

**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 8.7 million new private-sector jobs, including 2.2 million over the past year. The housing market, which was the locus of

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 21<sup>st</sup> 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

the Administration is moving forward with the myRA “starter” retirement account, and the 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

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specific legislation. But, the Congressional Budget Office estimates that the immigration bill 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.