

THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2002

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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CONTENTS

	Page
Hearing held in Washington, DC, March 1, 2001	1
Statement of Hon. Mitchell E. Daniels, Jr., Director, Office of Management and Budget	7
Prepared statement of:	
Hon. Jim Nussle, a Representative in Congress from the State of Iowa	4
Mr. Daniels	10
Hon. Ander Crenshaw, a Representative in Congress from the State of Florida	69

THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2002

THURSDAY, MARCH 1, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Hoekstra, Bass, Gutknecht, Knollenberg, Thornberry, Ryun, Wamp, Fletcher, Miller, Watkins, Hastings, Schrock, Culberson, Brown, Crenshaw, Putnam, Kirk, Spratt, Bentsen, Davis, Clayton, Price, Markey, Clement, Moran, Hooley, Holt, Hoeffel, Baldwin, McCarthy, Moore, Capuano, and Honda.

Chairman NUSSLE. The committee will come to order. Today's full committee hearing is called the Blueprint for New Beginnings for the President's Budget for Fiscal Year 2002 to 2011. The witnesses for today's hearings will be Mitch Daniels, the Director of the Office of Management and Budget, and then this afternoon at 3 p.m. the Honorable Paul O'Neill, Secretary of the Department of the Treasury.

I ask unanimous consent that all members be allowed to put their opening statements into the record. Without objection, so ordered.

The way we would like to conduct this today is that I have an opening statement that I would like to make, and then I would invite John Spratt to make an opening statement, and then we will get right to the director. We welcome you to the committee, and we are glad you are here.

Let me begin by saying, first of all, that I am happy today to accept officially the President's budget. We received it in speech form, of course, on Tuesday night. We actually received the copy yesterday, and I pronounce it alive and in excellent condition, based on my first reading.

I believe that we have a solid foundation to begin this budget process this year. It is a foundation without, or I should say, it is a foundation that didn't just start Tuesday night. Those of us that have been laboring on the Budget Committee on both sides recognize many of the different concepts in the budget as the President presented it, both in speech form as well as written form. We are building on a solid foundation of success of budgets.

We are now in our fifth straight balanced budget, which, when I first came to Congress, was something that you almost could not

even believe you could audit. To say that you had 5 straight balanced budgets at that moment in time was something that no one would have believed.

So we start with a very solid foundation.

The way I like to look at budgets is that we are—I compare them to if you are going to go out and buy a home, if you are going to go out and build a home, the first you do is you hire an architect. An architect comes in and does the blueprint, does the drawing, the architectural drawing. He does not decide what the paint color is, certainly doesn't decide the draperies or the appliances that you are going to put in your home, doesn't necessarily decide the carpeting or the furniture, but does decide if you are going to have a one-car or two-car garage, whether you are going to have a basement or an attic, what exactly the sizes and dimensions are going to be.

That is what the budget is. No, we don't get into the tall weeds of the specifics of every single policy decision that occurs, but the outline and the blueprint is something that has to be solid, and I believe that what we have received from the President is a very solid foundation and a very solid budget.

It builds on some success in the area of tax relief. The Congresses of the last couple of years have provided as much as \$316 billion worth of tax relief to the American people. That will be built upon in this budget with \$1.6 trillion worth of tax relief, tax relief from a tax surplus for the taxpayers who created it. In fact, today, as we speak, the Ways and Means Committee is beginning the process of putting together the first draft of that tax plan. It is not the entire plan, it is not the entire portion of the budget as the President suggested it, but it not only fits within this particular budget, but interestingly enough, it fits within the current budget, the work that the Ways and Means Committee is doing.

So we are excited that that is happening so that it can give a shot in the arm to the economy and give money back to the people who deserve it.

This budget builds upon further debt reduction. I am excited to let people know that we have, by the end of this current budget, been able to pay down the national debt. This is work that we have already done as a committee. We have been able to pay down the national debt to the tune of \$625 billion. Again, a concept that when I first ran for Congress and came to Congress, was unbelievably at that moment in time that we could even begin to pay down the national debt, and it is something that will be built upon in this budget with \$2 trillion of additional debt repayment. In fact, debt repayment to a sum that can be accomplished within the term of this next 10-year budget.

We are going to be improving Medicare by not only setting aside all of the Medicare Trust Fund, but we have added, according to the President's budget, \$153 billion over 10 years for modernization in the prescription drug benefit. We are building on success in setting aside the Social Security Trust Fund, again, something that the last 3 Congresses have been able to do, locking up every penny of what will materialize to be about a \$2.6 trillion Social Security surplus.

But there are some other responsible portions of this budget that I believe are important to highlight. We are funding America's priorities and there are a number of them that we have had discussions and have set as priorities from this particular committee. National defense, bolstering national defense, but doing so in a responsible way, not just throwing money at it, not letting, as the President said, the money drive the strategy, but first setting the strategy and doing a top-to-bottom review of the Defense Department before we do more than just make sure that the quality of life of our soldiers and sailors is taken care of.

This, I would suggest, is a model that all departments should consider following, and I would commend to the Director of the Office of Management and Budget, as he has told me so many times, that he is going to begin to emphasize the "M" word in his title, and one of the ways to do that is to do the review that is being done in the Defense Department. I would volunteer the Agriculture Department as the next likely suspect, Mr. Director, as the next place that you can go forward and begin work as a top-to-bottom review. Every department needs that scrutiny, but coming from farm country in Iowa, I think it is important for us, as we are sitting on the threshold of a new farm bill, to consider the Agriculture Department next.

In education, we have some exciting news with not only the additional funding and flexibility, but the continued priority from this committee that we have had for special education is continued in this budget.

There are a number of other items, but let me just highlight one final one, and that is the emergency reserve reform that is put in this budget. Particularly after yesterday's earthquake on the West Coast, we see yet again the need for this country to budget for national disasters and natural disasters that we know are going to occur. The President did not know obviously Tuesday night that there was going to be a natural disaster on the West Coast, but to step forward in this budget and to say it is a priority, it is responsible for us to begin budgeting for natural disasters in this budget, and I think it is an exciting development, and a \$5.6 billion reserve annually for natural disasters in this budget I believe is important.

What are the Achilles' heels in this budget? I think the biggest Achilles' heel in this budget is in spending. Everything fits right now. We have been able to separate the entire Social Security Trust Fund, all of Medicare, the tax cuts fit, the spending in this budget is responsible; it has increased over the increases of the last number of years, but as we have all seen, spending increases can wedge out a number of the other priorities quicker than probably any other item in the budget.

So I believe our Achilles' heel, if there is one in this budget, is the desire to spend more money than we have. That is an area that can get us quickly back to where we found ourselves.

There is a story that I have heard that I think summarizes what the American people are going through right now with regard to their Federal Government that I want to just end with. It is about a common experience that we probably all have had, walking late into a 7-Eleven store, pumping the gas into your car and coming in with a \$20 billion and having a \$15 billion on your gas tank,

coming in and also picking up a candy bar and a can of pop and going to the checkout counter, handing the clerk a \$20 bill, and what happens? What happens next? Well, the first thing, she gives you your change. That is the first thing, because she doesn't think that your overpayment ought to go into the cash register or ought to be given to the person behind you in line because maybe it belongs to them somehow, or save it for maybe your next expenditure, or she doesn't even put it in her favorite charity and there are many of them that sit outside the 7-Eleven counter, she gives it back to you. In fact, in Iowa, maybe even in South Carolina, she would run out into the parking lot to give you your change, and just like the President said last night, or 2 nights ago, the American people want their refund, they want their change back. They are overpaying their taxes, and they deserve that. We are meeting the priorities of this country and the overpayment should go back to the people who pay the bills.

[The prepared statement of Chairman Jim Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF IOWA

Today we begin the process of writing the budget for the United States Congress and ultimately for the American people. Our budget will serve as a blueprint to guide us through the decisions throughout this budget cycle. When you think of a blueprint, you think of the document produced by an architect that will tell you the basic design of the house, the overall square feet of the house and where the interior walls will go. Similarly, our budget blueprint will tell us the overall size of our government and the priorities of the Federal Government.

I believe the first and most important step in writing a budget is to listen. I spent a considerable amount of time in my congressional district in Iowa last month listening to my constituents on what their priorities are for this budget. You know, I get my best ideas directly from my constituents. It was Iowans who sent me to Washington to balance the Federal budget. It was Iowans who told me to help stop the raid on the Social Security system to pay for other government spending. It was Iowans who told me to reform Medicare and provide a prescription drug benefit. And it was Iowans who told me our tax code is too burdensome and too costly.

This week we listened to our new President in an address to the Joint Session of Congress outline his budget priorities for the next decade. The President told us his budget would be a responsible budget that restrains the recent rapid growth in spending. The President outlined an ambitious plan to virtually wipe out our national debt over the next 10 years. The President told us that he wants Congress to fund such critical priorities as improving our educational system, rebuilding our military and meeting critical health care needs. The President also said we are overcharging the taxpayers for these government services and that we ought to return a portion of the tax surplus to those who created it- the American taxpayers.

I've also spent a lot of time over the past several weeks listening to my colleagues in the Congress to learn their priorities for the Federal budget. Like me, my colleagues in Congress from around the country have spent time in their congressional districts listening to the priorities of their constituents.

Today our committee will hear the testimony of the President's Director of the Office of Management and Budget, the Honorable Mitch Daniels. Director Daniels will provide us with an overview of the entire budget submitted by President Bush and answer any questions we may have about this proposal. I want to thank Director Daniels for taking the time to appear before our committee.

Additionally over the next several weeks, I intend to call before this committee members of the Bush Administration to discuss the portions of the budget under their jurisdiction. To date, we have scheduled Secretaries Thompson, Paige, Veneman and Powell. We will also hear testimony from outside witnesses who are experts in the corresponding fields.

When it comes to writing this budget, we are continuing the good work this Congress has done in recent years. While our budget is not yet written, we do know some of its key elements. Most importantly, our budget will be the fifth consecutive balanced budget. When I first ran for Congress, no one thought we could achieve a balanced budget in 1 year let alone 5 in a row. Our budget will continue to pay

down the national debt and add to the more than \$625 billion of debt we've already retired. Our budget will return a portion of the tax surplus to the American people and add to the more than \$300 billion in tax relief we've already provided since 1997. Finally, our budget will continue to lock away every penny of Social Security as we have since 1998.

As we move through this process of writing the budget, I want to make sure we continue this important dialogue. I will keep listening to my constituents, my colleagues on both sides of the aisle and our President and his cabinet. I believe this process will result in a budget that reflects America's priorities, a budget that is real and a budget that this committee can help enforce throughout the year.

Chairman NUSSLE. With that, let me recognize my good friend and colleague, the gentleman from South Carolina and the Ranking Member of the committee, John Spratt.

Mr. SPRATT. Thank you, Mr. Nussle. Let me say on behalf of my side that we are looking forward to working with you as Chairman of the committee and congratulate you on your ascension to this position. Mr. Daniels, we look forward to working with you, too. We appreciate your coming this morning. We look forward to a long and fruitful relationship.

We have your budget, so-called, but everybody knows who has dealt with this budget before that this represents about 10 percent in volume and backup and detail of the real budget, and so there are a lot of things we can't know until we see the full budget. We have done the best we could to understand from this booklet, and I know for you, having been on board just a matter of weeks, it has been a mighty struggle to get this done, and we appreciate that.

We are concerned, though, for a couple of reasons. First of all, this is more than just your typical marginal budget year where we do some puts and takes. We have surplus projections now that will almost sweep you off your feet. We have to make decisions in this budget which will have major implications for priority allocations throughout the next 10, 15, 20 years, profound consequences for the future of this country. That is why we think this ought to be done with profound deliberation, and we are distressed to know that as we meet today, as we speak, the Ways and Means Committee is marking up rate cuts that the President has proposed, the better part of his tax package, even though we on this Budget Committee have not yet even scheduled a markup of the budget resolution.

Now, the Chairman spoke about the importance of the budget process, which began in 1974. We tried then to bring some coherence to the manner in which Congress appropriates money and raises revenues, and we said before we undertake to do either one, we should have a blueprint, we should have an outline, we call it a budget resolution, and 303(a) of that budget resolution says that until a budget resolution is passed for a certain fiscal year, the Congress of the United States, the House of Representatives in particular, shall not adopt or consider, bring up any kind of legislation that provides for an increase or decrease in revenues during the fiscal year covered by that particular budget.

So it looks like the first thing we are going to do out of the starting box is defy the most basic provision of the basic budget law that we are governed by and get the cart ahead of the horse by considering tax cuts before we have really considered the budget as a whole, and that is one point I want to emphasize.

The tax cut proposal you are making is important. There is a strong case to be made for the American people to get back a large percentage of what they have been paying as excess to the government's immediate needs. There are a couple of things, though, that we would like to say about that.

First of all, these surpluses are projections, and we shouldn't be swept away by them. Seventy-two percent of the on-budget surplus that is projected for the next 10 years occurs in the second 5 years of that 10-year period. They may or may not pan out. Let us hope they do.

Secondly, we shouldn't delude ourselves or the American people, because while we sit now on an island of surpluses, we are surrounded by a sea of debt. There is \$5.7 trillion in statutory debt owed to all accounts, all people and purposes accumulated over the last 30 or 40 years, and in the foreseeable future, when the baby boomers begin to retire, long-term liabilities, as I think you and all of us would have to honestly agree, we haven't yet adequately provided for. So we are surrounded by this sea of debt, and we shouldn't get deluded into thinking that the surpluses we have now are a permanent state of our condition. Indeed, God has given us 10 years to get ready for the retirement of the baby boomers and if we don't do it, we will be held accountable by our children for when we sloughed off on to them the responsibility for bearing the burden of their retirement.

So that is one of the high callings that we have in the budget process this year. It is not just to look at the immediate gratification, but at the long-term needs of this country. We couldn't do it in the past. We had huge deficits we were coping with and struggling with. We didn't have the opportunity to do it. Now that we have the opportunity and the wherewithal to do it, we have the moral duty to do it as well. The way we do it is by looking at the budget as a whole, and the way we proceed is not by ramming this process through, but by doing it very, very deliberately.

There are certain things in your budget that give me pause. I am glad to see you say in the final couple of chapters that you think we need to keep a pay-go rule, you think we need to impose discretionary spending ceilings, and I agree with you. I think we need those disciplines. They have helped us get from a deficit of \$290 billion in 1992 to the surpluses we have today. You don't specify exactly how that is to be done.

One of the devices that we have developed over the last couple of years between ourselves, both Houses and both parties have agreed, that we would take the surpluses in Social Security and Medicare, the HI trust fund, a statutorily created trust fund, we would take those surpluses and not invade the surplus and use it to fund government spending, but use it solely and only to buy up outstanding debt and add to the national savings. You are proposing something pretty revolutionary, something that departs from an agreement that we have reached in the House and the Senate, and a bill that we had on the House floor only a couple of weeks ago, brought to the House floor by the Republican leadership who bypassed this committee because they thought it was so impossible, and that was a lockbox for Social Security and Medicare. Now you are saying we should abound in that particular discipline at least

with respect to Medicare. I think you need to bear the burden of explaining and defending that to us today.

I have other things to say, but I have questions to ask as well. I am just being a good adversary and a hard-hitter. We will expect good answers from you, but we also expect to work with you in all good faith to get this job done.

Mr. DANIELS. Thank you, Congressman.

Chairman NUSSLE. Thank you, Mr. Spratt.

Before we begin, let me just say as well that when we first met with Director Daniels and projected the time line for submission of the budget document, there was a lot of concern whether or not that could be met. The budget director, of course, very prudently suggested, with the truncated transition and everything else that was going on, that he wanted to be realistic about it and I said, well, from our standpoint, we really hope that the President could meet the deadline of submitting this first document; interestingly enough, a document that is very similar to the one that was presented by President Clinton in 1993, President Bush in 1989, President Reagan in 1981. It is, in fact, more detailed than those previous submissions.

I want to compliment you not only on the detail, but on your timeliness. You have met the deadlines, arbitrary as they were, and I compliment you on the work that you have done with all of our members in answering our questions throughout this period of time. We look forward to that today, and I invite you now to testify. Your entire statement will be submitted for the Record, but you may proceed as you see fit. Welcome to the committee.

**STATEMENT OF THE HONORABLE MITCHELL E. DANIELS, JR.,
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET**

Mr. DANIELS. Mr. Chairman, thanks to you and to Congressman Spratt and to all of the members of the committee for their hospitality. I will accept your gracious compliments only in the name of the people with whom I work, including the matchless career professionals at OMB, in my judgment, the finest civil servants the Federal Government has to offer.

I will read excerpts from the testimony I have submitted, and then gladly engage in the question and answer session with you.

It is a privilege to be afforded this opportunity to present on behalf of President Bush his proposed budget for fiscal year 2002. We earnestly hope that today marks the first step in producing a good product through a good process: A sound, responsible budget that matches the Nation's means to its goals and needs, and a process of cooperation and constructive give and take that conducts the public's business in an orderly and admirable manner.

His proposal used as starting points a few basic principles. First, the conviction expressed by the President 2 nights ago that our national government should be active, but limited. Accordingly, we are proposing that discretionary spending continue to grow, but at a more moderate rate than in the last few years. The President, by offering up his priorities and policy choices, means to start a healthy debate about how much to spend on what, and he recognizes that Congress will have its own, often very different ideas,

but he believes firmly that the total spent must be limited to the amount he has recommended.

Second, the idea that the budget should become more transparent and honest than its recent predecessors. We propose to limit tactical circumventions such as advance appropriations and bogus emergency spending that has served to evade legal expenditure limits and to confuse the public about how much its government is actually spending.

Lastly, the commitment to match the openness and responsibility we urge on Congress with integrity in the crafting of our own proposal. We have attempted to ensure that the assumptions and the data underlying our budget are as prudent and justifiable as we believe the use of each taxpayer dollar should be. We have tried to resist the trap of false precision and provided ample room for the many large uncertainties that face us in planning for so many dollars over so many years.

With that preface, let me summarize the proposal. The President proposes an overall discretionary spending level for 2002 that is reasonable, but restrained. It contemplates spending growth of 4 percent over 2001, amounting to \$26 billion in new budget authority. Four percent is more than the average American's budget will grow this year, but it is ample to maintain and extend the useful activities of the Federal Government.

The reasonableness of this recommendation becomes even more clear in the context of the recent run-up in Federal spending, what the Nation's press has variously characterized as a spree, a binge and an explosion. Discretionary spending has grown by 6 percent per year on average for 3 years, and by 8 percent last year alone. Taken together, these budgets added \$200 billion to spending above the caps Congress had set for itself. Extended over 10 years, the next 10 years, continued spending growth at this 6 percent spree level would add \$1.4 trillion in new spending above and beyond inflationary growth. Thus, the President's 4 percent proposal comes on top of the largest spending base in U.S. history.

Three years of large increases have raised the base of discretionary spending from \$534 billion to \$635 billion, and every department of the government has shared in the picnic. In fact, even after some agency budgets were held steady or even reduced somewhat to accommodate the President's new priorities, every department of government will be larger today, often much larger, than 2 or 3 or 4 years ago. Every department will show a healthy average increase for the last 4 years, taken together.

It has become clear that this new era of surpluses is more dangerous to the taxpayer than the preceding era of large deficits. Today's situation calls for more, not less, leadership, from both the executive and legislative branches, if fiscal health is to be preserved.

A principal goal of this President and his budget is dramatic reduction of the national debt. We have embarked on an historic reversal of the longtime trends of greater levels of Federal indebtedness with this year's reductions totally well over \$220 billion. The President's budget aims to carry this program of repayment forward at unprecedented rates. Over the next 5 years, up to \$1 trillion of debt can be repaid with another \$1 trillion or more in the

5 years after that. This amounts to all the debt that matures in that time period, essentially all the debt it is financially practicable to repay. It will bring national debt down to its lowest levels in a century, drop interest costs from their recent level of 15 cents of the Federal dollar to a mere 2 cents, and bring the Nation within a few years of total debt elimination.

The President's course toward debt elimination will require both skillful cash management and fiscal policy. The enormous surpluses of the years ahead raise the prospect that extra revenues will exceed retirable debt and lead to the amassing of large cash balances in government hands and, consequently, their investment in private assets. In the administration's view, government ownership of a large piece of the economy is unacceptable on principle as a threat to freedom and unacceptable economically as a sure source of inefficiency. We would hope that this conviction is shared unanimously by the Congress.

The President's budget, by definition, expresses his priorities for America. Coming as his first budget submission following a national political campaign, it incorporates the commitments he made during that effort. The outlying document we delivered to the Congress this week sets forth those initiatives, which I believe have been much discussed and I will not elaborate further until I receive your questions.

In the new era of surging surpluses, Congress has become increasingly casual about using devices for escaping the tight discipline of its self-imposed caps. For instance, it has become common for the President and Congress to seize on emergencies or even to declare one where none arguably exists as an opportunity to pass massive supplemental spending bills. In the last 3 years, extra spending totaling over \$80 billion has been passed in this way. In 2000 alone, the bill grew to \$46 billion.

Unforeseen emergencies requiring Federal resources will occur in almost any given year. Pretending they will not and then adding billions in nonemergency spending when the inevitable flood, hurricane or crisis does happen is not good practice. I thank the Chairman for taking note of a remedy or partial remedy that we have proposed in our budget in the form of an emergency reserve fund.

The case has been forcefully made by advocates in both parties that the decade ahead or any like period cannot be predicted with great confidence. Factors affecting both the income and outlay sides of the budget sheet can and do shift in large and often sudden ways. The administration agrees with this concern and seeks to address it in the long term outlook of this budget by reserving an enormous sum, fully one-third of the entire on-budget surplus, for those contingencies that may arise and those new needs on which the Nation may agree.

It is often pointed out that the over \$5 trillion in expected surpluses on which at present all estimates concur may not come to pass. Of course, this is almost axiomatic when short-term forecasts are so rarely on target. The public discourse is dominated by worries that the actual surpluses will fall short of the estimates, and this a natural reaction to the novelty of massive surpluses after a long era of deficits.

But the data suggests strongly that it is at least as likely that total surpluses, before policy changes, will come to more, not less, than today's projection. Along with forecasting risks, significant uncertainties attach to major program areas. The best example is national defense where most observers agree with the President that a fundamental review of both strategy and needs is urgently needed.

A thorough and honest assessment is now underway led by Secretary Rumsfeld, and will require some time to complete. No one can know its outcome as to dollar requirements. It can range from today's spending levels to amounts substantially higher. Attempts to maintain farm income, particularly among smaller producers, have consumed some \$21 billion in the last 3 years alone. Again, the exact amounts in the future that may be spent above today's baseline levels are unknowable. For these and other reasons, the administration will set aside nearly \$1 trillion of the projected surplus as protection against contingencies and as a reserve for any future spending above the baseline. The first \$153 billion of this fund is targeted for Medicare reform, including the opportunity for every Medicare recipient to have access to prescription drug coverage.

Especially in view of the many large upside unknowns that could enlarge the available funds, it is clear that the budget reserves are more than an adequate sum to manage the unavoidable uncertainties ahead. The most likely eventuality is that at some future point, Congress will face another moment at which it becomes obvious that the government is vastly overfunded, that taxpayers are being overcharged, and that they should be allowed to keep more of their earnings.

The last part of the President's budget is, of course, his plan for tax relief. I will not repeat either the tenets or the arguments for that plan; both are well-known and those arguments, of course, will continue. I will simply call to the committee's attention that after growing government spending at moderate rates, paying down a record amount of the national debt, fully protecting Social Security funds, and providing tax relief to working Americans, fully 15 percent of the surplus remains uncommitted. Given the security of this reserve, continuing to extract money from workers at today's levels of taxation would be as unfair as it is unnecessary.

I thank the committee for its hospitality and will welcome your questions.

Chairman NUSSLE. Thank you, Director Daniels.

[The prepared statement of Mitchell E. Daniels, Jr. follows:]

PREPARED STATEMENT OF HON. MITCHELL E. DANIELS, JR., DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

Thank you, Mr. Chairman, it's a privilege to be afforded this opportunity to present on behalf of President Bush his proposed budget for fiscal year 2002. We earnestly hope that today marks the first step in producing a good product through a good process: a sound, responsible budget that matches the nation's means to its goals and needs, and a process of cooperation and constructive give-and-take that conducts the public's business in an orderly, admirable manner.

This proposal took as its starting points a few basic principles.

First, the conviction, expressed by the President Tuesday night, that our national government should be active but limited. Accordingly, we are proposing that discretionary spending continue to grow, but at a more moderate rate than it has in the

last few years. The President, by offering up his priorities and policy choices, means to start a healthy debate about how much to spend on what, and he recognizes that Congress will have its own, often different ideas, but he believes firmly that the total spent must be limited to the amount he has recommended.

Second, the idea that the budget should become more transparent and honest than its recent predecessors. We propose to return to the spirit of the Budget Enforcement Act, by working with Congress on a budget that sets actual limits on spending, followed by appropriations bills that conform to those limits and pass in a timely fashion. We propose to limit tactical circumventions, such as advance appropriations and bogus emergency spending that has served to evade legal expenditure limits and to confuse the public about how much its government is actually spending.

Lastly, the commitment to match the openness and responsibility we urge on Congress with integrity in the crafting of our own proposal. We have attempted to ensure that the assumptions and data underlying our budget are as prudent and justifiable as we believe the use of each taxpayer dollar should be. We have tried to resist the trap of false precision, and provided ample room for the many large uncertainties that face us in planning for so many dollars over so many years.

With that preface, let me summarize the proposal we lay before this committee and the American people beginning today.

II. REASONABLE BUT RESTRAINED

The President proposes an overall discretionary spending level for 2002 that is reasonable, but restrained. It contemplates spending growth of 4 percent over 2001, amounting to \$26 billion in new budget authority. 4 percent is more than the average American's budget will grow this year, and is ample to maintain and extend the useful activities of the Federal Government.

The reasonableness of this recommendation becomes even more clear in the context of the recent runup in Federal spending. In what the nation's press has variously characterized as a "spree", a "binge", and an "explosion", discretionary spending has grown by 6 percent per year on average for 3 years, and by 8 percent last year alone. Taken together, these budgets added \$200 billion to spending above the caps Congress had set for itself. Extended over 10 years, continuing spending growth at this 6 percent "spree" level would add \$1.4 trillion in new spending above and beyond inflationary growth.

Thus, the President's 4 percent proposal comes on top of the largest spending base in U.S. history. Three years of large increases have raised the base of discretionary spending from \$534 billion to \$635 billion, and every department of the government has shared in the picnic. In fact, even after some agency budgets were held steady or even reduced somewhat to accommodate the President's new priorities, every department of government will be larger today, often much larger, than 3 years ago. Every department will show a healthy average increase for the last 4 years taken together.

It has become clear that this new era of large surpluses is more dangerous to the taxpayer than the preceding era of large deficits. Today's situation calls for more, not less, leadership from both the executive and legislative branches if fiscal health is to be preserved. In addition to insisting on a reasonable overall lid on spending this year, the President believes that a new set of caps or other limits must be negotiated between the administration and the Congress for the years ahead.

III. DEBT REDUCTION

A principal goal of this President and his budget is dramatic reduction of the national debt. We have embarked on an historic reversal of the long-time trend to greater levels of Federal indebtedness, with this year's reductions totaling well over \$220 billion.

The President's budget aims to carry this program of repayment forward at unprecedented rates. Over the next 5 years, over \$1 trillion of debt will be repaid, with another trillion or more in the 5 years after that. This amounts to all the debt that matures in that time period, essentially all the debt it is financially practicable to repay. It will bring national debt down to the lowest levels in a century, drop interest costs from their recent level of 15 cents of the Federal dollar to a mere 2 cents, and bring the nation within a few years of total debt elimination.

The rapid retirement of our national debt will soon raise intriguing practical problems never before contemplated. Are we prepared to terminate the U.S. Savings Bond program? The programs where states and localities temporarily house their bond issue proceeds? What premiums, if any, is it smart to pay to induce bondholders to turn in their securities ahead of time?

The President's course toward debt elimination will require both skillful cash management and fiscal policy. The enormous surpluses of the years ahead raise the prospect that extra revenues will exceed retireable debt and lead to the amassing of large cash balances in government hands, and consequently their investment in private assets. In the administration's view, government ownership of a large piece of the economy is unacceptable on principle, as a threat to freedom, and unacceptable economically, as a sure source of inefficiency. We would hope that this conviction is shared unanimously by the Congress.

IV. NEW PRIORITIES

The President's budget, by definition, expresses his priorities for America. Coming as his first budget submission following a national political campaign, it incorporates the commitments he made during that effort. The outline document we delivered to the Congress this week sets forth these initiatives with, I hope, sufficient clarity, and I will highlight only a few this morning:

- Education. The budget increases discretionary spending in the Education Department by 11.5 percent, the largest increase of any Department, with a particular focus on achievement, accountability, math and science, and reading.
- Defense. It increases defense spending \$14.2 billion, devoting additional resources to a pay raise, other quality of life improvements, and R&D.
- Medical R&D. It increases NIH by \$2.8 billion, the largest increase in its history, toward the goal of doubling its budget.
- Veterans. It increases Veterans' discretionary spending by \$1 billion.
- Conservation. It fully funds the Land and Water Conservation Fund, for the first time, at \$900 million and increase National Parks funding by \$100 million this year as a down-payment toward the elimination of its deferred maintenance backlog.

V. BUDGETING WITH THE CARDS FACE UP

In the new era of surging surpluses, Congress has become increasingly casual about using devices for escaping the tight discipline of its self-imposed caps. For instance, it has become common for the President and Congress to seize on emergencies, or even to declare one where arguably none exists, as an opportunity to pass massive supplemental spending bills. In the last 3 years, extra spending totaling over \$80 billion has been passed in this way; the 2000 bill alone grew to \$46 billion.

Unforeseen emergencies requiring Federal resources will occur in almost any given year. Pretending that they will not, and then adding billions in non-emergency spending when the inevitable flood, hurricane, or crisis does happen, is not good practice.

The President's budget proposes to plan for such contingencies in the same common sense way that any business would, by setting aside a reasonable sum for emergency purposes, to be drawn on when legitimate crises occur. The National Emergency Reserve will be funded with \$5.6 billion, an amount equivalent to the historical annual average for such events. Should true emergency needs for 2002 exceed that figure, supplemental spending would, of course, remain an option, but given a typical year, the nation would have provided responsibly in advance for unanticipated problems, and reduced the likelihood of runaway "Christmas tree" legislation.

Similarly, the practice of "advance appropriations" has spread rapidly in recent years. This funding beyond the next fiscal year likewise has been a means of caps evasion, and has tended to obscure the real amount of spending taking place in a given year. The Budget proposes to limit this practice to its proper purposes, primarily the spreading of funding for large-scale capital projects, as opposed to routine governmental activities.

Again, the fundamental improvement would simply be to return to the kind of budgeting familiar to every American business or family, by determining clearly in advance the total amount that it is prudent to spend, then debating the best allocation of those funds, and then making sure to live within those limits through the end of the fiscal year.

VI. PRUDENCE ABOUT UNCERTAINTIES

The case has been forcefully made by advocates in both parties that the decade ahead, or any like period, cannot be predicted with great confidence. Factors affecting both the income and outlay sides of the budget sheet can and do shift in large and often sudden ways.

The administration agrees with this concern, and seeks to address it in the long-term outlook of this budget by reserving an enormous sum, fully one-third of the entire on-budget surplus, for those contingencies that may arise, and those new needs on which the nation may agree.

It is often pointed out that the over \$5 trillion in expected surpluses on which, at present, all estimates concur, may not come to pass. Of course, this is almost axiomatic, when even short-term forecasts are so rarely on target.

The public discourse is dominated by worries that the actual surpluses will fall short of the estimates, and this is probably a natural reaction to the novelty of massive surpluses after a long era of deficits. But the data suggest that it is at least as likely that total surpluses before policy changes will come to more, not less than today's projection.

The pattern of recent years has been for all forecasters to severely underestimate Federal revenues, by amounts as high as \$80 billion in a single year. This has not been principally a function of a strong economy, but rather of persistent underestimates of revenue growth compared to GDP growth. Looking forward, consistent with our attempt to utilize conservative budgeting assumptions, OMB has forecast this critical variable at levels well below its long-term historical average.

Also overlooked in most commentary about the amount of the aggregate surplus is the opportunity for the Federal Government to begin joining the rest of society in demonstrating real productivity improvement. Hundreds of billions of dollars of efficiency savings are clearly possible across the Federal structure. Here, too, we have made the most cautious assumption and projected zero progress. We should cooperate to pursue these savings with all the vigor with which we contest our policy differences, and I hope the Congress will join the administration in a sustained, sincere effort to capture them, and add them to the available surplus funds.

Along with forecasting risks, significant uncertainties attach to major program areas. The best example is national defense, where most observers agree with the President that a fundamental review of both strategy and needs is urgently needed.

A thorough and honest assessment is now underway led by Secretary Rumsfeld, and will require some time to complete. No one can know its outcome as to dollar requirements; it could range from today's spending levels to amounts substantially higher.

Attempts to maintain farm income, particularly among smaller producers, have consumed some \$21 billion in the last 3 years alone. This is a troubling trend and a major problem that the Congress will confront soon, both as to this planting season and as to the years ahead through a new Farm Bill. Again, the exact amounts that may be spent above today's baseline levels are unknowable.

For all these and other reasons, the administration will set aside nearly a trillion of the projected surplus as protection against contingencies and as a reserve for any future spending above the baseline. The first \$153 billion of this fund is targeted for Medicare reform.

Especially in view of the many large upside unknowns that could enlarge the available funds, it is clear that the budget reserves a more than adequate sum to manage the unavoidable uncertainties ahead. The most likely eventuality is that, at some future point, Congress will face another point at which it becomes obvious that the government is vastly overfunded, that taxpayers are being overcharged and should be allowed to keep more of their earnings.

The last part of the President's budget is, of course, his plan for tax relief. I will not repeat either the tenets or the arguments for the plan; both are well known. I will simply call to the committee's attention that, after growing government spending at moderate rates, paying down a record amount of national debt, fully protecting Social Security funds, and providing tax relief to working Americans, fully 15 percent of the surplus remains uncommitted. Given the security of this reserve, continuing to extract money from workers at today's levels of taxation would be as unfair as it is unnecessary.

I thank the committee for its hospitality and am prepared to answer your questions.

Chairman NUSSLE. My first question goes to the subject of economic forecasting. One of the statements you made in your testimony is that, of course, these surpluses are based on that forecast. How accurate should we consider those forecasts? How pessimistic are they compared to other forecasts? What comfort level can you give us with regard to these forecasts? Because we all know that unfortunately, they are never correct. Much like the weather report for tomorrow or even next week. It seems like the Farmer's Alma-

nac gets it right for years in the future, but for some reason, the weathermen can't get it right for the next day. But how much comfort can we have in these forecasts, and why?

Mr. DANIELS. Mr. Chairman, I will say I did check the Farmer's Almanac, first for future GDP forecasts, and regrettably they are not issuing them, so we had to do our best.

Obviously, no one can know the future. Certainly not 10 years out. This administration did not invent the convention of trying to forecast 10 years out. For their own good reasons, the Congress and past administrations agreed to make that attempt, and so we honor that. What I can say about that assumption and other key assumptions is that we have tried to err on the side of caution and prudence and in contrast to previous budgets of both political parties, I should say, that took an optimistic view, at least versus the consensus of their day.

Our long-term economic forecast is under the blue chip consensus and consistent with that of CBO. That doesn't mean that all forecasts cannot be wrong, they could be; only that we have tried to lean to the side of conservatism. I would also invite the committee to read those sections of the budget that treat with an even more powerful assumption in any budget, dealing with the amount of revenue growth compared to whatever the level of economic growth turns out to be.

This has been the source of the enormous underestimation of revenue that has led to the surprising gusher of recent years, and here, too, we have made, I must say, pessimistic assumptions about the amount of revenue that is likely to come in. I will be glad to go through those in detail if any member should want, but let me just say this—if the revenue growth in the future simply matched its historical average, simply matched its 40-year historical average which we forecast it will not do, although it has for the last 9 straight years, if it did that, this surplus would grow by \$2 trillion.

Chairman NUSSLE. It has been a goal of mine and a number of members in a very bipartisan way here on this committee to reduce the national debt, reduce the debt held by the public. We have been able to, as I said in my statement as a committee and as a Congress, accomplish that, to the tune of about \$625 billion as of the budget that we are currently operating in.

I want to pay down more debt, and you hold that at about \$2 trillion in this particular budget. Why? You mentioned financially practicable. How much debt is appropriate for our country to be holding in the opinion and advice of the people that you work with, in your opinion, and how is that met with the challenge of the budget that you have presented?

Mr. DANIELS. We propose to pay down all the debt that is fit to pay, I would say if The New York Times is here, and that is a little over \$2 trillion by our estimate that will mature between now and 2011. That will drive, as I mentioned, the national debt to levels as a percent of GDP to levels we have not seen since the 19 teens and rarely seen in American history.

The interest-carrying cost on the Federal Government, as I believe I mentioned, would be slashed from its recent level of 14 cents or about a dime today to less than 2 cents. This is a tremendous achievement for which both political parties, particularly in the last

few years of this—the last few Congresses deserve, I would say, each party deserves great credit.

It may be possible to go slightly beyond \$2 trillion. In part, this depends on whether—how the Treasury decides to manage its cash flow over the next few years. At some point soon, within a few years, it will no longer make any sense for them financially or mechanically to continue issuing, for instance, the 10-year security, which is the benchmark for financial markets today. It may be possible, on a very limited basis, to buy in some of the debt before it comes due, but not on any extensive basis. It has been done so far to the tune of a fraction of 1 percent of what is outstanding, but as is widely acknowledged and as Chairman Greenspan pointed out, you cannot engage in that on a long scale for very long until you begin paying unwarranted, unacceptable penalty premiums to the bond holders who will, quite naturally, demand a risk premium before they will turn over their security ahead of time and have to reinvest that money in something less secure.

By our estimates, to bring in the remaining debt, that is, that has not matured by 2011, would call for something like \$150 billion of what I would call wasted premium payments. These payments would flow to the bank of Japan, to the Bank of England, to wealthy bond holders. No administration of either party is going to do that. And what we should be doing instead is bringing down our debt at the maximum practical rate and celebrating that enormous success to which, as I said, both parties have contributed.

Chairman NUSSLE. Spending in the last Congress, as you know and as you reported in the nondefense discretionary category, rose 14 percent and, overall, 8 percent. You mentioned that we not only cannot sustain that, an opinion that I think I share and members of both parties share, but in order to hold the line on spending, in order to hold the line that you have drawn at 4 percent overall and in order to accomplish that, we are going to need a partner down in the White House in order to accomplish that enforcement. It is a partnership that also has responsibilities here on Capitol Hill. We write the rules, we can change the rules, so all of the rules that we have are somewhat arbitrary and therefore flexible.

What commitment are you aware of that the President is willing to make if we are willing to make the commitment of writing the budget within this, within this framework or at least within a small fraction of this framework? What commitment can we have from the administration with regard to their willingness to provide enforcement, possibly even as much as a veto pen, in order to hold the line on spending?

Mr. DANIELS. The President's commitment to this level of spending is pretty firm, and many members of both parties have had the chance to inquire of him about that over these last few weeks. I will say that I think we earnestly hope that it never comes to that. We have brought what we believe is a reasonable proposal, not for freezes, not for rollbacks; we have not challenged, on some large scale, the spending of the last few years. We recognize that some of it was deferred needs, and much of it undoubtedly could be viewed as a backlog.

The question is, what do we do going forward? We sincerely tender our proposal to this committee and to the entire Congress as

a constructive and reasonable proposal, somewhat more moderate in its growth rates than the last few years, a genuine effort not to throw up some artificial bargaining number, but to establish a number that we think matches the Nation's needs with long-term prudence.

So we hope to have a good debate. We know a good debate will ensue about which priorities will be funded, and the President is a practical person who knows it is unlikely he will succeed in every particular, but he is sincere about the total number, and we hope we have offered a total number that a majority will find reasonable.

Chairman NUSSLE. Thank you. Before I turn to my friend, Mr. Spratt, let me just report to him as well as to the rest of the members that in a perfect world and in a perfect growing economy, I would have made a different recommendation to the leadership and to the Ways and Means Committee with regard to moving a tax bill. It would have been nice in a perfect world and a perfect economy to wait until a budget is completed in order to lay that completely in line. That is not what we are facing right now, as we all know.

So as a fall-back position I suggested that it needs to be within the framework of what we are currently operating under in the current budget, which it does. Therefore, I thought it was appropriate, and it is appropriate under the same effects, 303, for the Ways and Means Committee to proceed with a tax bill, particularly since we all know it won't actually arrive at the President's desk before we have a budget and we have reconciliation instructions, because the Senate has a little bit different problem than we have here in the House with a 50-50 split.

So yes, as a Ways and Means Committee member and as somebody who is concerned about the budget process, I, too, in a perfect situation, would have said it would have been nice to wait for that. We can't wait. We need to send strong signals now and get the work moving on the tax bill, and that is why I felt it was important for us to suggest that they continue. Just as a way of an answer to one of your questions, I thought I should at least report that.

Mr. Spratt.

Mr. SPRATT. Well, I appreciate your position, but as a matter of budget law, black letter law section 303 is pretty clear and unequivocal. The tax bill shouldn't come to the Floor before the budget resolution. There may be tactical reasons, political reasons, other reasons for doing it, but so far as the budget process and the black letter law is concerned, it is a violation of the Budget Act.

Chairman NUSSLE. Would you yield?

Mr. SPRATT. Yes.

Chairman NUSSLE. Doesn't it also allow, though, if the tax bill number and if its ramifications are in this current year, that the current budget does control the—under that same section, under the black letter of the law?

Mr. SPRATT. As I read it, if the fiscal year covered by our budget resolution, if revenues in that year are reduced, then we have to have a budget resolution before we have a tax bill. That is section 303.

Chairman NUSSLE. Right. But the current budget that we are operating under, that we adopted as of the last Congress is controlling, unless or until there is a new budget, and as long as that is within that number, that is at least my understanding, according to the legal beagles that we checked with, that is appropriate, according to the black letter of the law.

Mr. SPRATT. Well, I don't think we need to have this—but the reconciliation provisions in the last year's budget resolution are way exceeded by the tax bill you are talking about, I believe.

Chairman NUSSLE. Except that we didn't get any—we provided for an adjustment in that bill that allowed for the update, the updates that have occurred that occurred last August, that is part of the budget as well.

Mr. SPRATT. In the July update.

Chairman NUSSLE. July. And that still fits.

Mr. SPRATT. Not the January update. They give you another billion dollars.

Chairman NUSSLE. No, no, but it still fits within the July update.

Mr. SPRATT. All right.

Chairman NUSSLE. Thank you.

Mr. SPRATT. I still maintain my position, but let us get on with the hearing.

Chairman NUSSLE. Yes. That was fun.

Mr. SPRATT. Once again, Mr. Daniels, thank you for your testimony.

Let me show you the way we put your budget together using your numbers. We did this yesterday, and we are using the numbers that are in this budget booklet you sent to us.

Your estimate is at the total unified surplus, all accounts of the budget will be \$5,644,000,000, and that is \$34 billion more than CBO projected in its January estimates. We would deduct from that, in accordance with the lockbox bills we have had in both Houses supported by both parties, we would back out of that \$2,591,000,000, which is the surplus that will accumulate in the Social Security Trust Fund over the next 10 years. We would also back out of that, in accordance with the lockbox bills that we have passed, including one a week ago, \$526 billion for the HI trust fund. That leaves what we call an available surplus.

If you don't want to invade the trust funds, encroach upon these dollars which are put there in trust, that leaves available for our disposition a surplus of \$2,527,000,000 of available surplus.

Now, from that, we would deduct several things: First of all, by your estimate, your tax cut will cost \$1,620,000,000. Now, as we look at the way you have displayed the effects of that tax cut in the booklet you have sent up, there is no entry, next to no entry for the fiscal year 2001, from which we infer that the tax cut is not retroactive; is that correct?

Mr. DANIELS. As submitted, it is identical to the commitment the President made and is prior to any retroactivity.

Mr. SPRATT. OK. This \$1,620,000,000 without retroactivity, if you put in retroactivity and didn't cut the provisions of it, you would have to add a bit to that.

Now, we contend that there are certain things in the Tax Code, popular provisions, that have a limited life when they expire, the

practice in the Congress is almost always to renew them. If you assume that these extenders, these provisions will be renewed and extended and we recognize that you extend the largest one, you make permanent the R&D tax credit, but there is another \$60 billion of expiring tax provisions, and if you also assume that sooner or later, Congress will be forced politically to deal with the problem of the AMT, the alternative minimum tax, simply because when we created this in 1986, we set an income threshold which was not indexed, we are 15 years from that date now, and more and more middle income couples, taxpayers, are going to be faced with the AMT, which they don't know about now, but when they find out about it, they ain't going to like it. Because, in effect, we are saying here is a benefit, a credit, a deduction, an exclusion, a preference, you can take this off your taxes. And then they get to the A&P section and we take back what we have just given them.

We never intended for that to apply to middle income families, middle income taxpayers. We will adjust it sooner or later because we are going from 2 million taxpayers affected by it to as many as 20 million over the next 10 or 12 years. We put in a modest amount for fixing the AMT. It could be much greater. We put in \$300 billion for the cost of extenders and fixing the alternative minimum tax. Then finally, we adjust the interest rates on the public debt by \$400 billion, because if you use \$1.6 trillion to reduce taxes, you will have \$1.6 trillion more debt on which to pay interest, and we add \$400 billion and, looking at your chart, you have \$417 billion debt adjustment for the policy changes you make, and we think that is fair.

That leaves, that leaves only \$207 billion over the next 10 years to provide for your defense increase, to provide for Medicare prescription drugs. The other night the President proposed a Medicare prescription drug proposal for low-income beneficiaries to which you have assigned a cost of \$153 billion. That would eat up just about all of the residual, \$207 billion, leaving nothing for defense, education, any number of other things.

That is why we are concerned about your budget. We think you are cutting it awfully close to the margins, as close to the bone as you can possibly come. Are these numbers wrong?

Mr. DANIELS. I am delighted to say they are, Congressman. I appreciate your question, which offers the opportunity I think, to bring you great reassurance, which I will now do as concisely as I can. You asked, I am tempted to say all the right, the big questions, and I think they ought to be treated fully and fairly. Let us take them in this order.

First of all, the Social Security fund, the President has made plain on innumerable occasions, the Social Security Trust Fund is only for Social Security, and as we have illustrated, \$2 trillion more, perhaps a little more, but not much more of that is available for debt retirement. The rest can be considered as a further cushion against adversity, can be considered as potentially some further retirement before we run into bonus payments to bond holders, but we do not propose to spend it in this budget.

Secondly, while there is a lot of sentiment we know for a larger tax cut than \$1.6 trillion, and we commend the spirit of that sentiment, I didn't realize that it was extensive on the Democratic side.

The President has proposed a \$1.6 trillion tax cut. As he said again the other night, some think it is too big, some think it is too small, but he thinks it is just right, and we do. So we appreciate the gesture of offering hundreds of billions more, but that is not our idea.

The AMT is an issue that is out there; we would work with the Congress if the Congress would prefer to address that sooner rather than later. You know, we didn't write the AMT.

Mr. SPRATT. But don't you agree that it will probably be addressed? Unless it is going to be repealed, it will have to be addressed.

Mr. DANIELS. It is partially addressed in the proposal we have made within the 1.6.

Mr. SPRATT. Even your joint tax commission said that there is \$200 billion in your proposal that would be denied taxpayers by the AMT right now, in your proposal alone.

Mr. DANIELS. Well, we welcome your concern for the taxpayers, Congressman. No one would be taxed more, even through the combination of these provisions, but some at some point might be denied part or all of the tax relief the President proposes. That would be too bad, and it is a problem we could agree to work on. But it need not inflate, at this time, the total size of the tax plan that he has proposed.

The interest costs you correctly pointed out are fully accounted for in our budget. This is a little bit of a strange convention of the way that we budget. We all agree to do it this way. It presumes it will have a large cash balance, that we think the government should never have, and they will be earning interest, but that is a subject I will return to.

We agree with your accounting. That is why in our diagrams we show a \$1.4 trillion reserve for new needs, contingencies and debt interest; and the 400, you are quite correct, refers to the debt interest associated with the tax cut.

So now let me try to reassure you as to why there is so much more room than you have feared.

Let me talk about Medicare. We lay out in our document, I hope with complete clarity, something that I hope all Members of Congress will soon come to recognize, certainly the journalistic community has, there is not a surplus in Medicare. Medicare costs on an annual basis substantially more than it takes in in payroll taxes and premiums, and it is a dilution—perhaps it was an honest confusion, but it is a dangerous delusion to pretend otherwise.

Over the next decade, viewed charitably, Medicare will cost \$645 billion more than it takes in. On a cash basis, that would be more like \$900 billion.

We sincerely fear that to talk about a surplus is an invitation to procrastination. I realize in saying this I am speaking to people on the Republican as well as the Democratic side, but by no means, no intellectually consistent means, I think, can it be said that Medicare runs a surplus.

That notwithstanding, if you choose to view it that way, we have not proposed to spend it. By our accounting at least, there is at least twice as much, and by CBO's at least three times as much, money set aside in the contingency reserve as the alleged Part A surplus. So the answer is, if you want to persist in this view and

do not accept my assessment, the answer is, don't spend it. Just don't spend it.

Now, here is the most important point of all. In talking about, as people so very loosely do, locking away and putting off the table all of Social Security, plus this so-called Medicare surplus, that comes to over \$3 trillion, the question someone must soon answer is, when it goes off the table, where does it go? Where does it go? \$2 trillion can go to debt retirement. You might push that up .1, maybe .2. Where does it go? There is not a mattress big enough.

There is only one place it can go, and that is into private assets. If it is going to be held, if the government is going to insist on clutching this money, rather than leaving it with the people who earned it, it will have to go to private assets.

Now, I am glad to see that this debate is being flushed out of the shadows and into the open. Let me just cite to you from yesterday's New York Times an economist, Dr. Krugman, who disagrees strongly with our budget proposal, and gives his honest reasons why, but then says the following:

"What is new is Mr. Bush's argument that since about a third of the Federal Government's debts is, in effect, subject to early repayment penalties, it would be irresponsible to run a surplus large enough to pay off the entire national debt." He means by 2011. Now it is right, says Dr. Krugman, that this is maybe an argument against repaying that part of the debt. But then he goes on to quarrel with our idea of leaving money with taxpayers, and he gets to the only conceivable point. In his view, "The responsible thing for the Federal Government is to make alternative investments, and if this means that the Social Security and Medicare Trust Funds must buy stocks and bonds from the private sector, so be it."

Now, he has put his finger on the issue. If you push this money "off the table", you have to tell somebody what you are going to do with it. We say it stays in reserve. If you won't leave it there, you will have to invest it in General Electric and Motorola, and we have stated our unequivocal belief that this would be wrong on principle and wrong economically.

So the right way to draw the pie chart, we insist, is as we have: \$2.6 trillion of Social Security entirely devoted to Social Security; \$600 billion of that as a further reserve; \$1 trillion of the on-budget surplus uncommitted, available for setbacks, available for new needs or emergencies.

Having done that, with all that room as protection, we believe it would be inexcusable not to provide tax relief to the overcharged American taxpayer.

I apologize for a lengthy answer, but it was an important question.

Mr. SPRATT. I didn't interrupt because I wanted to give you the opportunity to have a full and complete answer.

Let me go back to some of the detail you mentioned. Let me start with this. The President the other night told us, and you have in your budget booklet, a contingency fund of around \$1 trillion.

Mr. DANIELS. Yes, sir.

Mr. SPRATT. The impression I got listening to the speech and even reading the language here is this is a cushion fund. If these

projections don't pan out, we can fall back on that contingency. If we need further spending, we can dip into that contingency.

If we go back to my chart here, the only reason—the only way I can come up with \$1 trillion is by going to the Social Security Trust Fund and taking that \$600 billion that you won't spend because you don't have enough debt to retire and redeem—

Mr. DANIELS. No, sir, that would be incorrect.

Mr. SPRATT. OK.

Mr. DANIELS. Keep on going.

Mr. SPRATT.—and the \$527 billion in Medicare's Trust Fund. Those two together add up to a little over \$1 trillion. Otherwise, how—what is the arithmetic for arriving at \$1 trillion?

Mr. DANIELS. It is pretty straightforward. You can get to it easier from the bottom. The 207 you have, the 300 in extra tax costs that is above and beyond the size of the—I am sorry, tax relief, above and beyond the size the President asked for repeatedly, and the \$526 billion that you term the Medicare surplus, which in fact has already been spent on Medicare, but, as I said before, if you want to imagine that those funds were not but in fact are some kind of surplus, then the alternative is not to spend them.

Mr. SPRATT. Half of them is the Medicare "Trust Fund" money.

Mr. DANIELS. Thank you for putting quotes around it.

Mr. SPRATT. I did it for emphasis to you, because it is a statutory account. The people of this country, ever since they have paid the FICA tax for Medicare, have felt they were paying their payroll taxes into an account which would be dedicated to Medicare solely. We created that by law. It is black letter law. It is not some sort of device that we use for rhetorical purposes around here.

In fact, let me read you a law, a bill we passed 16 days ago, what it says: It is the purpose of this Act to prevent the surpluses of the Social Security and Medicare hospital insurance trust funds from being used for any purpose other than providing retirement and health security and to use such surpluses to pay down the national debt until such time as Medicare and Social Security reform legislation is enacted.

But you are telling me it would not be just used for reform purposes. It is part of the cushion that would be used for any number of purposes to cushion us against an adversity not foreseen.

Mr. DANIELS. I am telling you it is already being spent. That amount of money, and \$645 billion more, will be spent on Medicare. Now, we can pretend to ourselves that that money somehow was not devoted to Medicare. We believe that every penny of Medicare receipts and more should be allocated to that purpose. We propose to spend more, as I indicated, for a prescription drug benefit and further modernization of the plan. But there is an alternative, which is, as I say, if you want to maintain this, I respectfully say, antiquated view of the system, then we need not spend that part of the contingency.

By the way—

Mr. SPRATT. This is not antiquated. It is current law. It is still on the books. I mean, if you are going to abide by the law until it is changed, this is what the law says.

Mr. DANIELS. But that law can change, Congressman. You all changed it when you decided, because things were not looking too

good for this concept, you decided to move home health care, presto-change-o, out of Part A, and overnight suddenly \$200 billion of “surplus” materialized over 10 years. So, you know, I am tempted to use stronger language. I would just say I think this is a confusing way to talk to the public about a system which we should agree is urgently in need of reform, and soon. It is in bad fiscal shape, not excellent fiscal shape as these illusory surpluses suggest.

Honestly, I think the biggest issue is not our good-faith differences about what this particular budget should look like. I think the biggest issue is the longer term, the invitation to procrastination, if we tell ourselves that we are sitting on some kind of surplus in Medicare, when quite the converse is true.

Mr. SPRATT. Let me go on. We will come back to that.

Chairman NUSSLE. Let me just inform members there is a vote on the floor. We are going to continue the hearing during the vote. Members should be advised to go and vote. We will continue the line of questioning as the vote is occurring.

So, Mr. Spratt.

Mr. SPRATT. Mr. Daniels, let me ask you about some other numbers, in trying to understand what you are doing with discretionary. I think you are wise to provide for a reasonable increase in the discretionary accounts. One of the reasons we are so far above the caps is I helped negotiate the BBA in 1997. We realized they were unrealistic and tight. They were set so tight in the last two budget resolutions, they were not credible.

Mr. DANIELS. We appreciated your input, Congressman. You were one of the first people we consulted. I don't know if we got the right number or not. But it was trying to be responsive to input like that we received from you.

Mr. SPRATT. Let me express a concern, and you tell me if my arithmetic is correct. When we look at the accounts you are going to protect—Education, the Department of HHS—these accounts would get equal to or more than inflation. The Social Security Administration, the VA, International Affairs, when we look at that and then adjust discretionary by 4 percent, it seems to us, using your baseline, you would have to make about 7 percent cuts in the remaining non-defense discretionary accounts. Is that consistent?

Mr. DANIELS. That is not a calculation I am familiar with, Congressman.

First of all, we think comparing everything, that to inflation, is a little risky. The private sector doesn't work that way. In fact, in the rest of the world these days, thanks to the steady increase in productivity, a flat budget year to year represents about a 3 percent increase. So we think—we don't accept the sort of old convention that anything less than that should be viewed as a step back.

But let me say this: Quite honestly, budgets are always about choices. They are about new priorities. The President has those, and you named each of the most important ones when you named education and defense and medical research and veterans and so forth. If you are going to accent some things and not simply have a sky-is-the-limit approach, then other things are going to have to take second priority.

We were careful to point out in the budget that, viewed in the context of the spending increases of the last few years, every de-

partment is substantially larger than it was just 2 years, 3 years, certainly 4 years ago; and this includes those for which we recommended either flat or even slightly declining budgets this year.

Mr. SPRATT. I don't want to cut you short. Let me give you for the record our analysis of the likely cuts required in the non-defense discretionary accounts. We come to 7.1 percent. That is before carving out a niche for transportation and other protected programs which, as you know, by virtue of law have gotten for themselves a place in the budget that is greater than just an inflationary year-to-year increase.

When you set aside the money required for them that is over and above the 4 percent increase, you have gotten bigger cuts than 7.1 percent. We would like to know if our arithmetic, our analysis of your numbers, would lead to a 7 percent cut in all other NDD programs?

Mr. DANIELS. Well, I will be glad to take your arithmetic and get back to you quickly and see if there is some way to reconcile it. It doesn't sound as though it squares with what we have, but I don't doubt, as I have said on other occasions, if you torture the data long enough, it will confess, and perhaps somebody has been working over the data on your side.

Mr. SPRATT. If you had a big increase in defense, 050 as we call it around here, this fall, after the QDR, the Quadrennial Review has been completed, if you then come forward and say our defenses are in perilous conditions, we need more money, would you raise the baseline or require that be taken out of non-defense programs?

Mr. DANIELS. We made no decision either way yet. I think there are probably multiple ways that could be dealt with. It would be certainly a feature, of course, of the next budget. Since I don't know what the Secretary will recommend or what the review will recommend, I don't know whether it can be accommodated, which would be our first instinct, frankly. But it might not prove practical. This is again why we try to be candid in suggesting that we have to have a very large reserve against contingencies, this being perhaps the first among those.

Mr. SPRATT. Are you going to tell me you are paying it out of Medicare?

Mr. DANIELS. No, sir.

Mr. SPRATT. I will leave it at that. Thank you very much.

Mr. HOEKSTRA [presiding]. Thank you. Welcome. It is good to see you. I talked with your staff beforehand, and they indicated that you had already anticipated where I was going on my questioning, so we will see.

Mr. DANIELS. I didn't want to spoil the surprise, so I didn't read their memo.

Mr. HOEKSTRA. That is good.

One of the President's primary areas for increasing expenditures is the Department of Education. We were excited to hear when the President began his work on the Department of Defense that he said he would do a top-down, bottom-up review of defense priorities, defense issues and those types of things before you came out with really a complete analysis and a proposal on what to do in the Department of Defense.

For the last 3 years, the Department of Education has not been able to get a clean audit. I believe that today they will again get a qualified opinion from their auditors, something less than a stellar performance for an agency that we have entrusted \$40 billion to, an agency that also manages the loan portfolio of somewhere in excess of, I think, \$60 to \$70 billion. But you have gone forward and proposed an 11 percent increase in this budget.

How can we be proposing—other than identifying it as a national priority, how can we put another 11 percent into a department that over the last 2 to 3 years has clearly demonstrated that there is a significant amount of waste, fraud and abuse in the department and still cannot get a clean set of books?

Mr. DANIELS. That is an important and appropriate question, Congressman. I think the answer to it starts with the fact that we should make a commitment—the administration should make a commitment to a very careful review of this and, as Chairman Nussle suggested, other departments, too. Having produced or met our responsibility by producing this budget outline, we will now try to turn our attention to these larger and longer term questions.

I would distinguish the two, I suppose, in this way. In the case of defense, the President recognized that it was time, after probably 50 years without a complete re-look at strategy, mission and therefore needs, for a look before we leap in the case of defense spending, and that is under way, as you know.

In the case of education, it was both a first priority with him and he had some very clear ideas already about what needed to be done—accountability, reading at an early age and so forth. So I think that his decision was to move immediately, that time was wasting, that too many lives were being stunted, too many children lost along the way, to go into some lengthy period of study, when he already knew at least the first things to do.

But I do believe that your point is well made that that department needs a look, needs to be near the front of the line in getting a look, and we will commit to do that.

Mr. HOEKSTRA. You recognize when the department does not get a clean audit the auditor is telling us that we do not have a high degree of certainty that the money going into that department is actually being used for the things that Congress may have appropriated it for. So the President may be steering this money into the department for objectives that he believes are important, that he has identified based on the work that he has done in Texas, that he has done researching education on a national basis, but that when you put the money into that department there is no high degree of certainty that it is actually going to find its way through the process on the priorities that you have identified.

Mr. DANIELS. I recognize this, sir. Secretary Page recognizes this, and I think it is undoubtedly already about the business of identifying areas of mismanagement or opportunities for efficiency. I urge you really to persist in your advocacy for a good, close, hard look and to hold us to it.

Mr. HOEKSTRA. We are continuing it. We are hoping you partner with us in that process and that the administration comes back and puts some benchmarks in place. Again, you came out of the private sector. You have got experience in the private sector.

Mr. DANIELS. Right.

Mr. HOEKSTRA. You know that on a board or in the senior management in the private sector that kind of performance is totally unacceptable.

Mr. DANIELS. Yes.

Mr. HOEKSTRA. That is what we have had for the last 3 years, and that good bookkeeping is just the benchmark. That is where you start before you even start taking a look at the effectiveness of the programs. We would hope that the same energy that the President and the administration is putting into making sure we leave no child behind through the programs and the strategies, that you spend the same time and energy focused on doing the basics at the Department of Education.

Mr. DANIELS. Well, we will need to make the commitment to leave no dollar behind, too.

Mr. HOEKSTRA. I would hope so.

Great. Thank you very much.

Mr. DANIELS. Thank you for your questions.

Mr. HOEKSTRA. I will yield to Mr. Sununu.

Mr. SUNUNU. Welcome, Mr. Director. I appreciate your testimony.

I want to begin by touching on a point made by the ranking member in discussing the reserve. I at least personally want to clarify this, and then if you want to add a brief comment, although I think your comments have already been quite clear.

In the chart that was presented, the ranking member, Mr. Spratt, showed \$200 billion at the bottom of his chart as a reserve. You made the clear point that he had included and in part argued for the need for \$300 billion in tax cuts above the President's plan; and, of course, he had also highlighted the roughly \$500 billion coming in Medicare taxes.

So the point I want to be sure is clear is that there was agreement that in the President's budget there is a \$1 trillion reserve. Because all of these elements added together would comprise this reserve that is being set aside.

What bothered me most in the discussion was not that agreement, because I think that is very favorable, but the suggestion that was made that creating this reserve, \$1 trillion, which is hard to really comprehend, but \$1 trillion over the next 10 years, that there was something fiscally irresponsible about creating this reserve. Setting aside all of these funds, not to be used initially for any tax relief, not to be used for any spending program, not to be used for any other purpose other than to set aside, understanding that the fact is forecasts are fallible, whether it is from the Farmer's Almanac or the OMB Director or anyone else.

Now, that is the point I want to drive home, that this is, as I understand it, an historic achievement. To the best of your knowledge, was any such reserve set aside in the previous administration?

Mr. DANIELS. No, sir.

Mr. SUNUNU. To the best of your knowledge, was any reserve set aside under the Reagan or Bush administrations?

Mr. DANIELS. Not to my knowledge.

Mr. SUNUNU. By doing so, we are achieving exactly what so many of the critics of this budget plan suggest needs to be done, and that is be fiscally prudent, be reasonable, be balanced in the approach.

Let me get back to a point that you made earlier about projections, because I think it fits clearly into this same theme, this same principle or concept of being balanced, of being fiscally prudent. You talked about projections. You talked about revenue growth and revenue projections. You touched on the point very briefly. I want to go through it in some additional detail.

In the President's budget, what is the approximate average revenue growth year on year that you have in your projections over the 10-year period?

Mr. DANIELS. Well, let's see, it will be something—let me do the math in my head here for a second.

We are forecasting economic growth in the 3.1, averaging 3.2 ultimately, over 10 years; and for the first several years we are forecasting—or assuming, I should say—revenue growth running as much as 1.5 points below that. So in any given year revenue growth would be at a rate in the 2s, I suspect. Those are probably real numbers. Five percent is the number, I am advised.

Mr. SUNUNU. Two percent real, 5 percent nominal. The historic average, as I have seen it—looking at any 10-year period or the 40-year period you cite, it is actually quite consistent. The historic average for revenue growth is 7 to 7.5 percent. That is a 2 percent difference in annual revenue growth that this budget has below the historic average, 2 percent per year compounded. Looking at that figure, I think you ascribed a figure to that difference over the 10-year period in which you assumed revenue growth at the historic average, how much larger would the surpluses be?

Mr. DANIELS. \$2 trillion.

Mr. SUNUNU. \$2 trillion. That is 33 percent larger—or even more—35 percent larger than currently forecast?

Mr. DANIELS. That is correct. Just to calibrate that for you, that would match or perhaps overwhelm a full percentage point lower economic growth throughout the entire time period. So you could be off by one-third on your economics and have that offset by the conservatism of this assumption.

I will just give you one other data point.

If revenue grows only with the economy, which it has consistently exceeded over recent years, given the structure of the tax system we have now, by the way, in a weak economy or weakened economy right now it is once again running ahead of projections, revenue is. But if it only runs with the rate of economic growth, it would add \$750 billion to the 10-year surplus.

Mr. SUNUNU. And to be clear that this is not a case of looking at only periods of economic growth or looking at only an optimistic scenario, the historic averages that you cite include recessionary periods, they include periods immediately preceding tax cuts, include periods immediately preceding tax increases, which obviously oftentimes have resulted in a slowing economy. So it doesn't leave out the bad times in order to arrive at this historic average revenue growth of 7 or 7.5 percent.

Mr. DANIELS. No, that is quite correct, Congressman. That is the reason to reach back 40 years, is to try to incorporate a fair factoring in of all kinds of situations.

Mr. SUNUNU. So you are using revenue growth projections below historic averages. You are creating a reserve of \$1 trillion that is not dedicated in any way, that I certainly would not want to see be used to create bigger government, but is there, in case projections in one area or another do not pan out—and now let's talk a little bit about in this context the tax relief package itself.

Mr. DANIELS. Could I just add one thing to your excellent summation? You might also add the \$600 billion of Social Security surplus not committed in this budget as further reassurance.

Mr. SUNUNU. So as a management tool to pay down additional debt if that is available and, even more important, to be used to support any costs associated, transition costs associated with a modernization program or a reform program to reform Social Security, you have that additional \$600 billion. Is that correct?

Mr. DANIELS. That is correct.

Mr. SUNUNU. Talk briefly about the size of the tax relief package. Given these projections by my rough estimates, it is about 30 percent of the total surpluses. I have been corrected. It is 28 percent.

Mr. DANIELS. Twenty-eight percent.

Mr. SUNUNU. Thank you, Gil. Put that in a context, though, relative to the tax relief packages under President Kennedy in 1960, under President Reagan in 1981, relative to our current economy or to current revenue collections.

Mr. DANIELS. The tax relief proposal at the size at which the President has consistently insisted is about one-third the size relative to the budget or economy of the Reagan proposal of 1981, more like it is about half the size of the Kennedy proposal of the '60's. Maybe the easiest way to think about it is to take note that at this baseline estimate, which may be low, could easily be low, the Federal Government will take in \$28 trillion of revenue in the next 10 years; and, of that money, it represents about 6 cents on the dollar. So, viewed as a refund to taxpayers, the 6 cents will not strike most people as excessive.

Mr. SUNUNU. So as a portion of our economy, it is smaller than the Kennedy package, smaller than the Reagan package, and in both of those eras we did not have the budget surpluses. In fact, of course, under Reagan there were deficits.

Mr. DANIELS. Right.

Mr. SUNUNU. So it is more modest. We have a \$1 trillion reserve.

Finally, I want to close by having you talk a little bit about the debt retirement process, because, again, I think it is important that we look at these things relative to historic averages or historic perspective and relative to the size of our economy. By the end of this year, debt, our public debt, as a percentage of the economy, of the GDP, will be about 30 percent. Do you know roughly when the last time was that we achieved that low of a debt burden as a percentage of our economy?

Mr. DANIELS. Actually, I have a chart I would be happy to display. It is something that, as I said, I think should be cause for celebration by all members in both parties since all have contributed to this turnaround. But, to sum it up, at the end of this dec-

ade, we will be down to 6.5 percent of GDP, and you have to reach back into the decade between 1910 and 1920 to find an equivalently low percentage. Of course, the difference is——

Wrong again, Eric. Good chart, though. Put that up a minute. We like that one.

This is the end of the interest burden on the Federal budget.

Mr. SUNUNU. Which clearly corresponds to our debt level.

Mr. DANIELS. That is correct. And plummeting from a height just a little over 15 cents, not many years ago, beginning to drop now down toward 10, but headed for under 2 at the end of the budget period.

There you go. So your figure is about correct for now, Congressman. The year 2000——

Mr. SUNUNU. This shows in 10-year increments.

Mr. DANIELS. Yes, 10-year increments. You have to reach back here to the second bar from the left and the first two decades of the last century.

Mr. SUNUNU. But even if we express concern about the length of these forecasts and say I really don't want to look out 10 years, the further out we go, the tougher it is to predict, by my calculations. Or I guess it is data contained in your budget submission, in just 5 years, by the end of 2006, that debt as a portion of GDP will be 10 percent, and that is a level that we have not seen since well before the Second World War, is that correct?

Mr. DANIELS. That is correct, also. This whole era of surpluses and debt reduction is new to us all. There are some very intriguing new questions that policymakers will have to decide, that no one has been thinking about much until recently. We will soon have to decide, do you want to get rid of the U.S. Saving Bond Program? If you want to go to zero, you will have to do that.

Mr. SUNUNU. Even without addressing that question, in the next 5 years, given the schedule of debt repayment laid out in the President's budget, we will take all of the Treasury notes with maturities between 1 and 5 years out of circulation, is that correct?

Mr. DANIELS. Yes. By every set of assumptions I have seen, the Treasury will stop issuing most of the instruments with which we are all familiar within the next 4 or 5 years, some think much sooner.

Mr. SUNUNU. And within the 6-year period, or the 7-year period, before we start accumulating cash surpluses, it would be possible to take all of the even shorter term maturities, the 3- and 6-month bills out of circulation. I know for cash management purposes the Federal Government might not want to do that, but could you talk a little bit about how that is going to be addressed by both OMB and Treasury?

Mr. DANIELS. Thank you for the question.

I think I should be very guarded, because, first of all, this will be a call for Treasury. Secondly, I think all of their options are open at this point; and they would not appreciate my speculating. So with your permission, I won't—but you are highlighting one of the very interesting and somewhat sudden new challenges. These are positive problems to have as we contemplate the disappearance of national debt as a material factor in the business of the Federal

Government, but I am not in a position today to give you an answer to the question.

Mr. SUNUNU. I appreciate that. I simply wanted to highlight the point that, even with tax relief programs, even with the priorities for education and national defense, we bring the debt down to such a level, not in 10 years, but in 3 to 5 years, a level where we have not been in really our history. We are paying down debt faster than at any point in our history and have already done so, \$600 billion in the past 4 years, and all of that considered doesn't include the \$1 trillion reserve that has been set aside to deal with the vagaries of forecasting.

Mr. DANIELS. That is quite correct, Congressman. And as Chairman Greenspan has pointed out, the problem of the excess balances, which I referred to earlier, if you take it off the table, exactly where does it go, that is going to be on us fairly soon, and there will have to be some decision. Perhaps many will agree with Professor Krugman and others that it would be fine for the Federal Government to become an active investor in the private markets. If so, we ought to start that debate soon, because it is not a distant issue.

Mr. SUNUNU. I certainly don't agree with the notion of the Federal Government buying GE stock or Microsoft stock, and I am sure Jack Welch and Bill Gates don't either.

Thank you for your time.

Chairman NUSSLE [presiding]. We are going to go on the 5-minute rule here. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

On that note, perhaps, we might want to have the States and municipalities divest of all their private assets holding as well. But that is a discussion for another day.

Mr. Daniels, I appreciate your being here. I have a couple of comments, and I have a number of questions. Looking at the budget blueprint that you all sent out the other day, it would appear that the administration is asking us not only to make a bet on 10-year economic assumptions but, as best I can tell, a bet on 10-year political assumptions as well as it relates to offsets. I think that is somewhat of a gamble, and I think we ought to take a very close look at that.

But I want to go to the discussion with respect to debt and the trust funds. First, with respect to Social Security, both with regard to what is in the document specifically, on page 45, where it talks about using the Social Security Trust Fund surplus to reform the system and to pay down debt until reform is enacted and the comments made by your colleague, Mr. Lindsey, this past weekend indicating that perhaps this \$600 billion could not be used for debt paydown because debt might not be available at that time. Thus, it would be used for reforming the system.

Furthermore, in the Medicare section, regardless of whether we accept what might be a somewhat specious argument on the legitimacy of the Hospital Insurance Trust Fund, it certainly is a legal trust fund and by law, it is invested in non-negotiable Treasury securities, so it does have that legal trust structure.

But regardless of getting into that argument, the fact is that you do in fact explicitly, I think, in your budget document, spend some

of those trust fund moneys on new benefits or other benefits within the Medicare program or make the assumption.

The problem that I have got is that it would appear to me that both of these funds are obligated funds. In fact, that is the argument we have had in the Congress over the last several years, longer than that really, since the unified Budget Act of 1965 or 1968. But these are obligated funds to future retirees, and at some point, those funds have to be repaid.

If you are taking those funds now and spending them on, quote-unquote, reform, particularly in the Social Security program, many members of this committee know from the hearings over the last several years that reform is going to take a great deal of outside capital to reform. In fact, Martin Feldstein testified I believe before this committee. Alan Greenspan and others have said, if you go to a privatization program like the President has proposed, it is going to take somewhere to the tune of \$1 trillion on top of what the projected Social Security Trust Fund receipts to make that reform.

But the fact is, it would appear that in Social Security and explicitly in Medicare you are taking those otherwise obligated funds and spending them as new capital infusion into the system. So you are really double counting those moneys, and at some point you are going to have to make those up.

There is really only three ways you can do it: You can raise payroll taxes—and I know the President was pretty clear about that, that he doesn't want to raise payroll taxes; and I don't support it. I don't think there is much support in the Congress for that. You can cut benefits, but I haven't heard anybody talk about that, or you can add more debt.

Furthermore, while we are talking about the debt going down, and I am a great proponent of that, we also have to remember that the gross Federal debt stays relatively constant over the 10-year period. Now, a lot of that is intergovernmental transfer debt, but the fact is if you go and spend some of this money on other programs or even if other programs would include structural changes in the Medicare-Social Security program, at some point you are going to have to roll that intergovernmental debt into the public markets.

So how do you size up the fact that you really are looking to double-count these moneys? Are you going to cut benefits in the future through your reforms? Are you going to add more debt? Mr. Feldstein said we can borrow in the future.

Mr. DANIELS. Thank you for your question.

First of all, I get lost in the language of double counting. We have not proposed anything at this point for the \$600 billion extra remaining except in the Social Security Trust Fund except to protect it for Social Security only. I cannot give you a cost estimate for the legislation resulting from the recommendations of a commission that has not been appointed yet. We have got great forecasters at OMB, but they are not up to that.

The \$1 trillion figure floats around, but when I have asked for details on it, the best I can understand is that it may set an outer boundary. That is to say, if you had such a system and had it in place tomorrow and everybody subscribed immediately, it might cost that much. I don't think anybody knows.

Mr. BENTSEN. Let me interject. I appreciate that. Most people in favor of reform have been sketchy on the details. But we have had testimony from every group, from Heritage to CATO, left-right, that came in and said you have to have an outside capital infusion. But the fact is in your budget you say you are going to spend some of this \$2.6 trillion for reform, but the fact is we also know from the actuaries that that \$2.6 trillion is already committed just to get the program to 2037. So how can you spend it twice?

Mr. DANIELS. Well, we haven't proposed to spend it yet. I think the document quite clearly says it can be viewed in a variety of ways. It could be that we could use some of it for further debt reduction. It could be that there will be some smaller surpluses than we forecast. It could just as easily, I hasten to add, be more than \$2.6. And it is certainly could be a starting point for the transition costs to reform. I remind you yet again, there is another \$1 trillion by our reckoning which again could get larger for new needs unspecified.

Mr. BENTSEN. With all due respect, that \$1 trillion though includes I believe half a trillion dollars of at least legal Medicare hospital insurance trusts. As you well know, there are two programs, there is the Part A program and the Part B program. The Part A program is funded by the FICA tax, and it is a legal entity under Federal law as a trust, the proceeds payout for just that portion of the Medicare program. But that is allocated to that contingency. So, again, there is a question of double counting.

Then you are drawing down and explicitly transferring, it would appear, some of that money to the President's Helping Hand Program, which is hard to find in your baseline, because your baseline doesn't match the CBO baseline. It is \$200 billion below the CBO baseline for Medicare. But, more importantly, it is transferring from Part A, a trust fund program, to what would appear to be Part B, or a discretionary side program. So it does appear you have double-counted. At some point you have to make this up.

As I said, there are only three ways you can do it. You can raise payroll taxes, you can cut benefits, or you can issue even more debt than you might otherwise have to issue.

Mr. DANIELS. I am tempted to say there is apparently a proud history of transferring things from Part A to somewhere else in the form of home health care, but, again, I think that is ancient history.

Mr. BENTSEN. Here you are transferring assets as opposed to obligations.

Mr. DANIELS. You have made a legitimate point about the statutory status of these trust funds, Congressman. My reaction is that ought to be changed. That ought to be brought current.

The whole idea of Part A, Part B, reflects the era, now almost half a century old, a completely different era in medicine, when hospitals were viewed completely discrete and apart from the rest of health care. Nobody is practicing medicine that way. This is one of many vestiges in which Medicare trails the rest of health care. It is not good for patients; and it is very, very dangerous to the finances of the Federal Government. So perhaps the right answer is to unify these trust funds and modernize the legal status.

Chairman NUSSLE. The gentleman's time has expired.

Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Daniels, with all due respect, your numbers sound too good to be true. I hope the problems we have with paying off the debt that you subscribe to do come to materialize. I truly do.

The job of this Budget Committee, Mr. Chairman, as you know, is to rein in the appropriators. That is why this committee was created.

Chairman NUSSLE. That is a secret. You are not supposed to tell anybody about that.

Mr. DAVIS. Well, the public is watching, Mr. Chairman. Where I come from, we have a saying that everybody is entitled to their own opinion but not their own version of the facts, and the job of this committee is to try to bridge the divide between the Democratic version of the facts and the Republican version of the facts.

I am very distressed that as we sit here today to begin our work that the House tax writing committee is about to take up and pass an approximately \$950 billion tax cut.

Mr. Chairman, this is akin to someone starting an addition to their home without having a mortgage, without knowing how much money is going to be available to them to fund this tax cut versus spending priorities, including the President's spending priorities, and paying down the debt.

Mr. Chairman, with all due respect, I could not disagree with you more strongly when you described earlier this tax bill as a strong signal. This is not a strong signal. This tax bill is potential law. It is our job as the House of Representatives to seriously debate that, and we will not do so, we will abrogate our responsibility if that tax cut moves forward without this committee even starting our work beyond today.

So I think we are getting all tangled up in the process, Mr. Daniels, and I think that the actions that are about to occur with the support of the administration totally belie much of the good things upon which we would agree and discussed today.

I would like to have presented to you a letter which has been signed by 214 Democrats in the House of Representatives, including many Democrats who voted for virtually every tax cut that has come before them in the last few years. That letter simply asks the administration to allow this Congress to proceed with the development of a budget resolution and an open and honest debate about the impact of this tax cut on spending and debt retirement.

What I would like to do is to continue with the questions that Mr. Spratt posed to you. Regardless of how we describe this approximate \$500 billion in Medicare, whether we use your terminology or his, the fact of the matter is this money exists because of a payroll tax that people believe they are paying to go toward Medicare. So if we subtract that from the figure up here, the \$200 billion, and we also subtract the price tag the President has attached to his prescription drug plan, my question to you is, how do we begin to measure the cost and ability to pay the other priorities the President has identified?

Many of us share his view about increased spending for defense, particularly for men and women and their compensation, education, a national missile defense program. Mr. Spratt has been a

leading supporter of that. The conservation program. We don't even have retroactivity up there, Mr. Daniels, which is expensive as well. Could you please give us some guidance on how we are going to pay for these and still maintain the shared goal of debt retirement?

Mr. DANIELS. Well, first of all, in terms of what people believe about their Medicare payments, Congressman Davis, a lot of people still believe that their Social Security payroll taxes go in a drawer for their benefit in the future, which has never been the case in 60 years, 70 years. So we have allowed certain misconceptions, unfortunately, to, I believe, be prevalent among the American public. I just see this as just another one of those.

Medicare is not in good shape. That money is not in a drawer waiting for the future. We need it all just to meet part of the obligations that Medicare costs today.

I would return to my question: If in fact, standing on the legalisms and the trust fund status and so forth, you all want to take that—keep that money aside, then which stocks did you want to buy? Which piece of the economy? It could be 5 to 10 percent by 2011, if that money is to be truly set aside. I realize there are some who feel that could be done appropriately. But that is a very important public policy debate that needs to be entered into soon if that is your position.

Mr. DAVIS. Mr. Daniels, let me interrupt to ask you if it is fair to say that, under your proposal, using these funds, however you describe them, from the contingency fund, we ought to be prepared to use those funds for some purpose other than Medicare?

Mr. DANIELS. No, I don't agree with that.

Mr. DAVIS. Why would they be included in your contingency fund then?

Mr. DANIELS. Well, we don't allow as how this is the same money at all, Congressman. I don't know how more candidly to tell it to you. We have tried to write it out clearly in the blueprint. But, as I say, if you choose to look at it that way, then you can reform Medicare from a piece of this, and we do propose—the only use we propose so far for the new needs fund is Medicare reform. And then you can simply work with us to constrain spending and not spend the rest. We will all go home happy.

Mr. DAVIS. I know that our time is brief, but could you give us some numbers that we can associate with some of the other Bush promises that we put up here, things the President supports that many of us support—the defense, the education, the conservation?

Mr. DANIELS. Congressman, if I could, I would. You know, very sincerely, this was an attempt to recognize legitimate concern that we heard from both sides of the aisle that there were many uncertainties in the future and we ought not pretend that we can be precise about them. If I were to put a number on defense today, it would be a throw of a dart; and it would belie the instruction the President has given to the Secretary of Defense to look at this entirely in a strategic and comprehensive fashion.

So what we have tried to do instead is to consider what we believe is the sort of outer limits of these things and then to over-reserve against it, as any prudent business might.

Mr. DAVIS. Mr. Daniels, are we being responsible to take up this tax cut based on our shared goals about debt retirement, when all we have is a throw in the dark to associate with the cost of these defense proposals?

Mr. DANIELS. Well, I just said I refused to throw a dart, but I understand your question. You know, I guess I would ask it this way: Why is it the taxpayer always comes last? Why is it always our spending—I say “our” now—why is it always Washington’s spending, Washington’s programs, Washington’s possible future needs for spending, and if there are any table scraps left over, then the taxpayers may be entitled to them? That strikes me as being unfair.

A better way to think about it really might be, let’s attend to our needs, including all the debt we can practically retire. Let’s put aside an overconservative amount against future uncertainties, referring that our total surplus here might well be bigger. It surprised us 5 years in a row being bigger. It is not an impossible thing. It could keep doing that.

Why must the taxpayer always wait? Why must the taxpayer always bring up the tail of the line?

Chairman NUSSLE. The gentleman’s time has expired.

Mr. Gutknecht.

Mr. DAVIS. If I could respond to his question he responded to me?

Chairman NUSSLE. I believe it was a rhetorical question.

Mr. DAVIS. I don’t think it was, Mr. Chairman.

Chairman NUSSLE. The gentleman’s time has expired. There will be other opportunities to inquire.

The gentleman from Minnesota.

Mr. GUTKNECHT. Mr. Chairman, first of all, I wanted to clarify something that I think you said, and that is over the last 40 years, if you took the 40 years average of growth and revenue, you are actually below that 40 year average, and if we exceeded that by some percentage—I want to make sure I am clear on this—that the revenues could actually be \$2 trillion more over the next 10 years, is that correct?

Mr. DANIELS. All they would have to do to make that happen, sir, is to equal the 40-year average. They have been exceeding it, as our chart demonstrates, for the last several years, but I am not even offering a number for that. All they have to do is equal their 40-year average. But, again, we are trying to be cautious.

Mr. GUTKNECHT. So if revenue growth just equals the 40-year average, we will actually have revenues in excess of \$2 trillion more than we are currently using in your budget projection. Is that correct?

Mr. DANIELS. Yes, sir, that is correct.

Mr. GUTKNECHT. I want to make that clear, because I think you are being and we are being very conservative in our estimates.

I want to pay a little bit of tribute to a gentleman that used to serve on this committee that came to the Congress with me and others still on the committee, Mark Neumann. A number of years ago, back in 1995, he began as a former math teacher to do some regression analysis on his own little computer and actually did a better job than the Congressional Budget Office in projecting how much revenue we were going to have. He said then and we began

to work on the numbers together, that if we, the Federal Government, we the Budget Committee, we the Congress, could control the rate of growth in Federal spending to roughly the same as the growth in the average family budget, in other words, so that the Federal budget didn't grow at a faster rate than the average family budget, he projected back in 1995, and again the Congressional Budget Office didn't exactly share this view, but he said that you would not only begin to balance the budget very quickly, within a matter of a couple of years, but you would have a lot of money available in surpluses to actually do some things we should have done for a long time.

His recommendation and my recommendation then was, as you began to create these surpluses by controlling the rate of growth and spending, that about one-third of it ought to go to debt repayment, the second third ought to go to Social Security and Medicare, and about one-third ought to go back to the people who pay the taxes.

I am somewhat astonished that your formula looks extremely similar to the plan we talked about 5 or 6 years ago. I want to congratulate you for that. If anything, it is a little light on the amount that should go back to the people who pay the taxes.

We are really only talking about 28 percent of the projected surplus, which I think is conservative, assuming we can control Federal spending; and I think it will be a little bit easier with this administration than it was with the past administration.

But it seems to me really, for the benefit of all of the members, all of this discussion boils down to two basic simple questions. The first question is, does anyone believe the Federal budget ought to grow at a faster rate than the average family budget? If you do, that is fine. But let's have that debate.

I think a lot of us believe the Federal budget ought to be controlled. I think you are right. For too long we have said the families are the ones that have to tighten their belt. Because when we start talking about budgeting and saying everything we spend today is legitimate and every dollar we spend on behalf of the taxpayers is well spent, I think we all know that is not true. The truth of the matter is there is an awful lot of waste in every department.

I will just pick on one that is near and dear to the Chairman's heart and my heart, the Department of Education. I think there is a legitimate question, do we need 108,000 people in the Department of Education today? Is every dollar we are spending today on education well spent? This is a department that has failed its audit in I think 3 of the last 3 years. The Department of Education has failed its own audit. So we know that there have been literally millions, perhaps more dollars, that have been wasted.

But the second and I think perhaps just as important a question is, shouldn't the people who pay the bills get to keep at least 28 percent of that tax surplus? You know, some people are going to say, you shouldn't pass the tax cut first. I think maybe we ought to look out for the taxpayers first.

Because it seems to me one of the goals of this committee and Congress should be to get the economy moving again, because we all know this: In a stronger economy, it solves a world of other problems. Unemployment levels being down, it means we have less

problems with some of our social spending; it makes less problems for the States. I mean, all the way around, getting the economy rolling and growing at a better than 3.1 percent rate is something I think everybody ought to be in favor of; and cutting taxes on working people, on families, on business people, small business people and, yes, even on big business people, I think is a good idea. Let them keep the money. They will spend it smarter than we can.

So I congratulate you and the administration on this budget. It is well-founded and constructed on simple basic principles that make sense not only to the majority of Members of Congress but clearly to the people out there who get up every day, who work hard, who pay the bills. We are simply saying 28 percent of that tax surplus ought to go back to you, and we are going to think about you first. Then the government—then the Federal Government will have to figure out ways to tighten its belt.

I yield back the balance of my time.

Chairman NUSSLE. Thank you.

Mrs. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Thank you, Mr. Daniels, for being here.

Mr. DANIELS. Yes, ma'am.

Mrs. CLAYTON. Two nights ago in the State of the Union the President raised a question about the size of the tax he wanted, whether it was too big or too low. He thought it was just right. He didn't raise a question about fairness, but I assume he believes his tax plan is fair because he has made the claim that those who want to move to the middle income level, this plan will help them.

I want to raise the question of fairness. I want to raise the question whether the President's tax proposal is fair. I would like to answer that question, and give you my reason for answering it. Then, I would like your response.

First, the President's tax proposal is indeed skewed toward the top 1 percent, where he provides anywhere from 36 to 43 percent. Eighty percent of the taxpayers indeed will receive about 29 percent. In the case of the 1 percent who receive from 36 to 43 percent, that is larger than their tax liability. In the case of the 80 percent who receive 39 percent, that is less than their tax liability.

In defense of the fairness question, often people will raise questions and respond rhetorically to my question of fairness. You are now raising the income tax gap card. But a careful analysis of the impact of that tax package clearly shows, based on the current census, that the plan offers an average of \$39,000 to the top 1 percent or thereabouts. And, the President has claimed that it would represent at least \$1,600 to the average taxpayer by year 2006. That amount would represent 24 times as much to the average taxpayer.

The Treasury Department has reported that the top 1 percent of the population pays around 20 percent of the Federal taxes and again, the President claimed that lower income families would get a higher percentage of the tax based on income.

But when you focus on income, you really fail to recognize the real tax burden on the poor. It is—indeed, the largest Federal tax burden on the poor comes from the payroll taxes. So that is a very limited focus.

Obviously, a family who makes \$26,000, two earning, a family of four, indeed can have their entire income tax eliminated. So it would be correct to say that is a 100 percent tax break. But guess what? They didn't owe but about \$25 in the first place. However, that same family would be owing, after the assessment for the income tax break, about \$2,000 or more.

So to suggest that this tax plan is indeed fair is not in my judgment, correct.

A further analysis would indicate approximately one-third of the families with children of less than 18 years of age would not get anything at all. If you look at that one-third, more than one-half of them are African American families and again, Hispanic families. Fifty-five percent of them are African American families, 56 percent indeed are Hispanic.

Therefore, I conclude, Mr. Daniels, that the tax plan is not fair.

I would like to make reference to a recent statement you made on nutrition and table scraps. When you think of how much the very poor will get, that could be applied indeed to what is happening to the lowest income. Now, if my analysis is indeed wrong, I would like you to respond.

Further, public housing will be cut by \$700 million. The rural housing program is going to be further cut, because you say that is duplicative of the CBC. I am from rural America. I can tell you that we do not have enough housing, and the need is great.

Further, HUD is being retained at its current level. It is acknowledged that the President himself wants to have more ownership. I don't know how you will achieve that goal. But, if I am wrong on any of these statements, I would like your response on my assertion that this a very unfair tax bill.

Mr. DANIELS. Well, the very broad assertion, Congresswoman, and I appreciate the opportunity to respond; I couldn't track each and every statistic. Some of them sound like they come from a recent analysis about which, or some analyses about which I would urge you to be careful. They make intriguing assumptions such as that tax benefits can be conferred on dead people, and in order to jimmy the numbers up at the top end.

I guess I would simply say the following.

Mrs. CLAYTON. Dead people?

Mr. DANIELS. I am not sure which analysis you were working from, but some of those that have been cited recently do things like confer the punitive benefits of the estate tax on the decedent, which is an interesting way to look at things.

Mrs. CLAYTON. Very few people I know in the lower income and moderate income level pay the estate tax.

Mr. DANIELS. No, I know, but this how they tilt the apparent incidence maybe artificially to the other end, but that may or may not be a part of the analysis from which you were reading.

I guess I would just say the following: obviously the President believes deeply that this a very fair proposal. People who are concerned about the wealthy should take some consolation from the fact that the wealthiest taxpayers would pay an even higher percentage of income taxes after this proposal than they did before.

Mrs. CLAYTON. Is it written in the President's report from last year that approximately 1 percent of the taxpayers paid 20 percent of the taxes? Is that an incorrect statement?

Mr. DANIELS. Well, that is probably correct. It may be at least that high. The Treasury report is not by a percentage, but by—in \$100,000 income increments. But I think we all know that we have what could be called a very lopsided distribution these days in which, as I recall, something like the top 10 percent pay 60-odd percent of the taxes and that figure would go up.

Mrs. CLAYTON. Mr. Daniels, I want to interrupt because my time is short. How many persons or families would you estimate would actually get the \$1,600 tax break that is proposed, the average family?

Mr. DANIELS. I am sorry, I don't have that number at my fingertips, but I am sure the Secretary of the Treasury will when you see him.

Let me just maybe make this general comment, a couple of general comments. One is that the President is very mindful, and it always starts, this discussion, by thinking about people who are trying to make their way up in the world, and he makes the point repeatedly that it is not simply a matter of the tax relief a family might get today, but what is the effect on the next dollar that that person might earn? And you know, here the data is unassailable. The next dollar earned at very modest income rates is highly taxed under the system we have and we ought to try to fix that, and maybe that is something on which we can agree.

My general comment would be that the fairness question is one in which there is sincere and deep disagreement, and there will be that disagreement right up to the point at which Congress finally acts, I know, one way or another on this bill. I would say that I take it as my mission obviously to advocate the President's plan, but my principal mission which I have, I believe our budget addresses, is to demonstrate that the size of this tax cut is not an issue. There is more than enough room, far more than enough room to do it. That leaves the question you have put: what is the right shape? What are the ways to ensure fairness, and that is a worthwhile debate, it is the central debate and one that I know will continue.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Chairman NUSSLE. The gentlewoman's time has expired. You asked two questions about nutrition and housing, if you wanted to make a comment or response to that before we—

Mrs. CLAYTON. The housing proposal in your budget eliminates, I believe \$700 million for public housing. It keeps the housing HUD appropriation level at 2001. That concept is in contradiction to the President's desire to have homeownership and to meet the needs of housing.

Mr. DANIELS. Secretary Martinez is very confident that we will be able to continue increasing the number of people served and units served with these numbers. There are big unspent balances there, and in addition, with the public housing money, we are offering 34,000 new vouchers to add to the population served. This continues the trend begun in the last administration.

Chairman NUSSLE. Thank you.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman. Mr. Daniels, we appreciate you being here. I can't help but reflect that all of us are at a little bit of a different situation than we have been in in recent years, not just because of the numbers you show, but it is, in some ways, on this side of the table, a little easier and maybe more fun to take shots at a President's budget. We have had the opportunity on this side of the aisle to do that with lots of inviting targets over the past few years, and now the roles are kind of reversed. In previous years, we have not had a President's budget really taken seriously, and what we have already heard this morning are some very serious policy issues being discussed for the first time. I congratulate you on a budget that is taken seriously and I think it will be taken seriously all the way through the process. It is the first time that has happened in quite some time.

Let me ask you to comment briefly. I don't remember hearing the question so far. How do you see the economy going now? As we look at a budget, and certainly we want to be mindful of Mr. Spratt's comments about being prudent and not being hasty, but the other side is there is a lot of concern about where we are headed now and that if we wait too long and if the whole process takes too long, that the economy may have a chance to go places we don't want it to go. So there is also some urgency to get this tax relief out there.

How do you see the economy going?

Mr. DANIELS. Obviously, the economy is not what it was. I don't think anybody yet is prepared to hazard a guess as to how long the current uncertainty will last or how deep it might become. We did mark our economic growth estimate for this year down at the last moment before we had to lock our database, and it is consistent with current estimates, but those may go down further.

I would tell you that in terms of the 10-year projections, this first year is relatively trivial. So whether the right number for this year turns out to be 2.4 or 2.1, I don't know, even lower, it wouldn't make a whole lot of difference in terms of the long-term projections. It would make a lot of difference, of course, in terms of what we ought to do about it, and this is where your question, I think, points.

In addition to bringing greater fairness to the Tax Code, the marriage penalty, the child deductions and so forth, estate tax, the President has always said that to ensure the continuity or the long-term extension of our long, long economic growth period, a reduction in rates was very, very important, and I think that has been underscored by the wobble in the economy that clearly began some time last year.

Mr. THORNBERRY. It seems to me we have at least 3 circumstances coming together which make it such that if we can't do tax relief now, I don't know when it is ever going to come. Partly it is the surpluses, partly it is the economic situation we were just talking about. But the third factor to me is the level of taxation as a percentage of the economy. I notice that in your budget submission, you had a chart dealing with individual income taxes as a share of the economy. Could you discuss that with us for a second, please?

Mr. DANIELS. It is a simple statement of fact, and I believe we made a larger version of it. An individual—I mean, taxes total are at near all-time levels as a share of the economy, and individual taxes as a share of the economy also are at record levels. If you will forgive the colloquialism, it is the biggest tax bite in history. One can make of it what one will, but it does, to some of us, suggest that time for some relief is at hand.

Mr. THORNBERRY. We have heard the statement made several times in the past couple of years that total Federal taxes as a percentage of the economy were higher than at any time other than the peak of World War II. But this chart indicates individual income taxes are the highest ever. Is that correct?

Mr. DANIELS. Yes. Higher than that period of World War II.

Mr. THORNBERRY. Higher than that?

Mr. DANIELS. Yes, sir.

Mr. THORNBERRY. Let me just ask finally a question that comes up. As we hear some of these fairness arguments go back and forth, I am reminded that the Joint Economic Committee in Congress a few years ago conducted a study which found that well over half of the folks in the top 1 percent bracket are small business owners, and that, in fact, a lot of small business owners, rather than incorporate themselves, run their businesses as a partnership or a sole proprietorship, and that that has some effect on who the 1 percent is.

Have you all done any look as to the small businesses in this country and tax relief as to what it may mean for them?

Mr. DANIELS. The President has repeatedly made this point, that a principal reason that there should be relief for all taxpayers is that—is the one you have just made, that in S corporations and in proprietorships, we have close to 21 million tax returns filed by those sorts of entities. These are people trying for personal autonomy, for ownership, to build businesses; which is where job creation predominantly comes from in our country, and I think it is sometimes overlooked in the to and fro about who gets what, and people sort of lump together under the rubric of the wealthy, both wealthy individuals, but also millions and millions of enterprises which only look wealthy when you consider the revenue of the company.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you very much.

Mr. CLEMENT.

Mr. CLEMENT. Thank you, Mr. Chairman and Mr. Spratt, and members of the committee. Congratulations to you, Mr. Daniels, on your new position.

Mr. DANIELS. Thank you, sir.

Mr. CLEMENT. Several of us have been around here for a while and we remember the days when we had deficits as much as \$290 billion annually, and we don't want to go back to that. We want to keep having, as the Chairman commented, we have gone for 5 straight years now with a balanced budget, and we sort of like that. We don't want to go back to those days.

But we are also very concerned about forecasts, you know. I have people at home in Tennessee, you know, when you are trying to forecast 10 years or more, that is a long, long time, and then won-

dering, are we going to put ourselves in the same mess, in the same situation that we had previously. You know, it took us all the way from George Washington to Ronald Reagan to accumulate a national debt of \$1 trillion, and in 8 years, we quadrupled that national debt. Now we have an opportunity to reduce that national debt, eliminate the national debt, and keep our priorities. I know Chairman Greenspan said as late as yesterday, he doesn't know the state of the economy, he doesn't know what is going to happen, and yet from what I have heard today, we seem to know what is going to happen in the future.

Why would you oppose triggers? When I say "triggers," I am talking about that if we do have something unforeseen happen in our economy, whether it be in the United States or internationally, and it could happen any time internationally, what is wrong with triggers, just as a protection for the future for our economy?

Mr. DANIELS. Well, I think several things are, Congressman. Let me, first of all, though, associate once again with your point that we cannot know the future with precision. We have tried to respond honestly to that concern, because we share it, and that is the reason for the extra padding and the extra cushion that we have attempted to build in here, apart from the President's priorities.

I think triggers are unnecessary and problematic. In the first place, at least as presently proposed or initially proposed, once again, they hold taxpayers hostage to the spending habits of Congress, and if Congress spends until its tired and then if it went too far, that would block tax cuts or even raise taxes, I suppose. I think I would prefer to see it the other way around. The tax cuts ought to be provided and if there is more money left than some certain amount, that ought to trigger a further relief of the taxpayer. I might submit that as an alternative to what is out there now.

I think there are other good reasons. Predictability is an important thing in the Tax Code, and businesses plan on it. We just talked about 21 million of these tax returns that are really enterprises as opposed to individuals, and trying to plan in business when your taxes are one of your key business factors is completely uncertain until the end of a budget cycle and until a number has fallen out of the great congressional whirring machine, I would think, cause a lot of problems, planning problems for business.

We count on—we are hopeful of a positive economic effect from a steady reduction of tax rates, moderate reduction as the President has proposed. But part of that, economists would say, would come from the expectations people have and the rational behavior they would have, and if it is all uncertain, all subject to being shot at the pull of a trigger, I think you would forfeit all of that too.

The President has sometimes pointed out that there is really two reasons why such a trigger would ever come into play. One is that Congress spent too much, and one is that the economy was far too weak. Those are both—those are not reasons for higher taxes, those are reasons for lower taxes.

Mr. CLEMENT. Well, let me ask you this, then. I know President Bush really feels very strongly that we should have a tax cut of \$1.6 trillion. You know, a lot of Congressmen have a lot of ideas also, you know. What if that tax cut goes to \$2.5 trillion, or what

if we exceed the spending limit? Is he prepared to move to veto such legislation, or what?

Mr. DANIELS. There are a few words that will not pass my lips this morning, and the "V" word I guess is one. But as I indicated in response to an earlier question also, he really believes that what he has proposed is reasonable. He wants to back up the budget committees and try to reinstitute an orderly process wherein your decisions are implemented and flow through the rest of the process, and I hope that will happen in a constructive way and a cooperative way. But he is resolved on that point, and he has made that plain, and I know he will continue to.

The rest of your question? I am sorry.

Mr. CLEMENT. Well, I am talking about spending.

Mr. DANIELS. Yes, I am sorry, excuse me, a very important question. There is the danger that the tax cut sparking other ideas and the President has already put up the stop sign, as has been widely reported in face-to-face meetings with representatives of large business, for example, and in many meetings, I must say, with members of our own party, all of whom are overflowing with good ideas, the President has told them he is, in many cases, sympathetic to their ideas, but they will have to wait and not everything can be done, and there is a level that he thinks is appropriate, and that is the one that is in our budget.

So we share your apprehension and would like to work with Members of Congress to make sure that the tax cut—tax relief bill, as it progresses, does not get out of hand as obviously has sometimes happened in the past.

Mr. CLEMENT. Thank you, Mr. Daniels.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. Hastings.

Mr. HASTINGS. Thank you, Mr. Chairman. Mr. Daniels, thank you, and congratulations on your appointment.

Mr. DANIELS. I appreciate it.

Mr. HASTINGS. I have to say that I find this hearing and this process absolutely refreshing. Refreshing from the standpoint that we have a President, a new President that is attempting to govern precisely as he campaigned, by talking about tax relief, by talking about prioritizing spending and education and defense and saving Social Security. Also, I find it absolutely refreshing that we are here in this era of debating the size of tax relief for the American people. I particularly like your response where you said that we should probably put the taxpayer first. I think that is a refreshing idea that we ought to frankly pursue more than anything else.

You mentioned in your opening remarks about the first step of this process, and I appreciate that very much. What I would like to focus in on is a concern that I do have, probably from the standpoint of prioritizing spending, and I want to focus specifically on the Department of Energy and specifically within that, the environmental management account, because that affects certain areas of the country, and obviously it affects mine, and that is the nuclear sites that we have. We don't have a figure obviously because you haven't gotten to that point, but there are rumors floating around that there is a suggested cut of somewhere around 6 percent. I and

others of the Cleanup Caucus have said to you that exactly the opposite should be there because the priorities ought to be on cleaning up these sites.

I want to paint a picture, focus more on my site, but when I say this, the focus is on all the other sites. Savannah River, Oak Ridge, Hanford, which is my site, Idaho, Rocky Flats and so forth. In the last 6 years, Savannah River has had their employment cut by nearly one-half. That is a big driver of costs, as you know. At my site in Hanford in the last 6 years, we have reduced employment by about a third obviously a cost. But yet, with that reduction in manpower, we have accelerated the cleanup.

Let me tell you what Hanford is all about. You know that big spike there where the big taxes went up in 1943, that is when Hanford came about. It became about because of the Second World War and our need to win the Second World War to develop the atomic bomb. In fact, the bomb that was developed in Hanford was the one that was dropped at Nagasaki that finally led to the surrender of the Japanese. We also won the Cold War because of the efforts of these sites.

Specifically at my sites, there are 177 underground tanks that hold 53 million gallons of radioactive and hazardous material. Sixty-seven of those tanks have leaked. Yesterday we had an earthquake in Seattle. That rumble was felt all the way down to Salt Lake, which went right through the Hanford Reservation. DOE suspended operations out there, went out and checked the site, they found one tank had gone down a little bit, they found out it wasn't anything that was serious. But if any of those tanks were to rupture, this radioactive stuff; you can't be around it. I mean it is bad thing. So we have to get on with the cleanup in that regard.

Again, within Hanford, and I want to focus on two projects, one is the—and these are the two main projects at Hanford. The first one is the K Basins. That is located 100 yards from the Columbia River. That is where spent nuclear fuel is sitting. It was supposed to have been there for a short period of time, but it has been there for 25 years because of a change in Congress not to recycle our nuclear fuel. That has to be moved. The spent fuel there is not leaking into the Columbia River, but it is breaking down within the basins. That has to be taken care of. This stuff is not like snow, it is not going to melt, it has to be moved.

The other big project is the Office of River Protection that deals with the tanks. What both of these things have in common in the last several years, we have made some regulatory changes which I think were good, but also, the contractors that are doing the job there are based—are incentive-based contracts and they are incentive-based on milestones, regulatory milestones that several of the States have. We have one in Washington State called the Tri Party Agreement. If those milestones aren't met, you go to court right away, and probably lose because the EPA and the Department of Ecology within Washington are involved with these agreements.

The reason that I bring these up is that we have to continue on, because these are veterans. These sites, all of these sites, are veterans of World War II and the Cold War. This Congress and I know this administration feels very strongly about taking care of veterans.

I guess my question to you is in the prioritization process that I know you are going to go through when you present us with the final document, what comfort level can you give us as to making sure that we can make sure these sites are cleaned up adequately?

Mr. DANIELS. Well, we recognize it as a very high priority, Congressman, and I will be pleased to work with you and other interested members of both bodies on this. Secretary Abraham is very vocal about it. I will tell you quite honestly that between now and April, there are probably more details to be filled in in the energy budget than any of the others, in any other single department, specifically because he is looking for ways to meet the important needs at the cleanup sites, equally in terms of the stockpiles we have and their proper security and stewardship, and these things we have highly prioritized. Quite honestly, we view them as much higher priorities than for instance some of the subsidies of corporate research that have grown a lot in the department in the last few years.

The question is the extent to which and how quickly we can sort of move from lesser to higher needs.

But we are well aware of this one, and Secretary Abraham is working on it and we are going to work to help him.

Mr. HASTINGS. Good. Mr. Daniels, I appreciate very much that, because as I mentioned, at all of these sites the—what we are trying to clean up is something that won't go away. The difficulty with radioactive material is you can't view it, because if you view it, you have a real problem, but yet that is what we are dealing with out here and specifically at Hanford, and the reason that the Office of River Protection is in place is that we have about 60 percent of the radioactive material in the country, and yet it is the only site that has no way to deal with that in a permanent basis. That is the reason for the Office of River Protection. Thank you very much.

Mr. DANIELS. Thank you.

Chairman NUSSLE. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman, and good luck, Mr. Daniels, making this budget and tax cut—don't smile, until I get through my question—making this budget and tax cut work. I have to share the skepticism on this side of the aisle, though, that I think it is problematic, what you are telling us, and for five reasons, I don't think it is going to work.

The first is the unreliability of these surplus estimates. CBO has told us that they could be off by as much as 2½ percent of gross domestic product which, over the next 10 years, is going to average about \$10 trillion, so you are talking about 2½ trillion over the 5-year period, whereas John Spratt said, if 72 percent of the tax cut occurs, you could be off plus or minus by one and a quarter trillion dollar.

Secondly, the cost of the tax cuts are clearly underestimated. There is no question but that you do not include the additional interest costs that are incurred because you are not using the surplus to pay down debt. You have to add that additional \$400 billion to \$500 billion to the cost of a tax cut, and then you have to deal with AMT. We are not going to let 27 million American households get stuck with that AMT by 2010.

Thirdly, the amount of the debt that can be paid down, we would take issue with that, because the deputy—excuse me, the Under Secretary for Domestic Finance of the Treasury Department has written to us. Now, this is the person that was responsible for debt management in the Treasury Department right up until a month ago, and he tells us that \$3 trillion of the currently outstanding \$3.4 trillion of publicly held debt can be paid off, so we would rather see that paid off than only two-thirds of it. If we don't pay it off, our kids get stuck with it.

Fourthly, after 2010, when the baby boom generation retires, the retirement population doubles and the budget implodes.

If you are going to do the right thing now, it would seem that you would reform Social Security, I agree with the Commission, but they are going to need some money. So you have to put aside, I am sure you would agree with these numbers, at least \$1 trillion if you are going to set up these individual retirement security accounts so that people can invest their own money. You are not going to take it out of current benefits.

A last reason. Your spending estimates are substantially understated. Let us talk about defense, which is the major component now of spending and the one to which your President has committed himself to substantially increasing.

Your defense budget is 99.97 percent of the Clinton's, President Clinton's budget, so there is virtually no new money, but that base does not include the \$3.9 billion to carry out the military retiree health care, which is mandated as a result of legislation we passed last year, but is not covered in your budget. Plus, the President sat down in Georgia, Fort Stewart, and said that he was going to add another \$1.4 billion in military pay, another \$400 million in military housing, that is another \$1.8 billion, so now we are up over \$5 billion. I should slow down so we can get all of this down, but that is not included, and then in addition, I just read in The New York Times today that he promised another \$2.6 billion for new research and development, about half of which would go to national missile defense.

So now we are talking about a shortage in the defense budget of about \$8 billion. And we are talking about another supplemental, which we—has become an annual tradition. So that new base isn't even included in your defense numbers.

As you know, any kind of base closing process, which is talked about now, or any of the other ways in which we try to improve defense takes a long lead time. You haven't even started the process. I can't imagine how you are going to maintain the existing level of spending in defense, never mind maintaining—funding new initiatives. Can you?

Mr. DANIELS. Well, I am still smiling.

Let us take them right off the top. I got no debate here about the unreliability of forecasts. That is why we brought you, as somebody pointed out, the first budget that ever admitted it didn't really know the future, admitted and provided for that with \$1 trillion on the on-budget side and \$600 billion on the other side. The CBO estimates, or report you mentioned is very interesting. It points out under the disaster scenario, the worst of the worst, \$1.6 trillion of surplus over the time frame, a lot short of what we have, but imag-

ine that, in the worst case they have proposed, a unified surplus of \$1.6 trillion at the rock bottom. By the way, the top number is close to 9.

Mr. MORAN. As you know, if they are off by even eight-tenths of a percent, \$4 trillion of this surplus shrinks.

Mr. DANIELS. Actually, sir, that is not correct, but you know, the point is valid that there is a very wide range. I am just letting you know that the range is astonishingly on the surplus side, given the Electrolux tax collection system we have today.

Let me talk about the underestimate. I am happy to reassure you that you are quite right, under our accepted accounting system, the interest we would not collect actually on these cash balances, \$400 billion is provided for, when you see our chart with the contingency reserve, it says \$1.4. You have heard me say over and over, \$1 trillion is totally uncommitted money, the \$400 million, you are quite correct, is associated with the tax cut.

You know, AMT, the AMT argument point is a valid and interesting one, and if this is something Congress wants to address sooner rather than later, the President will be glad to do more than we are already proposing. It is interesting to talk, you know, in terms of sticking X million Americans with the AMT, some of the people say they want to stick all 103 million taxpayers with no cut at all. You can prevent the problem that way. That is one way to avert it, but that is not our way.

This business of how much debt can be paid. The last estimate from the Treasury Department that this gentleman left I have here, they issued it in January, is \$1.2 trillion of debt remaining in 2011. That was their way of saying they didn't believe you ought to send bonus payments to bond holders and foreign banks in order to accelerate large amounts beyond. You know, they dabbled a little bit, perhaps we can again.

\$30 billion last year, that is less than, far less than 1 percent of the what was outstanding, not talking about taking in 100 percent of the last pool of Treasuries in the world for which you would pay an exorbitant, multibillion dollar premium, you know. This is like somebody who played Go Fish for a nickel and thinks he can transport that to the World Series of poker, it will not happen.

You talked about reform of Medicare and Social Security. Quite agree. It is—in fact, it is our point that we should move now, not wait and not imagine that it is a good idea to hold off reforming those programs so that they can be solvent over the long term.

On the defense spending understated side, the Clinton budget proposal for—as you know, the Clinton budget for this year was 297. The baseline they left was 306. Walking out the door they left a piece of paper, not a budget proposal, that said 310. You wouldn't probably, as an advocate of defense, want to implement that budget, because the number for the next year, 2003, was also 310, and the number for the year after that was 317. This is an administration, or it was an era, at least, let me just say, in which defense was underattended and some repair are probably going to be in order. But our budget is not the Clinton budget. Finally, it does include health care and it does include the \$4 billion of new spending which the President pledged in his campaign and honors in this

budget is exactly where the pay, housing and R&D money comes from.

Thank you for—it was more than 5 questions, but they were good ones.

Mr. MORAN. I think you will find that the economic growth is off by as much as eight-tenths of a percent; 4 trillion of the surplus does go away.

Mr. DANIELS. Well, I will check it. I have about 2 trillion off for one point. It is a big number. You are quite right. I think it is not quite the number you have, but it is very important to remember that. Please do also remember that there are other variables just as powerful, and we talked about the one on the revenue side earlier.

Mr. MORAN. Thank you. And again, good luck to you.

Mr. DANIELS. Thank you very much.

Chairman NUSSLE. Mr. Kirk.

Mr. KIRK. Well, thank you. I want to take the other tack about how the tax cut may be understated in costs rather than overstated. I don't want to disagree with my colleague from Virginia, because he is my other Congressman, and we do need some potholes fixed on Glebe Road, and I want to continue that bipartisan effort.

The President noted that a waitress—I was a waiter—earning \$25,000 ends up losing a half of every additional dollar earned due to the tax system that we currently have. He called it the “toll booth on the highway to the middle class.” Reducing her taxes and those of everyone else provides an incentive to workers to work harder and get more training, more saving and investment, and, by the way, more Federal revenues. Martin Feldstein suggests that about a quarter of the static losses from the marginal rate cut would be made up this way.

Does the administration's revenue projections take into account the taxpayer behavior that we reward them when changing?

Mr. DANIELS. No, sir, it doesn't. I would add this to the list of very conservative assumptions that are in this budget. It is a long-standing debate about static scoring versus something else, and we are not pursuing it in this budget. We are accepting the Washington convention that says that in this case, \$1.6 trillion more would be left with taxpayers and absolutely nothing would happen.

You know, I don't know what the right answer is, Congressman Kirk, but that is not it. So this should be treated as a further upside to the surplus estimates.

Dr. Feldstein, in the account I saw that said \$600 billion was his estimate, so that would be roughly 37 percent—

Mr. KIRK. That is right.

Mr. DANIELS.—would come back in revenues. I don't know. I am guessing it is something north of zero, but zero is the number we used.

Mr. KIRK. I might suggest that the Washington convention may be wrong, that it probably certainly is not zero, to lay down a marker, I think we ought to take a look at that in the budget resolution.

We met “Rosy Scenario” during the Reagan administration and certainly the blue chip economists now agree that “Rosy” has left

our midst in your budget. But I wonder if “Gloomy Gus” has taken her place. The concern is that the responsiveness of Federal receipts to growing GDP may be dramatically understated. Both Social Security receipts and personal income tax collections rise faster than the economy, and you pointed that out in your testimony. One estimate shows that it rises by 1.04 percent for every 1 percent increase in GDP. Others say it is as high as 1.18 percent. With the lower number, a tax cut is barely affordable. With a higher number, we afford twice the tax cut.

What would you say is your number for the 10-year forecast?

Mr. DANIELS. I can just repeat that I believe this is among many very cautious assumptions. This is probably the most conservative of all, certainly in terms of its power and the sensitivity of revenues, and therefore surplus to this figure if we are low, and you know, you can draw your own conclusions from the chart that shows that for 9 years in a row, including the one we are in, revenue growth has outrun GDP growth, and we are forecasting that in the interest of prudence, that will suddenly be reserved and that we will spend 7 years below GDP growth. How much more careful you can get than that, I don’t know.

Mr. KIRK. I want to also commend our ranking democratic member for some of the political realities he points out in the upcoming action of the Congress.

One of the things that I worry about that we certainly can see coming is the long-term outlook for the liabilities of the Federal Government and the contingent liabilities.

Congressman Hastings talked about nuclear waste and other contingent liabilities. But we have some pretty firm long-term liabilities that we understand. Is it your understanding we face about a \$9 trillion unfunded liability in Social Security?

Mr. DANIELS. It is on that order, yes, sir.

Mr. KIRK. And about another \$9 trillion for Medicare?

Mr. DANIELS. Clearly in the ballpark.

Mr. KIRK. Would it be possible in the next budget that you put out, the one that you have your full hands around, to have a 20-year projection so we can begin to see the long outyears when the Social Security and Medicare bills become due?

Mr. DANIELS. Yes. Projections that go out even further than that as far as 75 years, you know, are conventionally made. I do think that there may be value in looking at what I would call more relevant time horizons tied closely to the demographic changes, just so we can just sort of see exactly where the worst pressure points are and keep very close tabs on those as they may shift and even worsen.

Mr. KIRK. By worry, Mr. Chairman, is not in this budget, which I support or in this House, which I think will have some discipline, it is the other body which has a way of turning tax bills into Christmas trees and congressional earmarks out the yingyang. I think a long-term projection showing some of the liabilities that we know will fall due help restrain the other body’s appetite. Thank you very much.

Chairman NUSSLE. I thank the gentleman.

Ms. Hooley.

Ms. HOOLEY. Thank you, Mr. Chairman.

Thank you, Mr. Daniels, for being here.

I have one follow-up question and then some other questions or comments, and it really goes back to Mr. Davis's question and to Mr. Spratt's question, when you looked at where you got this \$1 trillion contingency fund and you said well, you took for all of the other promises, \$200 billion, you took the \$300 billion from where you weren't going to do the extenders or fix the AMT, and then you took another \$500 billion from the Social Security Trust Fund—excuse me, the Medicare surplus. And then, I believe you said to Representative Davis, well, we are not going to spend any of the Medicare money.

So I have a problem saying, you have a \$1 trillion contingency fund, we are not going to take anything from the Medicare Trust Fund, and yet, that is how you get your contingency fund.

Mr. DANIELS. Well, I obviously didn't make myself clear and I apologize. I was trying to help the questioner work from his mathematics, which is not the mathematics I accept or even the approach I accept, but I was trying to reconcile the two. I wasn't taking money from anywhere.

Ms. HOOLEY. Right. But you were using the \$500 billion from the Medicare as you looked at those numbers.

Mr. DANIELS. Well, let me walk you through what I believe is the common sense and appropriate way. There is \$5.6 trillion beyond our needs for today. We look to see how much could be spent retiring debt, and that was 2; that left \$600 billion uncommitted on Social Security.

Ms. HOOLEY. I just want to go through the contingency fund.

Mr. DANIELS. I am getting there. The President's tax relief plan is the size that it is. We attach to it, we assign to it the so-called foregone interest, and notice, that there is \$1 trillion uncommitted there which strikes us as an entirely appropriate cushion.

Ms. HOOLEY. And \$500 billion of that is Medicare.

I really actually want to go on to some questions about education.

I appreciate the fact that you want to be more honest and transparent than your predecessor, and yet when you look at the Department of Education's budget, it was stated, you stated, President Bush stated that there was an 11.5 percent increase over the prior year, and yet if you look at what the budget was of \$42.1 billion in 2001 and you look at the proposed budget, \$44.5 billion, that is a \$2.4 billion increase, that doesn't add up to 11.5 percent, it adds up to 5.7 percent.

Mr. DANIELS. Actually it is 5.9. Our document spells that out two lines below the 11. It just depends which comparison you make. Congress, of course, has been active in a process, we think we ought to deactivate.

Ms. HOOLEY. Well, we may want to deactivate that process and I don't disagree with you on that, but again, if we are going to be honest and transparent about the budget, we really have to look at what that increase is, which is 2.4 billion.

Mr. DANIELS. Well, as I say, people can pick the number they want and we put them both in the document.

Ms. HOOLEY. Right. One of the things that President Bush said, and you stated, and it is in this document about they really want

to include our obligation for disability programs, Individuals with Disability Act, the IDEA program. To get back to the 40 percent, which is where our obligation is, and when we make promises, I think we should keep those, it is going to take us \$3 billion a year over the next 5 years to get to approximately that 40 percent obligation. Yet, if you look at the budget and all of the things you propose in the budget for new educational programs, it is \$2.4, well short of just what we need for one single program.

Mr. DANIELS. Well, we are quite aware, and very committed to making progress in terms of the IDEA issue, the unfunded mandate that it inflicts on the States and the way in which it can crowd out other education spending. We have incorporated enough spending to keep up with the growing population of children identified, which, as you know, is racing ahead of the overall population of young people. And beyond that, we have taken a next long step in this direction by liberalizing the—we propose to liberalize and make flexible \$1.2 billion of other education spending.

States have indicated they would rather use that money or large portions of it for the purpose you are suggesting as opposed to that for which it was initially intended. So we sympathize. You put your finger on an important problem that we all have to work on. It is a moving target, and getting all the way to 40 percent is, as you know, an enormously ambitious undertaking.

Ms. HOOLEY. It is an ambitious undertaking, but I mean that obligation goes to your schools and to local communities and if we want to get there, it is going to take us \$3 billion a year, and in your budget, with \$2.4 billion increase, it doesn't even take care of that one single program, let alone all of the other initiatives that President Bush has proposed.

Mr. DANIELS. Well, Congress has struggled with this and Congress has never come close to advancing against that 40 percent goal in the past, and we are going to have to work together to do better than we have in the past.

Ms. HOOLEY. Right. But there is also no increase in the budget for this program, although it was mentioned in his speech and mentioned in his budget and he singled it out, and I know that you have given some flexibility to some other dollars which are also needed by our schools and our school districts when we have crumbling buildings, but you don't give a priority to this by specifying an amount of money of an increase; is that correct?

Mr. DANIELS. Well, we do not want to dictate to the Nation's schools whether they would rather take care of their problems with disability or fix facilities and therefore, we propose to be consistent with the President's general approach to give them that opportunity. I think a large percentage of that \$1.2 billion will go as an important increase toward IDEA-type funding, and we are going to look in future years for ways to do more of that.

Ms. HOOLEY. Thank you.

Chairman NUSSLE. Mr. Brown.

Ms. BROWN. Thank you, Mr. Chairman.

Mr. Daniels, thank you very much for being able to bring to us almost on short notice a document that I think is absolutely on target to what this Nation needs. In South Carolina, we hear all about tax cutting, and I am real pleased to be able to come my first year

as a freshman and talk about a budget that is focused on returning some of those proceeds back to the citizens of this great Nation. I commend you for taking that stand and for providing that leadership. I recognize that it is difficult to start projecting what is going to happen 10 years from now, but at least the future is going to be there, and we might as well prepare for it, and without a plan, I can see that the growth of government will continue to grow, so I commend you for the insight and for preparing this summary of the budget and I look forward to working out the details.

When I look at the budget, I recognize there are a lot of special things that I am concerned about, particularly about the highways, and I recognize that you addressed some of that. We would hope that as the growth of those trust funds continues to increase, that those funds would not be convoluted back into big government, but go back to the areas that were designated for roads in the United States. So I would hope that would be one area that we could continue to work on as we develop the lockbox for the Social Security and Medicare trust funds.

Mr. DANIELS. Thank you, sir.

Chairman NUSSLE. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you, Mr. Chairman.

Welcome, Mr. Daniels. I am very new on this committee too, so this is our debut here.

I want to follow through with my colleague on talking about education, because that is my other committee, and for the last 4 years, we certainly have been trying to get to the point of where we can do full funding for IDEA, and it is something that I know certainly in New York State, if we could do that, it would certainly help all of the local communities probably to spend those moneys in other areas.

I guess I need some answers from you on the President's proposed \$2.5 billion increase for the Department of Education. \$1.6 billion, as my colleague had said, is for elementary and secondary education, and \$1 billion is for the Pell grants, I want to talk about the Pell grants, too. However, after the budget cut funding by \$433 million through the elimination of one-time projects, which you know, I understand is what the President wants to do, it only leaves, and these are your figures, \$333 million for higher priorities. I guess that is where my concern comes in on what are the higher priorities, special education, school renovation, or after-school programs being considered a higher priority.

My concern is, and, you know, I have introduced a couple of bills over the last couple of years for after-school programs, and I know how expensive those programs are. IDEA alone, as Ms. Hooley has said how much it would cost for that; school construction we haven't even talked about, repairs. There is not a school in my district that is not over 60 years old. They don't have the money to even do repairs, even if they used the bonds, as the President is suggesting through the State. They don't have the money. We are taxed out to the limit, and I guess that is one of the concerns I have, because I keep hearing each and every one of us have a priority, I guess is the word, and personally, where I come from, I love tax cuts and I have always voted for tax cuts. But when we on the

Federal level put these dollars to work, we have an even playing field.

New York has always sent more money to Washington than we have ever, ever gotten back, and that will probably always continue for a long time, unfortunately. But the whole idea of the Federal Government is the moneys that have been taken in, spread over this whole country, whether it was education, whether it was health care, or anything like that.

So basically, what I am trying to figure out, with only \$333 million left over from what the projected budget would be, God help me, when I came here, I couldn't even say millions or trillions, because it wasn't in my vocabulary, and now we talk about \$333 million to spend on high priorities for the country. That is really not that much when we see so many problems throughout this country. There is probably not a district around here in this whole country that doesn't need some sort of school repairs. And the States can't do it, because if they could, they would have.

May I ask how you respond to that?

Mr. DANIELS. I guess I would start by saying that it is probably noteworthy that you have just come to the committee. I mean, I had to look also at the incredible run-up in spending, education being a great example, over the last 3 years. Education, well before the President's 11 percent or 6 percent, however one chooses to look at it, increase has enjoyed, if that is the word, a dramatic ramp-up in recent years. So I think that has to be borne in mind.

As was pointed out by more than one questioner, there are big issues whether that money right now is being well spent. There are issues any time in a public or private organization that one infuses enormous amounts of new money over the short time whether that money can be spent wisely. We may need to be looking at that, as I was urged to do at the Department of Education.

But I would also point out there is education spending outside the Department of Education and some of the President's commitments were honored elsewhere. Some, for instance, the increase in K-12 or elementary and secondary education is between 8 and 9 percent inside the department, but it is well over 10 percent when you count new initiatives elsewhere, like the National Science Foundation.

Finally, with regard to other needs, school construction and the rest, again, the States and localities, the school districts are in the best position to decide which is their most urgent need, and listening to them, we have decided to opt for flexibility wherever possible. The needs in your district would not necessarily match those somewhere else. And I guess we will tend to as many as we can as fast as we can.

I am tempted to observe that the Federal Government can't and shouldn't become the plumber of last resort or first resort for school facilities all over America, and that while it can help, and it will, we are still 7 cents on the education dollar, and our most rapid run-up will never be able to meet all of the needs. Those will always principally be the job of school boards and localities and governors. But we are committed to working with you. It is the President's highest priority.

Mrs. MCCARTHY. I agree with that, and I do believe that local schools do have the control and I will say, because I am on the Education Committee, over the last several years, we certainly have given more flexibility to the States and to the schools. I never even understood what used to be said around here was government-run schools. I don't know one government-run school. My local schools, believe me, have an iron hand in that.

But the cost of the run-ups, you know, what you are saying in the States is obviously because they don't have the money to do what needs to be done, especially with special education. I mean it is costing them so much money because we are diagnosing children younger and earlier, and it is costing a fortune all the way through. As a nurse, I can say to you, obviously the earlier we get these young children, the more money we will save on the top end. Sometimes you do have to invest. But our schools are falling apart and they do need help, and it doesn't matter whether it is an urban area or even in my suburban area, which is considered a very wealthy area. I will debate that on another day.

Mr. DANIELS. OK.

Mrs. MCCARTHY. Thank you for your time.

Chairman NUSSLE. Thank you, Ms. McCarthy. You will find that you have many partners here on this committee when it comes to special education. It was really this committee in a bipartisan way that provided the leadership to increase the funding for IDEA over the last 3 years, and you will find a lot of friends and supporters are railroaded to that. That is an area we need to continue to address. I appreciate your line of questioning.

Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman, members of the committee, and Mr. Daniels, welcome aboard, and I look forward to working with you. I have not studied every detail, to say the least, of the overall budget, but I do a little reading on it, a little nighttime reading, and also I am going to do a lot of airplane reading when I leave here tomorrow morning to go back to Oklahoma.

I came to this Congress with a mission, and that mission has been to try to change the economic livelihood of rural, depressed areas. I understand that with a lot of my urban city brothers and sisters, the problems of economics may be not of their area, but I do know of the rural economic depressed areas which are not addressed a great deal in this budget.

I represent an area where the per capita income is less than 50 percent of the national average. Most of my constituencies have probably less than 40 percent of the national average. And it has had huge out-migration, which has gone into a lot of large cities over the years. I have been a part of that. I had to leave the area 3 times before I was 10 years of age with my family, and it destroyed my family. That made a burning impression on my life and I have tried to devote my life to try to provide economic opportunities and job opportunities in those areas.

This is something that seems to me that has been ignored. As a result, we keep sending people to the big cities. They have more problems because our loved ones have to go there. We have problems because we lose our tax base, we have lost a lot of our fami-

lies that will never be able to return. So I have tried to look at how we stimulate that economic condition.

Now, I just left a committee that Mr. Nussle and I serve on, Chairman Nussle on Ways and Means and we are going over the tax bill. We are going through the first phase of the tax bill on marginal rates which will be about \$982 billion, and we need it. I know we have to stimulate the overall economic conditions of this country. It may become close to the big R, a recession, if we don't do something about it.

But there are areas in this country that already and have long been in recession, and that is in the rural, economically depressed areas.

Now, I am looking at this budget from several angles, but I look at one and I say, Mr. Chairman, I know you have some concern, and we have agriculture. I have two degrees in agriculture. I am concerned about agriculture, but I know we cannot save small-town, rural America with just on-farm jobs. We have to have off-farm jobs in the society that we are living in in the 21st century. One of the things that has bypassed us, Mr. Chairman, out in small town rural America, has been the high technology. I reviewed this, and I know the rural telephone bank is being projected to be done away with by the administration. I am not totally against that, but I would like to offer a substitute for that. I would like for us to look at how we make, and I am offering some language that, and will be offering some language hopefully here in this committee, but also in other legislation, to convert that to information technology centers or incubators out in those areas.

I have an industry that came to my State that said we could use 500 more jobs in high tech and I said, hey, let me try to help this economically rural depressed area, and they said, well, you don't have the people. I found out when I surveyed, we do have the people, but not in one town, but in technology you can spread that out.

So I am going to be trying to work, trying to see if we can equip some of our small town rural communities so they can be considered for high-tech jobs. We have people out there who would like to stay and live and work and raise their families in those areas.

Now, high-tech industry has basically looked at the larger cities because there is a pool of people. But yet they are not as stable a worker as that man or woman out there in the small town who are there because they want to live there. They are staying there because there is some acreage and things like that.

So I hope you will look at that with us. We need that desperately in rural America. Like I say, over at the Ways and Means Committee, and I am willing to work through the first phase of this tax relief package based on only one thing, and that is that we have a second round of that tax relief that will be more targeted in trying to help us give some relief for the marriage penalty, the death tax, also some native American conditions that are out there, the worst economic conditions. Do we have a compassionate, conservative attitude? I think overall, we do. We need to address that. We have a real—I am willing to work and work and work to try to back, I think, the President's overall budget package, but there is going to have to be some of these other things addressed along the way.

So I know my time is basically about up, but I am glad to be on this committee, and I hope to work with you very closely on some of these problems that are out there, because we have to make an investment, just as we are making an investment with some tax cuts, there are some things we have to tweak out across America if we are going to—I know would have to look at the big picture, the overall situation, but there are pockets across this country where the people are hurting and they need help and they are crying out for that help from this administration. So I look forward to working with you and I hope that you will be willing to help push some of our thoughts.

But would you look at that on the rural economic depressed areas of this country?

Mr. DANIELS. Yes, sir, absolutely. It is mutual on our part, and we have enjoyed our previous discussions with you. There is no stronger advocate for rural America than you, and I think you know the President has a heart for this too, and if we can find effective ways working with you, we will.

Mr. WATKINS. I hope you will look at maybe how we might could tweak the rural telephone bank or convert that and try to move it into information technology so we can wire and equip some—maybe some of these buildings that are on main street in some of these small towns that will allow us to have some jobs in the high-tech area, Mr. Chairman. I hope that is one of the things—I noticed it when I was reading through it, so I ask you to help us there, full.

Mr. DANIELS. I made a note of the idea. Thank you.

Mr. WATKINS. Thank you.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman. Mr. Daniels, welcome to the committee. I am new here as well, so maybe we can struggle through this together.

Mr. DANIELS. Is that why you hung in all this time?

Mr. MOORE. Absolutely.

Mr. DANIELS. I appreciate you doing it; I thought maybe I just wasn't much of a draw there for a while.

Mr. MOORE. You are much of a draw.

I am from Kansas, and back home people seem to follow three very simple rules which are not written, and I think people around this country generally follow these three rules too, they are just common sense. Number one, don't spend more money than you make; number two, pay off your debts; and number three, invest in basic needs for the future. The basic needs for a family, as I see it, are education, transportation, food, shelter, clothing, health care, and the basic needs for our Nation are certainly national defense, Social Security and Medicare, a transportation system of some sort, and other things that I think we all would agree on.

People I think around this country don't understand why Congress can't follow those three simple rules as well. Don't spend more than you make, and certainly pay off your debts. Now, when we have the opportunity for the first time in a whole generation to start to pay down our debts, I think the question is becoming a little fuzzy here. It is not: Are we going to have a tax cut or no tax cut, it is: are we going to take a responsible approach with the \$5.6 trillion projected surplus over the next 10 years, and are we

going to use a balanced approach and have some tax cuts and some significant debt reduction, and some of the initiatives the President suggested that I really agree with, like stronger national defense, like education, like a prescription drug program.

So again, it is not tax cut or no tax cut, and I think sometimes that gets out of focus here and I think we need to focus on that.

In fact, the other thing that we have kind of skirted around and maybe somebody has mentioned here today is the \$5.7 trillion number, which is our national debt. We talked about \$5.6, which is projected surplus, but the national debt is \$5.7 trillion. And again, I supported a tax cut last year, I intend to this year, but I think we need to be responsible in those tax cuts, along with debt reduction.

When you asked the question, why does the taxpayer always come last, I submit to you, Mr. Daniels, that a \$5.7 trillion national debt is a mortgage on the future of our children and grandchildren.

I ask the question to you and of the administration, why do our children and grandchildren come last? I think it is important, and I am not saying one way or the other that we take a balanced approach here, and I get very concerned when I see—I hear your discussion and I understand your concern, and I have heard Chairman Greenspan, I am on the Financial Services Committee, and I had a chance to talk to him yesterday. He said his first priority still, notwithstanding all of the news reports, but still, is paying down our national debt, and he said tax cuts, we can afford some now, although he has not endorsed the President's tax cut plan or any other tax cut plan.

I guess I would just get down to this: I think there are some excellent, good reasons why we should look at paying down debt, and it will accomplish some of the same things you want. Number one, we had more than \$200 billion in interest on your national debt last year. And we could substantially reduce that figure if we can start to pay down that debt.

Number two, I think it will keep the interest rates lower, and most economists I hear from and talk to, including Chairman Greenspan, say the same thing. And finally, it is absolutely the right thing to do for future generations in this country, and I think we owe them that. I guess I would just end up by saying this, and that was my little speech and I am going to turn to one question.

I am a sponsor of a bill that has already been mentioned to you twice or at least the idea, and that is IDEA funding. I hear your conversation about the local control. In fact, 3 weeks ago, I had the privilege to be invited to the White House and had a chance to say to President Bush, and I wrote him a letter on January 5, and I said I hope you will make this a budget priority, because it is so important, not just to special needs children, and God knows they deserve it and need it, but also to every kid in public schools in this country, because right now in my State and at least in 15 other States, according to the New York Times 2 weeks ago, 3 weeks ago, there is a shortfall of revenue. Governor Graves in my State didn't anticipate that, as did not the legislature, and right now they are scrambling to find funding for special education.

My point to the President was, I don't want to get our Nation in that position by taking an—by making an over-aggressive tax cut

and finding we end up short because the projections didn't come true, and we are scrambling to fund some of the vital necessities for the people in our country.

If you have any comments, I would appreciate hearing them. I do appreciate you being here today.

Mr. DANIELS. I appreciate all of our comments, Congressman. I like your three rules. I am from a place not very far from Kansas and people operate on a similar set of rules there, I think. I think what, at least for the moment may separate us, is simply a matter of degree and trying to find the balance, you spoke of balance. We thought a long and hard time, and the President gave a lot of reflection to what was an appropriate balance, given the excess of moneys in versus obligations we have right now, and we are going to have over the future. So we have submitted to you what we think is an appropriate balance, with a lot of protection beyond it. Obviously, you will have to decide if it is enough, if it is careful enough for you, and we certainly take the point.

With regard to our long-term obligations, your mention of the gross debt as it is called as opposed to the publicly held debt, the gross debt including that which government sort of owes to itself, it is really a measure of the unfunded obligations of the future. To me, it is a daily reminder—it is important to look at. It is a daily reminder that time is wasting to begin reforming Medicare, to begin reforming Social Security and not to kid ourselves that this is something that can wait because we are OK for the present.

Lastly, I would just say that the very best thing we can do for our children and grandchildren is to ensure a strong economy, and paying down debt is a very important part of that. It is a cornerstone of the plan we have brought. But so is trying to keep tax collection at a level that allows a strong economy to keep on growing and to—that is the best assurance, that is the best way to protect Social Security, it is the best way to protect Medicare, and we cannot take our eye off the need to do it.

Mr. MOORE. Thank you.

Chairman NUSSLE. Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman.

Director Daniels, I have the privilege of representing the people of West Houston. I succeeded Bill Archer, the former chairman of the Ways and Means Committee, and our district is one of the most highly educated, certainly in the State, if not the Nation. It is a wonderful district to represent. As well educated and informed as those folks are, I have discovered on several trips back home to the district after many of the excellent briefings we have had here on the Budget Committee that the people of my district are unaware that the government cannot pay down—pay off early some of the debt that we currently have. I just want to reiterate, after the comments that Congressman Moore made and I have heard others make as well, the President's budget pays off as much of the publicly held debt as can be paid off without incurring penalties, is that correct?

Mr. DANIELS. Yes, that is correct, Congressman. As I said, you may be able to push a little further, if so, quite possibly, that will happen. But that is our best estimate.

Mr. CULBERSON. We have many people in my district that are either in retirement funds of various kinds that hold bonds individually, and I think it is vitally important that all of us, as we communicate to our constituents and to the Nation in general, if they are bond holders, anyone who understands the way bonds work, you cannot pay them off early without incurring a penalty. What you are telling this committee, and the President has said the other night in his address to the Nation, is that his budget will pay off all of the publicly held debt that can be paid off without incurring a significant penalty. That is just a vitally important point that the public, I want to make sure, understands.

Mr. DANIELS. I would just say quickly that I don't think the well-educated and informed citizens of your district or any district need to feel at all embarrassed that they hadn't thought about this. This is a new problem.

Mr. CULBERSON. It is a new problem.

Mr. DANIELS. I have done a little digging around and as far as I can tell, the last time, maybe the only time in our history that the government confronted this problem, was in the Cleveland administration of the late 19th century. I commend for your entertainment at some point some speeches that President Cleveland made at the time, which but for the fact that he wrote in better English than we tend to use these days, could apply to our situation.

Mr. CULBERSON. Thank you. I also wanted to if I could compliment our budget chairman, our leadership here in the House and the Senate, the research that they have done to determine that indeed the surplus we are discussing today is a tax surplus, and that it is important that the—I believe all of us in discussing this surplus use that terminology, because it is indeed a tax surplus, it is not a budget surplus. Budget surplus implies that it is extra money that we need to spend. The surplus, wouldn't you agree that we have today is a direct result of overcharges to the taxpayers and therefore it is accurate, whenever we refer to the surplus, that we call it a tax surplus so the listener understands precisely what it is and those who might want to edit our words cannot edit it, and that it is very clear that it is a tax surplus. I wanted to urge you, if you could, to please use that terminology if you agree with that reasoning.

Mr. DANIELS. I think each person can choose his own terminology, as long as we can remember where the money comes from and whose it rightfully is, until someone identifies a public need that justifies the taking of those funds.

Mr. CULBERSON. Finally, if I could, Director Daniels, I wanted to reiterate for the benefit of the listeners, as well as to ask you to confirm, I know that Chairman Archer shared with me that he has run the calculations, and Chairman Archer estimates that the Reagan tax cut, if put in today's dollars, would be \$5.5 trillion, to put the comparison in perspective. President Bush's tax cut of \$1.6 trillion cannot be compared to the Reagan tax cut, because the Reagan tax cut was far, far larger and, of course, at that time we did not have a tax surplus.

Finally, I also wanted to ask if you could also confirm the estimate that I have heard that the revenues generated by the Reagan

tax cut that during the period of the 1980's, revenues increased twice, there was a doubling of revenues to the government as a result of the tax cuts, but that the Congress at the time increased spending by 3 times, which is the reason we had the deficits. Would you agree?

Mr. DANIELS. Those are roughly the proportions, that is correct.

Mr. CULBERSON. So whenever we hear anyone complain about—try to draw a comparison between what President Bush is so wisely doing today, paying off all of the available publicly held debt that can be paid off without incurring penalties, and that ensuring that the essential functions of the government are taken care of: military pay raise, readiness, setting aside contingency funds, that even after taking care of those contingencies, of course ensuring the solvency of Social Security and Medicare, that the Bush tax cut of \$1.6 trillion cannot compare to the Reagan tax cut of \$5.5 trillion, and that that tax cut in the 1980's resulted in a doubling of revenue, but while Congress was tripling spending. But today, under the Republican leadership in the House and the Senate and under President Bush's leadership, we are certainly going to hold spending in line, so that the comparison does not seem to me to be valid.

Mr. DANIELS. Well put, sir.

Mr. CULBERSON. Thank you very much. I want to thank you for your leadership and working with you, Director Daniels, and supporting President Bush in this effort. I saw him succeed in this in Texas. I served 14 years in the Texas House and watched Governor Bush succeed in refunding the tax surplus in Texas to Texas taxpayers and saw the benefit to the Texas economy, and I look forward to the same result here nationally. Thank you, sir.

Mr. DANIELS. Likewise.

Chairman NUSSLE. Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

I am going to try to jump around to something that I hope hasn't, I don't think, has been discussed. We could sit here all day long and talk about what debt can and cannot be paid off, and there would be differences of opinion, so be it. We can talk all day long about how big the tax cut should be or shouldn't be; that is all fair and well and good. We can talk about who should get the tax cut, all day long, all good discussions.

I actually like the comment you made about Social Security and Medicare that we are wasting time not fixing it, and I actually wish you had come in with that first, so that we could fix it before we started doing things with the budget and tax cuts. But so be it. We are here today.

There are a couple of areas that are important to my district and I think important to the country as a whole, and again, it is awfully hard for me, because I am also new to the Budget Committee, but I am not new to budgets. I understand, although I have nothing to compare it against, but all I have is this, and if there is more to it, I look forward to it coming. So in the meantime I have to ask questions and try to figure out what is going on here.

For instance, I am looking at HUD right now, 2½ pages, actually two pages, because one page is a graph, and I look and I read and I see, and I see a small increase coming, but that increase doesn't

come near the amount of money that pretty much everybody who looks at this thinks we need to simply maintain the level of services that we currently have. I look at it and I say to myself, OK, but where is the money going to come from? I read later on, I see HUD will improve its management instruments to get some of this money. That is great, that is wonderful. I hope you do and I hope it works.

I also look down and see I guess a fair amount, I don't know how much, but a fair amount is going to come from tenancy incomes that are currently underreported, and they are going to grab some of that money that is currently given out, and that is a good idea. If any tenant is underreporting their income, they should be taken off the rolls, and we definitely should be doing something about it. But I don't see anything here that talks about how we are going to do that, whether there is any money to implement a plan to hire auditors; I know this year the number of audits have gone through the floor; there are no audits being done for all intents and purposes, and that is all well and good. Maybe that is what people want, but I actually like the idea of people paying their fair share, whatever that amount is. I don't see a plan here, so I have to wonder how you can base cuts on something you don't have a plan for. If you do, again, maybe it will come again and I will see it and I will ask those questions later.

I look further and I see a \$700 million reduction in public housing capital program, which is interesting when just last year we were being told that there is a \$20 billion unmet capital needs. I understand that some people don't like public housing, and I appreciate that, and again, we can have differences of opinion on that, but most people who say that they don't like public housing think of it in terms of low income housing. Somehow, low income people should do something, I am not sure what, but again, that is another time. In my world, lowest low income housing is for senior citizens. It is not for the nonworking poor who are all chiseling our tax dollars or whatever they are supposed to be doing, it is the senior citizens, and we are going to be leaving them in buildings that can't meet code in many States, in many cities and towns.

I saw in your background you used to work for a city. I was the mayor of a city as well. We have very strict codes, and I will not allow senior citizens to live in substandard housing, and yet we have public housing that is substandard, and we are not putting the money in to fix it. I say to myself, well, maybe you are going to come up with the money, maybe I am wrong. Maybe I am misreading this somewhere.

I read further, I see the drug elimination program is going. Gee, I thought I was the whacko liberal who wasn't all worked up about drug elimination, but I guess not. I guess some other people don't care about it as well. I see later on, I see evictions are more effective than programs.

OK. Let us evict everybody who gets convicted of a drug problem. Where are they going to go? Where are they going to go? More importantly, let us assume we evict somebody who has some children, what are we going to do with the kids? Where are they going to go? They have no place to live. They have nobody to take care of

them and they have no social programs anywhere in this budget being increased to take care of it.

Again, I have no problems convicting and throwing drug addicts out of public housing, yet it is a dead end. Every time I turn around on the housing budget, it is a dead end. We are not going to put money into capital programs, and we are going to let senior citizens live in substandard housing. But again, I hope that detail will come and we can go through this at a later time.

Yesterday we had Mr. Greenspan in the Financial Services Committee and we were talking about the projections. In his projections he made it very clear that we are going to have increased unemployment in the foreseeable future. OK, I understand we don't like it. Yet, I look here and I see a cut in the Labor Department. I see no discussion whatsoever about doing anything about the unemployment insurance fund; I see no discussion whatsoever about retraining programs; I see no discussion whatsoever about adult education programs. So I say to myself, we are going to have millions of people, because we are going through an economic bump, whatever that is, we are all trying to fix it, we are all doing the best we can, when most of the observers, including Mr. Greenspan, thinks we are going to increase unemployment, yet this document talks nothing about retraining those unemployed people, it talks nothing about dealing with them, talks nothing about educating them.

I say to myself, how is this not a dead end? What do I say to people who don't have jobs? I got to tell you, that doesn't deal with the people who still don't have jobs. And Mr. Watkins, I got to tell you, I have to bring him up to Boston because everything he said I agree with, though don't get me wrong, I don't come from a rural area, but all of his problems are very similar. We have pockets in many of our cities that meet all of those issues, and that is why we worked so closely last year on empowerment zones trying to get them funded.

During yesterday's discussion also, and I read through this, our entire economy—that is a little overstatement. A big chunk of our economy is based on the fact that we are the leading edge of the world on innovations: medical and robotics and everything else. It is all based on R&D. It is all based on R&D. If we don't keep the cutting edge, they can make cars cheaper in Malaysia than they can here. They can make shoes cheaper in Central America than they can here. We need to stay up on R&D, otherwise this economy is going to go down the chute faster than we can imagine.

Yet I look here and I see some good things here. I love the continued improvement of the NIH budget, good idea, support it 100 percent. I love the idea of making the R&D tax credit permanent. Good idea, excellent idea. I like the idea of having DOD do some more R&D on the missile defense system. Although we have some differences on deployment, the R&D of it is 100 percent correct, as far as I am concerned.

Yet I look at the NSF budget and it is minuscule, minuscule. It is embarrassing. The NSF budget is the cutting edge of all of our R&D. We don't talk about the Energy Department. R&D gone, gone. I have people who are getting close to freezing on gas. Fine. Maybe we will drill in Alaska, maybe we won't, but we need new

inventions to make sure that whatever oil and gas we do have is efficiently used. We are not going to be doing any R&D or very little of it.

The U.S. Geological Survey, cut out. The Wall Street Journal itself talks about these things and quotes several leading Republican members of this House who think that some of these R&D numbers are, and I quote absurd, absurd.

So I ask a long question. I ask very simply, are we or are we not committed to future research and development to keep this country's economy going so that we are ahead of every other competitor in the world? And if we are, how can you look at me and tell me that the NSF budget, the energy budget, the Commerce budget on R&D issues—again, if it is not here, I would love to see the documents, how can you tell me that that is a commitment to R&D?

Mr. DANIELS. Let me start at the top of your list of questions, because you asked a number of important ones, Congressman. I may have missed a couple, but let me get most of them. The way we wrote our document may have confused you. At one point in the HUD budget, we assume, as I mentioned earlier, no unspecified savings from anywhere. If we don't know where money is coming from, it is not in there. What you saw about the people concealing their income and so forth is in a section called "potential reforms," where we think there may be important opportunities in the future, but we do not assume any costs for that.

I would also mention that we proposed to give a substantial increase to the IRS, they have a modernization program going there. You are quite right, the number of audits is way down, and the Secretary of the Treasury and Commissioner of IRS are committed to bringing that into the 21st century. So on that score, I hope you will find some consolation.

Let me turn to—well, let me mention on the drug elimination grant, it is just a good example of something. This program has been there for quite a long time, has a nice title, we are all in favor of eliminating drugs. It has nothing to show for itself in terms of results. The Congress has rightly insisted, and I would say, it is an unmet obligation of this administration, or our executive branch, to begin attaching results to all of the things you folks fund. The so-called Results Act, GPRA of the 1990's, has not been particularly honored. This is one where there has been measurement and there is nothing good to show.

Meanwhile, there are dozens of other programs that can get at the same problem. We are spending \$19 billion fighting drugs, much of it in areas like this. It is not that we are not committed to that, it is that there are plenty of tools available to housing authorities in ways that may be more effective, and it is just a matter of trying to move the money from the least effective program to the most effective if we can identify what that is.

R&D is a big issue, and we appreciate your advocacy here. I would say that R&D budgets generally are up. Again, I encourage you to look not just at a 1-year snapshot, but 2, 3, 4 years. I also encourage that we not ever confuse ourselves that government can lead productivity and technology. It can help it; certainly at the end of basic research it can make a big difference. The commitment to the NIH is one of the largest ones the Congress has made and the

President has associated himself with it, and I think everyone will be quite proud that it is occurring.

I do hear voices, and yours now eloquent among them, that say let us be sure that we have balance in our scientific investments, let us make sure that we are not, in our present enthusiasm on, for instance, medical research, missing other opportunities, and we will work with you to try to identify the areas where we have to make equivalent progress. So thank you for your questions.

Chairman NUSSLE. Mr. Honda, you have been very patient, and welcome to the committee. I haven't had the opportunity publicly to welcome you, and we welcome you to the committee, and we are glad you are here. You may inquire.

Mr. HONDA. Thank you, Mr. Nussle. I also want to acknowledge your patience, Mr. Chairman, and welcome Mr. Daniels here, and thank you for your patience. You are the one that had to stick it out.

Mr. DANIELS. Now I know what those folks who play chess against a whole roomful people at the same time feel like.

Mr. HONDA. Mr. Chairman, I would like to submit a couple of questions in writing at the end.

Chairman NUSSLE. Actually, I will ask unanimous consent that all members have 7 legislative days to submit questions in writing for the record. Unless there is objection, that is so ordered, and you may do so.

Mr. HONDA. Thank you. For the record, the questions are regarding INS questions and other questions regarding science research funding.

Mr. DANIELS. Thank you.

Mr. HONDA. Mr. Daniels, a lot of discussion was centered around education and specifically, special education, and then most recently, Mr. Watkins brought up the issue of FCC funding being shifted over to Department of Education.

The comments I have, and the question I have is number one, regarding the E-rate program, which is funded through the Telecommunications Act of 1996, which is a very specified, specific funding source which has shown quite a bit of success over the last 4 or 5 years. The question is, why would something that is very clear and specific and successful be shifted into the Department of Education where the funding—the budget process is up in the air, and then it is mixed also, I believe, as a block grant. If we are going to keep our promise and stay focused on the mission of making sure all of our schools, our classrooms and libraries are completely wired, which we are about 68 percent wired now, that we must complete it to 100 percent, and then the next step is making those schools and classrooms successful through the access.

Mr. Watkins' concern, I think, is also about the equity of access to information which will provide youngsters with access to knowledge and, therefore, secure a good education. Why would we do that?

And then number two, under special education, if we said under PL 14192 that we will fund 40 percent of the cost of special education, why don't we just move forward on a very specific plan over the next 3 or 4 years and do that? Because when you do that, it pushes out the general fund amendments of the local school dis-

tricts who, by law, are required to meet those needs; it would free those general funds money at a percentage that will boggle the mind so that they can also redirect those moneys, and programs are discretionary for them.

Mr. DANIELS. With regard to the first question, I can only say that the President believes that we need a great deal more flexibility, that it is very difficult—that it is not difficult for Washington to identify important needs and assign funding to them, but it is very difficult for Washington to know, locality by locality, what the right mix is and where digital technology will be most useful or not.

So I hope, and I am sure that all of us hope, that as these funds become more fungible and more flexible, that the need to make sure that all our areas and all our children have access to modern technology will be addressed by the people best equipped to address it.

Mr. HONDA. To the Chair, just to interrupt you for a second, the funding is very specific and it is very clear, the mission is very clear also. But to put it into a grant, block grant funding, it leaves it up in the air as to what schools will be using that money for, and it is mixed with other programs, such as modernization. Now, if we keep that discrete and use the other funds for the other purposes, at least that arena will be very clear, it won't be subject to criticism, because although we say we will give these moneys for local discretion, and then people turn around later on and say, what is wrong with our public schools?

Mr. DANIELS. I would encourage you to raise this issue with Secretary Paige, and he may well agree with you, and take pains to make sure that those funds—

Mr. HONDA. I am certainly hopeful, because it is one program that is very successful, and it promises 100 percent mission completion.

Mr. DANIELS. Thank you for drawing it to our attention.

Mr. HONDA. How about special ed?

Mr. DANIELS. I don't know how much more to say about special ed except that we agree completely, that that is an area where we have to make a lot of progress, it is enormously expensive to make that progress, particularly when the objective is receding before us like a mirage. It is very expensive simply to tread water, I have learned, in terms of—which we will do, and then we will go further this year in the way I described.

Next year I think we will go further still. But we are going to have to work with the Congress. And the supply of dollars is not inexhaustible, and the supply of good ideas is, but we all have to work together to reconcile competing interests. This one, for the President, is a very high priority and the question is, what are we prepared to do with a little less of.

Mr. HONDA. To the Chair again, if I may, just to respond, it is a special ed bill, and it is a distinct statute, and in terms of public policy, if we follow through at the national level, it will free up quite a bit of general fund discretionary moneys at the local level, and if we are saying we want local authority to our school districts, this is one way that the Federal Government can specifically be helpful with the law that we impose upon them. So they are faced

with two things. One, they have to obey the law, and once they do that, they have to fulfill a law with money that is not coming down sufficiently and they have to cover it with their own. So they are caught in a Catch-22, not only with the law, but also with their community members. I think mixing this money with other funds that were allocated for modernization or putting them into a block grant funding mechanism will again deter the mission of PL 94142.

Mr. DANIELS. I understand your point, sir. We may have some philosophical difference in terms of the degree of flexibility that is appropriate, and in this area the President feels we should be reaching for greater flexibility in this area where school-to-school, let alone district to district—

Mr. HONDA. As an ex-schoolboard member I understand what that means, but there are distinct statutes that regulate FCC funding and also special ed, so those things are distinct.

The other areas that you put block granting money in, I understand that there is some flexibility, but these two are very clear in statute.

Mr. DANIELS. Thank you for the point.

Chairman NUSSLE. Thank you, Mr. Honda.

Mr. Price, you have also been very patient. Thank you.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Daniels, let me add my congratulations on your appointment.

Mr. DANIELS. Thank you, sir.

Mr. PRICE. I welcome you to the committee. I must say I don't really envy you your assignment today, because you have been asked, as OMB director, to come up here and tell the House Budget Committee that somehow it is OK to shout through a tax cut before we have a budget resolution. I would think that would put considerable strain on not just the budget law, but on your institutional role, and on this process that was set up 25 years ago to protect fiscal responsibility.

You asked Mr. Davis a rhetorical question. Who, in all of this, is looking out for the taxpayer. I do want to reassure you on that score. I think virtually every Member of Congress believes that tax relief ought to be a component of this budget. But we do have a debate, it is an honest debate, and I think you would be well advised not to belittle the debate, about three critical points. One is, should this tax cut be voted through before we have a budget resolution? Secondly, what is the affordable size of the tax cut? And thirdly, what was a fair distribution of the benefits of the tax cut? Those are all serious debates that deserve serious engagement.

Now, you have assured us that we can afford a \$2 trillion tax cut. Not only are you saying we can afford it, but we can still have a \$1 trillion contingency fund at the end of the day to protect us against shaky or unreliable surplus estimates. And, by the way, the surplus projections that we are dealing with, as I understand it, two-thirds of those surplus projections are more than 5 years away. Two-thirds of those surplus estimates are in that especially uncertain category of the outyears, beyond year 5.

If I could refer back to the chart that Mr. Spratt had up here initially, I just want to go back to what I thought you were saying and ask you to elaborate a bit on the \$1 trillion contingency fund.

You are saying that it is made up of \$207 billion from our chart that we acknowledge is available, that another \$526 billion is taken from funds borrowed from the Medicare part A surplus. I must say, your points in some ways were quite compelling about the financial dilemma of Medicare, but it seems to me to be a strange response to that dilemma to then take the part A surplus and put it in a contingency fund when that is presumably available for other purposes. Then I guess the rest of the \$300 billion is the cost of extenders and fixing the AMT, which you are acknowledging, needs to be done, but which does not figure in your budget math. That is where the \$1 trillion comes from.

Now, what are the claims on that \$1 trillion? Well, if you adjusted the appropriations for population as well as for inflation, that is another \$200 billion, and sometimes we need to do that. For example, with Head Start, if we funded just to keep it even with inflation, with the number of eligible kids increasing, then we would have a declining proportion who would, in fact, be served, and that is also true of law enforcement, building highways and so forth. So let us say we wanted to make some adjustments for population as well as for inflation. That is \$200 billion. We have talked already about the extenders, the AMT, which I think you acknowledged were desirable, probably inevitable, another \$300 billion. If we went above inflation spending on any of these priority items that are listed here, prescription drugs, defense, education, conservation, crime, transportation, on and on. Goodness knows in my area we need to do better than just maintaining current effort on building highways and getting transit on line.

You have some of those items where you say you are going to go above merely adjusting for inflation, and I don't believe you denied Mr. Spratt's point that that would require the rest of the discretionary budget to go at about a 7 percent decrease. I don't know if we can sustain that 7 percent decrease. There are a lot of items that will make that quite difficult, and of course, other claims on this \$1 trillion might be in case the surplus doesn't materialize, then that is designed as a cushion.

So where is the cushion is the question? There seems to be a lot of potential claims on this \$1 trillion. Is this \$1 trillion contingency fund real, and what is the range of possible claims on it?

Mr. DANIELS. Well, thank you for the several questions, sir. First of all, let me say that I hope nothing I said could be construed as belittling any piece of this debate. I think you mapped it out pretty well, and let me take it in the three pieces you broke it into. I have tried to engage as seriously as possible, and this budget does, with the size, what I would call the size of the tax cut. And I have insisted today and will continue to, there is more than enough room, far more than enough room for the American taxpayer to get some overdue relief.

The other two pieces of it I think principally should be left to others, as I had the discussion with the Congresswoman I believe it was, the discussion about the shape of this tax cut and what is fair and what is right is one that will continue on, and I am happy to speak to it as the President would have us speak, but it is a different one than I think is my principal responsibility.

As to the tactics, we don't tell the House of Representatives how to do its business and in what order. I understand the point that you have made, and I gather that there will be debate about that and possibly a different view in the other body.

Let me answer a few of the other questions. Back to that chart, I know no one wants to put words in my mouth, but I didn't say, will never say, we are taking money from anywhere. I think the simplest way to explain it is the way I have here. I was trying to reconcile that for those who wanted to know how does it house the same amount of money, and to me it is as plain as day that there is \$1 trillion of the \$5.6 trillion that is utterly uncommitted, and I am not even counting the \$600 billion of Social Security money, which can also be viewed as further protection. I did not and do not accept, you know, the addition to the President's tax cut of things he has not called for. We are prepared to work with the Congress on ways to deliver tax relief, but he has said steadfastly that it is \$1.6, it is not \$1.9 as suggested up there.

Mr. PRICE. Since we are running out of time, Mr. Daniels, if I could interrupt you, I was simply repeating what you had said about the composition of the \$1 trillion trying to reconcile it with this chart. But my main question has to do with the potential claims on the \$1 trillion. Is my list there accurate, or is there something that we need to know further there about what the range of those claims might be?

Mr. DANIELS. Well, I think that is a very important point and I like your use of the word "range." I think that is the way we would have approached it in the business I was a part of; I think it is the only correct way, and it is exactly the word I used as we began to think about what is an adequate and more than adequate reserve. What is the right range when you look at the variety of possibilities?

We think the right range for Medicare modernization is \$153 billion, and that is in the plan now. We don't know the right answer on defense, we don't know the right answer on agriculture, which I don't think is on that particular chart, but when we look at them all together, we believe it is well short of \$1 trillion, and you know, back to the quote which you recalled I made, it wasn't that no one is looking out for the taxpayer, I know you do and I know every member of this committee does every day. But what I said was that it sometimes seems as though the taxpayer gets considered last, and so to look at a chart like that and say well, after we have paid for drugs, paid for defense, paid for education, paid for conservation, paid for crime, paid for, paid for, paid for all of these items, maybe there will be something left, and I only suggested that, you know, that is maybe not the order in which we ought to take up the competing interests.

Mr. PRICE. Well, thank you. I know my time has expired, but with all due respect, nobody is suggesting that the tax cut comes out of this \$1 trillion. This is \$1 trillion that is supposedly going to be there after your \$2 trillion tax cut.

Mr. DANIELS. Right.

Mr. PRICE. I think it is only prudent and responsible to ask, is that \$1 trillion real and what are the possible claims that might be made against it? If it is there as a cushion, goodness knows we

need a cushion with these projections as shaky as they are, but is that cushion going to really, in the end, be available to us?

Mr. DANIELS. Well, those are very appropriate questions and I think you framed them in the way we did, and you will have to judge whether we have been careful enough in this forecast and whether \$1 trillion is cushion enough, in view of the way you might cost out these other items. As we cost them out carefully, we think, as I said before, we think we are overreserved here, but that is a fair debate.

Chairman NUSSLE. Thank you, Mr. Price.

Mr. Daniels, we have come to the end of the line. You have been testifying now for approximately 4 hours.

Mr. DANIELS. So soon?

Chairman NUSSLE. We have some votes on the floor, so I think it is probably a good point in time here to recess.

Mr. BENTSEN. Mr. Chairman, what is the record?

Chairman NUSSLE. I am not sure we have a record; I will look that up.

Mr. BENTSEN. Mr. Chairman, could I make one comment? I was going to ask a question, but I know we have some votes.

Chairman NUSSLE. I am a little hesitant to give you the last word, but I will do it.

Mr. BENTSEN. You can always have the last word, Mr. Chairman.

Mr. Daniels, I just want to make one comment. I have lots of questions, but we will get time to do that and I will submit a bunch for the record. But on the comment of the budget and how the House conducts its business as it sees fit, you have your responsibility and they have their responsibility. The other night, I stayed up late working with my 9-year-old daughter on a report she was doing on James Madison, and read through this biography of Madison and the forming of the Constitution and everything, and a discussion of the separation of powers and the checks and balances which was a major part of the debate at the constitutional convention.

The fact is that the Bush administration inherited a fiduciary responsibility on behalf of all of the people of the United States, and you would certainly make that argument as it relates to refunding a surplus to the people, et cetera. But that same fiduciary responsibility applies to how the budget is constructed, and I don't think you all can just say, well, that is the House's responsibility, however they want to do it, when down the road, you have a Commission looking at Social Security and Medicare and all of these other things. I think you have a responsibility to the American taxpayers, as do we, that we don't let the cart get before the horse in how we are going to do this and find out we are in a jam.

I know we can look back 40 years and say, well, in the 40-year plain, things weren't so bad, the 1980's notwithstanding. We also have to look ahead 40 years and you know as well as I do, 15 years out from today, things don't look so good. There might not be a Treasury market over the next 15 years, but there sure will be a Treasury market beyond that when we see the debt to GDP ratio rise as the baby boomers, everybody except for Mr. Nussle and I, start to retire.

So I think you all need to think about that going forward. I appreciate the politics of this and what you do, you need to do to try and get your package passed, but I think you all need to think a little bit about that.

Thank you, Mr. Chairman.

Chairman NUSSLE. I thank you, Mr. Bentsen.

I want to thank you for your testimony on behalf of the committee, Mr. Daniels. We look forward to working with you over the next number of weeks as we put together this plan.

Mr. DANIELS. Thank you.

Chairman NUSSLE. The committee will stand in recess until 3 when we will hear the testimony of Secretary of the Treasury, Mr. O'Neill, as this review of the President's budget continues. Thank you.

PREPARED STATEMENT OF HON. ANDER CRENSHAW, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF FLORIDA

Mr. Chairman, I would like to thank you for holding this hearing, and Mr. Daniels, I would like to thank you for participating today. As a new member of the Committee, I look forward to working with you both, and with my other colleagues here today to set a responsible and fair course of action for Congress' work this year.

I feel very fortunate to be representing Northeast Florida in Congress, particularly at this time of great budget surpluses. When I represented that area in the Florida Legislature, it was not always under such favorable circumstances, and my work there required very tough choices. But we prevailed and balanced the spending needs of the people of Florida with sound fiscal management.

The projected \$5.6 trillion surplus does not free Congress or the President from making tough choices. We still must balance the spending needs of the nation with fiscal discipline. But, we also have great opportunities to pay down a still larger portion of the debt, to prepare for the future, and to give the American people back the money that they need to pay their own debts and prepare for their own futures.

The President's address earlier this week set out a very clear vision for using the surplus in these ways: We will continue to pay down the debt. We will meet our current spending needs and will shore up the programs that meet our needs in the future, such as Social Security and Medicare. And, we will give the American people a refund with what is left over. I share his vision, and look forward to working with President Bush and my colleagues here in Congress to follow this course of action.

[Whereupon, at 2 p.m., the committee was adjourned.]