challenging fiscal environment than we have faced in generations. We are going to have to put our country on a path to fiscal sustainability. Obviously, as we do that, we want to do it in ways that make the country stronger, not weaker. But we are going to have to make some tough choices, and not everything is going to be possible.

If you look at the balance of judgments in this budget, it is our best judgment about how to again put us on a path to fiscal sustainability in a way that makes our country stronger going forward. But you are right, the details matter, and we would welcome a chance to listen to your concerns in more detail.

Chairman RANGEL. The Chair recognizes Mr. Kind for 3 minutes.

Mr. KIND. Thank you, Mr. Chairman.

Mr. Secretary, I want to thank you for your testimony here today. Obviously, you are dealing with some very large issues facing our Nation and the globe today. I think a lot of the credibility that you are going to have to have going forward really starts with the first budget proposal that you made.

I, for one, am very pleased with the truth-in-accounting approach you have taken to this budget—you know, accounting for the war costs, for instance, AMT relief, natural disasters, the sustainable growth rate for doctors, all of which were huge ticket items that were never previously budgeted before. This Administration recognizes it and has it included in the budget, and I commend you for doing it.

Just a quick observation, and I can follow up with you on it, and then I would like to hear you expand on another issue.

But I heard from a lot of my community and independent bankers and credit unions back home that they are getting hit with a huge increase in deposit insurance premiums recently, which is affecting their capitalization requirements, cash flow ratios; and I am wondering if anyone at Treasury has been focused on this aspect and thinking through it. I could follow up with you.

But on a larger issue, I was wondering if you could speak to the tax implications proposed under the President's budget and the im-

fact it will have on small businessowners throughout the country. I think—when there is a recovery taking place, I think it is going to be the small businesses that will literally act as the locomotive for us. We need to be careful what policies we are setting forth and the impact they are going to have on small businesses throughout the country.

So, if you could just take a moment and give us your insight on what the tax implications will have on small businesses.

Secretary GEITHNER. Thank you, Congressman.

On the first question, yes, we worked very closely with the FDIC. Of course, they are playing a very important role in our financial system, providing confidence to depositors. We will be happy to hear from you more on that particular question.

On the broad provisions in the budget that affect small business, let me just emphasize a few critical points. Again, the President's budget proposes to reduce taxes on 95 percent of working Americans. Ninety-seven percent of small businesses have incomes below \$250,000, and would find vast—probably would find their interest burden reduced under the President's plan.

The budget also proposes to eliminate the capital gains taxes on the sale of small business stock held more than 5 years, and it makes permanent the research and experimentation tax credit.

Now, going beyond that, to look at the overall package, again, by proposing to work with Congress to bring comprehensive health care reform to reduce the growth in health care costs, we also will be providing very substantial benefits to businesses, small and large, across the country. We are working very closely with the Small Business Administration to make sure that they are able to provide greater lending opportunities to small businesses at a time when the financial crisis is under such stress. We are working to make sure community banks have access to capital under the government's programs so they can lend in their communities on a substantial scale.

We announced today this program of direct lending to help get the credit markets going again, which are very important to small business lending. If you look at the package as a whole, this is a very powerful package of support for businesses, not just large businesses, but critically target the small businesses.

Mr. KIND. All right. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes Mr. Pascrell from New Jersey for 3 minutes.

Mr. PASCRELL. Thank you, Mr. Chairman.

Good afternoon, Mr. Secretary. In New Jersey, the unemployment rate is not far behind the national average. We pay out in the State \$45 million weekly in unemployment insurance benefits. These payments continue to increase, contributions decrease. The surplus is dipping to levels that automatically trigger payroll increases in our businesses.

Our State can't sustain the trend, Mr. Secretary. It cannot.

The President's budget includes such proposals as the Financial Stability Plan you refer to on page 3 of your testimony. What guarantees, however, do the American people have that once banks receive these capital cushions—you referred to them as the necessary

credit for Americans to once again buy homes, purchase cars, go to college, et cetera—what guarantees that they will open the credit markets to the consumer?

My second question: What protections will be set in place so that our banks have—that they have to, in more than mere good faith, commit to opening up consumer access to credit?

Two questions. I wish you would address them.

Secretary GEITHNER. Thank you, Congressman.

Let me just start with the conditions on the assistance we provide to banks. So, first, we will make sure that every dollar we provide generates at least a dollar in additional lending capacity that wouldn't have been possible in the absence of that assistance. We are going to require them to give us a report for how they plan to use those resources to expand lending capacity. We are going to require them to report on what they are actually doing with lending. We are going to make those reports public.

The broad oversight mechanism existing will look at what they are actually doing; and the American people will have a chance to see what is actually happening to lending by the recipients of these institutions.

Second, very important thing, we are going to make sure that the assistance we provide does not go to pay dividends unless there is a specific case for doing so, or to enrich senior executives with compensation packages, lavish compensation packages. We are going to make sure that—again that alongside what we are doing with banks, that we are providing direct support to get these credit markets opening up again.

I think these are necessary things to do. If we do these effectively and aggressively, then we are going to put our financial system on the path to repair, and there will be more credit available to support recovery.

Mr. PASCRELL. Something isn't happening that should be happening. This weekend I met with 10 businesspeople from my district—all of them solid businesspeople, all of them good numbers, good business acumen.

They can't get into the banks. They cannot get to the banks. There is something wrong. We have had the TARP back in September, we have had a recovery, we have had a budget which is now before us, a blueprint at least.

I mean, what do they—they need to have confidence that this is going to open up. I haven't seen it yet, to be very honest with you. I want you to talk to those 10 business people. What do you tell them?

Secretary GEITHNER. First of all, what they are seeing is happening across the country, and it is a measure of the severity of this crisis. You know in a recession, particularly after a long boom in credit like this, demand for credit is going to fall. But what we are worried about and what you are seeing is, it falls below the point necessary; and that requires that banks have the strength to be able to lend.

Everything we do, the results in assistance to banks, again, as I said, is not done for the benefit of banks. It is there so that the businesses and families that depend on credit are going to have the ability to borrow, where they are economically viable. Everything

we do is designed to support that objective. But we are going to have to do more to do it.

The reason you are seeing this pressure across the country is that this crisis is so severe and is putting so much pressure on the system. That is why we are going to have to do more.

Mr. PASCARELL. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Reichert is recognized for 3 minutes.

Mr. REICHERT. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I will try to get to three quick issues in my 3 minutes.

One, in your 26-page, 15,414-word budget plan titled Jumpstarting the Economy, Investing in the Future, free trade is not mentioned once. Are you not concerned that America is ignoring the importance of opening new markets to trade as a means of creating American jobs? In Washington State this is especially important, since one out of every three jobs is connected to trade.

Secretary GEITHNER. Congressman, you are absolutely right that our future depends on remaining open and playing a critical role in this expanding global economy. The President is very committed to trying to make sure we sustain a commitment to the openness necessary for—

Mr. REICHERT. Mr. Secretary, it not mentioned in the budget once.

Secretary GEITHNER. The budget document is a comprehensive set of proposals that relate to the budget and lays out a comprehensive set of policy priorities. It does not address—you are right, it does not address all the other challenges of the country in the economic area.

Mr. REICHERT. Mr. Secretary, just to reclaim my time again, can we expect the Administration then to bring a vote, push for a vote, push the House to come to a vote on the agreements with Colombia and Korea—Panama?

Secretary GEITHNER. What you can expect is, the President and his Administration will work carefully with the Congress to find a way to move forward on those important agreements, because it is so important to our country that we sustain a commitment to—not just to keep our markets open, but that we can find new trade agreements that are going to benefit American businesses and the American worker.

Mr. REICHERT. I hope to see these votes come to the floor. Our State needs that business.

I want to go back to the big picture. I think the big picture is great, but you know, people are worried about how does this impact me, my family? That is what I want to know, and that is what my constituents want to know.

I met with a family named Doug and Candy. They owned a business for 25 years, 170 employees. They started it out in their garage. Their brothers, sons, daughters worked for the company. They just went bankrupt last week. They went to the bank, \$310 million TARP recipient. They refused to give Doug and Candy a loan.

I notice in this budget that there is \$250 billion more in bailout money that is set aside. How can we make sure that Doug and

Candy and families like that get the money that they are supposed to get to keep their businesses going? Now, next week, Mr. Doug and Candy are going to have to file personal bankruptcy and lose their home.

Secretary GEITHNER. Congressman, this is why it is so important that we move to make sure we strengthen our financial system so that banks have the resources able to provide credit and so that we move aggressively to try to get these credit markets working again, which is what we are doing.

The reason you are seeing this pressure on the system is because—not just because of the pressures on businesses, but because of the pressures in banks that puts them in. That is a vicious and dangerous cycle, and it requires more action by the government to solve it.

Mr. REICHERT. I agree with Mr. Pascrell, this is a serious problem. We need to act now and we need to make sure that these people have access to the credit that you say you want to free up.

My last question, sir, according to February 26th article in the Politico, Speaker Pelosi is quoted as saying that she thinks that the President's budget does not raise taxes quickly enough. Specifically, she is quoted as saying, "Quite frankly, I would have done it faster."

Mr. Secretary, in light of the current economic climate, do you agree or disagree with the Speaker's view that taxes should be raised immediately?

Secretary GEITHNER. Congressman, I support the President's budget in its full package of measures because I think that is the best way for us to get the economy back on track. I think it is very important that, as we do that, we still explain to the American people how we are going to get our budget back to a sustainable path. The budget makes very clear, specific commitments to do that, but again, after we believe recovery will be firmly established.

Mr. REICHERT. Thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

The Chair recognizes the gentleman from Illinois, Congressman Davis, for 3 minutes.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

Mr. Secretary, I am very pleased that the President's budget invests in higher education, with increases in the Pell grant and making the American Opportunity Tax Credit permanent. One area that I hope we can improve with is on the new tax credit, to make sure that it benefits students who attend community colleges.

Especially for students who attend community colleges, expenses differ somewhat from those who attend 4-year institutions. Given the fact that many lower income and minority students attend community colleges, I hope that we can ensure that our tax structure values the costs to students who attend these colleges equally with those who attend 4-year institutions.

My question is, the Administration has sought to respond to the economic crisis with a balanced package of tax cuts and spending, along with efforts to address the troubled housing and credit markets. How do you respond to the theory that we might be better off with an approach that cuts both taxes and spending at the same time?

Secretary GEITHNER. Congressman, on your first point, I think it is very important that people have the opportunity to use this tax credit for a community college, not just for a 4-year college; and am happy to work with you on how best to make sure we achieve that. But I believe the Administration shares that commitment.

You are absolutely right, Congressman, as a country right now, for us to be cutting the deficit today would leave the recession deeper, would create higher future deficits, weaker growth in the future, and would ultimately lead us to the position we are doing much more damage to the fabric of the American economy. That would be the wrong policy for the country.

I don't know of any economist that advocates today that we move to cut spending in the face of this deepening recession. That is why the package that Congress proposes has a mix of investments in infrastructure, things that will put people back to work, alongside the tax incentives it creates to put money in the hands of Americans and stimulate private investment.

Mr. DAVIS OF ILLINOIS. Let me thank you very much, and let me just agree with my colleagues who suggest that anything that we can do to help assure bankers have enough confidence to make these loans, especially to small businesspersons, who are crying that they just cannot get the assistance that they need.

I want to thank you very much. That is the end of my questions.

Chairman RANGEL. The Chair recognizes Mr. Etheridge of Tennessee for 3 minutes—North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. Let me echo my colleagues' thanks to you for—and to the Administration—for your proposals on education. One that Chairman Rangel and I joined in was school construction. I was at home over the break, and I can tell you children don't really care who pays for those buildings; they just know what they get, and they really want better ones. When it comes to giving a child an education, they are not worried about whether it is public, private, how it gets there.

It makes a difference in our future, and I thank you for that investment. I think it is critical. As it relates to small business and loans, I hear the same thing; and I trust that you are working on that.

But let me move to another area, just to put it on the record, and ask that you take a look at it, because as you look at the agricultural sector across this country, it is about \$130 billion annually to the U.S. economy. Across the country it is responsible for about 14 percent of the employment, but in my home State, it is almost one in five jobs in North Carolina.

Many farmers now are starting to be hard hit, because they really are small businesses; people talk about small businesses, but forget they really are. They are seeing costs increase, their incomes plummet.

When we talk about farm loans, a lot of folks don't realize they are connected to where people live. There has been an unusual thing hit certain States in the poultry industry, where their contracts were being pulled. They have no income, they are in jeopardy of losing their homes, their land, everything they have. I would encourage you to take a look as you look at TARP.

They are not asking really to be bailed out. All they are asking is to have a bridge loan to get them past 12 months or 18 months, because this is going to turn around at some point, and they would like to be there. Because a poultry house costs anywhere from \$250,000 to \$300,000; without poultry, they are worth zero.

This is a problem for the lending institution, but it is really a problem for those farm families. I look forward to working with you or someone in the Administration to try to help work through this.

I thank you for what you are doing. I know you have got a difficult job. I want you to know this is one Member—and I won't speak for the whole Committee, but I think, Chairman, we want to help because the country needs us all to be together in this situation, working together.

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

Secretary GEITHNER. Thank you, Congressman.

Mr. PASCARELL [presiding]. Thank you, Mr. Etheridge.

Mr. Yarmuth from Kentucky.

Mr. YARMUTH. Thank you, Mr. Chairman.

Secretary Geithner, it is nice to see you. I would like to begin by echoing the comments of Congressman Davis. Bourbon is an extremely important product in my district and my State; and it is a product that is required by law to be on the shelf for a long period of time. Changes in the LIFO treatment would put them at a severe competitive disadvantage with the balance of the liquor industry, which is overseas. So, I think there is a real interest in not just preserving one industry in Kentucky, but also an American industry and American jobs.

So, I look forward to working with you and Congressman Davis and also with Chairman Rangel on that issue.

One of the things that we have talked about a lot today and over the last few days, since this budget was made public, is the question of predictability and estimates and so forth. We understand that this is a very dangerous process to project economic growth.

So, my question is, as we move forward, we are adopting a budget, even with a 10-year window, essentially for 1 year; so what is the Administration prepared to do and what kind of metrics would we look forward to over the next year or two if we adopt this budget largely as it is, to see whether we are making progress? How can the American people—how will they know whether the budget is having its intended effect?

Secretary GEITHNER. Well, I think it is important to start by saying that the transparency provisions and reforms that are built into the budget will provide a level of transparency to the American people about how this money is being spent that they have never seen before. That is really important, because they will be able to see not just what is happening in their communities, but they will be able to see, as these things are implemented, where the money is flowing, how effectively it has been used.

We think that will be effective; the American people deserve that. But we think it will help drive better policies, frankly, because that level of scrutiny and transparency will help.

But if you look at the economy as a whole, the best measure of what is happening in the economy, you are going to see what is happening to unemployment rates, what is happening to income

gains, what is happening to overall growth, what is happening to interest rates. Those are the things that are going to drive parts of the long, sort of basic environment in which we make these basic fiscal policy choices.

But the best measure of the effectiveness of the policies is going to be when you start to see the pace of growth decelerate, start to see a foundation put in place not just in housing, but the parts of the economy that are most directly affected by this, and then the beginnings of confidence or recovery coming.

Most economists expect that process to begin in the second half of this year, but it really depends a lot on how effective we are in moving the recovery act into place quickly and, as I said, moving more effectively to try to provide confidence to the banking system and to help get credit flowing again.

Mr. YARMUTH. All right. Because one of the things that I am getting when I am home—and it is very frustrating—is that looking particularly back at the [TARP|tarp] and the first stage, it is one thing to say things would be worse if we don't do this. It is another thing to—like we haven't been attacked since 9/11, it is another thing to draw a cause and effect. The American people need that degree of confidence.

Secretary GEITHNER. Can I just come back on this?

It is a very important point, but mortgage interest rates are substantially lower today than they were in the fall. Parts of the credit market are opening up again. Those things are the direct effects of the actions that have been taken to try to make sure that there is a stronger level of confidence across the country that we are going to make sure that our system holds together and is able to provide credit.

So, that is not enough, but it is a very important beginning, and we need to keep at it to try to reinforce that progress.

Mr. PASCARELL. Thank you.

Mr. BOUSTANY from Louisiana.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your testimony today. You know, I have reviewed the budget, this budget proposal, and I have some very deep concerns. In fact, today I received a letter from a Louisiana small business leader who is worried that tens of thousands of Gulf Coast energy jobs will be lost under this plan.

Mr. Secretary, this budget raises energy taxes on every American and sends jobs overseas. So, can you tell me how many Gulf Coast energy jobs will your budget kill?

Secretary GEITHNER. Congressman, I can't answer that question, but I would be happy to try to look at any analysis you have been given and give you a sense from the Administration, what the impact is going to be.

But I just want to emphasize again that what the budget proposes is that, as we work with the Congress to put in place a cap and trade system to move us toward energy independence and better use of clean energy technologies, that sometime in 2012 we are going to be putting in place a framework that will change the incentives for how people use energy.

Those resources raised by that, if we work this through the Congress, will be put into helping finance these tax cuts that benefit

95 percent of Americans, that go to help facilitate this transition to cleaner energy technologies. If there is additional resources, we will use them for—

Mr. BOUSTANY. But that is the key. We don't have a transition strategy. Natural gas has been considered one of the key transition fuels.

This budget will tax natural gas production; and in fact, if you look at natural gas that we are using in this country today, one-third of it is coming from rigs that were drilled within the last 2 years. We are talking about thousands, tens of thousands of jobs, small companies, small businesses that do the production, the service, maritime support and so forth.

Secretary GEITHNER. Well, Congressman, I do think it is important to point out that in the stimulus program there is very, very substantial support, as some of your colleagues have pointed out, for helping facilitate this transition—just like you said—a very, very substantial amount of support to provide incentives for investment in more efficient energy technologies, greener energy technologies.

So, I think there is a lot of effort and care put into the transition.

Mr. BOUSTANY. But what about the Gulf Coast energy jobs that we have today? This will kill those jobs. The President himself has said his goal is to save or create jobs. "Save" is a very important word here.

Secretary GEITHNER. Congressman, again I think it is very important to emphasize that, looking ahead, this budget, because we are inheriting a huge fiscal hole, does require us to make some tough choices about how we are going to pay for these critical, long-term priorities of the country. So, we are going to have to work with the Congress on how best to meet that balance.

But remember where we are starting from. We are starting with these huge accumulated deficits, a dramatic increase in our overall debt-to-GDP ratio, a deep economic crisis that is going to require additional resources to get recovery back. We are going to have to work with you to determine how we make sure we balance these priorities, so that we are leaving the country living within our means, but with a stronger economy in the future.

It is going to be a difficult thing to do. But remember, you are talking about things that we are going to have to work with the Congress to design that would come into effect after recovery is established.

Mr. BOUSTANY. Thank you.

Mr. Chairman, before I close out, I ask unanimous consent to include this letter I have from the Louisiana Oil and Gas Association to be included in the record.

Mr. PASCARELL. Without objection, so ordered.

Mr. BOUSTANY. Thank you.

[The information follows:]



Louisiana Oil & Gas Association
Don G. Briggs, President

March 2, 2009

Congressman Charles Boustany
1117 Longworth House Office Bldg
Washington, DC 20515-1807

Dear Congressman Boustany,

As you are well aware, President Obama released his FY 2010 Budget, entitled **A New Era of Responsibility Renewing America's Promise**. The budget provides for a \$30 plus billion-dollar tax increase on the nation's oil and natural gas producers, designed to help pay for alternative energy projects. In the proposed budget, President Obama strips from the oil and gas industry incentives that have been the "holy grail" of the industry for years, incentives that are critical in a high-risk investment industry.

Louisiana is the "Energy State" of these United States. Twenty-five percent of the oil and twenty-five percent of the natural gas that fuels our nation flows through the vast oil and gas infrastructure of our state. Fifty percent of the fuels that drive the engines of our country flow through and from the state of Louisiana. Our nation's energy security is greatly dependent on the well being of Louisiana's oil and gas industry.

Congressman Boustany, should Congress pass President Obama's budget proposals on oil and gas, our nation's energy security will be at great risk. Our nation's oil and gas industry is not made up of the five or so major integrated oil companies, but of several thousand independent oil and natural gas producers. It is these American oil and gas companies that drill and produce the vast majority of oil and natural gas produced in the United States.

President Obama's budget proposals will strip from the American independent oil and gas producer the economic incentives that provide the investment capital that is needed to explore and produce oil and gas for our country. Without the economic investment incentives, exploration and production of oil and natural gas, as we know it, will drastically decline. Trillions of dollars will be lost, tens of thousands of jobs will be lost and our nation's energy security will be severely threatened.

Louisiana is the heartbeat of our nation's energy infrastructure; President Obama's budget proposals will put that infrastructure at great risk. Please Congressman Boustany, work to defeat or amend President Obama's budget. Please feel free to call me should you have any questions.

Sincerely,

Don G. Briggs
President
Louisiana Oil & Gas Association

Mr. PASCARELL. Ms. Sánchez from California.

Ms. SANCHEZ. Thank you, Mr. Chairman.

Thank you, Secretary Geithner, for being with us this afternoon. I was absent for a part of the hearing, so pardon me if I am asking questions that have already been answered. But I know that a lot of criticism has been leveled at this budget because of a fear of future debt. That is what we keep hearing: We can't burden, you know, future generations.

My question to you is a very specific one. Do we really need to balance the budget in order to reduce our future debt burden, or can we reduce our debt burden while still running deficits? Because some people would have you believe that the two must go hand in hand.

Secretary GEITHNER. Okay.

Congresswoman, if we—it is important to start again by saying that the fiscally responsible thing to do and the most important thing we can do if you are worried about our long-term fiscal path is to get this economy growing again.

That is why the Recovery Act was so important, and that is why this budget accounts for the other costs we may face in trying to fix our financial system. That necessarily results in a temporary short-term increase in our deficit. That is why it is so important that we commit to bringing those deficits down. If we don't do that, then we are going to have a rising debt-to-GDP ratio over time and higher interest rates and will crowd out private borrowing and the recovery will be interrupted and we will see more damage done to the productive capacity of our economy, higher future deficits.

So, I think that is the balance we are trying to strike, and there is no alternative we face as a country, but to try to make sure that people understand that again, when recovery is in place, that we are going to bring those deficits down to a level that we can sustain over time. Sustainability, people will disagree on what it is, but the most important thing is that it means that it is a level where that debt-to-GDP ratio is no longer growing. You need to commit to achieve that within a horizon that includes the medium term.

So, we are proposing to do it at the end of 5 years and to make sure that we sustain that over the next 5 years after that. That is the critically important thing to do.

Ms. SANCHEZ. So, it would be fair to say that there is sort of a short-term strategy combined with a long-term strategy to get us out of this economic black hole that we are in?

Secretary GEITHNER. That is a better way than I said it. You said it right, but you have to do them together. Because if all you did was the short-term address the recovery stuff, and you left people without the confidence that we were going to try to bring those thing down, then again, you would face the risk that higher interest rates would choke off recovery. So, you need to do it together, being careful, again, to reassure people, as I am trying to do today, that we are not going to be raising taxes on the American economy until we get through this recession.

Ms. SANCHEZ. Great. I appreciate your answer. I yield back the balance of my time.

Mr. PASCARELL. Thank you. Now Mr. Heller from Nevada.

Mr. HELLER. Thank you very much, Mr. Chairman. Mr. Chairman, thank you. Mr. Secretary, thank you for being here today. The last time I was able to ask you questions, I was over in the Financial Services Committee. So, I don't want you to think that I am chasing you around from Committee to Committee. But thank you very much for being here. I want to go back to a couple of statements. You said several times in your testimony that the best way to sustain confidence—and we continue to talk about confidence. I would argue that from what I am seeing in the markets today, we don't see a lot of confidence. The previous Administration, as you are well aware of, put together the bailout package, supported by this President. Consequently the market dropped about 2,000 points. We put together a stimulus package put together by this Administration, and upon passage the market dropped substantially.

We have seen the same thing in the omnibus package that was passed, the market decreases. We are seeing the same thing now during the last joint session with the President when he spoke in front of us, that based on his remarks, the market struggled.

I am concerned about that, and I guess my question for you, even with this current budget, we are seeing the markets struggle. Why do you think that the investment public right now is discounting this budget and current actions by this Administration?

Secretary GEITHNER. I think it is just important to start with the underlying reality, which is growth here in the United States and around the world is still weakening. You are seeing that reflected and spreading in term of impact across the economy. That is fundamentally what is been driving this crisis from the beginning. This was true, if you just go back 18 months ago to the beginning of this crisis. You are seeing that basic dynamic increase and intensify. This forces us to maybe some choices. What this President is doing, working with the Congress, is putting in place as powerful a set of policies as we can to get recovery back on track.

There is no choice but to do this. It is going to take time to work. This crisis took a long time to build up. It is going to take some time to fix. But again, we are starting with a deepening accelerating decline, not just here but globally. You know, in some ways, it is important to point out that this started here in some ways and we started a slow more quickly than the rest of the world is. But the rest of the world, you see, growth decline at an accelerating rate. You are seeing that affect export demand. So, you are seeing that ripple across the U.S. economies too.

So, the only thing that I can say is that this is a grave and serious set of challenges. I think that is broadly recognized now. But the choice we have is to act. I am very confident for us to choose not to act, to hope this would work itself out, hope it would burn itself out, hope that we get through this without making these tough choices now, would leave us much more vulnerable as a country. What the President is going to do working with the Congress is to make sure we keep at it until we get recovery back on track and firmly established.

Mr. HELLER. Thank you, Mr. Chairman.

Chairman RANGEL. The gentlewoman from Nevada, Ms. Berkeley.

Ms. BERKLEY. Thank you, Mr. Chairman. Thank you Mr. Secretary for being here. I appreciate it very much. Let me get started by telling you what I like about the budget. The transparency is truly a breath of fresh air. I am very glad that we included the cost of preventing cuts to doctors who serve Medicare patients. I have got the fastest-growing senior population in the United States. Short of me going to medical school so I can go treat them when I go home on weekends, we are going to be in a world of hurt if my doctors stop treating Medicare patients. The fact that—including the cost of the wars in Iraq and Afghanistan, I think also is sad but refreshing. I am also glad the budget assumes extension of current tax cuts targeted at the middle class, including AMT protection. Thirty-three thousand of my constituents are affected by the AMT, making work pay tax credit enacted in the stimulus bill is going to cost money. It is important. Also, 95 percent of Americans, but of the people that I represent, are going to pay less taxes under the President's plan. The energy provisions for the State of Nevada are great. We simply must diversify our economy. If we can do it by helping to go green, that would be great. Nevada has an abundance of sun, wind, geothermal up north. If we can harness that through tax credits and other incentives, I think that is terrific.

Now I am not a financial genius, but I know my district really well. My constituents are some of the hardest hit in the country because of the current economic crisis. Nevada has the highest mortgage foreclosure rate in the country for 2 years in a row. Home values went down 34 percent in Las Vegas just in this year alone. Unemployment, while it shows the official numbers are 8-point-something, I would bet you dollars to doughnuts we are over double digits. One of my major casinos, casino hotels had a 27 percent occupancy rate last week. It was a disaster for us. Our construction industry is dead in the water. Small businesses are folding at an alarming rate. My major developers and major businesses can't get loans. I would like to emphasize what the others have already said. It is a disaster. Banks that they have been doing business with for 20 years aren't loosening up any money for them. So, that is so bad.

In order for my district to recover, it is necessary to address both the housing crisis and jump start the economy. We have made great inroads, but there are two things that I have been trying to push, and I would like your opinion on them. One of them is 100 percent deductibility of business meals. What I have in my district is hotels and restaurants, an abundance of restaurants. Small businesses don't have big conference rooms. They use the back booth of restaurants in order to do business. If we could do 100 percent deductibility that would be a great help for my small businesses and for my restaurants. The second thing is, a tax credit from business travel for people to bring their spouses. We don't have any business in Vegas. I would like to caution the Administration and my colleagues to stop bashing Las Vegas. It is still a great deal and you are taking business away by talking about, oh, Las Vegas, don't travel there if you are a TARP recipient or someplace else. It is still the best bang for the buck.

What do you think about those two things? The last thing is, I would like to echo something that somebody else said. What I got more than anything this weekend when I went home was that charitable tax deduction. You explained it very well. But for us, it is a nonstarter. I wish that it would go back because I would like to think that people give out of the goodness of their hearts. But that tax deduction helps a lot to loosen up their heart strings. With that, what do you have to say about this?

Secretary GEITHNER. I have heard the two specific ideas from you privately, and I would be happy to reflect on them. Don't know if it is possible. I understand why it would be important to a State like yours.

Ms. BERKLEY. Florida and New York and a whole lot of others.

Secretary GEITHNER. Many, many States across the country.

Ms. BERKLEY. In conclusion, I put a call in to your office on a totally separate subject. I know you are really busy. Can you have somebody return the call?

Secretary GEITHNER. Absolutely.

Ms. BERKLEY. Thank you.

Chairman RANGEL. The Chair recognizes Mr. Roskam of Illinois.

Mr. ROSKAM. Thank you, Mr. Chairman. Mr. Secretary, one of the things that you spoke about had to do with transparency with the banks. I think there is a lot of wisdom to that. One of the things that Ms. Berkley just said that she found attractive about the budget was the transparency element. I think there is near unanimity that that is a good approach. One of the things that I heard on the break last week when we were back home was your own experience—and you dealt with this in the Senate. But it is going to be coming up—with your own personal tax liability situation. I had people sort of in business meetings with me referring to, you know, in a joking fashion, the Geithner rule, hoping that they would get the same treatment that the Secretary got. Yes, you pay the taxes. Yes, you pay the interest. But no, you don't pay the penalty.

I asked the question—and I am not suggesting that you were assessed a penalty. I asked a question of the Deputy Commissioner of the Internal Revenue Service last week during an oversight hearing. She essentially waived off because she was forced to, I believe because she is not allowed to discuss the matrix of an individual decision on an individual taxpayer. So, you sort of got the sense that she wanted to explain how it was that you were not assessed a penalty, but that she was prohibited from doing so.

In the interest of transparency, are you willing to waive that so that the Internal Revenue Service can discuss with us publicly their decisionmaking process on not assessing you a penalty based on your tax situation?

Secretary GEITHNER. Let me just say a few things in response to this. I disclosed my full tax records not just to the Administration vetting team, but also to the Senate Finance Committee at the earliest stage in this process. They disclosed very comprehensively the full results of their review of my taxing. You can find what is in the public record already very detailed documentation of why the IRS not just first assessed the penalty, but then encouraged me

and a whole range of other people to apply for a waiver of that penalty and waive that penalty.

I think that there is a bunch of informing in the public domain, but I will be happy to make sure that you have a chance to hear more detail about this issue, in general what their overall policy is in this case, consistent with whatever constraints they operate with. I would be happy to follow up with you on that.

Mr. ROSKAM. To the extent that you have control over that, and I am sure you do as an individual taxpayer, in the interest of transparency, I assume that you are telling the Committee today that you are willing to waive that and allow the IRS to disclose to us—

Secretary GEITHNER. I will do whatever is appropriate.

Mr. ROSKAM. Let me finish the question. We are deciding what is appropriate. I am asking you, are you willing to waive that so that the Internal Revenue Service can have the public conversation with us about how it applies. I am not trying to drag you through this again. But when I am asked questions, does the Geithner rule apply to me, Congressman?

Secretary GEITHNER. Let me just say, there is no Geithner rule. I would be happy to come talk to you about this in as much detail as you would like and absolutely willing to talk to my colleagues at the IRS and to figure out how to best to help you respond to your concern. But I was fully open and transparent, as was the Committee on this issue. It is hugely important to me that that is out in the public record in the fairest—in the complete possible light. So, I would be happy to try to be responsive. But I need to talk to them a little bit about what constraints they face on dealing with individual cases.

Mr. ROSKAM. Okay. I realize my time has expired. It was a complete unwillingness to engage.

Chairman RANGEL. The Chair recognizes the gentleman, Mr. Crowley from New York.

Mr. CROWLEY. Thank you, Mr. Chair. Welcome to the Committee, Secretary Geithner, and thank you for your responses thus far.

It never ceases to amaze me the level of apparent amnesia some of my colleagues on the other side of the aisle have had about how we got to this problem in the first place. I thank you for answering Mr. Heller's question, in particular. By the line of questioning, you are almost led to believe that because of the last month and a few days of the presidency, we have the problems we have today. Thank you for setting the record straight. This didn't happen overnight. This took 8 years in the making of stagnant, at best, growth. But yesterday, Mr. Secretary, the Treasury and the Federal Reserve announced a new fourth plan to rescue troubled financial services giant AIG. I do agree that AIG's sustainability is the linchpin for some of our recovery efforts. It is important for the Federal Government to work to keep it afloat. However, I must demand for AIG increased accountability and transparency, something that was not done during the previous Administration. For example, just last month, AIG paid 343 employees of AIG FP, their financial products division, that created the financial hole that AIG is in, and in turn, a multibillion dollar bill for American taxpayers

of \$56 million in bonuses. Are slated to pay an additional \$162 million in bonuses to 393 participants in the coming weeks.

There is more. Further bonus payments totaling approximately \$230 million are due to 407 participants at AIG's financial products division in March 2010. This makes no sense to my constituency. I am not here to bash compensation. We can go a little overboard as well. But this company claims to be on the brink of disaster, and it is handing out bonuses. I would like to work with you in structuring tough commonsense compensation limits at AIG in this new government loan, which would include voiding these bonuses to AIG FP employees as well as claw back \$56 million in bonuses already paid to AIG FP employees December 2008 and 2009, some of whom are not even American citizens but who are living large on taxpayer funds. Can you please share with us, the Committee, your thoughts on taking these actions.

Secretary GEITHNER. Congressman, thank you. I just want to point out that compensation practice across the financial services industry over the last years and decades just got out of whack with basic fundamentals and people were paid for risks that were encapsioned in compensation. Part of what we do to make sure this crisis doesn't happen in the future is to change those basic incentives. There is going to be a role for government in doing that.

Now, it is very important that we make sure that we are providing exceptional assistance to these firms, that that assistance is going again to achieve the objectives of these programs. Not to reward the kind of executives that got us in this mess. I am deeply committed to that objective. The President laid out some very comprehensive conditions in his proposals last month. Congress passed, as part of the Recovery Act, a set of additional provisions. We are now in the process of designing regulations, guidelines to apply those provisions. We are going to be as careful and responsive as we can to the concerns you have, so many Americans have about how these resources have been used.

I just want to say that the judgments made by these boards of directors and senior executives across parts of the financial system have just caused a lot of damage to public confidence in the quality of their judgment and they have a deep responsibility, an obligation, to make more careful judgments going forward. But we are not going to be able to depend on them to do it. We are going to make sure that there are conditions that come with our assistance to assure that. So, we are going to figure out how to apply these new provisions in a way that is as carefully designed as possible.

Obviously we want to achieve the objectives of what we did in AIG. We want them to be able to run their business and restructure so that we are in a better position going forward. That is why this is sort of hard to do. But we are going to be very careful in doing it and very much hear your concerns.

Mr. CROWLEY. Thank you.

Chairman RANGEL. The Chair recognizes the gentleman from Maryland, Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you Mr. Chair. Thank you, Mr. Secretary, for your testimony. As we move as a nation to reduce our reliance on foreign oil and our reliance on fossil fuels, we clearly need to make sure that the clean energy companies get the credit

and the financing they need to move forward. There are lots of projects, as you know, that are frozen right now. We got a good start on some of that in the economic recovery plan. Congressman Zach Wamp and I wrote to the President early on proposing the idea of creating a green bank, modelled after OPEC, XM whatever model you want to look at, for the domestic energy market. We are pleased that the seed money for that kind of idea was in there, about \$6 billion, primarily there for loan guarantees. We would like to look at expanding that to some debt financing as we go forward.

But I want to pursue that conversation with you in the days ahead, especially as we move toward trying to put some kind of cap on carbon emissions as we move toward, you know, reducing our reliance on foreign fuel. Again, on that point, I was pleased that the President's plan talks about returning most of the money to the U.S. taxpayer. I think we also need to have a conversation on exactly what form that will take and what mechanism we use to make sure people understand that they are going to be compensated for some of the increased costs they will face.

The question I have for you relates to making sure we get the economic recovery plan, the housing foreclosure prevention plan and your plan to get credit flowing again. How they can all work together in a synergistic manner. As you and the President have said, we need to click on all cylinders. Each one of these things alone will not get us out of this ditch. We need them all going. I think we are moving forward on economic recovery. I think you guys have put forward a solid plan on home foreclosure prevention. I think we are all still working on this third piece, on getting the credit flowing again.

If you could just talk a little bit more. You said in your earlier testimony we have to do more. If you could talk a little bit more about your schedule for completing the stress tests on banks and getting ourselves out of a defensive posture or reactive posture in a proactive manner and what your schedule will be and when you intend I think to unveil more details in term of your proposals.

Secretary GEITHNER. Absolutely right these things have to go together. Each will be less effective unless they are done together and we are trying to move as quickly as we can across all of those fronts. You saw we already announced that the new housing tax credit will be able to be applied against 2008 income. There is a whole range of provisions of stimulus we are moving very quickly on. Tomorrow we announce the more detailed provision of our housing plan, at least on the affordability front.

So, let me just come back to the financial piece of this. This is absolutely central, vital. Last week we laid out a timeframe, it is now in the public domain, for how this health assessment, this assessment of the additional capital buffer, these institutions may need to withstand a more severe recession. The timeframe which that assessment is going to be concluded. We want that to happen as quickly as possible. It is going to take several weeks because you want them to do it right. But we also announced at that point—and this is very important—that there is going to be a program of capital available for those institutions that need some additional buffer. Some will need some additional capital to get through this. They are going to have 6 months to go to the markets to raise that

capital early on if they choose or they can take it up front, the government up front. That will help resolve this basic cloud over the institutions in a relatively quick period of time.

We also announced this morning the first stage of this new lending program to help get credit markets flowing again for small businesses auto financing et cetera. In there, too, there is a timeline for when these programs start to take effect and get traction and when we are going to start to expand them to other markets that are also affected by this. So, we are doing—we are trying to lay out a path with concrete timelines on each of these fronts again so that we are moving quickly. You are absolutely right. The small business that would otherwise benefit substantially from the type of investments you are seeing in recovery will not be a benefit unless they can borrow to get credit for that. That is why you need to move on those fronts together.

Mr. VAN HOLLEN. Thank you. Thank you, Mr. Secretary.

Chairman RANGEL. Thank you. The Chair recognizes Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman. Mr. Secretary, thank you for coming to the Committee. I want to make sure, at least for the record—we have had several comments from many of my colleagues, but the TARP, the first bailout, the stimulus package, the last omnibus bill, the President's Budget, the latest budget, and the AIG latest bailout was all supported by President Obama and his Administration and your office, either as President or as a U.S. Senator.

Secretary GEITHNER. Let me just make sure I understand. You are saying the stimulus package, absolutely.

Mr. NUNES. Omnibus.

Secretary GEITHNER. Omnibus bill, yeah. So, that is still working its way.

Mr. NUNES. The current budget.

Secretary GEITHNER. The current budget is designed by the President's economic team.

Mr. NUNES. The AIG bailout over the weekend.

Secretary GEITHNER. All of the actions we are taking to try to stabilize this financial system to make sure that there is credit flowing again are going to be done with the full support of the President and the broad financial agencies of the country, including the Federal Reserve and the FDIC.

Mr. NUNES. I understand. But with the support of the President, as was the first bailout, the first TARP was also supported by the U.S. Senator at the time and yourself when you were at the Treasury back in September.

Secretary GEITHNER. I was not the Secretary of the Treasury then. I was the President of the New York Fed.

Mr. NUNES. I was at a meeting where you came and did ask for the support of the Congress for that provision if I recall. But let's get on to—

Secretary GEITHNER. I just want to point out, this is very important to do. The action the Congress authorized at that point was absolutely essential to preventing catastrophic failure of our financial—

Mr. NUNES. Well understood, Mr. Secretary. But here is the issue. We have thrown this all at the wall. You stated earlier to one of the earlier questions that, you know, it is possible that GDP could be lower than what—even what you are predicting and what others are predicting.

Secretary GEITHNER. I think I said that our budget presents a forecast for what the economy is likely to do.

Mr. NUNES. Understood. But here is the concern I think that a lot of us have, is that right now under your budget or the President's budget, we are looking at a \$12 trillion Federal debt in 5 years. If we are slightly off on GDP or we are slightly off on what revenue is going to be or we are slightly off on how this economy responds, I mean, we could be at an unsustainable level of Federal debt. I think that is the concern you are seeing. It is a legitimate concern for Members of Congress here from both sides of the aisle that this level of debt is unsustainable in the long term.

Secretary GEITHNER. Congressman, you are absolutely right. But just remember where we are starting. We are starting with—we are starting before anything happens, a \$1.2 trillion deficit. We are starting with a set of costs.

Mr. NUNES. Well, we are starting with about \$6 or \$7 trillion in debt and we could be in the 5 years at \$12 or \$14 trillion.

Secretary GEITHNER. So, it built up over the last 8 years, magnified by the cost of this crisis.

Mr. NUNES. Built up over the last 220 years.

Secretary GEITHNER. True. But with a substantial increase in that path over the last 8 years. With a crisis we are inheriting that is going to require very substantial additional action to fix the financial system and get the economy back on track. That is what causes this temporary increase in deficits. Now this program the President laid out in the budget is a very, very responsible fiscal program. I don't—again, I do not believe that you have seen a budget presented any time in recent history with this level of candor and honesty and ambition to try to bring those deficits down over a period of time. That is very important for us to do. But remember, the bulk of what you are referring to, overwhelming bulk is the result of—not just the cumulative policies of the last immediate period, but the damage caused by this recession and the cost that imposes on the economy as a whole.

Mr. NUNES. I understand. I just want to make sure—and I will close with this, Mr. Secretary: It is not a partisan attack on you when you hear some of us, including myself, up here saying that we are very concerned about where we are going to be at with the level of Federal debt in the next 5 years and whether or not that is sustainable or not. A lot of that hinges on how successful the plans that you are putting out there are. So far the market is not responding well to these plans that have been put out there. That is our concern. It is a legitimate concern. It is not an attack.

Secretary GEITHNER. Congressman, I completely share your concern that it is absolutely important that we get this economy back on the track to growth and that we leave this economy, commit to bring the economy to the point where our deficits are at a sustainable level at the end of 5 years. That is really important and that is what this budget does. We need to do both together,

as you said. You are right that overwhelmingly it is important we get the economy back on track, even though temporarily that does increase the deficits we are going to have to live with. But most of those deficits are driven by the inherited cost of the crisis.

Mr. NUNES. Well, thank you, Mr. Chairman. Thank you for indulging with me extended time. Thank you.

Chairman RANGEL. I recognize the gentleman from New York, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman. Just a comment and then a question. First of all, what is clear here is that the new Administration inherited an unmitigated financial disaster from the previous Administration. Record deficits, record debt, a doubling of the national debt, a crumbling of our roads and infrastructure, a health care system that is in need of serious reform and an education system that is also in need of serious reform. I think that context is important here because an Administration that is 6 weeks old both directly and indirectly is being blamed for the financial situation we find ourselves in. You have a budget document here, not a budget but a proposal that is transparent, that is honest and does not propose off-budget financing of war. I think that is very, very important. My question, my question is, the 2004 Securities and Exchange Commission net capital rule, which basically allowed these investment banks to over-leverage 33 to 1, debt to asset. The agreement as I understood it at the time—and I know that SEC is a separate agency but still vitally important to this economy—was that they would allow the additional debt in exchange for greater transparency. The investment banks were allowed to accumulate more debt and there was very, very little transparency. What is the plan of this Administration to ensure that that never happens again?

Secretary GEITHNER. Very important question. The President is going to be proposing to the Congress a comprehensive set of financial reforms. A core part of those reforms will be to put in place better design, more conservative capital requirements across the institutions that play a critical role in our financial system. Those institutions are now bank holding companies. We need to bring a tougher more uniform framework over all those institutions. Part of that is going to require, as I said, more conservative, more carefully designed capital requirements. Banks, as you know, live with a crude leverage ratio as well a risk-based capital ratio and that was applied on a consolidated basis. We are going to have to bring—that framework needs to be improved too. But it is a very important part of the reforms we are going to bring. Those are things—a bunch of those things we can do with regulation. But we are going to have to try to reform, streamline consolidate the overall architecture of oversight over the system as a whole.

Mr. HIGGINS. I look forward to working with you and I yield back. Thank you.

Chairman RANGEL. Thank you. The Chair recognizes Mr. Becerra of California.

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Secretary, I think you get to close with me, so I hope that these last 3 minutes won't be painful. First, congratulations again. It is a pleasure to be able to work with you and some of your staff. You have got very

capable people onboard with you. I would like to focus, if I might, just briefly on this tax gap that we have between the revenues that we collect that are owed and the revenues that we know that are owed but are never collected because for any number of reasons we don't collect them. Either people try to avoid paying those taxes or they underpay, et cetera, et cetera. There are some rough estimates about how much is out there. Some people say over \$300 billion annually is not collected as a result of this inability to enforce completely the laws.

I would add that most of this underpayment by taxpayers who owe the money or lack of collection on the part of the IRS, whichever way you wish to look at it, involves not average Americans who get a paycheck every month or every week. It is very easy for us to make sure they are paying their taxes because there is a payroll deduction from their paycheck every time they get paid. So very few Americans who have a salaried job where they depend on getting the check were work, are not paying their fair share. Now, Nina Olson, who is the Taxpayer Advocate within the IRS, has said that for most taxpayers, this lack of collection of money amounts to a surcharge of some \$2,000 per American taxpayer. In other words, because we are unable to collect from those who owe it, Americans who do pay and are responsible are paying perhaps up to \$2,000 more any given year in what they pay in taxes. Other estimates have at about 17 percent more in taxes that are covered by people as a result of having to subsidize those who aren't paying their fair share.

In the time that I have remaining, which isn't much, I would love to hear your response about how we are going to become more aggressive in doing the right thing. Not going out there and being hostile toward people but doing the right thing of trying to get people to voluntarily pay what they owe to the government, to the people of the United States so we can have a functioning government.

Secretary GEITHNER. Thank you, Congressman. I think it is going to require better reporting. There is an important provision in the budget that will do that for people who provide services to rental property. That is a small case. But it is in the same vein of better reporting on those things, and it is going to require, frankly, better, stronger enforcement resources for the IRS, more carefully deployed. We are going to work very closely with the IRS, of course, and with you and your colleagues on how best to do that. But I think you said it right. It is fair to try to solve this. We need to do a better job. We think we can do a better job. We think there is substantial room to improve in this area, but it is going to require at least those two things. This is important alongside what we do on the international tax evasion front as well.

Mr. BECERRA. Well, thank you for the testimony. Mr. Chairman, I appreciate the time. I look forward to working with you on the disclosure issue. Because it is an issue of just having people be transparent with the way they pay their taxes. So, we look forward to working with you to get that money collected. Thank you, Mr. Chairman. Thank you Mr. Secretary.

Secretary GEITHNER. Thank you.

Chairman RANGEL. The Chair recognizes Mr. Ryan for 3 minutes.

Mr. RYAN. Thank you, Mr. Chairman.

Secretary, nice to meet you for the first time. I look forward to discussions in the future. I have got a number of questions. But first I just want to say something. You said something that kind of caught me by surprise, that this budget has the most candor and most ambition to bring the deficit down. If you just did nothing, if you just didn't pass this budget, the deficit would drop faster than passing this budget. The CBO baseline says that the deficit would go down by $\frac{3}{4}$ in 4 years alone. I think we could do a little bit better. If you actually applied the blue chip consensus forecast and their projections versus the Administration's projections, your deficit would never even reach the 3 percent of GDP. It would always be higher than that. We believe that you could be more ambitious on deficit reduction.

With respect to candor, saying in the baseline that we are going to have a surge for 10 years in Iraq and then having a draw-down and counting that as a \$1.6 trillion savings is honestly the biggest budget gimmick I have ever seen. I serve as Ranking Member of the Budget Committee. I have been reading budgets for most of my adult life. This is the biggest budget gimmick I have ever seen. I am not asking for a comment from you.

Secretary GEITHNER. Could I comment, though, on this?

Mr. RYAN. Sure.

Secretary GEITHNER. This is really important.

Mr. RYAN. Do it quickly because I have some real questions on Treasury I want to ask you.

Secretary GEITHNER. I just want to point out that if you look at the combined effect and the things we are accounting for and putting in this budget, we are doing things you have not seen in a very long time. What is really important is that we honestly account for the cost of current policies, and most importantly we are going to bring these down over time.

Mr. RYAN. Agreed. Put in AMT, good move. Good budgeting. Suggesting we are going to have a surge for 10 years and then a draw-down to create savings, not a good move, not good accounting. Let's disagree on that and let me ask you further because I only have 3 minutes. In the budget, \$210 billion in savings from the corporate tax side of the ledger book. Where does all of that come from? Obviously you are repealing deferral. I understand that. But that doesn't get you anywhere near the \$210 billion of savings by just eliminating deferral. Honestly, where does the rest of this savings come from? Or the tax increase come from?

Secretary GEITHNER. I have to look more carefully at the number you are actually using for corporate taxes. But you see, there is a high level of detail in there about exactly what is going to happen to tax policy over this period of time. I don't think that is a number that is fair to the truth and the policies. But I would be happy to look at the details.

Mr. RYAN. Yeah. Your line is \$210 over 10 years for international tax reform.

Secretary GEITHNER. You are referring to international tax?

Mr. RYAN. Yeah. So, I know deferral is repealed.

Secretary GEITHNER. As we said, we said in the budget that we are going to come to Congress with a broad set of provisions to help

address these international tax evasion things. We did not identify, you are right, all the specific measures that we are going to adopt to do that. But we think this is a realistic number, and we take on the obligation to lay out the details for you, how you could it. But that is what we said in the budget. We said we are going to come to you with a set of proposals.

Mr. RYAN. But beyond repealing deferral, where are you thinking?

Secretary GEITHNER. It is very important, as some of your colleagues said before you came in, that we work to address the problem posed by international tax havens. There is a range of other things we think we can do to get a look at this stuff. But we are going to come to you and walk you through it.

Mr. RYAN. Just quickly, the TARP. Actually I think this is an innovative idea, combining the TARP with the TALF and going after the toxic assets. I am very intrigued with how you are proposing to do this to leverage private sector capital. It sounds like a pretty intriguing idea. The Wall Street Journal had an article that kind of gave us a little bit of detail on how you planned on deploying this. Can you further add to that?

Secretary GEITHNER. We put out a lot of detail this morning on how the first stage of this thing we called—the Fed calls the Term Asset-backed Lending Facility. You see a timeframe and detail in there. On this broader proposal we put out to provide government financing alongside private capital in an investment fund to help provide liquidity and financing for these legacy assets, we are going to lay out in there relatively quickly, the next couple of weeks how we—sort of the basic structure of that arrangement so that people can start to see how it is going to work and decide whether they want to put money to work in that structure.

Mr. RYAN. But the basic structure is TALF, TARP and private money?

Secretary GEITHNER. The basic structure in that context is government financing. In this case, it will be through some combination of the Fed and the FDIC alongside government capital with private capital in there. That is the sort of common structure we use in the market and we think that is the best way to protect the taxpayer but still get liquidity to help get these markets going again.

Mr. RYAN. I would like to get a more detailed briefing in more than 3 minutes in the future if you could. Thanks.

Chairman RANGEL. The Chair recognizes the gentleman from Florida, Mr. Meek.

Mr. MEEK. Thank you, Mr. Chairman. Mr. Secretary, thank you for coming before the Committee. You heard concerns from States similar such as mine like Nevada. But I can say in Florida while we have been hit very hard by home foreclosures, we pay very close attention to when the Treasury comes out or the White House comes out with a new proposal on how we bounce back. I think that when we start looking not only at TARP—and I am glad that there was some representation of being putting the screws in as it relate to companies like AIG and others that are making everyone else look bad, who are receiving these Federal dollars. I think—our taxpayers dollars. I think it is important for us to pay attention to

that. It seems like you are on target as it relates to that. I want to know, States like Florida, there is different recoveries for different States. In the Midwest, you may have an automotive recovery that will help that economy come back.

My State is it is tourism, it is agriculture, it is housing, home building. Making sure the people are able to keep their homes. There is a lot of programs out there. There is a lot of assistance out there that I personally voted for. I just want to know who at Treasury is going to be that person that is going to catch any abuse, waste, you know, flexing of the rules that may end up falling on the desk of the auditor general? Because I think when that happens, it is a little bit too late. We know we have to have corrections. We know that you will have a minority report to that. But how do we protect the taxpayers' dollars in those categories? I was also pleased to hear you say, especially as it relates to tax reform, as this Committee looks at it following this recession track, if we are on the upswing, we can start dealing with some of these tax issues. If we are not, then we may want to put them on hold. Mr. Secretary.

Secretary GEITHNER. Thank you, Congressman. On your basic question about how we ensure that the money is going where it needs to be, that people who are eligible are getting assistance, people who aren't, aren't. Let me just describe a couple of things. First of all, we took a very careful look at all the basic reports of the congressional oversight body, the Treasury Inspector General and the GAO. One of the first meetings I had at the Treasury was to get them in a room together and have them brief me on their recommendations, try to make sure there are strong safeguards in place. We are adopting those recommendations. Two, we have this pretty good process of transparency.

So, by making much more clear what the terms of the assistance are, putting on the Web site, having people report what they are doing with the assistance, that will help too in that area. Obviously, the existing oversight boards are all over this. They are looking at it very carefully. So, you see from them independently an assessment of how good we are doing. In the announcements we are making tomorrow on housing, caring for the housing plan, you are going to see I think a pretty good level of detail around safeguards for protections on eligibility and how we are going to enforce those. But we are very committed to this. You are right, it is very important to the integrity of the program.

Mr. MEEK. Mr. Secretary, when we passed TARP—and this is before your tenure when Paulson was there, we passed TARP and then the enforcer came in when half of the money was given out. When will the enforcement person be in place as it relates to the housing program, who is going to be in charge, not only enforcement but making sure that every, you know, sentence has a period at the end of it?

Secretary GEITHNER. You are right. It is very important to get this right. You want to do it at the beginning, not after the money is out. We will give you as much detail as we can as quickly as we can about what that safeguard is going to entail. But we are being very careful and we are going to make sure that people in charge

of administering this program, which in this case are largely Fannie and Freddie have very strong protections in place.

Mr. MEEK. Well, we want to make sure that there is a police officer there at the beginning versus several months into it. I think that is key and paramount. Thank you.

Chairman RANGEL. The Chair recognizes the gentlewoman from Pennsylvania, Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for indulging the entire Committee and on being here for as long as you have. I do want to just start out by saying, having heard from the other side of the aisle that they have deep concern about the national debt and the deficit. The fact is that we are concerned about the deficit. I want to make that very, very clear. If I hadn't been here for 4 years already where I was only hearing this for the first time from the other side of the aisle, we might actually be in a little bit better situation if, in fact, they had cared about it last year and the year before and the year before that, and not doubled the national debt in the last 8 years and not left the deficit that you have inherited and we all have.

So, let me say that I want to acknowledge that this is the way you have—this honest budget that there are expenditures that have never been put in before. I think that is really important. That you also have cut programs that don't work and that is a hard thing to do in government. You have looked at that. But what I wanted to ask you about is what is equally important and that is the investments we are making in critical areas that are going to create a greater economic competitiveness for this country. Because ultimately—and I think all of us would agree with this—ultimately the way we get out of this economic crisis both for our budget on the Federal level but for families and businesses is to grow the economy. The area that I wanted to ask about—and I don't think was addressed specifically—is in the area of innovation and technology. One of the things I was very pleased about seeing is that the budget makes permanent the extension of the research and development tax credit.

I don't know if that has been mentioned. But I think that it is so important for us to be building on technology and innovation. Could you just really briefly talk about—particularly in the small business area, particularly in energy, in biotech, in health, in the health area—my district represents all of that. I think that we have to make sure that the tax provisions that you have put in really do address that and incentivize that investment in technology, in innovation, and that those businesses know it, which is the second part of my question. You have used a lot of different tools, tax provisions, grants, loans, all sorts of ways to do this.

How is a small entrepreneur to even have some idea of how to access all of those provisions that are really cut across both the recovery and the package on the and the budget? I look forward to your comments.

Secretary GEITHNER. Excellent question. You are highlighting a really important thing. It is that kind of commitment to supporting research and development, to providing support for basic research for innovation and technology is present across the budget. It is not just in the extent of the R&D tax credit. It is across

the budget. I think it is very important that there be visible detail in the public domain quickly on exactly how these programs are going to operate. It is very important that you bring it together so that people see in one place all the things that might be relevant to their particular business. The President, as you know, has asked the Vice President to run a process where he is bringing together the principal agencies responsible for implementing these programs and frankly forcing them to work together and make this stuff happen as quickly as possible. I would be happy to walk you and your staff through in as much detail as we can all the provisions in this stuff. But you are right to be highlighting them. They are a critical part of—

Ms. SCHWARTZ. I appreciate that, because I think all of us are being asked by our communities, our business community in particular, how do I know this, and we are trying to have it all put together. It would be really great to have that information in a very accessible way for our small businesses. Thank you Mr. Secretary.

Secretary GEITHNER. Thank you.

Mr. CAMP. Again, thank you Mr. Secretary for being here. I look forward to those other meetings in furthering our discussions. It was tough to make much headway with 3 minutes per person, but everybody got a chance to have a talk with you.

Secretary GEITHNER. I did hear you. I will always listen and I will tell you when I disagree. But I will always listen and I will work with you.

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

Chairman RANGEL. Thank you again.

[Whereupon, at 3:17 p.m., the hearing was adjourned.]

[Submission for the Record follows:]

Statement of Liz Claiborne

As a designer and marketer of several retail-based premium fashion brands and department store-based fashion brands with more than 16,000 employees, Liz Claiborne, Inc., applauds the economic stimulus legislation that included business tax provisions. The support of Congress in helping companies weather the current economic conditions while retaining jobs is truly appreciated. However, recent data has shown that our economy has suffered and continues to suffer at an alarming rate. Additional action by Congress is necessary in order to preserve jobs and to avoid a further deterioration of our economy.

Based on limited information recently released concerning the President's 2010 budget, particularly helpful is the increase in the net operating loss (NOL) carryback from two years to five years. We strongly support the provision that would allow businesses (big and small) to carry back losses from two years to five years. Such a provision would provide the necessary alternative financing that U.S. businesses needed to weather this unprecedented storm of economic events. We have no doubt that the American Recovery and Reinvestment Tax Act of 2009 will put people back to work or help avoid additional workforce reductions however, such Stimulus will undoubtedly take time to work through the system. Businesses, both big and small, need the government to take action to bridge the gap between now and when the economy returns to some sense of normalcy over the next twelve to eighteen months.

We, and others in our industry, were disappointed that the Stimulus package did not include the NOL carry back provision for all businesses. We strongly urge you to reconsider as part of this budget or in a separate act a provision that would allow companies (big and small) to carry back losses from two to five years starting with the tax year end 2008.

As stated in the Congressional Research Service (CRS) Report for Congress, "the intent of the NOL carryback/carryforward provision is to give taxpayers the ability to smooth out changes in business income, and therefore taxes, over the business

cycle. Extending the carryback period would enhance the ability of firms to smooth income by allowing losses to be offset against a longer period of past profits rather than having them carried forward.” Allowing taxpayers to fully recover current losses now, as opposed to in the future, will have a positive effect on our economy. It will allow businesses to meet payroll, retain their workforce, help avoid additional layoffs and stabilize the business environment. NOL carrybacks are more valuable than carryforwards due to the time value of money. It is quite evident that the clock is ticking on many businesses. Most economists agree that an NOL carryback period must be long enough to allow for adequate income smoothing over a business cycle. Since World War II the average business cycle has been six years.

The Congressional Research Service (CRS) Report for Congress also went on to state,

- “economists believe that extending the NOL carryback period during an economic downturn could stimulate business investment, an important component of economic growth. Along the same line, an extended NOL carryback period may increase the stimulus effect of more targeted tax related investment incentives such as bonus depreciation;”
- “businesses experiencing large current losses could apply their losses over a longer profitable period in the past, resulting in a more immediate refund of taxes paid than would have otherwise been possible. The refund could provide businesses that are unable to raise capital in the financial markets with enough extra cash to pursue profitable investment opportunities. The current lack of available credit stemming from the events in the sub-prime mortgage market that have spilled over into other segments of the financial markets could be one reason why it may be difficult for some to secure investment financing,” and finally
- “businesses that lack profitable investment projects may choose to instead use the cash inflow resulting from a larger NOL carryback refund to cover operating expenses such as employee wages. As a result extending the carryback period could have a positive effect on employment.”

With the banks virtually broke and broken, businesses are relying on the government’s wisdom to provide alternative financing while the spending portion of the bill takes effect. Despite testimony on the Hill, banks are simply not allowing for credit to flow properly to businesses and the traffic from consumers due to lack of consumer confidence has been reduced. The NOL provision can provided needed cash to businesses, especially retailers, to weather this unprecedented storm of negative economic events. Businesses were counting on the government to help with a solution.

We would strongly support the NOL legislation that would allow for a carryback for five years. We also urge that such provision start with tax year 2008 so that taxpayers can immediately apply for refunds they need today rather than a refund that may be received in 2010.