

**PRESIDENT'S FISCAL YEAR 2008 BUDGET WITH
U.S. DEPARTMENT OF THE TREASURY
SECRETARY HENRY PAULSON**

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

FIRST SESSION

FEBRUARY 6, 2007

Serial No. 110-5

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

35-149

WASHINGTON : 2007

For sale by the Superintendent of Documents, U.S. Government Printing Office
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CONTENTS

Advisory of January 30, announcing the hearing	Page 2
WITNESS	
The Honorable Henry Paulson, Secretary, U.S. Department of the Treasury ...	6

**PRESIDENT'S FISCAL YEAR 2008 BUDGET WITH
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SECRETARY HENRY PAULSON**

TUESDAY, FEBRUARY 6, 2007

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

The Committee met, pursuant to notice, at 10:00 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 30, 2007
FC-5

CONTACT: (202) 225-1721

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2008 Budget with U.S. Department of the Treasury Secretary Henry Paulson

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2008. **The hearing will take place on Tuesday, February 6, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

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

FOCUS OF THE HEARING:

On February 5, 2007, President George W. Bush will submit his fiscal year 2008 budget to Congress. The budget will detail his tax proposals for the coming year, as well as the budget for the Treasury Department and other activities of the Federal government. The Treasury plays a key role in many areas of the Committee's jurisdiction, including taxes and customs.

In announcing the hearing, Chairman Rangel said, "I have enjoyed working with Secretary Paulson and look forward to his presentation of the President's budget. A budget is a statement of principles and I am hopeful that Democrats and Republicans can listen to the Administration's presentation and work together to find solutions to the issues facing American families."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "110th Congress" from the menu entitled, "Committee Hearings" (<http://waysandmeans.house.gov/Hearings.asp?congress=18>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, February 20, 2007. Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

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

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

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

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

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

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

Chairman RANGEL. The Committee on Ways and Means will come to order. We have the distinct privilege and honor to hear from the Secretary of Treasury, who, in addition, is the President's Economic Adviser.

I attended a meeting this morning of the Democratic Chair people. I am pleased to report to you, Mr. Secretary, that you have the confidence of the Democratic leadership as well as the Chairmen of the legislative Committees that your office has jurisdiction over.

I will say publicly what I have said privately, that we really appreciate and believe in your sincere desire to have this 110th Congress have some legislative accomplishments. We think it is important for the Democratic and Republican legislators to fulfill our obligations to the American people to move away from the partisan fights that we have gained a reputation for and to move forward with all that we can to at least try and hopefully resolve some of the critical problems that our great Nation faces.

Mr. McCrery has been more than cooperative. He has a sincere desire that we get something accomplished in a bipartisan way. Publicly I want to thank you for the efforts that you made in working with me and others to make it easier to do.

In order to set the record straight, the President really has to be a party to this. He has the pulpit, and he can create a climate that would allow us to move forward in a bipartisan way, without being profiles in courage but for him to be able to encourage us to continue along this line. Now, it is not for legislators to tell the President what he should put in his budget. He is the President, and he has that responsibility. There is a certain politics involved here

that is pretty clear to the American people after listening to the campaign.

So, it would seem to me the answer is not what Democrats want or not what Republicans want but what we together can do. Following my own advice, I am not even going to talk about private accounts. That is something you talk about when you are fighting, not when you are trying to work out something. When I take a look at some of the cuts that are proposed, \$637 billion for privatization, \$66 billion for cuts in Medicare, restricting food stamps, building in cuts in Medicaid, cuts in children programs and the request that we make permanent his tax cuts; well, it sounds to me like this is pre-campaign talk. I just want someone at the White House to know that the Democrats won. We want to work with Republicans.

To get back to where we were, we need the President to try to understand that the State of the Union was a missed opportunity, the talk that he gave in my district to the association for a better New York would have been a great opportunity, the Democratic retreat, we were so honored to have him there, but he could have broke new ground. I really think that the Administration, without sacrificing principle, can make us all feel that we have got a job to do. It is going to be difficult. It is going to be politically painful, but it will be a lot less painful if the President was on board.

I shared my concerns with Mr. McCrery, and he says, well, don't throw over the apple cart. I say, this train has not even left the station, so it is no problem. We have got plenty of time to attempt to do the things that we talked about, but I would be less than candid if I didn't say that we need some help. We need it publicly, and we are not asking the President to back off of anything—or Republicans—except that we all have to be prepared to give. At the end of that, the Congress wins and the country wins.

So, on a more positive note, I want to thank you for your outstanding contributions, and I look forward to continuously working with you, and from time to time, you can share your ideas with your client, the President of our great Nation.

I would like to yield to Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman.

Welcome Secretary Paulson. Thank you for coming to visit with us today to talk about your end of the President's budget and other issues that may arise in your jurisdiction.

I certainly understand where Chairman Rangel is coming from with his remarks about some of the things in the President's budget. That is normal. It is not unusual at all. I don't think it is any surprise to anyone that President Bush thinks the best way to fix Social Security is to use personal—establish personal accounts that are funded by payroll taxes. That doesn't mean that he thinks that is the only way to solve the problem. I would point to page 144 of the President's budget itself to the language, quote, The President is committed to strengthening the Social Security system and has reiterated his commitment to a bipartisan reform process in which participants are encouraged to bring different options for strengthening Social Security to the table.

I know, Mr. Secretary, in my conversations with you in private, you have expressed similar goals. You and the President want all of us to come to the table, bring our ideas and let us sort them out

and come up with a bipartisan conclusion that we can all embrace and finally fix that problem for the American people.

So, I don't have a problem with Chairman Rangel's comments. I don't have a problem with the President's budget. I certainly don't have a problem with the statement I just read directly from the budget encouraging us to participate in a bipartisan process to solve this problem.

Mr. Chairman, I have a more lengthy statement that I would submit for the record. In that statement, I commend the President's budget for talking about the need to look at entitlement programs generally for the long-term impact on our programs. I applaud the President for coming out with, not a new idea but certainly a new idea coming from the President of the United States, with respect to health care and trying to create a more equitable tax treatment of health benefits in this country to encourage those who are currently without insurance to be able to obtain health insurance for their families. You also do in the budget, Mr. Secretary, under your part of the budget, address several pieces of the so-called tax gap, and I applaud the Treasury for including some proposals in the budget for trying to capture some of that tax gap.

So, with that, Mr. Chairman, I would yield the remainder of my time and thank you for hosting the Secretary.

[The prepared statement of Mr. McCrery follows:]

**Opening Statement of The Honorable Jim McCrery, a Representative in
Congress from the State of Louisiana**

I join you in extending a warm welcome to Secretary Paulson. I look forward to his testimony and will therefore keep my comments brief.

I do, however, want to touch upon three issues that I hope today's hearing will explore in greater depth.

First, let me congratulate the President and the Secretary for crafting a budget that extends the expiring 2001 and 2003 tax cuts while still reaching balance by 2012. Given the very strong economic growth and larger-than-expected tax receipts we have seen in recent years, it is nice to see that reflected in the government's bottom line.

Nevertheless, I hope that our short-term success does not divert our attention away from the very serious long-term challenges facing our country in the form of unchecked entitlement growth combined with dramatic demographic shifts.

Said more simply, the cost of providing Social Security and Medicare to each beneficiary will grow at the same time the country will have fewer workers supporting a growing number of retirees.

Earlier this year, GAO Comptroller General Walker warned that, ". . . social insurance commitments and other fiscal exposures continue to grow. They now total approximately \$50 trillion—about four times the nation's total output (GDP) in fiscal year 2006—up from about \$20 trillion, or two times GDP in fiscal year 2000."

I remain hopeful that we can find a way to work across partisan lines and with our friends across the Capitol as well as at the White House to begin to tackle these problems which are growing worse, not better, despite our strengthened economy.

Second, I applaud the President for including in his budget a bold examination of the tax treatment of employer-sponsored health benefits. The current exclusion of these benefits from taxation is in many ways an accident of history.

By coupling the taxation of these benefits at the employee level with a substantial deduction, available to any American with health insurance, the proposal helps level the playing field between those lucky enough to have coverage through a job and the increasing numbers of Americans who must shop for insurance in the individual market.

As I noted last week, I would prefer to provide assistance through tax credits instead of a deduction and believe any such change should be accompanied by reforms of the individual market to help keep policies available and affordable.

But the President's proposal should force us to think deeply about the future of the health care delivery system, and I urge this panel to take up this challenge.

Finally, I am pleased to see that the Administration is increasing its efforts to close the so-called tax gap, the difference between taxes owed and taxes paid.

I caution my colleagues, however, that as attractive as the tax gap may be as a rhetorical target, finding it is almost as difficult as finding the pot of gold at the end of a rainbow. Efforts to close the gap often involve placing burdens, such as increased information reporting, on individuals and companies already fully in compliance with the Tax Code.

My colleagues will recall that it was not so long ago that the Congress acted in a bipartisan manner to reform the IRS because of alleged abuses of taxpayer rights.

Efforts to close the tax gap that fail to consider the burdens we are placing on law-abiding citizens as well as the benefits of increased compliance could prove to be terribly short-sighted.

Chairman RANGEL. Thank you.

Mr. Secretary, we hope that you are our new best friend. We look forward to working with you, and you may give us your testimony and thank you for coming.

**STATEMENT OF THE HONORABLE HENRY M. PAULSON,
SECRETARY, U.S. DEPARTMENT OF THE TREASURY**

Secretary PAULSON. Chairman Rangel, Ranking Member McCrery, Members of the Committee. Thank you very much. I am very pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of Treasury, my top priority is keeping America's economy strong for our workers, our families and our businesses. The President's budget supports that goal.

We start from a position of strength. Our economy appears to be transitioning from a period of above-trend growth to a more sustained level of about 3 percent growth. More than 7.4 million jobs have been created since August of 2003. Our unemployment rate is low at 4.6 percent, and over the last 12 months, real wages have increased 1.7 percent.

Economic growth is finding its way into workers' paychecks as a result of low inflation. That means family budgets are going further. Strong economic growth also benefits the government's fiscal position, and in the first quarter of fiscal year 2007 receipts total \$574 billion, an increase of 8 percent over the same period in fiscal year 2006.

As a result of increased revenue over the last 2 years, we have brought the Federal budget deficit down to 1.8 percent of the Gross Domestic Product (GDP).

The President has submitted a budget that reflects our strong economy and our Nation's priority for continued job creation and wage growth, vigorous prosecution of the war on terror, increased access to affordable health insurance, improved energy security, and a strong fiscal position from which we can address long-term challenges such as strengthening Social Security and Medicare for future generations.

The budget supports a strong economy by maintaining fiscal discipline. It maintains our current tax policy, which has helped our country rebound from recession to its current robust health. With a steadily growing economy, tax revenues combined with fiscal discipline should bring the Federal budget into balance in 5 years. In fact, we are submitting a budget that includes a surplus in 2012,

which is achievable if we keep our economy growing. While no one has a crystal ball, our economic assumptions are close to the consensus of professional forecasters.

The President's budget addresses important domestic priorities. Health care is high on the list. Under current law, the tax subsidy for health insurance purchased by employers will average more than \$300 billion a year over the next 10 years. For that huge expenditure, we get a system in which rising coverages are a burden to families and businesses, and in which millions of people have no insurance at all. The President's proposal would make health care more affordable and more accessible. It would give all taxpayers who buy health insurance, whether on their own or through their employers, and no matter what the cost of the plan, the same standard tax deduction for health insurance, \$15,000 for family or \$7,500 for an individual.

The President's proposal would help hold down health care costs by removing the current tax bias that encourages overspending. Costs would become clear, giving patients more power to make informed choices about their health care spending. The proposal would also jump start the individual insurance market so consumers have more choices than are available today. Health care would become more consumer-driven, more affordable and more successful for millions of Americans.

Energy security is another concern of the American people. It is a priority addressed in the President's budget. President Bush has put forward an ambitious goal of reducing gasoline consumption by 20 percent over the next 10 years. We can achieve this goal by dramatically increasing the supply and use of alternative fuels, and improving fuel-efficiency by reforming and increasing Corporate Average Fuel Economy (CAFE).

The expanded fuel standard will provide entrepreneurs and investors a guaranteed demand for alternative fuels, which accelerate private investment and technology development. Reforming CAFE will allow us to increase the fuel economy of our automobiles as fast as technology allows. With a more diverse fuel supply and better fuel efficiency, we can make our economy less vulnerable to supply disruptions and confront climate change through technologies that reduce carbon dioxide emissions.

Finally, the President's budget, by emphasizing fiscal discipline and economic growth, lays the right foundation for dealing with entitlement reform, a challenge we all have a responsibility to address. Strengthening Social Security and Medicare is the most important step we can take to ensure the retirement security of our children and grandchildren, the long-term stability of the Federal budget, and the continued growth of the American economy.

I look forward to sitting down with Democrats and Republicans without pre-conditions and finding common ground on these critical issues.

Mr. Chairman, the President's budget priorities, a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform, are the right priorities for Americans, businesses, and investors who drive our economy. I am confident that working together we will

keep our economy strong and chart a course for maintaining our global leadership in the years ahead.

Thank you very much for this opportunity to have this discussion today, and I now welcome your questions.

[The prepared statement of Secretary Paulson follows:]

Statement of The Honorable Henry Paulson, Secretary, U.S. Department of the Treasury

Washington, D.C.—Chairman Rangel, Ranking Member McCrery, Members of the Committee:

I am pleased to be here today to provide an overview of the President's budget for fiscal year 2008. As the Secretary of the Treasury, my top priority is keeping America's economy strong for our workers, our families, and our businesses. And the President's budget supports that goal.

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The President has submitted a budget that reflects our strong economy and our Nation's priorities: continued job creation and wage growth, vigorous prosecution of the war on terror, increased access to affordable health insurance, improved energy security, and a strong fiscal position from which we can address long-term challenges such as strengthening Social Security and Medicare for future generations.

This budget supports a strong economy by maintaining fiscal discipline. It maintains our current tax policy, which has helped our economy rebound from recession to its current robust health. With a steadily growing economy, tax revenues combined with fiscal discipline should bring the federal budget into balance in five years. In fact, we are submitting a budget that includes a surplus in 2012, which is achievable if we keep our economy growing. While no one has a crystal ball, our economic assumptions are close to the consensus of professional forecasters.

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Mr. Chairman, the President's budget priorities—a strong economy, national security, fiscal discipline, health care and energy innovation, and laying the groundwork for entitlement reform—are the right priorities for America and for the workers, businesses, and investors who drive our economy.

I am confident that, working together, we will keep our economy strong and chart a course for maintaining our global economic leadership in the years ahead.

Thank you for the opportunity to discuss this today—and I now welcome your questions.

Chairman RANGEL. Thank you, Mr. Secretary.

I would ask the members here to adhere to the 5-minute rule so that all members would get a chance to ask questions of the distinguished Secretary.

Mr. Stark may inquire.

Mr. STARK. Thank you, Mr. Secretary.

I am concerned that, in your budget, you have cut slightly over a hundred billion from Medicare and Medicaid in 5 years and \$300 million over 10. I would say at the outset that you have suggested some areas in which we can save money, fraud, perhaps overpayment to some providers, perhaps underpayment to others.

However, with the savings, and this is the first—I have been looking at Medicare budgets now for over 30 years. This is the first budget in the history of that 30 years where there has been no increase in benefits. That money, I suppose, is going to be spent in Iraq. Normally, if we save money in one area of Medicare, we might cut inner city hospitals, but then we might use that savings to help rural hospitals or vice versa. You have taken the entire savings and taken it away from us.

Not only that, what you have ignored is health care for children, State Children's Health Insurance Program (SCHIP) is underfunded. I couldn't believe that the President could be so unthinking as to want to deny poor children health care and that is exactly what this budget does. I won't talk about Leave No Child Behind. That is in another Committee. All of those programs are being underfunded or cut, and I am curious of our prerogative to deal with Medicare here. It would be a little easier for me if you said you want to take some of that hundred billion and fund SCHIP to include some more children who need medical care. That would seem to be a humane thing to do. I wouldn't even mind if you said you would fund some education with our hundred—I don't know if anybody here with a rural hospital will suggest that, but in addition, you have flat funded for 10 years. You have taken out the inflation growth that providers have come to expect.

Now I have been lobbied by every hospital and every doctor in this country over the course of 30 years, and I think you have created a hornet's nest that won't end. I think that you have got every hospital, every teaching hospital, every rural hospital, every inner city hospital to say, well, never again will we get an increase. I

don't see that that is a program that is politically survivable or morally survivable.

So, my question is, would you consider our taking that hundred billion and using it within purview for programs that would provide medical care benefits or health benefits to those unfortunate people who now don't have any?

Secretary PAULSON. Congressman Stark, thank you.

Thank you for your comments. As I think you all know, the Medicare and health care needs of the American people are vitally important, and so as I have gone around and talked with people, everyone agrees this is a major, major issue that we need to do something about. I think the way you should interpret what has gone on in this proposal is that just about everybody recognizes we have. Medicare payments, entitlement payments, growing at a rate that is unsustainable. So, what we have done here to start the discussion—and we really welcome everybody's ideas. To start the discussion, we put forward a proposal that brings the trajectory of growth and takes growth down from 7.4 percent over 10 years to 6.7 percent. The principles behind these changes—and I am sure that Secretary Leavitt can talk about it in some detail—but the principles are not just program efficiency, but also means testing. Given this, I think, the right way to look at this is to say that when we talk about Social Security, the idea is let us encourage people to come forward, put ideas on the table, and hear from people on both sides with the thought that there is some chance that we could craft a permanent solution.

I think when you look at the Medicare area, this is a very complicated area getting into the health care, and no one believes that it will be possible to come up with, in one fell swoop, a permanent solution. So, the way to look at this is that, these are some ideas for dealing with the issue, and we will look forward to working with you in getting comments as we go forward here.

Chairman RANGEL. Mr. McCrery.

Mr. MCCRERY. Mr. Secretary, the gentleman from California talked about creating—well, cutting parts of Medicare and then spending it within Medicare or within health care. Certainly in the Balanced Budget Act (BBA) (P.L. 105-33), back in 1997, we made—we created significant savings to the budget and did not plow all of that back into health care, so there is certainly precedent for doing that.

If we were not to do that, Mr. Secretary, if we were to simply spend any savings that we create by reform or change on the Medicare system on other parts of Medicare or health care, we wouldn't address the long-term fiscal impact that we are facing, would we, of that particular entitlement program?

Secretary PAULSON. Congressman, you are absolutely right. The issue—the big fiscal issue—we are facing as a country is not the fiscal deficit we have today, which is 1.8 percent of the GDP. The reason we are all so concerned about it is looking a number of years down the road and looking at the growth of Medicare and Social Security and what these programs mean. So, if we don't start dealing with these issues today, it will have to be in the future, and it will be just a lot more costly all the way around.

Mr. MCCRERY. Let us explore what would happen if we don't deal with them or if we deal with them in the way suggested by the gentleman from California.

Today, Social Security, Medicare and Medicaid represent about 8.5 percent of GDP or about 40 percent of the Federal budget. Now, your office, the Congressional Budget Office (CBO), Government Accountability Office (GAO), Congressional Research Service (CRS), have all said, if you don't do anything to change the rate of increase in spending in these programs, by, say, the year 2030, those programs will represent about 15 percent, almost double, what they do today of GDP, and that would equate to about 75 percent of the Federal budget.

Now, that is if we keep the budget at about 18 to 19 percent of GDP. Of course, the alternative is to increase taxes, and increase the budget, so that it is not 75 percent of the budget.

So, my question to you, Mr. Secretary, if we allow the budget to increase substantially as a percentage of GDP, and revenues to support that budget as a percent of GDP going from the historical average since the 1960s of 18.2 of GDP to support the Federal Government to something clearly in excess of 20 percent, if not 23, 24, 25 percent of GDP, does that sound an alarm to you in terms of our economy, in terms of economic growth, or does that not bother you?

Secretary PAULSON. Of course, it sounds an alarm, and that is why it is just so important to deal with these issues today. As I have said frequently, we will deal with these issues whether it is today or whether it is years in the future. The longer we wait to deal with the problem, the more costly it is going to be either in terms of the cost to our economy overall or future benefit reductions that will happen to the younger generations, which can also affect them in terms of competitiveness. That is what these proposals represent. They are a starting point for a discussion in terms of how to scale back the trajectory of the growth.

Mr. MCCRERY. Unfortunately, I think what is in the President's budget and basically what we did in BBA is the old way of doing things. We are just ratcheting down reimbursement rates. I would estimate that Mr. Stark is right; if we continue to do that, we have only got the complaints from the health care industry, not much constructive criticism, just complaints. It will be hard for policy-makers to pursue that, so we ought to start thinking about substantive fundamental reforms and how we deliver that care and pay for it rather than just ratcheting down reimbursements rates.

Chairman RANGEL. Thank you.

Mr. Levin may inquire.

Mr. LEVIN. Thank you very much, Mr. Secretary, and welcome. I very much want to reinforce, if I might, the statement of our Chairman, Mr. Rangel.

I do think that the budget—and you are not responsible for a good part of it—it shows the real difference between our two parties. It will be important to bridge the gulf, but it is a very wide one.

I just went through some of the budget cuts. COPS, almost eliminated. Community Service Block Grants that provides needed services, eliminated. Special Ed, nothing done to meet our obligation to

fund it. The only major water program that we have, the revolving fund, would be cut. The Advanced Technology Program eliminated. The Manufacturing Extension Program, so important for the manufacturing sector, is reduced by over 50 percent. On and on. So, the gulf is a major one. It surely is true of Social Security.

The last couple of years showed that private accounts are a non-starter. The public will not accept it, and the President places it in the budget. It is going to take more than good will. It is going to be someone to accept the verdict of the American people.

Let me talk to you about a trade-related issue, and that is the yen. I have been reading your comments. There has been a lot of discussion about the Chinese currency manipulation but less so about what the Japanese are doing.

In the book by John Taylor, he acknowledges, from 2002 to 2004, our country not only acquiesced with the Japanese but essentially participated in the weakening of the yen even though, to quote Mr. Taylor's comments, those interventions make U.S. exports less attractive. Of course, their exports more attractive.

The yen today is weaker than the level at which this Administration before your time essentially participated in bringing about.

If you look in the automotive sector that is two-thirds more or less of our deficit with Japan, the exports, now—and I don't think this is understood of Japanese cars—now is increasing and is higher I think than it ever has been. So, when Europeans, and you are going to the G7 meeting, are complaining about the weak yen and what it is meaning for their exports and for imports from Japan, I would like you to comment because you seem at one point to say you are going to look at it very, very carefully, but then in the headlines say this: Europe's yen drive hits United States/Japan wall, and it is mainly because of your comment that it is fundamentals that are driving it, not policies, I guess, of the Japanese government.

So, explain to the people of this country and to the manufacturing sector, why now with the yen weaker than it was rigged at in 2002, 2004, with the approval of the U.S. Government, why you are going to go to the G7 meeting and essentially say to the Japanese that Europeans are wrong, we are with you?

Secretary PAULSON. Okay. I will—and you are right. I will be going to the G7 meeting, leaving on Thursday. You are right that I have a job to be vigilant and watch all currencies, and particularly given some of the publicity coming out of Europe, I have looked at the yen carefully.

Let me step back and say that for the 1990s and the first part of this century—the first couple years, 2001, 2002, 2002 into 2003—we had a situation where the world's second largest economy, Japan, wasn't growing. It was a drag on the world economy. Through a number of economic reforms by the Koizumi government, we now have the very fortunate situation because we have a Japanese economy growing. However, we still have deflation in Japan. So, while it is growing, and we all are benefiting from that growth, it is important to keep it growing.

Now putting that aside, I have a market background, and I really believe in the underlying strength of markets, competitive mar-

kets, open markets, where currencies are set in an open competitive market. So, in the discussions we are having, it is important to keep in mind that the Chinese don't have an open competitive marketplace yet, as you well know. They are showing more currency flexibility than they have shown, but they need to get to the point where their currency will be considered in the marketplace.

Now with regard to Japan, it is true that the yen is trading at or near a 20-year low, clearly on a trade-weighted basis. As far as we can see, there has been no intervention into their currencies since very early in 2004. This is a currency that is traded in the competitive open marketplace. I understand that some people might not like where it is trading. It is my job to support and fight for free competitive markets. I believe that the yen is trading in a competitive marketplace based upon underlying economic fundamentals.

Chairman RANGEL. I don't like to interrupt the Secretary, but in order to let the newer members get a chance to speak, I am going to ask you to try to have your question prepared in such a way that it gives the Secretary an opportunity to respond within those 5 minutes.

My friend from California, Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Mr. Secretary, it is good to have you here.

I would like to continue in this same area of currency. I am very pleased to hear your emphasis on free markets. I think that is so important. I would like to direct my questions toward the currency, and I know you have been involved with this quite a bit with China. A great deal of emphasis has been placed on the specific exchange rate between the dollar and the Chinese currency.

I am less interested in getting to a specific rate because no one really knows—can really say what an appropriate rate is. Only the market can do that. Thus I am more interested in seeing that the mechanism to determine that rate is a market driven one.

Mr. Secretary, could you tell me what the mechanisms are the Chinese are developing to create market driven currency and what steps must it take and most importantly, how long will it take?

Secretary PAULSON. Let me say, Congressman, first of all, I appreciate your question because I think you are right. We are emphasizing the need for greater flexibility and more movement in the short term. We will be arguing about what the right rate is until we get a competitive and open market determination of the currency. They have taken a number of steps to move in that direction. For example, Chinese banks are the ones that are trading within the band. There are a number of smaller steps that are similar to that. What we are pressing toward is reforms that will put them in a place where in the intermediate term they can have an exchange rate that is set in a competitive marketplace. I am placing a big emphasis on developing capital markets because having a competitive bond market and money market and yield curve—all of these things—will make that much more possible.

Mr. HERGER. Now some say that may be an excuse; developing these capital markets is an excuse for doing that. Can you explain the importance of China's broader financial reforms and how they must go hand in hand with this currency?

Secretary PAULSON. Yes, thank you very much for that question. The biggest reason for our trade imbalance is that China has an economy that is too geared toward exports, or over-investment and exports, and China doesn't have enough domestic-led consumption to balance growth. So, as long as we are growing and not saving, and they are saving at 50 percent a year and don't have the domestic consumption, we are going to have problems. So, a big part of the dialogue is aimed at encouraging the Chinese to continue with their path of reform, whether it means opening up to U.S. products or to foreign competition, in the services area and in other areas, and moving toward reform, which will lead to more balanced growth.

Mr. HERGER. How are we coming along with this, and what are we doing to ensure that we are putting the proper most balanced emphasis toward the Chinese to ensure that they move at what seems to be a turtle's pace?

Secretary PAULSON. Well, you are right, that the biggest difference is on timing, that we agree on the principles. There are big differences on timing. So, that what we have put together is a strategic economic dialogue, which is a plan that gets us speaking with one voice to the top decisionmakers of China on a regular basis. There are two big meetings a year, multiple meetings throughout the course of a year, so we can track progress and work on some of these more fundamental reforms. So, that, in a nutshell, is what the platform is.

Chairman RANGEL. Mr. McDermott, you may inquire.

Mr. MCDERMOTT. Thank you.

Secretary Paulson, besides being Secretary of Treasury, you are also a trustee of Medicare. It is your job to make the program fiscally sound. As you know, we are hurdling toward \$250 billion in Medicare cuts to physicians in the very near future with no offset in the budget. So, I assume you think that is what is going to happen. It seems to me that the money that is being cut from Medicare is being used to pay for the tax cuts. I wonder how you square your responsibility as a trustee of Medicare with the need to make appropriate payments to physicians and cutting \$300 million out of Medicare or \$300 billion out of Medicare. It seems to me those two issues are sort of unresolvable, I guess is the word.

Secretary PAULSON. Congressman, we have got the same objective, the same goal. In other words, it is quite easy to square the positions because when I look at our current fiscal position, we have an economy that is growing and that is reducing the deficit. I don't think any of us would have concern about the deficit at this level were it not for the problem you have alluded to. I think we have a strong economy which gives us a strong basis for stepping up and dealing with some of these bigger issues. So, when I look at my responsibilities as a trustee of Medicare and Social Security, and I look at what I see coming down the road, I just realize how important it is to—

Mr. MCDERMOTT. Is it your position that these cuts to physician's payments is appropriate?

Secretary PAULSON. I have not looked at every single one of those provisions with the kind of detail that Mike Leavitt has. If you ask me, do I believe that it is a good step to start an important

discussion to say let us take the trajectory of growth to these benefits that are growing at over 7 percent over a 10-year period and let us modestly slow the rate of growth and think about principles like program efficiency and means testing; yes, I think it is a positive step.

Mr. MCDERMOTT. One of the things that is troublesome about this budget; we are gutting—we are taking out big chunks out of Medicare. Medicare is growing at 7 percent a year. Well, private health insurance is growing at 10, 11, 12 percent an average over the last 5 or 6 years, and we are saying we want to shift people out of the public sector and put them into the private sector. It seems to me that this is really not very fiscally sound to move them from a program growing at 7 percent to moving them to the private sector. That is what this privatization is really about, Medicare is getting people out of the public program and getting them into these private programs that are supposedly so economically sounding but are growing at almost twice the rate of Medicare. How can you justify that?

Secretary PAULSON. I have absolutely no trouble justifying slowing the rate of growth for Medicare spending. That is just something that is absolutely essential.

Mr. MCDERMOTT. Why would you want to shift people into the private sector?

Secretary PAULSON. If you tell me that the cost of health care is growing too quickly, I agree with you. I think one of the things that we have focused on is the standard deduction for health care. The President's budget is one way of getting at this, and while it doesn't totally solve it, I think it is a big step forward.

Mr. MCDERMOTT. So, you would be opposed to the Congress doing anything about that \$250 billion cut to physician's payments. If we came up with a proposal you would tell the President we don't think that is a good idea.

Secretary PAULSON. I didn't say that. I said that——

Mr. MCDERMOTT. So, you expect us to fill the hole that has been created by this budget?

Secretary PAULSON. I didn't say that either.

Mr. MCDERMOTT. Where are you on that?

Secretary PAULSON. What you heard me say is, I thought this was a positive step. We look forward to getting your ideas and talking about them.

Mr. MCDERMOTT. Thank you.

Chairman RANGEL. Mr. Camp, you may inquire.

Mr. CAMP. Mr. Secretary, you are right. This process the President presents a budget and then the Congress also presents a budget, and I want to say I appreciate that you have come up here with a budget that balances without raising taxes because I think that is going to be one of the big debates that we have.

I appreciate the deficit has shrunk by 58 percent over the last 3 years. That is according to CBO. That is Congress's numbers, not Administration's numbers and that is despite all we are doing on Katrina, Homeland, and the war on terror. As you said, it is near 1 percent of GDP, which is projected to be the case for the next few years, and well below the 40-year average of 2.4 percent for the deficit as a percentage of GDP.

What you have shown us is, with a little spending restraint, we can balance the budget. If you can outline for us two priorities with regard to the budget on entitlement spending and the rational behind that, I would appreciate hearing that.

Secretary PAULSON. Yes. Well, again, thank you for the question.

Just to step back and frame this, it was clear to me, and it is very, very clear to the President and others in the Administration, how important getting our arms around the entitlement issue is. It is very, very important. So, as we thought about it, and as I talked to people on both sides of the aisle, when you look at Social Security, there are big differences on policy, differences on personnel accounts and on taxes on both sides. However, people have at least identified the building blocks to put something together, the components, and they are clear. So, at least the hope is there that we can get people to come to the table and fashion a comprehensive solution that would lead to permanent solvency.

The health care area is much more complex because there are very big policy differences. The economic components are not quite as clear, and so the thought here was to put two proposals out that will really start discussion and that we think are positive steps.

There is a standard deduction for health insurance which, again, gets at developing access to private insurance and gets at helping reduce the rate of growth. Then there are the proposals in the Medicare area, which are really aimed at putting some ideas out there to slow the rate of growth and putting some principles out there that I have referred to before. You will hear a lot from Secretary Leavitt about his work at the State level, where I think a lot of this does need to get done and the affordable choice initiatives. So, I think that is the right way to frame it overall.

Mr. CAMP. We had testimony from Comptroller Walker at the GAO who said that our liabilities, both entitlement, social insurance commitments and others, are now about four times our total output, and 6 years ago, they were only two times our total output. So, the trend lines are dramatic. So, I appreciate your testimony on that.

Regarding the part of the health insurance proposal that allows States to use—have some flexibility with regard to disproportionate share funds which help the coverage to lower income populations, do you also think Congress should consider legislation to let individuals buy health insurance licensed in one State if they live in another—

Secretary PAULSON. I would say that, clearly, we have worked and thought about ways to address the individual insurance market. That is something that we need to address.

Mr. CAMP. Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Lewis, you may inquire.

Mr. LEWIS OF GEORGIA. Mr. Secretary, welcome.

Mr. Secretary, when you look at the budget, look at this budget—and I wanted to be nice here. This budget appears to me to be really down right uncaring when it comes to the most vulnerable element in our society, our seniors, when it comes to Medicare and our children. You said, we want to help our children, our grandchildren and maybe our great grandchildren, but the President's

budget is proposing only \$5 billion in new funding over 5 years for the SCHIP program. Then CRS tells us you need at least \$15 billion to cover the children that are already in the program.

How do you account for this?

Secretary PAULSON. There is no doubt that health care is very, very important, and health care for our children—

Mr. LEWIS OF GEORGIA. You said it is important, but the dollar input is not there. So, my concern is, it is a low priority.

Secretary PAULSON. It is a budget proposal, and it is a budget proposal where we have a number of constraints to work within to increase the SCHIP funding. Again, we look forward to working with you on it. It just may be that the Congress believes that that is something that should be funded at a higher level. This is—this is, I think, a very serious proposal.

Mr. LEWIS OF GEORGIA. How much in this budget are you proposing for the war in Iraq and Afghanistan over the next 2 years?

Secretary PAULSON. We have in the supplemental for this year roughly \$170 billion. In 2008, it is approximately \$145 billion.

Mr. LEWIS OF GEORGIA. So, you are speaking about \$245 billion in 2007 and 2008. Are there resources?

Are there resources in the budget to do something about rebuilding the gulf coast.

Secretary PAULSON. I missed your last question.

Mr. LEWIS OF GEORGIA. To rebuild Mississippi and New Orleans.

Secretary PAULSON. Yes. I don't know that number. I am sure that you will be able to get that from others, or we will get it to you.

Mr. LEWIS OF GEORGIA. Thank you, Mr. Chairman.

Chairman RANGEL. Okay.

Mr. McCrery, in order to bring some balance here, I would like to call on the Democrat next here, Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Secretary, I must tell you, I was personally very impressed and pleased by your initial comments upon becoming Secretary as you addressed the comments on the growing wage gap in America, so pleased that I used them at a Democratic retreat suggesting there might be a following on this Committee to work with you on a series of issues.

Having said that, if I might go to an issue that I have been most consistent on for a long period of time, and that is the issue of the alternative minimum tax (AMT).

Let me frame the question this way: I have sought outright repeal of the AMT. We all know it has long outlived its usefulness, but your budget recommends a 1-year patch for 2007, meaning 23 million would be hit by the AMT the following year and every other year of your budget. The Congressional Resource Service estimates it will hit families with three children earning as little as \$61,000 per year. I am in sharp disagreement with the strategy of the 1-year patch. The former Chairman of this Committee reassured us time and again this issue was going to be put before the Congress and eventually the American people. However, we find ourselves back to where we were.

I think the budget proposal, Mr. Secretary, could have done better by those families earning \$62,000 a year or \$61,500. We are putting off the long-term problem. I think you would probably agree with that. Specifically, aren't you saving money on the permanent extension of the 2001 and 2003 tax cuts by not fixing AMT? Let me ask you to estimate how many taxpayers will have some or all of their tax cuts taken back by the AMT in all of the years that your budget does not provide for AMT?

Lastly, before you answer those questions, as I indicated in my opening remarks, your comments were most welcome by the members of this Committee. At the outset of you joining the Treasury, you indicated everything was on the table. I think we should begin from that premise. However, the Vice President's comments certainly are not consistent with the ones that you have offered. Maybe you could clear up the confusion for us and speak to the AMT questions I raised.

Secretary PAULSON. I see I have 2 minutes and 18 seconds left to answer.

Mr. NEAL. This is not like running Goldman Sachs, is it?

Secretary PAULSON. You can say that again.

First of all, with regard to the AMT, the President and I share your view that the AMT is a cruel tax, and it is an unintended tax. If it hits some of these families, it will be a surprise tax, too, because I think many people wouldn't see it coming.

What we have done is propose the additional year of relief for AMT so we can work on a permanent solution together. We need a permanent solution to AMT. We are in total agreement there. What Congress has done for the last 6 years is patched it, generally 1 year of relief at a time. The budget proposal is consistent with that, and this is something that we will need to work on together.

In terms of the numbers, and I am going to be roughly right, the AMT right now applies to 4 million people so without this patch or this relief for 1 year, it would touch 25 million people. By the end of the budget period, by 2012, it would be 40 million people if we do not patch it.

Of course, that is why we need to work together to find a permanent solution here. In terms of Social Security, the President has been very clear. He is very sincere about it, and I am very sincere that everything is on the table. People clearly are going to have their views. No one should be surprised that personal accounts are in the budget. That is his idea and a lot of people share that idea. There are different views on that and on taxes, but everything is on the table.

Mr. NEAL. With Social Security we don't doubt your sincerity, we doubt the word "crisis" that was used by the Administration to speak to the issue.

Lastingly, Mr. Rangel has encouraged me to begin hearings the first week in March on the AMT, and I hope the Treasury will be fully participatory in those hearings.

Thank you.

Chairman RANGEL. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. Mr. Secretary, good to see you again.

I think there is a consensus in Congress as well as among the American people that we should address the pressing problem of the 45–47 million Americans without health insurance. It is a problem of access for many if not most of those people without health insurance, and it is certainly increasing costs for all of us in health plans by not having them in the larger insurance pool.

Concerning the Administration's health insurance proposal, why did the President or the Administration design it as a standard deduction which only benefits families with an income tax liability, instead of a refundable tax credit which would also benefit low-income families that don't earn enough to have an income tax liability, the working poor, which constitute most of the uninsured? Why not do it with a refundable tax credit?

Ironically, and historians can check this, but I believe at the beginning of the 109th Congress, the Administration submitted a bill in the Congress which was the best-kept secret around here to do just that: That is, to provide, through a system of refundable tax credits, health insurance coverage for all, to make it mandatory; just like when we drive a car we have to have our liability insurance, so would people be required to use that refundable tax credit or voucher to purchase basic coverage for themselves and their families.

Secretary PAULSON. Congressman, thank you for your question.

Let me begin by saying this is something that I have thought about a lot. Looking at the Tax Code, the preference for employer-provided health insurance is the biggest preference in the Tax Code. It will be approximately \$3 trillion over the next 10 years. So, I think the Administration's proposal is a very, very fundamental, major change.

In terms of your question, I think you are right to focus on the 45–47 million uninsured, and the 17 million that are insured in the individual market, not in the employer market, who get none of this tax benefit.

Just to clear up one misconception, even for those who don't pay any Federal income tax, where they are paying payroll tax, the standard deduction will still provide a real benefit.

Having said that, you are right that a credit achieves the same objectives in the sense of dealing with the fairness issue, dealing with the uninsured, helping slow the cost of the growth of health care.

So, why did we choose the standard deduction as opposed to the tax credit? We chose it because it was less of a radical departure from current policy. It was more consistent with current policy. Again, we would welcome the opportunity to talk about this with you. A credit is another reasonable approach.

Mr. RAMSTAD. Mr. Secretary, I appreciate your candid response, which I believe it is. I hope we can work toward a refundable tax credit because obviously it would bring more people into the insurance pool and reduce health care costs for you all. Ironically, that proposal originated in the Heritage Foundation many, many years ago, so it is really not a radical proposal by any stretch of the imagination. I appreciate the fact that you recognize the merits.

I want to ask one other question and make another point. I know in the context of a \$2.9 trillion budget, \$19 million is not a lot of money. It is a lot to the people in Minnesota who woke up yesterday with a wind chill factor that was minus 40 degrees. That is 72 degrees colder than the inside of your freezer. It was cold. To cut out the heating aid for the poor, the Low Income Home Energy Assistance Program (LIHEAP) subsidy that so many seniors on fixed income—and I can tell you many horror stories of seniors at the end of the month not being able to pay for heating oil—I hope that is restored by Congress. I don't think that is appropriate.

Secretary PAULSON. Thank you for the comment.

Just to go back one last minute on health insurance, the standard deduction is a very serious, significant proposal that really makes a difference in a number of areas. I am very, very comfortable with that proposal. We thought that was the best policy.

I do have to say in answer to your question that the credit achieves the same objectives, and it is another reasonable approach.

Mr. RAMSTAD. Thank you, Mr. Secretary.

Chairman RANGEL. Thank you, Mr. Secretary.

The Chair recognizes Mr. Tanner.

Mr. TANNER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I am glad you are in town.

I have been worried about our national debt for some time now and have spoken out about it. I have to tell you every Secretary, since I have been on the Committee for some 10 years, when they come to present the budget, the budget always miraculously balances in the last year of the cycle, whatever the cycle is, 5 years or 10 years; and this one is not any different in that regard.

I want to ask you two questions. One is, when do you anticipate hitting the debt ceiling; will it be before the end of this calendar year?

The second matter, and this is what I am really worried about, as you know, we have borrowed in real money, that is not from a trust fund, \$1.6 trillion in the last 60 months. Worse than that, \$1.15 trillion, according to the Treasury Department, has been borrowed from non-U.S. interests. That is over 70 percent. Last year, the deficit was covered by borrowings, almost 90 percent of which was from non-U.S. citizens.

Last year alone, this country wrote checks to non-U.S. interests, interest checks, of over \$140 billion, more than we appropriate for education, Veterans Affairs, and the Justice Department combined, 10 times what the foreign aid bill is, and that is continuing. For example, we currently owe the Japanese interests \$637 billion and China \$346 billion, not to mention Hong Kong, another \$51 billion. The China debt of \$346 billion is up from \$59 billion just 5 years ago.

Now, if we are going to fight the global war on terror with borrowed money, what I have thought about and I would ask your comment on, what about a global-war-on-terror bond that Americans could buy, because if we are going to pay interest, let's pay it to ourselves.

Thank you, Mr. Secretary.

Secretary PAULSON. Thank you. In terms of your question on the debt ceiling, our best estimate is sometime this fall.

Now, in terms of your question about foreign holdings of Treasuries, let me say to you that, with our economy growing at the rate it is growing, with the U.S. savings rate so low, and with savings so high overseas, with a number of our trading partners either not growing as fast as we would like them to grow or without domestic consumption in Japan, China, and some of the structural problems in Europe, we should be pleased that there is so much foreign interest in our securities.

I have looked at the securities and how they are owned and held, and there is great diversity. For instance, you cited the Japanese and the Chinese. Those are the two biggest holders. As you said, taking the Chinese as an example, they hold \$346 billion. We have in Treasuries \$4.4 trillion in public hands, with \$500 billion traded every day. So, when you look at what the official sector, what the Government is holding, and the holdings of private citizens in China, it is less than one day's trading volume.

There are many things that we look at with a certain amount of concern. This is not high up on that list because I think that foreign holders own Treasuries because they believe it gives them the best risk-adjusted return. The best thing we can do is keep our economy growing and keep confidence high. There is great diversity in the holdings.

Mr. TANNER. I understand it is a matter of degree, and basically you have said this is not a high degree. At some point, Mr. Secretary, it seems to me that we are going to run into a national security matter if the financial leverage becomes such.

I remember 6–8 months ago when the Japanese Prime Minister hinted that they might diversify to the euro, maybe a year ago now, and there were some jitters on Wall Street. You probably remember that as well as I do. I just am worried that if we continue to take the attitude that we have, at some point—and right now it is almost 50 percent of our privately held debt, publicly held debt, is owned by non-U.S. interests. It used to be 17 percent some 25 years ago. So, as we continue to rely on that, at some point—and it is all a matter of degrees, I agree with that. I wish we could sit down to talk about that. This is probably not the best forum to do that.

Secretary PAULSON. I look forward to talking with you about that. We look at that carefully and closely. There is great liquidity in U.S. Treasuries, and they are diversely held. We can talk about it more off line.

Chairman RANGEL. Thank you.

Mr. JOHNSON. Thank you, Mr. Secretary. Thank you for being here and taking the heat.

I know you are a trustee on the Social Security board, and I am wondering, one thing about Social Security that I routinely hear about from my constituents concerns unauthorized workers getting access to Social Security benefits. Some time ago the Social Security Administration negotiated an agreement with Mexico called totalization. I am sure you are familiar with it. As a trustee, could you and the other trustees nullify that deal so we don't have to do it here in the Congress?

Secretary PAULSON. Maybe this is something we can get into detail on and talk about off line. Clearly it is my job to enforce the law. Clearly we want to make sure, and I feel very strongly that we need to make sure that Social Security payments are being handled properly and according to the law.

Mr. JOHNSON. Right, but you agree we don't need an illegal Social Security payment to someone? I think you just said that.

Secretary PAULSON. I appreciate your comments.

Mr. JOHNSON. Thank you.

On Social Security also, it seems to me that the basic program, the basic pilot program that was initiated to check on workers, the Social Security Administration assists the Department of Homeland Security in enabling employers to verify employment of new hires. It is possible that may not be the best way to do that. I think some of us believe the Social Security Administration should be the lead agency for employers to verify employment. They are far more competent at maintaining working histories of Americans than DHS could ever hope to be. It is frightening to think that tens of millions of Americans would need to pass through a law enforcement agency to get work authorization.

If you agree, I would appreciate your help in that area, too. We think Social Security ought to be the lead agency. What is your opinion?

Secretary PAULSON. My opinion is that it is being handled properly now. I recognize how important these issues are right now to many people up here on the Hill. So, on the whole questions of immigration, immigration reform, and Social Security, I appreciate your sensitivity to these issues. Again, I will be happy to spend time talking with you about it.

Mr. JOHNSON. I appreciate that.

Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. I appreciate it.

Let me see if I can go back to discuss the global picture about the budget. I think with things becoming difficult, I think we are finding the public is paying a little more attention to see how the numbers add up. I know that the President's budget suggests over the next 5 years we are going to go from deficits of about \$240 billion to an actual surplus by 2012 of about \$60 billion. I know in your capacity as Secretary of Treasury you also serve as a trustee for the Social Security program and the Medicare program.

The numbers that the President provides us for these budget projections over the next 5 years include using every single cent of the Social Security surplus to bring the size of the deficit down. So, that deficit that is identified for 2007 as being a deficit of \$244 billion includes in the President's calculation spending \$190 billion of Social Security trust fund dollars to help offset the size of the deficit. So, that if you were to reserve the Social Security trust fund dollars for, say, Social Security in the future, the actual size of this deficit for this Federal Government is not \$244 billion but it is about \$434 billion. In fact, if you were to take out the Social Security trust fund dollars that the President uses for not Social Security but to help reduce the size of the deficit, in the year 2012,

rather than have a \$61 billion surplus, as the President says, this Federal Government would still have a deficit of \$194 billion.

So, over the course of those 5 years or so, 6 years, you are taking \$190 billion in 2007; \$203 billion in 2008; \$218 billion in 2009; \$231 billion in 2010; \$246 billion in 2011; and \$255 billion out of the Social Security trust fund in 2012. That is well over \$1.2 trillion in Social Security trust fund dollars that I think most people in America think are being paid into the system every day out of their checks, their Federal Insurance Contributions Act (FICA) deduction, for Social Security. Over the course of this budget that the President proposes over 5 years, every single cent that folks are contributing as they work is going not to Social Security, but to help reduce the size of the deficit.

As a trustee for the Social Security program, explain to me how you would explain this to the American people and why they should have confidence that we are doing the right thing?

Secretary PAULSON. I bet the President wishes he were here so he could answer this one himself.

Let me say he is on the same page as you are, and so am I. As you said, and I can't confirm every number you threw out with great specificity, but I can say directionally it sure sounds right to me, and all of the numbers may be right. So, the issue really is: We need a permanent solution to Social Security.

Mr. BECERRA. To take money out today, when we know we need a permanent solution for tomorrow, seems to be digging the hole even deeper.

Secretary PAULSON. Well, let me say this. Another way of saying it, as I have said a couple of times before in testimony, is that the reason people focus on our current fiscal deficit is because we have the longer term problem, and you are talking about the accrued liability. So, that is why the President would like us all to come together and come up with a permanent solution.

Mr. BECERRA. I think we would be willing to do that, but it is like playing with funny money. When you put forth a budget that doesn't tell the American people, wink-wink, we are actually using the money reserved for Social Security to help defray the costs of running the Government, and when your budget doesn't include the cost of trying to take care of the AMT which over the next 5 years is going to suck in 35 to 40 million Americans into a tax bite that they were not expecting, and when you don't in the President's budget completely factor in the costs of this Iraq war over the long term, it makes it difficult to come up with accurate numbers. So, we should have truth in budgeting.

So, rather than project a rosy picture of a surplus in 2012, I think the American public are ready to swallow the pill and know just how difficult things will be.

Secretary PAULSON. I have 13 seconds left. In terms of your comment about funny money as it relates to Social Security, I think as you well know—

Mr. BECERRA. That was funny money relating to the budgeting process.

Secretary PAULSON. There are two budgets, and this is the convention. There is the traditional cash budget, which is what you see here, and then there is the accrual budget, which the President

will provide to Congress through the Financial Statements of U.S. Government.

So, again, with Social Security, you are absolutely right, we need to come up with a way of fixing that and fixing that permanently. I don't know whether the Chairman would like me to address the other comments or questions.

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

Mr. WELLER. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. It is good to have you here. I appreciate your time before the Committee today.

Let me begin with a couple of questions that need a yes or no answer.

Some of my friends on the other side of the aisle advocate allowing the tax provisions that we enacted into law in 2001 and 2003, the marginal rate reductions, for example, allowing them to expire. Would the Administration view that as a tax increase? Yes or no.

Secretary PAULSON. Of course.

Mr. WELLER. Yes or no. Is your mike on?

Secretary PAULSON. I'm sorry. The question is letting some of the tax cuts expire. Let me say to you, Congressman, that the tax cuts have been very, very important for this economy, a key part of the growth, so we think it would be a mistake to increase taxes.

Mr. WELLER. So, you consider that a tax increase then?

Secretary PAULSON. I said it would be a mistake to increase taxes.

Mr. WELLER. Say this Committee were to terminate or eliminate a tax on someone, do you consider that a tax cut?

Secretary PAULSON. To terminate?

Mr. WELLER. Say there is currently a tax that is being levied on an individual or group, we allowed that to expire, would you consider that a tax cut?

Secretary PAULSON. Would I consider it a tax cut if there is a tax on a group, and we allowed it to expire?

Mr. WELLER. Right.

Secretary PAULSON. Clearly, if someone is no longer paying a tax that they were paying—

Mr. WELLER. You would consider that a tax cut?

Secretary PAULSON. I would consider that to be a reduction in an individual's taxes.

Mr. WELLER. Mr. Secretary, many of us have advocated allowing the expiration of the Federal unemployment surtax, allowing that to expire. It was created in 1976. It was a temporary tax to pay for extended benefits during a recession in 1975. Currently there is about \$30 billion in Federal unemployment accounts today, and looking back over what we allocate out of that and expend on unemployment benefits in our various programs, it comes out to about \$5 billion a year. So, we have 6 years' worth of revenue in the Federal unemployment accounts already generated.

Now that is due to expire, the current Federal unemployment surtax is due to expire in December, but your budget that you submit to Congress calls for extending it. If we were to allow it to expire under your definition, that would be a tax cut in this case for small business and employers. You advocate extending it. Do you

consider that a tax increase by extending the unemployment surtax?

Secretary PAULSON. First of all, the unemployment surtax is something that I know the Secretary of Labor is very involved in. That is something that is right in the middle of her plate.

In terms of playing games as to whether something is a tax increase or a tax cut, it is what it is. If there is a tax that someone is paying and suddenly they are not paying it, it is obviously a tax cut.

Mr. WELLER. Mr. Secretary, you are here today to represent the Administration across the board, and again the Administration has called for extending of this tax even though we have 6 years' worth of anticipated expenditures in unemployment accounts. Why do you feel a need to continue levying this tax on small businesses and other employers?

Secretary PAULSON. This is something that I think you should talk with the Secretary of Labor about. This is something we have had some discussions with the Department of Labor about.

Mr. WELLER. Well, you represent the Administration here today, and the Secretary of Labor is not here and I am directing the question to you, the Secretary of Treasury. This is a tax.

Secretary PAULSON. I appreciate your point of view. It is a tax that is in the budget.

Mr. WELLER. Why?

Secretary PAULSON. Well, because we put it in the budget.

Chairman RANGEL. Okay. Mr. Secretary.

Mr. WELLER. Mr. Chairman, he wouldn't give me an answer beyond—

Chairman RANGEL. He gave you one.

Mr. WELLER. I am trying to understand why they put it in the budget.

Secretary PAULSON. I am telling you. I would have to spend time with you off line. I have focused on some of the major things. This is something that I would need to get back to you on.

Mr. WELLER. Mr. Secretary, the Chairman has been very generous by allowing me to continue when my time has expired. I would like an answer on the record in written form explaining why this tax increase was included in the Administration's budget. Thank you.

Chairman RANGEL. Just for the record, Mr. Secretary, was it the Administration and your office that recommended that this tax cut expire in 2010; is that correct?

Secretary PAULSON. I don't believe it was; no.

Chairman RANGEL. The President's tax cut. The one that expires in 2010. You call it a tax increase. It expires at the recommendation of the Administration. If it is a tax increase, it is because the Administration said at 2011, there would be a tax increase unless the Congress changes its mind. It is English. Did you support the expiration?

Secretary PAULSON. I don't know what you are talking about.

Mr. WELLER. Would the Chairman yield?

Chairman RANGEL. Yes.

Mr. WELLER. The current tax, unemployment surtax is due to expire November 31, 2007.

Chairman RANGEL. Strike that. I am talking about the President's major tax cut, just to get that out of the way so we can get rid of all of this expiration and tax increase.

Secretary PAULSON. As you know, a key part of the budget is the need to make the tax cuts permanent.

Chairman RANGEL. I am asking you whether or not you recommended to this Committee and to the Congress that whatever tax cuts it was, that expires in 2010? That is all I read. Is that so?

Secretary PAULSON. I don't know what tax cut you are talking about, Mr. Chairman.

Chairman RANGEL. We have referred to it as the tax cut for the wealthy. That is how it is described.

Mr. MCCRERY. Would the Chairman yield?

Chairman RANGEL. Yes, of course.

Mr. MCCRERY. To shed a little light on this, actually the Administration did not support sunseting these tax cuts in 2010. That was an arcane requirement of the Senate rules under reconciliation, that anything passed under a reconciliation must sunset at the end of the budget window. When we passed those tax cuts, it was a 10-year budget window. So, that is why the tax cuts are sunset in 2010, not because that is what the Administration suggested.

Chairman RANGEL. Well, they may not have suggested it, but they agreed to it.

Secretary PAULSON. That was the Senate rules.

Chairman RANGEL. We have to go back and see what happens when it does expire. I hate it to be considered a tax increase when the law is the law is the law. If it expires, it dies.

Secretary PAULSON. I would say, Mr. Chairman, the law is one thing. I will tell you for the American people, that would be a big tax increase.

Chairman RANGEL. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Secretary, in your statement you said that, "Energy is a priority addressed in the President's budget. We can achieve that goal by dramatically increasing supply," and yet I note when you look at the energy credits, you see section 45, renewable energy production tax credit expiring at the end of 2008; biodiesel tax credit expiring at the end of 2008; ethanol expiring in 2011, none of them provided for in the President's budget.

Is it your position that these would be recommended in next year's budget? Do you anticipate continued support for the tax incentives on renewable fuels?

Secretary PAULSON. I would say renewable fuels are a very, very important part of this Administration's energy strategy. This is something we will look at and look at continually. The proposal that has been made in the energy security area is a very bold proposal, which will dramatically increase demand. It is going to spur a great deal of investment, we believe.

Mr. POMEROY. Mr. Secretary, I might observe that not providing for a longer window on these tax credits is somewhat at odds with your stated goal, because as they try to line up the financing on behalf of these projects, only to see them expiring at the end of 2008, obviously that is going to in my opinion—maybe not

so much this month—but as we get closer to the actual expiration date, disincant capital. We will need to see more than exhortation from the Administration on that one.

My final question, permanent AMT relief has to be passed. I believe you agree with that.

The record should reflect that the Secretary was nodding.

As I look at this, making the tax cut permanent is about a \$1.8 trillion fix to permanently deal with the AMT. You have not provided for the AMT fix other than the 1 year patch in the budget. I can only conclude from that that the Administration acknowledges there is going to be interplay between making the tax cuts permanent and taking some of that revenue that would be lost from making the tax cuts permanent and applying it to the AMT fix? By not having a commitment of resources in the budget, upon making the AMT fix permanent, the Administration acknowledges there is going to be an interplay between the other expiring tax provisions and AMT relief?

Secretary PAULSON. Congressman, clearly we need to work on a permanent solution on the AMT. We are in agreement there. We need to work together. This is something we need to work with your Committee on. So, I am in agreement on that part of your statement.

I have said before that I believe, and clearly the President believes, a tax increase is not something that would be good for this economy, and it is not something that we are recommending. So, I will just leave it there. We would like to work together to fix AMT. I don't believe a tax increase is the way to do that.

Mr. POMEROY. Where is the trillion dollars going to come from? If you take all of the expiring tax provisions, make them permanent, take them off the table at the outset, we are not going to discuss them in connection with the permanent AMT fix, where do you find the trillion dollars, Mr. Secretary?

Secretary PAULSON. When you look at this issue, this is a tough issue. I think this is why Congress has been patching it 1 year at a time. This is something we are going to have to work on together. It is not an easy one.

Chairman RANGEL. In order to facilitate the Secretary's schedule—and is it still noon?

Secretary PAULSON. Yes.

Chairman RANGEL. The Chair would ask you to confine your questions to 2 minutes to see whether or not we can have everyone at least get one question in.

I recognize Mr. Lewis for 2 minutes.

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

Mr. Secretary, the Comptroller General, David Walker, has been before this Committee several times. This has been discussed by other members today, but the Secretary General says by the year 2040—in fact that will be when my two kids, a daughter 24 and son 35 will be finishing up their working careers—but he tells us by 2040, there will not be enough revenue coming into the Federal Treasury to provide for Social Security, Medicare, and there will only be enough revenue to provide for interest on the debt. With this \$50 trillion amount of unfunded liabilities and debt hanging

over the next generation's head, do you agree with the Comptroller General on that scary prospect?

Secretary PAULSON. I do. I think it is a serious problem.

Mr. LEWIS OF KENTUCKY. So, it is not a matter whether benefits will be cut or the retirement age increased or the payroll tax increased. The Comptroller General says we can't grow the economy enough to meet that demand. We can't tax enough to meet that demand. We are going to have to fix those programs here and now or within the near future. Every Congress says well, we will wait until the next Congress. We had an opportunity to deal with Social Security in the last Congress, but it seems like Congress is more concerned about the next election than about the next generation.

The President keeps putting proposals forward and asking Congress to work with it, work with this problem, and we tend to say we will do it sometime in the future. How pressing is it to do it as soon as possible?

Chairman RANGEL. Thank you. Ms. Jones.

Mrs. TUBBS JONES. Thank you, Mr. Chairman.

I want to talk about public hospitals, but I don't have the time. Could you look at the impact your budget has on public hospitals, like \$24 billion?

What I really want to focus on at this point is Individual Development Accounts (IDAs), which have been successful particularly over the last 7 years; 50,000 account holders have enrolled in programs with financial institutions. IDAs were in the budget for the past 6 years, and they are not in the budget this year. Why?

Secretary PAULSON. I think IDAs are a good idea. We didn't get a lot of traction from Congress on last year's IDA proposal. We had to make some tough choices.

Mrs. TUBBS JONES. What do you mean, you didn't get traction?

Secretary PAULSON. There just didn't seem to be broad support for last year's budget proposal.

Mrs. TUBBS JONES. The people of America want it. You want the people to save in order to increase dollars for the Government and for work. So, regardless whether Members of Congress like IDAs, the people of America do. I think you need to rethink it.

Secretary PAULSON. First of all, the concept in savings is a great idea. We have put forward other proposals, the Lifetime Savings Accounts and the Retirement Savings Accounts and others that are a similar thrust, but I hear you. I hear you, and I look forward to talking with you more about it.

Mrs. TUBBS JONES. I would love to talk to you more about it. Thank you.

Chairman RANGEL. Mr. Emanuel, 2 minutes.

Mr. EMANUEL. Thank you, Mr. Chairman.

Mr. Secretary, I know there have been a number of questions on the AMT. The President said on his retreat with us over the weekend, he doesn't believe in tax increases. He thinks they are bad for the economy. Yet the budget, outside of just a 1-year fix on the AMT does rely on the revenue from the AMT to reach its goals in 2012. The only way those numbers work is if there is a 1-year fix; and outside of that, you see the AMT increasing its grasp of more and more middle-class families. Given the paradigm of seeing tax

increases as bad for the economy, yet a budget that is touted as reaching balance relying on the AMT, can you reconcile those two concepts?

Secretary PAULSON. Thank you.

As we said, we believe that a permanent fix is necessary, and we really have to work toward a permanent fix. So, it is very important that we do that. This is a tough issue.

Mr. EMANUEL. I understand that, but you also rely on, and some think, including the Washington Times, rosy scenarios on the economy. I am asking more specific questions.

Would you agree that the budget outside of the 1-year fix in AMT relies on revenue coming from the AMT going from 4 million taxpayers up to 25 million taxpayers?

Secretary PAULSON. Actually, if the AMT were allowed to go into effect without extending the patch, which we want to avoid, there would be 25 million AMT taxpayers today, and a good deal more in the future.

Mr. EMANUEL. Getting back to brass tacks, in 2008 you see \$82 billion raised from the AMT; 2009, \$92.4 billion; 2010, \$109.3 billion; 2011, \$125.3 billion. Those are all your numbers. You agree if those numbers are in your budget, that would be the equivalent of a tax increase?

Mr. Chairman, may I just get a "yes" or "no" on that?

Secretary PAULSON. I would say, first of all, I see where you are going.

Mr. EMANUEL. I would hope so.

Secretary PAULSON. I think we are quite transparent in the budget. We said this is a 1 year fix. We need to find a permanent fix.

Mr. EMANUEL. The rest of the revenue is a tax increase?

Secretary PAULSON. I didn't say that.

Chairman RANGEL. Mr. Brady for 2 minutes.

Mr. BRADY. Thank you.

Mr. Secretary, I have a letter coming to you asking when the Treasury will update the regulations to provide flow-through treatment for banks organized as Limited Liability Corporations. We have been waiting several years for that update, from even before you got there, and I would like you to address it at some point.

Secretary PAULSON. We will make sure that we get back to you on that.

Mr. BRADY. I agree we ought not to be spending the Social Security surplus to balance this budget. I think it is more than a bit hypocritical that, over the last few years as we debated Social Security and the Republicans offered numerous plans to stop spending that surplus, not only did our Democrat colleagues not join with us, but they were prohibited, banned from working with us to try to save Social Security. Perhaps in this new Congress with this new world order, perhaps there will be a truly bipartisan effort beyond the crocodile tears to help finally address the issues of Social Security from both parties.

My final point. The tax gap, \$300 billion. It is a huge number. We ought to be doing everything we can to collect that. In real life, running a small business, we had aged receivables, 30, 60 and 90 days, even a year or more. On paper they look like a huge amount

of cash to be collected, but in real life as you worked through them, you found they were much smaller than they showed on paper.

In the spirit of not relying on funny money, understanding it takes an effort both within the Internal Revenue Service (IRS) and with professional groups who have expertise to collect it, how much of that \$300 billion is gettable? How much in real life is gettable?

Secretary PAULSON. Congressman, this is a question that is very difficult to answer, precisely because the last good research we had on the tax gap was in 2001.

Having said that, I think you would find that a large portion of the tax gap is not gettable unless we are willing to have much more onerous requirements and reporting requirements for income that I wouldn't support, and I would trust many Members of the Committee wouldn't support if we talked about them in some detail.

Chairman RANGEL. Mr. Kind is recognized for 2 minutes.

Mr. KIND. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here and your accessibility in the last couple of months trying to work with many of us.

One of the more disturbing aspects of this Administration's budget policies has been the largest and fastest expansion of national debt in our Nation's history: over 3 trillion new dollars accumulated in national debt in the last 6 years alone. As Mr. Tanner and Mr. Becerra indicated, a large portion is being held by foreign entities.

What would be the economic consequences to us, say for instance, China decided to take more of their capital and started investing it internally to deal with their aging population, their infrastructure needs, or perhaps more in emerging markets like in Asia or Africa or in the European Union; what would that mean to us economically if we started seeing these foreign entities start diversifying their holdings in other parts of the world?

Secretary PAULSON. With regard to China, and I know this isn't what your question was directed at, but just narrowly, I actually think if China took more of their reserves and invested in their own population, safety nets and so on, it would be good for us. I think one of their problems is they are saving at 50 percent a year and we need some more balanced growth out of China.

I understand what you are getting at, and I had a question earlier along the same lines. I know the amount of our Treasury securities that are held by overseas investors is of concern to a number of people. I would say this is not a major concern of mine today because there is so much diversity in the holdings.

I do believe that overseas investors hold U.S. Treasuries because they believe they get the best risk-adjusted rate of return. By country and then by investors in the country, a lot of securities are held by private investors in the private sector, some by the official sector.

Chairman RANGEL. Mr. Blumenauer is recognized for 2 minutes.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Mr. Secretary, as somebody from the Northwest, I get a little concerned about having these issues dropped in regularly to accelerate the debt repayment from Bonneville Power Administration,

BPA. I only have 2 minutes, but I would respectfully request some rationale for why, after BPA has accelerated over a billion dollars voluntarily of rate repayment when they could, to see this dropped in, which looks like a potential very significant rate increase for the people in the Pacific Northwest. It always has engendered bipartisan opposition. I don't think it is going to go anywhere; but more fundamentally, it doesn't look to me like it should. We would like to get some sense from you about the parentage of this and whether or not you folks are serious about drawing the line.

We ought to be able to get past this rather than having this flawed each and every budget cycle. I would respectfully request getting some information on that if I could.

Secretary PAULSON. I will get back to you on that, yes.

Mr. BLUMENAUER. I would just ask if you can outline, other than ethanol, which seems to be unrealistic if we are going to continue to feed chickens and cattle, what are the initiatives in this budget to meet our greenhouse gas objectives in terms of lowering carbon emissions?

Secretary PAULSON. Let me be clear, what the President was addressing with the energy bill was energy security. There is a collateral benefit in terms of carbon emissions and greenhouse gases in the transportation sector. That is clearly a benefit.

This is really a very, very bold program because we import roughly two-thirds of our oil, much of it from troubled areas of the world. The transportation sector, the auto sector is 97 percent, 98 percent, something like that, dependent on oil.

So, the idea here was to do something where you would create great demand on the supply side. Here there is a range of alternative sources of energy that are encompassed in this alternative fuel standard, which would displace 35 billion gallons in 10 years. Then there is the CAFE element, which is on the conservation side, 5 percent. Then of course there is the SPR, which deals with this. So, that is where the big thrust was, on energy security. There is a positive impact in terms of what it does to carbon emissions from automobiles.

Chairman RANGEL. Mr. Reynolds is recognized for 2 minutes.

Mr. REYNOLDS. I thank the Chairman.

Mr. Secretary, we have known each other for a long time, much longer than you have been Secretary. I have always found you to be a pragmatist. I have always found you to listen.

I went back and looked at your opening address which started 2 hours ago, and you laid out the strength of our economy. You brought forth the facts as you saw them on the President's budget, and you have addressed the panel's questions from both sides of the aisle.

I have also heard you outline that to address Medicare and entitlement solutions, to look at Social Security and to look at something near and dear to my heart as it is to both sides of the aisle, AMT repeal, what you have talked about here is the current state of where we are, but you have always indicated a willingness that everything is on the table. It started in your opening remarks. I have heard it as you have answered questions.

So, there are many tough challenges that the country faces. What I am hearing from the Treasury Department, and you as Sec-

retary, is your willingness to look at plans, ideas and solutions this Congress from both sides of the aisle will bring forward, to see if there is an ability to bring about a consensus of a final solution; is that what I have been hearing today, Mr. Secretary?

Secretary PAULSON. I think it is absolutely what you have been hearing, and there is no way we are going to solve some of the very big problems facing our economy, whether it is energy, whether it is health care, or whether it is Social Security, without having a bipartisan approach and a willingness to listen to both sides and consider everyone's ideas in crafting a final solution.

Mr. REYNOLDS. I would think as you are Treasury Secretary, and as we have new leadership in the Congress, that we are all seeing there are not easy answers to permanent solutions.

Secretary PAULSON. That is absolutely true.

Mr. REYNOLDS. Thank you.

Chairman RANGEL. Mr. Pascrell is recognized for 2 minutes.

Mr. PASCRELL. This is a continuation, this budget, and I have all due respect to the Secretary by shifting the burden of taxes upon wages rather than total income. That is a pattern. You have kept the pattern. If you continue to do business as you are doing, in two decades we will have a \$46 trillion deficit.

I want to go to a very specific question to you concerning about how we oversee taxes collected, how we oversee corporate tax shelters, how we oversee those generous tax treatments of foreign investors.

I would like you to address an issue that I found perplexing for myself. Last September, the IRS began turning over thousands of taxpayer files to private debt-collection companies. Under the plan the IRS has agreed to use private companies to collect the simplest forms of tax debt and would allow them to keep up to 24 percent of what they collect.

Why would the IRS proceed with a plan to pay private collectors almost 25 cents for every dollar collected on the easiest cases if the IRS employees could collect much more cost effectively? Why aren't we going after those folks that have basically circumvented their tax obligations to the United States of America and pay a private concern, and now you are going to hire seven more firms in order to do this? Is it the job of this Government—

Secretary PAULSON. It is an interesting comment, because I hear so many people talking about the tax gap and having people pay what they owe. I think when Commissioner Everson is up here, he can explain to you how these private collection agencies, are collecting, helping to collect money that is owed the Government that we wouldn't ordinarily be able to get within our budget.

Now in terms of the IRS, this is the law, this is what we are supposed to be doing right now. I think we are managing it and Mark Everson is managing it with great care and making sure that the rights of the taxpayers are observed at the same time we are doing our best to collect the money.

Chairman RANGEL. Ms. Berkley from Nevada is recognized for 2 minutes.

Ms. BERKLEY. I thank you, Mr. Chairman, and thank you very much, Secretary Paulson.

This is the first time that I have spoken on the Committee on Ways and Means, so I am newer than you are. Usually I listen to everybody speak because I don't get to speak myself, and I learn something. I have to say I must be very thick today because the only thing I seem to have learned is that you are anxious to meet with us and work with us.

I represent the fastest-growing community in the United States, Las Vegas. I have 7,000 new residents a month coming into town. When there is cuts in special education, and the SCHIP program, and the TRIO program, and Medicaid and the COPS program, it disproportionately hurts my community and the people that I represent. So, I have tremendous concern about the budget that has been presented to us due to the tax cuts, due to the cuts in the budget that may be 1 percent across the board, but believe me, they are going to hurt me more than 1 percent.

This is what I want to ask you. If we have—it seems to me that the budget that has been presented to us, unless I am missing something, is almost fraudulent. It is a fraud being perpetrated on the American people, and let me share with you why. There are certain built-in assumptions in this budget that you are presenting to us today that are clearly not ever going to happen. The fact that we are going to balance the budget in 5 years is based on these budget assumptions that are contained. Let me share with you some of them.

Medicare. There is no way that we are not going to work out some sort of reimbursement formula for our doctors. I cannot tell you how many docs call me in Las Vegas and tell me they can no longer afford to treat Medicare patients. I have got the fastest-growing senior population. Losing my doctors and not having them care for my seniors worries me a great deal.

When it comes to veterans, we are not going to double the copay on their prescription medications. When it comes to LIHEAP, Congress is going to put money in. You can't zero out that program. People are going to die if we zero out that program. There are other assumptions like privatizing Social Security.

Don't you think the time has come that we should level with the American people and present to them a budget not that we are going to work together on, but there are certain built-in assumptions here—when we go to the American people and tell them that we are going to have a balanced budget in 5 years, on what planet is that going to happen, because it is not going to happen here.

Chairman RANGEL. Mr. Porter is recognized for 2 minutes.

Secretary PAULSON. I guess—

Ms. BERKLEY. Mr. Chairman, do you think you could ask the witness to answer my questions in writing?

Secretary PAULSON. What my answer would be in writing or verbally is that I think this is a very credible, strong budget. It is a budget that is based on keeping this economy strong, keeping tax revenues coming in. In 2005, tax revenues increased 14.6 percent, 11.8 percent last year, 8 percent in the first quarter. In this budget we are assuming that tax revenues are going to grow at 5.4 percent over the next 5 years. Over the last 20 years they have grown at 6 percent. So, it is based on a very strong and growing economy.

What I hear from you is a disagreement over priorities in terms of where there should be cuts, where there should be spending. Again, I believe that this budget is quite transparent, and it is quite transparent in terms of where there is going to be spending and what the assumptions are.

So, I think it is a credible, straightforward budget, and if we can keep the country growing and show a little bit of fiscal discipline, we can balance this budget by 2012.

Chairman RANGEL. Mr. Porter of Nevada is recognized for 2 minutes.

Mr. PORTER. Thank you. I am anxiously awaiting your response to my colleague from Nevada. I will not take more time because she has addressed them so well.

Regarding the deficit, 9/11. What impact has the financial burden on our country had on our deficit for 9/11? I think sometimes we forget how we got to where we are today.

Secretary PAULSON. It is pretty remarkable because I was on Wall Street at the time the World Trade Center was hit—but even before then, we had the stock market bubble burst, and headed into a recession. So, when you look at what this country has gone through in terms of the bursting of the bubble, the recession, the 9/11 attacks, the corporate scandals, Hurricane Katrina, the spending for the war, and look at all of that and see a deficit that is 1.8 percent of GDP, this is something that I think has surprised many people. I think this says marvelous things about our economy, and we can be very pleased with where we are fiscally after everything we have been through.

Still, we have got these big challenges staring us in the face, and I think that is what there is agreement on here. No one that has spoken is not concerned about the long-term economic challenges we have.

Mr. PORTER. I appreciate your comment, and I think many times we would like to use history to our advantage, and sometimes which is not to use history. I think it is important, your comment. A lot of what we are facing today is the impact of a downturn in the early part of 2000 plus rebuilding our military to protect our homeland. I appreciate you being here today and putting that on the record for us.

Chairman RANGEL. Mr. Meek from Florida is recognized for 2 minutes.

Mr. MEEK. Thank you for coming to the Committee. You have been asked a lot of the questions I was concerned about, but I am looking at this budget process as a give and take. You mentioned earlier that the Administration putting forth its will and desire, and I know that this Congress will do the same, and hopefully we can come to a table that will benefit the majority of the American people.

I do know that the folks that are protected in this budget are the superwealthy and those that are connected, and we can argue back and forth about what is good and what is bad for the economy.

One thing that I wanted to ask you about this morning is the fact that the proposal to increase the maximum Pell grant for low-income undergraduate students to be able to educate themselves was just announced last spring, but in the budget it shows no in-

crease as it relates to the announcement last week, and that the Administration has—is standing behind that commitment they just made last week. Would you comment on that a little bit, sir?

Secretary PAULSON. I don't have all the details on the Pell grants. I know that this is a very important program and is something that our Secretary of Education is very supportive of, as is the President.

Mr. MEEK. Why isn't it reflected in your budget?

Secretary PAULSON. I believe it is reflected in our budget.

Mr. MEEK. It has been frozen for the last 4 years. It is at the same level, but, better yet, saying it will increase, that that was the announcement out of the White House last week.

Secretary PAULSON. I will need to get back to you on the details of that. I can just say to you that when we are working to balance the budget, and we have the spending for discretionary non-security items going up 1 percent a year; we make some tough choices, but in terms of that, that question, I will get back to you.

Mr. MEEK. Thank you.

[The information follows: PENDING]

Chairman RANGEL. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

I want to associate myself with some of the things that my colleagues said previously, especially in regards to the health care stuff. In my district, hospitals are having a tough time. Docs aren't taking new Medicare patients. Docs are leaving the area, and the one area that looks promising is in the area of kids', children's, health care, and the SCHIP program is being cut. We really need to get away from the incremental messing with health care and figure out a good proposal.

That is not my question. I just want to associate myself with that.

Also—and in California it is going to be a \$3 billion hit to hospitals alone in your budget, and this is going to be hard to reconcile.

With regard to the AMT, it just seems foolish to me that we look at extending on a permanent basis tax cuts that don't go away for years and only deal with AMT on a 1-year proposal. I think we need to figure that out because it is 25 million people who are going to see a tax increase if we don't fix that.

Now, my question is on the health tax deduction proposals, I am concerned that it looks like this is going to provide incentive for people, healthy people, younger people to leave their employer-based programs to opt for better prices rather than greater quality or greater scope. How many people do you estimate will actually leave their employer-based health care?

Secretary PAULSON. I would say that in terms of the employer-based health care, my judgment is that most employers that provide health insurance now do so because it is a recruiting tool, and it is very, very important to their employees.

Mr. THOMPSON. How many people do you think will abandon that?

Secretary PAULSON. There has been a long-term decline going on here. In 2000, I think 69 percent of the businesses provided health insurance. On the employees' side, I don't think that you are

going to see employees who are getting good health insurance from their employers leaving because of this program.

Mr. THOMPSON. If this program provides such a good financial deal, of course they will.

Secretary PAULSON. No. This program takes away the bias and the distortion. This program gives a standard deduction to everyone regardless of their income.

Mr. THOMPSON. So, your estimates are that your employees, younger, healthier employees, won't leave their employer-provided health plan for a cheaper one.

Secretary PAULSON. I am saying there is no incentive in this program one way or the other, because this program gives the same standard deduction whether someone gets the insurance from their employer, whether they get it individually, or however they get it.

Mr. THOMPSON. Are the TTBs still in this bill?

Chairman RANGEL. Mr. Hulshof, thank you for your patience. You are recognized for 2 minutes.

Mr. HULSHOF. Thank you for your indulgence. This is an annual exercise where Members get to point out things they like or don't like about the budget.

Let me begin with my critique. I remain opposed to the President's proposal to sell our national forestlands, particularly in Missouri, to fund the Rural Schools Initiative. I absolutely believe that initiative is meritorious, deserves to be funded, but I think this proposal is misguided, and other funding streams have been offered, but they, too, have been unacceptable, at least in my view.

Secondly, my colleague from Washington State challenged you on Medicare as if how dare the Administration look to a competitive model to try to find savings. Denigrating the private sector, he asked the rhetorical question, how do you justify it? My response to him would be two words: Part B, this public/private partnership that shows the competitive model can, in fact, work.

Thirdly, my good friend from Massachusetts Mr. Neal says we should not use the word "crisis," and yet—regarding Social Security, and yet in 328 days, the midpoint of this Congress, the first baby boomer begins to retire and look to the retirement system. So, maybe something—I will ask my good friend to come up with another word than "crisis," but it needs to be addressed, and I applaud the Administration.

Thank you for your unflagging support for alternative fuels, Mr. Pomeroy's bill, H.R. 196, of which I am proud to be his chief sponsor. I just yesterday addressed about 3,500 people at the National Biodiesel Conference. There is a concern about the tax incentive going away in 2008. I hope the Administration, particularly you, continues to look at these tax incentives. I understand the angst from our friends in the livestock-producing arena as far as the price of commodities, and yet this tax incentive for ethanol and biodiesel are critical to continue to build this domestic demand, and I will continue our conversation about the definition of renewable biodiesel, which is something that your Department is about to promulgate regulations, but we don't have time to go into that.

We continue to look forward to working with the Administration to continue to provide this strong economy that we have seen over these past years.

Thank you, Mr. Secretary.

Chairman RANGEL. Mr. McCrery, would you care to close?

Mr. MCCRERY. Just to say thank you to the Secretary for staying over 15 minutes to accommodate our Members.

Thank you.

Chairman RANGEL. Well, we look forward to working with you, and this is just the beginning. We hope we end up at the station together.

Thank you very much.

Secretary PAULSON. Thank you very much.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[Questions submitted from Members to Secretary Paulson follow:]

Questions Submitted by Mr. Blumenauer to Treasury Secretary Paulson

Question: I was pleasantly surprised to see that the Global Environment Facility (GEF) received not only the \$80 million pledged for the 4th replenishment, but started down the path toward paying off our arrears from past shortfalls. Does this reflect a new commitment by the Treasury Department toward the GEF?

Answer: The Administration's request of \$80 million for annual payment toward the fourth replenishment and \$27 million for arrears clearance reflects numerous factors. Most importantly, it reflects the GEF's newfound commitment to manage for results. The organization took an important step forward when it agreed to distribute resources according to performance and needs, consistent with best practices at other international financial institutions. The GEF has also committed to strengthening fiduciary standards and improving its strategies for intervention in substantive areas including biodiversity, reducing greenhouse gas emissions, and promoting sustainable land use. Finally, the institution is engaged in a rethinking of its project development and project management processes, so that donors can have greater confidence that it allocates resources effectively and efficiently to maximize gains for the global environment. These were reforms that Treasury pushed for and achieved in the fourth replenishment, in what was a contentious negotiation. Under these circumstances, we felt that increasing our appropriation request to include a payment on arrears would provide an important signal that the United States supports recent progress in the GEF. U.S. arrears to the GEF have risen to \$170.6 million as of the end of FY2007. It is important to fund the GEF request fully, both the U.S. commitment to the GEF-4 and arrears, to enable the United States to retain its leading position on driving key reforms, effectiveness, and transparency at the GEF.

Question: We have begun to see the positive impact of debt cancellation in those impoverished countries that benefited from the 2005 debt agreement reached in Gleneagles, but many more impoverished countries require 100% debt cancellation. In the UK, Gordon Brown has named 67 countries as requiring full debt cancellation. Will the U.S. government work to negotiate cancellation for these additional countries, following on the heels of the President's State of the Union address where he noted debt relief as among "our best hope[s] for lifting lives and eliminating poverty"?

Answer: We have indeed begun to see promising results in the heavily indebted poor countries that have demonstrated a commitment to economic reform and poverty reduction, and have therefore benefited from debt reduction under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Our policy has been to use the limited U.S. budget resources available for debt relief for those countries that have unsustainable debt burdens, including those that qualify for HIPC and MDRI debt relief. The United States does not yet have the resources required to meet all of its commitments for those countries, and we hope that Congress will see fit to fund fully the President's FY2008 request for debt relief.

For low-income countries in general, the United States has significantly increased its development assistance. From 2000 to 2005, the United States nearly tripled its official development assistance (ODA) from \$10 billion to \$27.5 billion and nearly quadrupled its ODA to Sub-Saharan Africa from \$1.1 billion to \$4.1 billion, nearly twice the level of that provided by any previous administration.

Question: Those countries currently eligible for 100% debt cancellation through the IMF and World Bank's debt program are required to undertake a series of economic policy reforms to obtain cancellation, including moves to privatize electricity and water services as well as implementing spending caps in health care and education. Is the U.S. Treasury concerned about the years of delays caused by these economic reform requirements in the HIPC, or Heavily Indebted Poor Countries, program, and possible negative impacts on sustainable economic growth and poverty reduction?

Answer: It is important that the debt relief provided under HIPC and MDRI is well used, and contributes to sustainable growth and poverty reduction. Hence, the programs require that governments commit to a sound macroeconomic framework, through a program with the IMF, and to specific reforms that are agreed between the government and the international financial institutions. HIPC and MDRI are in fact aimed at increasing the government funding for poverty reduction programs. While a sound fiscal framework does require limits on spending, the IMF does not actually impose spending caps on "health care education." The governments decide their spending priorities, which are reflected in the IMF programs. In the case of privatizations, these are decided by the governments, and designed to improve efficiency and the delivery of services, and to ease fiscal burdens on the governments.

Question: Last month the Intergovernmental Panel on Climate Change released a consensus report of thousands of scientists around the world saying that evidence of global warming is "unequivocal" and human activities are the major factor driving the temperature rise. What major new initiatives to combat global warming has the administration included in the FY 2008 Budget request?

Answer: Each year the President's Office of Management and Budget (OMB) issues a Federal Climate Change Expenditures Report to Congress, generally in the spring. Upon completions, OMB will post the FY2008 report on its website.

The Administration's overall portfolio of climate change programs focuses on reducing the scientific uncertainties associated with climate change; advancing energy-efficient, renewable, and other low- or non-emitting technologies; and improving standards for measuring and registering emissions reductions.

One of two important categories of spending on climate change-related programs is Climate Change Science, which includes the U.S. Climate Change Science Program (CCSP). The CCSP has been established to integrate the work of the U.S. Global Change Research Program (USGCRP) with the activities of the Climate Change Research Initiative (CCRI). The other category is Climate Change Technology. This category comprises the U.S. Climate Change Technology Program (CCTP) and the subset of CCTP activities identified as the National Climate Change Technology Initiative priorities. The CCTP is a multi-agency effort that incorporates a variety of technology research, development, and deployment activities—including voluntary partnerships and grant programs—that reduce greenhouse gas emissions.

Question: The President has recommended a permanent extension and liberalization of many tax credits, such as increased small business expensing, brownfields tax incentives, and the deduction for teachers' out of pocket classroom expenses. What is the administration's proposal with regard to the Renewable Production Tax Credit, current set to expire in 2008? Why has this successful program, which helps level the playing field for wind and solar power, not been extended?

Answer: The Tax Relief and Health Care Act of 2006 extended the renewable electricity production tax credit through January 1, 2009. The tax credit is for qualifying facilities placed in service before that date and can be claimed for the first 5 to 10 years of operation, depending on the technology. The Administration supports the use of renewable power and will continue to examine the role incentives play in supporting renewable power. In addition to the Federal production tax credit, numerous Federal and State programs provide assistance that promote deployment of renewable energy technologies. The President's Advanced Energy Initiative also provides for continued investments in important clean energy technologies of

the future that can help reduce emissions and improve energy security. The Administration will be watching developments underway in renewable energy technology and in the market over the coming year, and will make a determination at the appropriate time whether to advocate a further extension of the credit.

Question: The Superfund program, created to clean up the nation's worst hazardous waste sites, is funded by holding potentially responsible parties accountable for cleaning up waste sites they create. Until 1995, a dedicated tax on petroleum, chemical feedstocks, and corporate income was used to fund the clean up of "orphan sites," where no responsible party could be identified or where the responsible party did not have the financial resources to assist with cleanup. This tax brought in close to \$2.5 billion in revenues to the Federal government each year. Has the administration given any thought to requesting reinstatement of this tax?

Answer: At this time, the Administration is not seeking reinstatement of the Superfund taxes that expired in 1995. The Administration's FY 2008 Budget proposes to continue to fund the Superfund program through appropriations from the general fund, interest accrued on the unexpected invested balance in the Superfund Trust Fund, recoveries of cleanup costs from responsible parties, and fines and penalties.

