

THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2007

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 8, 2006

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THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2006

WEDNESDAY, FEBRUARY 8, 2006

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

The committee met, pursuant to call, at 11 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Crenshaw, Putnam, Wicker, Garrett, Barrett, Simpson, Mack, Ryan of Wisconsin, Diaz-Balart, Hensarling, Ros-Lehtinen, Lungren, Sessions, McHenry, Conaway, Spratt, Moore, Neal, DeLauro, Edwards, Baird, Cooper, Davis, Jefferson, Allen, Case, Cuellar, and Schwartz.

Chairman NUSSLE. Good morning. The full Committee on the Budget come to order. This is a full committee hearing on the President's budget for fiscal year 2007. I want to thank members for their attendance today. As members know we will not have votes until after 6:30 p.m. on the floor and so we appreciate you coming back for this hearing.

The hearing will end at 2:30 p.m. today because of the bill signing ceremony for the Deficit Reduction Act at the White House.

And so the director needs to be able to get back to that so we will end it at 2:30 p.m. and try and expedite as many questions during that time as possible.

On Monday, we received the President's budget request for fiscal year 2007 which marks the traditional start of the congressional budget planning for the coming year, but as all members know, this started in earnest last year with the onset of the challenges from Katrina, et cetera.

We have with us today the director of the administration's Office of Management and Budget (OMB), Josh Bolten, to walk us through the President's proposal. As always, the President's request is based on OMB's budget and economic forecast. So one of the goals of this hearing is to get a solid understanding of what that foundation is, that bases the President's budget.

Before we hear from the director, I would like to take just a few minutes to review what the Congress' budget experts, the Congressional Budget Office (CBO), had to see about the budget and outlook for the economy in their report released just a few weeks back, since this is the basis for the work that we do here in Congress in developing our budget.

So let me start with the economy and revenues. Over the past few years, we have lowered the tax burden on Americans, because

it is our fundamental belief that the people back home make much better decisions about their daily lives. The decisions they make around the kitchen table are to be honored, understood, and respected as they invest in their own businesses, on their farms, with their families, and communities, and it is just as an important issue than even what the Federal Government can do for them.

As a result of giving Americans more control over their money, we have seen more investment, we have seen more jobs, and we have seen greater opportunities for this country. The economy as a whole has grown at a strong average of 3.8 percent since the tax relief was passed in 2003.

Over 4.7 million new jobs have been created in the past 2½ years. The unemployment rate has now fallen to 4.7 percent, the lowest in years, and we have had 17 straight quarters of growth in this economy. As our economy grows, more jobs are created and personal incomes increase, which gives people and families more ability to make those decisions around their kitchen tables. As a direct result of that growth, revenue that comes into Washington is on the rise. Again, a phenomenon that many describe, but it appears that few understand—revenues actually increase to the Federal Government when you reduce taxes, the way we have in the past number of years. In fact, we saw revenues coming into the Federal Government up 15 percent more than last year alone. A 15-percent increase is almost an unprecedented level of revenue increase. We lowered the tax burden, told people to keep, spend, invest, and use their own money as they saw fit, and Federal revenues actually went up.

Let me show you a chart of revenue projections. As you see, coming into 2003, before we made that unprecedented decision and put this plan that we have in place, revenues were falling. It was one of the first times in American history that we have seen that kind of 3-year drop in revenues. And since then, revenues have been on track to grow at an average rate of 5.3 percent in the next 5 years from what we have already done in the last 3 years. According to CBO, assuming that we don't increase taxes or allow taxes to be automatically increased, this trend is set to continue and that is good news.

Of course, that is only half the picture, the challenge that we have, I believe, is on the spending side. Over the past few years, we have seen a major, necessary, and deliberate shift in our Nation's spending priorities. We were already faced with ongoing demands in critical domestic areas, such as education, transportation, health care—there are many. And now we are facing continuing threats of international terrorism, the nearing retirement of baby boomers, the growing pressures of inadequate domestic energy supply, and the continuing sky rocketing of medical expenses.

All of these need and place greater demands on an already stretched Federal budget, and it doesn't get any easier from here.

Getting control of the budget requires that we understand and manage this ongoing shift of balance of our priorities. Last year, we set forth a plan to keep a strong growing economy and to create jobs while controlling spending both across the board as well as our continued progress in reducing mandatory expenses and reducing the deficit. We followed that plan and even in the face of an ongo-

ing war, debilitating national and natural disasters we made some real progress, and we kept our economy pumping along at a robust pace.

As I have noted, we have seen the creation of millions of new jobs, unemployment rates at historical lows, and increases in revenues coming into the Federal coffers. We have held our nonsecurity discretionary spending to a freeze, tighter than the previous year's 1.3-percent growth. Which is small by most people's measures, but certainly a marked improvement from the previous 5-year average of growth in the discretionary spending accounts of over 6 percent.

And just last week, we completed work on the Deficit Reduction Act of 2005, which we anticipate the President will sign into law later today. This legislation begins the process of reforming the very important Federal Government programs which are, I believe, the least sustainable programs. And for the first time since the Balanced Budget Act, we have in the process saved taxpayers as a result of this bill, \$40 billion over the next 5 years.

As a result of all of this, we have also accomplished dramatic deficit reduction in just these past few years. Let me show you a chart that demonstrates that. But as OMB tells us today, and we will report, after \$200 billion of consecutive deficit reduction, we now have a short-term increase of \$105 billion in our deficit picture. This increase is due to the \$85 billion in emergency spending that we all provided, to help folks in the gulf coast region following the natural disaster of Hurricane Katrina, and the additional \$70 billion that the President proposes to fully fund our soldiers in Iraq and Afghanistan and provide additional hurricane relief for the future.

As we know, had our economy not been so resilient, the bump in the deficit would have been much worse. Thankfully, we are growing at this period of time, and that must continue. These setbacks serve as a pretty solid reminder that controlling the budget isn't a one-stroke fix. It is a long-term, step by step commitment that takes resolve, particularly when extraordinary circumstances make it difficult.

Let me turn to the fiscal year 2007 budget.

So today it gives us not only an opportunity but a challenge in crafting this year's budget. I believe our priorities need to be very clear. No. 1, we must support our economy's continued strong growth in job creation. No. 2, we need to ensure that our freedom and security is preserved here at home as well as abroad. No. 3, we must continue our efforts to reform and strengthen our most critical programs and do this all while we are reducing the cost of government and reducing deficits.

Our challenge is also clear. Second guessing is not a plan, and political posturing is not a plan. Just complaining and wringing your hands is not a plan. We must determine the best course and craft a plan, the right plan, so that we can proceed from here, and that process begins today.

On my side of the aisle, we will spend this weekend in conference, to talk about this year's budget, to talk about our priorities, and I will be making two strong recommendations to my conference.

No. 1, that we go through reconciliation again this year. I realize that that will cause some angst for Members. Already we are hearing hand wringing in the newspapers that you can't control budgets during an election year, that you can't reduce spending, that you can't reform government.

I dismiss that. I reject that. I believe that part of the challenge that we are faced with is the result of us not going through a routine reconciliation process, a routine reform process where we have the opportunity to pull weeds out of the garden so that we can ensure that the garden is vibrant and continues to provide the kind of fruit that we believe is important, but pulls those weeds that are strangling our growth or making it difficult for us to maintain the kind of commitment that we have maintained within the budget. Reconciliation, even at a nominal amount, is an important process to go through constantly to reform our most important projects.

And No. 2, I am going to make a strong recommendation to our conference that we have no new earmarks. I have made this suggestion a number of years in a row, and it has been rejected. It may be rejected again this year, but let me tell you, if we are not going to go through reform, if we are not going to go through reconciliation, then I don't believe we should have the opportunity to go our taxpayers and tell them all the good things we brought them in the form of earmarks. We need to do both. We need to reform our important programs, even if it is at a small routine amounts, to get us on the kind of path toward reform, and we need to do so without adding to the already difficult whole that has been dug as a result of the challenges involving our national security as well as our natural disasters.

This week the President presented his plan on his budget request to Congress. Today we have the pleasure of hearing from the Office of Management and Budget Director Josh Bolten, who has been before our committee and who has given us many opportunities to question him and the outline that he has presented. We look forward to your testimony and welcome to the committee.

Mr. Spratt, I turn to you for any comments you wish to make.

Mr. SPRATT. Thank you, Mr. Chairman, and Director Bolten, welcome again. Mr. Bolten, you and your boss, Mr. Bush, have the dubious distinction of presiding over a deficit of \$423 billion this year, the largest in nominal terms, in our Nation's history. You would say it is only a nominal term not as a percentage GDP, and I will grant you that. But I have to say that a \$423 billion deficit is not acceptable and not sustainable.

Nevertheless, your budgets have run deficits in this range for about 4 years and by our calculation, this budget shows no sign of deficits abating or disappearing.

As you can see, as we look out over 5 years, your projections, using your numbers, show that the budget will sustain deficits totaling \$1.596 trillion. And those projections leave out two very likely and very expensive items. First, the cost of operations in Iraq and Afghanistan after this year, other than the \$50 billion that you will provide in 2007, let's hope that is enough for 2007. But we are spending \$120 billion this year.

If you look at what is being provided in this budget as well as what was provided in the 2006 defense authorization bill and appropriations bill.

And secondly, you made no provision after this year for any correction to the alternative minimum tax (AMT) so that it will apply only to the existing taxpayers whom it applies, some 5 million taxpayers and not 22 million taxpayers, which is what will happen unless we patch or fix it. This fix of the AMT is inevitable as a matter of politics if not policy, and revenues lost to such a fixed amount is \$844 billion over 10 years. But as I search your budget, I find no provision for that revenue impact anywhere in your budget. And yet I think it is an inevitable adjustment to the AMT.

Even without these adjustments, your budgets run deficits of \$1.596 trillion over the next 5 years. And when you back out the surplus in Social Security, as I think you should, because there is a date in that time frame shown on this chart, 2008, which is a real milestone in the budget history of this country because that is when the baby boomers began to retire. And pretty soon, the monies we are setting aside for now in the Social Security trust fund will be drawn down. That is why it is called a trust fund. These funds are entrusted, obligated and encumbered for a purpose. And when you back out the Social Security trust fund, because it shouldn't be used as an offset morally or legally, the deficits over the next 5 years amount to \$2.841 trillion.

But we say we see no signs of abatement, disappearance, or approval, we base it on our calculations of the puts and takes, pluses and minuses in the budgets you presented to us. When we offset your spending cuts against your tax cuts, we find that your budget makes the deficit worse, not better, worse by \$413 billion over the next 5 years. This is not a deficit reduction budget, but a deficit worsening budget. That is without making the changes in the AMT. Now if you can't see this, we will be glad to share this chart with you just to show we didn't pull this out of the air.

When you make the changes that we think are inevitable in the AMT and other changes that we think our baseline needs to have adjusted in order to realistically reflect the likely future. When these changes are made, we plot the deficit over the next 10 years along the path shown on the lower sloping curve in the lower right-hand corner of this chart, hovering in the range of \$300 to \$400 billion for next 7 or 8 years and then going further downward to the point where in the year 2015, 10 years from now, it is \$550 billion. We will be glad to share these numbers with you. We appreciate your comments on them. Maybe we can refine them. Maybe we have done something wrong. I would hope so. But that is what we see is the path your budget is taking if it is laid out according to what we find in this budget before us.

We know that you might take exception to these numbers, but we know that when the administration has come up previously, you have painted a pretty picture for each of the outyears, but here is the actual results on the back of an envelope, an easy way to sum up last 5 years of budgets presented to us by the Bush administration.

In order to accommodate those budgets passed by the Bush administration, proposed by the Bush administration, passed by the

Congress, the debt ceiling of the United States has been raised 3 times and the debt ceiling increases that are pending right now and according to the Secretary of Treasury is absolutely urgent. When you add those debt ceiling increases over the last 4 years, 2002, 2003, 2004, the total debt increases come to \$3 trillion.

Now, when we take your projections of this existing budget, and run them out with the adjustments that we think are politically realistic, like the AMT, or like some provision for continuing operations in the theaters if not actually in the countries of Afghanistan and Iraq, when we make these adjustments, the next 10 years looks equally as bad. This total comes to over \$3 trillion in debt, which will be a repetition of this period of time so that the legacy of your administration, which is surely not one you cherish or want, will be an addition to the debt of the United States of \$6 trillion.

I would like to see us—I would like to feel that there is some sort of alternate course we can take. The chairman referred to a plan. We really haven't had a collegial effort to come to terms and grips with the budget deficit since 1997, since we sat down, Democrats, Republicans, the White House, and the Congress to try to negotiate a budget that would put us in balance within a couple of years. It succeeded to the point where we had a surplus of \$236 billion in the year 2000. We were standing on the shoulders of budgets that had come before us, finishing the job.

The job before us right now is extremely difficult but if you look back at the past; it took Gramm-Rudman-Hollings in 1985, the Bush budget summit in 1990, the Clinton budget in 1993 and the balanced budget agreement in 1997 to finally subdue the deficit, bring it to heel and eradicate it to the point where we had a surplus in the year 2000. I don't see us moving down that path today. But I do so see a situation that is even more dire than it was in 1997 because of the imminent retirement of the baby boomers and the problems we know we are going to experience with Medicare, Medicaid, and Social Security. What we should be doing now is saving more, not running more debt, so that we can reduce our debt service.

And that reduction with the burden on our economy we can accommodate some of the growth we know will occur in Social Security and Medicare. We are not taking that path, and I think our children one day will ask what in the world were our parents thinking about when they tacked up so much debt and left it as our inheritance.

Thank you for your testimony today. We look forward to that and we would appreciate it if you would address some of these questions in the course of your testimony or in the questions afterwards. Once again, thank you for coming.

Chairman NUSSLE. Thank you, Mr. Spratt. Director Bolten, welcome back to the Budget Committee and we are pleased to receive your testimony. Your written testimony will be made part of the record and you may proceed as you wish.

**STATEMENT OF HON. JOSHUA B. BOLTEN, DIRECTOR, OFFICE
OF MANAGEMENT AND BUDGET**

Mr. BOLTEN. Thank you, Mr. Chairman and Mr. Spratt. I appreciate the welcome.

Mr. Chairman, Mr. Spratt, other distinguished members of the committee, the President's 2007 budget which I transmitted to the Congress on the President's behalf on Monday, meets the priorities of the Nation and builds on the progress of the last 5 years. Before getting to the 2007 budget, I would like to take a moment to review the substantial accomplishments in spending restraint we were able to achieve together over the past year.

Chairman Nussle made reference to some of them, but they are displayed on this chart that is just on your screen now.

Progress on Spending Restraint

2006 Budget		2007 Budget
<u>President's Request</u>	<u>Congress Delivered</u>	<u>President's Request</u>
Discretionary spending below inflation	✓	Discretionary spending below inflation
Non-security cut	✓	Non-security cut
Cut or terminate 154 programs	89 programs	Cut or terminate 141 programs
\$54 billion in mandatory savings	\$39 billion	\$65 billion in mandatory savings

The President set four objectives in the 2006 budget.

First, the President proposed to hold growth and overall discretionary spending below the rate of inflation. Second, he proposed an actual cut in the nonsecurity portion of discretionary spending, the first such proposal since the Reagan administration. Third, he proposed major reductions or eliminations in 154 government programs that were not getting results, were not fulfilling essential priorities. And fourth, he proposed reforms in mandatory programs to produce \$54 billion in savings over 5 years.

The Congress substantially delivered on all four of these objectives, as the second column of this summary chart shows.

I would like to thank you, Mr. Chairman, and members of this committee for your leadership and dedication in helping to achieve these goals. As you referenced, Mr. Chairman, this was not easy to accomplish. It took a lot of hard work from you and a number of members in this room. The administration, and I think, the American people, owe you a debt of gratitude.

When President Bush gave me guidance on what the 2007 budget should look like, he directed me to build on this progress by focusing on national priorities and tightening our belt elsewhere. He

told me to give our troops and those who defend our security what they need to fight and win the global war on terror. And he emphasized that the 2007 budget must support our pro-growth economic agenda.

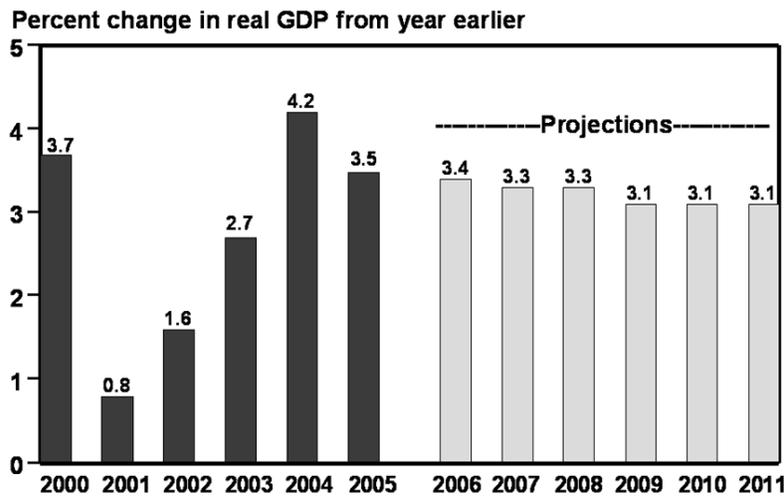
In particular, he said we should maintain our economic strength by extending the tax relief that has fueled our economic expansion and by aggressively restraining spending.

On Monday I presented on the President's behalf, a budget that does just that.

In the past 5 years, our economy suffered an historic series of shocks, starting with the recession and terror attacks of 2001 and continuing through the hurricanes last summer. Those events had profound impacts on job creation and on the fiscal outlook.

Despite these challenges, thanks to the productivity and hard work of the American people, our economy is expanding at a healthy pace. As the chart on the screen now shows, in 2005, the economy grew by a substantial 3½ percent, the third consecutive year of healthy growth.

Strong Economic Growth Continues



And as you can see on the chart, we project ongoing economic strength for the foreseeable future.

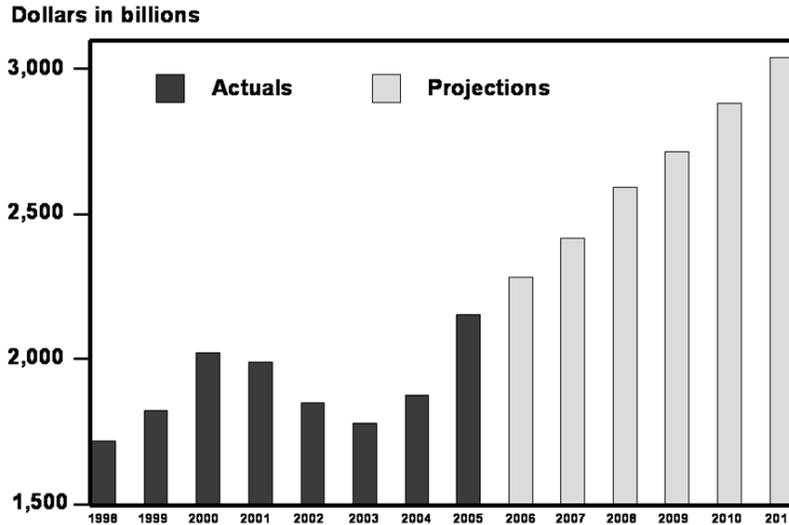
Economic expansion, Mr. Chairman, as you mentioned in your opening remarks, has produced more than 4.7 million new jobs since May of 2003, reduced unemployment to 4.7 percent, and raised home ownership to all time highs. This economic growth would not have been possible without the tax relief that you passed and the President signed.

The tax cuts, which were fully implemented in May, 2003, have been critical to helping the economy recover from the recession and terrorist attacks of 2001 and then helping the economy to continue expanding despite the hurricanes and high energy prices of 2005.

With the tax cuts fully implemented in 2003, the economy responded strongly, and tax receipts rebounded. As you can see on

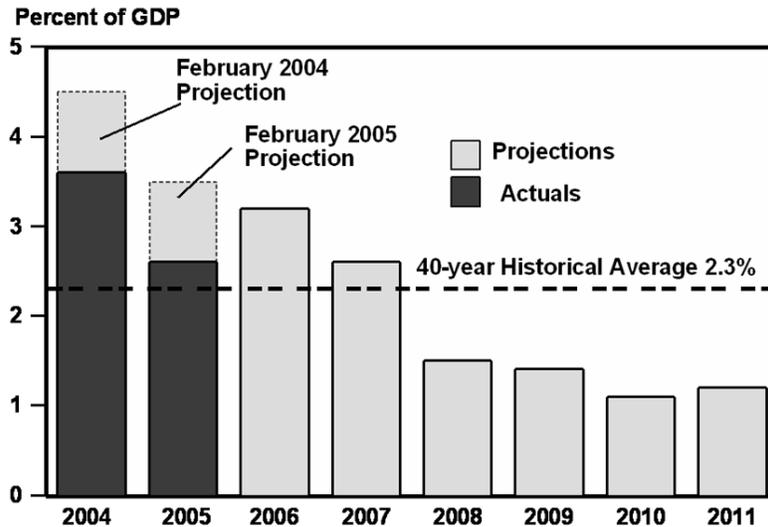
the chart now on the screen, receipts grew substantially in 2004, the blue bar there, what that reflects is growth of 5½ percent. In 2005, receipts jumped by a remarkable \$274 billion, or 14½ percent, the largest increase in 24 years.

Actual & Projected Receipts



These recent gains in receipts confirm that a strong economy is the most important factor in reducing the deficit.

Cutting the Deficit in Half



This chart here shows our progress in bringing down the deficit. Since the President set a goal of cutting the deficit in half from its

projected peak in 2004 of 4½ percent of GDP, the deficit has come down markedly. The final 2004 deficit was 3.6 percent of GDP and fueled by the surge in receipts last year, the 2005 deficit fell further to 2.6 percent of GDP.

Although revenues are projected to continue rising into 2006, the deficit for the current fiscal year is now projected to come in at 3.2 percent of GDP or in nominal terms \$423 billion.

This is more than previously expected and is, in significant part, due to unanticipated spending associated with relief and recovery efforts from Hurricanes Katrina and Rita. While this increase in the deficit is unwelcome, at 3.2 percent of GDP, the projected deficit would be well within the historical range and smaller than the deficit in 11 of the last 25 years. More importantly, we project that if the policies in the President's budget are adopted, the deficit will return to its downward trajectory.

We forecast a decline in the 2007 deficit to 2.6 percent of GDP. By 2009, the deficit is projected to be cut by more than half of its projected peak to just 1.4 percent of GDP, well below the historical average, which is represented by the dotted line there. That dotted line is also roughly the cut in half line from the point at which the President set the goal of cutting the deficit in half 2 years ago.

In order to keep the deficit on this declining path, we must continue to do 2 things: First, keep the economy growing; second, restrain spending.

First, the 2007 budget supports continued economic growth by proposing to make permanent the tax relief signed into law by the President in 2001 and 2003.

Some have argued that we should have let the tax relief expire. A tax increase is the wrong prescription, not only for the Nation's economic health, but for the Treasury's fiscal health as well.

We are not an undertaxed society. By rejecting tax increases on families and small businesses, this budget will help keep the economy on a continuing course of job creation and strengthen the foundations for long-term growth.

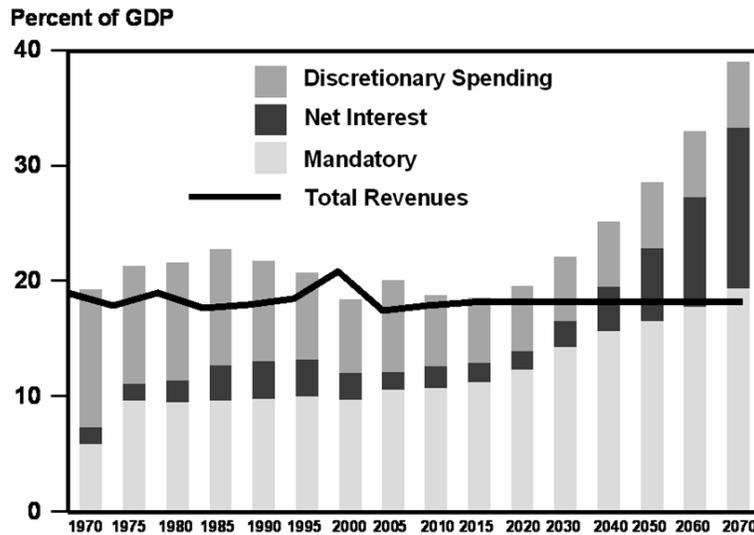
The second critical component of deficit reduction is a vigorous policy of spending restraint. Similar to last year, the budget again holds overall discretionary spending growth below the rate of inflation. That is reflected in the third column on the chart now on your screens. It, again, proposes a cut in nonsecurity discretionary spending. It calls for major reductions and/or major eliminations of 141 Federal programs and it continues our efforts to slow the growth of spending in mandatory programs by proposing \$65 billion in savings over the next 5 years.

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These efforts to restrain the growth in mandatory spending are vital, not just for our near-term deficit reduction efforts, but especially for the long term. This chart on your screen now displays

Current Trends Are Not Sustainable



government spending and revenues as a percent of our gross domestic product. The black line going across the middle is our revenues which, in the outyears, we project to hold at the historic average of 18.2 percent. The bars represent the different components of Federal spending. The green at the bottom is mandatory spending made up largely of entitlement programs, and the blue bar is the Government's interest expense. Finally, the orange bar is discre-

Government's interest expense. Finally, the orange bar is discretionary spending.

Toward the end of the next decade, deficits stemming largely from entitlement programs such as Social Security and Medicare will begin to rise indefinitely.

No plausible amount of spending cuts in discretionary accounts or tax increases could possibly solve this problem.

The President has shown a willingness to take on these future unfunded obligations and to propose long-term reforms. This year's budget proposes \$36 billion in savings for Medicare and includes proposals that pave the way for additional reforms in the future. As with Social Security and Medicaid, we do not need to cut Medicare. But we do need to slow its growth. And this budget begins to do just that.

In addition, the 2007 budget contains proposals to significantly improve the budgetary process, the budget proposes discretionary spending caps as well as restraints on new mandatory spending. The administration is pleased, Mr. Chairman, that the congressional leadership is focused on the need for reform of earmarks in the budget process. As you mentioned in your opening remarks, one way we can address the excessive use of earmarks together is by Congress giving the President the line-item veto.

The 2007 budget also continues our efforts to improve performance and make sure the taxpayers get the most for their money. Using the President's management agenda, OMB measures success not by good intentions or dollars spent, but by results achieved. As part of these efforts, OMB has introduced a new Web site called *ExpectMore.gov*. *ExpectMore.gov* allows taxpayers to review the OMB assessments of nearly 800 Federal programs. You can search the programs by rating, topic, or a simple keyword. I urge you and your staffs to use this new resource.

This management agenda, coupled with the spending restraint reflected in the President's 2007 budget, will help ensure that taxpayers' dollars will be spent wisely, or not at all. Mr. Chairman, I look forward to your questions.

[The prepared statement of Joshua Bolten follows:]

PREPARED STATEMENT OF HON. JOSHUA B. BOLTEN, DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

Chairman Nussle, Ranking Member Spratt, and distinguished members of the Committee, the President's 2007 Budget, which I transmitted to the Congress on the President's behalf on Monday, meets the priorities of the Nation and builds on the progress of the last 5 years.

Before getting to the 2007 Budget, I would like to take a moment to review the substantial accomplishments in spending restraint we were able to achieve together over the past year.

Last year's 2006 Budget set four major objectives:

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Second, he proposed an actual cut in the non-security portion of discretionary spending—the first such proposal since the Reagan Administration.

Third, he proposed major reductions or eliminations in 154 Government programs that were not getting results or not fulfilling essential priorities.

And fourth, he proposed reforms in mandatory programs to produce \$54 billion in savings over 5 years.

The Congress substantially delivered on all four of these objectives. I would like to thank Chairman Nussle and the members of this committee for your leadership and dedication in helping achieve these goals.

When President Bush gave me guidance on what the 2007 Budget should look like, he directed me to build on last year's progress by focusing on national priorities and tightening our belt elsewhere. He told me to give our troops and those who defend our security what they need to fight and win the Global War on Terror. And he emphasized that the 2007 Budget must support our pro-growth economic agenda.

In particular, he said we should maintain our economic strength by extending the tax relief that has fueled our economic expansion and by aggressively restraining spending. Monday, I presented on the President's behalf a budget that does just that.

In the past 5 years, our economy suffered an historic series of shocks, starting with the recession and the terror attacks of 2001 and continuing through the hurricanes last summer. Those events had profound impacts on job creation and on the fiscal outlook.

Despite these challenges, thanks to the productivity and hard work of the American people, our economy is expanding at a healthy pace. In 2005, the economy grew by an estimated 3.5 percent—the third consecutive year of healthy growth. Economic expansion has produced more than 4.7 million new jobs since May 2003, reduced unemployment to 4.7 percent, and raised homeownership to all-time highs.

This economic growth would not have been possible without the tax relief that you passed and the President signed. The tax cuts—which were fully implemented in May 2003—have been critical to helping the economy recover from the recession and terrorist attacks of 2001—and then helping the economy to continue expanding despite the hurricanes and high energy prices in 2005.

With the tax cuts fully implemented in 2003, the economy responded strongly and tax receipts rebounded. Receipts grew substantially in 2004—by 5.5 percent. In 2005, receipts jumped by a remarkable \$274 billion, or 14.5 percent, the largest increase in 24 years. These recent gains in receipts confirm that a strong economy is the most important factor in reducing the deficit.

Since the President set a goal of cutting the deficit in half from its projected peak in 2004 of 4.5 percent of GDP, the deficit has come down markedly. The final 2004 deficit was 3.6 percent of GDP, and fueled by the surge in receipts, the 2005 deficit fell further to 2.6 percent of GDP.

Although revenues are projected to continue to rise in 2006, the deficit for the current fiscal year is now projected to come in at 3.2 percent of GDP, or in nominal terms, \$423 billion, which is more than previously expected and is in significant part due to the unanticipated spending associated with relief and recovery efforts from Hurricanes Katrina and Rita. While this increase in the deficit is unwelcome, at 3.2 percent of GDP the projected deficit would be well within the historical range and smaller than the deficit in 11 of the last 25 years.

More importantly, we project that if the policies in the President's Budget are adopted, the deficit will return to its downward trajectory. We forecast a decline in the 2007 deficit to 2.6 percent of GDP, or \$354 billion. By 2009, the deficit is projected to be cut by more than half from its projected peak to just 1.4 percent of GDP, well below the 40-year historical average.

In order to keep the deficit on this declining path, we must continue to do two things: First, keep the economy growing; and second, restrain spending.

First, the 2007 Budget will support continued economic growth by proposing to make permanent the tax relief signed into law by the President in 2001 and 2003. Some have argued that we should let the tax relief expire. A tax increase is the wrong prescription, not only for the nation's economic health, but for the Government's fiscal health as well.

We are not an under-taxed society. By rejecting tax increases on families and small businesses, this budget will help keep the economy on a continuing course of job creation and strengthen the foundations for long-term growth.

The second critical component of deficit reduction is a vigorous policy of spending restraint. Similar to last year, the Budget again holds overall discretionary spending growth below the rate of inflation. It again proposes a cut in non-security discretionary spending. It calls for major reductions in or total eliminations of 141 Federal programs, saving nearly \$15 billion. And it continues our efforts to slow the growth in spending on mandatory programs, by proposing \$65 billion in savings over 5 years.

These efforts to restrain the growth in mandatory spending are vital—not just for our near-term deficit reduction efforts—but especially for the long-term. Toward the end of the next decade, deficits stemming largely from entitlement programs such as Social Security and Medicare will begin to rise indefinitely. No plausible amount of spending cuts in discretionary accounts or tax increases could possibly solve this problem.

The President has shown a willingness to take on these future unfunded obligations and to propose long-term reforms. This year's Budget proposes \$36 billion in savings from Medicare, and includes proposals that pave the way for additional reforms in the future. As with Social Security and Medicaid, we do not need to cut Medicare, but we do need to slow its growth—and this budget begins to do just that.

In addition, the 2007 Budget contains proposals to significantly improve the budgetary process. The Budget proposes discretionary spending caps as well as restraints on new mandatory spending. The Administration is pleased that the Congressional leadership is focused on the need for reform of earmarks in the budget process. One way we can address the excessive use of earmarks together is by Congress giving the President the line-item veto.

The 2007 Budget also continues our efforts to improve performance and make sure the taxpayers get the most for their money. Using the President's Management Agenda, OMB measures success not by good intentions or by dollars spent, but rather by results achieved.

As part of these efforts, OMB has introduced a new Web site called *Expectmore.gov*. ExpectMore.gov allows taxpayers to review the OMB assessments of nearly 800 Federal programs. You can search the programs by rating, topic, or by a simple keyword search. I urge you and your staffs to use this new resource.

The management agenda—coupled with the restraint reflected in the President's 2007 budget—will help ensure that taxpayer dollars continue to be spent wisely, or not at all.

Chairman NUSSLE. Thank you, Director Bolten. I appreciate your testimony, particularly, when it comes to the economy.

That to me has been probably the best news that we have had, is this 17-quarter growth in our economy creating 4.7 million jobs in America, which is significant. I can tell you that, and I am sure this is true from my colleagues, how many of us go home and hear about the concern that our constituents have about jobs leaving our country. And we have set ourselves not only—maybe we get too focused on the budget here in this room for obvious reasons, and that is appropriate, but reducing the tax burden was not so that we could reduce the budget deficit, but it was for us to make a stronger America. That is what this was about.

Now it is manifested in many different ways. But the most important way it is manifested is the security of families and individuals and people who are holding those jobs and creating those jobs and benefiting from those jobs. The fact that it brings in more revenue, the fact that we are able to show, yellow lines and red lines and black lines and all that is important. But this was an economic policy for our country, not a budget policy, and it is working.

The interesting thing about this—and I have a feeling, based on what I have heard already in the reports, of reactions, some of the reactions to the President's budget came before the President's budget was released. We already had people saying it was a bad budget, they didn't like this, and they didn't like that. I am a little offended that I didn't get this early release of the budget that appears everyone else did. I thought I was one of the insiders here that might get an early copy. But evidently I didn't get one of those early copies, but a lot of other people did. Because all sorts of press releases went out simultaneously, even a little bit before the President's budget came out, complaining about it and second guessing it. And I just have to say, I mean, I think what we have seen over the last couple of years in particular is we may now know the reason why there is not an alternative to what the President has put forward. And it is because at least from what I hear, I don't hear anybody suggesting there is going to be less for education.

Maybe I am mistaken, but I think on the floor, we have heard that there should be more for education. I heard on the floor this last year there should be more for veterans. I heard on the floor this last year that there should be more for health care, and I don't believe that anyone is going to be proposing less for Iraq or Katrina. That will be interesting to see if someone is going to be proposing less for Katrina. I will wait and find out if my colleagues on the other side will be proposing that.

So there is not less for the programs that they claim are priorities. There will not be less for important priorities such as Katrina and Iraq. So it boils down to one thing, higher taxes. Now, the reason that is not put forward as a plan is because they know that this is not sustainable, for the very reason that it would hurt the economy, which is chugging along at now 15 percent growth to revenue. Which is demonstrative to what that has done for families and family budgets. You cannot increase taxes at this time and expect our economy to continue.

There are many independent economists that have suggested that it would do nothing but cause a recession, and cause a challenge to our ability to be attractive as a country for investment and job creation. And so we know that is not going to be the answer.

So while there will be a lot of second guessing and posturing, particularly because this is an election year—it seems like its always an election year—I will bet you again we are not going to hear an alternative plan. I will just bet you that we won't hear an alternative plan because when it comes right down it to, proposing or providing less for these important priorities is not going to be sustainable.

They are going to claim that we are not putting enough in. And a tax increase is not something that, my guess, is the Democratic Caucus would be able to get even a majority for.

So my guess is that there will not be an alternative plan. So we need to work off the President's plan, and I believe you have put out an outline that is something that we need to work from. We need to recognize that there are some assumptions here. We have made the commitment as a Congress, cheerfully voting, almost unanimously, to support the victims of the natural disasters, and of course that is what we would do, that is what we always do.

We are also going to support our men and women in the field during this battle on international terrorism. Those are facts that we are going to deal with.

I really believe that this is the year that we need to make a commitment on no new earmarks and on reconciliation, continuing that process. I understand, I have already read in the newspapers and some of the journals that we have members who are suggesting that you can't reform Government, you can't reduce spending, even a little bit, in what is an election year.

That would be to me a what I think is failure. I think that would be failure, in my mind.

I would hope that we don't as a Congress, or even as a party to my own members, do that. I believe even if it is what someone might call a small amount, there is nothing small about billions of dollars, but small compared to even where the President has suggested, as we did this last year. It is a routine that we have to get

into if we are going to be serious about relieving this unsustainable growth curve.

Let me ask you, last year you proposed 154 programs to be reduced. Congress came through with an elimination of 89 of those programs, and now you are proposing 141 programs this year.

Would you talk about those a little bit? Why are you making these proposals? Are these similar to the—I guess it would be close to 60 or so that were left off the table last year, are they included in this? How do you know get on the list, so to speak? Are these from the ExpectMore.gov? Is that where we would find some of the criteria that was used to determine whether or not these programs were effective? Would you talk about those a little bit?

Mr. BOLTEN. Sure. Thank you, Mr. Chairman. And thank you for your remarks. On the major reductions and terminations that are included in this budget, many of them are carryovers from last year. The Congress this year I think remarkably effectively stepped up and acted on 89 out of the 154 programs that the administration proposed. That is a .578 batting average, which in this league isn't just good it is terrific, particularly given the batting average of some previous years.

What that left on the table was 65 proposals that had not been acted on. You will see, in the 141 that we are proposing this year, you will see most of those 65 come back on the table. You will also see a number of new ones. And the way that proposals made that list was a variety of ways, but one important way is the one that you mentioned, which is we are increasingly within our budget process taking account of performance evaluations of programs.

We have now gone methodically through over the last several years and done objective assessments, we call them PART ratings of the various components of Government spending program by program, rating them effective, moderately effective, adequate, ineffective, or results not demonstrated, and also a variety of sub-evaluations within that.

And we now use those evaluations more and more in the process of determining where to put the taxpayer's dollar.

Now, a rating doesn't necessarily determine where the dollars go. It may be that an ineffective program ought to be terminated, and many are. It may also be that a program is ineffective because we haven't put enough resources into it. So in some rare cases, you will find a program that is not performing well actually receiving more resources because we believe that can help make the programs effective.

In all cases, if you go to the ExpectMore.gov Web site you will see transparently displayed our candid assessment of the program and if we think a program isn't working well, what we are planning to do to improve it. We don't claim to have a monopoly on wisdom, in what is effective spending and how to improve it, which is why we put it on the Web site for the Congress and for the public to comment on and to participate in a very important national debate. Are we spending the taxpayers dollars wisely?

Mr. COOPER. Mr. Chairman, is the list available that he was just describing?

Mr. BOLTEN. I believe it is. We are publishing a document which will include a whole description of each one of the 141, plus the ra-

tionale for it. If it is not available immediately, it will be available shortly and we will make sure it gets to your office.

Chairman NUSSLE. Thank you. I was particularly pleased this year that the President included budgeting for future funding in Iraq and Afghanistan. I certainly have never thought it was possible to predict the course of these conflicts, 2, 3, or 4 years down the line, but there is an understanding, based on the track record that we have had, what the next obligation would be. And I appreciate the fact that part was included.

I know we have discussed this in the past. And there is no secret that, at least between us, that we need to include a reasonable amount. Even if we don't hit it on the nose for that matter, but a reasonable estimate is needed. And I think this is a good step to put this into the budget.

Would you talk about the reasonableness of this amount, because, obviously, \$50 billion was not enough, as we have budgeted in the past for this last year as an example, and together with supplementals, it has not been enough in order to meet that challenge.

Why is \$50 billion the amount that the President is putting in there? Is that a place holder? Or is there some comfort you can give us that that is the amount that will be there at the end of the day for the President's request?

Mr. BOLTEN. Mr. Chairman, I think it has to be regarded principally as a place holder just as it was last year. We had not, in the past, done an allowance of the sort you have just described in our budgeting. You did it in the budget resolution last year, including \$50 billion in the budget resolution for the ongoing costs of the war in Iraq and Afghanistan. We have decided that your approach was the preferable one, so we have modified our approach. We are including a similar \$50 billion allowance for 07 in our budget in order to display that number in the budget.

I could not say right now whether that number is the right number for what we will spend. I don't think anybody else could say candidly either what the spending is likely to be a full year from now. It will depend entirely on the facts on the ground. But the Congress, having adopted this \$50 billion allowance in the past year, we accepted the wisdom of that approach. And we have included that \$50 billion in as an allowance in our 07 presentation.

And it is reflected in all of the deficit numbers and so on that the chairman—that Mr. Spratt made reference to at the outset.

Chairman NUSSLE. Thank you. Let me turn to Mr. Spratt.

Mr. SPRATT. Thank you. Let me show you again, this is—I direct you to the chart that we have, chart No. 3, which is our summary of the puts and takes as we reconstruct your budget. As we see it, for the first 5 years, the renewal of the tax cuts in 2008 and again in 2010, will cost in revenues about \$285 billion. Does that comport with your understanding?

Mr. BOLTEN. I am not sure I am following the chart as—the \$285 billion is intended to reflect what?

Mr. SPRATT. The renewal and extension of existing tax cuts that were passed in 2001 and 2003.

Mr. BOLTEN. So the cost so far?

Mr. SPRATT. This would be the cost of renewing them in 2008, dividends and capital gains, and 2010 when they expire.

Mr. BOLTEN. I don't have—we usually don't rack up the numbers that way, but I don't have a basis to disagree.

Mr. SPRATT. OK. The defense supplemental is what we find supplemental to what would be current services for defense, \$89 billion, Social Security reform, which you have chosen to put in your budget, I think that is doubtful, but, nevertheless, we are trying to be consistent with your numbers, we are reconstructing your budget, defense appropriations, the increases in defense appropriations you have got for ordinary operations of Government over and above current services, the hurricane supplemental for Katrina. We will all vote for that, but it is in the budget as a plus.

Nondefense appropriation cuts, we tally at \$115 billion over 5 years plus mandatory program cuts we tally at \$66 billion, a total of \$182 billion.

And when we do those puts and takes and adjust for debt service, we get a total effect on the deficit of \$413 billion worse than current services simply continuing the Government as is, but adjusting each year for inflation.

Do you see anything there that you would take exception to or disagree with?

Mr. BOLTEN. I don't think I would rack it up that way at all, in other words, you are starting from the artificial current services baseline and trying to add some puts and takes.

Mr. SPRATT. No, I am doing the baseline per the Budget Enforcement Act of 1991 when taxes expire, a renewal of the tax cut means that you have to add that as an additional reduction revenue.

Mr. BOLTEN. Well, Mr. Spratt, let me accept for argument's sake the numbers that you have presented because I sense there is a question coming.

Mr. SPRATT. Would you take these home with you and give us a response? We would appreciate it.

Mr. BOLTEN. Sure.

[The information requested follows:]

MR. SPRATT'S QUESTION REGARDING THE DEFICIT

Non-defense appropriations cuts, tallied at \$115 billion over 5 years plus mandatory program cuts tallied at \$66 billion, is a total of \$182 billion. When those puts and takes adjust for debt service, we get a total effect on the deficit of \$413 billion worse than current services simply continuing the government as is, but adjusting each year for inflation. Do you see anything there that you would take exception to or disagree with? Would you take home chart No. 3 and give us a response?

OMB Answer: The President's Budget would cut the deficit by more than half from its projected peak in FY 2004 of 4.5 percent of GDP down to an estimated level of 1.9 percent of GDP by FY 2009 if the President's policies for spending restraint and economic growth are implemented. CBO recently provided its own estimates of the President's Budget and forecasts an even larger reduction in the deficit, down to 1.3 percent of GDP by FY 2009.

The figures in the chart display a deficit increase relative to a "current services" baseline. This current services baseline also assumes growth in spending and a large tax increases by assuming tax relief is not extended. Relative to this baseline, the President's proposals to slow the growth in spending are shown as cuts in spending and his proposals to extend tax relief are shown as an increase in the deficit.

The Administration has proposed that the current services baseline be modified to remove the bias against tax relief and to assume the extension tax relief. With this modified baseline, the extension of tax relief has no impact on the deficit.

Finally, current scoring methodologies do not take into account the positive economic impact of tax relief. Since the full implementation of the President tax relief program in 2003, we have seen strong sustained economic growth. This economic growth has brought an increase in revenue to the Treasury. In FY 2005, Federal tax collections grew by \$274 billion or 14.5 percent.

Mr. SPRATT. OK, secondly, in 2009, the President has made a promise, repeated a couple years that he would cut the deficit in half, in 2009, which is the last year of his administration is the target year for that to be achieved.

The problem we have with your claim that you are reaching that goal, is that you have no provision which we can find after 2007, for the AMT. We are fixing it throughout those years, so that it does not affect 22 million or 30 million taxpayers as opposed to the 45 million taxpayers who are confronted with it today.

The Congressional Budget Office tells us that the missing number is \$844 billion. The lack of a fix for the AMT based on this premise, it would be fixed in place, frozen in place in terms of its effect to taxpayers, when you go back and make that adjustment in revenues, it is \$844 billion in that stretch of time.

In addition, I commend you for putting a place holder in 2007. But CBO also has done a model for predicting the future cost of our operations in Iraq, Afghanistan and domestic operations. The total of those costs, ongoing operations that are not provided for in your budget come to \$298 billion, if you use CBO's model and CBO assumes if you begin a drawdown of forces today, there will be a linear reduction same slope every year, 4 for 4 or 5 years until 2010, when we bottom out at 50,000 troops in theater, not necessarily in country. They estimate, if we follow that path, which seems to me to be a moderate assumption, the additional cost is \$298 billion. We don't find anything for operations in Iraq and Afghanistan after 2007 and we don't find any fix for the AMT.

When we go back and make those fixes, you are way off having the deficit in 2009. Don't you think those fixes have to be made to make the realistic claim that in 2009, the deficit will be cut in half?

Mr. BOLTEN. First, on the war costs, we have been explicit in the budget that there are likely to be costs for the war in Afghanistan and Iraq that are not reflected in the budget. We have not tried to make estimates of those. My own view is that trying to make an estimate of that is irresponsible at this point. We have included the place holder that the chairman referenced at the outset, which I think is a good idea for 2007. Trying to make an estimate beyond that I think is unwarranted, but we have been explicit there, whatever additional costs are required for the war on terror in Iraq and Afghanistan need to be added into our projections on the spending.

And the President has also been very clear publicly in his instructions to me, whatever we need to spend to support or fighting men and women in harm's way, we will spend.

Second, on the AMT, we do include in our projections and in our deficit estimates a patch of the AMT for the 2006 tax year for which people will be paying, filling out their returns in 2007. So there is a deficit effect from that patch in 2006 and 2007. At this point, the Congress has not adopted even that patch. We have in-

cluded it in our recommendation—in our estimates as an assumption for purposes of transparency because we are fairly confident, as I imagine you are, that the Congress will adopt that patch this year.

Mr. SPRATT. But as a matter of policy and politics, don't you agree that it will have to be patched basically at 2006 levels and 2007, 2008, 2009, and on into the future until something is finally done about the way it works?

Mr. BOLTEN. I will let you be the best judge of politics. As a matter of policy I believe that and the administration believes the AMT is a misguided system requiring people to file in two different ways that needs to be corrected, but that it can be corrected in the context of overall revenue neutral tax reform.

Now I am a little bit surprised that there is such strength of view from those who have championed tax increases who automatically assume that a tax cut will be adopted in the form of the continual patching of the AMT, but that is something we believe can be accomplished in the context of revenue neutral overall tax reform, and I think it should be.

Mr. SPRATT. Revenue neutral tax reform is way back on the shelf. We don't have any expectation, anything like that is about to be done. If you take those two numbers, \$844 billion for the AMT fix and \$298 billion for the ongoing operations after 2007, the total is over a trillion dollars. And it changes your bottom line considerably and undoes the claim you have made.

Let me just ask you a couple—the chairman said nobody is calling for a cut in education. For the first time in 17 years last year, the President requested a budget for education that was less than the prior year. This year, you are requesting, if I read your budget correctly, \$2.1 billion less than the enacted level for 2006.

So there is a real cut in education for this year. Furthermore, you are killing or requesting the elimination of 42 different programs.

The President made a bold initiative, announced a bold initiative in the State of the Union. We are going to really put tremendous effort and energy into math and science education in this country.

The next day or so, the number was announced that \$5.9 billion was being allocated to this purpose in the budget. When we got to budget to see how the \$5.9 billion was spent, what we found was that \$4.6 billion is allocated to a continuation of the R&D tax credit, which is not an initiative because it has been around 25 years. We support it and we will support its renewal, but it is not an initiative. There is nothing new about it, it should be done. That leaves \$1.3 billion, which is spread over six or seven different agencies, beginning with the Department of Education, but including the Department of Energy and the Institute of Standards, for a number of different purposes. And when you finally get down to what the allocation is to math and science teaching, it is about \$300 million a year.

Do you think that—and I could take you through a lot of the President's golden issues the other night like energy is the \$1.3 billion the source of the energy initiative the President announced the other night? How much money is going to be applied in this budget

for the energy program that the President proposed the other night in his State of the Union?

Mr. BOLTEN. Those are separate numbers, Mr. Spratt.

I don't have off the top of my head. One of my colleagues may have the amount that is put into the energy initiative, but that is added to the roughly \$1.3 billion that this year is part of a 10-year initiative that will be made available if the President's budget is adopted for promoting math and science research, basic research in this country and promoting math and science education, for which the allocation in this year's budget is \$380 million.

On the general education point, Mr. Spratt, what I would point out about the President's education funding, his record over the course of his administration is that in totality, between 2001 and 2006, there has been a 30-percent increase in education funding. More importantly—

Mr. SPRATT. No Child Left Behind is the signature program of this administration. By our calculation it will be funded under your budget if it is adopted and implemented at \$15.4 billion less than the authorized level, way short of what was promised when the bill was passed.

Mr. BOLTEN. Mr. Spratt, if I had a dollar for every dollar that was authorized but not appropriated, I would probably be able to do a lot to close the deficit gap.

The President's commitment to No Child Left Behind, however, I don't think can reasonably be questioned. No Child Left Behind focuses on title 1, those areas where, those children who are most at risk of being left behind. There has been more than a 40-percent increase in funding in the No Child Left Behind areas over the course of the President's tenure, and even in this tight budget, there is a 4.6-percent increase over 2006 in No Child Left Behind programs, including a \$200 million increase in title 1.

So what the President is doing, with what is turning out to be a very successful education program demanding accountability from schools, is leveraging the relatively small proportion that the Federal Government contributes to education in this country, to insist on accountability and results, so far it looks like the program is working and the President's financial commitment remains behind that program.

Mr. SPRATT. One last question. You have got substantial cuts in Medicare, \$105 billion over 10 years.

But none of the cuts recommended by MedPAC, your official consultant, experts in Medicare, has been adopted or promoted or brought forth by the administration, according to our examination of your budget. They have made recommendations about the Medicare incentives you are paying to PPOs and HMO's, recommendation about risk adjustment for overpayment, for patients who have a health profile that doesn't warrant the amount per capita per person you are paying, half a dozen different recommendations that total about \$49 billion all together. They are nowhere to be found in your budget. Why is that?

The senate adopted some of those \$22 billion of those in their reconciliation bill, and then backed off in conference. Senator Grassley said the other day, if there is going to be anything like

\$105 billion in Medicare cuts, some of these cuts have to begin with recommendations made by MedPAC.

Why did you not pick up on those recommendations?

Mr. BOLTEN. Mr. Spratt, first, on the contrary, of the \$36 billion in Medicare savings that the President proposes in his budget, and let me pause for a moment and emphasize the word savings because the President's proposals are a moderate reduction in the growth rate of Medicare out over the next several years. If all of the President's proposals in this budget on Medicare were adopted, the annual growth rate in Medicare would decline from about 7.8 percent per year to about 7.5 percent per year.

So I want to emphasize that what the President is proposing is a very moderate reduction in the rate of unsustainable growth in the Medicare program and ought to be regarded as a down payment on future reform. But within that category in that \$36 billion that the President has proposed, the majority of the savings that we are proposing, in fact, exactly parallel recommendations made by the independent MedPac Commission, particularly on the moderate reductions in what is called the market basket that is used to calculate the provider's reimbursement. So we have, in fact, adopted a very large measure of the MedPac's proposals. We haven't adopted all of them.

Mr. SPRATT. Do you make any provision for physicians' pay for 2007?

Mr. BOLTEN. I believe the recent reconciliation bill did make a provision where—

Mr. SPRATT. For 06; but how about 07?

Mr. BOLTEN. We do not propose a change in law at this point for physicians for 07.

Mr. SPRATT. Thank you very much.

Chairman NUSSLE. Mr. Garrett.

Mr. GARRETT. Thank you. Thank you, and I appreciate seeing you here again today. Just a couple days ago, just as the budget was coming out, I had the opportunity in my district to have a regular meeting with veterans and leaders in my district and around the State to address veterans issues, and it was just fortuitous that the budget was coming out at that time but we did not obviously have the opportunity to punch the numbers. But you might imagine that the normal response at one of these meetings was, well, the rumor is that veterans benefits are going to be cut and the story is that we are going to be reducing the overall funding for veterans; and of course being the Representative, they are saying what am I going to do about it.

Now, my understanding of having a little opportunity to take a look at the numbers are the overall figure is \$80.6 billion total for the VA, \$38.5 billion in discretionary, and \$42.1 in mandatory entitlement funding. The area that was most of concern to them was in the area of medical care. If I am reading the numbers right, is that we are seeing a little over an 11-percent increase in overall spending on medical care for veterans.

Could you touch upon that, confirm for me if I am reading the numbers correctly there on the medical side and also the overall numbers for veterans care out of this budget?

Mr. BOLTEN. Mr. Garrett, you are reading the numbers correctly. In medical care the overall proposed increase in spending in this 07 budget, 06 to 07, is \$3.5 billion or an 11.3-percent increase.

Mr. GARRETT. Overall for the entire veterans?

Mr. BOLTEN. Overall, the number is 9-point-something, I am searching for it. Either 9.4 or 9.8 percent increase overall; 9.8 percent increase in veterans spending overall.

Mr. GARRETT. The last question on this topic: How does this address the overall issue of obviously we have a lot more veterans coming into the system, more folks coming back from overseas right now and the projections for the cost going down the road with increasing numbers?

Mr. BOLTEN. We are seeing increased costs in the veterans system. It has gotten much more popular in recent years. Partly the Veterans Administration budget is a victim of the Veterans Administration's success in running an increasingly effective and high-quality medical care system, so we are seeing a lot more veterans who in past years have gotten their health care elsewhere coming into the system. We want to sustain that commitment to providing the best possible quality health care to our veterans, but we also want to do it on a sustainable financial basis.

Mr. GARRETT. The second area, changing over to homeland security, it is in homeland security and defense where we will see increasing in spending, whereas nonsecurity areas, a slight decrease. The concern I have and expressed this in hearings in the past, is the so-called mission creep we see in the area of Homeland Security. It is the job of OMB to try to classify that and define that, but I understand there are certain cases that are at the extreme, where the Navy is doing certain functions considered not Homeland Security, where the Coast Guard is doing some. Then in the practical, to my neck of the woods, what first responders are doing, whether that is Homeland Security, or do any of these things simply fall in the category of natural elements of local, municipal, county/State government responsibilities?

On the Federal level there is a whole area with regard to computer issues, as far as computer security. And I can see the idea here, this being a Homeland Security issue, but I also see the other side of the equation, that this would have fallen prior to 9/11 into the category of issues dealing with crime and local law enforcement either on the State or Federal level.

What can you say to reassure me we are not simply seeing a reclassification from the discretionary nondefense, nonhomeland security areas being shifted over into the homeland security area, and that is why we continue to see significant increase, I think over 25 percent increase over the period of time 9/11 forward in Homeland Security funding? Now it is down to a little under 5 percent. Can we sustain these numbers and is OMB doing anything to actually rein in and properly classify within that category?

Mr. BOLTEN. Mr. Garrett, we work hard to try to properly classify the Homeland Security accounts. It is a difficult and technical undertaking. You have done a lot to spur us on to higher quality in that area and have called a couple of issues to our attention. But overall I think we have done a very good job of identifying within the various agencies, including within the Department of Home-

land Security, what are legitimate Homeland Security expenses and which are not. And you have just raised a couple of examples. We will take a close look at them. But right now I think we are doing a pretty good job of separating what is and is not Homeland Security.

Where we run into some difficulty and where we have a substantial political problem is precisely in that area of the first responders that you mentioned. Every first responder in this country is, I believe, a treasured asset and contributes substantially to the overall security and well-being of the country. That does not mean that the Federal Government should take responsibility for funding every first responder in the country. We need to focus our limited Federal resources on those areas where we believe there is legitimately the highest terrorist threat environment, and we have tried to do that in our budget.

Now, that has disappointed a lot of people in areas that aren't necessarily at the top of the list in terms of terrorist threat, who would like to be getting a share of this first responder money. There is a fair amount of money still that goes out by formula, but we have dialed back on that and we are trying to focus our resources on making sure that what the Federal Government supports is genuinely in the Homeland Security category. We get a lot of disagreement and disappointment on that. It is one of the more contentious areas we have in our budget.

I believe we are doing the right thing and I appreciate the efforts you have made to push us in that direction.

Mr. CRENSHAW [presiding]. Mr. Moore is recognized.

Mr. MOORE. Thank you, Mr. Chairman. Thank you, Mr. Bolten, for being here. We have an \$8.1 trillion national debt, we have a projected deficit this year of \$423 billion. This job, in my mind, is about setting priorities for our country and deciding where we are going to spend our tax money that taxpayers in this country pay into our Treasury. We talk here in D.C., the President and Congress, a lot about values. To me, a budget document is a values document because it again sets our priorities and says where we place our values, what we value the most. If we value tax cuts the very most, that is what we set as a priority. If we value taking care of poor children and their health care needs, if we value taking care of our veterans when it comes to copays or increasing those copays, then we are going to do some of those things as well.

I think it is important that the American people and all of us be truthful with ourselves and everybody else that this is about values. I have 6¾ grandchildren right now and I am telling you, Mr. Bolten, I am very concerned about passing a debt, an \$8.1 trillion debt on to my grandkids. To me, passing massive debt to our children and grandchildren is not a family value that we should be proud of. And I think when Mr. Nussle, the chairman, earlier said well, if you don't like what we are doing, come up with an alternative, come up with a proposal, well, I don't think it has to be all or nothing. I voted for the President's first round of tax cuts because at that time we had a \$5.6 trillion projected surplus. I voted against the next round because things had changed dramatically. We no longer had a \$5.6 trillion surplus, we were in heavy deficit and debt.

And here is my recommendation to Mr. Chairman. He is not here to hear this, but I will send a note. I have a bill, H.R. 1574, which addresses the estate tax issue. The President and you and others are calling for permanent repeal of the estate tax. Again, I don't think it has to be all or nothing. My bill would increase the exception to \$3½ million, and \$7 million for husband and wife together, which will protect almost 99 percent of the estates in this country. Yet my billing, according to CBO, would cost less than \$200 billion in total repeal over the first 10 years, and I understand the permanent repeal is going to explode after 10 years.

I guess what I want to ask you is this: Isn't it a fact the deficit for 03 was \$378 billion?

Can I see chart 26, please? Is that correct, Mr. Bolten?

Mr. BOLTEN. That looks right.

Mr. MOORE. Is it correct that for 04 the deficit was \$412 billion?

Mr. BOLTEN. Yes.

Mr. MOORE. For 05 the deficit was \$318 billion?

Mr. BOLTEN. Correct.

Mr. MOORE. For 06 the projected deficit is \$423 billion.

Mr. BOLTEN. Also correct.

Mr. MOORE. For those 4 years that would be a total deficit added to our debt of \$1.53 trillion dollars, correct?

Mr. BOLTEN. Yes.

Mr. MOORE. Could I see chart 2, please?

This chart, Director Bolten, addresses the national debt limit increases in the past and present and pending. Isn't it a fact that our national debt limit was increased in June 02 by \$450 billion? Isn't it correct in May of 03 the deficit limit—the debt limit was increased by an additional \$984 billion? Sir?

Mr. BOLTEN. I believe so, yeah. I would be happy to stipulate to the accuracy of the entire chart.

Mr. MOORE. I would like to hear you talk about this. Isn't it correct in November of 04 the debt was increased for our country by \$800 billion?

Mr. BOLTEN. I believe so, Mr. Moore.

Mr. MOORE. There is a pending increase for a \$781 billion debt increase; is that correct?

Mr. BOLTEN. I believe that is what Secretary Snow indicated in a letter.

Mr. MOORE. I believe that is correct. Thank you. That would total in excess of \$3 trillion more debt in the last 4 years; isn't that correct?

Mr. BOLTEN. That is correct.

Mr. MOORE. According to the chart up here, \$3 trillion and \$15 change, whatever, right?

Mr. BOLTEN. Correct.

Mr. MOORE. We are going in the wrong direction. I guess we could sugar-coat this any way we want to. Isn't it true if there is an increase in veterans spending, we are asking veterans to pay more under this budget for copays; isn't that correct?

Mr. BOLTEN. We are indeed, Mr. Moore.

Mr. MOORE. Thank you. Isn't it also correct that college student loans are proposed to be cut or at least frozen? The increases in expenses aren't going to be covered; isn't that correct?

Mr. BOLTEN. I believe college student loan volume is actually projected to go up.

Mr. MOORE. I am talking about the money of aid to each college student who applies.

Mr. BOLTEN. The administration has proposed in the past increases in Pell grants, if that is what you are referring to.

Mr. MOORE. No. Thank you. My time is up.

Mr. CRENSHAW. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman. Mr. Bolten, welcome. A couple of questions. Let us not talk any specifics, let's talk about some budget reform, trying to get a handle on what is going on; \$38.8 billion in the Budget Deficit Reduction Act, it is a drop in the bucket. But the President is trying to head in that direction also. Can we bring the budget to some sound fiscal responsibility without touching mandatories?

Mr. BOLTEN. Mr. Barrett, in the short run, the answer is perhaps yes. If we are very tight with discretionary spending and we don't have another Katrina year, out over the next 5 or 10 years we can see a budget picture that would look all right without digging into mandatories. The problem is that, as Mr. Spratt and Mr. Moore have emphasized in their presentations, we have an enormous debt burden looming in the future, which is the product largely of unfunded obligations in our entitlement programs.

As I said in my opening statement, there is no amount of restraint in discretionary spending, nor is there any plausible amount of increases in tax cuts. Even if you thought that was a good idea for the economy, there is no plausible amount of tax cuts that can possibly close the gap.

So the answer to your question is in the short run maybe we could get away without addressing entitlements. In the longer run, it is absolutely impossible to do that. And the problem of addressing entitlements gets harder every year that we wait.

Mr. BARRETT. Let's take it another step further. Let me run some numbers. Discretionary funding levels from 85 to 2004, that is 20 years. Had we tied that growth to the Consumer Price Index (CPI) we would have saved \$165 billion. OK. If we had taken discretionary and automatic spending in that 20-year period and tied it to CPI, we would have saved \$724 billion. There are a lot of people, a lot of them on this committee, that are talking about budget reform. Does it make sense to tie the level of spending—and we are all reasonable people, we understand that we are going to have to grow government somewhat because of needed services, of population growth and stuff like that—but doesn't it make sense to tie the level of growth to some type of factor; i.e., CPI, to try to get a grip on how fast this government is growing?

Mr. BOLTEN. I certainly agree, Mr. Barrett, that we ought to try to impose some kind of restraint on particularly the mandatory spending, because at least in the appropriations process, year on year, you all can do a budget resolution, the Appropriations Committees can do their work, and if the spending bills are headed toward exceeding what the President believes is good policy for discretionary spending, he can veto those bills. So that element of spending is reasonably controllable under the current process.

What is very hard to control is exactly what you are focusing on; the mandatory spending.

So I agree completely there ought to be some mechanisms of control to prevent unsustainable and indefinite growth in the mandatory programs.

Mr. BARRETT. One last question real quick. We talk about emergency spending. I have put in several budget bills to tighten up the language on emergency spending. Too many times you guys send us supplementals that some of the things in there I don't think are quite emergencies. Tell me what is your definition, what is the administration's definition of emergency spending, and do you think we need to set up some type of rainy day fund? It is going to happen, we know it. We are going to have a natural disaster, a conflict sooner or later. Do we need to set up some type of rainy day fund in our overall budget reform that addresses emergency spending?

Mr. BOLTEN. Mr. Barrett, we do include in different portions of our budget an estimate of what sort of rainy day fund is going to be needed in a typical year. For example, we include in the FEMA budget an average amount for a regular year of disasters. That means a few hurricanes and floods of normal proportion. I think that is the right thing to do. What that kind of budgeting doesn't take into account is a disaster like Hurricane Katrina. And I believe those are properly handled through the emergency process, because if you try to put that kind of spending into your regular base, what will happen as the appropriations bill gets done is that if it doesn't happen to be a bad year from the standpoint of disasters, that money will get taken and spent on something else. So when we have really big emergencies, I believe we ought to handle them through the emergency supplemental process. That is the way the administration has done it. We do need to be careful when we ask for emergency spending, it truly is an emergency. And we appreciate your efforts to try to make sure that emergencies remain actual emergencies.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. CRENSHAW. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman. Mr. Bolten, you earlier talked about the expenditures and costs for Iraq. And I think you used the word "responsible." the administration's position would be responsible as to requests for expenditures.

Mr. BOLTEN. I believe I did.

Mr. NEAL. How would you characterize your predecessor's position that the war in Iraq would cost \$60 billion?

Mr. Bolten. I am not familiar with that.

Mr. NEAL. The Governor of Indiana. He said it would cost \$60 billion.

Mr. BOLTEN. I know and admire my predecessor.

Mr. NEAL. You said the administration is taking a responsible position with budget projections as it relates to the war in Iraq. He said \$60 billion.

Mr. BOLTEN. I am curious of the context.

Mr. NEAL. It was after the general said we would need 2- to 300,000 troops and Lawrence Lindsey offered an assessment of \$300 billion. We are now off about \$300 billion now from where Mr. Daniels was at the time to where you are at the moment.

Mr. BOLTEN. Well, the one thing I would say—

Mr. NEAL. I am sure you will say something. I am quite positive of that.

Mr. BOLTEN. If you will permit me, Mr. Neal. The one thing I would say is to underscore what conversation I had with the Chairman and Mr. Spratt at the outset is that war costs are inherently unpredictable, which is why I believe we need to handle them as emergencies as they are needed.

Mr. NEAL. I want to thank you for setting up the next question. How might you characterize the position of the former director of the Center for Medicaid and Medicaid Services (CMS) suggesting that the prescription drug bill was going to cost \$400 billion and we are at \$740 billion and counting? How would you characterize that position?

Mr. BOLTEN. I think CMS's estimate have turned out to be relatively accurate.

Mr. NEAL. They are at \$648 billion. Mr. Leavitt said the other day he was pleased it was down to \$648 billion. Do you consider it when you are off by \$250 billion to be a reasonable forecast?

Mr. BOLTEN. I believe the numbers you are referring to when the previous director placed his statement was for a 10-year period that was from probably 04 to 13 or 05 to 14. The numbers that Secretary Leavitt was referring to are, I believe, a year or two later, which are inherently more expensive. Now, estimating the cost of a totally new Medicare program is a difficult undertaking. Everybody—

Mr. NEAL. Wasn't difficult—Mr. Bolten, it was not difficult at 4 o'clock in the morning here when we voted on it. The projections were there. We watched the majority leader move up and down the aisle and get the votes at 4 o'clock in the morning. He was certain it would cost \$400 billion dollars.

Mr. BOLTEN. I believe their projections are bearing out to be pretty close.

Mr. NEAL. He is cheering for that number. Says it wasn't as much as we thought it would be.

Mr. BOLTEN. I believe a different time frame than the CBO.

Mr. NEAL. Do you understand why there might be some reasonable skepticism that some members of the minority party might raise about some of these issues?

Mr. BOLTEN. The budget projection that you are referring to came from CBO, but I can appreciate skepticism because it is both a science and an art. One thing we know—

Mr. NEAL. You have clearly come down on the side of the art. I want to assure you that. Let me ask you a quick follow-up here. You stated we are not undertaxed as a society. The budget calls for \$1.5 trillion in tax cuts over the next 10 years and you clearly don't account for fixing the AMT or interest costs associated with the additional debt. These tax cuts are not offset by similar reductions in spending under your budget, so how do you propose to pay for the tax cuts? And if you haven't paid for the tax cuts, doesn't that mean the tax cut is really a loan that will be paid back by Mr. Moore's grandchildren?

Mr. BOLTEN. I don't think so, Mr. Neal. First of all, the tax cuts, the permanent extension of the President's tax cuts, are all incor-

porated in our budget projections. That is going out through the period in which they are in effect and even beyond. So all of the numbers that you see for our projections going out through 2011 include the full effect of making the President's tax cuts permanent.

We believe that those tax cuts are essential to economic growth and we believe that economic growth is essential to sustaining our good fiscal position and toward making it possible for everybody in society to do well and have a good chance.

Mr. NEAL. Understanding that the costs of the Iraqi war and the Afghanistan war are difficult to gauge, would you say in retrospect that it is OK to say that Mr. Daniels' assumptions were on the low side?

Mr. BOLTEN. I don't know what assumptions Mr. Daniels was making.

Mr. NEAL. He said \$60 billion.

Mr. BOLTEN. I don't know what context he was saying it in, Mr. Neal. And I am sure—

Mr. NEAL. I want to thank him for the clarity he has brought to this topic today, Mr. Chairman. Thank you.

Mr. CRENSHAW. Thank you. Mr. Simpson is recognized.

Mr. SIMPSON. Thank you, Mr. Chairman. The light goes on. Novel concept.

I agree with what Mr. Moore said earlier in that a budget really is about values. The question is how do we accomplish and get the money for those things that we want to spend it on.

You said during your testimony that the most important aspect of reducing the budget deficit was a growing economy. You saw that last year. I mean, the machinations we went through trying to reduce \$39 billion of spending. It is not easy to reduce spending. Yet as I look at the numbers, we got \$100 billion essentially in additional revenue by doing nothing; by a growing, expanding economy. Seems to me we are never going to get the budget deficit under control unless we have a growing and expanding economy. So whatever we do to get that economy growing seems to make sense.

The difference seems to come in whether you think reducing taxes on the American people and leaving more money in their pocket to spend and that to turn over in the economy actually increases the revenue to the Federal Government or decreases it. Seems to me on the other side of the aisle they think anytime you give a—reduce taxes, that all that does is take away from the revenue that the Federal Government has.

And it seems to me that there are two things that are absolutely true: that at a zero-percent tax rate you get zero revenue; at 100-percent tax rate you get zero revenue. Somewhere in between there is a tax rate which maximizes the revenue and does the least damage to the economy. Where is that; do you know?

Mr. BOLTEN. Congressman, I wish I did know where that was, and I have asked economists that question and every one of them has refused to answer that question. I think the right way to look at it is the best thing for the economy and for the Treasury is to keep taxes at the lowest possible rate that can sustain essential spending. And what we need to do is push down on both and make sure that the spending we do is only the essential spending the

Government needs to do, and leave the rest back in the economy where people can spend it on their own, that will promote economic growth, because that growth, if you are concerned about people at the bottom end of the income scale, that is the most important thing for them, is being able to get a job in a growing economy and being able to take advantage of the many opportunities that a growing economy will offer.

Mr. SIMPSON. Seems to me also the President is trying to, instead of reducing the supply of government, reduce the demand of government by creating an opportunity society where you have individuals with health savings accounts, increasing their ability to keep some of their own money and put them in retirement accounts, where there is less demand on government for the services because they make those decisions themselves. Would you say that is accurate?

Mr. BOLTEN. Yes, I believe it is.

Mr. SIMPSON. One more question I want to ask you specifically. In the Army Corps of Engineers' budget you said that the request is for \$4.7 billion in discretionary budget authority, a decrease of about half a billion dollars. The administration prioritizes six construction projects and transfers money from nonpriority construction projects to the operation and maintenance program.

The money you transfer from the nonpriority construction projects, as you know, many of these projects are multiyear programs. What we found out last year is that in some of them, by transferring that money, we were actually going back on a contract we had made with someone and the penalty for buyout would have cost us more than what we were saving by transferring it. Are we sure that the money we are transferring from the nonpriority construction projects won't cost us in penalties?

Mr. BOLTEN. I can't speak to the specifics without having them in front of me, but we do indeed try to avoid that kind of situation as we put together the priorities in spending for the Corps of Engineers. So you are absolutely right. In some cases by slowing down spending or by pausing spending, we actually generate substantially more liability to the government than otherwise would have occurred, which is why in the Corps' budget we have tried to put a priority on not having a whole lot of new starts show up but, rather, take care of the projects that are already underway and take care of the projects that have the highest cost-benefit in particular.

We have tried to bring as much cost-benefit analysis as possible to the Army Corps projects, and I think our budget reflects that. Our negotiations with the Appropriations Committees I hope will reflect that going forward.

Mr. SIMPSON. That is what we are trying to do also is not have so many starts but finish the projects we have got on the board. Appreciate it.

Mr. CRENSHAW. Mr. Edwards.

Mr. EDWARDS. Mr. Bolten, I think we all on a bipartisan basis want an opportunity society. I think, though, many Americans would say that cutting college student loans for middle- and low-income high-achieving students, borrowing billions of dollars from the Communist Chinese to pay for our deficit, and to allow us to

buy more and more goods from the Communist Chinese is really a prescription for an opportunity society.

Mr. Chairman, this budget fails the test of fiscal responsibilities and fairness. It burdens our present economy and our children's future with enormous deficits, including the largest single deficit in American history this year, \$423 billion. What that means is every night when I put my two sons that are 8 and 10 years old to bed, they and their generation are burdened with an additional \$1 billion debt compared to just one night before. To put that kind of a burden on our children and grandchildren, in the view of most Americans, is morally wrong.

This deficit doesn't just break the record of deficits prior to this administration, it shatters it. In fact, the \$423-billion deficit this year is \$131 billion higher than any deficit in any previous administration in our Nation's history. It is amazing to me that Chairman Nussle would call that record deficit, quote, dramatic deficit reduction. That is not fuzzy math, that is mythical math.

For Republicans in Washington to claim that a \$423-billion deficit is good news, a sign of, quote, dramatic deficit reduction, should frighten American families and businesses who know better. I never thought I would hear Republicans, who used to claim the mantle of fiscal responsibility, try to minimize the disastrous long-term consequences of a \$423-billion deficit in 1 year and an \$8.1-trillion national debt.

Even worse, they are digging the hole deeper on a partisan basis since budgets for the last 5 years have been put together completely on a partisan basis by the Republican leadership and Congress and the White House. In fact, this bill is going to cut taxes by \$103 billion more than it cuts spending.

So after all the tough deficit-hawk speeches are through, the fact is the Republicans in Washington aren't willing to even pay for the future tax cuts that they are proposing by spending cuts, much less try to reduce the national debt or deficit.

Not only is this budget fiscally irresponsible, it is painfully unfair to decent, hardworking families. Just a few days ago Republicans in Congress voted to harm children of deadbeat dads by cutting child collection programs and to make college less affordable to middle- and low-income families by cutting college student loan programs by \$11.9 billion dollars. What did Chairman Nussle call this? Quote: "pulling the weeds out of the garden." I really don't think helping families with deadbeat dads collect money from that deadbeat dad to help those children have a better education and the clothes to wear to school and food to eat so they are not hungry at school, I really don't think those children are weeds in the garden, I think they are our Nation's future.

Republicans voted to cut health care for the children of low-income working families by cutting the Children's Health Insurance Program (CHIP). Explain that to the 28-year-old widow in central Texas, in my part of the country, who lost her husband in a house fire a couple of years ago and went to work as a bank clerk to try to provide CHIP health insurance for her 3-year-old daughter.

Now in this budget farmers, seniors, and hardworking families already struggling not with the optimism we heard from Mr. Nussle and others—I don't know which constituents they are lis-

tening to—these are people struggling with high prices for gasoline, home heating, health care, and prescription drugs. Now they will be hit even harder by budget cuts in this program to farm programs, education, health care, and student loan programs.

Worse yet, perhaps worst of all, this budget would ask retired military personnel, retired military officers, to pay \$1,000 more a year out of pocket for their military retiree health insurance in order to pay for a \$220,000 tax cut for people making \$1 million a year in dividend income. Retired military personnel paying \$1,000 each a year pay the tax cut for just one American, someone who might have never served our Nation in uniform.

I don't think this budget is fiscally responsible, I don't think it is fair, and I don't think it reflects the values of the American people. Thank you, Mr. Chairman.

Mr. CRENSHAW. Mr. Bolten, did you get that question?

Mr. EDWARDS. Mr. Bolten has plenty of time to express his view. I will be very clear there was no question in that statement.

Mr. CRENSHAW. I don't know if Mr. Bolten figured that out or not.

Mr. BOLTEN. I got it, Mr. Chairman.

Mr. CRENSHAW. Let me ask you a question, Mr. Bolten. When we talk about deficits, we talk about tax cuts, can you talk a little bit about the fact that when we reduce taxes and we let the average citizen keep more of what he earns and then that individual gets to decide what to do with the money, not the Government but the individual, he can spend it, save it, and invest it in his business, somehow that seems to generate more revenue.

For instance, I think when the capital gains taxes were reduced, the capital gains tax receipts almost doubled in 3 years. I think a lot of people don't understand how you can actually reduce taxes, which reduces the money that people would pay, lets them keep it, and somehow when they get to keep it and they get to spend it or invest it, then more money comes into the general revenue.

What would have happened when you look at those deficit numbers, what would happen if we had not put in place some of the tax relief that we put in in 2001 and 2003? What do you think the state of the economy would be today?

Mr. BOLTEN. Mr. Chairman, I believe we would be in much worse shape today, both economically and fiscally, had those tax cuts not been put in place. I am not arguing that every dollar of tax cut produces more than a dollar of revenue. Some people believe that; I am not making that case here now. What I am saying is that when the Government keeps tax rates low, that generates economic activity, and the overwhelming factor in our fiscal health is how good is the economy, because that dictates whether revenues are coming in. When we are getting good capital gains revenues, which was the reason why we had a spike in revenues and in the Federal Treasury position toward the end of the 90s, it is also the reason why we had a collapse in revenues in 2000 going into 2001 and into 2002. That collapse in revenues was not the product of the President's tax cuts which were either not in effect or barely beginning to take effect; that collapse in revenues was directly the product of a weak economy and especially collapsing capital gains revenues,

which were inflated during the bubble period at the end of the 90s and the deflation was just as hard on the downturn.

The economic growth in this country is the absolute critical factor in our fiscal health, which is why this President's budget is focusing on ensuring ongoing economic growth.

Mr. CRENSHAW. We hear a lot about the deficit, and this year it is projected to be \$423 billion, which is obviously a lot of money. I think last year it was projected to be over \$400 billion, and it came in around I think \$319 billion; and the year before that it was projected to be over \$400 billion. I guess in one sense you are not painting rosy scenarios because it seems like for the last 2 years the deficit has actually been lower than was projected, so there is a good opportunity for it to be lower again this year, but I don't know.

I would like you to talk about deficits in terms of you had a chart that shows the deficit both in real dollars then as a percentage of GDP. And I know about the time I was born, I think the deficit was about \$54 billion, and I went back and looked and that actually was 30 percent of the GDP. And that is probably an extreme example but the good news is we have come a long way there. You showed a chart that showed over 40 years the deficit has averaged about 2.3 percent of GDP. I looked, and if you took the last 20 years, it actually ends up 3½ percent of GDP. So it seems to me we are in kind of the historical realm.

Can you talk about how we should look at the deficit? We have got a 2½, \$2.7 trillion economy. So \$423 billion is obviously a lot of money, but as a percentage of that it is right around 3 percent, which is kind of where it has been historically.

How do you look at it? What is the best way for people to look at it? Obviously it is large and we need to control spending, but put it in perspective, if you would, in terms of how you view the real dollars versus the percentage of GDP.

Mr. BOLTEN. Mr. Chairman, the deficit that we have projected for this year is indeed a large one at \$423 billion. Nobody believes that is good news. But the right way to look at a deficit is indeed as a percentage of GDP because that reflects what the resources are in this country to pay off the debt that can accumulate from those deficits.

What we find is that if you look historically over the last 40 years, the average deficit is about 2.3 percent of GDP. If you go to the last 20 years, it is actually higher than that, probably up in the 3 percent range. At 3.2 percent of GDP, the projected deficit we have for 2006 would be the 11th largest in the last 25 years. So not a good-news story by any means, but not historically out of range and not something that either has caused, or I expect will cause, surprise in the financial markets, which is a very important element here.

Going back, though, you mentioned our projections. You were right that we had projected for 2004 a substantially larger deficit than ultimately came in. We projected a deficit about \$500 billion originally, and it came in at about \$412 billion. For 2005 we had projected a deficit of \$421 billion; it came in at \$318 billion dollars, thanks in large part to a surge in revenues from a strong economy.

This year we are projecting an up-tick in the deficit, and it is more than a substantial move-up in the deficit, which is not surprising when you are in the middle of a war and have suffered the most economically disastrous natural disaster in this country's history.

What I believe our numbers also show, though, is a very clear and credible path to bring that deficit down over time and do much better than meet the President's goal of cutting the deficit in half, which as a percentage of GDP would be below 3.2 percent.

I believe we are in a sustainable range where we are right now with respect to our short-term deficits. What is unsustainable is what I have been talking about with Mr. Spratt and others is the long-term situation. The unfunded obligations in our entitlement programs are what make our long-term situation unsustainable and we must address those.

Mr. CRENSHAW. Thank you. Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman and thank the witness. I would like the indulgence of my colleagues to see if we couldn't get Chairman Nussle to have Secretary Leavitt and perhaps Director McClellan come before the committee, because I think health care issues will be key as we deliberate about the budget. So I would urge to have those folks as witnesses. It is my understanding today they are not scheduled as witnesses.

Second, the list of terminated programs is apparently available to no one on the committee, so I would urge you to make it available.

Mr. BOLTEN. We will, Mr. Cooper. We will have it in a nice printed book that I believe is being printed up.

Mr. COOPER. Even scratch paper would be nice. Timeliness is more important than formatting.

On the health care issues, I wanted to ask some questions. I would agree with you, you are talking about slowing the rate of growth of Medicare. I would like to know what alternatives for slowing the rate of growth that you considered and discarded in the effort to choose the methods that you chose in the budget.

Mr. BOLTEN. Mr. Cooper, I think that question may be better directed to Secretary Leavitt when and if you are able to have him appear before the committee.

Mr. COOPER. So he made the cut in this process or he made the selection of the ways to slow Medicare growth?

Mr. BOLTEN. Absolutely. All of our recommendations on Medicare were done in close coordination with Secretary Leavitt and his entire team, who are the experts on Medicare spending. There are a lot of ways to dig in on Medicare costs. We chose the ones that we thought were the most promising, at least in the short run, and had been, in the case of the market basket savings, had been recommended by MedPac.

But there are a lot of other ways to go at this problem and my expectation is and my hope is that we will continue at this problem not just this year but for some years to come.

Mr. COOPER. Did any of the alternatives that you considered include trimming back the Medicare drug benefit that seems to be so expensive and doubtful of popularity with seniors?

Mr. BOLTEN. I don't think there was any consideration given to eliminating the drug benefit, which I believe will turn out to be an absolutely critical part of the Medicare program and with pharmaceuticals being a tremendously important and increasingly important part of providing appropriate health care to people.

What we had before the drug benefit was adopted was a system that would pay for a \$10,000 heart operation but not pay for the \$10 dollar pill that would have prevented it. That seems to me a situation that everybody should agree could not be sustained.

Mr. COOPER. If that bill were funded, of course it creates an estimated \$10 trillion liability for our Nation, which is almost completely unfunded. I think our colleagues on the other side of the aisle know this is true.

Let me ask about health savings accounts. In the budget their estimated cost, I believe, is about \$90 billion. Can you give me some backup information to help me understand how these would work? For instance, the Employee Benefit Research Institute (EBRI) says if you save the maximum every year, you would have to do that for 30 or 40 years without drawing out any money from that account; in other words, not being sick for 30 or 40 years before you would have enough money saved up to meet your expected health care needs. That is a long time for people to save the maximum every year for 30 or 40 years before essentially health care savings accounts would work. What are your estimates of the viability or the workability of these accounts?

Mr. BOLTEN. I am not an expert on health savings accounts, but I think the description you have just given mischaracterizes the way they work. What a health savings account does is makes it possible for a person to set aside a modest amount to cover the expenses that are not covered when you purchase a less expensive—

Mr. COOPER. I understand that. The EBRI estimates seniors will need on the average of \$200,000 to meet their expected health care needs. And it is impossible, according to EBRI, to accumulate that much money in health savings accounts.

Mr. BOLTEN. That is \$200,000 in uninsured needs?

Mr. COOPER. Out-of-pocket expenses. In fact, their estimate is \$230,000. They estimate that the average person who, for example, saved for 10 years and never withdrew a penny and paid in the maximum every year, they would have an account of \$40,000, which is so far short of the expected need. This is a very legitimate nonpartisan group.

Mr. BOLTEN. I have to say that just sounds completely out of range to me.

Mr. COOPER. What backup information do you have to show that health savings accounts would be adequate for the need?

Mr. BOLTEN. I would be glad to provide that for the record. But what I can tell you from my own experience with a health savings account, or even some other folks who have them, is that what the health savings account does is make it possible to purchase a much less expensive insurance policy, pay the first dollar out of pocket, and the health savings account helps you cover those first dollars out of pocket, which typically are in the low thousands of dollars

to \$3,000, which most people have to pay some out-of-pocket anyway, even under a more expensive health insurance plan.

Mr. COOPER. I understand that. If you could supply the committee that information to show the workability and the efficiency of those accounts, because if we are going to spend \$90 billion on something, we need to know what the chances are that it would work.

Mr. BOLTEN. Be glad to. I know the experts in whose judgment I trust a great deal are very optimistic about the success of these health savings accounts, which have already shown some success so far, and in particular in making individual health care consumers better consumers. Because in exchange for the lower costs they are paying, those first dollars themselves in many cases except for preventive care, they are paying the first dollars themselves and they become better consumers and should improve both the price and quality information and substance that is in the health care market today.

[The information requested follows:]

MR. COOPER'S QUESTION REGARDING HEALTH SAVINGS ACCOUNTS

In the president's budget, the projected cost for health savings accounts will be \$90 billion. The Employee Benefits Research Institute estimates seniors will need on the average \$200,000 to meet their expected health care needs. And it is impossible, according to EBRI, to accumulate that much money in health savings accounts. EBRI estimates that the average person will be far short of the expected need. What backup information do you have to show that health savings accounts would be adequate for the need?

OMB Answer: EBRI's estimate of \$200,000 represents the amount an individual would need to pay for premiums and out-of-pocket expenses in retirement. Though HSAs can be used to fund these health expenses, the Administration views HSAs as a tool to help people save for current and near-term health expenses. They may be viewed as a supplement to, but should not be viewed as an alternative to traditional Medicare, the primary source of health care financing for seniors.

From that perspective, there are several ways in which HSAs provide adequate resources for individuals.

- HSAs must be accompanied by major medical health insurance when established, which protects consumers from unforeseen, necessary medical expenses.
- Under current law, individuals generally can contribute funds to their HSA equal to their deductible.
- The President's FY 2007 Budget includes a proposal to increase the maximum contribution levels to the out-of-pocket limit of one's high-deductible health plan. This proposal ensures that individuals can contribute enough to their HSAs to meet their potential out-of-pocket health care expenses.

Mr. COOPER. I see that my time has expired. Thank you.

Mr. CRENSHAW. Thank you. Mr. Wicker is recognized.

Mr. WICKER. Thank you very much. Actually Mr. Simpson is such a big linebacker that I have trouble looking at the witness through him. So I have moved over.

Mr. BOLTEN. Sort of a defensive back.

Mr. WICKER. We are eating into my precious time.

Mr. Bolten, I have asked the technician to put up a chart that you used earlier, "Progress on Spending Restraint." My colleagues on the other side of the aisle know that I have the greatest fondness and affection for them as friends, but it is clear that we have major policy differences across the aisle with regard to the budget. I have listened intently to the questioners on the Democratic side this morning and this afternoon, Mr. Bolten, and I have listened in vain for a plan to back up the eloquent rhetoric of my colleagues

in decrying the growing Federal deficits and denouncing the lack of fiscal irresponsibility and their asking us to be more fiscally responsible. I have heard questioner after questioner say “let’s spend more on this, let’s spend more on this, let’s grow government at an even faster rate on that.” And I did hear one proposal for increased taxation on the American people, if I heard the questioners right.

But when it comes to the things that have actually worked and we have had accomplished there on the chart, I look at discretionary spending below inflation which the President is asking for and which we delivered. We got no help from our friends on the Democratic side of the aisle in 2005 on that issue. Nonsecurity cut, whether it was in the budget resolution or our appropriation bills, the elimination of 89 programs. Basically the Republicans had pretty much to do that all alone. And then it was just last week that we were able, finally, to get the reconciliation bill passed; \$39 billion in cutting the rate of growth over a 5-year period. I believe we had to do that without one single, solitary “yes” vote on the other side of the aisle.

When you look at those choices, Mr. Bolten, in terms of deficit reduction what else is there? I guess there would be a cut in homeland security. That would be one alternative in terms of spending restraint. Am I right there?

Mr. BOLTEN. Yes, sir.

Mr. WICKER. Then I suppose we could cut the Department of Defense at a time when we have servicemen and -women around the world in places like Afghanistan and Iraq and fighting international war on terrorism, we could cut that. That would be another alternative, would it not?

Mr. BOLTEN. Yes, sir.

Mr. WICKER. What else is there if we don’t cut mandatory growth or domestic programs; what else is there?

Mr. BOLTEN. That leaves the possibility of tax increase.

Mr. WICKER. Surely does. Let me ask you then to flip over, and I have asked the technician to give us “Strong Job Growth Has Resumed.” If we could see that chart, which I clued the technician in—there we go. That nice strong growth line from 2003 to 2006, had we not had the tax policy in place, do you think that line—is it your opinion that that line of strong job growth would be that strong?

Mr. BOLTEN. My opinion, Mr. Wicker, is it would not be nearly that strong. More importantly, that is the opinion of a number of respected economists.

Mr. WICKER. Exactly. As the Chairman mentioned earlier before he had to leave the room, we are not really in this for numbers, we are in this to make the lives of Americans better. And in that respect I would certainly hate to see us go back to the high-tax policies of before and risk having another downturn.

Let me just ask you, then, one other chart about our entitlement growth, “Current Trends Are Not Sustainable.” We see there if we don’t take action, that actually the autopilot spending, the mandatory growth itself will exceed revenues if we do not take strong action in those outyears by 2070; is that correct?

Mr. BOLTEN. Actually, by roughly 30 years from now, it would require all Federal revenue just to pay for the mandatory programs and the interest on it.

Mr. WICKER. As I understand it, if we do nothing over the next 5 years, mandatory spending will grow \$570 billion, it won't amount to \$570 billion, but it will grow \$570 billion over the next 5 years. The President is proposing that we slow that rate of growth by \$65 billion. In other words, under the President's proposal, mandatory spending would still increase by half a trillion dollars over the next 5 years.

Good luck, Mr. Bolten, getting a bipartisan consensus for even doing half of that slowing of the rate of growth over the next 5 years. I welcome the suggestions of our friends on the other side of the aisle. I endorse the plea by the chairman of the committee that our friends and colleagues come up with a specific comprehensive proposal for deficit reduction and a return to fiscal responsibility, and I think that would be a good starting point to let the electorate make a decision in November of this year.

I thank the chairman.

Mr. CRENSHAW [presiding]. Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman, I will follow on with Mr. Wicker's suggestion. I do have suggestions for reducing mandatory spending, but they are suggestions that the administration has rejected.

First of all, you said we need restraint on mandatory spending, and that is exactly right. The first step in the health care area should be to stop the excessive spending on HMOs and PPOs. You have got a MedPAC proposal that says we are spending—we are contributing—there is \$50 billion there in spending we don't need to provide them because they are being overpaid.

The secondary area of course is prescription drugs, and this is really simple. You rightfully praise the Veterans Administration for the dramatic improvements in quality and service.

If I could have chart 7 please, you know, the study done by the Democratic staff of the Government Reform Committee. What they did is they took the 10 most commonly used drugs by seniors and they looked at the 10 leading plans across the country. And this is in the aftermath of Secretary Leavitt saying that the decline in the projected cost of the part D plan was due because competition in the drug benefit was driving down costs.

Well, frankly, that is ridiculous. You look at the costs, when you look at those 10 most commonly used drugs, the Medicare plans are charging seniors in America 80 percent more than the price available to the VA, they are 60 percent higher than prices available in Canada, they are even higher than the prices on two mail order firms. So there is a place where we could dramatically reduce price.

Let me turn to another area in health care. The HSAs that you mentioned. There are lots of studies out. The figure I have seen is \$156 billion over 10 years. That is what the President's proposal would cost, and they weaken, they clearly weaken the existing health insurance system because they are moving people away from an employer based system to individual insurance policies,

and that could lead, probably would lead to an increase in the ranks of the uninsured.

They have little potential to improve the quality of the health care system because they do nothing about the major cost driver.

You gave an example of first costs. They might make you a little bit more cautious about going to the doctor in the first instances, but 70 percent of the cost of health care in this country comes from 10 percent of the population. The population with chronic illnesses or major operations. And HSAs are really designed to provide health care for people who already have it and who have the resources to put money into another tax shelter, and Milt Friedman's column in the "New York Times" the other day pointed out only 2 million people in the country have got them and 1 million of those people haven't even put any money into them. So for people with money they may work, but they don't do too much.

Finally, I want to say—and this is only my second year in the committee. But the gap across here is wide. It is a gap in values. It is a gap of sort of who we care about. But it is also a gap in some areas that we don't need to have.

Mr. Crenshaw was talking about, how it's remarkable, you cut taxes and revenues to the government increase, as if the causation were clear. Another member of this committee in a prior meeting said once the tax cuts have worked. The tax cuts have created 4.7 million jobs.

When the Clinton administration in 1993 raised taxes and cut spending, no advocate of that proposal I think has ever said the tax increases in 1993 created 22½ million jobs because we have a vibrant, dynamic economy. I don't disagree that some tax cuts can be helpful, but the notion that they increase revenues over what they would otherwise be is a stretch, and CBO doesn't buy it. You admitted you wouldn't argue for that position. So my question comes to this.

You said at one point that the effects of the Bush tax cuts, extending the tax cuts, had been factored into the budget. It is true, is it not, that when you factored in the continuation of the tax cuts that meant you dropped revenue from what it would otherwise be if the tax cuts were not continued.

Mr. BOLTEN. If measured on a static basis or probably even on a dynamic basis, yes, although the measurement we do and are obligated now by our rules to do and CBO does is to measure it on a static basis without measuring the dynamic effect. I hope at one point very soon economists will come to an agreement as to how to measure that dynamic effect. But you are correct, the revenues would be lower than they otherwise would have been without those tax cuts.

Mr. ALLEN. But remember Douglas Holtz-Eakin ran dynamic scoring over a bunch of models over at CBO and came away concluding that it didn't make much difference, the tax cuts have some stimulative effect but nowhere near enough to compensate for the loss of revenue from the tax cuts themselves. That was his finding and that came out.

Mr. BOLTEN. Economists are in disagreement about the size of what the dynamic effect is, and I am hopeful that they will come to some agreement soon. But you are right. I am not arguing that

a dollar of tax cut produces a dollar of tax revenue. I am arguing that a dollar of tax cut can do an enormous amount of good for the economy, create jobs, put us on a much better long-term sustainable path than we would be on with that tax increase in place.

Mr. ALLEN. Fair. So we agree at least that the tax cuts do not by themselves cause a revenue increase that is larger than the tax cuts themselves.

I thank you.

Mr. CRENSHAW. I think they increase revenue, not necessarily dollar for dollar. Even this year CBO says if you don't continue them it will have a detrimental impact, so I think we all agree on that.

Mr. Ryan of Wisconsin is recognized.

Mr. RYAN. I thank you, Mr. Chairman. A couple of things I want to set straight and then ask a question of Mr. Bolten. No. 1, we keep hearing tax cuts. The tax cuts in 2008, the tax cuts in 2010, and yes, the gentleman from Maine did say there is a gulf between us. What happens in 2008 and what happens in 2010 are not tax cuts. Tax increases, we don't do anything.

So there is a difference of opinion. We are simply saying keep taxes where they are and don't increase taxes dramatically. And what the other side here is saying is that if we do not increase those taxes, that is all of a sudden a tax cut. We are talking about holding taxes where they are, and not hitting our—the American taxpayer with massive tax increases. Calling that a tax cut is just beyond reason in my mind.

Another important point is the Health Savings Accounts (HSA). There is important facts to get straight on health savings accounts. As a coauthor of that law, I managed that bill on the floor in 2003 when we passed that as part of the Medicare law. I remember the debate vividly. It was said at the time that this was only going to go to healthy and wealthy people, that just the rich and healthy people would get HSAs. Well, what are the data we have now today? HSAs went from 1 million people having them a year ago to 3 million people. Who are those 3 million people? As many as 45 percent of the people who have HSAs are people who are over 40 years old. About 30 percent of the people who have HSAs are people who earn less than \$50,000. More than half of the people who have HSAs have some kind of preexisting condition. They are no more healthier than anybody else getting traditional insurance.

But even more exciting than those facts is this: 37 percent of the people who have HSAs today, 37 percent of those 3 million people are people who did not have health insurance before. They were previously uninsured. So what health savings accounts has done is priced insurance within reach for people who could otherwise not have afforded it.

The latest survey of HSAs—and over 100 providers are out there providing these—is that two-thirds of the people who have HSAs have a monthly premium for their catastrophic health insurance of about \$100—\$100 for your health care premium, just imagine that.

I talked to a couple of Racine farmers in Racine County, Wisconsin the other day who are able to slash their health care premiums by two-thirds. So HSAs are working, and they are helping people get insurance. They are helping people who couldn't get in-

surance otherwise, and they are helping people who have risky health profiles, who are older and who make less money than the average worker in America.

The question I want to get to Mr. Bolten—and I wasn't just going to give a speech. I actually do have a couple questions. No. 1, on budget process. Mr. Hensarling and I have been pushing this rock up the hill for many years. I am very pleased to see these in here, the line-item veto specifically. I was one of the people who more or less agreed with the argument about a nondelegation doctrine of the Constitution that it would be unconstitutional for the legislative branch to delegate lawmaking authority to the executive branch. That is why we came up with the enhanced rescission method whereby the President pulls out spending from a bill he signs, sends it back to Congress under an expedited procedure where then we have an up or down vote, retaining the legislative authority but giving the President that sort of scalpel so that he could go after wasteful spending.

Give me your version of the line-item veto. I see some text here but not specifically, and what is the constitutional argument you make behind your line-item veto and exactly how do you phrase it, and then if I have time I have a Medicare question.

Mr. BOLTEN. I will try to preserve your time, Mr. Ryan, just by saying that, first, we really appreciate the efforts that you Mr. Hensarling and others have made on budget process reform and we wish you well in your Sisyphean task, which I think you may actually be close to getting the rock and keeping it up at the top of the hill.

On the line-item veto our lawyers have constructed a mechanism that is based on deferral of spending rather than the actual termination of spending that they believe would pass constitutional muster. I will be glad to provide with you some of the—

Mr. RYAN. Does it involve sending a bill back to the House and back to Congress?

Mr. BOLTEN. I do not believe it does, but I will confirm that for you and we will give you a full legal analysis. On enhanced rescission, however, which we would prefer to have the line-item veto, enhanced rescission I think could go hand in hand. They need not be mutually exclusive. And I think both of those tools would be terrific tools to give the President. For those who are worried about earmarks and those who are worried about spending generally, I think those would be important tools for the President to have.

[The information referred to follows:]

The Office of Management and Budget did not respond to this query.

Mr. RYAN. Quickly on Medicare, your proposals which do track with MedPACS—I serve on the committee on Medicare on Ways and Means—you do track mostly the MedPAC recommendations. Is it not true though that these proposals would actually lower Medicare beneficiary copays, lower some of their premiums than they otherwise would be?

Mr. BOLTEN. Absolutely they would. But whenever we lower the payments that are going to, that the Government makes to providers, we are at the same time lowering beneficiaries' premiums because beneficiaries under most parts of the system pick up a

quarter of the cost. So if we can keep provider costs low, we are also keeping beneficiary expenses low.

Mr. RYAN. Thank you.

Mr. CRENSHAW. Mr. Case.

Mr. CASE. Mr. Bolten, I listened carefully to the President's State of the Union message, as we all did, not just for the details but for some sign of a commitment to bridging a partisan divide that in my view has poisoned this country. And frankly I heard some encouraging words along those lines. Did you in the preparation of this budget consult with any Members of the minority party in Congress?

Mr. SIMPSON. Or the majority.

Mr. CASE. I am getting there.

Mr. BOLTEN. Yes, I have had conversations with Members on both sides on issues of interest to them and their constituents.

Mr. CASE. So is that yes, you did come up here and consult?

Mr. BOLTEN. Yes.

Mr. CASE. How many?

Mr. BOLTEN. I couldn't say how many on either side were consulted. I take actually a fair number of calls, just regular phone calls coming in from Members of both parties to make cases on, usually on items that are of particular interest to their districts.

Mr. CASE. Was there any kind of systematic outreach to the minority or the majority for that matter on big picture policy items? You have made big picture policy calls in this budget, and that is what a budget is about. Was there any systematic attempt to seek from the minority party some input on the policies relative, for example, to continuation of tax policies or spending cuts or the elimination of specific programs?

Mr. BOLTEN. Nothing systematic from my standpoint on either side. I have been pretty well aware of what the views of most Members are. I have spent a great deal of time not just with the chairman but with Mr. Spratt talking about policy over the last couple of years that I have been in this job. This budget is the President's proposal, and it reflects his values. He hopes very much to be able to work in a bipartisan way with the Congress on it. But my main priority in putting this budget together has been to reflect his principles.

Mr. CASE. I noted in the budget that there were several notations relative to the Budget Enforcement Act of 1990. Does the administration favor reenactment of the Budget Enforcement Act? And I want to speak specifically to PAYGO. Has the administration changed its position, which I understand at least to be in opposition to PAYGO across the board?

Mr. BOLTEN. Yes, we do favor reenactment of the Budget Enforcement Act. We do not believe that PAYGO needs to apply to taxes as well as mandatory spending.

Mr. CASE. So you are not willing to put everything on the table quite yet? I mean taxes is a given and we can do PAYGO on the spending side only.

Mr. BOLTEN. It is not up to me to take anything off or put anything on the table. I am giving you the President's position. But there are two sides or three sides or however many sides there are to that table.

Mr. CASE. But in any event, the President's position this morning as expressed by you today is not to reenact PAYGO as it existed under the Budget Enforcement Act, is that right?

Mr. BOLTEN. Yes.

Mr. CASE. Can I have chart 3, please? That is pretty hard to see, but essentially what it is is your projection of total debt in your budget 2005 through 2011. I am correct, again, just to get this straight, that we are talking essentially about an increase under your budget, the President's budget, as submitted here today, total debt going from about \$8.5 trillion to \$11.5 trillion in the next 5 years. Is that correct?

Mr. BOLTEN. That is correct.

Mr. CASE. Let me deal with after 5 years, Mr. Bolten, because we have had great disagreement in this committee and I suspect we will continue to on your decision, the President's decision, to have a 5-year horizon when prior Presidents, I think in both parties, had a much farther horizon out into the future, beyond 5 years. We had a big debate on that last year. I continue to disagree with you on that. But if I can have chart 6, please.

Mr. BOLTEN. Mr. Case, while you are getting the chart if I can say on that question, I think there is legitimate room for debate. But I think Presidents of both parties have more traditionally displayed the budget in a 5-year chunk than in a 10-year chunk. There have been periods where it has been done in 10 years. I think there is a reasonable case to be made on either sides of that.

Mr. CASE. I think Presidents of both parties have been wrong on that case.

Mr. BOLTEN. All right.

Mr. CASE. This is your projection, one of the few places in the budget where you actually do go out past the 5-year window, and this shows your projection as on the effect of the proposals relative to tax policy beyond 2011. And essentially what you are showing is a \$1.67 trillion loss in revenue, period 2007 and 2016, of which \$280 billion is in the first 5 years. So by my math what we are talking about is a decrease in revenues on the tax side of \$1.4 trillion after that 5 years is over. It drops off the cliff. And as we all know, that is because of the assumption that the tax cuts that are scheduled to expire in 2011 do in fact continue beyond. Is that right?

Mr. BOLTEN. That is right. And we do reflect in all of our numbers the continuation of the President's tax cuts. What those numbers largely reflect are the amount of tax increases that would be imposed on the American people if the President's tax cuts were allowed to expire.

Mr. CASE. Is it fair to say that in the window beyond 5 years, given the spending patterns which do in fact show growth, you are just talking about curtailing growth, and the fact that you are in fact projecting significant reductions in revenue in the area of \$1.4 trillion after the 5-year window, that we would anticipate a significant increase in the Federal debt after the next 5 years.

Mr. BOLTEN. No, I don't think that it would be fair to say that.

What the next, if we were to display the next 5 years, and I repeat there is reasonable arguments on both sides of that, I think

the next 5 years would actually show continuing relatively low deficit years. There would be an ongoing—

Mr. CASE. I didn't talk about the deficit. I talked about the debt, total debt, including the borrowing from Social Security.

Mr. BOLTEN. What it would also show, however, over the next 5 years is an accumulation of debt that is related to the unfunded obligations in our entitlement programs. So the next 5 to 10-year period, as I said earlier, I think from a fiscal standpoint on the face looks pretty good. The real crisis that is looming, and it is looming 10, 15, 20 years down the pike, is a crisis of the unfunded obligations in our entitlement programs. That is where the real crisis is, and that is why in the spirit of your opening remarks that the President asked in his State of the Union for both parties to come together to address this politically very difficult entitlement reform problem.

Mr. CASE. And I agree with that, just to finish that concept.

Mr. BOLTEN. Thank you, sir.

Mr. CRENSHAW. Mr. Mack is recognized.

Mr. MACK. Thank you, Mr. Chairman. Mr. Bolten, good to see you, sir.

Mr. BOLTEN. Thank you, sir.

Mr. MACK. We worked nights and weekends putting together a pithy statement for me to read but I decided instead just to boil it down to something my children would understand, and that is we take too much, we spend too much, and we regulate too much.

I came to Washington, I think like most people did when they were campaigning, and talked about fiscal discipline, and I know we have made some small gains last year and want to see us continue to do that. I think we have to, here in this committee, Mr. Chairman, and others, really look at the budget process and really take a look at the way we do business here and what this process is all about. And there is leaders here that have been on this a lot longer than I have been on this committee. But I wanted to lend my voice to that. I also wanted to congratulate or thank you for including some of the language you did on Voice of America, especially as it relates to Venezuela. I think that is very important for security reasons and also it is our hemisphere and we need to take care of our backyard.

My question is pretty simple. If we were to basically put in a spending freeze, kept it at the same level that we had this past year, how long would it take before we would wipe out the deficit?

Mr. BOLTEN. Mr. Mack, are you thinking of a freeze on discretionary spending or overall spending.

Mr. MACK. Overall spending.

Mr. BOLTEN. I would imagine that a freeze on overall spending would bring our fiscal situation into balance in a very few years. I may ask my colleagues to do some quick calculations, but by 2009 one of my colleagues estimates we would be in complete balance on our fiscal picture if we were to freeze both discretionary and the mandatory sides of the spending ledger.

Mr. MACK. But politically that would be hard to do.

Mr. BOLTEN. It would be very hard to do. We have taken some steps in that direction. You have all taken some very important steps in that direction with the 2006 budget. The President is ask-

ing for similar kinds of restraint in the 2007 budget. And I think step by step, we will put ourselves on a sound path in the short to medium run. The longer term problem is unsustainable growth in entitlement problems that I was talking about with Mr. Case.

Mr. MACK. Again thank you and my—hopefully at some point down the line I can look my kids in the eyes and say you know today we cut spending. Thank you.

Mr. BOLTEN. I hope you will, sir.

Mr. CRENSHAW. Mr. Cuellar.

Mr. CUELLAR. Thank you, Mr. Chairman. Mr. Bolten, again thank you for being here with us and again thank you for working on this ExpectMore.gov Web page. I think that will be a good start. What I want to do is again go back to budget reform, but I am talking about performance based budgeting and having a system that instead of going to a Web page for Members, if we could have it where it would be a little bit more accessible to the Members.

I was just looking at the budget a few minutes ago, and my question would be, would you be willing to sit down with myself and any member of the committee, to pick any agency, doesn't matter which agency you all want to pick, and I sit on the Agriculture Committee. If you want to go to do that it would be fine. They do have a couple performance measures. But would you all be willing to sit down with us on a pretty quick basis just to come up with a format as to what the budget would look like if we actually put it with, this is the mission of the agency, these are the goals, here are the objectives, here is the money, here is the performance measures, and put it in a format that I believe will be more accessible and easier for the Members to look at so that way we can have questions as to here is the agency, here is how we are spending the money, this is how I think we ought to be refocusing some of these dollars?

Because I do have some concerns like the Members about the cuts in education and health care and agriculture and all that. But today I just want to focus on that specific to see if you would assign yourself or assign somebody that would be willing to sit down with myself and any of the Members to just come up with one format and I would prefer to do Agriculture if that would be OK with you, but any other agency would be fine.

Mr. BOLTEN. Be glad to do that, Mr. Cuellar. It is an interesting idea. I will recommend to you my Deputy Director for Management, Clay Johnson, whom I believe you know, or at least may have met at some point, who was the animating force behind the score sheets that we put out, behind the PART program now and behind ExpectMore.gov and I think would be a very good person to talk to about how we construct our budget, how we display it.

I don't know about starting with Agriculture. We might want to check with Secretary Johanns to see if he wants to be the guinea pig or not. I would be glad to sit down with you on that exercise and any other Member that is interested in doing so.

Mr. CUELLAR. If you want to talk to the Secretary, No. 1. No. 2, if we can do this on a quick basis, if he agrees, if not, we can pick another agency, but I think for the Members, I think, if we can just have a starting point, I think this will go a long way. Because

again I support you on your ExpectMore.gov. That is good for citizens to go and check, that is fine.

But I am more interested in the budget oversight that the Congress needs to provide, and I think if we put it in a particular format, and I will be happy to interact with you as to some of the ideas.

Mr. BOLTEN. Deputy Director Johnson has spent a lot of time with agencies and with a relatively small number of Members who were interested in this, I think. I am pleased to see that you are interested, I think more should be, in constructing the format for our evaluations. If you haven't had a chance to surf on ExpectMore.gov, I think you will be pleasantly surprised at the quantity and quality of information that is there. It is a very candid assessment, and I think you may find a lot of what you are looking for there because we display more information than you would normally put up for the average layperson to read. It actually does give real information for the technical expert.

Mr. CUELLAR. Right, and I believe the Chairman Nussle and ranking members, we had a hearing here last year and Clay Johnson, Mr. Johnson, was here. And I understand that information is there. But what I am looking at is to try to package it where we can extract really the performance measures and the objectives that I think will be useful for the Members so we can have this in a more easy format. Mr. Johnson will be perfect. I know him very well from Texas. And all I am asking is that we can kind of put this in a quick time frame.

Mr. BOLTEN. I am sure he would be pleased to do that.

Mr. CUELLAR. Thank you, Mr. Bolten.

Mr. CRENSHAW. Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman. Mr. Bolten, let me start out by complimenting the administration for this budget relative to the historical standards of this city. Proposing a budget that only increases Federal spending by a little over 2 percent is certainly noteworthy, and I congratulate you for that.

Obviously your budget has received a lot of criticism from our friends on the other side of the aisle principally for its failure to call for a large tax increase and for your measures to begin reforming entitlement spending.

With few exceptions, and there have been some exceptions particularly from the gentleman across my way here, I haven't seen a whole lot or heard a whole lot on constructive suggestions on what their plan is. Recently, I saw a GAO study from December that says that if we keep discretionary at its historic standards, if we fail to reform our entitlement spending, within one generation, specifically the year 2040, we are on a collision course to do one of two things, either one, increase taxes on the next generation 2½ times or, two, we would have to reduce Federal spending by roughly two-thirds, or essentially the Federal Government would consist of Medicare, Medicaid, Social Security and very little else.

So No. 1, I am curious if your own conclusions, does that study paint a fairly accurate picture?

Mr. BOLTEN. It does, Mr. Hensarling, and I think it was graphically demonstrated in the chart we had up earlier where you see the black revenue line.

Mr. HENSARLING. Forgive me, I was a little late and so I missed your presentation.

Mr. BOLTEN. That is all right.

This chart, what it shows is that when you get out in that range of 2040, if you assume Federal revenues remain at roughly constant 18.2 percent of GDP, which is a historic average, by the time we got to that date you would need to spend all Federal revenue on mandatory programs plus the associated interests, you would have no money left over for any of the discretionary spending, including defense, education, housing, veterans, and all of the other things, the services that people expect from government.

Mr. HENSARLING. These are subjective terms, but some on the other side of the aisle have described your budget as being unfair, irresponsible, and lacking compassion.

In your judgment, is it fair, is it responsible, is it compassionate to more than double taxes on the next generation, or to cut every Federal program practically with the exception of the big three entitlements?

Mr. BOLTEN. No. It would be a very bad legacy to leave to the next generation, rich or poor, because they would all end up being poor.

Mr. HENSARLING. There has been some talk here obviously for different aspects of budget enforcement, budget process reform. It is a subject near and dear to my heart and frankly there has been some good ideas on the other side of the aisle as well and I understand that the President, I guess in every budget that he submitted he has called on some form of extending the Budget Enforcement Act and he does yet again in this budget. But there is a tendency in this town when all is said and done that there is more said than done.

I certainly saw the administration become very enthusiastic about passing the prescription drug benefit bill. I have yet to see that level of enthusiasm replicated for retooling what I view as a Washington spending machine into one that would be a savings machine for American families. So I guess my question is, tell me something encouraging that somebody else besides OMB is going to get excited about actually enforcing these budgets and changing the budget process.

Mr. BOLTEN. Well, Mr. Hensarling, I think you should have drawn encouragement from the words of the President himself in the State of the Union when he explicitly referred to the importance of spending restraint here in Washington, the importance of budget process reform, specifically obtaining a line-item veto or as I was discussing with Mr. Ryan, coupling that with some enhanced rescission process and, most importantly, taking on the problem we just talked about, which is entitlement reform and trying to do that on a bipartisan basis.

Mr. HENSARLING. This might be a rhetorical question or maybe I can get the answer later, but I believe that already the administration proposed and Congress has enacted close to \$100 billion in hurricane relief. Now you are asking for another \$18 billion in supplementals. Some of us want to know what is the proper Federal role in hurricane relief? Where is the accountability? And what

reforms will be enacted so that the factory worker in my district in Mesquite, Texas doesn't have to do this again in 5 years.

But I see my time is out. But I look forward to maybe getting a written answer to that question. Thank you very much.

[The information referred to follows:]

OMB'S REPLY TO MR. HENSARLING'S QUESTION REGARDING THE FEDERAL ROLE IN HURRICANE RELIEF

The Federal Government's role in hurricane relief is largely spelled out in the Stafford Act and provided through the Federal Emergency Management Agency (FEMA). This Act recognized that Federal coordination and resources are vital to protecting lives and property when state and local resources are overwhelmed. Much of FEMA's assistance is provided through the Disaster Relief Fund, which provides direct assistance to victims, and supplements state and local response resources. Recognizing that disaster response is a shared responsibility, several FEMA programs have state and local matching requirements.

FEMA also administers a flood insurance program that is financed by premiums. The extensive damages caused by Hurricane Katrina have caused flood insurance losses to exceed resources available to this program. To ensure these insured losses are covered, the Administration has sought additional resources for this program and has proposed reforms to ensure this program is solvent in the future.

In addition to these two programs, the Federal Government traditionally responds to hurricanes with disaster assistance through the Small Business Administration (SBA) and to rebuild Federal highways through the Department of Transportation.

Hurricane Katrina was the most damaging natural disaster in the nation's history. To assist the region in its recovery, the President also has proposed and signed into law tax relief. He has also proposed Community Development Block Program (CDBG) grants to assist the regional recovery efforts led by State officials. To protect New Orleans from future hurricanes, the Corps of Engineers is rebuilding levees and making other improvements.

While FEMA assistance must be provided rapidly, FEMA has a number of control mechanisms to ensure that agencies and state and local governments are accountable for FEMA funds. For Hurricane Katrina, the Administration has taken a number of steps. First, to address problems arising from the immediate response to Hurricane Katrina, the President's Homeland Security Council conducted a lessons learned exercise and issued a report on February 23, 2006 that included 125 recommendations. Second, to oversee the rebuilding and recovery effort, the President appointed Don Powell as the Federal Coordinator. Third, most Federal assistance has been and will be provided through FEMA within the Department of Homeland Security (DHS). DHS's Inspector General has established an Office of Katrina Oversight to conduct audits and reviews to closely monitor the expenditure of disaster funds.

Chairman NUSSLE [presiding]. Mr. Davis.

Mr. DAVIS. Mr. Chairman, I think by now, Mr. Bolten, you have some sense of the general flavor to the argument we have over the tax cuts. The chairman and my colleagues on the other side of the committee room today point out the job creation is up, the GDP is up, and they cite that as an example of the success of the Bush policies. And you have heard our refrain, that job creation was substantially higher in the 90s, that GDP was substantially higher in the 90s and the marginal rates were higher and taxes were a greater percentage of GDP. I think you get that underlying dispute.

So let me try to possibly inject a little bit more evidence into the argument.

Wage growth in the economy, looking at—Mr. Hensarling mentioned the people who work in Mesquite, Texas. Wage growth for people in the manufacturing sector and the service sector, what the overwhelming majority of people do in this country, is wage growth at a higher level or appreciably higher level today, Mr. Bolten, in fact in 2004 and 2005 than it was in the 2 years before the Bush tax cuts were enacted?

Mr. BOLTEN. The wage growth I believe has been relatively flat over that period.

Mr. DAVIS. Been about the same. Let me turn to another indicium. Several of my colleagues on this side of the aisle talk about the value of people having more money to put in their pocket, more money to spend. Discretionary income on the part of the taxpayer is perhaps best defined by the percentage of his or her income going to paying taxes.

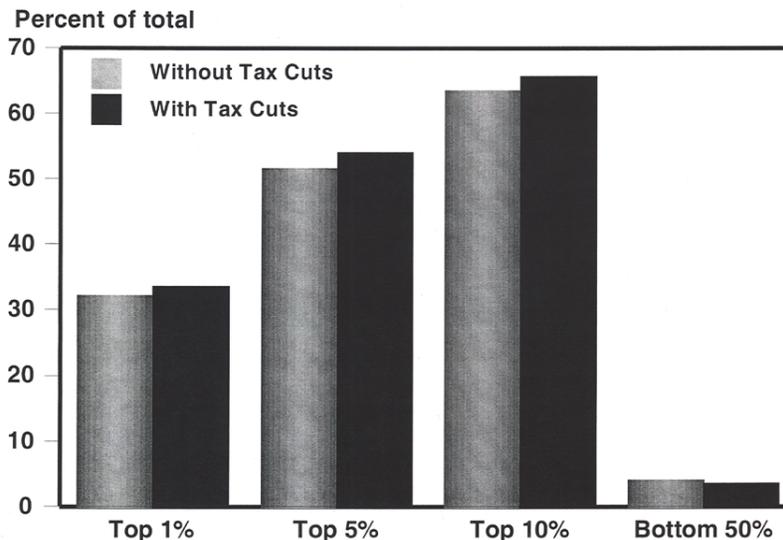
Looking at wage earners earning less than \$150,000 a year, majority of wage earners, is the percentage of their income going to the combined State and Federal taxes appreciably less in 2004 and 2005 than it was in the 2 years prior to the enactment of the Bush tax cuts?

Mr. BOLTEN. Yes, I believe it was.

Mr. DAVIS. The numbers I have show it is about the same.

Mr. BOLTEN. Let me offer chart number 32 if I could to illustrate the point. I cannot speak to the State burden. This is just the Federal and that is—

Share of Individual Income Taxes in 2005



Mr. DAVIS. Well, that is the significant part of my question, unfortunately, because the taxpayers' pocketbooks don't distinguish between State and Federal. They are both taken out of your taxes. So again for the sake of time, and I don't know I will accept that as an answer, but do you know if the combined Federal-State burden is less today than in the 2004-2005, than it was before the Bush tax cuts?

Mr. BOLTEN. I can't speak to the combined burden but what I can tell you is that the burden on all taxpayers who are below 50 percent is lower today than it was before the tax cuts. They are paying a lower percentage of the overall tax burden, and all of the higher income earning brackets, the top 1, 5, and 10 percent are

paying a larger share of our income tax than they would have been without the tax cuts.

Mr. DAVIS. Let me turn to another measure that most people think is important, the rate of savings, again the theory being that if people have more money, if they could save more, is the savings rate in our economy appreciably higher today than it was before the Bush tax cuts?

Mr. BOLTEN. I don't have that year-on-year data. The savings rates are a matter of concern, which is why—

Mr. DAVIS. Are they higher than they were before the Bush tax cuts?

Mr. BOLTEN. I don't know. But what I can tell you is that in this budget there are a number of proposals to promote enhanced savings in this economy, which is what we need.

Mr. DAVIS. But just for the sake of time, you would agree with me that we can't document that the overall savings rates are higher than before the tax cuts? And we turn to two other indicia, the number of business failures in the economy in 2004 and 2005. Another theory we often hear is the tax cuts make it easier for people to act on their entrepreneurial instinct. Are the number of business failures appreciably better in 2004 and 2005 than it was in the 2 years before the Bush tax cuts?

Mr. BOLTEN. I do not know the data, Mr. Davis.

Mr. DAVIS. Let's look at the level of new business creation. We talk about new job creation. As far as new business creation goes, is there an appreciably higher number of new businesses created in this economy in 2004 and 2005 than in the 2 years before the Bush tax cuts?

Mr. BOLTEN. I would expect that there are more businesses—

Mr. DAVIS. Do we know?

Mr. BOLTEN. There are certainly a lot more jobs. The important part is that jobs are up dramatically.

Mr. DAVIS. I understand that. I don't mean to cut you off but I am making a specific point that presumably the evidence ought to be somewhat relevant to this argument.

Let me wrap up. I think you get the point I am making, Mr. Bolten. Clearly, the case can be made that there are some good economic things that have happened in the last several years. There is an old story about a priest in Philadelphia who went to see boxing matches and he would often see one of the boxers walk in the ring and he performed the cross before he would go in to fight. And 1 day somebody said, well, Father, does that do any good? And he said yes, if he knows how to fight.

Make no mistake. There have been some good things that have happened in the economy, but if I can invoke the Ander Crenshaw 15-second wrap up rule, Mr. Chairman, there have been good things in the economy, there have been some less successful things in the economy. The challenge for the committee is there is an indisputable consequence from the tax cuts in terms of revenue, in terms of drawing money from other discretionary spending, in terms of limiting our capacity to cope with mandatory spending crises. Those are indisputable consequences, and there ought to be a powerful reason on the other side, in my opinion, for continuing in these policies.

And frankly if you look at these important indicia from business creation and savings rate to wage growth, the reality is that things are not dramatically better. And on this point I was interested in seeing Mr. Nussle and Mr. Wicker make the somewhat interesting comment that the purpose of our fiscal policy is to make lives better for the American people, and it is a decidedly unconservative premise on their part, but even granting that premise, I wonder if the real empirical evidence suggests that that is the case. Thank you, Mr. Chairman.

Mr. BOLTEN. Mr. Chairman, may I have one 15-second comment to close.

Chairman NUSSLE. I will give you the same amount of time to respond, which was hardly 15 seconds.

Mr. BOLTEN. I will use only 15, just to say that I don't agree with Mr. Davis' view of the economy. I think we have a very solid, strong economy under way at this point. But if I did agree with his view of the economy, I would feel even more strongly that this would be exactly the wrong time to raise taxes on the American people.

Chairman NUSSLE. Mr. Lungren.

Mr. LUNGREN. Thank you, Mr. Chairman. In response to Mr. Davis' question, there ought to be a principle as to why we keep tax cuts. It is the principle that it ain't your money. Taxes are involuntary takings of money from individuals who have earned it in some way, shape or fashion. Maybe I have been away from this place too long, but when I come here and hear the debate now that we can't afford not to raise taxes because that costs the government something, what concept is that? That an American citizen, sitting in their own home, making whatever they make, giving it to someone else and in return getting money for the labor that he has put in or she has put in and suddenly they are costing the government something because they haven't given them everything they have got.

Mr. DAVIS. You are guilty of a pre-911 mindset, Mr. Lungren.

Mr. LUNGREN. I didn't interrupt you on this. I am just trying to get what the principles are down here.

Mr. Bolten, I admire you greatly and everything you have said, but they have beaten you down such that you made a statement a minute ago that is extraordinary. When you were talking about mandatory spending, you mentioned the area of discretionary spending defense.

Now my reading of the Constitution is the first thing that we are required to do on the Federal level is provide defense. And we have gotten so far in the Budget Committee that now we consider defense as discretionary and all these other things as mandatory. It suggests we really have gone out of control. We now are told that the fruit of your labor is not yours, it is the Government's, and if you don't give them everything you have cost the Government something. We have now been told that there is mandatory spending that is going to eat everything up and leave nothing for discretionary spending such as defense. I mean this is Alice in Wonderland. Up is down. Down is up. This is crazy.

We can talk about budgets all we want. Folks are saying that if we don't keep the tax cuts in—we are saying that if you don't keep

the tax cuts in or raising taxes, again I was here with Ronald Reagan. We put tax cuts in, and I never knew we had to defend them out 20 years and say if you don't get rid of those tax cuts you are being somehow dishonorable, you are costing the American public something. The idea is we give people tax cuts. That is the new rate. So if you are going to go and do something which raises them on them, it seems to me that to the average person that is an increase in taxes.

There is two ways to make sure the government gets zero revenues. One is to have a tax rate that is zero, but the other one is to have a tax rate that is 100 percent. Because dynamic scoring would tell you that if you tax people at 100 percent they ain't going to work. And if they are not going to work, the government gets nothing. And the question is where do we find that balance?

And the big debate between us, the big cleavage that I find here, is that you folks think that the American people can bear a larger and larger tax burden without doing anything to stifle their creativity, the amount of money they want to take home, the amount of work that they are going to do.

And the point that Mr. Davis was making just a moment ago that we ought to talk about how much total taxes people are paying is an important one. But I would draw a slightly different conclusion to Mr. Davis. If we hadn't had those tax cuts in, no matter what the level that they are paying now for the State is, they would have paid far more unless you are suggesting that the States would automatically charge their folks less because we are charging them more. I mean the fact of the matter is people generally feel that they don't have an obligation to pay us more in taxes.

And so I come back to this, what are we really going to do to try to keep spending down? Because that is what we should be talking about here in the budget side. This sounds like the Ways and Means Committee when I listen to my friends on the other side. They are always talking about raising taxes, but they don't call it that. They want to say, don't extend the current rates. OK, well, don't extend the current rate because of the budget situation and laws that we have. That is called a tax increase as far I am concerned. But you talked about deferrals as one of the processes you used. It sounds to me that that is enhanced impoundment. We had a little problem with that following the Budget Act.

So I would ask you a couple questions. One is should we maybe be putting more emphasis on the suggestion we have here in this body of enhanced rescission because that seems to be the mechanism by which we allow the legislative branch to have a say as well?

And lastly this, why don't we consider just freezing spending? By my calculations, based on the figures you have, by the year 2009 our receipts would catch up with our outlays. And that is what most normal families would do. Why can't we? I know the political requirements are tough. But why don't we use that as a target?

My last question is have you suggested the President veto a single spending bill?

Mr. BOLTON. Let me take the last one first, Mr. Lungren. I have recommended on many occasions that the President veto bills, and those recommendations have typically been incorporated in the

statements of administration position that the administration has sent up on bills. And in all cases, the Congress has made modifications so that it was not necessary for the President to exercise his veto.

Last year was a very good example in which we threatened on many occasions the President's veto if the President's spending limits were exceeded. The Congress and appropriators, you among many Members, were contributors to ensuring that that the appropriations bills came in at or below the levels that the President requested. And I think last year is a good record because that is a year in which at least the nonsecurity elements of spending were frozen.

I will go back to your earlier remark about, I didn't mean to cause you consternation by suggesting that I thought entitlement programs are in the normal English sense of the word mandatory and that defense is discretionary. On the contrary, when the President gave me instruction on putting this budget together he said the top priority is protecting the national security, and that is reflected in this budget.

Finally, on the budget process issues you mentioned, yes, I think it is useful to examine the enhanced rescission processes that Mr. Ryan was talking about. I believe and our lawyers believe that we can do a line-item veto in a constitutional way, but regardless I don't see any inconsistency in going forward with both proposals at once. I think both arrows belong in the President's quiver in assailing unnecessary spending.

Chairman NUSSLE. Ms. Schwartz.

Ms. SCHWARTZ. Thank you, Mr. Chairman. I have been asked by my colleagues to yield and I will only be 30 seconds. I would like to yield back just 30 seconds of my time and I will let the chairman monitor this, to Mr. Davis, and then I will be happy to make my comment and ask my question.

Mr. DAVIS. I thank the gentlelady for yielding just to briefly address your point, Mr. Lungren, for someone earning over a million dollars the average tax cut they receive this year is \$103,000. You can pare that down to \$90,000 and recoup all the Medicaid savings that happened in the reconciliation last week, pare it down to 95,000, recoup the savings in the child support enforcement program. I am always struck by this theory of agony for millionaires, have gone from \$103 to \$95, and I thank the gentlelady for yielding.

Ms. SCHWARTZ. Thank you. I want to bring up an issue that really we have only barely touched on and I appreciate all the conversation on our side of the aisle has really been about priorities. Budgets are about priorities. You have spent your time this morning being very clear about the fact of the priorities of restraining spending, particularly in education, health care, and on that being the priority of this administration to accept actually I think really astounding deficits that many of us on this side of the aisle are very concerned about the fiscal irresponsibility of those continuing deficits and the huge debt this country is in and the fact that we are spending more on our interest payments than we spend on veterans health care and homeland security and education combined.

But set that aside because my side of the aisle has talked about that, talked about some of those issues.

Yesterday I had a family in my office with their son, who is an American soldier just returned from a year in Iraq. And we spent a good bit of time, as you might imagine, talking about the war in Iraq, about his service to this country and about what he has been through. What is interesting to me is that at the end of this conversation many things he said and the parents said and his younger brother, all three sons have chosen ROTC because of their love of this country, their commitment to service, but always also to help pay for college. Two of them are serving in Iraq. One just came back, one is just entering college in May and in August he will be put in harm's way.

But what is really particularly interesting to me is at the end of the conversation one of the parents said to me that did any of us, were any of us paying attention, and I will ask you this question, paying attention to the fact that while we are engaged in what may be important internationally in in fact countries like China where we are borrowing most of the money to operate to meet our obligations, are investing in their children's education in science and technology, in energy independence and in their infrastructure? And are we worried about what that means to our ability for her sons, my sons, Americans to be able to compete in the global marketplace in 20 years if in fact, as this administration said, we are not going to make the kind of significant investments in energy independence, for one, or in education or health care or some of the other things we have talked about. So I wanted you in the time remaining to specifically, because we haven't talked about it much, talk about energy independence.

I think we were looking for—the President's State of the Union speech was presented to us as being a huge step forward in terms of energy independence, and yet not only did those figures not point that out that we are not, that it is not going to happen when you look at the real numbers you are looking at, in fact the President's request being less than what was authorized previously for research and development and renewable energy and hydrogen and fuel efficiency, that in fact its own Secretary of Energy spoke up immediately the next day to say the President was just giving an example that we might be able to reduce our dependence on foreign oil by 75 percent on fossil fuels in particular, and just let me say this is a question of priorities. Because last year we actually offered and gave the oil industry \$14 billion, and yet we are talking about a \$2.1 billion investment in research and technology on new energy sources. So while the other side keeps saying this is about spending more money, I would say, and many of us are saying, it is a question of what we are spending our constituents' tax dollars on. Are we going to do it in a way that builds energy independence, builds a future for this country and for our young people, or is it going to be something that subsidizes the oil industry that, as you may know, ExxonMobil alone made \$36 billion in profits—not revenues but profits last year? People are having a hard time heating their homes this winter, paying for gasoline at the pump. What in this budget really tells my constituents and all Americans that we are really looking toward the future as that mother asked me?

Mr. BOLTEN. It is an important question, and I compliment your constituents first on their service but also on the mom's farsightedness about what the real challenges are in this economy, because I think the administration agrees with that.

On education, the President's record I believe is strong particularly on the No Child Left Behind education spending. The President's record over the course of his Presidency is about a 30-percent increase overall in education spending. This year while overall spending is down, spending in the No Child Left Behind—

Ms. SCHWARTZ. Could you speak to the energy question, please, because you did speak to education before?

Mr. BOLTEN. On the energy side, first of all, there were some important measures adopted in the Energy Act that this Congress adopted last year. But in addition, the President has put a number of important proposals into this budget and were mentioned in his State of the Union address. His Advanced Energy Initiative constituted a 22-percent increase in funding for a variety of renewable energy sources, including increases in hydrogen technology, fuel cell technology, biomass is the one that he mentioned in particular, solar wind, geothermal. There is also a substantial amount of money in the budget to promote clean and safe nuclear power, which needs to be part of our overall mix—

Ms. SCHWARTZ. Maybe because time is up and you could provide—there was really quite a big difference of presentation, if you will, from what the President said at the State of the Union and what the Secretary of Energy and what the dollars that you suggest in terms of what the previous commitment was, what the expectation was in terms of what we would spend this year and what the hard dollars are in this budget. So I think that is really important for us to know how much is rhetoric and how much is actually going to really help us be able to move forward in this country toward energy and independence.

Mr. BOLTEN. I will be glad to provide that. I hope you will see—when the budget proposals are racked up you will see the substantial investment there in the kind of forward looking energy policy this country needs.

[The information referred to follows:]

OMB'S REPLY TO MS. SCHWARTZ' QUESTION REGARDING ENERGY POLICY

Since 2001, the Administration has spent nearly \$10 billion to develop cleaner, cheaper, and more reliable alternative energy sources. As a result, America is on the verge of breakthroughs in advanced energy technologies that could transform the way we produce and use energy. The 2007 President's Budget builds on this progress, through the Department of Energy's (DOE) Advanced Energy Initiative (AEI) which provides a 22 percent increase in funding for clean-energy technology research to change the way we fuel our vehicles and the way we power our homes and businesses. Specifically, the 2007 Budget request \$2.1 billion for the AEI including \$771 million for Energy Efficiency and Renewable Energy programs, \$444 million for Fossil Energy programs, \$392 million for Nuclear Energy programs, and \$539 million for Science programs.

Mr. BAIRD. I thank Mr. Bolten for being so generous with your time and thank the chairman. I have got a few quick questions to ask. I think you mentioned at the start of your remarks, and Mr. Lungren echoed this, that if tax cuts currently on the board are not extended that is tantamount to a tax increase.

I don't see in the President's budget a calculation of the continuation of sales tax deductibility for the seven States that have no income tax but do have sales tax. Those States are my home State of Washington, the President's home State of Texas, the Vice President's home State of Wyoming, the President's brother's State of Florida and also Tennessee, Nevada, and South Dakota.

Now, is it the administration's intent to raise taxes on people from those States?

Mr. BOLTEN. No, I don't believe so. The question of sales tax deductibility is one that was not part of the President's original tax program.

Mr. BAIRD. True, but it was passed by the U.S. Congress into law and applies this year. And if it is not extended would that be not tantamount to a tax increase?

Mr. BOLTEN. The question of sales tax deductibility I think is one that we believe ought to be addressed in the concept of overall fundamental tax reform, which we continue to support.

Mr. BAIRD. But you chose to target other taxes for extension, did you not? And I know the President is a strong advocate of extending capital gains and dividend tax cuts and would imply that if we don't support those then we support a tax increase, but yet in your own budget you aren't supporting extension of the sale tax deductibility.

Mr. BOLTEN. All that is reflected in the budget for permanent extension is proposals that the President made and were enacted 2001 and 2003.

Mr. BAIRD. So the President is not supporting extension of tax cuts for the people in those States and that seems to me to be tantamount to supporting an increase in the taxes. I don't know how you avoid it given your logic.

Mr. BOLTEN. As I said, we think that is an issue that can and should be addressed in fundamental tax reform.

Mr. BAIRD. Well, the taxes on these folks will be increased if we don't extend this. I founded the Congressional Meth Caucus along with Chris Cannon and Ken Calvert. It is the number one drug of abuse in many counties in this country, and by my calculations, and maybe you can correct me if I am wrong, we are looking at a \$376 million cut to the COPS program, \$23.5 million cut to Meth Hot Spots, \$353 million cut to Safe and Drug Free Schools, complete elimination of Byrne grants, I have to tell you, Mr. Bolten, back home my local sheriffs and police officers are reeling at the prospects of these cuts. They are fighting a very difficult frontline battle. I don't know if you have been out there and met with these folks and seen these meth labs and seen the kids and families destroyed by them. Do you really think we can deal with this problem which is tearing up our families and our communities with these kind of cuts?

Mr. BOLTEN. Well, the administration I believe, remains strongly committed to addressing the problem of methamphetamine, and the programs that you referred to are more general grants to first responders that we believe are more in the realm of local responders.

Mr. BAIRD. I can tell you if you talk to those folks they will tell you they can't make it without these programs. One of the things

I find interesting here is we come to visit with you having just met with our local folks. And in addition to hearing from our local police and sheriffs, I just met with school districts. And I can tell you the shortfalls in title I funding that don't meet the demand in title I are going to leave some of our schools—and I just had school board members and community college presidents and board members here that last 2 days. They are telling me they can't do it. They are telling me they are going to significantly face not just hardships. In our State you have a limit on how much your local levy can be. If we receive the kind of cuts and shortfalls that these folks are looking at, they will not be able to meet the needs of special ed kids and other folks that are covered in Title I. And I just would invite you, and I mean this quite sincerely, would invite you to meet with some of these folks because they could give you a pretty clear picture of demands placed on them by No Child Let Behind and other Federal mandates and shortfalls resulting from the budget.

I don't expect you to answer it, but I can tell you we live in a different world sometimes. I go home nearly every weekend and these folks tell me, this is what is happening to us on the ground, and come back here and it is all rosy. And boy, the dichotomy we face is astonishing. So I extend an invitation to come to Longview, Washington or Kelso or Centralia, especially when it comes to vocational ed. The elimination of the Perkins program will devastate our vocational ed program. I just have to tell you that. You need to understand that kids who are trying to get an alternative to the college track will not be able to do so or will not be able to keep up.

The final thing I just would mention, the King of Jordan is here meeting with President Bush, met with him this morning. He met with Members of Congress today. My understanding is that Jordan has in it a request for about \$200 million in aid. By my estimate, that is about one-fifth of what we spend in Iraq in 1 week. Now, this is one of the strongest best friends we have in the region. And I would urge this committee, Mr. Chairman, and this body, if we can't find \$200 million to help the people of Jordan who have been steadfast friends to this country, who are a model of a moderate, responsible, and a progressive state in that region, I think our priorities are totally out of whack and I would encourage the President to support it, and I hope this committee will put it in the budget on both sides. Any comments on that?

Mr. BOLTEN. Only to say that I know the administration, Secretary Rice, shares the concern about adequately supporting the government of Jordan. I can't say what is in the budget now—I can't say what may be coming forward in the future, but it is a matter of substantial concern.

Mr. BAIRD. Well, we should be able to find one-fifth of 1 week of Iraq's spending to help Jordan out or we have our priorities a little crazy in that region. I thank the gentleman.

I thank the chairman.

Chairman NUSSLE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman. Light is gone. Mr. Chairman. I barely got my light on. I lost 20 seconds.

Chairman NUSSLE. We are holding it for you.

Mr. JEFFERSON. Thank you, Mr. Chairman. I appreciate the chance and Mr. Bolten for waiting as long as you have.

I am like a lawyer with one client. It is just all about the recovery in my State, and I am concerned about what is happening with our Corps of Engineers. In the last year from budget to budget, as we read, it is 43 percent overall reduction, critical studies budget and 30 percent less for flood control and protection. These are the kind of cuts that led to the catastrophe that has occurred in my part of the country and that led to the flooding which is largely, as you may or may not agree, most studies now show largely man-made as opposed to resulting from a natural disaster. The levees failed because the Corps didn't do the levees right or didn't maintain them right or design or construct them right.

And we think there is some responsibility. I heard the question, how much responsibility ought the Government have? Well, if it were just a natural disaster maybe we could argue that point. But if it is actually what we know it now is, a manmade disaster at the hands of our Corps and others who didn't do their job, then we have, I think, a different standing here, and so as a consequence I am really concerned about the level of support that the Corps budget has for these critical issues. And I would like to figure what the thinking is of the administration not applying a great deal more resources in this area to flood protection.

Mr. BOLTEN. Mr. Jefferson, I will leave to others in the lessons learned exercise and evaluation of what exactly went wrong there. The one thing I do know is that it is not a lack of funding that caused the problem down in the gulf. Corps of Engineers funding during the course of this administration has not declined from the previous administration. And when you see the numbers that come up in the budget proposals that we have put before you today, the cuts that appear in there are the administration stepping in and striking out earmarks for programs that do not meet our cost-benefit analysis.

The real challenge I believe in the area of the Corps of Engineers, where almost every member of this body has some interest in a water project in their district, is ensuring that the money we do spend goes to the highest priorities like protecting those areas most at risk.

Mr. JEFFERSON. I just say the earmarks that were there were because of underfunding by the Corps on these projects. And the Corps usually requests more projects than the administration approves almost all the time. The Corps is lined up with us with respect to what we are requesting more than the administration was. And it is just not this administration but it has been happening for years. And it is time, we think, to address it. So in this whole area—

Mr. BOLTEN. Can I also say, Mr. Jefferson, that on top of the regular 2007 budget that you see presented before you now the administration has also made substantial supplemental requests for funding in the Corps of Engineers of around \$3 billion to begin to address the problems that are there now in the gulf.

Mr. JEFFERSON. We appreciate that. I went to the Netherlands with a CODEL just recently where they are operating 20 feet below sea level over there with an integrated system of flood control, of

dikes and barriers and various canals and various lock systems and so on. And they generate \$400 billion in the economy 20 feet below sea level. And we are only 4 feet below sea level and people telling us it is impossible. It is not impossible if we apply the right commitment to it.

And let me say one other thing in overall issues of deficits that concerns me. We are at a time now where we have enjoyed a strong economy. Folks have said here, strong economic growth in last few years. And yet we have these huge deficits. A few years ago CBO said our problem was largely caused by the bursting of the bubble with the stock market, by other economic shocks in the system.

They now conclude that about 8 percent of what is happening is because of the economy, or the deficits I am saying, and the rest of it is because of shortages we will be making here in Congress. So the economy, the issues about the tax cuts and the rest that we have heard here today also, whether we extend taxes and all that, seems irrelevant to this whole point because what the economy has come back from, wherever it was, and to the extent that taxes had anything to do with it they were intended as stimuli and if that was the case of doing their job, this is why they were temporary in the first place. They weren't intended to be permanent, they were intended to give a jolt. Let's assume they did their job. Now the economy is back together and we are suffering these huge deficits nonetheless, which is, so how do you explain this dichotomy of a strong economy and huge deficits at the same time?

This is a, tough, tough problem we have to face up to here and we have to face up to it in ways other than talking blithely about the effect of tax cuts.

Mr. BOLTEN. I would point first partly to some lag effect that as the economy recovers there is a little time before the strong revenues start coming back. The economy was starting to recover in 2003 with the implementation of the last major set of the President's tax cuts. It wasn't until 2004 that we saw the economy really strengthening and revenues coming back strongly, and then 2005, when we had the real spike, good spike in revenues that we experienced then.

The one thing I would say is that we now have an economy that is operating effectively, that is producing jobs, that is reducing the unemployment rate, generating home ownership, where business investment is strong, and our strong belief is that a tax increase on that economy would send us in the wrong direction.

Now, why are we still in a deficit situation today? There are a lot of reasons for that. But the two biggest ones are that we are in a war and we are trying to respond to the most catastrophic and expensive natural disaster in this country's history. So those two factors alone are a substantial contributor to the deficit situation we are in.

We also need to just get our spending appetite under control here in Washington. In the short to medium run, as I have said before, I believe our situation looks good if we follow the course that is laid out in the President's budget.

The real challenge is the one that I have addressed with many members here, including, beginning with the chairman, is that our long-term fiscal situation is where our real danger lies, and that is

a danger that is produced by the unfunded obligations in our entitlement programs, which is what we must begin to address, I hope on a bipartisan basis.

Mr. JEFFERSON. I hope we can, too. Last thing, I don't have any time left, if you—it is an argument that is circular, if you don't extend the tax cuts then of course you can afford these unexpected costs, the war, and the hurricanes. If you do extend them of course then these things become issues that you can say are the reason for the deficit. So it is argued, you know, both ways.

So I frankly think that we can anticipate better what is going on with recovery in the gulf and what will be needed there than we can with the issues about war. That soon has to be assigned to some supplemental idea. But we do know the cost of recovery is going to be tremendous down there and we do know that the cost of preventing the flood system can be estimated with more certainty than the cost of war. And I hope it would apply different standards to this as we go about trying to fix these two sets of issues.

Chairman NUSSLE. Director Bolten, thank you for spending the time with the House Budget Committee today. We know you have other obligations in front of other committees. We appreciate the time you spent with us today and we look forward to working with you as we develop the budget for fiscal year 2007.

Mr. BOLTEN. Thank you for your courtesy, Mr. Chairman.
[Additional questions submitted for the record:]

MR. SIMPSON'S QUESTION REGARDING THE TRIO PROGRAM

We know that nearly one-third of the low-income high school graduates who immediately enroll in college were touched by a Federal TRIO program. And, as President Bush recently mentioned in his State of the Union Address, we know that America needs to keep expanding its educated labor pool if we are to remain internationally competitive. We also know that Americans, across all demographics of income, location and party affiliation, overwhelmingly support programs like TRIO that help low-income and first-generation students go to college. Why then, in the face of both clear need and tremendous public support, would the Bush Administration choose to eliminate two effective and popular programs that help low-income students attend college?

OMB Answer: The President's 2007 Budget would continue significant investments in support of low-income high school students through the President's proposed \$1.5 billion High School Reform program. This initiative would provide States with flexible funding to support a wide range of effective interventions. In return for this flexibility, States would be held accountable for improving student achievement and graduation rates. Under the High School Reform initiative, States may support activities similar to those carried out under TRIO programs, as long as they deem these strategies to be the most effective means for improving student performance.

There are also other new or expanded high school activities that are being proposed in the President's 2007 Budget, including \$100 million for Striving Readers and \$380 million in new funding for programs that are part of America's Competitiveness Initiative.

Chairman NUSSLE. Thank you. This hearing is adjourned.
[Whereupon, at 2:05 p.m., the committee was adjourned.]