THE PRESIDENT'S FISCAL YEAR 2011 BUDGET PROPOSAL WITH OFFICE OF MANAGEMENT AND BUDGET DIRECTOR LEW

HEARING

BEFORE THE

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

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

FEBRUARY 16, 2011

Serial No. 112–08

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

65–631 WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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THE PRESIDENT'S FISCAL YEAR 2011 BUDGET PROPOSAL WITH OFFICE OF MANAGEMENT AND BUDGET DIRECTOR LEW

WEDNESDAY, FEBRUARY 16, 2011

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

The committee met, pursuant to call, at 2:50 p.m., in Room 1100, Longworth House Office Building, the Honorable Dave Camp [chairman of the committee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Chairman Camp Announces Hearing on the President's Fiscal Year 2012 Budget Proposal with Office of Management and Budget Director Jacob J. Lew

Wednesday, February 09, 2011

House Ways and Means Committee Chairman Dave Camp (R–MI) today announced that the Committee on Ways and Means will hold a hearing on President Obama's budget proposals for fiscal year 2012. **The hearing will take place on Wednesday, February 16, 2011, in 1100 Longworth House Office Building, beginning at 2:00 p.m.**

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

BACKGROUND:

On February 14, 2011, the President is expected to submit his fiscal year 2012 budget proposal to Congress. The proposed budget will detail the Administration's tax and spending proposals for the coming year, many of which fall under the jurisdiction of the Committee on Ways and Means.

In announcing this hearing, Chairman Camp said, **"President Obama has spoken about the need to get our deficits and debt under control, and the budget will hopefully advance that goal. Republicans are committed to reducing our nation's deficits and debt which are already a drag on the U.S. economy and our ability to create badly needed jobs. I look forward to discussing the President's proposals in detail with Director Lew and exploring ways in which we can work in a bipartisan manner to reduce government spending."**

FOCUS OF THE HEARING:

Office of Management and Budget Director Lew will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, March 2, 2011**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

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

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

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

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

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 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.

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

Chairman CAMP. The Committee on Ways and Means will come to order to continue our hearings on the President's fiscal year 2012 budget proposal; and I want to welcome Budget Director Jack Lew. Welcome to the Ways and Means Committee, Mr. Director.

Mr. LEW. Thank you, Mr. Chairman. Good to be here.

Chairman CAMP. Good to have you here before the committee.

I am sure you were hoping that your first budget in this administration was going to be met with great enthusiasm. The chairman of the President's own fiscal commission has criticized it, editorial pages from the Washington Post and the Wall Street Journal have panned it, and even the New York Times wrote that this budget is most definitely not a blueprint for dealing with the real, long-term problems that feed the budget deficit. There seems to be a pattern in those comments, and I think with good reason.

I think this budget is a missed opportunity. It misses the opportunity substantially to reduce spending so that our private sector can flourish; it misses the opportunity to address entitlement reform so that programs like Medicare and Social Security will be preserved not only for current beneficiaries but future generations as well; and it is a missed opportunity to begin a substantive conversation with Congress about how we can get this Nation back on track.

Mr. Director, I told Secretary Geithner yesterday that I was interested in finding some real solutions; and I think you will find the members of this committee, both Republicans and Democrats, are interested in doing the same. So if we could, let us begin that discussion today. Let us just try to get past the talking points and let us try to find some real solutions.

I know the members are eager to hear from you, and I look forward to your testimony. But, before you begin, I will now yield to the ranking member, Mr. Levin, for purposes of an opening statement.

Mr. LEVIN. Mr. Lew, welcome. I am sure you will take advantage of the opportunity. Mr. Rangel is going to give our opening statement.

Mr. RANGEL. Thank you so much, my brother, Mr. Levin, as well as the chairman and, also, Mr. Lew. And in the spirit that the chairman has expressed, I do hope that, sooner rather than later, we will be able to communicate in a way to see whether we can resolve some of the serious problems that our country is now facing.

I welcome you and look forward to your testimony, because we will have an opportunity to discuss the Republican budget really for the first time.

While the President's budget was reviewed by all of the House committees, we in the Ways and Means Committee were involved in that process. On the other hand, regarding the budget that has been presented to us by the majority last Friday, we haven't had any hearings. We need your help and guidance to see what those differences are.

We do know that just saying that you are cutting does not necessarily mean that you are saving. It is our belief that the Republicans' budget, because of the severity of the cuts, will destroy jobs and cause great harm to the American people. Education, health care, decent homes, all are part of a growing economy, a healthy, competitive America. That is what we are looking for.

But what happens when you cut the funds of the Corporation for National Community Service, which has 3 million at-risk children, more than 10,000 pre-school students? What happens when you cut programs such as the Harlem School Zone Program, which has been a model for the Secretary of Education and throughout the country to show that kids that statistically come from communities that don't succeed? They have shown that, with investment, and the proper training, almost all these kids can actually go to college.

As for the community development bloc grants to cities that are in severe financial difficulty, this is something that has been relied on by mayors across the country.

I am hoping that, in addition to supporting the administration, you might be able to help us to evaluate the budget that the majority is offering us and, at the same time, show us exactly whether or not these severe cuts would not have a negative impact on our economic growth.

Once again, we hope that we can find some language, some meeting of the minds, where we can say we fulfilled our campaign pledges and then get on with what responsible legislators have to do.

I personally want to thank you for your lifelong dedication to working with government. Sometimes it is a hectic opportunity, but, at least for us in the Congress, you are able to bring to us experiences from so many different administrations. We look forward to your testimony. And, Mr. Levin, I thank you as well as the Chairman for the opportunity.

Chairman CAMP. Thank you.

Mr. Lew, you have 5 minutes. Your full written statement will be made part of the record. Welcome to the Ways and Means Committee. We look forward to hearing your oral testimony.

STATEMENT OF JACOB J. LEW, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. LEW. Thank you, Mr. Chairman, Ranking Member Levin, Congressman Rangel. It is good to be here. It is good to be back here, and I am proud to be presenting the President's fiscal year 2012 budget.

After emerging from the worst recession in generations, we face another historic challenge. We must demonstrate to the American people that we can live within our means and invest in the future. We need to work our way out of the deficits that are driving up our debt and, at the same time, make tough choices to out-educate, out-build, and out-innovate our rivals. That is what it is going to take to return to robust economic growth and job creation and to win the future.

This is the seventh budget that I have worked on at the Office of Management and Budget, and it is the most difficult. It includes more than $1 trillion in deficit reduction, two-thirds of it from lower spending, and it puts the Nation on a path back towards fiscal responsibility.

By the middle of the decade we will be able to pay for our current bills and remain in what is called primary balance for many years after that. This doesn't mean we are debt free. It means that the government will be in a place where it is paying for all of its current programs. In other words, spending on government programs won't add to our debt.

And, as any family knows, the crucial first step to start living within your means is to stop using the credit card when you can't pay your bills. This budget in a few years will bring us to that point.

But that is not enough. The debt is still there, and it is accumulating interest. And just like a credit card bill, if you don't start paying down the principal, the interest keeps building up. We are going to have to start paying down the debt as well. That is why the President has called this budget a down payment, because we will still have work to do to pay down the debt and address the long-term fiscal challenges.

But it is important that we not gloss over how significant it is to go from historic deficits of more than 10 percent of GDP to around 3 percent of GDP, which is where we will be paying for our current government programs. This is the most significant deficit reduction since the end of World War II, and it is a crucial step towards a balanced budget, and we are going to have to work together to do that.

But we cannot start to pay down the debt until we stop adding to it, and that is what this budget does. Changing the trajectory of our fiscal path is a significant accomplishment, and we are going to need to make tough choices, and I would like to highlight a few of them.

The budget includes a 5-year nonsecurity discretionary spending freeze that will reduce the deficit by over $400 billion over the next decade and bring spending to the lowest level since President Eisenhower sat in the Oval Office. To achieve savings of this magnitude, it is not enough to cut programs that are simply out of date or ineffective or duplicative. We are going to need to make reductions in programs which, but for the fiscal challenges we face, we would not choose to be cutting—programs like the low-income energy home program and the Community Development Block Program and national security, which we are not freezing, we are also making real cuts.

Defense spending for the past 10 years has been growing faster than inflation, and we have it on a path to come down to zero real growth and then to make the reductions that it takes to accomplish that. This means $78 billion in savings from the Pentagon's budget. And in order to do that while maintaining our leadership in the world, we are going to have to make the tough decisions and that means not buying the things that we don't need and the things that we can't afford.

If you combine the spending in the defense budget, the base budget, with spending in the area that we call the overseas contingencies operations—that is Afghanistan and Iraq—we are seeing savings because we are bringing our troops home from Iraq and overall spending in defense is going down 5 percent from last year's budget.

Now, of course, as I think we all know, we are not going to solve this problem, this fiscal problem with discretionary spending alone; and our budget does deal with mandatory and revenue items. I would like to give you a few examples.

There are two particular areas where for the past years, many years, we have been, on a bipartisan basis, making policy decisions that have added to our debt. There is a consensus that we shouldn't see doctor bills go up by—payments to doctors go down by 30 percent, and there is a consensus that we shouldn't see middle-class taxpayers fall into what is called the alternative minimum tax. The problem is that, for the past years, we have not paid for it and we have just put the cost of making those policies on the national credit card. We need to stop. We need to pay for it.

This budget proposes specific savings in health programs so that we have $62 billion of savings to pay for a 2-year extension of the so-called doc fix, and we have a specific tax proposal to pay for a 3-year extension of the provision that would make sure that the middle class do not fall into the alternative minimum tax.

I think that the way we do that is also important. It has been—the provision that we have proposed would say that taxpayers in the highest tax bracket should get no more benefit out of their itemized deductions than taxpayers in the bracket below. It would be a roughly 30 percent reduction in the value of itemized deductions, and it would bring the value of itemized deductions back to where it was in the Reagan administration. It is consistent with the fiscal commission's concept that we should start scaling back on spending on the tax side.

Now these are both down payments to what we need to do to solve the long-term deficit problem, and in the State of the Union and in the budget the President made clear that we need to work together on dealing with many more areas. But we need to start here, and I think that we need to start here now.

I can see that my time is out. If I can take another minute, there are a few other things that I would like to mention.

Chairman CAMP. Yes.

Mr. LEW. Okay, thank you, Mr. Chairman.

In the State of the Union, the President said—and we repeated in the budget—and he has made clear we want to work together on corporate tax reform. We want to do it in a way that is revenue neutral. We want to reduce the number of special provisions, broadening the base and lowering rates. I hope that is an area that we can work on in a bipartisan way.

In the area of Social Security, the President said in the State of the Union that, while it is not contributing to the deficit in the period of this budget or well beyond that, we would like to work together in a bipartisan basis in order to make sure that we can tell workers today who will be retirees and current retirees that the system is sound. And we look forward to working together on that.

Our budget also includes a number of investments in the future. I won't go into all of the details because I am conscious of all of the time limitations. But I think it is important just to summarize them and say that, while we are making the difficult cuts, we also have to make sure that we are making the investments so that we are still able to have an educated workforce that can do the work of the future, that we have the scientific innovation to be at the cutting edge, as America has always been, and that we build the infrastructure so that we can have the kind of commerce we need to be successful. We have proposals in our budget that would do that.

There are a number of tax proposals as well as spending proposals in that area, and in the course of the testimony I look forward to discussing that with you some more.

Mr. Chairman, I am under no illusions at how difficult it is to make the tough choices to put us on a sustainable fiscal path. As we make those choices, I think it is important that we not cut areas that are critical to the economy and critical to future growth and critical to the future job creation in this country.

And, finally, cutting spending and cutting our deficits requires us to put our political differences to the side and finding the area in the middle where we can work together.

I look forward to working with you and enjoyed working with you in December. I know we can work together to see how much we can do to get this important work done for the American people. Thank you, Mr. Chairman.

[The prepared statement of The Honorable Jacob J. Lew follows:]

TESTIMONY OF
JACOB J. LEW
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS

February 16, 2011

Chairman Camp, Ranking Member Levin, and Members of the Committee, thank you for inviting me to testify this afternoon about the President's Fiscal Year 2012 Budget.

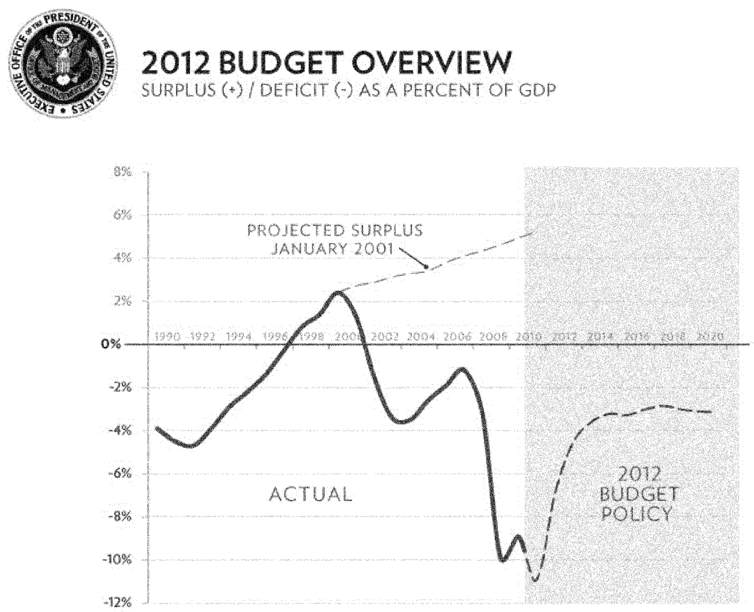
As the President has said, now that the country is back from the brink of a potential economic collapse, our goal is to win the future by out-educating, out-building and out-innovating our competitors so that we can return to robust economic and job growth. But to make room for the investments we need to foster growth, we have to cut what we cannot afford. We have to reduce the burden placed on our economy by years of deficits and debt.

This is the seventh budget I have worked on at OMB and the most difficult. It is a budget of shared sacrifice across the Federal government. It is a budget that makes tough choices to begin to tackle our major fiscal challenges. It is a budget that transitions from rescuing the economy to investing in our future. It is a budget that lives within our means in order to compete effectively in the world economy.

THEN AND NOW

The world has changed since I last served at OMB. When I left OMB in January 2001, we had balanced the budget and projected a surplus of $5.6 trillion over the next decade. In fact, we projected that the U.S. would effectively be debt-free by 2013. Unprecedented economic growth was certainly a key driver of budget surpluses. But in a virtuous cycle, a commitment by the President and the Congress to maintain a surplus reinforced expectation of Federal fiscal responsibility, which had a positive impact on interest rates and further helped to spur economic growth. This surplus was the result of year after year of fiscal discipline including budget agreements in 1990, 1993 and 1997. Presidents and congressional majorities from both parties reached across the aisle to make tough policy choices.

When I returned as OMB Director last November to a projected deficit of $10.4 trillion—a sixteen trillion dollar swing in just over ten years—the fiscal picture could not have been more different. Large deficits were driven by two main factors: first, the worst economic downturn in a generation and policy response necessary to rescue the economy, and second, the decision in prior years to give two large tax cuts without offsetting them and to create a Medicare prescription drug benefit without paying for it.



Clearly, the challenges we face today are very different than those we faced more than a decade ago, when many of us worked together to balance the budget.

Our Record

Bringing the Economy Back from the Brink

It is useful to begin by reviewing the state of our economy, because it shows how far we have come but also how far we need to go.

When the President took office the economy was in freefall. Real gross domestic product (GDP) was dropping at an annual rate of 4.9 percent after falling at an annual rate of 6.8 percent the previous quarter. The economy was losing an average of 783,000 private sector jobs per month. A steep decline in the stock market combined with falling home prices led to a significant loss of household wealth. Between the third quarter of 2007 and the first quarter of 2009, the real net worth of American households declined by 28 percent – the equivalent of one year's GDP.

In the last year, we have seen some encouraging signs that the trajectory has changed and that a recovery is beginning to take hold. An economy that had been shrinking for nearly a year is now growing again—over the past six quarters, through the first quarter of FY 2011, real GDP has grown at an average rate of 3.2 percent. After nearly two years of job losses, more than one million private sector jobs were added to the economy in 2010. Capital and credit markets are functioning and gaining strength. And after teetering on the brink of liquidation just two years ago, America's auto industry is posting healthy gains and returning money to the taxpayers who helped it through a period of turmoil.

What changed?

Just 28 days after taking office, the President signed into law the Recovery Act to create and save jobs and to invest in an economy able to compete in the 21st century. Approximately one-third, or $288 billion, of the Act's funds went to tax cuts for small businesses and 95 percent of working families. Another third, or $224 billion, was used for emergency relief for individuals and state and local governments. The final third was invested in projects to create jobs, spur economic activity, and lay the foundation for future sustained growth.

This investment had a powerful impact. The White House Council of Economic Advisers (CEA) estimates that the Recovery Act raised the level of GDP as of the third quarter of 2010 by 2.7 percentage points, relative to what it would have been absent intervention, and raised employment relative to what it otherwise would have been by between 2.7 and 3.7 million jobs in the same time frame.

And we have acted together to build on this growth. In March 2010, the President signed the Hiring Incentives to Restore Employment (HIRE) Act that provided subsidies for firms that hired workers who were unemployed for at least two months and other job creation incentives. In August, he signed into law $10 billion in additional aid to States to prevent the dismissal of 160,000 of teachers, police officers, and firefighters nationwide. In September, the President signed the Small Business Jobs Act. At the end of 2010, the President signed into law a bipartisan agreement on taxes that prevented a tax increase for middle-class families, extended unemployment insurance benefits for millions of Americans hardest hit by the recession, provided powerful incentives for business investment and job creation, and temporarily reduced the payroll tax which also would help spur macroeconomic demand. Economists from across the political spectrum agree that this bill will boost economic growth in 2011 by 0.5 to 1.2 percentage points.

From the Recovery Act to our financial stabilization plan, the President's tough choices over the past two years have helped to save the economy from a second Great Depression. But we are keenly aware that the recovery is not happening fast enough for the millions of Americans who are still looking for jobs, and our immediate task is to accelerate economic growth and job creation to get our fellow Americans back to work. That is why the President has proposed an up-front investment of $50 billion in building new roads, rails, and runways to upgrade our infrastructure and create new jobs. It is why the President is making key investments in innovation, clean energy, and education that will create jobs and make our workforce more competitive. And that is why the President laid out a commonsense approach to regulation that is pragmatic and evidence-based, and that will protect our health and safety and help lay the groundwork for economic growth and job creation.

Restoring a Sound Fiscal Policy

While taking steps to rescue the economy, the President has also worked to restore accountability and fiscal responsibility. In his first Budget, the President confronted directly the fiscal situation we inherited, eliminating trillions of dollars in budget gimmicks. He made a commitment to restoring fiscal responsibility, while recognizing that increasing the deficit in the short term was necessary to arrest the economic freefall. The President pledged to cut the deficit he inherited in half as a share of the economy by the end of his first term, a commitment this Budget keeps. He signed into law pay-as-you-go (PAYGO) legislation that returned the tough budget rules of the 1990s to Washington. The principle behind PAYGO is simple: all new, non-emergency entitlement spending and revenue losses must be offset by savings or revenue increases, with no exception for new tax cuts.

In addition, the President signed into law the landmark Affordable Care Act (ACA), enacting comprehensive health insurance reforms that will hold insurance companies more accountable, lower health care costs, guarantee more health care choices, and enhance the quality of health care for all Americans while reducing the deficit. According to CBO analysis, the Affordable Care Act will save more than $200 billion over the next ten years and will reduce the deficit by more than $1 trillion over the second decade. This is more deficit reduction than in any legislation since the 1990s. At the same time, the ACA's savings provisions tackle the single biggest contributor of our nation's long-term deficits—rising health care costs.

While taking major steps to bring down our deficits, the President also demanded that the Government spend every taxpayer dollar with as much care as taxpayers spend their own dollars. The President proposed legislation to create an expedited rescission authority so that unnecessary spending can be struck swiftly and constitutionally. Through his Accountable Government Initiative, the Administration has launched a host of initiatives to streamline what works, cut what does not, and eliminate wasteful spending. These initiatives include focusing agencies on identifying and delivering on their top priorities, a comprehensive strategy to reform Government contracting that will save $40 billion by the end of 2011, an initiative to reduce the amount of improper payments made by the Government by $50 billion, a review and reform of information technology use and procurement, an initiative to reduce administrative overhead by billions and improve performance, and an effort to dispose of billions of dollars of unneeded and under-utilized real property assets.

Each year since entering office, President has asked his Administration to go line-by-line through the Budget to identify programs that are outdated, ineffective, or duplicative. In his first two Budgets, the President identified more than 120 terminations, reductions, and savings, totaling approximately $20 billion in each year. These terminations ranged from a radio navigation system for ships made obsolete by GPS to new F-22 fighter jets. While recent administrations have seen between 15 and 20 percent of their proposed discretionary cuts approved by the Congress, the Administration saw 60 percent of its proposed discretionary cuts become law for 2010.

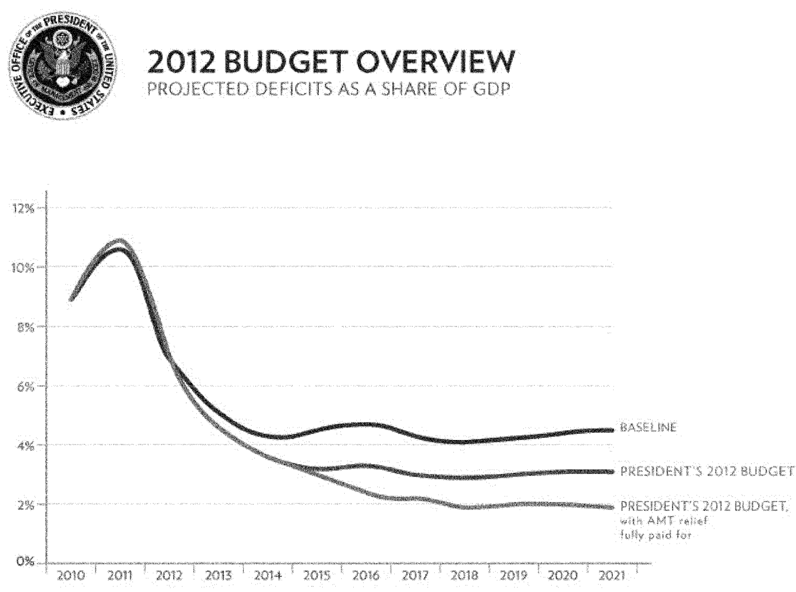
Finally, in April 2010, the President created the bipartisan National Commission on Fiscal Responsibility and Reform, and charged the Commission with identifying policies to improve the fiscal situation in the medium term and to achieve long-term fiscal sustainability. The

Commission made an important contribution, beginning the process of building a bi-partisan consensus on the nature of the challenge we face and expanding the debate to include a broader range of options. While the Administration doesn't agree with every recommendation in the report, there are many areas of this budget that reflect the work of the Commission.

LIVING WITHIN OUR MEANS AND INVESTING IN THE FUTURE

Now that the country is back from the brink of a potential economic collapse, our goal is to win the future. But we cannot do so if we are saddled with increasingly growing deficits. This Budget builds on recent progress and lays out a comprehensive and responsible plan that will put us on a path toward fiscal sustainability for the rest of the decade—a down payment that will build a strong foundation to tackle our long-term challenges.

The projected deficit this year is nearly 11 percent of GDP, the highest level since World War II, reflecting the severity of the recession and our temporary measures to generate jobs and growth. The Budget lays out a path of rapid deficit reduction—the most deficit reduction in a comparable period since World War II. In the second half of the decade and beyond, debt is no longer growing as a share of GDP—a key indicator of fiscal sustainability. Redirecting our fiscal path on this downward slope is a significant accomplishment, one which will take tough choices and



shared sacrifice—and is essential for the long-term competitiveness of the American economy.

The first step to reducing our deficit is maintaining a strong economy, which is a key priority for the Budget. As the baseline projections show, with economic growth we begin to make substantial progress at reducing the deficit even before we make additional policy changes. However, even with a sustained recovery, simply continuing current policies does not get the job done – it would leave us with deficits of between 4 and 5 percent of GDP—with debt growing at an unsustainable rate through the end of the decade and beyond.

To stay on a path towards sustainable deficits on the order of 3 percent of GDP, we make tough choices across all areas of the Budget to identify more than $1 trillion in savings – two thirds from spending reductions. This requires decisions beyond just separating the good programs from the bad. It means broadly sharing sacrifices in all areas of the Budget in order to make critical investments in areas most important to growth and competitiveness. And it means reducing spending in areas where we continue believe there is still important work to do. It cannot be achieved by simply looking at discretionary spending – we need to look at mandatory and revenue policies as well. An overview of key decisions in the FY 2012 Budget is as follows:

- *Non-security discretionary.* The Budget proposes to freeze non-security discretionary spending for five years, which saves more than $400 billion over the next decade and brings this category of spending to its lowest level as a share of the economy since Dwight Eisenhower was in office.

- *Security discretionary.* The Budget reflects tough decisions in areas outside of the non-security freeze—bringing Defense spending down from a long period of significant real growth to zero real growth, saving $78 billion over the next five years relative to last year's plan. Reflecting the winding down of military operations in Iraq, the Overseas Contingency Operations (OCO) budget for DOD in 2012 will be about 26 percent lower than levels in the President's 2011 request. As a result, the overall defense budget, including OCO, will be down by 5.2 percent from last year's request.

- *Health care.* The Budget fully pays for a two-year extension of current Medicare physician payment rates with $62 billion in health care savings, preventing a payment cut of over 25 percent. The Budget also proposes incentives for States to implement medical malpractice reforms to further reduce the growth of health care costs.

- *Revenues.* The Budget pays for three years of AMT relief by cutting the value of tax expenditures for high-income taxpayers by 30 percent. The Budget also opposes any further extension of the unaffordable upper-income tax cuts to two years.

- *Fiscal stewardship.* The Budget includes several proposals to reduce the risk of future liabilities. These include giving the Pension Benefit Guaranty Corporation (PBGC) the ability to adjust premiums to reflect all risks facing the pension insurance system and proposing reforms to encourage State responsibility and improve the solvency of the Unemployment Insurance Trust Fund.

SHARED SACRIFICES, HARD CHOICES

To be competitive in the 21st Century, the United States cannot be weighed down by crippling budget deficits, ineffective programs that waste tax dollars, and a government that is not accountable to the American people.

Five-year non-security freeze. It would be short-sighted to cut spending across the board and shortchange critical areas for growth and competitiveness – such as education, innovation, and infrastructure – or carelessly slash programs that protect the most vulnerable. This means that some cuts must be deeper to make room for key investments. In his 2011 Budget request, the President proposed a three-year, non-security discretionary freeze. As the economic recovery takes hold, the President believes that it is important to go further and is now proposing a five-year, non-security discretionary freeze. This is an extension of the freeze proposed last year, based on 2010 enacted levels. This freeze would be the most aggressive effort to restrain discretionary spending in 30 years and, by 2015, would lower non-security discretionary funding as a share of the economy to the lowest level since Dwight D. Eisenhower was president. Over the decade, the five-year freeze saves more than $400 billion.

Program terminations, reductions, and savings. In part to meet this freeze, the Budget includes over 200 terminations, reductions, and savings totaling more than $33 billion in savings for 2012 alone. On their own, these cuts will not solve our fiscal problems, but they are a critical step to creating a more responsible and accountable Government and a key component of a comprehensive deficit reduction strategy. It is never easy to end or cut programs; they all have advocates. Some programs are duplicative, outdated and ineffective. But we also had to choose programs that, absent the fiscal situation, we would not cut:

- **Low-Income Housing Energy Assistance Program (LIHEAP).** The Budget cuts LIHEAP by more than $2 billion, returning LIHEAP funding to 2008 levels, prior to the energy price spikes. However, in this difficult fiscal environment, we cannot afford to maintain the expansion to the program.

- **Community Services Block Grant (CSBG).** CSBG has helped to support community action organizations in cities and towns across the country. These are grassroots groups working in poor communities, dedicated to empowering those living there and helping them with some of life's basic necessities. These are the kinds of programs that President Obama worked with when he was a community organizer, so this cut is not easy for him. Yet for the past 30 years, these grants have been allocated to virtually the same organizations, using a formula that does not consider how good a job the recipients are doing. The Budget proposes to cut financing for this grant program in half, saving $350 million, and to reform the remaining half into a competitive grant program, so that funds are spent to give communities the most effective help.

- **Grants-in-Aid for Airports.** The Budget lowers funding for the airport grants program to $2.4 billion, a reduction of $1.1 billion, by eliminating guaranteed funding for large and medium hub airports. The Budget focuses the traditional Federal grants to support smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital. At the same time, the Budget would allow larger airports greater flexibility to generate revenue with increased non-Federal passenger facility charges.

These cuts are not limited to a few agencies. Rather, these cuts reflect shared sacrifice across the Federal government—even for agencies that are central to out-competing, out-building, and out-educating in the 21st century. For example, the Department of Education has made difficult decisions in order to maintain historic increases for Pell Grants, which are critical to creating future generations that are well-educated and globally-competitive. The Administration would put Pell Grants on firm financial footing through steps that include eliminating the in-school interest subsidy for loans to graduate students and ending the new year-round Pell Grant, which offers students a second Pell Grant in one year, but has cost ten times more than anticipated. The Budget also eliminates 13 discretionary programs at the Department of Education and consolidates 38 K-12 programs into 11 new programs that emphasize using competition to allocate funds.

Federal civilian employee pay freeze. Federal workers are patriots who work for the Nation often at great personal sacrifice. They deserve our respect and gratitude. But just as families and businesses across the country are tightening their belts, so too must the Federal government. On his first day in office, the President froze salaries for all senior political appointees at the White House. In his Budget last year, the President proposed extending that freeze to other political appointees, and he eliminated bonuses for all political appointees across the Administration. Starting in 2011, the President has proposed and Congress enacted a two-year pay freeze for all civilian Federal workers. This will save $2 billion over the remainder of 2011, $28 billion over the next five years, and more than $60 billion over the next 10 years.

Savings in discretionary security programs. The President's Budget also demands cuts and savings in security programs. DOD, in particular, has seen an average increase to its base budget of 7.4 percent a year over the past decade. Moving forward, DOD is pursuing a variety of strategies to set the course for zero real growth in defense spending, and saving $78 billion in its base budget (including $13 billion in FY 2012) relative to FY 2011's request for the next five years. Secretary Gates will oversee a package of terminations, consolidations, and efficiencies in operations to slow this growth, and these savings will be used to fund programs and efforts critical to the armed forces and the security of the Nation. Reflecting the winding down of military operations in Iraq, the Overseas Contingency Operations (OCO) budget for DOD in 2012 will be about 26 percent lower than levels in the President's FY 2011's request. As a result, the overall defense budget, including OCO, will be down by 5.2 percent from last year's request.

Administrative savings. Allowing waste is never right, and it is especially intolerable in a time of tightening belts and tough decisions. Continuing the President's Accountable Government Initiative, the Budget cuts $2 billion in administrative overhead like travel, printing, supplies, and advisory contract services; establishes a process to quickly sell excess and under-utilized Federal real estate; and embraces competitive grant programs based on the Race to the Top model. This model is applied to programs from early childhood education through college; to allocate grants for transportation; to bring innovation to workforce training; and to encourage both commercial building efficiency and electric vehicle deployment.

Reorganize government. We live and do business in a global economy, but the organization of our government has not kept pace with the private sector advancements of the 21st century. Many of our government organizations have strayed from their original or core missions, evolving out of inertia rather than in response to the changing needs of the groups they serve. This has resulted in duplicative and ineffective programs that persist and grow over time, and an organization of functions that doesn't always make sense. For example, as the President stated in his State of the Union address, there are twelve different agencies that deal with exports. Americans deserve a streamlined, efficient and well-functioning Federal government that is responsive to the needs of its citizens and of the private sector.

The Budget reflects the President's commitment to reorganizing the Federal government to ensure that our resources are being used effectively and efficiently, with a particular focus on making the U.S. more competitive. In the coming months we will be working to identify where we can merge, consolidate and cut in order to better facilitate the needs of all American companies, entrepreneurs, and innovators and give these engines of economic growth a leg up in the global economy. The President plans to submit a proposal to Congress to enact the changes necessary to reorganize the Federal government in a way that best serves the goal of a more competitive America.

INVESTMENTS IN OUR FUTURE

The best antidote to a growing deficit is a growing economy, which spurs expanded employment, higher revenue collection, and lower demand for spending on safety net programs like unemployment insurance nutrition assistance. Putting the Nation on a sustainable fiscal path and getting our deficits under control are critical to making the United States competitive in the global economy, and the Budget lays out a strategy to do this. At the same time, it also recognizes that we cannot cut back on investments that will fuel future economic growth particularly since sustained and robust economic growth plays a very significant, long-term role in reducing deficits. While the Budget identifies cuts and savings and asks for shared sacrifices across the government, it also invests in areas critical to helping America win the race for the jobs and industry of the future.

We must target scarce Federal resources to the areas critical to winning the future: education, innovation, clean energy, and infrastructure.

Educate a competitive future workforce. In an era where most new jobs will require some kind of higher education, we have to keep investing in the skills of our workers and the education of our children. This Budget continues to support the President's commitment to once again have the highest proportion of college graduates in the world by 2020, and continues the reform agenda not just by devoting significant resources to where they are needed, but also by ensuring that those funds are being invested in programs that deliver results efficiently and effectively. This Budget calls for:

- Maintaining the Pell Grant maximum award at $5,550. Since 2008, the Administration has increased the maximum Pell Grant by $819, ensuring access to postsecondary education for over 9 million students from low-income families.

- Supporting reform of K-12 education with expanded Race to the Top and other innovative, evidence-based programs that encourage innovation and reward success, and expands the Race to the Top concept to early childhood education with $350 million to establish a new, competitive Early Learning Challenge Fund for States.

- Establishing a Workforce Innovation Fund that will encourage States and localities to break down barriers among programs, test new ideas, and replicate proven strategies for delivering better employment and education results at a lower cost per outcome.

Investment in R&D and transformational technologies. To compete in the 21st century economy, we need to create an environment where invention, innovation, and industry can flourish. That starts with continuing investment in the basic science and engineering research and technology development from which new products, new businesses, and even new industries are formed. We must focus in areas that show the greatest promise for job creation to position ourselves to get ahead of our competitors and be a leader in emerging industries. This Budget makes significant investments in clean energy technology and research and development to nurture the United States as a world leader in innovation. To meet these goals, the Budget calls for:

- Providing $148 billion for research and development. This level of funding continues the effort to double investments in basic research at the National Science Foundation, Department of Energy Office of Science, and the National Institute for Standards and Technology (NIST); provides robust investment in biomedical research at National Institutes of Health (NIH); and doubles energy efficiency research and development.

- Making the Research and Experimentation (R&E) tax credit permanent to give businesses the certainty they need to make these important investments. In addition, the Administration proposes to expand the credit by about 20 percent, the largest increase in the credit's history, and simplify it so that it is easier for firms to take this credit and make the investments our economy needs to compete.

- Bolstering economic rejuvenation in hard-hit areas of our country with new Growth Zone program. Growth Zones will deliver expanded tax incentives for investment and employment and a more streamlined access to government assistance to 20 new areas facing economic distress as well as growth potential.

- Providing $8.7 billion for clean energy technology research, development, demonstration, and deployment. This includes more than doubling energy efficiency investments and increasing renewable energy investments by over 70 percent. The Budget seeks to reinforce new approaches to energy research by adding three new energy innovation hubs and expanding investment in the Advanced Research Projects Agency – Energy (ARPA-E). In addition, the budget provides $5 billion for Section 48C tax credits for renewable energy manufacturing facilities.

Build a 21st century infrastructure. To compete in the 21st century, we need an infrastructure that keeps pace with the times and outpaces our rivals, and for too long we have neglected our Nation's infrastructure, its roads, bridges, levees, waterways, communications networks, and transit systems. In the Recovery Act, the Administration made the largest one-time investment in our Nation's infrastructure since President Eisenhower called for the creation of a national highway system. We need to continue to build on those efforts –and to do so responsibly by paying for what we build. We cannot strengthen our economy with a modern infrastructure if at the same time it weakens our fiscal standing. To give America the world-class infrastructure our economy needs, the Budget:

- Proposes a six-year surface transportation reauthorization that increases average annual investment by $35 billion per year, in real terms, over the previous six year authorization plus passenger rail funding in those years; this represents a total inflation-adjusted increase of sixty percent over the life of the bill. To bring the trust fund under budget enforcement mechanisms, the Budget proposes to reclassify trust fund spending on surface transportation as mandatory, subjecting it to PAYGO rules and closing score-keeping loopholes.

- Provides $1.2 billion for the Next Generation Air Transportation System, the Federal Aviation Administration's multi-year effort to improve the efficiency, safety, and capacity of the aviation system.

- Invests in smart, energy-efficient, and reliable electricity delivery infrastructure. The Budget continues to support the modernization of the Nation's electrical grid by investing in research, development, and demonstration of smart-grid technologies to spur the transition to a smarter, more efficient, secure and reliable electrical system.

- Builds next-generation wireless broadband network to provide access to 98 percent of the population, creates a Wireless Innovation Fund, and establishes an interoperable broadband network for public safety. These proposals will be fully paid for with proceeds from proposed "voluntary incentive auctions" of underused spectrum and other spectrum management measures, which will generate more than $27 billion over the next decade. In addition to funding the programs above, nearly $10 billion of these proceeds will be dedicated to deficit reduction.

BUILDING ON OUR PROGRESS

Now that the recovery is beginning to take hold, taking further steps to ensure responsibility has to be a priority—not because fiscal austerity in and of itself is virtuous, but because there is no way that we can compete and win in the world economy if we are borrowing without an end in sight.

The President's Budget is a down payment. It puts the government on a path to reach sustainable deficits over the next ten years. This means that for the first time in 10 years, the government will again be fully paying for all of its programs and the debt will stabilize as a share of GDP. This is an important milestone—but not the finish line—on the path to a balanced budget.

We cannot achieve sustainable levels with ever deeper cuts in non-security discretionary spending, which is simply not a large enough share of the picture either to cause or to solve the whole problem. The President has been clear that we must work on a bipartisan basis to find long-term solutions across all areas of the Budget, including Medicare, Medicaid, and tax reform.

Continue efforts to restrain the growth of health costs. Health care comprises one-quarter of non-interest Federal spending, and it is the key driver of future deficit growth. According to CBO analysis, the Affordable Care Act will save more than $200 billion over the next ten years and will reduce the deficit by more than $1 trillion over the second decade. This is a pivotal achievement, and the President is resolutely committed to implementing the ACA fairly, efficiently, and swiftly. But the job is not yet done. The Budget builds on the ACA with additional proposals to contain health care cost growth:

- The ACA made important advances in the area of program integrity, but there are other important opportunities to reduce fraud, waste, and abuse in Medicare and Medicaid. The Budget includes ideas pulled from external sources, including recommendations from the President's Fiscal Commission and from legislation that has received bipartisan support. The $62 billion in health savings in the Budget focus on increasing program integrity, efficiency, and accountability—not reducing beneficiary access or benefits. For example, the Budget extends efficiencies from Medicare competitive bidding for durable medical equipment to Medicaid, and prohibits brand and generic drug companies from delaying the availability of new generic drugs ("pay-for-delay").

- At the same time, these health savings pay for two years of relief from the Sustainable Growth Rate (SGR) formula—preventing a decrease of nearly 30 percent in physician payments that would hurt Medicare. This paid-for extension is on top of the three previous paid-for extensions of the SGR fix, including the one-year extension enacted in December, establishing a pattern of practice that we hope to continue as we work with Congress to achieve a permanent fix.

- Fully implementing the Affordable Care Act achieves cost savings and promotes efficient care, including reimbursing doctors and hospitals as Accountable Care Organizations, and adjusting payments to hospitals with high readmissions or hospital-acquired conditions. Implementing the Act also has the potential to fundamentally transform our health system into one that delivers better care at lower cost—a potential that is not fully captured in the ACA savings estimates. In particular, the Act incorporates the most promising ideas from economists and leaders from across the political spectrum to control health care costs.

- The President's Budget includes $250 million in grants to States to reform their laws on medical malpractice through various approaches such as health courts, safe harbors, early disclosure and offer programs, or other legal reforms. These grants would be awarded and administered by the Bureau of Justice Assistance (BJA) in consultation with the Department of Health and Human Services. The goal of any reform would be to fairly compensate patients who are harmed by negligence, reduce providers' insurance premiums, weed out frivolous lawsuits, improve the quality of health care, and reduce medical costs associated with "defensive medicine." This proposal is in line with the Fiscal commission's recommendation for "an aggressive set of reforms to the tort system."

Make a Down Payment on Tax Reform. To foster a competitive economy, we must have sensible and affordable tax policy that is consistent with our overall objectives of deficit reduction and economic growth. Since the last comprehensive overhaul nearly three decades ago, the tax code has been weighed down with revenue-side spending in the form of special deductions, credits, and other tax expenditures that do little for middle income families, and burdened with generous upper income tax cuts and more generous estate tax cuts for families making more than $250,000 a year. To compete and win in the world economy, we cannot sustain a tax code burdened with these unaffordable benefits. This is why the President has called on the Congress to undertake a fundamental reform of our tax system. As progress towards this goal, the Budget calls for:

- Allowing the 2001 and 2003 High-Income and Estate Tax Cuts to Expire. The Administration remains opposed to the permanent extension of these high-income tax cuts past 2012, as now scheduled, and supports the return of estate tax to 2009 rates and exemption levels. These policies save nearly a trillion dollars over the decade including interest effects. We cannot afford these unpaid-for tax breaks for the wealthiest Americans and we are committed to limiting the current extension to two years.

- Beginning the Process of Corporate Tax Reform. The United States has the highest corporate tax rate in the world. Part of the reason for this is the proliferation of tax breaks and loopholes written to benefit a particular company or industry. The result is a tax code that makes our businesses and our economy less competitive as a whole. The President is calling on Congress to work with the Administration on corporate tax reform that would simplify the system, eliminate these special interest loopholes, level the playing field, and use the savings to lower the corporate tax rate for the first time in 25 years -- and do so without adding a dime to our deficit.

- Paying for the Alternative Minimum Tax (AMT). This Budget provides for a three year extension of AMT relief, and is offset by an across-the-board 30 percent reduction in itemized deductions for high-income taxpayers. This is the first time an extension of AMT relief has been fully paid for. While our base projections do not assume that we continue to pay for AMT relief after 2014, the President is committed to working with Congress to fully pay for AMT relief beyond this window. Doing so reduces the deficit by an additional 1 percent of GDP by the end of the decade relative to the deficit reduction in the Budget.

Take Steps Now to Reduce Future Liabilities. Looming debts and unfunded liabilities can put taxpayers on the line for bailing out programs in the future. The Budget promotes fiscal stewardship by restoring responsibility to key areas. First, the Budget proposes to give the Pension Benefit Guaranty Corporation (PBGC) Board the ability to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This will both encourage companies to fully fund their pension benefits and give the PBGC the tools to improve its financial soundness without over-burdening the companies it ensures, saving $16 billion over next decade. Second, the 2012 Budget provides short-term relief to States by providing a two-year suspension of State interest payments on their debt and automatic increases in Federal unemployment insurance (UI) taxes. At the same time, the Budget proposes steps to encourage States to put their UI systems on firmer financial footing and pay back what they owe to the Federal government. Beginning in 2014, the Budget increases the minimum wages states can subject to unemployment taxes to $15,000. Finally, the Budget proposes to gradually reduce the loan portfolios and eligible loan sizes of Fannie Mae and Freddie Mac and end the conservatorship of these companies, scaling back government support in a way that allows private capital to return without undermining the housing market recovery.

Begin a Dialogue on Social Security Solvency. The President considers Social Security to be one of our most successful programs, and indispensable to workers, people with disabilities, seniors, and survivors. The President has been clear that we need to strengthen Social Security to make sure that Social Security is sound and reliable for the American people, now and in the future. The Budget lays out the President's principles: Reform should strengthen the program and its protections for the most vulnerable, without putting at risk current retirees and people with disabilities, without slashing benefits for future generations, and without subjecting American's guaranteed retirement income to the whims of the stock market. The President believes that the best way forward is for leaders of both parties to come together to discuss the way forward on a bipartisan basis.

Social Security is not contributing to our deficit any time soon. Our goal is to make sure that current and future generations are assured that the system will remain sound for the long term as well – to provide the peace of mind that is one of the important benefits of insurance.

A Way Forward

There has been a vibrant national conversation on fiscal responsibility over the past several months. The President's Fiscal Commission made important progress in launching a serious bipartisan discussion last year, and I commend them for resetting the debate on further deficit reduction. While the President has not embraced all of their proposals, many of them are included in this year's Budget. Federal employee pay freezes, medical malpractice reform, a call for government reorganization, and the elimination of in-school subsidies for graduate student loans are just a few examples. Our Terminations, Reductions, and Savings volume includes numerous proposals that were also recommended for termination or reduction by the Fiscal Commission. And like the Commission, we make proposals to improve budget discipline, including subjecting the Transportation Trust Fund to PAYGO rules and providing for program integrity cap adjustments. We must take serious steps to both cut spending and cut deficits. We must address these issues in a bipartisan way. And we must do so in a way that is consistent with our core values.

The Fiscal Commission was clear that that the only way to tackle our deficit is to cut excessive spending wherever we find it – in domestic spending, defense spending, health care spending, and spending through tax breaks and loopholes. Now that the worst of the recession is over, we have to confront the fact that our government spends more than it takes in. That is not sustainable and we need a comprehensive approach

The five year non-security freeze achieves significant savings with a dramatic reduction in discretionary spending over the coming decade, and it will require commitment from both the Administration and Congress to live within that framework. But we have to remember that this category of spending represents a little more than 12 percent of our Budget. To make further progress, we cannot pretend that cutting this kind of spending alone will be enough. Looking forward, we will have to make hard decisions to further reduce health care costs, including programs like Medicare and Medicaid, which are the single biggest contributor to our long-term deficit. Health insurance reform will slow these rising costs, which is part of why nonpartisan economists have said that repealing the health care law would add a quarter of a trillion dollars to our deficit. Still, we need to look at other ideas to bring down costs, and the proposals in this year's Budget are a first step. And we cannot afford a permanent extension of the tax cuts for the wealthiest two percent of Americans if we are committed to achieving a sustainable deficit.

This Budget builds on the work of the last two years, and makes a down payment on a strong American future. Much work remains to be done. We need to take steps to reduce our future liabilities. And we need to work to shape our government into one that is more affordable, more effective, and more efficient.

I look forward to working with both houses of Congress in the coming months as we work to put our fiscal path back on a sustainable course.

Chairman CAMP. Thank you very much.

First of all, your full written statement will be made part of the record.

In your written remarks I noticed that you said the last time you were OMB Director the government was running a budget surplus. I do think it is important to acknowledge that during that time, outlays as a percentage of GDP averaged about 18½ percent; and, today, while we hear a lot of talk about cutting spending, the budget's, outlays as a percentage of GDP go to about 23 percent in 2021.

I want to take seriously the statements about the need to reduce spending and deficits the President has made, but when his budget runs up spending as a percentage of our economy to historic levels, it is very difficult to take that at face value. Do you think having government spending equal to about a fourth of the U.S. economy is really the right approach to sustainable growth and also to reducing the deficit?

Mr. LEW. Mr. Chairman, I am very proud of the work that I did in this 1990s. We worked in a bipartisan basis to balance the budget. And I think it is important to note that, when we had a balanced budget, when we ran a surplus, we were also in a period of unprecedented economic growth. The economy was growing much faster than was spending on programs.

We have just come through one of the worst economic periods that required extraordinary expenditures in order to get the economy moving. There was a loss of revenue, there were special provisions that had to be put in place, and we are right now at a time where the economy has been hit very hard. We are coming out of that.

As we look ahead to the period later in this window, and you are looking to 2021, we are seeing a number of things happening at the same time. First of all, we are seeing a population that is aging. The Baby Boom is retiring and collecting benefits. In 1995, we knew that looking ahead to 2021 there were going to be more people 65 and older collecting Social Security.

Chairman CAMP. I appreciate that. But if we are really going to seriously reduce our debt and tackle our deficit, don't we need to reduce the spending part of that formula?

Mr. LEW. Mr. Chairman, we agree totally that we need to reduce spending, and that is why the President has proposed $400 billion in discretionary spending. He has proposed $62 billion in mandatory saving. In his budget, he has proposed a lot of spending reductions, and they have real impact.

Chairman CAMP. But the debt level has increased every single year under this budget, reaching a hundred percent of our economy by 2021. So, again, that will require successive increases of the statutory debt limit. What additional spending reductions, budget reforms, or other reforms can we expect in order to prevent this massive increase in the debt?

Mr. LEW. First of all, this budget would put us in a place in the middle of the decade where our current spending is not causing us to run deficits that increase the debt. The only thing left when we get to the middle of the decade that is increasing deficits and the debt is interest on the debt that has been accumulated already. And we agree that is a problem. I don't think there is going to be an argument between us that we have to start working on getting that down. But all that is left once we have hit the 3 percent of GDP target is the interest on the debt that is driving it up.

Chairman CAMP. You say in your written statement that the biggest contributor to our Nation's long-term deficits is health care spending and that any new entitlement spending must be offset.

But when I look at the increase in the physician payment formula, the $300 billion, there is no offset in the budget. There is no indication about how that increase is going to be paid for. And while we may agree on the need to get to a long-term sustainable physician payment formula, or SGR, how can we move forward on that when, again, you don't offset the spending or you don't show how we are going to reach that goal in the budget.

Mr. LEW. Mr. Chairman, I think it is very important that last December Congress, working with the administration, on a bipartisan basis paid for a 1-year extension of that provision. That was the first time that it had ever been paid for. It didn't have to be paid for under the budget rules. It was the right thing to do, and we commend the Congress for doing it.

And what we have said in this budget is that we have now put $62 billion of specific offsets down which will cover the cost of the 2-year extension. With 3 years of time where we have paid for the sustainable growth rate provisions to be extended, that gives us a healthy window to work through the issues to come to a place where we don't need to do it every year, where we make the right level of policy adjustments and pay for them. And we have called for that. We want to work together on that.

But a 3-year window to do it in is a big difference from where we were before, and we think it is very important.

Chairman CAMP. Well, thank you. And I appreciate your comments on international tax reform, business tax reform, Social Security, and other areas that I hope we can work together on.

So, with that, Mr. Levin may inquire.

Mr. LEVIN. Thank you. Welcome.

I think it is useful to look at history to the extent that it is instructive for the present and future. I also think we need to proceed in a bipartisan basis to the extent possible.

I don't think it is true that the action we took in 1993 was bipartisan. I mention that there wasn't a single Republican vote. And I mention that because I think if people remember that it gives this administration and those of us who were here then some credibility when we talk about deficit reduction. I think it gives us considerable credibility.

Also, I think it is important to look at history in terms of spending and GDP.

Mr. Lew, we so much welcome your insight. You are too young to remember, and I guess none of us remember the Depression or previous recessions. Has there been a tendency for spending to go up at times of a depression and a recession?

Mr. LEW. Mr. Levin, it is very much the case that when the economy is weak spending goes up. It goes up automatically for things like unemployment insurance. And then it goes up when policy is made, as it was I think appropriately and correctly made 2 years ago to take actions to get the economy moving again.

Mr. LEVIN. And that was considerable, wasn't it?

Mr. LEW. Yes, it was very considerable. It was hundreds of billions of dollars.

Mr. LEVIN. Let me just ask you——

Mr. LEW. And I might add it helped to get the economic growth rate into the positive area. We are seeing economic growth that is several percentage points higher than it would be without having taken that action; and we are seeing unemployment, while still unacceptably high, at a rate that is lower than it would have been by many, many millions of jobs had we not taken action.

Mr. LEVIN. Now, I think it is important for that to be stated by all of you without equivocation. I don't think you have any. So why is there a combination here of deficit reduction and investment? I am not sure the public understands. Why does this budget do both?

Mr. LEW. It is a good question, and it is actually a hard question. Because we are at a pivot point here where we are going from dealing with a recession where we had to spend a lot of money to looking at reducing the deficit where we need to save a lot of money. And at the same time while we are saving money we have to look farther down the road to make sure we are building an economy that will continue to create jobs in the future, and this budget tries to make those tough tradeoffs.

And while I think it is something that sounds good and common sense we want to pay for education, it is not just something that we do because we think it is a nice thing to educate our children. If you talk to the CEOs of technology companies, what they will tell you is they need more young applicants for jobs who are trained in math and science and engineering. So what we are doing is very much driving the future economic growth.

The same is true in innovation, where America is the world's leader in innovation. We have a wonderful partnership in the public sector that pays for basic research and the private sector that adapts it and commercializes it. We need to continue that. Those are the kinds of areas where we are making investments.

Mr. LEVIN. You mention education, and training. The CR cuts money for training. We are also in this battle to try to continue TAA, which needs to be done this week.

Let me just mention community health centers. The CR, I think, cuts it 50 percent. Is that a good investment?

Mr. LEW. Community health centers have been a good investment. They are part of our overall health infrastructure in this country, and I must say I don't know the exact funding level in the Continuing Resolution. I have been working on this budget the last few days, so there may be some numbers that I am not exactly current with.

Mr. LEVIN. You may be shocked. I hope the public is.

I yield back.

Chairman CAMP. Mr. Herger is recognized.

Mr. HERGER. Thank you, Mr. Chairman.

Mr. Lew, I would like to draw your attention to two numbers. The first number is $6.3 trillion. That was the total debt held by the public when President Obama took office on January 20 of 2009. The second number is $8.1 trillion. That is the amount this budget proposed to add to the publicly held debt over the course of the next decade. And that is on top of some $2.5 trillion this President already added to the debt during his first 2 years in office.

Again, that is $6.3 trillion in debt over the first 219 years of this country's existence versus $8.1 trillion in debt over the next 10 years.

This budget does virtually nothing to confront the crisis of our Nation's growing debt. Last year, we were told that there were no major deficit reduction proposals in the budget because the President was waiting for his Fiscal Commission to study the issue and make recommendations. Mr. Lew, does the President support the reforms proposed by the Simpson-Bowles Fiscal Commission?

Mr. LEW. Mr. Herger, the President has said that he thinks the Commission did important work. There are things in the Commission report that he has embraced and put in this budget. There are ideas that he thinks we need to work together to refine them. He has really gone to great lengths to lead a very broad space for us to find a path towards working together on many of the ideas. He has not embraced the entirety of it, but he thinks they did very important work.

If I could just comment on the first part of your remarks.

When I left the Office of Management and Budget in January of 2001, my last day in office we projected a surplus of $5.6 trillion over the next years. When President Obama took office in January of 2009, the projection of the deficit for the following 10 years was over $10 trillion. The world had changed in the years in between, and there is going to need to be tough decisions to reverse it.

But the pattern had been established by a combination of factors. One was the recession. But another was a set of decisions that was made to have tax cuts and spending without paying for it that built a structural deficit into the projections. And that is really what we are dealing with when we look ahead to solving the problem of the future. We have to remove the structural deficit.

Mr. HERGER. Well, Mr. Lew, I am sure you can see our concern, of course.

Mr. LEW. I share the concern.

Mr. HERGER. When the President came in, he indicated, his stimulus, was above an unemployment rate of 8 percent. And as you are aware, we have been over 9 percent, and we have this incredible debt, the numbers of which I just mentioned, on top of that. The economy hasn't turned around. We have more people unemployed. We haven't created jobs. So I am sure you understand the concern that we have.

Beginning on January 1, 2012, government agencies at the Federal, State, and local levels would be required to withhold 3 percent of all payments to contractors and vendors as a tax enforcement measure. This 3 percent withholding tax would allegedly raise $10 billion over the next decade. But a 2008 Department of Defense study found that the provisions will cost the DOD alone more than $17 billion to implement. That is in addition to other Federal agencies that have their own contractors, not to mention the costs to the IRS to track and process all of these new withholding taxes.

I have introduced legislation that would repeal this 3 percent withholding tax. Are you familiar with this provision; are you aware of any efforts to estimate the cost it will impose government-wide; and would you agree that it doesn't make sense to enact taxes that cost more to collect than they raise in revenue?

Mr. LEW. Congressman, I am going to have to confess that in the 9 weeks I have been back at OMB I have not come across that provision. I am not up to date on it. So I would really rather get back to you. I can comment in principle on it, but I think it would be better for me to get back to you.

Mr. HERGER. I would appreciate that.

[The information The Honorable Wally Herger follows:]

Rep. Herger

Thank you for your February 16th testimony to the Committee on Ways and Means at its hearing on the President's Fiscal Year 2012 Budget Proposal. In order to complete our hearing record, I would appreciate your response to the following questions:

Beginning on January 1, 2012, government agencies at the federal, state, and local level will be required to withhold 3% of all payments to contractors and vendors as a tax enforcement measure. This 3% withholding tax will allegedly raise some $10 billion over the next decade, but a 2008 Department of Defense study found that the provision will cost DoD alone more than $17 billion to implement. That's in addition to other federal agencies that have their own contractors, not to mention the cost to the IRS to track and process all of these new withholding taxes. I have introduced legislation to repeal the 3% withholding tax.

Are you aware of any efforts to estimate the costs this withholding requirement will impose government-wide? Would you agree that it doesn't make much sense to enact taxes that cost more to collect than they raise in revenue?

The Administration does not have an official cost estimate for the full implementation at this time. However, because of the complexities of this provision, agencies have been conducting preparatory analysis of agency financial systems, payment processes, and contract award procedures associated with implementation while awaiting the issuance of a final regulation by Treasury.

Given the significant implementation challenges identified with the 3% withholding requirement, to include a method for identifying and designating in the financial systems individual payments subject to the withholding, the Administration would consider a delay to help implement the requirement so long as it were fully paid for.

Chairman CAMP. Mr. Johnson may inquire.

Mr. JOHNSON. Thank you, Mr. Chairman.

Welcome aboard.

Mr. LEW. Thank you.

Mr. JOHNSON. Securing Social Security's necessary administrative funding has been a bipartisan effort for years at Ways and Means. Regretfully, instead of working together to find sustainable solutions for Social Security's future, the other side, your side, has chosen to scare seniors through a misleading analysis of Social Security's budget in the Continuing Resolution being considered on the floor.

Let me remind you that Social Security is on a level budget due to the failure of last year's Congress to pass a budget. The proposed CR cuts are only 1 percent from Social Security's funding level established under the Democrat majority. The remaining $500 million the CR reclaims is the money in a reserve fund the agency has not spent from previous general budgets.

The President's 2012 budget request assumes a 5-year budget freeze based on 2010 enacted levels. How can we work together to make sure Social Security delivers its core services during these times of fiscal restraint?

Mr. LEW. Congressman, I think that is one of our most important jobs, to make sure that we can deliver services that people are entitled to in a way that is both sufficient and makes them accessible and in a way that is not too burdensome.

I think that it is an area where we have made great progress in improving service; and part of that involves people, part of it involves technology. I think that as we look at places where we are going to be needing to make savings, this is not an area where we think savings or, if you look at our budget, we don't make savings in this area because we think we need to maintain with a growing population applying for benefits the quality of service.

Mr. JOHNSON. You need to get the President to doctor that issue, because he hasn't agreed to fix Social Security, and you know and I know it can be fixed.

Do you agree with the argument that the arithmetic in Social Security works, Social Security is fine? That is one of the arguments that is being made.

Mr. LEW. Congressman, I was speaking to the question of the administrative costs. You are talking now about the financing of Social Security long term.

I think Social Security is soundly financed until 2037. The trust fund—last reported, the trustees said that the trust fund was sound until 2037. I think we do have issues that——

Mr. JOHNSON. There isn't any money in it. You know that. It is all IOUs.

Mr. LEW. I would beg to differ.

Since 1983, when on a bipartisan basis we worked to reform Social Security and to refund Social Security, we have a system where there is a Social Security trust fund that has a surplus, and it is invested in U.S. Treasury notes. It is our job to run a fiscal policy so that we can pay those notes back.

Mr. JOHNSON. Well, that is right. We are borrowing from that trust fund.

Mr. LEW. And part of the contract we have with Social Security is we have to be able to pay that back.

Mr. JOHNSON. Do you agree with the statement in the President's 2010 budget that the existence of large trust fund balances, i.e., the IOUs, does not by itself increase the government's ability to pay benefits.

Mr. LEW. That is a paragraph that—it doesn't appear in the budget that I sent up, because I think it is a little bit misleading. It is something that is true in its technical terms as an economic matter. But there is legal and technical issues regarding Social Security.

Social Security is an entitlement program. We have payroll taxes that employers and employees both pay into it. There are fund balances that are invested in Treasuries. We have never defaulted on paying back Treasury bills.

So, as a legal matter, there is a right to a benefit, and there is funding available. As an economic matter, we can only pay those benefits back if as an overall government we are in a fiscal position to do so. So the problem is are we running our fiscal policy so we can pay our bills. And I think it was easier when I sat here with a surplus to say with confidence that we can do it.

I understand why the question is asked. But that is not a Social Security question. It is a question of are we running our fiscal policy correctly.

Mr. JOHNSON. Well, Social Security is broke, and you know it. And it is nothing but pieces of paper out there. If we can't pay our other bills when we are in big debt, how do we plan on paying Social Security?

But let me add I believe, and I think you agree, that we can reform Social Security so that it exists forever. I haven't heard the President talk about wanting to do that.

Mr. LEW. Well, no, no. I totally agree. And the President just yesterday repeated he wants to work together on a bipartisan basis. We believe we can work together to come up with another 75-year plan to make the kind of commitment that we made in 1983 that says, looking far down the road, Social Security is sound. Beyond 2037, we do have work to do. And we look forward to working together on that.

Chairman CAMP. Thank you.

Mr. Rangel is recognized.

Mr. RANGEL. Thank you so much.

It is good to be working with you again, Mr. Lew. And the last time we worked closely together was when we, along with Gene Sperling and President Clinton, zones, attempted to bring in local government, State government, the private sector, and the Federal Government by having a plan with respect to empowerment zones. I understand that soon, very soon that will expire in the budget, the President's budget?

Mr. LEW. Yeah. There is a proposal for a follow-on program.

Mr. RANGEL. I would like to talk about the follow-on program. Because I was talking to Dr. McDermott, and he was sharing with me what the human body, when it is attacked outside, the first thing that happens is that the chemicals that go to try to stop the bleeding. Then there are white corpuscles that keep the thing from expanding and red corpuscles come in to start the repair.

I would assume that with budgets, you find out the country is in trouble, and you are able to identify where the highest unemployment is, where there are dropouts, and where there is lack of productivity. And just like the body, the weak get weaker. It just seems to me that these communities that have all of this economic distress didn't cause this economic injury to themselves.

And yet the President says that he had to help the wealthy to enjoy a further tax cut because that was political. But, by the same token, he can't help it if someone in worthwhile programs are going to be cut back. I think we all agree, whether it is the President or certainly if it is the Republicans, that these cuts cost jobs. These cuts cause the misfortune to grow worse.

Do you have anyone on your staff or in the administration that takes a look at our country the way a doctor takes a look at our body to determine how much emergency relief has to be there and just to stop the hemorrhage?

That was the concept of the empowerment zone. I do know that you and Dr. Sperling have something that you are thinking about. But once it gets bad in communities like Detroit and Watts and Harlem, it just gets worse. And then when you come in and say you are going to lose jobs on top of it, you are in intensive care.

Mr. LEW. Mr. Chairman, when I moved back to New York after the Clinton administration, I started taking the train through Harlem every day to go home. I felt a huge amount of pride to see the work that we had talked about happening on the streets. And it was one of the things that reminded me that what we do here it is real and it affects people's lives. We did a lot of good work.

Mr. RANGEL. You should take pride.

Mr. LEW. And in this budget we have a proposal for something called growth zones. And, you know, what it will be is a competition for 20 areas that would meet the criteria. I am not sure I can quite follow the medical analogy, but the places where there is need and where we bring together the right assistance and we can make a big difference.

Mr. RANGEL. Who is in charge of that program, because we won't have time.

Mr. LEW. I am happy to follow up with you afterwards, Mr. Rangel. There is a group, a number of people; and we can work with your staff to make sure that we are working closely on it.

Mr. RANGEL. We need that. We have rural areas, and so many other areas that cannot even compete because they have been trying to get out of this situation which is a massive recession; close to depression. We have lived through that, and we are still living through it.

But you are right. The empowerment zone shows that if we bring all of these resources at one time, improve the school, get the private sector working, we can get a town back on its feet.

So I look forward to working with you, Dr. Sperling, and Mr. Daley to see all of the things that you are thinking about, and to see whether or not there is a coordinated effort to bring in this emergency team when there are hemorrhages taking place throughout our country.

Thank you for your great contribution.

Mr. HERGER. [Presiding.] Thank you.

Mr. Davis is recognized.

Mr. DAVIS. Thank you, Mr. Chairman.

Thank you for coming today.

I discussed the administration's unemployment insurance proposal with Secretary Geithner yesterday, but I wanted to talk with you about it as well.

The administration's budget describes the UI proposal as offering "relief" to employers. But according to page 191 of your budget, there is about "$9 billion in relief," in quotation marks, through 2013 and then subsequent tax hikes totaling over $52 billion starting in 2014. On top of that, the budget proposal also extends the FUTA surtax for 10 years, which yields another $15 billion in revenue.

To sum it up, that is $9 billion in short-term relief and $67 billion in higher, permanent tax increases over the next 10 years. Do I have that math correct?

Mr. LEW. I can tell you the numbers in the budget are that it is net $43 billion. And if that was the number you used, it is correct. I apologize. I didn't write down the number.

Mr. DAVIS. I think we are dealing with a little bit larger number there.

But it seems to me that employers would pay about $58 billion less in unemployment taxes over the next decade if Congress simply ignored that proposal and followed current law. Would you agree with that? In terms of that outlay?

Mr. LEW. If you are looking over the 10-year period, there is an increase in the base of salaries that are subject to the unemployment tax.

Mr. DAVIS. Plus the tax increase.

Mr. LEW. Yes. And what it would do is it would restore the wage base in real terms to where it was in 1983 when President Reagan was in office and it was set for the last time. So it is in real terms back to where it was in 1983. It was frozen, and it hasn't been changed since 1983.

Mr. DAVIS. So it is short-term relief for a long-term permanent tax increase.

Mr. LEW. So it is short-term relief, which is I think very important, because the State funds are running very low right now. They need to have some headroom to be able to do what they need to do to build the balances back up. So we have a moratorium on increases that would otherwise take effect at the Federal level. And afterwards, in 2014, the base would be adjusted so that, as I say, in real terms it would be back to where it was when it was last set in the Reagan administration.

Mr. DAVIS. Has any administration in U.S. history to your knowledge ever proposed such a large net unemployment insurance tax hike?

Mr. LEW. I actually can't tell you. I haven't gone back historically. I do know that in real terms it is just calibrating it so that it is back where it was when it was set the last time in 1983.

Mr. DAVIS. Regarding the question of who pays for unemployment insurance, Secretary Geithner was a little bit fuzzy on that.

He suggested the economy pays for it. Who pays for unemployment insurance?

Mr. LEW. We have unemployment trust funds that are drawn down to pay benefits.

Mr. DAVIS. Who actually contributes to those, though?

Mr. LEW. The trust funds are funded by payroll taxes, and there are other funds as well.

Mr. DAVIS. One of the wake-up calls to me running a business in the corporate world, actually signing the checks, was the amount of additional taxes going out the door. I guess the question I have for you, hypothetically, as an employer, is do you think you would view this as a good deal? I mean this getting $9,000—let us use the hypothetical number $9,000—in relief in exchange for $67,000 in higher taxes in the future?

Mr. LEW. You know, I think we are comparing different numbers of years. On a year-by-year basis, this is a level of taxation that was in place in real terms for many years. It only eroded as the years went by since 1983.

So I think if you look at in real terms the impact this would have on employers, we had a pretty good economy in the 1990s when the real effective rate was much closer to what we are proposing than where it is now.

Mr. DAVIS. One last quick question on UI. The budget proposal doesn't include any funding for extending Federal UI benefits beyond their expiration in December of this year; is that correct?

Mr. LEW. That is correct.

Mr. DAVIS. Extending the current program through 2012 would cost about $40 billion. Do you think the program should be extended? And, if so, why wasn't it included in your budget?

Mr. LEW. You know, I think the whole idea of extended benefits is that we do it when we need to do it and for the duration of time that we need to do it. And I think we need to see where we are at the end of the year. It is not something one ought to look ahead in advance and say we know that we are going to be in a situation where we still need extended benefits.

Mr. DAVIS. Final point, real quickly.

Do you think it is fiscally responsible in your view not to include funds like these in the budgets the way you might in a variance account in a private sector company to at least project the potential need for that out there?

Mr. LEW. There are a number of contingency areas where we don't include it in budget, some where we do. This is an area where I hope that we are in a place where we don't need it in there, and we will have to see where we are at the end of the year.

Mr. DAVIS. Thank you very much.

Mr. HERGER. Mr. Reichert from Washington is recognized.

Mr. REICHERT. Thank you, Mr. Chairman.

Welcome, Mr. Lew.

My questions will focus on jobs for a second.

The budget dictates new resources to the International Trade Administration to help achieve the goal of the national export initiative which I am proud to be a part of along with Mr. Tiberi.

The goal, of course, is to double exports, create 2 million jobs by 2014. Your budget explains that these funds will be used to promote exports from small businesses, sell American. That is our goal. We also want to enforce existing free trade agreements and reduce trade barriers for U.S. products. And I congratulate the President on his recent negotiation with Korea and look forward to voting on that bill.

But there is hardly a mention, other than the fact that the Korean agreement has been agreed to, in the budget as to the role of the pending free trade agreements with Colombia, Panama, and, for that matter, really Korea.

The last time that we doubled exports was between the years of 1995 and 2007; and, as I have said many times and you probably know yourself, during that period of time nine trade agreements were passed.

So my question is, what really is the President looking to do when it comes to trade agreements, recognizing the importance if their goal is to double exports, create 2 million jobs? Is it not important to get these trade agreements to Congress so we can have a vote on those—Colombia and Panama languishing, Korea we are still waiting for. What really is the plan? Because it is not mentioned in the budget at all. It has been said before, it is a no-cost stimulus.

Mr. LEW. Congressman, the Korea agreement was completed right at the end of the year as the budget was being put together, and it is something we are very proud of. We think it is an important piece of work. It shows how, working together, we can address the serious issues that come up with trade agreements and still promote American exports and to make sure that we are competitive in important markets.

So I don't think there is any ambiguity about the administration's support for the Korea agreement. I think it is more just a question of timing, funding for the agreement. But the provisions were there.

As far as the Colombia and Panama agreements go, I think the President has been clear that we are continuing to work on them. There are issues there we have to work through, and we are working as hard and as fast as we can to get those completed.

Mr. REICHERT. Well, I haven't seen any language in any of the budgets presented by the President relating to trade. So this isn't the first time that the language has been omitted from a budget proposal.

Mr. LEW. It is not intrinsically a budget issue. As you said, it is something that has some implications, and the implications of trade agreements are addressed. We have been very vocal in speaking to the question of the Korea agreement and would be happy to follow up with you on it. There should be no ambiguity of the administration's position on it. It is a historic agreement that the President has spoken to.

Mr. REICHERT. Okay. We will be looking forward to voting on those agreements this year.

Now to health care. Last week, the director of the nonpartisan Congressional Budget Office testified before the Budget Committee that the health care law would reduce employment in 2020 by about 800,000 workers. Do you agree with that analysis?

Mr. LEW. You know, I think that as I looked at that analysis last week, what it said to me was that there are a lot of people who are in jobs that they would either be ready to change or retire from if they weren't locked in to their jobs because of their health insurance. And that by passing the Affordable Care Act and ending job lock we have created more flexibility and mobility in the labor market. I am not persuaded that there is a net job loss, and I would be happy to pursue it with you further.

Mr. REICHERT. You don't have a number? If you disagree with this 800,000 loss number, do you have a number that you are looking at that possibly——

Mr. LEW. I do not have a number to give you. But we can follow up.

Mr. REICHERT. Would you agree that there would be job losses?

Mr. LEW. I think that the thing that I would agree with is that there will be people who leave jobs, people who couldn't retire because they were going to lose their health benefits.

Mr. REICHERT. So let me understand. The Congressional Budget Office says that we are going to lose 800,000 jobs. But you are saying that—at least what I am hearing is—we are not going to lose any.

Mr. LEW. I said I am not familiar with an analysis that says it is loss of jobs because of loss of economic activity. And I am happy to look at the analysis.

Mr. REICHERT. Okay. Thank you, Mr. Chairman.

Mr. HERGER. Thank you.

Mr. Neal is recognized.

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

Mr. Lew, as we begin the budget scenario, this is really about, in some measure, preparing for the debt ceiling question that will be before us in the near future. But the debt ceiling question really isn't an argument about just the budget that is in front of us. It is an argument about bills incurred from the past. Isn't that correct?

Mr. LEW. It is not at all about the budget in front of us, because the debt that we have is all the result of past decisions.

Mr. NEAL. Which brings me to the next point. How much money have we borrowed for the war in Iraq?

Mr. LEW. Well, I don't have a separate calculation, but we have been running a deficit for the entire time from the beginning of the war of Iraq through the withdrawal. So depending on what you consider to be the thing that we are borrowing for, one could come up with different calculations. We don't identify borrowing for one or another activity, but we have been running a deficit that whole period.

Mr. NEAL. Well, let me take you back to projections then, and then we will come back to the debt issue.

There have been 31,000 men and women who have served us honorably in Iraq and Afghanistan who have been wounded. And on a visit that I made last week with one courageous young guy, I did the calculation. He is about 28 years old and, with his life expectancy, he is probably going to be in the care of the VA system for the next 50 years. So not only are there costs that have been incurred based upon the last few years but it is also a discussion about the costs going forward. Is that correct?

Mr. LEW. Absolutely. We have seen the costs of veterans' care, the need for workforce that deals with returning veterans, Wounded Warriors, climb dramatically as we have seen the number of brave men and women who are injured in battle come home. I think we have a pretty bipartisan consensus that we have an obligation to the men and women who put their lives on the line who come back injured to take care of them. And our budgets will reflect that for the rest of a generation.

Mr. NEAL. I am certainly in agreement with the point that you made. I think there is bipartisan support on the committee and certainly in the House for the statement that you have just offered about the obligations that we have going forward.

Let me go back to the debt issue.

So it is conceivable that some of those who have voted repeatedly for the war in Iraq and then voted for a period of about 7 years out of the 8 to borrow the money for Iraq conceivably would say that they are not prepared to meet the obligations based upon the votes that they have cast?

Mr. LEW. Mr. Neal, I would rather not speculate on the motives of individual Members. But I would just say that we have a national debt that includes hundreds of billions of dollars that we have spent in the last number of years on the war in Iraq and the war in Afghanistan. And we are paying that debt and the interest on the debt is one of the things that would be paid when the debt limit is raised. We don't identify which expense is connected to which dollar of debt. So there is no one-for-one correlation, but, conceptually, it is part of the whole.

Mr. NEAL. But frequently the votes that we had on the House floor during those years were called supplemental budgets.

Mr. LEW. Yes, they were.

Mr. NEAL. And to call it a supplemental budget, Mr. Lew, what does that infer?

Mr. LEW. A supplemental appropriation is an appropriation that is outside of the regular cycle. It is funds that weren't requested in the regular budget and were appropriated either after or parallel to but not part of the regular budget.

Mr. NEAL. So is it fair to say, just based upon on some of the calculations of the numbers you have come across in your time, recently anyway, that the cost of the war in Iraq is north of $750 billion right now?

Mr. LEW. I think that is pretty close. I mean, I haven't gone back and totaled it up from the beginning. But it has been an expensive undertaking. Yes.

Mr. NEAL. Okay. And then, going forward, one might make the argument, I think with some accuracy, that because of the obligation we are going to have to those honorable men and women who have served us that the VA system is going to require a considerable infusion of money for years and years to come, maybe well north of another trillion dollars if it is over the life of that young man's expectancy.

Mr. LEW. I am reluctant to put a specific number on it. I agree in principle it is a large number. I think the point is the same even if the number is a little off. I could go back and try and calculate a number, but I don't have a number.

Mr. NEAL. Okay. Thank you very much, Mr. Lew.

Thank you, Mr. Chairman.

Mr. HERGER. Thank you.

Mr. Brady is recognized.

Mr. BRADY. Thank you, Chairman.

Mr. Director, thank you for being here today. I look forward to working with you.

Mr. LEW. Thank you for having me.

Mr. BRADY. You know, I don't think this budget adds up, either for deficit reduction or for getting the economy moving. I am concerned about two things.

One, last year's budget did talk about the need for increasing U.S. sales abroad through passage of trade agreements with Colombia, Panama, and South Korea; and we have been working with the administration to move those forward. The House has taken a very strong position to move these three before July 1. The budget last year talked about the administration's goal of finding a way forward on all three. The budget this year is silent on Colombia and Panama. Is there a reason why?

Mr. LEW. Well, in December, as you know, we reached agreement on a very important agreement with South Korea. As we were closing this budget down, we accommodated that, as we should, in the budget proposal. And we are continuing to work on Colombia and Panama. So we need to get the Korea free trade agreement ratified as quickly as possible. We need to continue working as quickly as we can to get the others agreed to.

Mr. BRADY. Did you put in the budget the tariff reduction amounts resulting from passage of all three?

Mr. LEW. We put in the budget the one we have reached agreement on.

Mr. BRADY. Korea, but not Colombia and Panama?

Mr. LEW. Until we have an agreement, I don't believe we asked for funding for it.

Mr. BRADY. But you didn't plan for it in your budget?

Mr. LEW. Actually, I stand corrected. All three free trade agreements are assumed in the budget in terms of accommodated in the costs. They are not assumed to have been agreed to.

Mr. BRADY. Understood.

Mr. LEW. But there is not a financial barrier to it.

Mr. BRADY. Good. That is reassuring.

I want to follow up with Mr. Herger's point about the deficit. We oftentimes hear repeatedly about the debt and deficit the administration inherited. So we took a look at what CBO put down for the baseline from 2010 on forward. That is in the blue line on this graph. On the red are the administration's budgets and its own projections for the next decade. What they show is that the baseline that President Obama inherited is less than $2 trillion of debt over the next decade, but his budget and your budget shows deficits of nearly $8 trillion, four times larger than the baseline that the President inherited.

Now, understandably, there will be some adjustments for the tax relief for the next few years, but this clearly shows that the White

House is driving this deficit in a major way through its policies. That is one of the areas that we hope to work with you on, Director, to find ways to cut spending, put discipline back in the government, convince job creators that now is the time to invest, and convince consumers that they will not face higher taxes as a result of higher debt and deficits in this country. And I hope you will work with us as we try to rebuild some confidence in America's economy and fiscal condition going forward.

Mr. LEW. Congressman, I can't quite see the chart, so I am going to just comment on——

Mr. BRADY. It is a good-looking chart. You are going to love it. Maybe not love it, but you will like it.

Mr. LEW. My peripheral vision isn't good enough to get it.

I think I mentioned earlier, before you came into the room, that when I left OMB in January 2001 we projected a surplus over the next 10 years of $5.6 trillion. I was extremely proud to have been part of making that possible and, frankly, working on a bipartisan basis in 1997 to do that. When I came back just about 9 weeks ago, it is a $10 trillion surplus that I saw the President inherited when he came in in January, 2009; and it has gotten worse because of the recession, because of the deep economic difficulties we have.

I don't think there is any question but that we need to work together to put a dent in it and turn it around and move it in the right direction. It is going to take a while. There is a desire, as the President said yesterday, for kind of instant solutions. This is a deep hole that we are in.

And some of it was of our own making, some of it was not. The economy took a turn for the worse that I don't think anyone anticipated before the depths of the recession. There may have been things that we could have done differently to prevent it, but it certainly wasn't planned.

The decisions made in the early part of this century, from 2001 to 2009, did make the problem worse. I mean, we passed bill after bill, tax cuts and spending bills——

Mr. BRADY. The attacks of 9/11 didn't have an effect on that at all?

Mr. LEW. Well, I think certainly the fact that we have had a different defense posture, we have had two wars, that has all contributed to it, no doubt. But when you remove all of the things that kind of come and go, the recession will abate. We are growing our way out of it, not fast enough, but we are growing out of it. We are bringing our troops home from Iraq. Those expenses will go down. It is the structural deficit that we have to deal with.

Mr. BRADY. But these are your budgets and your numbers, and they are very serious.

Mr. LEW. I am happy to go over it or get back to you.

Mr. HERGER. The gentleman's time has expired.

Mr. Boustany is recognized.

Mr. BOUSTANY. Thank you, Mr. Chairman. I appreciate this.

Director Lew, I really appreciate you being here today, your testimony, and also the very difficult task you have in putting these budgets together. It is not an easy task.

I want to discuss an issue that is very important to me and my State of Louisiana. As you may or may not know, Louisiana is a leader in international trade; and, in fact we rank fourth among the 50 States in exports to China. In the year 2009, we saw a 56 percent increase in our exports to China in a somewhat down economic year.

As a southern State and a coastal State, one of the problems we have every single year—and we never have really good solutions to this—is a sediment buildup in our shipping channels. It is a significant problem. It requires constant maintenance. I have the honor of serving a coastal State, Louisiana, a coastal district, and see firsthand the importance of having these dredging operations done in a timely manner.

But I want to be really clear, this is a national problem. Back in 1986, Congress was very wise in setting up the Harbor Maintenance Trust Fund. This was a fund that was a dedicated ad valorem tax to be used for operation and maintenance dredging in all the federally authorized channels to maintain their width and depth.

However, over the years, Washington bureaucrats have held these moneys hostage to a budget process. And these critical waterways have been neglected. In fact, if you look at what the Army Corps of Engineers tells us, if you take our 59 largest ports, which are critical for us to meet the President's goal of doubling exports in 5 years, you take those 59 ports, only about 35 percent of them are operating at the full capacity of width and depth. This backlog of maintenance is growing year by year.

Now, the ad valorem tax, the harbor maintenance tax brings in somewhere between $1.3 and $1.6 billion a year. In fact, in fiscal year 2010, it was $1.3 billion. But only half of those funds are currently being used by the Army Corps of Engineers for maintenance dredging. The President's fiscal year 2012 budget proposes only $758 million to be distributed from the Harbor Maintenance Trust Fund for operation and maintenance purposes.

Now, what is the impact of this? Vessels and companies that are shipping lose millions of dollars each year as they are forced to light load vessels for shipping. They are forced to operate under reduced shipping schedules when high tide is in to make up for the silt that has built up. And these are extra costs to American companies that are trying to compete globally.

So if we are going to try to really meet the President's goal of doubling exports over the next 5 years, how do you justify spending only half the fees—these are dedicated fees that were supposed to be used for dredging—half the fees collected each year, leaving a $5.6 billion surplus in this fund when our Nation's exporting channels are becoming less competitive?

Mr. LEW. Congressman, in the Army Corps program we have made difficult decisions, difficult trade-offs. In general, funding levels are not as high as they would be if we weren't on a path where we are trying very hard——

Mr. BOUSTANY. But this is a dedicated tax that is supposed to be used. It is paid by these shippers, by this maritime industry; and it is dedicated in law for operation and maintenance dredging. So why is only half of it being used? Is this a budget gimmick?

Mr. LEW. Well, I think if you look at the Army Corps program overall, the way the decisions have been made in the Corps budget are to look for the highest-value projects and to put funding behind the highest-value project.

Mr. BOUSTANY. But I have talked with the Corps, and they consistently say they need access to that money. They could actually take care of all these authorized projects achieve the maximum efficiency so that we meet the President's goal and still have some left to put into the fund. This is not an efficient use of funds.

Mr. LEW. I understand that there are a lot of projects that might well be worthy projects.

Mr. BOUSTANY. These are all worthy projects identified by the Corps that they are underfunding because they can't get access to these funds.

Mr. LEW. It would nonetheless be additional spending if we were to do the projects.

Mr. BOUSTANY. No, No, no. Stop. It doesn't add to the deficit, because this is money that is already coming in dedicated for these projects. Otherwise, it goes into a surplus fund. CBO scores this as adding nothing to the deficit.

Mr. LEW. I will go back and check. In general, when we draw funds down from a trust fund, changes in trust funds are scored.

Mr. BOUSTANY. We are not talking about drawing down from a trust fund. We are just talking about using the incoming annual money. The fund is continuing to grow.

Mr. LEW. Let me get back to you on that, Congressman.

Mr. BOUSTANY. Could you get back to me in writing on that?

Mr. LEW. I will.

Mr. BOUSTANY. Thank you.

[The information from the Honorable Charles W. Boustany, Jr. follows:]

Rep. Boustany

Wisely, Congress created the Harbor Maintenance Trust Fund which businesses contribute to for the sole purpose of channel maintenance - primarily dredging. However, Washington bureaucrats for years have held hostage monies in the Trust Fund while critical waterways are being neglected. The backlog of unmet maintenance dredging grows each year. With $1.3 billion collected in FY10, only about half of the funds are currently being used by the Army Corps of Engineers for maintenance dredging. The President's FY12 Budget proposes that only $758 million dollars be distributed from the Harbor Maintenance Trust Fund for operations and maintenance purposes. Vessels lose millions of dollars each time they are forced to "light load" cargo because of inadequate dredging, and these extra costs will make it harder for American companies to compete in a global market.

How do you justify spending about half the fees collected each year and leaving a $5.6 Billion dollar surplus in the fund when our nation's major exporting channels are becoming less competitive?

Don't you think we should be using the full amount in the Fund for its intended purpose?

Isn't this just a budget gimmick?

The President's FY 2012 Budget includes $758 million from the Harbor Maintenance Trust Fund for the Army Corps of Engineers civil works program (Corps) to support the maintenance of coastal harbors and their channels and related work, including maintenance dredging. This is an $8 million increase over the enacted FY 2010 level for the Corps, in a year in which its overall budget is 15 percent lower and funding for many programs government-wide are being reduced in order to put the Nation on a sustainable fiscal path.

The Corps budget includes $1.6 billion for the Corps commercial navigation program, roughly 34 percent of the total Corps request. In allocating this $1.6 billion, the Corps has given priority to maintaining major coastal harbors and their channels and inland waterways with the most commercial use, constructing inland and coastal navigation projects with high economic returns, and completing four ongoing feasibility studies. Most of this $1.6 billion will reduce transportation costs for commercial goods moved by water, including exports.

The balance in the Harbor Maintenance Trust Fund, which has grown over a period of many years, reflects multiple factors, principally the value of goods subject to the harbor maintenance tax, the tax rate, the enacted spending levels, and the limitation in current law on the authorized uses of these receipts. The President's Budget proposes to expand the authorized uses of these receipts so that they are available both for harbor maintenance and to finance the Federal share of other Federal support of commercial navigation through our ports. This reform will support investments that contribute to the strength of the American economy.

Chairman CAMP. [Presiding.] Thank you very much.

Ms. Berkley is recognized.

Ms. BERKLEY. Thank you, Mr. Chairman.

Thank you for being here. I appreciate it. And let me share with you my tale of woe before I ask you a few questions.

You know my district and my State probably almost as well as I do. You know I have got the highest unemployment rate in the Nation. It is officially close to 15 percent, but it is probably more realistically near 20. I have got the highest unemployment rate.

UNLV, one of our leading institutions of higher learning, my alma mater, is threatening to declare bankruptcy because the State of Nevada is broke, and they are trying to fill a $3 billion hole in a $6 billion budget. Very difficult to do.

I have got 600,000 Nevadans that have no health insurance. It doesn't mean they don't get sick. It means they go to the hospital and our tax dollars are paying for their health care because they have no insurance. It is no accident and no mistake that every one of the hospitals in southern Nevada is operating in the red, and that is because they are absorbing the costs of these uninsured Nevadans.

We are fighting two wars in this country. We have been doing that for a number of years. We have huge homeland security needs. Our veterans are coming back, and they are coming back with significant problems, if not physical, certainly emotional. Our health care system is broken; and until we made some reforms last year, I would say it was not going to exist in that current form.

The SGR and people have complained that we are losing doctors. Well, my husband is a doctor. My daughter is a doctor. We do health care. My income is dependent on health care. So this is important to me.

Maybe the reason we are losing doctors is because we don't have a permanent fix for the SGR. And any doctor who has to have a 30-day extension and a 60-day extension and a 6-month extension is going to throw up their hands and retire because they have had enough. And nobody can run a business or a home the way we are asking doctors to conduct their practices.

So, having said all of that, the number one problem in my district is the economy. When the rest of the economy recovers, Las Vegas will recover, because we tend to be a one-industry town.

I need to know, in your budget—and I have specific questions—what does the President's budget do to help get this economy moving and to create jobs? And let me hit a few areas that I think are important.

Nevada, particularly Las Vegas, has long-standing transportation challenges. I believe that improving and diversifying the Las Vegas and Nevada economy requires significant investments in our transportation infrastructure. What investments do you propose in this area, and how will they affect communities like mine? What return do you expect on that investment?

Mr. LEW. Congresswoman, I can't relate it exactly to Nevada. But, in general, the budget proposes a major expansion in the surface transportation program to take the historic levels up by I think almost $50 billion a year, a total of $558 billion of investment.

Ms. BERKLEY. Do you think we can continue to be a superpower if we have a crumbling infrastructure in our country?

Mr. LEW. No, we need to work on our infrastructure. And it is not just our roads and bridges and tunnels. We need to work on the infrastructure for the economy of the future as well as for the more traditional infrastructure. That is one of the reasons that the broadband initiative is in our budget, paid for by fees that will be generated from selling spectrum. And it is, in a sense, the key to communities that are now locked out of the modern economy being connected to the modern economy.

Ms. BERKLEY. I couldn't agree with you more. And I think not only does it prepare this Nation for the future, but it also provides good-paying jobs.

Let me get to renewable energy, because this is a very important issue for the State of Nevada. It is an economic sector that has long-term growth potential throughout Nevada, and it is a job creator for my constituents. How does your budget advance this sector?

Mr. LEW. Our budget invests in renewable technology in a number of ways.

One, it encourages the expansion of the use of electric vehicles, both in terms of the development and in the commercialization; and we have tax proposals that would help with that. It invests in building standards, helping to increase our conservation using modern technology and materials. And we invest in development of renewable—solar and renewable technologies so that we don't have to be as reliant on fossil and imported fuels.

Ms. BERKLEY. I could listen to you forever, but I have one more question, and my seniors would be very upset if I didn't ask it. The backlog of Social Security Disability claims is huge, particularly huge in my district. Will the funding increase for the Social Security Administration help with the backlog? And with the proposals of the cuts in the CR, how will that affect the backlog?

Mr. LEW. Well, obviously, our budget in general very much supports the idea we need to reduce spending and find savings. We did not think it was necessary to reduce the Social Security Administration. We have provided funds to try to work down the backlog and are concerned about the impact that reductions would have.

Chairman CAMP. All right. Thank you.

Mr. Heller is recognized.

Mr. HELLER. Thank you, Mr. Chairman; and, Director Lew, thank you for being here. I appreciate you spending some time with us.

I think you just said you can't relate to Nevada. I am going to try again. I am from Nevada. She is from Nevada. I don't disagree with anything——

Mr. LEW. No, no, I can relate to Nevada. I couldn't connect the policy directly to Nevada. I don't have State by State numbers.

Mr. HELLER. All right. I don't disagree with anything my colleague from Las Vegas said. I guess the squeaky wheel gets the grease. I want to run through some numbers again that are very similar to what she said.

Nevada's unemployment rate increased to 14.5 percent in December. Las Vegas' unemployment rate jumped to 14.9 percent, which marked a new all-time high. The unemployment rate in the Reno-Sparks area north of that increased to 13.8 percent, another new all-time high for the area. And then the Carson City unemployment rate, which is the capital, reached a new high as well, surging from 13.1 percent in November to 14 percent in December. At 14.5 percent statewide, that is a total of 193,500 Nevadans who are out of work.

I was looking at some of the Bureau of Labor Statistics' numbers on the amount of jobs we have created in Washington, D.C., at the same time; and it is debatable. One will show we have created, since Obama came into office, 58,000 new bureaucratic jobs. Another statistic says it is closer to 141,000 new jobs we have created, and that is debatable. I think just yesterday Speaker Boehner said we created 200,000 new Federal jobs since Obama has been in office. I would hate to think that for every job we lose in Nevada we create a new bureaucratic job here in Washington, D.C.

Recently, the average duration of unemployment in Nevada climbed to above 35 weeks, or about 8 months. From 1997 to 2007, in that 10-year span, the construction industry added 40,000 jobs in Las Vegas, 9,000 in Reno and Sparks. In the years since, the construction industry in both areas has seen massive declines. In Las Vegas, construction employment is down 55,000 from 2007 to 2010. In the Reno area, there are 12,000 fewer construction jobs now than in 2007. Combined, the two areas have lost 19,000 more construction jobs in the last 3 years than were gained in the previous 10 years.

So in promoting the stimulus—I guess this is my question—the President's economists presented a very clear forecast of what they would expect in terms of job creation if the stimulus passed. And I am asking you, has the stimulus been a success in Nevada, in your view?

Mr. LEW. Congressman, I think the stimulus has been a success nationwide. Obviously, it hasn't worked well enough in Nevada or we wouldn't be seeing unemployment rates as high as they are. I think we agree that those are unacceptably high unemployment rates. But, nationwide, we have several million more jobs because of the stimulus; and, with that, we have an unemployment rate that is still 9 percent or higher, and we need to work on getting it down. So I don't think we have a fundamental disagreement there is more work to do. But we believe very strongly that the economy has grown several percentage points more, and several million fewer people are unemployed.

I would just want to respond to one thing that you mentioned about the growth of the Federal workforce, and it kind of relates to something we were talking about a few minutes ago. Some of that growth in employment is related to the veterans' issues we were discussing. Eleven thousand of those new positions are in the Department of Veterans Affairs. We do have growing needs to take care of wounded warriors when they come home, and I think that we need to not put them in a category of just kind of Washington bureaucratic jobs. As you break them out, I think there are missions there that we have bipartisan consensus that we need to follow through on.

Mr. HELLER. Let me continue on my questioning, Director. Do you believe the stimulus has reduced unemployment in Nevada?

Mr. LEW. Congressman, I think that the stimulus bill has increased employment in this country nationwide. I can't speak with precision about Nevada. But I know there are projects in Nevada, there are jobs in Nevada, there was assistance in Nevada in terms of aid to the State that made it possible for the State not to lay off workers, for teachers and firemen and policemen to keep their jobs. So I know there was benefit in Nevada, and I know that unemployment in Nevada would be higher but for the stimulus bill. I can't sit here today and say that it did enough for Nevada, because you wouldn't be seeing the kind of unemployment rate you are seeing. But that doesn't mean it didn't work. The recession was very deep.

Mr. HELLER. Where would you predict unemployment would be without the stimulus?

Mr. LEW. You know, I don't have a point estimate, but I have seen ranges of estimates that are as high as several million jobs. And that is a big difference. I mean three million Americans is a lot of people.

Mr. HELLER. In your proposed budget, you indicate it will take until 2017 for the country to reach full employment again. Why do you think it will take so long?

Mr. LEW. You know, this has been a very deep recession. This is the deepest economic decline since the Great Depression. We are confident that we are in a recovery. We are confident that we are growing back to the point where we can have full employment in sight. But the history of financially led recessions is that the recovery period is longer and slower. It is not something we are happy about. That is the economic history.

One of the reasons we fought so hard for the Recovery Act and why it was so important that we worked together on a bipartisan basis with the chairman and others to have the tax bill in December was that our economy desperately needed that extra boost not to have us slip back into recession. There is nothing more important in our country than making sure that we keep economic growth going and reducing unemployment.

Chairman CAMP. Mr. Roskam is recognized.

Mr. ROSKAM. Thank you, Mr. Chairman. Thank you, Director.

You had a tough day yesterday in terms of the administration's rollout. I am sure I am not telling you anything you don't know. But there seemed to be near unanimity on the editorial pages.

The USA Today said, "He whiffed."

Investment Business Daily said that the budget was gutless, far worse than merely bad.

New York Times, which is usually pretty friendly to the administration, said what Mr. Obama's budget is most definitely not is a blueprint for dealing with the real, long-term problems that feed the budget deficit.

The Post said the larger problem with the budget is the administration's refusal to confront the hard choices that Mr. Obama is so fond of saying must be faced.

You mentioned earlier in your opening remarks that there are difficult choices that need to be faced, Director. Let me ask you this. In the deficit projection that the administration rolled out in its first year for 2012, the projected deficit was $581 billion. Now for 2012 that number is $1.1 trillion. How did the administration get it so wrong so quickly?

Mr. LEW. Well, there has been a lot of policy made in the period, some of which we made together. When we worked together on a bipartisan basis to have a tax bill last year, we knew it was going to have a substantial impact. And it is the right thing to have done. We needed to not have a tax increase this January. We needed to have tax provisions like the refundable tax credits extended. We needed to extend unemployment compensation.

Mr. ROSKAM. But those were things that were not contemplated by the administration in year one?

Mr. LEW. You know, I don't think there was anyone who thought at the beginning of the administration, who knew with certainty where the bottom of the recession was. We were in a free fall, and we knew that we had to take very substantial action to stop it. We succeeded in stopping it.

Mr. ROSKAM. Director, if you are arguing that you were in a free fall at that time, you would have contemplated the worst possible scenario and you would have further contemplated the highest deficit figure. And that figure that you published then was 581. Now, how is it that things have gotten better in the country by your own testimony and you are projecting a higher deficit figure?

Mr. LEW. There are a number of policy decisions, as I said. Because the recession was deeper than projected, there was a greater shrinkage in the economy, a greater loss of revenue. There are real consequences to having the economy decline.

Mr. ROSKAM. Do you think the new health care law, for example, had anything to do with boosting the deficit?

Mr. LEW. No, I think the CBO reported, both when it scored the bill and its most recent report, the health care bill reduces the deficit in both the first 10 years and in the second 10 years.

Mr. ROSKAM. So in terms of a collapsing amount of time that we have together, so far you have argued that it is the extension— or just extending out for 2 years the 2001 and 2003 tax cuts. That is the thing that got it off to the point where you were off—I mean, you weren't, but somebody was—off by almost 100 percent? That is not even in the strike zone.

Mr. LEW. I think that the degrees of variance from projections are always greatest when you are in extreme economic times.

You know, when I was at OMB the last time——

Mr. ROSKAM. Listen, I understand that. But if the extremity is diminishing, why is the amount of deficit increasing?

Mr. LEW. We are now in a recovery period after a recession that was deeper than it was projected to be. That means that the total size of the economy is smaller than it would have been had we not had as deep a recession as we had. That means that lost revenue and it means there was need to take more action than was contemplated originally. I think it was the responsible thing to do. But I think that looking at the projection and comparing it in that way doesn't capture what was going on either in the economy or the policy world.

Mr. ROSKAM. Let me ask you this. Do you think that it is more likely true than not true that 2 years from now you are going to be making a different argument based on the past experience?

Mr. LEW. Congressman, this is the seventh time I have presented a budget for the President. I was always estimating conservatively in the previous budgets. So my experience has been being surprised by good news. You are always surprised by news, because projections are just that, they are projections.

Mr. ROSKAM. This time you got surprised by bad news, right?

Mr. LEW. Well, I think we were at historic moment.

Mr. ROSKAM. No, no, but you are not arguing that this number is better than the projection that the administration made in year one, right? So, in other words, 581 is a better number in terms of a deficit than 1.1 trillion. Isn't that right?

Mr. LEW. I am not going to say I wouldn't be happier if we had a smaller deficit. I would be much happier if we had a smaller deficit. We would all be happier. But I would also be happier if we didn't have as bad a recession. I would be happier if the growth rate had been higher. I would be happier if unemployment was lower.

Those things didn't happen, and we now have the results of it, and we have a recovery where, if we hadn't taken the actions that we took together as recently as December, we would have more people unemployed and less economic growth. That would have been a bad thing for the American people.

Chairman CAMP. All right.

Mr. Lewis is recognized.

Mr. LEWIS. Thank you, Mr. Chairman.

Thank you, Mr. Director, for being here. Thank you for your years of service to our country.

I want to follow up to a line of questioning that my colleague, Ms. Berkley, asked you near the end.

People in my district stop me in the shopping malls, on the streets, airports, and they are always complaining about the time that it is taking to get their Social Security cases because there is such a heavy backlog. Now, it is my understanding that with these legitimate complaints, Mr. Director, the Republican-proposed continuing budget resolution gives me unbelievable and great concern. It is my understanding that the cuts House Republicans have proposed to the Social Security Administration will require a month-long furlough. That would mean that in the Atlanta region that the delay would be much longer than other regions around the country. Do you agree?

Mr. LEW. Congressman, I know that there are reductions in the Social Security Administration in the pending Continuing Resolution. I have asked our staff to analyze them. Clearly, if there are reductions in staff and there are fewer staff, it presents concerns. We in our budget proposed to maintain or increase funding in this area because we believe it is important to maintain the quality of service and avoiding backlogs. There are going to be trade-offs, as we work together, to reduce spending and choices that have to be made. This was not a choice that we thought had to be made.

Mr. LEWIS. What does this mean to the average person that had been waiting in some cases for more than a year or 2 years and that even in some cases where people filed claims and they pass on, they die? They just pass on, and they never get their claim addressed.

Mr. LEW. You know, I think we have a deep obligation in programs like Social Security, but really in all of the ways that we provide service to the American people, to meet their needs, to meet it efficiently, promptly. And if we have long backlogs, we have an obligation to try to reduce that.

And it is not just backlogs. If people have to take hours to be on the phone waiting for someone to take their call or days before they can get an appointment, we need to do better than that.

I feel a little bit like I am looking back in time, but when I was at OMB the last time we worked really hard to reduce the waiting periods and the backlogs. And it actually affected the way the American people felt about their government, because it is important that when people apply to the Social Security Administration they get good service. So this is a very important area. I think that we will have to work together. We are at the beginning of the process in this Continuing Resolution. I certainly hope that in the end there isn't a need for those kinds of reductions.

Mr. LEWIS. Maybe if I was out someone raised a question, the President in his State of the Union address made it clear that we need to invest in jobs and job creation. Can you tell me what does this budget do to create like not tomorrow——

Mr. LEW. Right, looking down the road.

Mr. LEWIS.—down the road jobs and job creation. In my district, for some time in the City of Atlanta, unemployment has been more than 10 percent, and there are some parts of the city it is 15 and more.

Mr. LEW. Congressman, as we look down the road beyond the recovery, we see it as being critically important that we invest in the things that will drive economic growth and job creation for the future, which is why the President put such a heavy emphasis on education, innovation, and building the infrastructure. Those are the ingredients that a strong, growing economy need. If you talk to employers, they are very concerned that they need to have access to a workforce that has the skills they need.

When the President announced his budget in Baltimore the other day, it was pretty exciting to look out at a group of hundreds of young people in middle school who are excited about learning science, engineering, technology, math. That is what we need to be doing in the economy, and those are the kinds of investments we need to make.

Mr. LEWIS. Thank you very much.

Chairman CAMP. Thank you very much.

Mr. Buchanan is recognized.

Mr. BUCHANAN. Thank you, Chairman Camp.

Director Lew, thanks for being here today.

I came here in 2007 in a small class, a lot of Democrats. But everybody has a different motivation why they run for office. And I was before that, as I mentioned maybe earlier, 30 years in business. But my passion, when I look back over 50 years, and one of the motivations why I ran is because if you look back 50 years we have only balanced the budget five times or six times out of 50 years. And you get some credit because you were there during a period of that time. So I give you some credit on that. But it blows me away to think about when I look at 49 out of 50 Governors have to balance their budget.

Do you believe in a constitutional balanced budget amendment? I do a lot of town halls, and I got to tell you people just don't understand why we don't put that in place. Not today, but something that gets voted in today constitutionally and then phases in over 5 or 6 years like 49 out of 50 Governors have.

Mr. LEW. Congressman, I agree that we need to work together to reduce the deficit. We need to ultimately have in mind a balanced budget again. So I think—in principle, I think that when the economy is growing we should be able to have a balanced budget. I don't believe in a constitutional amendment. I think we have a lot of tools at our disposal which, if we used them well, if we have budget control rules, things like PAYGO rules, control the process——

Mr. BUCHANAN. Let me just come back, because I am limited on time. I go to these town hall meetings, and I do a lot of them, pretty much every Saturday twice a month. And everybody is outraged—and I think that is why a lot of Members lost their job this last cycle—outraged about the spending.

I voted for a Democratic bill, PAYGO, because I thought it is a move in the right direction because I want to do something on a bipartisan basis. I applauded the President to set up this commission on spending. But at the end of the day, I think this is a lot of nonsense, because it never seems to go anywhere. People are tired.

And then I take a look at the deficits projected going forward. We are $14 trillion going to $20 trillion. And if someone presented me a plan when I see that much ink over a period of time, I would fire them, frankly, in my businesses.

I just don't understand, the American people don't understand why everybody else but Washington has to figure out how to balance their budget. Working families, businesses, you have got to be able to cut expenses, make these strategic investments where you need to.

But people, I got to just tell you, back home in my town halls, and I feel I am representative, they are completely outraged about where we are at as a country and where we are going. They feel like we are the next Greece, the next Portugal. The only difference is there is nobody to bail us out.

We are at $14 trillion going to $20 trillion. If you look at a normal cost of money at 4 or 5 percent, you are looking at a trillion dollars in interest a year in the next 4, 5, 6 years. That is where we are headed before you pay out $1 to Medicare or $1 to Social Security. Doesn't that alarm you?

Mr. LEW. The deficits that we are looking at do alarm me, and I think we have to remember how we got here. We got here——

Mr. BUCHANAN. We are projecting going forward these massive deficits. We had a trillion and a half last year, another trillion and a half this year, a trillion that you guys are projecting next year, half trillion dollar deficits, and that is assuming we raise taxes going forward for the next 7 or 8 years. I mean, I just don't know how in good conscience you guys can do that.

Mr. LEW. Well, Congressman, the projections are based on laws that are in place in the 10 years between 2001 and—8 years between 2001 and 2009. We passed a lot of tax cuts. We expanded——

Mr. BUCHANAN. But, again, why wouldn't you—if you haven't in 50 years, we have only balanced the budget five times—why wouldn't we want to put in a constitutional balanced budget amendment? Nobody has any confidence in Washington. And I am not talking about Democrats. I am talking about Democrats and Republicans. Because there is plenty of blame to go around. We need a constitutional balanced budget amendment.

Mr. LEW. So I think we need to make the decisions that would put us back on a firm financial footing. We need to pay for what we do, which is—I am glad that you voted on a bipartisan basis for pay-as-you-go. I think it is important that it apply to everything, to taxes and spending. The truth is, if you have a tax cut that you can't afford——

Mr. BUCHANAN. That was good for about 6 weeks. The State of Florida has gone from $72 billion. They have lost 7 or 8 billion. They made the tough choices.

We don't make those tough choices in Washington. We are incapable. We came within one vote in 1994 of a constitutional balanced budget amendment. The American people want us to go back there. They have to pay their bills. They can't continue to run up credit cards. If they do, they go bankrupt. And that is where we are headed, towards bankruptcy, if we don't change the way we do business in Washington.

Mr. LEW. In the 1990s, we worked together on a bipartisan basis, and we did balance the budget. I was proud to present three surplus budgets to the Congress on behalf of President Clinton. We have a proposal which would reduce the deficit so that we eliminate new spending contributing to the deficit. We will be down to just the interest on the built-up debt that contributes to the deficit. Then we can start building down the debt, paying down the debt. Like any other large debt, until you stop adding to it, you can't pay it down.

Chairman CAMP. The gentleman's time has expired.

Mr. Smith is recognized.

Mr. SMITH. Thank you, Mr. Chairman.

Thank you, Mr. Director.

Obviously, your job is not easy. And we are trying to sort through various components of a budget, the President's proposed budget, the proposed budget from Congress as well. We have heard various numbers tossed around.

And yesterday I know I heard some comments of concern. I thought that they might contain a little bit of hyperbole in terms of Social Security administrative efforts. And there is in the Continuing Resolution a proposed 1 percent cut to the Social Security administrative fund. Is that accurate in terms——

Mr. LEW. That is my understanding. I have to confess the last couple of days I have been up here testifying, and I am not familiar with all the details, but I do understand that to be the case.

Mr. SMITH. Fair enough.

Now, in the last 10 years, the funding for the administrative budget for Social Security has seen, on average, an annual increase, annual increase of 5.4 percent in funding; and in fiscal year 2010, it was an 8.7 percent increase. That is $1 billion, roughly. Now, obviously, you have budgetary experience; and now a furlough would be an administrative prerogative. Is that accurate?

Mr. LEW. If funding is not available to pay the people who are on board, it is a prerogative. But at some point it is the only option that you have if you don't have sufficient funding to pay for the personnel on board.

The first thing you would do——

Mr. SMITH. But it would be an administrative prerogative.

Mr. LEW. The first thing you would do is not fill open positions. But if you needed to, you then have to furlough workers. We are all governed by a law that says we can only spend money that has been appropriated; and, under the Anti-Deficiency Act, you have to take steps to make sure you stay within it.

Mr. SMITH. But perhaps a wage freeze would be an option to a furlough. Is that conceivable?

Mr. LEW. We have a wage freeze proposed in this budget. We have frozen Federal workers' pay going forward. You wouldn't have the option as an agency head to freeze wages on your own. Congress already voted to freeze Federal workers' pay for the next 2 years.

Mr. SMITH. Right. Right. But is it reasonable to think that an administrative fund that has seen some fairly substantial growth over the last several years could absorb a 1 percent cut?

Mr. LEW. Congressman, I have tried hard to avoid hyperbole. Several members have asked me questions about this subject, but I don't want to overstate or understate the impact. If there is a reduction in funding for the Social Security Administration of the order that is in the Continuing Resolution as it now stands, I am told that it could mean furloughs that would be required. I have got to go back and do more analysis. Do you run out of other options at some point?

I think if you look at the increases in the Social Security Administration budget, we were working hard to eliminate backlogs and to process claims and to give Americans the service that they expect. It is a very labor-intensive process; and if we have fewer people, we will see more delays and backlogs.

Mr. SMITH. Okay. But I just—have you ever had any experience where a 1 percent reduction in funding would lead to a furlough?

Mr. LEW. I cannot tell you from my own personal experience. But I have asked my staff, who is familiar with the Social Security Administration budget, and they say that they think a reduction on the order of what is in the current bill would be very difficult in the remainder of the year that is left to meet without there being some furlough. You know, I don't want to overstate it. Obviously, you would do everything you could to avoid a furlough. But when you run out of other options, that is one of the tools that an administrator has.

Mr. SMITH. What are some things that one could approach or consider to avoid a furlough?

Mr. LEW. Obviously, not filling open positions would come first. But that is not without cost. If you need to fill a position to process, there is still delays in service. It is a little bit easier in terms of your management of your workforce, but it doesn't help the ultimate beneficiaries because you are still short of staff.

You know, there are various things you can do that are relatively small in an agency like this. There is not a lot of travel for most Social Security Administration workers. You know, they go to their offices and they work there. So you have people who are interfacing with the public on a day-to-day basis, and that is what the staff there does. So the money goes to pay the staff, for the most part, which is why I think the reduction would have that effect.

In other agencies, where there is a different mix of things you are doing, things you are buying, it might have a different impact.

Mr. SMITH. Thank you, Mr. Chairman.

Chairman CAMP. Mr. McDermott is recognized.

Mr. McDERMOTT. Good afternoon, Mr. Lew. I didn't think I would ever see you back here.

Mr. LEW. I didn't think you would ever see me back here either.

Mr. McDERMOTT. After you presided over creating a magnificent surplus and went away and watched for 8 years the economic binge as it was squandered with tax cuts and war, I am surprised you are willing to come back and sweep up after the parade as the elephants have left. And I really, as I look at this budget, you have put a budget up here with the President which does yeoman's work in a very difficult circumstance, in a time when you have to make cuts, you have to make some trade-offs, and you have to decide how tight you are going to make it, how much of the deficit you are going to try and make up immediately without stalling out the economic growth that is appearing to go on in this country.

And the Republicans, watching what is going on out on the floor, it is kind of terrifying to realize that it is all being balanced on the backs of the poor and the old and the young. They cut 200,000 kids out of Head Start, and they are wiping out stuff all over the place. Veterans, throwing 10,000 veterans out of housing programs. And when you look at that, you have to ask yourself if that is the priorities that the Republican plan is going to have.

I can see how the President would be struggling and you would be struggling with what to put up here, and I would like to hear you talk about the trade-offs that you had to think about. Because you made some cuts that I don't particularly like, but I would like to hear the discussion that went on in the White House.

Mr. LEW. Congressman, we made some cuts that none of us like either. I think we are well beyond the point of being able to just take things where it is either waste or duplicative. The proposals in our budget that reduce funding for programs like the Low Income Home Energy Assistance Program, the Community Development Block Grant program, even some of the things that don't affect people, the water and sewer grant programs and the airport grant programs, these are all things which in other times we would be supporting increases, not decreases in.

But we face a very, very dangerous economic future if we don't get our economic house in order. We need to cut spending, and we are showing a way to cut spending in a balanced way as part of a plan which overall would reduce the deficit so that we are left with just the burden of paying down the debt, as opposed to adding to it.

You know, I think that there are a lot of different ways to get there. Clearly, our plan has in it some things that will not be acceptable to everyone. We do rely on some net new revenues. You know, we have about $350 billion of net new revenues. We don't extend the income tax rates that give benefits to people in the highest tax bracket. We let them go back to where they would have been. And there are a number of things in this budget that are hard choices.

I think that the challenge we are going to have is to figure out how we can work on a bipartisan basis. We put a plan out there. There will now be a process where other plans are put out there. We are going to have to find a way to work together. What we can't do is just kick the can down the road and not deal with it.

Mr. McDERMOTT. Have you looked enough at the proposal? I personally think we are going to be on a Continuing Resolution for the rest of this year. I don't think that what is going on out on the floor is ever going to get through the Senate. And when the Senate sends back something reasonable, I can't imagine that the majority in the House is going to ever get together on it. So we are either headed for a Continuing Resolution from now until September or we are headed for a shutdown of the government.

I would like you to talk about what the consequences of a shutdown are. Because a lot of people weren't around here in 1994 when it happened—or 1995.

Mr. LEW. I never thought that my experience managing the OMB during the 1995 shutdown would be relevant again. I hope it never is. It is not the right thing to do. I don't think that that is what the leadership in Congress wants, it is not what we want, and I hope we can work together to avoid that.

Mr. McDERMOTT. But if they are unreasonable in the amount of cutting—do you have any bottom line where you will not cut anymore?

Mr. LEW. Look, the President has made clear that there are things that—there is a right way to do it. We proposed, we have our budget out there. We sent up a statement today that made it clear that if it is a budget that undermines our ability to invest in the future and accomplish the things that we need that it is not acceptable. I think we have to work towards getting an acceptable bill.

The goal here has to be to getting to agreement, and it is a long process. The House hasn't completed its work. The Senate will have to take action. I hope that we can work together to come up with a resolution that doesn't bring us to the edge of having to manage through a shutdown. It wasn't a good thing to do in the mid-90s. I don't think anyone wants to do it again. I hope nobody wants to do it again.

Chairman CAMP. Thank you.

Mr. Schock is recognized.

Mr. SCHOCK. Thank you, Mr. Chairman.

A couple questions. Last year, I served on the Transportation and Infrastructure Committee. I was very excited to see that the highway bill remains a priority of the President, and I was interested to see it in the President's budget. Can you tell me where in the budget the funds are for the highway bill?

Mr. LEW. Well, the President's budget makes clear that we have a set of priorities in surface transportation that I think will take some work for us to go through with the Congress to agree on. We expanded some of the definitions of what we would want to do with the surface transportation bill to get into some of the technologies of the future. And I think that, as far as paying for it goes, what we have done is we have shown that we need to pay for it. We can't afford to do it without paying for it. But we are going to have to work together on a bipartisan basis to come up with the program and the funding mechanism to do it. So we have indicated that it will be paid for, but we have not specified the particular revenues. What we have said is that we have to have both, because we can't afford to do the spending without the revenues.

Mr. SCHOCK. And I am not trying to be smug, but that is quite obvious. I mean, you can't do a highway bill without paying for it. Isn't the purpose of a budget to show how you are going to pay for your priorities, whether it be Medicare, Social Security, education, or a highway bill? I mean, to include something in a budget but not show how you are going to pay for it, one would beg to question how much of a priority it is then.

Mr. LEW. Well, I think that there are lots of things in budgets which are proposed in ways that get a conversation started, that put the idea out there. Sometimes you send specific legislation, sometimes you don't. That is always the case, not just in this budget but in all budgets.

I think particularly in the case of a highway bill, a surface transportation bill where there is a substantial conversation to be had of what the goals are, what are we trying to accomplish, we first have to agree on the size of it, the scope of it, the duration of it, and work together on the revenue package that is appropriate to pay for it. I think the principle that we can't do it unless we pay for it is something that is very important. Because if we can agree on the fact that we need to invest in infrastructure, then we will work together on the mechanism to pay for it.

Mr. SCHOCK. Is the President planning to offer the first proposal or is he waiting for the House Transportation Committee to do that?

Mr. LEW. The administration is working on a package that would reflect the priorities of what a surface transportation program would fund.

Mr. SCHOCK. Do you know when they are planning to come out with that?

Mr. LEW. I have to check on the date. I am not sure of the date.

Mr. SCHOCK. I mean in the next 2 months, 6 months, the next year?

Mr. LEW. I think on the sooner side rather than the longer side. I don't know if it is weeks or months. I can get back to you with a day.

[The information was not provided:]

Mr. SCHOCK. Okay. I am interested in your GDP calculations in your budget. In 2013, in particular, you have calculated a robust

GDP in 2013. That is an interesting year, because it is also the year where the current tax rates that we are enjoying today are set to expire. And the budget, to my knowledge, estimates that they do expire. They are not continued at the current rate. 2013 is also the year in which the Obama health care bill's capital gains taxes and the higher payroll taxes go into effect. Those don't seem to be conducive to strong GDP. I am just curious how 2013—how you are predicting such strong growth.

Mr. LEW. The projections for GDP growth flow from our view of how we are going to recover from what has been a very deep and historic recession. So it is not a normal period of time. It is a period of time where we have looked to the recovery from other financially led recessions. We, frankly, have said this is deeper, so it is going to take longer. So our growth path out of it is a bit slower.

The first year, we are a little more pessimistic than some. We get a little more optimistic actually beyond 2013, where our view is that we will get back to where the economy would have been but for the recession.

There are other forecasters who say we have had a permanent loss of economic capacity. We don't believe that. But our assumptions are related to the historical analysis of recoveries from financial recessions.

In terms of tax rates, in particular at the high end, I would just note that the tax rates that would be in effect when we see the expiration of the lower rates for the top bracket would put us in the same place where we were when we had a period of unprecedented long economic growth in the 1990s. So they are tax rates that we know to be consistent with economic growth.

Mr. SCHOCK. Thank you.

Chairman CAMP. All right. Thank you.

Ms. Jenkins is recognized.

Ms. JENKINS. Thank you, Mr. Chair.

Thank you, Mr. Director, for being here.

Earlier today, Secretary Sebelius acknowledged that the CLASS program created in the health care law has several fiscal problems that need to be fixed. Some ideas to combat those problems include indexing premiums to inflation so that they would rise along with benefits and closing a loophole that allows participants to drop out and reenroll without penalty.

While modifications like these surely would increase the program's revenues, they don't seem to put a dent in the administration's own actuaries' analysis that I quote: "In general, voluntary unsubsidized and non-underwritten insurance programs such as CLASS face a significant risk of failure as a result of adverse selection by participants." The actuaries continued to explain that severe adverse selection leads to an insurance death spiral and there is a very serious risk that the CLASS program is unsustainable.

How do you think the administration should get to the heart of the problem as identified by your actuaries without drastically changing the CLASS program? Or if it is not possible, then wouldn't it be fiscally responsible to abandon this program all together?

Mr. LEW. Congresswoman, I have not had a chance to see Secretary Sebelius' testimony this morning, but I have spoken with her on a number of occasions about the CLASS program. And I know that she, both in terms of bringing the best actuaries to work on the program and in terms of looking at specific options, some of which you reviewed, is looking at what we can do administratively to make sure that as we implement the CLASS program we do it so that it can be a success and that it can be a program that is fiscally responsible.

It is a challenging program. It is a new program. We are very early in the implementation of it. But I think that the bearing that the Department has taken on it, the Secretary in particular has taken, underscores her very deep belief that we have to look at it very carefully, take the steps that we can take to contain the kinds of risks that would potentially be a problem and use the administrative discretion we have to do that.

Ms. JENKINS. So you support proceeding?

Mr. LEW. I think the Department is proceeding in a responsible way to use its administrative flexibility to mitigate some of the concerns that you have raised.

Ms. JENKINS. Okay. Over the first 10 years, the CLASS program would take in approximately $70 billion in premiums. But instead of setting aside money to pay for future benefits, the bill spends the premiums on new subsidies. Can you just explain how the CLASS program will pay out benefits to its qualifying participants when these premium payments have already been obligated to pay for the health entitlements in the new law? And would you consider that double-counting?

Mr. LEW. I believe that it is funded, as all other programs of government are funded, when it is in operation; and that when it was passed it was a proposal that came out of Congress in the consideration of the health reform bill. It was scored as being paid for. And it did have savings up front. It had costs at the back end, which under the PAYGO rules do work to constitute paying for something. So I would have to go back, and I wasn't involved during the enactment of the health reform. I have worked in the last few weeks on the CLASS act, but I don't want to exaggerate the depth of my experience with it.

Ms. JENKINS. Well, based on how I explained it, would you personally consider that double-counting?

Mr. LEW. No, I don't think it is double-counting in general.

Under the PAYGO rules, we look at a 10-year window; and if you have savings in one area and spending in another area that net out to zero, it is paid for. So if you ever look at any one point in time, it may not look like you have paid for it, but over the cumulative period you have. So I don't think it constitutes double-counting to treat something that has been paid for under those kinds of rules as if it has been paid for.

Ms. JENKINS. Okay. Would you use that same kind of accounting advice on a business that is trying to account for their profits not matching the amount of revenues with the years of expenses?

Mr. LEW. I think if a business has two product lines and they need to be profitable in every year, a business can make the choice that in year one product line A will make money and product line B will lose money, because that is how you develop the business, and in year five it will flip.

And that is essentially what the PAYGO rules do. Businesses do all kinds of things to invest in the short term so they can make money in the long term.

Now, we don't make money in the Federal Government, but that kind of accounting is not considered double-counting if you are in the business world. I mean, I know when I was in business there were years when you did have to take a loss on something, knowing that you were building a business that was going to make money a year later.

Ms. JENKINS. Well, it appears this kind of accounting has us at a $14 trillion national debt. Thank you.

Mr. LEW. I don't think that is what got us into the $14 trillion debt. If we had stuck to the PAYGO rules, we wouldn't have as big a debt.

Chairman CAMP. Time has expired.

Mr. Tiberi is recognized.

Mr. TIBERI. Thank you, Mr. Chairman.

Thank you, Director, for being here. Thank you in your written testimony for acknowledging that in the '90s, both when you were here and when you weren't here, there was work across the aisle in a bipartisan way. Sometimes members up here on the other side of the aisle forget that in the '90s there was a Republican Congress that worked with the Democrat President. And in fact——

Mr. LEW. And, in 1990, a Republican President worked——

Mr. TIBERI. Absolutely right. I worked for a Republican Congressman by the name of John Kasich who I think you worked with.

I worked for him back in the late 1980s and early 1990s when he introduced budgets that everybody who voted for them could have fit in a phone booth. They became a little more popular later on in the 1990s.

But, nevertheless, thank you for acknowledging that there was bipartisanship then.

You have stated a couple of times that the Bush tax cuts—I don't want to quote you wrong—but the Bush tax cuts have contributed to the deficits. And I have a chart here that I just want to challenge you a second.

Mr. LEW. Actually, I was careful not to call them by anyone's name.

Mr. TIBERI. Tax cuts earlier this decade.

I have a chart here that shows—from CBO from 1970 through projected spending and deficits and debt through 2050, that between then and now, at least, revenues have been generally the same within a historical average. Ebbing and flowing some, but generally revenues have come in at a historical average. And that would say to me that the problem in Washington as you look at debt is more of a spending problem than a revenue problem.

But, further, here is my question. If you look at the projected spending—debt spending in 2030, frightening to me. Because if you take Social Security, Medicare, Medicaid, and net interest just 20 years, it will be the size of what the entire Federal budget is today. So most of the problems with respect to where we are heading, it has been acknowledged by a lot of people on both the left and the right, are our entitlement programs and the growth of our mandatory spending.

And for me, and I am sure for you, I have got four daughters who I hope are out of college by then and in the real world; and I just am frightened what that means for their quality of life and their standard of living.

So this week two papers, USA Today—not exactly human events—headline is: Obama's Spending—in their editorial—Plan Ducks Tough Choices on the Deficit. You may have seen it.

Washington Post editorial from Tuesday: President Obama's Budget Kicks the Hard Choices Further Down the Road.

[The information The Honorable Patrick J. Tiberi follows:]

February 14, 2011

The Obama Budget

On paper, President Obama's new $3.7 trillion budget is encouraging. It makes a number of tough choices to cut the deficit by a projected $1.1 trillion over 10 years, which is enough to prevent an uncontrolled explosion of debt in the next decade and, as a result, reduce the risk of a fiscal crisis.

The questions are whether its tough choices are also wise choices and whether it stands a chance in a Congress in which Republicans, who now dominate the House, are obsessed with making indiscriminate short-term cuts in programs they never liked anyway. The Republican cuts would eviscerate vital government functions while not having any lasting impact on the deficit.

What Mr. Obama's budget is most definitely not is a blueprint for dealing with the real long-term problems that feed the budget deficit: rising health care costs, an aging population and a refusal by lawmakers to face the inescapable need to raise taxes at some point. Rather, it defers those critical issues, in hopes, we assume, that both the economy and the political environment will improve in the future.

For the most part, Mr. Obama has managed to cut spending while preserving important government duties. That approach is in stark contrast to Congressional Republicans, who are determined to cut spending deeply, no matter the consequences.

A case in point: the Obama budget's main cut — $400 billion over 10 years — is the result of a five-year freeze in nonsecurity discretionary programs, a slice of the budget that contains programs that are central to the quality of American lives, including education, environment and financial regulation.

But the cuts are not haphazard. The budget boosts education spending by 11 percent over one year and retains the current maximum level of college Pell grants — up to $5,500 a year. To offset some of the costs, the budget would eliminate Pell grants for summer school and let interest accrue during school on federal loans for graduate students, rather than starting the interest meter after graduation.

Those are tough cutbacks, but, over all, the Pell grant program would continue to help close to nine million students. The Republican proposal would cut the Pell grant program by 15 percent this year and nearly half over the next two years.

The Obama budget also calls for spending on green energy programs — to be paid for, in part, by eliminating $46 billion in tax breaks for oil, gas and coal companies over the next decade. Republicans are determined not to raise any taxes, even though investing for the future and taming the deficit are impossible without more money.

The budget would also increase transportation spending by $242 billion over 10 years. It does not specifically call for an increased gas tax to cover the new costs, though it calls on Congress to come up with new revenues to offset the new spending. Republicans want to eliminate forward-looking programs like high-speed rail.

The budget is responsible in other ways. It would cap the value of itemized deductions for high-income taxpayers and use the savings to extend relief from the alternative minimum tax for three years so that the tax does not ensnare millions of middle- and upper-middle-income taxpayers for whom it was never intended. For nearly a decade, Congress has granted alternative minimum tax relief without paying for it.

House Republicans want to leave military spending out of their budget-cutting entirely, but Mr. Obama's budget reduces projected Pentagon spending by $78 billion over five years. If anything, Mr. Obama could safely have proposed cutting deeper, as suggested by his own bipartisan deficit panel.

The bill for the military is way too high, above cold-war peak levels, when this country had a superpower adversary. There's a point where the next military spending dollar does not make our society more secure, and it's a point we long ago passed.

Mr. Obama's budget also includes a responsible way to head off steep cuts in what Medicare pays doctors. It would postpone the cuts for two years and offset that added cost with $62 billion in other health care savings, like expanding the use of cheaper generic drugs.

But not all of Mr. Obama's cuts are acceptable. The president is proposing a reduction by nearly half in the program that provides assistance to low-income families to pay for home heating bills. Shared sacrifice need not involve the very neediest.

Ideally, budget cuts would not start until the economic recovery is more firmly entrenched. But the deficit is a pressing political problem. The Obama budget is balanced enough to start the process of deficit reduction, but not so draconian that it would derail the recovery.

-Allen H. Neuharth

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Today's debate: The federal budget

Obama's spending plan ducks tough choices on the deficit

President Obama likes to talk about those "Sputnik moments" when the nation rises to difficult challenges like the one posed by the Soviet space program in the 1950s. On Monday, he had a chance to turn his federal budget proposal into his own such moment. He whiffed.

Obama and his aides boasted that the administration's spending plan would shave $1.1 trillion off anticipated deficits over 10 years. For a Democratic president to propose cuts in programs with strong Democratic constituencies is a measure of how the national dialogue on spending has shifted. But, as it happens, $1.1 trillion is the projected deficit for 2012 alone. Talk about insufficient.

OUR VIEW

President pursues wait-and-see politics

If fiscal sanity is to be restored, Americans need to be told the hard facts — not just that the national debt is out of control and that deficits can't go on and on, but that getting the nation's finances in order will require going everywhere in the budget: domestic programs, defense spending and the big entitlement programs such as Social Security, Medicare and Medicaid that already consume three of every five dollars the government spends. If leaders are to be truly forthright, they'll also have to admit that revenue increases are needed to bring the nation's ability to pay for benefits in line with its appetite for devouring them.

Obama's own fiscal commission laid out exactly such a plan in December that drew a surprising number of bipartisan votes from the panel's braver politicians. But the president has acted as if the plan is radioactive, and on Monday he mostly ignored it.

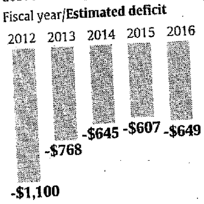
Discussing their $3.7 trillion spending plan for the next fiscal year, Obama and his budget director, Jacob Lew, said all the right things about wanting to engage with both parties on fixing the long-term budget problem. But when that might occur — if ever — was vague. Lew defended the administration's wait-and-see approach, insisting that history shows that stepping out with a "dramatic plan" has never "actually moved the process forward."

Actually, serious deficit reduction doesn't happen without a president taking risks, whether it was the first President Bush dropping his "no new taxes" pledge in 1990 or President Clinton pushing a major deficit-reduction package in 1993. Both paid a terrible political price, but their courage helped lead to four years of balanced budgets, from 1998 to 2001.

More red ink

President Obama's proposed budget would add $3.8 trillion in debt over five years. (in billions)

Fiscal year/**Estimated deficit**



Source: Office of Management and Budget

By Veronica Salazar, USA TODAY

It's becoming hard not to conclude that Obama doesn't much care about the debt threat or has decided to wait until after the 2012 elections. Either would be a shame, and economically risky.

If there's an upside here, it's that a critical mass of public opinion and political pressure, as reflected in the Tea Party movement, is building to support deficit reduction. So far, however, virtually all the debate in Congress has focused on the 13% of spending that goes to non-defense agencies and programs. It's as if the budget were an automobile with a leaky engine and a blown transmission — and the Democrats and Republicans are arguing over the size of the cup holders.

With a few exceptions, such as House Budget Committee Chairman Paul Ryan, congressional Republicans are pretending that slashing away at one tiny corner of the budget is all that has to be done, are insisting that taxes can never be raised for any reason — and are cynically preparing to savage Obama the instant he embraces the sort of unpopular steps needed to rein in the deficit.

It's understandable, then, that the president isn't eager to lead with his chin. But there are always tempting reasons to put political expedience ahead of tough choices. At some point, the shadowboxing has to stop.

And in this committee—and you haven't been here to watch—one of our colleagues—and it is not the Republican plan, but it is a plan that Representative Ryan has introduced, a roadmap to try to deal with these challenges has been maligned by several people on the other side of the aisle. At least he is trying to have a national debate.

Because hard choices—I think you would agree with me—have to be made in a bipartisan way to deal with these mandatory entitlement programs for our next generation and generations beyond. And it is going to take what President Clinton quite frankly did and what Republicans who were here both in the House and Senate in the 1990s did to tame welfare and to come up with the first balanced budget since man first walked on the Moon.

These challenges look to me to be even greater than the challenges in the mid-1990s that were faced in a bipartisan way.

So my question after all of that is, I don't believe, as someone who has been around this business for a while, that it will happen without bipartisan support; and I don't believe that we can do it, Chairman Camp can do it without leadership from President Obama. And I hope that your experience from where you were before leads you to be someone who tries to push for leadership at the Federal level and, while this budget doesn't do it, give me some hope that we will do it soon.

Mr. LEW. Well, in 20 seconds, I think that we have a budget that is a responsible, comprehensive budget that, were we to enact it, it would put us in a much better place and in a place where we would stop building the debt with our current spending. So I think that we may disagree on the content of our budget, the policy in it, but the direction of it does get us where we have——

Mr. TIBERI. I know you have to say that, but we don't touch entitlements. And I know I have run out of time.

Mr. LEW. In terms of entitlements, the President has made clear that he thinks we have to continue to work together on health care costs. The action that has been taken in health care costs in the last couple of years was in the Affordable Care Act, and it was scored by CBO to have savings of hundreds of billions of dollars in the first 10 years and a trillion dollars——

Mr. TIBERI. We can relitigate the accounting.

Mr. LEW. I would just note that the repeal of it has costs, not savings. And I hope we can work together to work from where we are going forward to find additional savings. We put $62 billion of additional savings in this budget, and the President did extend his hand saying we need to work together. It is going to be hard.

And in the 1990s it was plenty hard. If I recall correctly when now Governor Kasich put forward a proposal with Medicare savings, it was not something that reached bipartisan consensus right away. In the context of a bill that did other things that didn't reduce the deficit in a way that had bipartisan support, it was a long time before a conversation got going. In 1997, in the context of a bipartisan commitment to work on what was then a balanced budget agreement, we could work together towards mutually agreeable savings on health care.

So I believe that it is possible to work together. My whole career I have tried to work together, and I think I have succeeded on more occasions than people even sometimes remember. In the 1980s and the 1990s, we did a lot of good, bipartisan work. I think we can do it again.

Chairman CAMP. The gentleman's time has expired.

I want to thank you, Director Lew, for being here today. I think all members have had an opportunity to have a question. Thank you for your responses.

There may be an opportunity for members to send letters to you; and if you would respond in writing to any questions that didn't get asked or from members who didn't have an opportunity to be here this afternoon, I certainly would appreciate that.

Mr. LEW. I would be delighted.

Chairman CAMP. Thank you again.

And with that, this hearing is adjourned.

[Whereupon, at 4:55 p.m., the committee was adjourned.]

MEMBER SUBMISSION FOR THE RECORD

The Honorable Patrick J. Tiberi

February 14, 2011

The Obama Budget

On paper, President Obama's new $3.7 trillion budget is encouraging. It makes a number of tough choices to cut the deficit by a projected $1.1 trillion over 10 years, which is enough to prevent an uncontrolled explosion of debt in the next decade and, as a result, reduce the risk of a fiscal crisis.

The questions are whether its tough choices are also wise choices and whether it stands a chance in a Congress in which Republicans, who now dominate the House, are obsessed with making indiscriminate short-term cuts in programs they never liked anyway. The Republican cuts would eviscerate vital government functions while not having any lasting impact on the deficit.

What Mr. Obama's budget is most definitely not is a blueprint for dealing with the real long-term problems that feed the budget deficit: rising health care costs, an aging population and a refusal by lawmakers to face the inescapable need to raise taxes at some point. Rather, it defers those critical issues, in hopes, we assume, that both the economy and the political environment will improve in the future.

For the most part, Mr. Obama has managed to cut spending while preserving important government duties. That approach is in stark contrast to Congressional Republicans, who are determined to cut spending deeply, no matter the consequences.

A case in point: the Obama budget's main cut — $400 billion over 10 years — is the result of a five-year freeze in nonsecurity discretionary programs, a slice of the budget that contains programs that are central to the quality of American lives, including education, environment and financial regulation.

But the cuts are not haphazard. The budget boosts education spending by 11 percent over one year and retains the current maximum level of college Pell grants — up to $5,500 a year. To offset some of the costs, the budget would eliminate Pell grants for summer school and let interest accrue during school on federal loans for graduate students, rather than starting the interest meter after graduation.

Those are tough cutbacks, but, over all, the Pell grant program would continue to help close to nine million students. The Republican proposal would cut the Pell grant program by 15 percent this year and nearly half over the next two years.

The Obama budget also calls for spending on green energy programs — to be paid for, in part, by eliminating $46 billion in tax breaks for oil, gas and coal companies over the next decade. Republicans are determined not to raise any taxes, even though investing for the future and taming the deficit are impossible without more money.

The budget would also increase transportation spending by $242 billion over 10 years. It does not specifically call for an increased gas tax to cover the new costs, though it calls on Congress to come up with new revenues to offset the new spending. Republicans want to eliminate forward-looking programs like high-speed rail.

The budget is responsible in other ways. It would cap the value of itemized deductions for high-income taxpayers and use the savings to extend relief from the alternative minimum tax for three years so that the tax does not ensnare millions of middle- and upper-middle-income taxpayers for whom it was never intended. For nearly a decade, Congress has granted alternative minimum tax relief without paying for it.

House Republicans want to leave military spending out of their budget-cutting entirely, but Mr. Obama's budget reduces projected Pentagon spending by $78 billion over five years. If anything, Mr. Obama could safely have proposed cutting deeper, as suggested by his own bipartisan deficit panel.

The bill for the military is way too high, above cold-war peak levels, when this country had a superpower adversary. There's a point where the next military spending dollar does not make our society more secure, and it's a point we long ago passed.

Mr. Obama's budget also includes a responsible way to head off steep cuts in what Medicare pays doctors. It would postpone the cuts for two years and offset that added cost with $62 billion in other health care savings, like expanding the use of cheaper generic drugs.

But not all of Mr. Obama's cuts are acceptable. The president is proposing a reduction by nearly half in the program that provides assistance to low-income families to pay for home heating bills. Shared sacrifice need not involve the very neediest.

Ideally, budget cuts would not start until the economic recovery is more firmly entrenched. But the deficit is a pressing political problem. The Obama budget is balanced enough to start the process of deficit reduction, but not so draconian that it would derail the recovery.

-Allen H. Neuharth, Founder

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Today's debate: The federal budget

Obama's spending plan ducks tough choices on the deficit

President Obama likes to talk about those "Sputnik moments" when the nation rises to difficult challenges like the one posed by the Soviet space program in the 1950s. On Monday, he had a chance to turn his federal budget proposal into his own such moment. He whiffed.

Obama and his aides boasted that the administration's spending plan would shave $1.1 trillion off anticipated deficits over 10 years. For a Democratic president to propose cuts in programs with strong Democratic constituencies is a measure of how the national dialogue on spending has shifted. But, as it happens, $1.1 trillion is the projected deficit for 2012 alone. Talk about insufficient.

OUR VIEW

President pursues wait-and-see politics

If fiscal sanity is to be restored, Americans need to be told the hard facts — not just that the national debt is out of control and that deficits can't go on and on, but that getting the nation's finances in order will require going everywhere in the budget: domestic programs, defense spending and the big entitlement programs such as Social Security, Medicare and Medicaid that already consume three of every five dollars the government spends. If leaders are to be truly forthright, they'll also have to admit that revenue increases are needed to bring the nation's ability to pay for benefits in line with its appetite for devouring them.

Obama's own fiscal commission laid out exactly such a plan in December that drew a surprising number of bipartisan votes from the panel's braver politicians. But the president has acted as if the plan is radioactive, and on Monday he mostly ignored it.

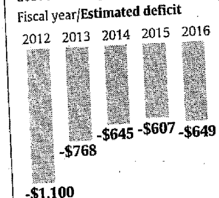
Discussing their $3.7 trillion spending plan for the next fiscal year, Obama and his budget director, Jacob Lew, said all the right things about wanting to engage with both parties on fixing the long-term budget problem. But when that might occur — if ever — was vague. Lew defended the administration's wait-and-see approach, insisting that history shows that stepping out with a "dramatic plan" has never "actually moved the process forward."

Actually, serious deficit reduction doesn't happen without a president taking risks, whether it was the first President Bush dropping his "no new taxes" pledge in 1990 or President Clinton pushing a major deficit-reduction package in 1993. Both paid a terrible political price, but their courage helped lead to four years of balanced budgets, from 1998 to 2001.

More red ink

President Obama's proposed budget would add $3.8 trillion in debt over five years. (in billions)

Fiscal year/**Estimated deficit**



Source: Office of Management and Budget

By Veronica Salazar, USA TODAY

It's becoming hard not to conclude that Obama doesn't much care about the debt threat or has decided to wait until after the 2012 elections. Either would be a shame, and economically risky.

If there's an upside here, it's that a critical mass of public opinion and political pressure, as reflected in the Tea Party movement, is building to support deficit reduction. So far, however, virtually all the debate in Congress has focused on the 13% of spending that goes to non-defense agencies and programs. It's as if the budget were an automobile with a leaky engine and a blown transmission — and the Democrats and Republicans are arguing over the size of the cup holders.

With a few exceptions, such as House Budget Committee Chairman Paul Ryan, congressional Republicans are pretending that slashing away at one tiny corner of the budget is all that has to be done, are insisting that taxes can never be raised for any reason — and are cynically preparing to savage Obama the instant he embraces the sort of unpopular steps needed to rein in the deficit.

It's understandable, then, that the president isn't eager to lead with his chin. But there are always tempting reasons to put political expedience ahead of tough choices. At some point, the shadowboxing has to stop.

QUESTIONS FOR THE RECORD

The Honorable Wally Herger

Rep. Herger

Thank you for your February 16th testimony to the Committee on Ways and Means at its hearing on the President's Fiscal Year 2012 Budget Proposal. In order to complete our hearing record, I would appreciate your response to the following questions:

Beginning on January 1, 2012, government agencies at the federal, state, and local level will be required to withhold 3% of all payments to contractors and vendors as a tax enforcement measure. This 3% withholding tax will allegedly raise some $10 billion over the next decade, but a 2008 Department of Defense study found that the provision will cost DoD alone more than $17 billion to implement. That's in addition to other federal agencies that have their own contractors, not to mention the cost to the IRS to track and process all of these new withholding taxes. I have introduced legislation to repeal the 3% withholding tax.

Are you aware of any efforts to estimate the costs this withholding requirement will impose government-wide? Would you agree that it doesn't make much sense to enact taxes that cost more to collect than they raise in revenue?

The Administration does not have an official cost estimate for the full implementation at this time. However, because of the complexities of this provision, agencies have been conducting preparatory analysis of agency financial systems, payment processes, and contract award procedures associated with implementation while awaiting the issuance of a final regulation by Treasury.

Given the significant implementation challenges identified with the 3% withholding requirement, to include a method for identifying and designating in the financial systems individual payments subject to the withholding, the Administration would consider a delay to help implement the requirement so long as it were fully paid for.

The Honorable Charles W. Boustany, Jr.

Rep. Boustany

Wisely, Congress created the Harbor Maintenance Trust Fund which businesses contribute to for the sole purpose of channel maintenance - primarily dredging. However, Washington bureaucrats for years have held hostage monies in the Trust Fund while critical waterways are being neglected. The backlog of unmet maintenance dredging grows each year. With $1.3 billion collected in FY10, only about half of the funds are currently being used by the Army Corps of Engineers for maintenance dredging. The President's FY12 Budget proposes that only $758 million dollars be distributed from the Harbor Maintenance Trust Fund for operations and maintenance purposes. Vessels lose millions of dollars each time they are forced to "light load" cargo because of inadequate dredging, and these extra costs will make it harder for American companies to compete in a global market.

How do you justify spending about half the fees collected each year and leaving a $5.6 Billion dollar surplus in the fund when our nation's major exporting channels are becoming less competitive?

Don't you think we should be using the full amount in the Fund for its intended purpose?

Isn't this just a budget gimmick?

The President's FY 2012 Budget includes $758 million from the Harbor Maintenance Trust Fund for the Army Corps of Engineers civil works program (Corps) to support the maintenance of coastal harbors and their channels and related work, including maintenance dredging. This is an $8 million increase over the enacted FY 2010 level for the Corps, in a year in which its overall budget is 15 percent lower and funding for many programs government-wide are being reduced in order to put the Nation on a sustainable fiscal path.

The Corps budget includes $1.6 billion for the Corps commercial navigation program, roughly 34 percent of the total Corps request. In allocating this $1.6 billion, the Corps has given priority to maintaining major coastal harbors and their channels and inland waterways with the most commercial use, constructing inland and coastal navigation projects with high economic returns, and completing four ongoing feasibility studies. Most of this $1.6 billion will reduce transportation costs for commercial goods moved by water, including exports.

The balance in the Harbor Maintenance Trust Fund, which has grown over a period of many years, reflects multiple factors, principally the value of goods subject to the harbor maintenance tax, the tax rate, the enacted spending levels, and the limitation in current law on the authorized uses of these receipts. The President's Budget proposes to expand the authorized uses of these receipts so that they are available both for harbor maintenance and to finance the Federal share of other Federal support of commercial navigation through our ports. This reform will support investments that contribute to the strength of the American economy.

The Honorable Ron Kind

Rep. Kind

The President recently announced an effort to ensure regulations do not cause undue burdens on businesses and their customers. The Department of Labor recently proposed a new rule on ERISA fiduciary investment advice. At the same time, the Securities Exchange Commission and the Commodities Futures Trading Commission are considering proposing new rules for Broker Dealers in this area. How can we ensure that Labor's fiduciary rule and the ongoing efforts at the SEC and CFTC arc aligned and help offer investors more, not less, education and guidance on planning for retirement? With the Office of Management and Budget leading the President's initiative to streamline government regulations, I hope you will work to encourage close coordination between these agencies to ensure that investors and their financial service providers are not subject to potentially confusing and overlapping rules.

I share your interest in well-coordinated regulatory actions. Interagency consultation and coordination is an integral part of OMB's regulatory review process, and one we take very seriously.

The President recently strengthened OMB's emphasis on regulatory coordination on January 18, 2011, when he issued Executive Order 13563. EO 13563 explicitly calls for greater coordination, integration, harmonization, and simplification of regulatory actions across agencies. We look forward to continuing to implement EO 13563 and ensuring as much agency coordination as appropriate and necessary.

We should note, however, that consistent with past practice under Republican and Democratic presidents, going back to President Reagan, OMB generally does not review the promulgation of rules by the independent agencies, including the Securities Exchange Commission and the Commodities Futures Trading Commission.

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