TREASURY SECRETARY LEW CALLS FOR ACTION ON BUDGET, DEBT CEILING, TAX REFORM, AND MORE

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September 17, 2013

Excerpts from Secretary Lew's Remarks

On the U.S. economy: Since 2009, our economy has been expanding. Private employers have added 7 1/2 million jobs over the past 42 months; businesses have added more than 2 million jobs over the last year. Manufacturing is expanding while the housing market continues to improve, posting gains in sales, prices, and residential construction.

Because of the policies that we've put in place, our deficit has fallen faster than at any point since the demobilization after World War II, and it should continue to decline relative to GDP over the 10-year budget forecast. Because of the resiliency of our people, our businesses, and our economy, we're in a much stronger position today than many imagined just a few years ago. But we're not yet where we want to be. Too many Americans cannot find work. Growth is not fast enough. And the very definition of what it means to be middle class is being undercut by trends in our economy that must be addressed.

Need to reverse trends: These trends, like the increase in income inequality and the decline in upward mobility, did not happen overnight. And it's going to require work and focus to reverse them. But we cannot do that — we cannot focus on what's important — if some in Washington continue to create uncertainty about whether our political system can meet its basic responsibilities and avoid creating self-inflicted wounds to the economy.

Need for balanced policies: I know from my talks with business leaders that this is a concern for many of you. That's why it is important for Congress to work with the President to replace the senseless across-the-board spending cuts known as sequestration with balanced policies that reduce the deficit and strengthen our economy. And that's why it is also important that Congress move as soon as possible to raise the debt ceiling and eliminate any uncertainty about America's ability to pay its bills.

Need to raise the debt ceiling: We will soon be unable to finance the government if Congress fails to raise the debt ceiling. Raising the debt limit is Congress's responsibility because Congress, and Congress alone, is empowered to set the maximum amount the government can borrow to meet its financial obligations. Of course, failing to meet our financial obligations should be an unthinkable event. Never in our history has the United States defaulted on our obligations. Congress has always lived up to its responsibility to protect the Nation's credit.

Effects of default are unknown: Those in Congress who think default is an option claim that it's possible to protect our economy by simply paying only the interest on our debts, while stopping or delaying payments on a number of other legal commitments. There is no way of knowing the irrevocable damage such an approach would have on our economy and on financial markets. As Administrations of both political parties have previously determined, these prioritization proposals are unworkable. They represent an irresponsible retreat from a core

American value: Since 1789, regardless of party, Presidents and Congresses have always honored all of our commitments.

Some say Treasury can maneuver around the problem: Once you've hit the end of extraordinary measures, your borrowing authority is gone. You have no more ability to borrow. You're then left with cash, and as any small businessperson knows, if you're operating your business relying on cash in the cash box to pay your daily bills, if your revenue is not adequate on a given day and you empty the cash box, you can't pay all your bills when the cash box is empty.

Tax reform: I am working on tax reform. You know, I think the President tried just a few weeks ago to breathe a little new life into the tax reform debate by suggesting that we think about business tax reform first. You know, the challenge in doing comprehensive tax reform is it's tied up with the whole fiscal policy debate. We do not believe you can do all of tax reform — individual and business tax reform — unless you have an agreement at what your revenue level is that's part of a broader fiscal frame.

On chances of another financial crisis: A lot of healing has taken place. We've seen the economic growth that I described in my opening remarks. We've seen repair to our financial system where we have better capitalized banks, we have a financial system where large institutions have to have plans for how to resolve themselves and not turn to taxpayers for support if they hit hard times. We're seeing movement to deal with some of the new and troublesome developments in the financial system, like shadow banking.

We're not done yet. We still have quite a bit of work to do this year. I have put an enormous amount of my time as Treasury Secretary into convening the regulators and impressing on them that by the end of this year, the major components of the Dodd-Frank bill have to be completed, including the Volcker Rule. And I think that when we're done, we will have accomplished the most significant reform of the financial system in 75 years and, you know, unfortunately or fortunately, we won't know with 100% clarity unless and until there's a financial crisis whether we've done enough.

I believe that we've taken the steps that we need to take in enacting a law that says too-big-to-fail is over. We're in the process of taking the necessary steps to implement that law. But as I've said on a number of occasions, when we're done, we have to take stock and we have to look at the world as it exists at the end of this year, the beginning of next year and then each year after that, each month after that really on an ongoing basis and saying, is the financial system the same as it was? Has it changed? Is it evolving? Do we have the visibility into it? Do we have the supervision? Do we have the right regulatory structure?

DAVID RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, welcome to this breakfast session of the Club at the Grand Hyatt Washington, DC. I am David Rubenstein, President of The Economic Club of Washington.

We are very honored today to have as our special guest the 76th Secretary of the Treasury, Jack Lew. Jack Lew has come to this job with more experience in government than probably anybody else who's ever served as Secretary of the Treasury. In the Obama Administration, he started out as Deputy Secretary of State for Management and Resources, then became Director of the Office of Management and Budget, and then became White House Chief of Staff before becoming Secretary of the Treasury. In the Clinton Administration, he also served as the Director of the Office of Management and Budget and also as Special Assistant to the President of the United States.

He also has experience in the legislative branch. He served for eight years on Capitol Hill working for Tip O'Neill, the last three years as Senior Domestic Policy Adviser to Speaker O'Neill. The Secretary has extensive experience in the private sector, and before joining the Obama Administration he served as the chief operating officer of NYU and as a senior officer at Citicorp's alternative investments division. He's also a lawyer who practiced law in Washington for a number of years before going into government. Jack is a graduate of Harvard College and Georgetown Law School.

So it's my pleasure to introduce the 76th Secretary of the Treasury, Jack Lew. [Applause.]

SECRETARY JACOB LEW: Thank you, David, for that very kind introduction, and thank you to the Economic Club for having me here this morning.

I want to begin by joining all Americans in saying that our thoughts and prayers are with those who were affected by yesterday's tragedy at the Washington Navy Yard. To those who lost a loved one, I offer my deep condolences. I extend my gratitude to the local authorities, federal law enforcement, and medical teams who responded so quickly and skillfully to the events as they unfolded yesterday.

Now, I'd like to start by talking about current economic conditions and challenges. I'd also like to speak about what's at stake for our economy over the next few weeks.

As we meet here this morning, it's important to remember that five years ago this month, our financial system was in the throes of a devastating crisis. The crisis exposed fundamental weaknesses in our economy that had been building for some time, and it helped trigger the worst recession since the Great Depression. In the months before President Obama was sworn into office, we were shedding more than 800,000 jobs a month and our economy was shrinking at an 8.3% annual rate.

The President moved immediately to stop the recession, and began to lay a foundation for long-term economic growth. He took action to repair our aging roads, bridges, and highways; to invest in education so that more young people could graduate high school and go to college; to fix a health care system that was not working; to reshape the financial system so it does a better job of protecting consumers and investors; and to lock in lower taxes for 98% of all Americans. He took steps to make it easier for entrepreneurs and businesses to innovate, grow, and hire.

Since 2009, our economy has been expanding. Private employers have added 7 1/2 million jobs over the past 42 months; businesses have added more than 2 million jobs over the last year. Manufacturing is expanding while the housing market continues to improve, posting gains in sales, prices, and residential construction.

Because of the policies that we've put in place, our deficit has fallen faster than at any point since the demobilization after World War II, and it should continue to decline relative to GDP over the 10-year budget forecast. Because of the resiliency of our people, our businesses, and our economy, we're in a much stronger position today than many imagined just a few years ago.

But we're not yet where we want to be. Too many Americans cannot find work. Growth is not fast enough. And the very definition of what it means to be middle class is being undercut by trends in our economy that must be addressed.

These trends, like the increase in income inequality and the decline in upward mobility, did not happen overnight. And it's going to require work and focus to reverse them. But we cannot focus on what's important if some in Washington continue to create uncertainty about whether our political system can meet its basic responsibilities and avoid creating self-inflicted wounds to the economy.

I know from my talks with business leaders that this is a concern for many of you. That's why it is important for Congress to work with the President to replace the senseless across-the-board spending cuts known as sequestration with balanced policies that reduce the deficit and strengthen our economy. And that's why it is also important that Congress move as soon as possible to raise the debt ceiling and eliminate any uncertainty about America's ability to pay its bills.

As many of you know, we will soon be unable to finance the government if Congress fails to raise the debt ceiling. Raising the debt limit is Congress's responsibility because Congress, and Congress alone, is empowered to set the maximum amount the government can borrow to meet its financial obligations.

It's important to note, as I've done before, that the debt limit has nothing to do with new spending. It has to do with spending that Congress has already approved and bills that have already been incurred. Failing to raise the debt limit would not make these bills disappear. We reached the debt ceiling in May. Since that time, Treasury has used what are called extraordinary measures to avoid defaulting on our obligations.

I notified Congress in August that these extraordinary measures would be exhausted by the middle of October. If Congress fails to act and those measures are exhausted, we will have to use what cash balances we have on hand to fund the operations of a nearly $4 trillion government. At that point, meeting our Nation's financial obligations — including Social Secretary and Medicare benefits, payments to our military and veterans, and contracts with private suppliers — will be put at risk.

Some in Congress seem to think they can keep us from failing to pay our Nation's bills by simply raising the debt ceiling right before the moment our cash balance is depleted. This is misguided for several reasons. For one, it's just not possible for the U.S. Treasury to know with precision when the moment will be because outgoing payments and incoming receipts vary significantly from day to day. Operating on a small cash balance creates the real danger that on a day that we anticipate having a positive cash balance we actually will have a negative one.

At the same time, we're relying on investors from all over the world to continue to hold U.S. bonds. Every Thursday, we roll over approximately $100 billion in U.S. bills. If U.S. bond holders decided that they wanted to be repaid rather than continuing to roll over their investments, we could unexpectedly dissipate our entire cash balance.

The point is, trying to time a debt limit increase to the last minute could be very dangerous. Make no mistake: If Congress does not act and the U.S. suddenly cannot pay its bills, the repercussions could be serious. The impact on families and businesses could be significant. Investors losing confidence in the full faith and credit of the United States could cause damage to our economy.

Failure to raise the debt limit, or even an extended debate on the merits of doing so like we experienced in 2011, is a self-inflicted wound that can do harm to our economy right at a moment when the recovery is strengthening. No credible economist or business leader thinks that defaulting on the full faith and credit of the United States is good for job creation or economic growth. They understand that Congress choosing not to pay the government's bills is unacceptable, and could hurt our economy.

Consider the words of another Treasury Secretary, James Baker, who served under President Reagan. Faced with a threat to our Nation's credit, Secretary Baker told Congress, and I quote: "A failure to pay what is already due will cause certain and serious harm to our credit, financial markets and our citizens."

Of course, failing to meet our financial obligations should be an unthinkable event. Never in our history has the United States defaulted on our obligations. Congress has always lived up to its responsibility to protect the Nation's credit.

Those in Congress who think default is an option claim that it's possible to protect our economy by simply paying only the interest on our debts, while stopping or delaying payments on a number of other legal commitments. There is no way of knowing the irrevocable damage such an approach would have on our economy and on financial markets. As Administrations of both political parties have previously determined, these prioritization proposals are unworkable. They represent an irresponsible retreat from a core American value: Since 1789, regardless of party, Presidents and Congresses have always honored all of our commitments.

We cannot afford for Congress to gamble with the full faith and credit of the United States of America. At the same time, we should never be put in a position where we have to pick and choose which of our Nation's commitments we will meet. How can the United States choose whether to send Social Secretary checks to seniors or pay benefits to our veterans? How can the United States choose whether to provide children with food assistance or meet our obligation to Medicare providers?

Now, as a matter of fact, up until very recently, Congress typically raised the debt ceiling on a routine basis. The debt ceiling was raised 18 times under President Reagan, who had a Democratic House of Representatives during his entire eight-year term. It was raised six times under President Clinton, who had a Republican House of Representatives for six of his eight years. And it was raised seven times under President George W. Bush, who had a Democratic House of Representatives for the last two years of his eight-year term. During that period, many of the debt limit increases were passed as stand-alone bills. There were a handful of times when the debt limit was embedded in congressional legislation dealing with broader fiscal challenges. But the threat of default was never a bargaining chip in the negotiations.

That all changed two years ago when the issue of raising the debt ceiling turned into a high-stakes political drama. We saw for the first time a debate take place over whether the United States should voluntarily default on its obligations. Some actually argued that default was a viable outcome. There were in fact Members of Congress willing to default on our full faith and credit rather than reach a good faith compromise.

America does not want to relive what happened in 2011. That drawn-out debt ceiling dispute and brinksmanship led to business uncertainty, a drop in consumer confidence, and the first-ever downgrade of our Nation's AAA credit rating. The resulting drop in financial markets undercut economic growth for months. Anxiety spread across the country and around the world as Congress delayed action until the very last moment.

I want to repeat what the President has already made clear: He will not negotiate over the debt ceiling. He will not accept measures that would tie a debt limit increase to defunding or delaying the Affordable Care Act, which was passed by Congress and upheld by the Supreme Court.

The time to make policy is before, not after, we have made commitments. This is a stand that Democratic and Republican Presidents must take to make clear that under no circumstances will the United States fail to pay our bills.

Now, the President is willing to negotiate over the future direction of fiscal policy. That’s why he proposed a budget that reflects the difficult choices that he believes we need to make as a country. Within that budget, the President included reforms to entitlement programs and the tax system that would spur economic growth and cut our deficit. And he made it absolutely clear that he is ready to sit down with Republicans and Democrats to find common ground.

Elected leaders have a responsibility to make our economy stronger, not to create manufactured crises that inflict damage. The very last thing we need now is a fight over whether we raise the debt ceiling. Not when we face serious challenges both domestically and internationally that require our full attention, and not when we know the kind of damage a financial and economic crisis can cause. The truth is, Congress can get this done. The time to do it is now.

Thank you very much, and I look forward to the conversation we're about to have. [Applause.]

MR. RUBENSTEIN: So as I pointed out at the beginning, you have served as Deputy Secretary of State in this Administration, head of OMB, White House Chief of Staff and now Secretary of the Treasury. Why have you had a hard time holding a job in this Administration? Does the President not like you? How come he keeps moving you around?

SECRETARY LEW: Well, my wife has teased me that, if I would just keep one job for longer, we could reduce unemployment in this country. You know, the truth of the matter is, you come into an Administration to serve and you serve in the role where the President thinks that you can make the most difference. It's been my honor to serve two Presidents, and I haven't developed the ability to say no when they ask me to serve.

MR. RUBENSTEIN: Actually, you've served two Presidents and maybe a future President — you worked for Hillary Clinton, who may run, we don't know. Of those three, who were the smartest? [Laughter.]

SECRETARY LEW: You know, when you line up three of the smartest people I've ever known, choosing between one and another would be a foolhardy proposition.

MR. RUBENSTEIN: OK. So on the debt limit, let's talk about that, to be very serious. You have said, you have about $50 billion of cash that we'll probably have around the middle of October, something like that, and so that's not enough to really make the government function effectively. So your message today is that let's not wait until the end — the end of the period of time when the debt limit extension is absolutely necessary to be extended. Let's resolve it now and let's not wait until the last minute, because we have so many obligations and we can't let people wonder what's going to happen.

So are you engaged in negotiations now with the Speaker or others in the Senate, and what is going on? And is the President thinking of calling people to the White House and try to get some negotiations going on?

SECRETARY LEW: Just to be clear about the deadline, first — you know, there is an extraordinary desire in Washington to know with precision when the last minute to act is. The debt limit is something that is intrinsically impossible to give that kind of information about. As I said in my remarks, your revenues and your expenditures fluctuate from day to day. If anything, as I watch the daily cash balances, things have moved a little bit in the wrong direction since I sent the letter. Not dramatically, but — you know, tomorrow they could move in the right direction. What you can't do with the debt limit is take the risk that you will not have the ability to pay our bills on a day when an interest payment is due, on a day when a Social Secretary check is due, which is why I have said it's urgent for Congress to act as quickly as possible, certainly by the middle of October.

You know, we have engaged in discussions over fiscal policy, the White House and the Congress, extensively over the last several years. The President has made clear through his conversations over the years with the Speaker, through the conversations he's had with a wide group of senators and congressmen, that he, on fiscal policy, is anxious to find the sensible middle ground. The problem is, we've yet to find Republicans who are willing to sit down and have the conversation about a balanced package with revenue reform, which raises revenue, and entitlement reform.

The debt limit is a different question. I really do believe the world changed in 2011. It cannot be an acceptable notion that you negotiate where one part of one side believes that default is actually an option. That was never the case before. You cannot let 50 to 100 Members of one body introduce the idea that the United States cannot pay its bills. So you can't even entertain that as a notion. Future Presidents, Democrat or Republican, cannot be in the position where they're compelled to accept unacceptable policy year after year because there's a faction that thinks default is an option. Congress just needs to act.

MR. RUBENSTEIN: All right, but they're not acting. So you're the leader of the Executive Branch, what are you doing about it? Are you corralling them, are you threatening them? What can you do to get something done?

SECRETARY LEW: Look, I think that the reality is that it's not what I say that matters. It's what the facts are that matters. The facts are that in the middle of October, we're at risk of the United States, for the first time in history, not being able to pay all of its bills on time. That's a burden Congress bears and Congress, I think, will step up and deal with it. I can't tell you exactly what the path is. It's not particularly helpful for any White House to dictate the specific steps that Congress needs to take. I think if you look at the conversations going on right now, it's clear that there is concern about both funding the government and meeting our obligations to be able to pay our bills by extending the debt limit. I think this focus on the last minute has for a while given Congress the idea that it had a little more time. I hope I've dispelled that notion, because it's a dangerous notion. Thinking you have more time raises the risk of an unintended consequence. I don't believe the responsible leaders in the Congress believe that default is any more of an option than I do.

MR. RUBENSTEIN: Right. So do you think the President should call the Congressional leaders to the White House and just say, we're not leaving until we get something done? Why don't you use that technique?

SECRETARY LEW: You know, the process of calling leaders to the White House is something we spent a fair amount of time doing in 2011. I don't recall that it necessarily was the fastest path to a finish line. I think, you know, this is something that the leaders of Congress, Democrats and Republicans, are talking about. They have talked about the funding bill to keep the government operating after October 1st, and, you know, I think that, you know, if you look at the debate over the debt limit, you know, there's a kind of notion in part of the House Republican Caucus that it can be used as a lever to force major policy change like the delay of the Affordable Care Act. That's just not reality, and they're going to have to start dealing in reality.

MR. RUBENSTEIN: So you pointed out in your opening remarks that under Tip O'Neill, when he was Speaker and Ronald Reagan was President, I think you said 16 times the debt limit was ….

SECRETARY LEW: I think 17.

MR. RUBENSTEIN: Seventeen, was it? — it was increased. So you were involved in those negotiations. Did you ever say, let's not extend the debt limit? Did you do that in those days? You never did that?

SECRETARY LEW: You know, the 1980s, when we lived through them, seemed like the most partisan era in history, and now it's almost romantically — [laughter] — bipartisan. Just read my friend Chris Matthews' new book on the relationship between President Reagan and Speaker O'Neill. It brought a lot of those memories back.

You know, one of the things about Mr. O'Neill's leadership was that he actually believed in letting a majority work its will. There were moments when House Democrats did not want him to give President Reagan a chance to have a vote, and things passed with a mixture of Democratic and Republican votes, and it felt at the moment as if maybe the Democratic leadership had lost control of the House. But he did believe that the worst thing you could do was just to throw grit in the system and cause the whole enterprise of government to break. I think we're dealing with a different approach, at least on the part of some Members of the House now, and if they could get back a little bit to the idea of letting a majority work its will, this kind of a problem would be a lot easier to solve.

MR. RUBENSTEIN: So today, you would say we have to deal with the debt limit issue, and you've dealt with that and you've talked about that, and you're hoping that something will break at some point and you'll have the negotiations. But let's also talk about the continuing resolution, the spending. Right now, on October 1 we will run out of money. We need money — new appropriation bills or a continuing resolution to fund the next years of the federal government. What do you see as happening there? Do you see any negotiations occurring on that? Is that more likely to get negotiated out than the debt limit, or where do you think that's going?

SECRETARY LEW: There are conversations going on between the Senate Democratic leaders, the House Republican leaders. The President's made clear the kind of frame that he is using as he thinks about it. He's made clear that we cannot have a solution that fixes the problems that sequestration has caused in defense, but not nondefense. We cannot have a solution that abandons our commitment to the foundations of a better economic future — education, infrastructure, and research and development. And I think we have to give the leaders some time to work through a solution here.

I want to underscore something I said in my remarks, because I think people really need to understand. The President has always been open to finding the sensible middle ground and negotiating or finding a path to an agreement on fiscal policy. It was not popular in the Democratic caucus when he put a budget out at the beginning of this year that essentially reiterated the offer he made to Speaker Boehner last December. It had entitlement savings; it had a tax reform plan that had additional revenue, not all of which is popular even on the Democratic side of the aisle. It was meant as a basis to form a conversation and an ultimate agreement with a balanced approach. Across-the-board cuts of sequestration were never meant to be policy. They were put in place to, as you recall, to have a supercommittee fear sequestration so that it could reach some difficult decisions. It didn't work, so we now have these across-the-board cuts in place.

If you look at where we are in the short-term fiscal policy, most economists think we've actually done more deficit reduction in these few years than is good for the economy. And in the medium and long term, we don't have the sensible structural changes to put us on the right trajectory going forward. The President put out a budget that would replace the across-the-board cuts with sensible balanced approaches. You know, I try to always be an optimist. I've probably been more optimist than most. It's getting harder and harder to retain my traditional optimism, but I'm still hopeful that common sense will rule.

I do think that the idea of reaching agreement on fiscal policy is entirely different than the idea of using the debt limit as a kind of lever to force another side into just capitulating.

MR. RUBENSTEIN: On sequestration, when you were the head of OMB, you were involved in negotiations that led to sequestration. Some have called you the father of sequestration because you proposed this, and I think some people on the Republican side have said it was actually your idea. Would you like to clarify where that idea came from?

SECRETARY LEW: I don't seek credit for authorship of something that I've said many, many times is a very bad policy. You've got to go back to 2011. We were engaged in a very difficult set of negotiations. We were headed for a fiscal crisis. There was a debt limit deadline imposed on spending at the time where it was highly credible and believed by most in the world that there was a chance the United States would actually go over that cliff.

We tried every way to reach agreement, first on a substantive basis. We made some progress but got close to the finish line and it didn't work. It then was necessary to figure out, how do you bridge the gap? Our preference would have been to have some kind of an enforcement mechanism that put revenues and spending both at risk if Congress failed to act. That was unacceptable to Republicans.

In a world where you could not have balance between revenues and spending, the only thing that's worked in modern times was making defense and nondefense equally exposed to risk. That was the formula that, you know, Gramm-Rudman-Hollings put in place. It was something that led to the 1990 budget agreement because people feared that kind of a cut so much that they kind of camped out at Andrews Air Force Base and they made the hard decisions and reached an agreement. Coming out of those conversations, that was the last option to avoid a disaster. And it was put in place not to take effect; it was put in place so that Congress' supercommittee would have the incentive to act.

There were a lot of ideas swirling around —I actually believe there was a Republican budget proposal that incorporated that idea earlier in the year. The fact of the matter is, nobody should claim authorship over something that was at the time described by all parties as an unthinkably bad policy.

MR. RUBENSTEIN: OK. Before we leave this subject, right now, are there any negotiations going on on the debt limit between the Administration and Congress, and are there any negotiations going on on the continuing resolution between the Administration and Congress? Is there anything going on right now, secret negotiations that you can now tell us are not —

SECRETARY LEW: There are not and there will not be negotiations over the debt limit.

MR. RUBENSTEIN: So no negotiations. Discussions —

SECRETARY LEW: The President's been very clear on the debt limit. I'm discussing the debt limit with everyone; I talk to the committees of Congress on a regular basis, and I'm going to do so again this week. I'm doing so here today. That's very different from negotiating. There's a need for a clear understanding. Everyone has to have accurate information about what the schedule and consequences are and what's knowable and what's not knowable. But the President's made clear we can't be negotiating with the threat of default.

On the spending bills, I think there are the normal kinds of conversations going on. You know, unfortunately, they tend to not come together until the very last minute, and I will leave it to my friend and successor at the Office of Management and Budget, Sylvia Burwell, to handle that.

MR. RUBENSTEIN: Right. So one story that is circulating in Washington is that there's discussion that the House might propose, let's say, a debt limit extension but attach to it a defunding of "Obamacare" and send that to the Senate and let the Senate decide what it wants to do. Have you had any comment on that? Do you have anything to say about that?

SECRETARY LEW: Well, the President's been clear, I've been clear, efforts to either defund or delay the Affordable Care Act are unacceptable. That is not a path towards something that can ultimately be signed into law.

In terms of the procedures, you know, I think that, you know, what happened last week was, you know, a bit of a revolt in the House where there was a way to send it over to the Senate, where the House gets to vote one way, and the Senate gets to vote another way. I leave it to the Congress to manage how those kinds of opportunities for everyone to vote their conscience work. What they have to keep in mind is that ultimately, something has to pass the House, the Senate and be signed by the President. And you cannot have a minority in one House dictate others in the Senate and the White House the only path that's acceptable. And I think, you know, the reality is that's not going to happen, and the sooner they understand that the better.

I have heard comments in the last few days, I've read, even, in the editorial in *The Wall Street Journal* this morning that there is a kind of growing awareness that, you know —of what in some ways is very obvious, that — I learned this in the 1980s — you cannot control both Houses of Congress and the White House with 50 to 100 votes in the House.

MR. RUBENSTEIN: So if people around the world are watching what you say, and they're buyers of Treasury bills, and depending on how our economy's faring, would you think it's fair to say that you are optimistic that this will get resolved in time? Pessimistic or cautious? What would you describe as your feeling?

SECRETARY LEW: I am anxious, I'm cautious and anxious. I think that, you know, I take comfort from the fact that I don't believe there are any responsible leaders who think that default is an acceptable option. I'm nervous by the desire to drive this to the last minute when the last minute is inherently unknowable and the risk of making a mistake could be catastrophic. I also worry about, frankly, the time it takes for the kind of Congressional process to work these days. You know, if you have to march up the mountain three or four times before you can get to the top, you have to leave enough time to come up and down. And we're getting very close to these deadlines, and I think that there's a need to get going.

MR. RUBENSTEIN: You know, sometimes, people say on Capitol Hill that the Treasury has ways to maneuver more than they say publically. So that you say now the deadline is the middle of October but that if you needed a couple of more weeks, you could maneuver things around. Is that unfair? Untrue?

SECRETARY LEW: Once you've hit the end of extraordinary measures, your borrowing authority is gone. You have no more ability to borrow. You're then left with cash, and as any small businessperson knows, if you're operating your business relying on cash in the cash box to pay your daily bills, if your revenue is not adequate on a given day and you empty the cash box, you can't pay all your bills when the cash box is empty.

And I can't say with precision when that is, but I can tell you I can't refill the cash box once we've lost our ability to use extraordinary measures. That's going to happen in mid-October. In a $4 trillion enterprise, which is what this federal government is almost — just under $4 trillion — you know, $50 billion sounds like a lot of money, but we have individual days when our net negative cash flow is $50 billion, and that doesn't matter if things are operating normally and you have net positive days later in the week or later in the month and it evens it out. But if you can't borrow to get from here to there, for the first time in American history, you're left with the inability to pay all your bills. You run out of extraordinary measures at some point.

MR. RUBENSTEIN: OK. Let me shift to another subject, tax reform. The chair of the Ways and Means Committee, the chair of the Senate Finance Committee, they were here not long ago talking about the need for tax reform and their desire to get it done. But do you see any evidence that tax reform will get done this year, and are you working on tax reform?

SECRETARY LEW: I am working on tax reform. You know, I think the President tried just a few weeks ago to breathe a little new life into the tax reform debate by suggesting that we think about business tax reform first. You know, the challenge in doing comprehensive tax reform is it's tied up with the whole fiscal policy debate. We do not believe you can do all of tax reform — individual and business tax reform — unless you have an agreement at what your revenue level is that's part of a broader fiscal frame.

When you look at business tax reform, you know, our goal is to reduce the tax rate on the corporate side. We have one of the highest statutory tax rates in the world. It's a disincentive for businesses to organize in the United States. We would like to, for a whole host of reasons, bring down the statutory tax rate, and we'd like to do it by eliminating deductions in credits and leveling the playing field.

It's very hard to get that rate even to 28%. There's a debate between folks as to whether you can get to 25%. I've yet to see the ways to pay to get to 25%, but we have a structure to get to 28%. If we have a convergence of ideas about the importance of lowering the business tax rate, the importance of getting rid of the distorting effect of special credits and deductions, and we even have a way of reaching across to the pass-throughs that file as individuals by saying if you can deduct the first million dollars of business expenses — you know, instead of taking it over time as depreciation, deduct it — that's a benefit whether you file as a corporation or a pass-through. There's an awful lot that we, I think, have a convergence, if not a total agreement on.

Business tax reform has the effect of throwing off some one-time savings. As you make these changes, there's a bump in revenue. If you were to cut your tax rates forever and that bump disappears, you're no longer revenue-neutral. There's been a question what do you do about those one-time savings.

The President made a suggestion: why don't we see if we can agree on the things that we agree on. There's a broad bipartisan agreement that infrastructure in this country needs attention. I actually think there's broad bipartisan agreement that we have problems in training and education that need attention. If we could take the one-time savings, do something good for the economy, good for business, lower tax rates for businesses, make it easier for businesses to invest, that would be a big accomplishment.

So I think, you know, there are ideas there where you still could see progress this year.

MR. RUBENSTEIN: But do you think you can get corporate tax reform done without getting individual tax reform done? Don't you have to do both? And is it possible just to do one?

SECRETARY LEW: Well, it certainly is possible. I mean, the argument has been made that you shouldn't, not that you can't, and the President suggested, you know, he would be delighted if we could have an agreement on a fiscal frame so we could do, you know, tax reform on both sides. In the absence of a fiscal agreement, you cannot re-write the Tax Code one time in a generation and leave for later the discussion of how revenue fits into a fiscal solution.

So, you know, we're happy to do either. We're happy to do comprehensive tax reform with a revenue target that's part of a fiscal frame. We're happy to work on business tax reform that uses the one-time savings to help build a foundation for economic growth in this country. That leaves you paths that are still, I think, possible to cross.

I know that both the Chairman of the House Ways and Means Committee and the Chairman of the Senate Finance Committee are very determined to move forward with this. I talk to each of them regularly. We're providing technical support as all parties are thinking through this. You know, there are multiple paths that we could make progress on, and I'm hopeful we will.

MR. RUBENSTEIN: All right. So were you surprised that Larry Summers withdrew, and has the President asked you for a recommendation? And when do you think we'll have a decision from the President on the new Chairman of the Fed? All three of those questions.

SECRETARY LEW: David, I have kept my advice on the Fed where it belongs, in the Oval Office, and I'm going to stick to that policy.

MR. RUBENSTEIN: All right. But can you tell us when you think maybe we'll have a decision?

SECRETARY LEW: I'm really not going to add anything to it.

MR. RUBENSTEIN: All right. Could you tell us how you got your signature? [Laughter.] You know, very often, it's been commented when you were being confirmed that you have an unusual signature for a Secretary of the Treasury. Have you changed that on the new dollar bills that will be coming out with your signature, or are you sticking with the same signature?

SECRETARY LEW: I have been working on my penmanship for 40 years, and I think this is a lifelong undertaking.

MR. RUBENSTEIN: So no change. OK. Now, we're up on the fifth anniversary of the financial crisis, as you pointed out, and would you say that the chance of our going through another crisis like that has been removed by Dodd-Frank? Or do you think there's a chance something as severe as that could happen again?

SECRETARY LEW: You know, as we all think about the fifth anniversary of the financial crisis and how far we've come, we have to start by saying how much we've done since the financial crisis as a country, as a people, as an economy.

A lot of healing has taken place. We've seen the economic growth that I described in my opening remarks. We've seen repair to our financial system where we have better capitalized banks, we have a financial system where large institutions have to have plans for how to resolve themselves and not turn to taxpayers for support if they hit hard times. We're seeing movement to deal with some of the new and troublesome developments in the financial system, like shadow banking.

We're not done yet. We still have quite a bit of work to do this year. I have put an enormous amount of my time as Treasury Secretary into convening the regulators and impressing on them that by the end of this year, the major components of the Dodd-Frank bill have to be completed, including the Volcker Rule. And I think that when we're done, we will have accomplished the most significant reform of the financial system in 75 years and, you know, unfortunately or fortunately, we won't know with 100% clarity unless and until there's a financial crisis whether we've done enough.

I believe that we've taken the steps that we need to take in enacting a law that says too-big-to-fail is over. We're in the process of taking the necessary steps to implement that law. But as I've said on a number of occasions, when we're done, we have to take stock and we have to look at the world as it exists at the end of this year, the beginning of next year and then each year after that, each month after that really on an ongoing basis and saying, is the financial system the same as it was? Has it changed? Is it evolving? Do we have the visibility into it? Do we have the supervision? Do we have the right regulatory structure?

I think one of the problems that happened between the 1930s and this financial crisis is that there frankly was not that ongoing vigilance to ask do we have the tools we need today and not the tools we needed before. So I think the system is much, much safer. I'm committed to being in a place where we can say we've ended too-big-to-fail.

And, you know, I can't say that there won't be bumps in the road. Every economy, you know, has bumps in the road. The question is, can you manage it, can you deal with it and can you protect the taxpayer from being left responsible and can you protect the economy from having the kinds of secondary and ongoing shocks that cause the kind of recession that we saw in 2008-2009. We've made great, great progress.

MR. RUBENSTEIN: Now, TARP legislation was controversial at the time, and maybe it's still controversial. When all is said and done, will the federal government make money on its TARP investments or will it lose money?

SECRETARY LEW: Well, we've already turned the corner on the bank investments so, you know, I must say that it is a hugely important accomplishment. When that was enacted, people were saying there's hundreds of billions of dollars that will never be recovered. They've now been recovered.

I think one of the challenges with the American, you know, people right now is that they're looking at the damage that the economic crisis caused, and a lot of that damage hasn't been healed. You still have a lot of people who can't find jobs, you still have businesses that are nervous, and we still have work to do not just to get repaid for the investments we made to save the financial system, but to deal with some of the core problems in our economy.

You know, just these last few days, last week, a new study came out that showed that, you know, we've had a substantial growth in income as we've come out of the recession, but it's highly concentrated; it mostly went to the top 1%. And frankly, it mostly went to the top 10% of the top 1%. And I think, you know, American working families struggling to make it into the middle class are asking what we are doing to fix this economy so that they can send their kids to school, so that they can have jobs that are kind of solid ways to build a stable family? And that's what the President's been focusing on and we need to get beyond these kinds of discussions, like we were talking about in the first part of our conversation about economic brinksmanship and get on with the business of really building the architecture for a strong growing economy.

MR. RUBENSTEIN: So you worked with, as I said, President Clinton and President Obama. What's their difference in working style? Does one like memos better than the other? One likes discussions better? Can you give us any insights on what it's like to talk with them about economic matters?

SECRETARY LEW: As you know from your experience in the White House, David, it's extraordinary to have the privilege of being able to walk into the Oval Office and speak candidly to a highly informed, highly intelligent President who presses you to the limit of your knowledge and wants to make the right decision after taking account of all the thinking that he can.

Obviously, no two people are wired the same. You know, both President Obama and President Clinton are readers. It's sometimes a little daunting because they both read more late at night than I do because I need to sleep a little bit more, so you're always like a little worried that they read something that you didn't read — and I read a lot. [Chuckles.]

It's interesting — I really could not say more about how much intellect each brings to what they do. But they have different styles of thinking and, you know, President Clinton tends to grind away at the detail in a way that is extraordinary, and his recall is extraordinary.

President Obama has a lot of that, but he tends to take a step back and ask strategic questions to avoid getting you pulled into the level of detail where you might lose track of how the pieces fit together. This has been an extraordinary experience to work for two people who bring just extraordinary intellectual capability to the Oval Office.

MR. RUBENSTEIN: So when you become Secretary of the Treasury, I assume former Secretaries of the Treasury like to call you and say, well, do this or don't do that. So have you gotten any wonderful words of advice from any of your predecessors?

SECRETARY LEW: You know, I do talk to a number of my predecessors periodically. You know, I think in many of these senior jobs in government, people don't fully understand the way decisions present themselves and how you have to think about them if they haven't been there before. You know, I think there's a huge benefit in listening to people who have experience. So I value the time that they're willing to spend with me.

MR. RUBENSTEIN: So one of your predecessors tried to resolve a dispute with a dueling, Alexander Hamilton. [Laughter.] That didn't work out successfully for him; that's not something you've ever considered with the Members of Congress or anything like that, right? [Laughter.]

SECRETARY LEW: I think it's safe to say that I'm going to stay on the New York side of New Jersey if I ever get that invitation.

MR. RUBENSTEIN: OK, so when you deal with foreign ministers of finance overseas, are they worried about our debt limit problem? Do they call you and say, what are you guys doing in Washington and when are you going to resolve this, because our economy's depending on what you're doing?

SECRETARY LEW: I talk to finance ministers very regularly and you know, I think they reflect some of the view in the business community that nobody could do this again, nobody could go back to August 2011 and create the kind of chaos we saw. I think that as we become more anxious that Congress is driving this to the edge, they will become more anxious. And I think the world counts on the United States to play a leadership role, not just in specific issues, but in terms of demonstrating how democratic governance works.

So it was very destabilizing in 2011 when it looked like the center wasn't holding in the American political system. It would be pretty destabilizing if we got there again.

MR. RUBENSTEIN: So the U.S. economy this year, you think, will probably grow. Our GDP will 2.2% or 2.3%, something like that, or –

SECRETARY LEW: I stay away from specific point estimates.

MR. RUBENSTEIN: Yeah, you said that.

SECRETARY LEW: I'm pretty bullish on the American economy. I think that if you look at where we've come from, where we are, we end this year with an awful lot of headwinds dying down. You know, we've absorbed the, you know, end of the payroll tax cut, the impact of sequestration is negative, but it's being absorbed. We end the year and go into next year without those kinds of drag being put on the economy. You know, we'd be growing half to a percent greater, if not for all that drag.

So you look at the U.S. economy, you look at the energy revolution we've had, the attractiveness of investing in the United States — there are a lot of things that are poised to do better in this economy. You know, the reason I've been dwelling on the decisions we have to make here in Washington is, you know, I believe you come to Washington to make things better, not to commit self-inflicted wounds. We need to make sure that Washington doesn't stand in the way of an economy that's poised to grow.

MR. RUBENSTEIN: Are you worried about the European economy? Are you worried about the Chinese economy?

SECRETARY LEW: I worry about a lot of things. [Chuckles.] You know, I spend a lot of time looking at the European and Chinese economy; together, the three — United States, Europe and China — are the three largest economies in the world. A year ago, you know, you couldn't get through the first hour of a morning without getting an update on where the European economy was. There was an impending sense that a crisis in Europe could pull down the United States economy and cause a recession, even.

I think they've made a lot of progress since then. They're not completely out of the woods; they have a lot more to do. They're going to have some countries that need to have the arrangements that they've worked out re-evaluated in the coming months. They still have work to do in their banking system to make sure that they're better capitalized. But they're in a much better place than they were a year ago.

You know, it seemed to be turning a corner in some places that didn't think they'd come out of recession this year. And you know, I think that it's way, way, way too soon to say it's all healed, but it's certainly better by a long shot than it was a year ago.

China is fascinating. You know, China went through a long period of double-digit growth. And there's going to be a decline to a more sustainable rate of growth. They've got to make some tough decisions internally in order to make sure that they level off at a level of growth that works for China's economy and China's social stability.

You know, they, I think, know that they have to move toward more market-oriented policies, that the distorting effect of the subsidies and support for state-owned enterprises has really hurt their ability to have long-term growth be where they want it to be. They're going to face some tough political decisions when they have their meetings in just a few weeks where I think they're determined to make decisions to move in a constructive direction.

You know, in the conversations with China you increasingly have a sense that you're pushing on an open door that we think is in their best interest, they understand is in their best interest, and they have political hurdles. But you know, the jury's still out and they have some important discussions coming up.

MR. RUBENSTEIN: Now, every Treasury Secretary is trained to say or not say something about the dollar. So what can you say about the dollar? I assume you favor a strong dollar, but is there anything you can say about the dollar?

SECRETARY LEW: Being trained to say nothing about something that you think a lot about is probably one of the hardest parts of the job. But I'm going to stick to the policy of saying nothing.

MR. RUBENSTEIN: And you are trained to say nothing about tapering as well?

SECRETARY LEW: Yeah. You know, I focus on the core economy and we're doing everything we can to make sure that there's core economic growth in the United States.

MR. RUBENSTEIN: OK. And why would somebody leave the Chief of Staff of the White House, where you're the center of all the power of everything, to be Treasury Secretary? Others have done it, of course, but I'm just curious: What was your thinking?

SECRETARY LEW: Well, first of all, very few people do it for very long period of times because it's probably the hardest job after being President. Secondly, you know, the President asks you to serve in the position where he thinks you can make the greatest contribution. And when you're given the honor of being asked to be Treasury Secretary, it's pretty hard to say no.

MR. RUBENSTEIN: OK. So you have served in many of these government positions. Is there any other government position that you want to serve in or you're very happy with what you have now?

SECRETARY LEW: Well, as many great America leaders have said, citizen is the highest office we can all hold.

MR. RUBENSTEIN: OK. So, Jack, I'd like to thank you very much for giving us your insights and drawing attention to the deficit and debt problems we have to deal with. So thank you very much.

SECRETARY LEW: Thank you, David. [Applause.]

Secretary of the Treasury

Jacob J. Lew

Jack Lew was confirmed by the United States Senate on February 27, 2013, to serve as the 76th Secretary of the Treasury. Secretary Lew previously served as White House Chief of Staff. Prior to that role, Lew was the Director of the Office of Management and Budget (OMB), a position he also held in President Clinton's Cabinet from 1998 to 2001. Before returning to OMB in 2010, Mr. Lew first joined the Obama Administration as Deputy Secretary of State for Management and Resources.

Before joining the State Department, Mr. Lew served as managing director and chief operating officer for two different Citigroup business units. Prior to that, he was executive vice president and chief operating officer of NewYork University, where he was responsible for budget, finance, and operations, and served as a professor of public administration. From 2004 through2008, Mr. Lew served on the Board of Directors of the Corporation for National and Community Service and chaired its Management, Administration, and Governance Committee.

As OMB Director from 1998 to 2001, Mr. Lew led the Administration budget team and served as a member of the National Security Council. During his tenure at OMB, the U.S. budget operated at a surplus for three consecutive years. Earlier, Mr. Lew served as OMB's Deputy Director and was a member of the negotiating team that reached a bipartisan agreement to balance the budget. As Special Assistant to President Clinton from 1993 to 1994, Mr. Lew helped design Americorps, the national service program.

Mr. Lew began his career in Washington in 1973 as a legislative aide. From 1979 to 1987, he was a principal domestic policy advisor to House Speaker Thomas P. O'Neill, Jr, when he served the House Democratic Steering and Policy Committee as Assistant Director and then Executive Director. He was the Speaker's liaison to the Greenspan Commission, which negotiated a bipartisan solution to extend the solvency of Social Security in 1983, and he was responsible for domestic and economic issues, including Medicare, budget, tax, trade, appropriations, and energy issues.

Before joining the Obama Administration, Mr. Lew co-chaired the Advisory Board for City Year New York and was on the boards of the Kaiser Family Foundation, the Center on Budget and Policy Priorities, the Brookings Institution Hamilton Project, and the Tobin Project. He is a member of the Council on Foreign Relations, the National Academy of Social Insurance, and of the bar in Massachusetts and the District of Columbia.