

**WRITTEN TESTIMONY OF SECRETARY JACOB J. LEW BEFORE THE SENATE
BUDGET COMMITTEE ON THE PRESIDENT'S BUDGET
FOR FISCAL YEAR 2015
MARCH 12, 2014**

Chairman Murray, Ranking Member Sessions, and Members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2015 Budget.

The President's Budget invests in the United States economy to promote economic growth in the short-term and to strengthen the foundations for sustained prosperity in the long-term. The Budget builds on recent bipartisan achievements to make fiscal consolidation more balanced and incorporates initiatives to foster innovation, rebuild infrastructure, promote national security, and ensure economic, health, and retirement security for all Americans.

Introduction

When the President took office five years ago, the fiscal outlook for the federal government was bleak. The fiscal deficit was large—at nearly 10 percent of GDP—before any of his policies were enacted. Moreover, the economy was in the throes of the worst recession the nation had seen in generations. Since that time, both the sustained economic recovery and the policies put in place have resulted in a sharp decline in the deficit, putting us on a sustainable fiscal path.

From fiscal year 2009 to 2013, the deficit as a share of GDP fell by more than half to 4.1 percent. This 5.7 percentage point decline in the deficit is rapid by historical standards—over the past several decades, only the period of demobilization following the end of WWII has seen a faster pace of fiscal consolidation. For fiscal year 2014, the projection is for another reduction in the deficit, to 3.7 percent of GDP. A growing economy and our policy choices have dramatically improved our fiscal trajectory. Unfortunately some of the deficit reduction, particularly arbitrary spending cuts imposed by the sequester, have been a notable drag on the economy. More generally, the contentious political environment in Washington, governing from crisis to crisis, has held back the recovery that would have otherwise created more jobs for working Americans. Over the past couple of months, we have seen real progress in returning to regular order in conducting fiscal policy, and so I am hopeful that the bipartisan progress we have seen can continue. But such progress necessarily takes compromise to stimulate growth and curb the deficit. The President's FY 2015 Budget continues this trend. Under the FY 2015 Budget, the deficit will decline to less than 2 percent of GDP by 2024. Debt held by the public as a share of the economy will stabilize in FY 2015 and decline steadily thereafter until the end of the forecast horizon to 69 percent of GDP in 2024.

Over the past 4½ years, the United States economy has made clear and substantial progress recovering from the worst recession the nation has seen since the Great Depression. Although far more work remains to be done, the economy is poised to accelerate this year, continuing the recovery and putting millions more Americans back to work. While the economy has grown at an average rate of 2.3 percent since the recession, last year it grew 2.5 percent. Since February 2010, when the economy began producing jobs again, we have added 8.5 million new private-sector jobs, including 2.3 million over the past year. The housing market, which was the locus of

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much of the distress in the economy, is now rebounding, as rising house prices benefit millions of homeowners and activity in the sector shows signs of a building recovery.

Since the last time I testified on the President's budget, the economy has improved; but we cannot yet be satisfied with where we are. The unemployment rate fell to 6.6 percent in January, its lowest level since October 2008, but there are still millions of Americans in search of work as well as part-time workers in search of full-time opportunities. Moreover, the benefits of the growth we have seen are not being shared by all Americans. Median income for American families has been stagnant for years, while income at the very top has seen substantial growth.

Our recovery from the worst economic recession since the Great Depression continues to strengthen, but more needs to be done to accelerate growth and ensure the benefits of economic growth are not overly concentrated. The President's Budget presents a considered plan to build on the momentum of the recovering economy, to invest in long-term, sustainable growth for all Americans, but to remain dedicated to the need for fiscal responsibility. The recovery in the U.S. economy has helped to drive the world economy. At the G20 meetings, there was agreement that more needs to be done to stimulate growth around the world. With the building strength in our economy, we can maintain our leadership in the global community.

While the FY 2015 Budget adheres to the 2015 budget caps, it also includes a \$56 billion Opportunity, Growth, and Security Initiative that will allow for additional discretionary investments to help expand economic growth and opportunity. This initiative follows the Bipartisan Budget Act (BBA) model of providing equal dollar sequestration relief for defense and non-defense outlays and is fully offset by a combination of revenue and non-health mandatory spending reforms. The initiative highlights the type of balance that the President has long been calling for by funding critical domestic initiatives. This Budget proposes to restore discretionary spending to a path that would support economic growth, opportunity, and security. In particular, while the BBA replaced half the discretionary sequestration cuts for 2014, it replaced just one-fifth of the scheduled cuts in discretionary funding for 2015. As a result, taking into account projected growth in programs such as veterans' medical care and other factors, the BBA non-defense discretionary funding levels for 2015 are several billion below the levels the Congress provided in 2014. They are also below 2007 funding levels adjusted for inflation, even though the need for pro-growth investments in infrastructure, education, and innovation has only increased due to the Great Recession and its aftermath.

The proposals in the President's Budget aim for balance to achieve long-run fiscal responsibility while promoting economic recovery and growth by eliminating waste, investing in the future, and reforming certain mandatory programs. The Budget calls for business tax reform that will make our companies more competitive but that will be revenue neutral in the long run. It introduces a plan to repair our existing infrastructure and expand it to support our economy for the next generation. The Budget increases the resources we are putting toward national security both at home and abroad because economic prosperity and fiscal responsibility cannot come at the expense of our safety. The Budget also proposes initiatives to improve early childhood education and skills training because investing in our nation's human capital will provide the best long-run return for the economy.

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Taking appropriate steps today will make our fiscal challenges easier tomorrow. A stronger economy today will ease those fiscal challenges and improve the lives of working Americans. A credible plan, built on the recent bipartisan cooperation that we have witnessed, is the best way to secure long-run growth.

Investing in Jobs and Opportunity

The strength of our country remains our ability to innovate, the greatest workers in the world, and our strong businesses. The United States competes in a global economy, and to continue to provide jobs and opportunity for Americans, we need to invest in American innovation, strengthen our manufacturing base, and keep our nation at the forefront of technology.

The President has called for the creation of a national network of manufacturing innovation institutes across the country. This network will bring together the private sector, universities, and the government to cooperate to develop world-leading technologies that will support domestic manufacturing. In 2011, the President launched SelectUSA, creating the first Federal effort to attract foreign business investment in the United States, and the Budget expands that effort.

The Budget calls for investing in a wide array of research and development (R&D), from advanced manufacturing and clean energy technology, to health care and agriculture. To support private-sector applied R&D, the Budget reforms and makes permanent the Research and Experimentation tax credit.

In order to secure America's energy future and to protect the planet for future generations, the Budget helps increase American low-carbon energy production while improving energy efficiency. Over the President's first term, the United States cut oil imports by more than 3.6 million barrels per day. To accelerate the progress toward energy independence, the Budget establishes an Energy Security Trust to help fund efforts to shift cars and trucks away from oil. The budget also combats climate change. It does this by investing in clean energy technology, promoting cleaner fossil fuels, supporting the development of carbon pollution standard for power plants and efficiency standards for appliances and buildings, expanding the Better Buildings Challenge and, encouraging international efforts to reduce greenhouse gas pollution.

Building a 21st Century Infrastructure

Long-term economic success depends on the infrastructure that supports our economy. That is why the Budget includes a proposal that uses one-time transition revenue resulting from business tax reform to fund a four-year, \$300 billion surface transportation initiative that will improve our roads, bridges, and railways and will also create jobs across the country. And because funding is one of the most significant obstacles to getting infrastructure initiatives started, the Budget offers innovative ways to finance them. It continues to call for an independent National Infrastructure Bank with the ability to bring together private and public capital in support of a broad range of infrastructure projects, including transportation, energy, and water. At the same time, the Budget creates an America Fast Forward Bonds program to attract new sources of capital for infrastructure investment. Finally, the President has called for streamlining and accelerating the

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permitting process for infrastructure initiatives, and the Budget includes funding for a new Interagency Infrastructure Permitting Improvement Center to help with these efforts.

Supporting Education and Providing Skills

The single greatest resource that our economy has is our people, and it is critical that Americans have the skills and knowledge to compete in the global economy. Research has shown that investing in early childhood education pays great dividends for years to come. The Budget includes the Preschool for All initiative, which was first proposed by the President last year. This initiative involves partnering with States so that all low- and moderate-income four year olds have access to high-quality preschool and creating incentives for the States to expand these programs to reach additional children from middle-class families and establish full-day kindergarten policies. The Budget also provides \$150 million for a new program to redesign high schools so students get relevant educations that meet the demands of current and future employers.

As important as it is for us to modernize and expand programs for young people, it is equally important that we modernize and expand job-training programs for current workers and job seekers. One way the Budget does this is by helping to increase registered apprenticeships, so that workers can “earn and learn” in cutting edge fields. Because long-term unemployment remains a pressing economic and social issue, the Budget provides resources for new public-private partnerships to help get the long-term unemployed back into paying jobs.

Promoting Economic Opportunity and Mobility

As I noted earlier, the economic recovery from the Great Recession has gained traction, but more work remains to be done, particularly to ensure that current and future opportunities are enjoyed by all Americans. Although the unemployment rate has fallen 3.4 percentage points since its peak in 2009, the long-term unemployment rate remains stubbornly high. At the end of last year, Emergency Unemployment Compensation for these Americans lapsed. Congress should renew this vital support for Americans in need, both because of the human suffering that it would reduce, but also because it would add strength to the economy. To increase opportunity for Americans, the Budget supports the Promise Zone initiative, which establishes partnerships with the Federal government, State governments, and businesses to create jobs, expand educational opportunities, and increase access to affordable housing.

In his State of the Union address earlier this year, the President called on Congress to raise the federal minimum wage to \$10.10 per hour and to index it to inflation. No American who works full time should have to live in poverty, and the proposed new minimum wage would pull an estimated 1.6 million Americans out of poverty and add spending to the economy. The Earned Income Tax Credit (EITC) also provides support to low-income working Americans. The Budget expands the EITC available to workers without children and non-custodial parents, including by making the EITC more available to younger workers to encourage more young Americans to join the workforce at the critical beginning stages of their working lives. Improving the security of Americans in retirement is also an important policy goal. To that end, the Administration is moving forward with the myRA “starter” retirement account, and the

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Budget proposes to establish automatic enrollment IRAs to provide even broader access to retirement savings vehicles for Americans who do not currently have access to a workplace savings plan.

Ensuring Our Nation's Safety and Security

Sustained economic growth is only possible to achieve if our country is safe and secure, and the President's Budget bolsters national security both domestically and abroad. The Budget invests in the President's Now is the Time initiative to reduce gun violence, supports additional background checks for firearms dealers, and continues to support the Comprehensive School Safety Program and other programs that make our schools safer. Protecting our national security around the globe is equally important, and the Budget reflects a focused effort to address our highest defense priorities—bringing the war in Afghanistan to a responsible end, working to disrupt and disable terrorist networks, and assuring that our military is ready to respond to new threats such as cyber-attacks or attacks on the nation's critical infrastructure. Given the critical role our military plays, this budget provides significant resources to support veterans' medical care, help military families, assist soldiers transitioning to civilian life, reduce veterans' homelessness, and improve the disability claims processing system.

Health Care Reform

With continued implementation of the Affordable Care Act (ACA) and the opening of the Health Insurance Marketplace, millions of people have enrolled in either private insurance or received coverage through Medicaid and the Children's Health Insurance Program. The Budget fully funds the ongoing implementation of the ACA to make sure that coverage is affordable, to drive down long-term health care costs, and to improve the quality of health care for Americans.

At the same time, the President is committed to meaningful reforms to entitlement programs. The Budget includes \$402 billion in savings on health care spending. The Budget includes proposals to increase care quality and efficiency and to reduce fraud in our Federal health care programs. The Budget also includes structural changes to Medicare that encourage beneficiaries to seek high-value healthcare services. The Budget proposes a reduction in the Federal subsidy of Medicare costs for those who need the subsidy the least. For new beneficiaries beginning in 2018, the Budget proposes a modified deductible for Medicare Part B and a modest copayment for some home health services. The Budget also has several proposals to contain the costs of medications, including encouraging the use of generic medications when clinically appropriate and closing the prescription drug coverage gap faster than current law. The Budget also seeks to align Medicare and Medicaid drug payment policies, addresses excess payments to hospitals and physicians, and increases access to generic drugs and biologics.

The Budget seeks to preserve the existing partnership between States and the Federal Government, while making Medicaid more efficient and sustainable. The Budget would limit Federal reimbursement for a State's Medicaid spending on certain durable medical equipment services to the equivalent Medicare payments in that State and includes targeted policies to lower drug costs in Medicaid. The Budget strengthens Medicaid and CHIP by providing tools to States, Territories, and the Federal Government to fight fraud, waste, and abuse, and make it

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easier for eligible children to get and maintain coverage. The Budget also includes other program improvements aimed at improving efficiency and effectiveness as States expand Medicaid.

Lastly, the Budget proposes a budget neutral pilot initiative under the Program for All-Inclusive Care for the Elderly (PACE) to test whether PACE programs can effectively serve a younger population without increasing costs. The Budget also supports a streamlined, single beneficiary appeals process for managed care plans that integrate Medicare and Medicaid payment and services. Finally, the Budget authorizes a permanent program to provide retroactive drug coverage for certain low-income Medicare beneficiaries through a single plan.

Reforming the Tax Code

The tax code should encourage public confidence and provide a simple level foundation for economic growth. However, over time, it has become unnecessarily complicated and a burden on the economy. Comprehensive tax reform holds the promise of improving economic growth by reducing complexity for individuals and small businesses, by curbing inefficient tax subsidies that distort individual and business decision-making, and by reducing the deficit. While the Administration's position is that tax reform should raise revenue, unfortunately, there is not agreement in Congress on whether tax reform should raise revenue or be revenue neutral. The President's Budget, however, builds on the bipartisan support for business tax reform. In February 2012, the President provided a framework for how business tax reform could be achieved. The Budget uses that framework to simplify and strengthen tax incentives for research and clean energy, to begin closing loopholes and eliminating special-interest subsidies, and to begin reforming the international tax system. The proposals would prevent U.S. companies from shifting profits overseas and prevent foreign companies in the U.S. from avoiding taxes that they owe. These proposals are part of a comprehensive—and long-run revenue neutral—business tax reform plan that would also cut the marginal tax rates for businesses.

As I noted above, the Budget also expands the earned income tax credit (EITC) for childless workers. The EITC has been a particularly effective tool at reducing poverty in this country, it has been supported by both parties, and creates crucial incentives to boost employment. The President proposes to strengthen the EITC, especially for young people that are just entering the labor force. Beyond these measures, the President is committed to working with the Congress to reform the tax code further to make it fairer, to promote economic growth and job creation, and to improve competitiveness.

Comprehensive, Pro-growth Immigration Reform

The President believes that we need to fix our broken immigration system by continuing to strengthen border security, by cracking down on employers who hire undocumented workers, by fixing our broken legal immigration system, and by providing a pathway to citizenship for hardworking men and women who are already here and contribute to our nation every day.

Immigration reform will encourage economic growth and help achieve better fiscal policy. The President has laid out principles for immigration reform but wants to work with Congress to craft specific legislation. But, the Congressional Budget Office estimates that the immigration bill

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that passed with bipartisan support in the Senate last year – and which is largely consistent with the President’s vision – would reduce the deficit by about \$160 billion in the first decade and by almost \$850 billion over 20 years. Similarly, the Social Security Actuaries have found that the Senate bill would reduce the Social Security shortfall by \$300 billion over the first 10 years. The Administration supports the Senate approach, and calls on the House of Representatives to act on comprehensive immigration reform this year.

Conclusion

In summary, the U.S. economy has made clear progress in the recovery from the Great Recession, but we cannot be satisfied with where we are. The labor market is clearly improving, but millions are still looking for work. This budget is a comprehensive and balanced approach to the realities we face. It supports the ongoing recovery and invests in long-term growth, while also building on the progress that has already been made to ensure a sustainable path for the debt and deficit.

The Budget is a credible, common sense plan that makes hard choices. It focuses on economic fundamentals that will help drive growth, create jobs, and expand opportunity for all Americans, unlocking a brighter future for future generations. I believe, as does the President, that the recent bipartisan cooperation on Capitol Hill demonstrates that we can find common ground to move our country forward. I look forward to working with Congress to get this done.