AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

PRESIDENT'S FISCAL YEAR 2007 BUDGET WITH OMB DIRECTOR JOSHUA BOLTEN

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

FEBRUARY 8, 2006

Serial No. 109–54

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

30–434 WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON WAYS AND MEANS

BILL THOMAS, California, *Chairman*

E. CLAY SHAW, JR., Florida
NANCY L. JOHNSON, Connecticut
WALLY HERGER, California
JIM MCCRERY, Louisiana
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
PHIL ENGLISH, Pennsylvania
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY C. HULSHOF, Missouri
RON LEWIS, Kentucky
MARK FOLEY, Florida
KEVIN BRADY, Texas
THOMAS M. REYNOLDS, New York
PAUL RYAN, Wisconsin
ERIC CANTOR, Virginia
JOHN LINDER, Georgia
BOB BEAUPREZ, Colorado
MELISSA A. HART, Pennsylvania
CHRIS CHOCOLA, Indiana
DEVIN NUNES, California

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM MCDERMOTT, Washington
JOHN LEWIS, Georgia
RICHARD E. NEAL, Massachusetts
MICHAEL R. MCNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL POMEROY, North Dakota
STEPHANIE TUBBS JONES, Ohio
MIKE THOMPSON, California
JOHN B. LARSON, Connecticut
RAHM EMANUEL, Illinois

ALLISON H. GILES, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

Pursuant to clause 2(e)(4) of Rule XI of the Rules of the House, public hearing records of the Committee on Ways and Means are also published in electronic form. **The printed hearing record remains the official version.** Because electronic submissions are used to prepare both printed and electronic versions of the hearing record, the process of converting between various electronic formats may introduce unintentional errors or omissions. Such occurrences are inherent in the current publication process and should diminish as the process is further refined.

CONTENTS

	Page
Advisories announcing the hearing	2
WITNESS	
Hon. Joshua B. Bolten, Director, Office of Management and Budget	6
SUBMISSION FOR THE RECORD	
Embassy of Peru, statement	49

PRESIDENT'S FISCAL YEAR 2005 BUDGET WITH OMB DIRECTOR JOSHUA BOLTEN

WEDNESDAY, FEBRUARY 8, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 4:36 p.m., in room 1100, Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

[The advisory and revised advisory announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 01, 2006
No. FC–17

CONTACT: (202) 225–1721

Thomas Announces Hearing on the President's Fiscal Year 2007 Budget with OMB Director Joshua Bolten

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2007 within the jurisdiction of the Committee on Ways and Means. **The hearing will take place on Wednesday, February 8, 2006, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 3:30 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from the Honorable Josh Bolten, Director, Office of Management and Budget (OMB). However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

President George W. Bush has outlined several budget and tax proposals. The details of these proposals are expected to be released on February 6, 2006, when the President is scheduled to submit his fiscal year 2007 budget to the Congress.

In announcing the hearing, Chairman Thomas stated, "I look forward to Director Bolten's appearance before the Committee and discussing details of the President's budget and policy initiatives."

FOCUS OF THE HEARING:

Office of Management and Budget Director Bolten will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "109th Congress" from the menu entitled, "Hearing Archives" (http://waysandmeans.house.gov/Hearings.asp?congress=17). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business Wednesday, February 22, 2006. **Finally,** please note thatdue to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments.µ Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 06, 2006
FC–12–Revised

CONTACT: (202) 225–1721

Change in Time for Hearing on President's Fiscal Year 2007 Budget with OMB Director Joshua Bolten

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee hearing on President Bush's budget proposals for fiscal year 2007 within the jurisdiction of the Committee, previously scheduled for 3:30 p.m. on Wednesday, February 8, 2006, in the main Committee hearing room, 1100 Longworth House Office Building, **will now be held at 4:30 p.m.**

All other details for the hearing remain the same. (See Full Committee Advisory No.FC–17, dated February 1, 2006).

Chairman THOMAS. This is the Committee's third speaker in line, but second actual. The Chair mentioned this morning our contemplated first speaker, who we did not have an opportunity to discuss the budget with, Secretary of the U.S. Department of the Treasury John Snow, because of the Coretta Scott King funeral. We will hold that hearing, I believe, on February 15. It is a pleasure to welcome the Director of the Office of Management and Budget (OMB) once again, Mr. Josh Bolten, to testify before the Committee, and I personally look forward to your testimony. The President has presented a budget proposal that continues to fund the Nation's priorities while reining in spending. It keeps us on the path of cutting the deficit in half by 2009. As we know, good fiscal policy is never easy, but spending taxpayers' dollars wisely is always necessary. To that end, I am pleased to say that with a number of my colleagues and Director of OMB, we just came back from a bill-signing ceremony for the Deficit Reduction Act that will reduce the deficit by almost $40 billion over the next 5 years.

It was important legislation, but as a stand alone it is less important. As one of a series of provisions I think it begins to get a little bit exciting. The budget outlook is improving, I believe, to a very great extent, thanks to the tax policies that have helped to spur the economy. Tax receipts in calendar year 2005 were stronger than expected. Since May of 2003 when the capital gains and dividends tax relief was enacted, the economy has created 4.7 million jobs, unemployment is down to 4.7, and that has not been a level that we had achieved since prior to the Republican Convention nominating George W. Bush as its candidate for President of the United States. The House and Senate are currently in the midst of assembling a tax reconciliation package which will hopefully maintain some of these tax policies which have made the economy as strong as it is.

With the impending retirement of millions of Baby Boomers, obviously, as was discussed by the President in the State of the Union, we must focus on those major entitlements and the way in which they are growing in an unsustained manner. The President's budget for fiscal year 2007 outlined ways to reduce the growth of Medicare by $36 billion, and I do want to remind my colleagues that the recommendations that the President has made are identical to recommendations made by the Medicare Payment Advisory Commission, which we rely heavily on in terms of data resources for us to make our decisions. Director Bolten, we look forward to your testimony and hearing more about the ideas put forth in the President's budget proposal. Prior to calling on you, I want to recognize the gentleman from New York, the Ranking Member, for any statement he may wish to make.

Mr. RANGEL. Thank you, Mr. Chairman. Thank you, Mr. Bolten. I am always encouraged in listening to you because I normally feel so despondent with the war going on, the cost of the war, and seeing that we are getting tax cuts, and the poor of the community are the ones that are being hurt there. I get despondent when I see what the interest is on the debt and how long it is going to take to pay it off. But every time I have seen you on television, I have been impressed that if we can cut the taxes more and deeper, that the deeper you cut the tax cut, notwithstanding the deficit,

the more it would spur the economy, and therefore, we will grow out of it. So the more we get in debt, the better it is, because it just keeps us going and we are stronger. I am certain that I will leave here feeling better. But when I am around John Tanner, he is so depressing, he even said that if we got into a war with China over Taiwan, that we would have to borrow the money from China in order to go to war. He is under the impression that even to make the tax cut permanent, we have to borrow more money from China. But let him say it. I would like to yield to John Tanner.

Mr. TANNER. Thank you, I think, Mr. Rangel.

[Laughter.]

Mr. TANNER. I will try not to be too depressing. I would like to ask Director Bolten, if you look back in 2002, when Mitch Daniels came here, he predicted that the debts in 2003 would be $80 billion; it was $377 billion. 2004 he said it would be $14 billion; it was $412 billion. In 2005 he said it would be 61, and it was 318, three of the largest dollar amount deficits in the history of the country. What concerns some of us is that masking this large dollar amount by saying it is no more than a percentage of GDP historically, when we had those historical GDP deficits, we weren't building on top of a mountain of debt. This Government had has to increase the debt ceiling every year and going to have to again in a matter of days to keep up with the borrowing. Do you agree that interest is the fastest growing part of the Federal budget?

Chairman THOMAS. I tell the gentleman that at this stage, any response will be rhetorical. This is the opening statement, and the gentleman will be pleased to respond during the regular questioning period.

Mr. TANNER. What concerns us is the additional $50 billion out of the tax base that today is going to pay interest, 90 percent of which is going to foreign interest, not the United States, more than it was just four short years ago. So, with that, Mr. Chairman, I will yield back to you, other than to say that this Congress and this administration has borrowed more money faster from overseas than any political leadership in the history of the country, and this budget that is being presented today only makes it worse. Thank you.

Chairman THOMAS. The Chair appreciates yielding to the Chairman, but I believe you meant to yield to the Ranking Member.

Mr. RANGEL. Son of a gun. We keep forgetting that.

[Laughter.]

Chairman THOMAS. I know. I am here to keep the record straight.

Mr. RANGEL. Thank you, Mr. Bolten. I hope that you allow me to feel better than I have about this deficit, because if what you are going to tell me is going to work for my country, I am going home to explain it to the wife and we are going to have a good time home too. Thank you so much.

Chairman THOMAS. Mr. Bolten, your written testimony will be made a part of the record. Thank you again for appearing before this Committee. You can address the Committee as you see fit in an appropriate period of time, and then I am sure the Members are

anxious, as has already been evident, to ask you some questions, which we know you will respond to, and the floor is yours.

STATEMENT OF THE HONORABLE JOSHUA B. BOLTEN, DIRECTOR, OMB

Mr. BOLTEN. Thank you, Mr. Chairman. I do have a longer statement for the record, and given the late hour and the keen interest, which I appreciate, I will attempt a truncated version of my statement. Mr. Chairman, Mr. Rangel, 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. In directing me in preparing this budget, the President 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 sealed 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 give years our economy suffered a 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, Mr. Chairman, as you emphasized, expanding at a healthy pace. What the chart on the screen now shows is that 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 continue expanding despite the hurricanes and high-energy prices of this past year. 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. In 2005 receipts jumped by a remarkable 14.5 percent, the largest increase in 24 years. These recent gains in receipts confirmed that a strong economy is the most important factor in controlling the deficit.

The chart on the screen now shows our progress in bringing the deficit down. Since the President set a goal of cutting the deficit in half from its projected peak in 2004 of 4.5 percent, the deficit has come down. The final 2004 deficit was 3.6 percent of GDP, and fueled by the surge in receipts I just mentioned, the 2005 deficit fell further to 2.6 percent of GDP. Although the 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, with 423 billion in nominal terms, which is more than previously expected. This is in significant part due to the unanticipated spending associ-

ated 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 historical range and smaller than the deficits 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. 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 average which is reflected by the dotted line on the chart on your screens now. That dotted line also reflects roughly the cut-in-half target that the President set 2 years ago when he set a goal of cutting the 4.5 percent of GDP deficit in half.

In order to keep the deficit on this declining path, we must continue to do two things, first keep the economy growing through retaining a low tax environment, and second, restrain spending. With respect to the latter, Mr. Chairman, I call your attention to the chart that is on the screen now, which shows the success of the past year budget season in restraining spending. The President asked for and received appropriations bills that kept discretionary spending below the level of inflation. Congress delivered that. The President's 2007 budget is asking for the same again this year. The President asked last year that the Congress cut non-security spending below the previous year's level in very nominal terms. The Congress delivered. The President is asking for the same again this year. Last year the President asked for cuts or terminations in 154 programs. The Congress delivered 89. The President is asking for a comparable amount this year. Perhaps most important, Mr. Chairman, as you emphasized, last year the President asked for $54 billion in mandatory savings, the first time since 1997 that the Congress will have stepped in and reconciled mandatory savings. Thanks to your work, Mr. Chairman, and many of the other members in this room, the Congress delivered and the President signed today a bill saving $39 billion over 5 years on the mandatory side of the ledger.

The President is asking once again this year for savings on the mandatory side, this year in the amount of $65 billion 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. The chart now on the screen explains our long-term situation. It is our spending and revenues as a percent of GDP. The black line represents our revenues, with revenues in the out-years held at the historic average of 18.2 percent of GDP. The bars represent our spending. Green is mandatory programs, principally the entitlement programs of Social Security, Medicare and Medicaid. Blue is interest expense, and orange 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 as this chart shows. No plausible amount of spending cuts and 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 Secu-

rity 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, Mr. Chairman, 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, and the administration is pleased that the congressional leadership is focused on a need for reform of earmarks in the budget process. One way we can address the excessive use of earmarks together is by the Congress giving the President the line-item veto. The 2007 budget also continues our effort 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, but by results. As part of these efforts, OMB has introduced a new website 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 key word. I urge you and your staffs to make use of this important new resource. Mr. Chairman, this management agenda, coupled with the restraint reflected in the President's 2007 budget, will help ensure that taxpayers' dollars be spent wisely or not at all. I would be pleased to take your questions.

[The prepared statement of Mr. Bolten follows:]

Statement of The Honorable Joshua B. Bolten, Director, Office of Management and Budget

Chairman Thomas, Ranking Member Rangel, 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 five 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:

First, the President proposed to hold growth in overall discretionary spending below the rate of inflation.

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 five years.

The Congress substantially delivered on all four of these objectives.

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 five 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.

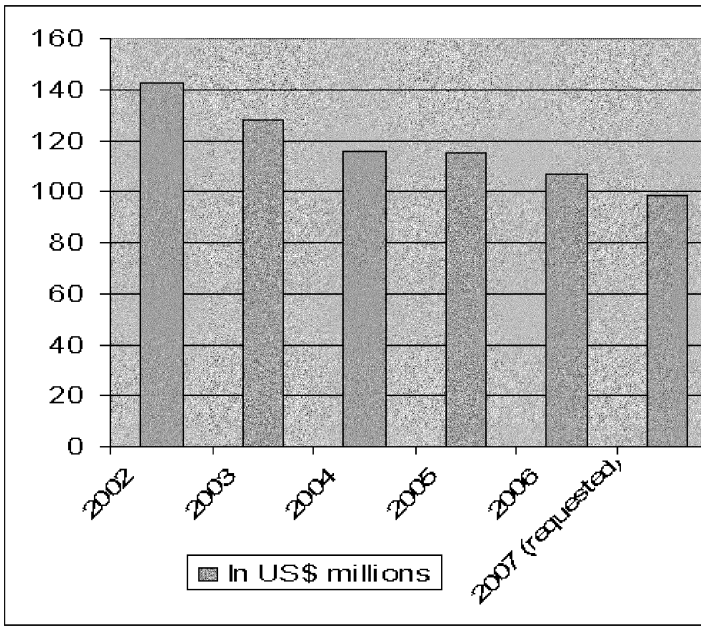
The President has shown a willingness to take on these future unfunded obligations and to propose long-term reforms. This year's Budget proposes $36 billion in savings from Medicare, and includes proposals that pave the way for additional reforms in the future. As with Social Security and Medicaid, we 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 website 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.



BUDGET

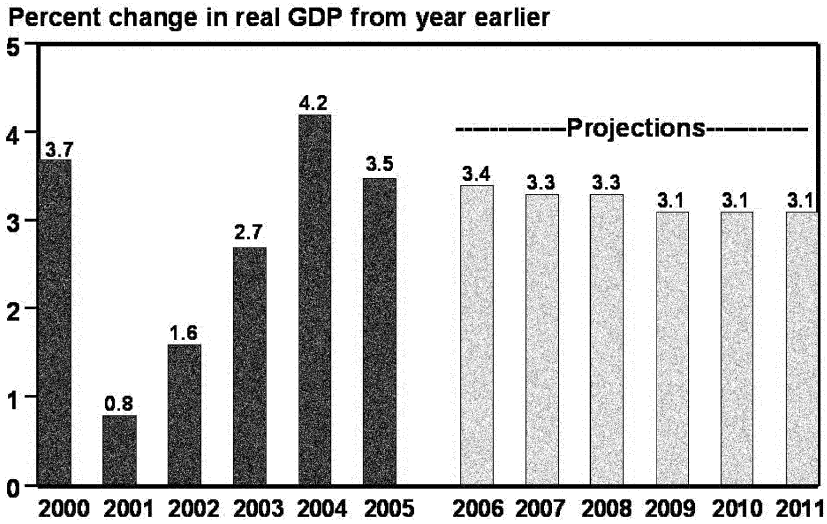
BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2007

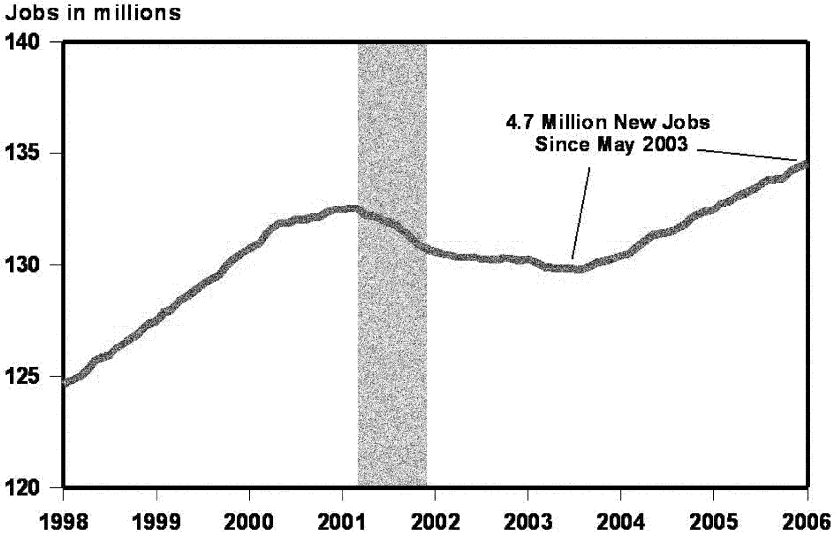
Progress on Spending Restraint

2006 Budget		2007 Budget
President's Request	Congress Delivered	President's Request
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

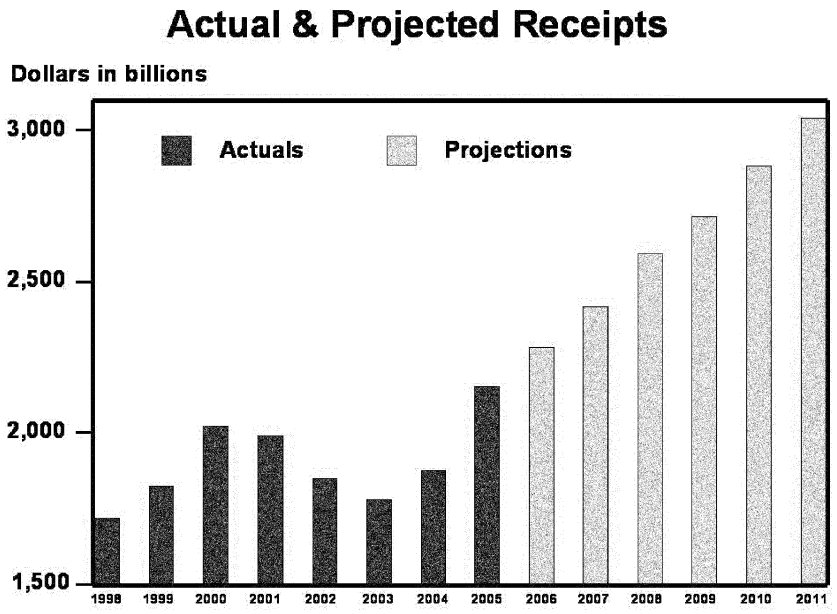
Strong Economic Growth Continues

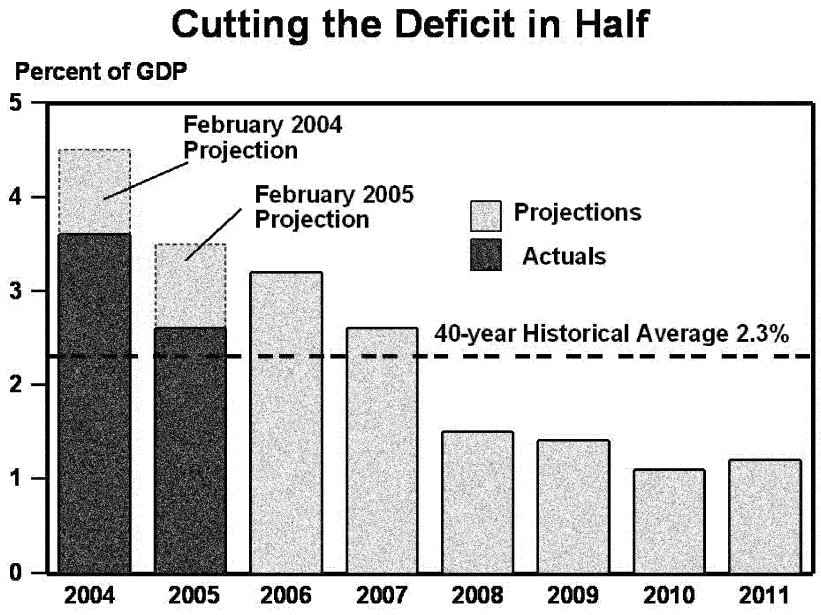


Strong Job Growth Has Resumed



Shaded area represents recession period.


Actual & Projected Receipts
Dollars in billions
3,000
2,500
2,000
1,500
Actuals
Projections
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011


Cutting the Deficit in Half
Percent of GDP
5
4
3
2
1
0
February 2004
Projection
February 2005
Projection
Projections
Actuals
40-year Historical Average 2.3%
2004
2005
2006
2007
2008
2009
2010
2011

Progress on Spending Restraint

2006 Budget		2007 Budget
President's Request	Congress Delivered	President's Request
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

Chairman THOMAS. Thank you very much. One of the things that I have done—and I recall the very first meeting when this administration came in—was to come and lay in front of you several different pieces of paper, one an estimate by the Congressional Budget Office, the other an estimate by Office of Management and the Budget, and tried to explain that to the degree we begin to try to be more in harmony, at least it would make it easier to make some of the tough decisions. Perhaps one of the more recent misuses of information was the actual cost to the program of the Medicare Modernization Act based on OMB versus CBO estimates, and in fact, it is proving that virtually every month now it is cheaper than what had been estimated by virtue of those competitive market forces. But I am looking at the 2006 real GDP estimates of the Congressional Budget Office, which was at 3.6, the administration at 3.4, and the consensus blue chip at 3.3. Ordinarily the accusation is that the administration tends to wheel out a rosier scenario in an effort to make things fit. I think it is interesting to note that the administration was below the Congressional Budget Office, and also the Congressional Budget Office projects lower inflation than the administration and blue chip.

Clearly, these are the best efforts of professionals. What amazes me the most is not that there is a difference—I mean 3.3 to 3.6 is the range—but everybody is wrong in terms of estimating the economy, and I am trying to determine if even those people who seem to me the most ardent believers—I am sure the gentleman from Wisconsin, Mr. Ryan, felt comfortable that he knew that these tax cuts would product the kind of significant percentage movement that we have seen. But are we really not as well equipped as we should be to appreciate the dynamism of the kinds of changes that we have been talking about, or is it that we do it so seldom in a fundamental way that we are not as good as we think we are in projecting what is going to happen?

Mr. BOLTEN. Mr. Chairman, the record is spotty on projecting the effect, especially of tax cuts on the economy. Clearly we underestimated the positive effect that the growing economy was going to have on our revenues, especially during this past year, as one of the charts I had up showed. We had a revenue surprise on the upside last year in excess of $100 billion, which even in our world is pretty substantial, the result of which was the deficit came down to 2.6 percent of GDP, which is pretty close to the historic average, and I think not a bad place to be when you are in the middle of a war. The challenge is to try to get the economists and the actuaries to come to some professional agreement on the best way to measure the dynamic effect of tax cuts. So, far it has been frustratingly impossible to bring that agreement about. Almost all of them agree that the effects are there. One of the things we are doing in the administration this year—and you will find buried in Secretary Snow's budget—is a small amount of money to help him create an Office of Dynamic Analysis, which I am hopeful will help advance both the art and the science of dynamic analysis, and help us gauge better something that is not currently well reflected in our numbers, and that is, the effect on revenues the tax cuts actually have.

Chairman THOMAS. What it does tell me though is that if in fact we have seen this kind of reaction to the decision we made, it probably makes sense to continue it rather than to not continue it. Is that a fair statement?

Mr. BOLTEN. I believe it is.

Chairman THOMAS. I appreciate that. The Chair is mindful of the time, and will recognize the gentleman from New York.

Mr. RANGEL. Thank you, Mr. Chairman. As you know, we have to go to the floor. There is a motion that we have to be in attendance on. But did you mention in your opening statement that the President asked you to do what as it relates to the troops? You mentioned the troops in your——

Mr. BOLTEN. I did, sir. I don't recall the exact words, but it had to do with providing the troops what they need to fight and win the war on terror.

Mr. RANGEL. I thought the war on terrorism was off budget.

Mr. BOLTEN. No. All of our anticipated costs, certainly in 2006 and almost all of the costs we anticipate for 2007 are included there, and it is not just the war fighters in Iraq and Afghanistan that are part of this calculation. I think there are a lot of Homeland Security people. There is just the base military. Sustaining a good strong military is an important part of——

Mr. RANGEL. What part of it, the $350 billion or the 120 billion the President will be asking for? Does that come in your budget?

Mr. BOLTEN. Yes, it is reflected in the documents that you have before you.

Mr. RANGEL. So, the cost of the war and the continued cost of the war is projected and it is included in the budget that you will be presenting to us?

Mr. BOLTEN. Yes. The Congress adopted, in its regular 2006 appropriations, a $50 billion supplemental was included in the bills that were passed this past year. We anticipate coming forward in the next few days with an additional supplemental for 2006. We have estimated that for the purposes of the documents before you to be about $70 billion. I can't tell you it will be exactly that, because it hasn't been finalized.

Mr. RANGEL. Is that included in the deficit when it comes in in the supplemental?

Mr. BOLTEN. It is included in the deficit estimates that we have before you.

Mr. RANGEL. Now, as it relates to how good the economy is doing, is it safe to say that more, millions of more people have gone into poverty and have lost their health insurance in the last few years, every year that that number increase?

Mr. BOLTEN. I am sorry?

Mr. RANGEL. The number of people that have gone into poverty in the last few years, during this period of increased economic growth, is it also true that the number of people who are without health insurance and the number of people that move into poverty, that that number also has increased?

Mr. BOLTEN. I believe it has.

Mr. RANGEL. Isn't it true that as it relates to the average working family, that their wages have not kept up with inflation and

that they have not enjoyed this prosperity that the economy is having?

Mr. BOLTEN. I believe that in fact total real compensation, after taxes, has increased about 7 percent over the course of this President's term.

Mr. RANGEL. With all of the people being laid off and the pensions being converted to 410(k)s, isn't it true that there is a general feeling about working people, that they are not feeling that they are doing a well as is being projected for the national economy? I mean as you go around the country, I mean you hear the same thing we hear. Does the average person in the street, average working person, believe they are doing as well with economic growth as you have stated?

Mr. BOLTEN. I won't be a good judge of that, Mr. Rangel. I think you and your colleagues will be much better judges of that. What I do know, from reading some of the public opinion polls, is that there are many people who believe that the economy is not doing well, but when you ask them, "Are you doing well personally," the answers tend to be much stronger.

Mr. RANGEL. In view of the fact that you are looking at the percentage of the gross national product as it relates to the deficit, do you believe that there is a threat to our National security by the amount of our debt that is being held by the People's Republic of China?

Mr. BOLTEN. No. I think we do need to be concerned about rising debt levels, really regardless of who holds that debt. But I believe that——

Mr. RANGEL. I like to get to China though because we are depending on her with Iran, we are depending on her with Taiwan, we are depending on her with North Korea, and it is kind of hard to have when you are telling them what you want them to do, and I just wondered from a point of national security, do you think that the increasing amount of debt that China is holding could possibly—we should have some concern, not about just the economy, but on national security?

Mr. BOLTEN. I will leave that to others to judge about the national security. What I do know is—

Mr. RANGEL. I mean as an American, not as Rumsfeld. I mean would you feel secure going to the People's Republic of China and telling them what they have to do in Iran, and stay away from Taiwan, and we need you in Russia and North Korea, and you know that you owe them trillions of dollars? I mean as an American how do you feel? Forget the budget.

Mr. BOLTEN. The reason why Chinese and other foreign investors are buying U.S. Treasury bills and other debt instruments is that they have confidence in the U.S. economy. That confidence is well placed and if——

Mr. RANGEL. Where else can they do it with the currency being underrated as it is?

Mr. BOLTEN. Mr. Rangel, there are a lot of places around the world to invest, but people choose to invest here because they have confidence in the U.S. economy. The one thing I would say is that if you are concerned about the national security implications of

people holding our debt, the worse thing to do is undermine their confidence in the U.S. economy by raising taxes.

Mr. RANGEL. I see. So, the more we borrow, the better friends we have. I like that.

Mrs. JOHNSON. [Presiding.] Let me announce to all the Members, that given the hour and the number of Members here, I am going to be very tough about the 5 minutes. So, if I pound you down, don't take it personally. It is now my time. First let me say, Mr. Bolten, welcome.

Mr. RANGEL. Take your time. Take all the time you want.

Mrs. JOHNSON. Notice, I was generous with Mr. Rangel's. I agree with your opening statement, with your goals. I also agree with the need to slow the rate of growth in Medicare. I would point out that in your statement about your goals, I was pleased that you pointed out that our deficit is a percent of our GDP, is actually one of the lowest, as it turns out, of the industrialized nations. I think we are lower than all but one country. That doesn't mean we don't have to pay attention to the deficit, but it does mean we don't want to retire the deficit at the expense of key programs. One of our key programs is certainly Medicare, and we do have to bend the curve. In writing the Medicare Modernization Act, we focused on the fact that 20 percent of our Medicare recipients spend 80 percent of the dollars. We put into place a program that will reduce the cost of that 20 percent, and the demonstrations that are out there are going to demonstrate that if we manage people with chronic illnesses differently, we can save the program 5 percent. If that works, don't you think that will both slow the rate of growth in Medicare and improve the quality?

Mr. BOLTEN. I believe it would.

Mrs. JOHNSON. Thank you. In your budget you were absolutely silent oh physician reform. By being silent on physician, the reform of the physician payment system, you apparently support a reduction of 50 percent in physician fees over the next 6 years, because when you combine a 4.4 percent cut in physicians' fees and the increase in expenses, it comes out to a 50-percent reduction in payment reforms. Have you done an estimate of the number of physicians that will be participating in Medicare in 5 or 6 years under those circumstances?

Mr. BOLTEN. I have not personally, Madam Chairman. I know that this is something that the folks at HHS monitor closely, and to this point, the reports I understand indicate that there is not currently an access problem for physicians in——

Mrs. JOHNSON. Thank you, Mr. Bolten. You know, the material they use to monitor, the information is generally two-years-old. I think any of us know from what our constituents are telling us, that unless you already are with your doctor, if you change areas or have to go to a specialist, it is hard to get a doctor to take an additional Medicare person. I think there is evidence that is going to show that in 5 years we are going to have trouble, and if I were working for a boss who told me he was going to cut my wages 4.4 percent for the next 6 years, I wouldn't work for him very long. So, I caution you that this could be a fast trip to disaster. But further, you say in your budget that you would like to work with physicians to improve efficiency and provide more efficient and high-quality

services. But you hold their payments to a requirement that no other payment is held to. You are going to fund in this budget a market basket minus productivity piece for hospitals. That is very big money. You are going to pay for that. You don't say that the taxpayers don't have to carry a piece of that and the beneficiaries don't have to carry a piece of that.

But in physician payments you say that any adjustment to their payments cannot be funded by either beneficiaries or taxpayers. So, you have put a very hard mark out on there. You are treating physician payments differently than you are treating any other payments, and you are not addressing the problem of this 50 percent cut. Between those two, I think you ought to at least have either some good answer to us as why you think this won't erode Medicare, otherwise, I personally think you are not just eroding Medicare a little bit, you are putting it very decisively on the same track that Medicaid is on. I had the privilege of standing with some dentists and congratulating them on provided free dental services for children. You know why they are doing that? Because Medicaid in my State has not adjusted their reimbursement since 1989, and so only 100 out of the thousands of dentists in Connecticut take Medicaid.

I have used my time to tell you that you are putting Medicare on the track of Medicaid, and I hope that you will have some better answer for us as we work together this year, than we were able to come to last year as to how we put the physicians on the same equitable and fair basis we give the market basket or we don't as we can afford. But you know and I know that technology and cutting-edge medicine that teaches us how to manage chronic illnesses will bend the Medicare curve and leave us with a world-class health care system that will be a leader in the world community of nations. But going the direction this budget lays out for Medicare will destroy Medicare, and with it, the rest of the American health care system. We can't tolerate Medicaid and Medicare. Medicare is making up for Medicaid's shortcomings at this time, and you have to come up with better answers with us this year, and one of them ought to be to give us credit for the savings in the drug bill toward the physician payment. My time has expired. If you care to respond at another time, you will have the opportunity.

Mr. BOLTEN. Thank you.

Mrs. JOHNSON. Mr. Stark.

Mr. STARK. Thank you, Madam Chair. Welcome, Mr. Bolten. I want to just talk about these health savings accounts for a minute. I am puzzled. As near as I can tell, they don't help create any new insured individuals, and they basically tend to diminish employer-based health benefits, or eliminate them, and shift the cost to individuals. Now, in one of your publications here of your explanations for your proposals, you indicate that the costs of the health savings account program will be 156 billion over 10 years in terms of lost revenue and a few small outlays, and 156,132, to be exact, on page 27. But I, for the life of me, haven't found out whether there are any savings from these health savings accounts. It is going to cost us $156 billion. You agree to that, you wrote it. Where are the savings? What page?

Mr. BOLTEN. We anticipate that savings will come to the health system overall. It may be one of those elements that is hard to——

Mr. STARK. Where is it in all this information that you so kindly provided us, the budget?

Mr. BOLTEN. I don't believe it is broken out separately, but the——

Mr. STARK. Is it in the appendix?

Mr. BOLTEN. I don't believe it is broken out separately, Mr. Stark.

Mr. STARK. Does anybody know what it is, or can you tell me what you think—give me a dollar amount of the projected savings over——

Mr. BOLTEN. No. I wouldn't have the expertise to do that.

Mr. STARK. Does anybody on your staff?

Mr. BOLTEN. It is possible, and we will ask them to respond to you for the record, but——

Mr. STARK. I can't believe that you would let any savings slip through the cracks when they are so desperately missing from this budget. I challenge to suggest to me that you have information now, empirical information that would indicate there will be savings from the health savings accounts to the Federal Government.

Mr. BOLTEN. I believe there is, and we would be glad to provide that for the record.

Mr. STARK. Give me an idea of where they will come from? A health savings account fairy that will put them under our pillow at night?

Mr. BOLTEN. One of the ways that health savings accounts are expected to achieve savings is through increased consumer awareness.

Mr. STARK. How does that help the Federal budget?

Mr. BOLTEN. The Federal budget is always helped when health costs in general go down, but the main saving——

Mr. STARK. You remember a year when they have gone down? Are you old enough to recall a year in which health care costs have decreased, 1 year over another?

Mr. BOLTEN. Under no circumstances do I expect that health care costs are actually going to go down. Hopefully, they——

Mr. STARK. So, how can you have a savings? Pardon me just a minute. I am having a little trouble. How can you have a savings when health care costs go up?

Mr. BOLTEN. You can have lower health care costs than they otherwise would have been without the measures in place. What I anticipate is that the savings would accrue to the medical care system overall, and would be savings for the beneficiaries of the health savings accounts themselves.

Mr. STARK. Well, that would show up certainly in your estimate of tax revenues. Come on. If I am going to have more income, unless—and you are not so slippery as to tell me that you are not counting on whatever increased taxes we may pay from our increased revenue. You just showed me all that chart about—nowhere in that increased revenue do you show anything, any increased revenue from the health savings accounts, do you?

Mr. BOLTEN. It is possible that some of it may be baked into our models, but I couldn't tell you at this point.

Mr. STARK. Mr. Bolten, I have been flim-flammed by experts, mostly from the other side of the aisle, but nonetheless, I challenge you, sir, and I hope you wouldn't want to base your reputation as an economist or certainly your staff—I am going to suggest to you that there aren't any savings that you can identify that could qualify for budget savings over the next 10 years from health savings accounts.

Mr. BOLTEN. We will be glad to provide something for the record, Mr. Stark.

Mr. STARK. I dare you. I will look for that, because you would have it in here, wouldn't you, if you—give me an example of other savings that you got off here, in the ether, you know, these fairy dust savings that you re going to show us later.

Mr. BOLTEN. Mr. Stark, I am unclear on what kind of thing you are looking for. With health savings accounts?

Mrs. JOHNSON. We are going to move on to Mr. Herger. It is a question that has been asked before, and you had an opportunity to respond. So, Mr. Herger.

Mr. HERGER. Thank you, Madam Chairman. I am just looking at some statistics here, Mr. Director, just on this line of questioning that the gentleman from California was going over. It has Deloitte Center for Health Solutions found that the cost of consumer-driven plans is falling among the 152 major companies it surveyed. Consumer-directed plan cost increased by 2.8 percent last year, which was only one-third of the increase for traditional plans. So, I think the point you were making, they are not going down, but they are going up at a much lesser rate, I think is a point that is well taken. My question, Mr. Director—first of all, I want to thank you for testifying before our Committee today. We have had a lot of good news in recent months as it relates to the economic vitality of our Nation. In the past 12 months 2 million jobs were created. The unemployment is at its lowest level since July of 2001. As along-time advocate of the expansion and permanency of section 179, Small Business Expensing, I read the President's proposal in this area with a great deal of interest. A National Federation of Independent Business report from the end of 2005 stated that 61 percent of small businessowners reported capital outlays over the preceding 6 months, period, including new equipment and vehicle purchases, furniture purchases, existing facilities, expansion and improvement and new facility construction. I see this as further evidence that expensing works. My question is I would like you to take a moment to explain how this small business expansion has contributed to economic growth and will continue under the President's expensing plan.

Mr. BOLTEN. Mr. Herger, thank you. The President has proposed to raise the limit for expensing for small businesses from $100,000 to $200,000, as you are aware. We believe that the provision that was already in law has had a lot to do with an expansion in small business investment. That small business investment in turn means jobs. About two out of three of the new jobs that have been created in this economy over the last few years have been in small businesses, and we have seen tremendous job growth since the tax cuts, including the original small business expensing provision were adopted in May 2003. In fact, we have seen nearly 5 mil-

lion new jobs in the economy since then. So, the President hopes, in this new proposal, to build on the success of that previous provision, help out small businesses, and most importantly, help create jobs for the folks that are looking for them.

Mr. HERGER. Thank you very much, Mr. Bolten. I think traditional wisdom would have you think that if you would somehow reduce taxes to a group such as small business, somehow revenues would decrease. Would you mind responding, as a follow up, to how has our stronger economic growth affected Federal revenues?

Mr. BOLTEN. The principal factor in our fiscal health, above all others, is whether or not our economy is sound and growing. There are a lot of elements that affect our fiscal health, taxes, spending and so on. Nothing is more important to it than strong growth in the economy. Tax cuts, we believe, have been an essential element in promoting the growth that has restored revenue growth to the economy. Last year we saw revenues go up by $274 billion with the President's tax cuts fully implemented. We can't count on that kind of growth going forward. In fact, we have relatively conservative, I believe, estimates going forward of about 6 percent year-on-year revenue growth going forward. But if we are to achieve even that, I think it is crucial that we maintain a low-tax environment.

Mr. HERGER. Thank you. But the point being, we hear many on the other side of the aisle seem to indicate that if somehow we allow small business, the American taxpayer to be able to keep more of their own money, somehow our revenues area decreased to the Federal coffers. Actually, what we see this year—and there is an indication that we have seen in a number of the tax reductions under Kennedy, under Reagan, under our tax reduction—revenues have actually increased rather than gone down to the Federal Government because of the expansion in the economy.

Mr. BOLTEN. Expansion in the economy is crucial.

Mr. HERGER. Thank you very much.

Mrs. JOHNSON. Mr. Levin.

Mr. LEVIN. Welcome. I think that more and more people think about that there is a disconnect regarding Social Security between the President's State of the Union address and your budget. In the State of the Union address, there is a reference to a bipartisan commission. In your budget document—and there is no discussion—he doesn't mention the words "private accounts" as I remember it. In your document, which I assume speaks on behalf of the President, there is no reference to a bipartisan commission in many paragraphs about private accounts, including a budget estimate, $712 billion of cost. I won't ask you how to explain that disconnect, two separate paths, but it clearly undercuts the budget document, the reference by the President to a bipartisan commission. What it signals to everybody is, "there he goes again," private accounts, $712 billion, he is spelling them out in detail. Let me just ask you about your data though. You talk about the growth in jobs. How many manufacturing jobs have been lost during the same period as you talk about growth in employment; do you know?

Mr. BOLTEN. I believe there has been modest net growth in manufacturing jobs in that period.

Mr. LEVIN. Since the President became President, what has been the loss in manufacturing jobs?

Mr. BOLTEN. Oh, there was substantial losses from the recession that was on the doorstep as the President came into office, but——

Mr. LEVIN. If you start with the first day until day, there has been a loss of manufacturing jobs?

Mr. BOLTEN. I don't know that for a fact, but I wouldn't be surprised if that was true. The recession——

Mr. LEVIN. Well, the figure is 3 million.

Mr. BOLTEN. The recession that was on the doorstep as the President entered into office hit very hard on the manufacturing sector.

Mr. LEVIN. Okay. But when you talk about a rebound, the total—I mean you can talk about doorstep all you want—the total is $3 million loss in manufacturing jobs.

You also talk about growth. In the last couple of years, what has happened to median income in this country?

Mr. BOLTEN. I believe median income has been relatively flat.

Mr. LEVIN. Right.

Mr. BOLTEN. Real compensation, after-tax real take-home compensation, I believe, is up about 7 percent over the course of this administration.

Mr. LEVIN. The average?

Mr. BOLTEN. Yes.

Mr. LEVIN. I am talking about median income, Mr. Bolten. That is one reason why it is easily explained why most people, when they ask are things worse or better in these years, they say worse. Private debt is at a record high.

Mr. BOLTEN. I believe it is.

Mr. LEVIN. Okay. Let me just ask you, to finish up, about the expenditure picture in military. As I understand it, there is a provision for next year in your budget figure, an assumption of $50 billion for Iraq and Afghanistan, right?

Mr. BOLTEN. Yes. Last year you made an allowance in the budget resolution and in appropriations of $50 billion as basically a bridge amount of supplemental——

Mr. LEVIN. What do you assume for 2007?

Mr. BOLTEN. We are repeating that practice this year, so we are including an allowance of $50 billion.

Mr. LEVIN. What do you do for the year after 2007?

Mr. BOLTEN. We do not carry an allowance into 2008, just as the previous resolution——

Mr. LEVIN. I mean that is one reason nobody believes the budget. Let me ask you this——your estimate. Second, if you leave Social Security out, do you cut the deficit in half? If you leave the surplus of Social Security out in the next years, 5 years, is the deficit cut in half?

Mr. BOLTEN. Let me make a quick comment about the defense spending, the war spending, Mr. Levin, and that is that we very clear state in our documents that that $50 billion for 2007 is an allowance, and that we anticipate that there are likely to be additional costs beyond that which are unknown at this point and therefore not reflected.

Mr. LEVIN. But you have zero for 2008. Let me ask you then, if you would answer the question——

Mr. BOLTEN. On Social Security. You mean the on-budget versus off-budget deficit?

Mr. LEVIN. The Social Security surplus is going up right, these years?

Mr. BOLTEN. It is, yes.

Mr. LEVIN. If you leave that out, do you cut the on-budget deficit in half?

Mr. BOLTEN. From the 2004 period when the—

Mr. LEVIN. Yes.

Mr. BOLTEN. From the 2004 estimates down to 2009. I would have to check and see. It is possible that the answer would be no, but I am guessing it would be pretty close.

Mr. LEVIN. Let me just suggest you look at page 333 of your budget document, and it makes it utterly clear that you don't come close. So, you are warning about Social Security and the danger to it, but you are using that figure to calculate cutting the deficit in half, when if you exclude it, you don't come anywhere close to it, and you have zero extra money for Iraq and Afghanistan. That is why nobody—why the budget figures are not believed, that you have given, as they have been wrong before.

Mr. BOLTEN. The convention of reporting of an on-budget deficit is one that has been carried for quite some time, and I think it is the appropriate way to do it, and maybe in another question I will have a chance to explain why.

Mrs. JOHNSON. Mr. McCrery.

Mr. MCCRERY. Thank you. Director Bolten, you said, I believe in response to a question—it may have been in your statement—that your projections on revenues as a percent of GDP, are that in just a couple more years, they will return to the historic average of about 18.2 percent of GDP; is that right?

Mr. BOLTEN. Within our five-year window we don't expect quite to get there, but it will be pretty close, within a few tenths of a point of the 40-year historic average.

Mr. MCCRERY. Does that assume the tax cuts are made permanent?

Mr. BOLTEN. It does.

Mr. MCCRERY. If you go out past the five-year window and the tax cuts are made permanent, does it still stay about 18 percent of GDP?

Mr. BOLTEN. Yes, I believe it would.

Mr. MCCRERY. Well, then, obviously, the question becomes, do we need more than 18 percent of GDP to support the Federal Government, even though historically, over many decades, we have spent about 18 percent of GDP, on average of about 18, probably a little better than that, 18 percent of GDP. You said—or you wrote in the Wall Street Journal op-ed, "No plausible amount of tax increases could possibly close the enormous gap that will be created by the unsustainable growth in entitlement programs." Would you expound upon that just for a minute?

Mr. BOLTEN. Sure. If I could have back Chart—it was the fourth chart in my original presentation. Well, what the black line there represents is about 18.2 percent of GDP as a revenue income. What you see is that within a generation, 25, 30 years from now, there is simply no plausible amount of tax increase—even if you be-

lieve that the tax increase didn't cause any significant harm to the economy, there is no plausible amount of tax increase that could possibly close the gap. The only solution to this problem is to actually dig in on the entitlement programs themselves.

Mr. MCCRERY. I agree with you, but maybe you could expand a little bit more on why that is implausible. What impact, for example, would tax increases of the size necessary, even if you could do it, have on the economy?

Mr. BOLTEN. Oh, I think it would be devastating for the economy. It would certainly be a tax rate that would be historically unprecedented in this economy, and my expectation is that the kinds of tax increases we would be talking about to close that gap would easily cause a recession if not a depression in this country.

Mr. MCCRERY. In that case you would get into a downward spiral, don't you?

Mr. BOLTEN. Absolutely.

Mr. MCCRERY. It is like a dog chasing its tail. You keep increasing taxes to get more revenue to satisfy the spending demands, but then the more you increase taxes the less economic growth you have or the deeper the recession or the depression gets, and you never get there.

Mr. BOLTEN. Absolutely.

Mr. MCCRERY. So, I commend you for your op-ed piece and for including comments in your statement about the budget as to long-range implications of doing nothing on the spending side of the equation. Tax increases are not the answer if we want a society that resembles in any meaningful way that that we have become accustomed to in this country. So, I commend the President for calling for a commission to focus on the spending side of the equation and the entitlement area. I am hopeful that he will, in fact, create a true bipartisan commission so that we can work together across the aisle, here in Congress and across the country, to solve these very, very difficult spending problems that the country faces.

Mr. BOLTEN. Thank you, Mr. McCrery.

Mr. MCCRERY. Thank you.

Mrs. JOHNSON. Mr. Jefferson.

Mr. JEFFERSON. Good to see you again, Mr. Director. Let me ask you this. How much is in your adjusted budget for the Gulf region for the Katrina region recovery?

Mr. BOLTEN. I do have a chart with what has been appropriated at this point, and what we anticipate in the short term, No. 14, please.

Mr. JEFFERSON. Is this in your 2007 budget?

Mr. BOLTEN. It is reflected in the 2007 budget. In other words, the spending from this is reflected in that budget, and it also—there is also a reflection on this chart of what it is we anticipate coming forward to ask for, but what we anticipate coming to ask for is, at this point, just an estimate. What you see up there—I can't quite see it, but I believe it should show about $95 billion in total enacted, $96 billion in total enacted aid for the Gulf region. That includes $8 billion of tax relief. Then below that what you see is what is yet to come. We believe that we need an additional $5.6 billion in the flood insurance fund, and then the $18 billion number there is the number that you see of our estimate at the time we

put the budget to press of what we expected our supplemental spending request that we would be bringing forward shortly would be for this year on top of the moneys that have always been appropriated.

Mr. JEFFERSON. Getting back to your budget document though, is this——

Mr. BOLTEN. I am sorry, Mr. Jefferson. I should say, to fully respond to your question, I should say that the deficit effect of all of those figures that you see on the chart are reflected in the 2007 documents before you.

Mr. JEFFERSON. My question is, is there a specific amount in the 2007 budget that is provided for for the Gulf region? To me it looks like there isn't anything in there for it. I don't see anything in the 2007 budget for the Gulf region for the Katrina disaster.

Mr. BOLTEN. On the contrary, all of the figures that you see here are accounted for in the 2007 documents, and in addition, what——

Mr. JEFFERSON. But this is money that has already been spent, been approved by the Congress, except for the 18 billion and the 5.6 for the insurance.

Mr. BOLTEN. That is correct.

Mr. JEFFERSON. That will be coming in a supplemental of some kind, correct?

Mr. BOLTEN. That is correct. The 18 billion will be coming in a separate supplemental, although——

Mr. JEFFERSON. Wouldn't I because the in saying that apart from what is going to be in the supplemental, there is nothing in the 2007 budget for the Gulf region? Would I be correct in saying that?

Mr. BOLTEN. I am sure there is a lot of money in the regular base Federal budget that finds its way into the Gulf region, but quite properly, the response to the disaster is being handled in supplementals, which is the right place to handle it.

Mr. JEFFERSON. That may be true if it were a true emergency, meaning that it had just happened, and we had to make a response with a supplemental. I would like to see us take the fact that this has already happened and now it is time to plan for the recovery, and put money in the budget to do that. That is what confounds me a little bit here. I don't see anything here that anticipates any spending here in the Gulf region past what we have already spent and what you expect to have in a supplemental. If the answer is, well, we don't plan to spend anything else—and that is an okay answer—I just would like to know whether that is the answer for real here.

Mr. BOLTEN. No, we plan to—the Congress has already appropriated a great deal as shown on the chart, and we do plan to spend more. I think the appropriate place to reflect that though is in supplemental spending, not trying to carve it out of the very difficult and tight allocations that are in the currents appropriations. I think that would put the Gulf at an enormous disadvantage to have to compete with——

Mr. JEFFERSON. Okay. Do you think it is fair to say that you anticipate other supplementals down the road that would address some of the outstanding needs that still exist in the area?

Mr. BOLTEN. I can't say what additional supplementals will be coming. I do know that at the time we went to press $18 billion was our estimate for the supplemental that will be coming down the road probably in the coming days.

Mr. JEFFERSON. You do know what has happened to us down there in New Orleans—I will just speak about the area that I represent mostly. When we did the allocation of CDBG money just before we left here, initially when it was written up, it provided for the entirety of the money to be determined by what the needs were, essentially. Then it had an artificial standard of no one area could get more than 54 percent of the money, which meant that our area ended up, Louisiana ended up getting $6.5 billion, which is a lot of money, but compared to Mississippi, $5 billion, it is not a lot, given their losses versus ours. So, they are going to use a lot of money to bring back housing at 3,500 housing units. We have got 220,000 housing units that are affected. So, when you divide that up, you can see how short we are versus Mississippi. They can probably spend 120,000 per house if they want to. We might spend 27,000 per house. It is just a huge set of issues there. I know you understand how big a deal this is for us because it is the only thing that matters now because people can't come back home, business can't be restored, nothing can happen there until we take care of the property losses in some way. There is no way it can be taken care of locally. I just believe that at this point in time it is something we can plan for as opposed to doing it on an ad hoc basis. So, I would——

Mrs. JOHNSON. Mr. Johnson.

Mr. JOHNSON. Thank you, Madam Chairman. Mr. Bolten, we seem to have emergencies every year. That is what caused us to have problems with the budget last year. I think a lot of us consider a rainy day emergency fund as an answer to hurricane, Earthquake or other disaster that might come up, and there is a bill out there to create a reserve fund for emergency fund. The upside is we would have a rainy day fund. The down side, of course, it might be plundered for everyday spending. What is your opinion of some sort of reserve being established for emergencies, and did you all discuss that this trip?

Mr. BOLTEN. From my seat, Mr. Johnson, I would be more concerned about the plunder. We do have some rainy day funds built in annually into the budget. For example, the FEMA budget includes a disaster relief fund that is calibrated to provide enough resources to deal with an average disaster year. Every year has some hurricanes and flooding and so on, and we build in enough money into that account annually to take care of an average year, a noncatastrophic disaster year. In the case of Hurricanes Katrina, Rita, Wilma, we had a truly catastrophic situation. I don't think there is any way to plan for that. My concern would be that if we built those kinds of numbers into the budget in a rainy day fund, what would happen in the years when it doesn't rain is that that money would then be taken and spent elsewhere. So, I think we have the right approach in keeping modest rainy day funds in the budget, and where we have catastrophic disasters, we deal with them in supplementals.

Mr. JOHNSON. Thank you. You are probably right. You know, from now to 2017 or so we will have surplus Social Security taxes, and in 2008 or 2009 those surpluses begin to decline, and each succeeding year thereafter. What sort of budget pressures do you see in the fiscal window 2007 to 2011, as the Baby Boomers begin to turn 62 and take early retirement benefits out of the Social Security system, and do you think the GROW account is an option that we might ought to push?

Mr. BOLTEN. First, the GROW account is something that I think is an interesting option. I will leave it to Secretary Snow and others to engage with you on the specifics of how we might address the problem. The reality is that we do have a surplus, as Mr. Levin was pointing out, that is continuing to buildup during these years just before the Baby Boomers are fully into retirement, but 2018—or it may be 2017 now, Mr. Johnson, I think you have the right year—is the year in which the system will slip into deficit, that is, that there will be less money coming in than is going out, and that is a problem that we can see coming long ahead. It does mean it is a problem that is harder to address year by year. So, what it means is, while we have these surpluses coming in, and, I believe, accurately reflected in our budget documents, because what our current budget deficit document should tell us is what are the borrowing needs of the Federal Government, so it accurately reflects borrowing needs of the Government. But what it should tell us is that we need to get on top of that Social Security problem, as well as the Medicare and Medicaid problem, as soon as possible, because it is a lot easier to fix now than 10 or 20 years from now when the problem is more visible, but much more desperate.

Mr. JOHNSON. Thank you. You all are planning on 141 Federal programs that you are eliminating or cutting back. Are any of those that the administration can eliminate all by themselves without any congressional action?

Mr. BOLTEN. Among the 141, I don't believe so, but we have tried hard to use our administrative authorities to restrain Government as much as we can. One of the ones I would highlight for you, Mr. Johnson, is that we have installed an administrative PAYGO process internally in the administration. About 9 months ago I sent a memorandum to all of my Cabinet colleagues who are involved in putting out regulations, saying, that if you are proposing a regulation that will increase spending in the U.S. Government, I need you to propose at the same time an offsetting regulation that will create savings. It doesn't automatically mean the regulation is dead if they can't fully offset it, but our beginning point is, if you want to do by regulation something that increases spending in the Government, then we want you, at the same time, to propose savings that would offset them. So far I think we have been relatively successful in pursuing those kinds of measures.

Mr. JOHNSON. Thank you, sir.

Mr. BOLTEN. Thank you.

Mr. JOHNSON. Thank you, Madam Chairman.

Mrs. JOHNSON. Thank you. That does, of course, ignore the issue of the quality of the policy change needed. Mr. Tanner?

Mr. TANNER. Thank you, Madam Chairman. Thanks, Mr. Bolten for coming. I was interested in your PAYGO. Would you recommend that the House of Representatives adopt that as well?

Mr. BOLTEN. We do support PAYGO on the spending side, yes.

Mr. TANNER. But not on the revenue side?

Mr. BOLTEN. No, sir.

Mr. TANNER. You have said we have tried hard to restrain Government and so forth. Let me ask you you this: why haven't you used the rescission process?

Mr. BOLTEN. There is a provision in the 1974 Empowerment Act that you are referring to that provides for rescission. Our folks have researched and been unable to find a single instance in the last 30 years when that has been used successfully. It is a——

Mr. TANNER. President Clinton used it successfully 111 times out of 163 request.

Mr. BOLTEN. No, sir. I think he did not use the rescission authority under the Empowerment Act. I believe what you may be referring to is that he used the line-item veto, which we have requested again, and the administration would, in parallel with a line-item veto, would support a more effective rescission authority, because the problem with the rescission authority that is in the law today is that whatever we send up is amendable and delayable and so on, so neither this President nor any previous President that I can find has found that to be a useful vehicle to use. We would like to have the line-item veto and we would like to, at the same time, have advanced rescission authority. If we can get your support in doing that, we would be——

Mr. TANNER. I would support a line-item veto with a simple majority to override, which we have in Tennessee, which works pretty well. Two-thirds to override seems to me to give a minority membership in the Congress too much power, and President Lincoln warned against that, as you well know. Getting back to this foreign-held debt, it is now 46 percent of the debt not held by the Government, by trust funds and so forth. Does it not concern you that we are borrowing about 90 percent of our deficit from non-American interests? Is that not of any concern at all to you?

Mr. BOLTEN. I could see where that is a matter of concern, but when the Federal Treasury offers up its debts for sale, it offers up its debt for sale to all comers, whether they be from China, from the Netherlands, or from the United States. I think the concern ought to be with, (A) trying to keep that debt burden as low as possible, and (B) sustaining the kind of economic environment that keeps the confidence in our economy, that keeps our debt holders purchasing the debt, and purchasing and holding the debt.

Mr. TANNER. I don't think it is naive at all to read history to the point that people have done something against their own short-term economic self-interest for a larger geopolitical strategic objective. So, I have had people say that it is naive to believe China would do anything that would hurt their economic status in the short term. I think it is naive to believe that they wouldn't if it would serve a larger geopolitical interest. Anyway, we can talk about that some more. You talk about the macroeconomics for the last two of three years have been pretty good. The problem is that even in that macro-economically, as you call it, I think, third con-

secutive year of healthy growth, we have in the same period of time had to raise the debt ceiling $450 billion in 2002, $994 billion in 2003, and $800 billion in 2004, and another 781 pending. The problem with that is if we are in a healthy economy, in your words, we are borrowing still massive amounts of money. What is happening, in my view, is that it is eroding the present tax base. We are now paying about, by my calculations, $105 million a day more in interest than we were in 2002.

The cumulative effect of these massive dollar amounts, year after year, although you can talk about percentage of GDP and so forth, is degrading the tax base of the money coming here. An additional $50 billion a year out of the present tax base—not raising, lowering, anything—is going now to pay interest, 90 percent of that going overseas. The amount of money we are sending overseas in interest checks—I am sure you know this—is five times the amount for an appropriations bill, which one could argue you can use for some strategic purpose as you do it, interest is to whoever let us have the money as cheaply as we can get it. I don't know. You go on about your budget cutting in—another half—in half by 2009. None of the things that you all said in 2002 are true, and you are already out of line on this one chart that shows the net interest paid, that little blue thing. It is already out of whack for this year, because the Feds had to raise the interest rates again, and every time we do that, of course, as a auction, at the auction it goes up too. I just——

Mrs. JOHNSON. Mr. Tanner.

Mr. TANNER. I know I am going on too long. But we need to talk some more about this.

Mr. BOLTEN. Be happy to, Mr. Tanner.

Mrs. JOHNSON. Mr. Beauprez?

Mr. BEAUPREZ. Thank you, Madam Chair. Mr. Bolten, thank you for being here. I have in front of me an article about the CBO, obviously not your shop, but the CBO has recently released information, their budget and economic outlook, and something captured my eye that I wanted to walk through with you. We have heard a lot about numbers and projections and what is appropriate policy and what is not. Tell me if any of this makes sense. Again, this is CBO, so forgive me. In 2003, relative to cap gains tax liabilities, revenue anticipated from the then-existing capital gains tax, it was projected by CBO that in 2004 the Federal Government would receive $60 billion and $65 billion in 2005, to combine those two for a 2-year total of $125 billion. Then, of course, Congress took action, reduced the capital gains rates, so new projections needed to be created, and those new projections after the tax cuts totaled $98 billion for those 2 years, 46 and 52 consecutively. So, a difference from the original estimate to the one after the tax cut of about a $27 billion projected loss, if you will, in revenue, the cost of the tax cuts. What actually happened, though, is the really interesting part. We now know that instead of a $98 billion total for those 2 years, we have actually received about $151 billion. So, instead of a $26 billion cost, we actually got a $27 billion gain over the original number, or a $53 billion net difference in budgetary projecting. Is that consistent with what you think happened, roughly, without exact numbers?

Mr. BOLTEN. I cannot comment on the specifics of the CBO article, but, yes, we did see a dramatic increase in capital gains revenues after the capital gains rate was cut.

Mr. BEAUPREZ. Why? I know we are talking theory, maybe other than absolutes, but why?

Mr. BOLTEN. I will leave it to some of the good economists to be able to explain it better, but when the capital gains rates are low, people tend to invest, and the economy tends to grow. People tend to use their money for productive purposes. When the economy is more productive and people are making more money, they pay more of it to the Federal Government.

Mr. BEAUPREZ. As a guy who has been on the private side, I will say it another way. You get what you incentivize, and if you incentivize capital formation and capital investment, that is exactly what you get. It looks to me like that is, in fact, what we have gotten. It would seem to make sense to keep going. This underscores another thing that I did find in some of the information you have provided: the need for dynamic scoring. I was intrigued to see that you are suggesting inside your 2007 budget a Dynamic Analysis Division within the Treasury Department. Do you want to tell me a little bit about that and what your expectation is so that we do not have these—I mean, many of us actually think that when we do implement good tax policy that there is some benefit. Most people in the real world oftentimes make an investment a cost this year in anticipation of revenue benefit in succeeding years. That seems to make sense to us. Is that roughly the principle that you are going after here?

Mr. BOLTEN. It is, Mr. Beauprez. It has been a frustration for me in all of the 2.5 years that I have had this job that we have not been able to come around to some sort of consensus view on what the right dynamic effects are of tax cuts on the economy and, therefore, on Federal revenues. We hope that this new office at the Treasury Department will help advance the art and maybe the science of dynamic scoring, because I think it is a very important element in the public policy debate, which is now frozen with the largely static scoring that we are obligated to use in our own budget estimates and that CBO uses in theirs. I am very hopeful about the office, and I hope it is something you take up with Secretary Snow when he appears before the Committee.

Mr. BEAUPREZ. I appreciate that, and for the record, every budget I ever created in the private side, in the real world, I certainly made those kinds of estimates of what kind of gain for what kind of investment cost. I think most of us understand that, and I applaud you for it. Last, I would just ask a request. The National Renewable Energy Lab is in my district. We are very concerned about funding. If someone from your staff could maybe get to my office exactly what the anticipated funding levels are within your budget for that laboratory, I would very much appreciate it. It is a concern of mine.

Mr. BOLTEN. We will do that, sir.

Mr. BEAUPREZ. Thank you. I yield back, Madam Chair.

Mrs. JOHNSON. Thank you. Ms. Tubbs Jones?

Ms. TUBBS JONES. Thank you, Madam Chairwoman. Good afternoon, Mr. Bolten. How are you doing?

Mr. BOLTEN. How are you?

Ms. TUBBS JONES. I am doing great. Thanks. I am going to jump around a little bit with the 5 minutes that I have. You speak to unemployment being at 4.7 percent. Is that correct, sir?

Mr. BOLTEN. Yes.

Ms. TUBBS JONES. But that is gauged based on the number of people who actually apply for unemployment. Is that correct, sir?

Mr. BOLTEN. No, I believe it is based on a survey of businesses, the 4.7 percent is. I think that is the business survey rather than the household survey.

Ms. TUBBS JONES. So, it is based on—so if I am an employer and I employed 10 people last month and this month I have 15 that means unemployment has gone down if it is based on surveys of employers.

Mr. BOLTEN. I believe—well, I have to say I am not expert on this, but I believe the survey is based on a combination of gauging both what businesses are offering and have in the way of employment and at the same time the number of people who are seeking employment.

Ms. TUBBS JONES. Seeking employment or have applied for unemployment? I think you—but I tell you what. Rather than waste my time, give me a written answer——

Mr. BOLTEN. Seeking employment, I am told.

Ms. TUBBS JONES. Well, that is not true. The unemployment figures for the United States of America are based on people applying for unemployment, sir. So you have your people get it straightened out, and we will come back to it later. Let me ask you this question: These figures you show here in this chart start actually with 2000, right? The projections you make in these—this is your chart, right?

Mr. BOLTEN. They are.

Ms. TUBBS JONES. Right. Generally, when you do projections, projections go out 10 years. Is that a fair statement, most times, CBO and all those others go out 10 years?

Mr. BOLTEN. It has actually been more commonly in the history of the United States budget to go 5 years.

Ms. TUBBS JONES. Well, tell me, have you done projections to know what happens in 2012, 2013, and 2014 based on this great economy that we have and the impact of tax cuts, sir?

Mr. BOLTEN. I think we do have some estimates. We do not publish a full set of data for those——

Ms. TUBBS JONES. So, do they go up or down?

Mr. BOLTEN. Does what go up or down?

Ms. TUBBS JONES. Your chart. Your chart says w have strong economic growth, it continues. Does the strong economic growth continue in 2012, 2013? Are these numbers true when you don't have the war or Katrina included in the budget dollars?

Mr. BOLTEN. Yes, I believe the strong economic growth is projected to continue out beyond 2011.

Ms. TUBBS JONES. Can you provide that information to me since it is not in the chart and not included in what you have presented?

Mr. BOLTEN. We would be glad to provide you what our economists assume is likely to be growth in 2012 and beyond, although——

Ms. TUBBS JONES. Either you have or you don't, Mr. Bolten. You said you are sure you have 2012 or 2013. Just give me what you have, okay, Mr. Bolten? Would that be fair?

Mr. BOLTEN. We would be glad to provide what we have.

Ms. TUBBS JONES. Okay. Then, second, the question is: If the war is not included in the budget, are these estimates fair when in actuality the dollars for the war have a significant impact?

Mr. BOLTEN. Dollars for the war do have a significant impact, and we have said that on the face of all of our budget documents. Now, if you are referring—I think you are referring now to the deficit estimates? Is that——

Ms. TUBBS JONES. Yes. Not specifically this, but I am saying the deficit estimates are higher than they are shown in your chart because the war is not included.

Mr. BOLTEN. If you anticipate ongoing war costs of whatever you may anticipate, you have to add those into the deficit estimate.

Ms. TUBBS JONES. The reality is, whatever the ongoing war costs, we are still going to be in a deficit at this juncture as to where you look at the deficit. We are not going to cure it. Just like you said, we cannot cure the tax—we cannot cure the gap in deficit by tax increases. We cannot cure the deficit by not including the war in it, can we?

Mr. BOLTEN. Oh, no—

Ms. TUBBS JONES. In the budget.

Mr. BOLTEN. No, no. We have said very clearly that whatever the war costs are need to be added on to the projected deficit——

Ms. TUBBS JONES. So then these are not true numbers since the war is not included.

Mr. BOLTEN. They are true numbers, plus the war costs, which we have been very clear are not——

Ms. TUBBS JONES. Anyway, Mr. Bolten, you get my point. Let me ask my last question because I know I am running out of time. Why isn't the AMT included as part of the permanent tax proposals of the administration?

Mr. BOLTEN. The President's tax proposals, the tax cuts of 2001 and 2003 that were put in place did not affect the AMT, and those are the ones we are asking to be made permanent. Now, the——

Ms. TUBBS JONES. But the AMT is a tax issue that has the greatest impact on the greatest number of Americans in this country.

Mr. BOLTEN. Oh, I don't know if I would say that. I think just regular tax rates have the greatest impact on the greatest number of Americans at this point.

Ms. TUBBS JONES. Why don't you talk to some of your taxing people. From everyone else that comes to this table, it is said that the AMT has the greatest impact on middle-class America and those people paying taxes in the United States of America, and that to make those permanent would have the greatest impact to do all the things you claim all these other taxes that only affect the top 1 percent will have. I am at the end of my time. I am going

to get gaveled, but I would like to have a response at a subsequent time. Thank you.

Mrs. JOHNSON. Mr. Chocola?

Mr. CHOCOLA. Thank you, Madam Chair. Thank you, Mr. Bolten, for being here. Some of our earlier discussion that we had about making the tax relief permanent versus tax increases kind of reminds of a conversation I had with a constituent yesterday. My constituents was suggesting that we should raise taxes, and I said, well, let me ask you, if there was a company that had chronic losses and increasing debt, had divisions that were unable to pass audit, had management that was ineffective in combating waste, fraud, and abuse, had insurmountable future unfunded liabilities, and their only strategy was a price increase to their customers, would you invest in that company? He didn't think he wanted to invest in that company. I don't think you offer investment advice for a profession, but I will ask you. Would you invest in a company like that?

Mr. BOLTEN. I would not.

Mr. CHOCOLA. I didn't think so, but staying on kind of the company theme, I used to be a chief executive officer of a publicly traded company, and I was subjected to a thing called Sarbanes-Oxley. We had to fully and transparently disclose our financial obligations, including our long-term unfunded liabilities. If you look at the way that the Government projects its unfunded liabilities, I think the GAO says it is somewhere around $43 trillion. That is not reflected in our budget the way we budget today, is it?

Mr. BOLTEN. It is not, and we would like to put in place mechanisms that would reflect it more accurately. You will find, Mr. Chocola, in our documents, you will find us displaying our estimates of the total unfunded liability, and I believe our estimates are even substantially above that $43 trillion.

Mr. CHOCOLA. So, you think it is prudent to—I think in order to solve a problem, we have a discussion about unfunded liabilities, entitlement reform, when you talk in your Wall Street Journal editorial about no amount of tax—I am paraphrasing, obviously—can really address this problem. It would be prudent to solve the problem by first defining the problem. Do you agree with that?

Mr. BOLTEN. Yes.

Mr. CHOCOLA. I think you address that a little bit in your budget reform proposals in the budget, and I will just read—it says, "The President's budget proposals to establish a broader enforcement measure to analyze long-term impact of legislation on the unfunded obligations of major entitlement programs and to make it more difficult to enact legislation that would expand the unfunded obligations of these programs over the long term." You have a couple of suggested mechanisms to address that. Would you care to talk about those?

Mr. BOLTEN. One very important mechanism is one that was adopted in the Medicare Modernization Act itself. When that bill was passed, what the Congress did was inserted a mechanism that was a trigger that when the actuaries projected that 6 years hence the Federal share of responsibility—the Federal share of spending in the Medicare system exceeded 45 percent of the total costs of the system, then that would trigger an alert by the actuaries to the

President. The President would then be obligated to send forward proposals to deal with the situation to the Congress. That is the provision that is in the law now. We are proposing that that provision be strengthened so that because the provision as it now exists does not require any particular action on the part of the Congress, we are proposing that that provision be strengthened so that in the event that there is not action to bring the Federal share of Medicare below 45 percent of the total cost in the system, that a sequester go into place, not unlike the Gramm-Rudman sequester that used to be in place, that would take a small percentage out of total Medicare spending and that sequesters be in place year on year thereafter until the system was brought back at least to that 45-percent level. That is not an ideal way to go about saving money in the Medicare system, just as Gramm-Rudman was not the idea way to do budgeting. But we think it would be a very useful device to try to force reform before it gets too late to actually undertake any reform.

Mr. CHOCOLA. I think you also offer point-of-order options as well?

Mr. BOLTEN. Yes, on the regular budget side, outside of the Medicare system, yes.

Mr. CHOCOLA. Okay. Thank you. I yield back, Madam Chair.

Mrs. JOHNSON. Thank you. I think on the other side now we have next Mr. Doggett.

Mr. DOGGETT. Thank you, Madam Chairwoman. Mr. Bolten, I want to go back to the chart that you had up here on the board. As I understand it, you had a success rate last year, 154 programs you identified as either inefficient, wasteful, unnecessary, and the Congress agreed with you on 89 of them.

Mr. BOLTEN. That is correct.

Mr. DOGGETT. This year you found another 141 programs that are unnecessary, wasteful, or inefficient, and you are ready to eliminate or substantially reduce them.

Mr. BOLTEN. Yes, a good portion of the 141 are some of the 154 that were left over, not acted on last year.

Mr. DOGGETT. I see. Do you have with you the list of the 89 inefficient or unnecessary or wasteful, or all three, programs that you got eliminated last time?

Mr. BOLTEN. We do have it. We have an actual book of that. I don't have it with me at the table, but we can provide one for you.

Mr. DOGGETT. Do you have the list of the 141 programs you want to eliminate this year?

Mr. BOLTEN. Once again, we do have that. I don't know whether it has been distributed, but we will get that to you promptly.

Mr. DOGGETT. You can distribute it here this afternoon?

Mr. BOLTEN. I don't know if we can actually distribute it this afternoon, but we should be able to do that promptly.

Mr. DOGGETT. Get it to us shortly?

Mr. BOLTEN. Yes, sir.

Mr. DOGGETT. Okay. I believe that last year the Department that had the largest number of those programs that you included at least within your 154 to eliminate was the Department of Education. Isn't that correct?

Mr. BOLTEN. I believe that is correct. I am not certain. But there were a large number that were within the Department of Education, and a large number of the ones proposed this year within that 141 are from the Department of Education.

Mr. DOGGETT. That really was where I was headed. As best you can determine, the Department of Education, I believe, leads the way again this year as having the most programs that the administration feels are wasteful, inefficient, or unnecessary, or all three?

Mr. BOLTEN. Yes, I think in the case of the Department of Education, the concern is that a lot of the programs that we are proposing for elimination are programs that are very small, duplicative, not showing the kinds of results that other programs are, and what we would like to do is take the money that is allocated to those programs, we believe relatively inefficiently, and use it on more effective programs.

Mr. DOGGETT. Like tax cuts. But as far as Pell grants are concerned that so many students rely on, you have effectively frozen them for every year of the administration, haven't you?

Mr. BOLTEN. We actually proposed an increase in the Pell grant amount——

Mr. DOGGETT. Well, you proposed one last year, but as you know, in budget reconciliation there was no increase.

Mr. BOLTEN. There was not an increase eventually in the amount of Pell grants, but I believe the number of Pell grants and Pell grant-like programs, the name of which I have now forgotten—I may ask one of my colleagues to—Smart grants actually went up in the reconciliation bill that was just passed.

Mr. DOGGETT. This year you propose to cut the Perkins program, don't you, the Perkins low-interest loans for low- and moderate-income students?

Mr. BOLTEN. Yes.

Mr. DOGGETT. That is one of the ones you tried to substantially reduce last year and were not successful on.

Mr. BOLTEN. Yes, I believe that will be counted in the 141.

Mr. DOGGETT. With a growing student population, there will be less chance for students to get student financial assistance if your budget is adopted. Isn't that correct?

Mr. BOLTEN. No, sir, I do not believe so.

Mr. DOGGETT. Well, there is less money to go around. You have basically frozen the Pell grants, and you are going to cut the Perkins grants.

Mr. BOLTEN. No, I think the amount of money in the Pell grants is frozen, but I think the number of people who can become eligible for that I believe is on the rise, and after that——

Mr. DOGGETT. That is absolutely—we are in complete agreement on that. In fact, that is my point. We have got many more students who need the assistance, are eligible for assistance, but not enough money to go around.

Mr. BOLTEN. No, I believe they will be served, that the number of students receiving Federal aid for college has gone up year on year——

Mr. DOGGETT. They may be served, but they will be served at a lower level because there is not enough total money available for

them to get the same amount they would have gotten were it not for your budget.

Mr. BOLTEN. I do not believe that is correct.

Mr. DOGGETT. Maybe you might supplement then to respond to that. I would welcome the further detail. Let me ask you about what you say is the next point there, and that is the courage to go after these mandatory savings. Is part of that courage demonstrated by the decision to eliminate the $255 death benefit that has been around through Social Security now almost since its origin?

Mr. BOLTEN. I don't know whether that is included in there.

Mr. DOGGETT. It is what you have called for under Social Security reductions.

Mr. BOLTEN. Yes, it is part of the program.

Mr. DOGGETT. In that regard, a widow or widower who would have gotten originally a much bigger portion of a death benefit to apply to funeral expenses, they have only gotten for the last several decades $255. You just proposed to eliminate that to them entirely. It may not mean a lot to someone who is about to get these huge tax benefits that are being debated on the floor as we talk tonight, but to a poor person in Mission, Texas, a $255 death benefit is a substantial portion toward the payment of funeral expenses.

Mr. BOLTEN. Congressman, I think we viewed that as basically an anachronistic program, which——

Mr. DOGGETT. You view it as anachronistic? I mean, people are still dying down there and——

Mr. BOLTEN. They certainly are, but $255——

Mr. DOGGETT. Is a modest amount.

Mr. BOLTEN. Is a very modest amount. It has been frozen since 1952.

Mr. DOGGETT. Even that modest amount you are willing to eliminate at the same time that the tax bill being discussed tonight on the floor that I just came from means $32,000 to someone who earns $1 million a year. Those are the trade-offs that the administration has made in this budget. I thank you, sir.

Mrs. JOHNSON. Thank you. Just to clarify, a point of information. In the appropriations bill, as opposed to the reconciliation bill, we did fully fund the backlog of Pell grants. So, spending on Pell grants went up considerably. Then the reconciliation established a new type of Pell grants in the Smart grants. So, I just wanted to clarify that. Mr. English?

Mr. ENGLISH. Thank you. Director Bolten, I am actually inspired by the line of questioning that has emerged from my colleague from Texas, and so I guess maybe you could clarify it since we tend to lose the forest for the trees sometimes. You know, have we not, even if the President's budget as presented were accepted, have we not effectively grown the Education budget since 2001 by about 36 percent? Am I correct with that figure?

Mr. BOLTEN. That may be a little high. I think the total will be about 30 percent for 2001 to 2007, overall growth in the education programs. But the growth within the programs targeted toward the poor is much larger than that, and my guess is that within—that you are a little low for our Title I programs, for example,

which over the course of this President's administration will be up, with the adoption of this budget, about 40 percent.

Mr. ENGLISH. Haven't we been effectively growing the Department of Education budget by over 5 percent a year since 2001?

Mr. BOLTEN. I think that is about the average.

Mr. ENGLISH. Comparing that to other budget functions and other departments, is not the Department of Education since 2001 perhaps the fastest growing department after Homeland Security and Department of Defense?

Mr. BOLTEN. I don't recall the full table, but the Department of Education would be near the top of the list for the non-security-related agencies, the non-national security- and homeland security-related agencies, and, of course, the Department of Veterans Affairs, which has grown substantially during the course of this administration.

Mr. ENGLISH. Well, that puts at ease some of the concerns that the gentleman from Texas had awakened in my mind. What I would like to do perhaps is maybe change the focus. Director Bolten, during the State of the Union message, President Bush emphasized the need to control entitlement spending. As you know, a great deal of the growth in entitlement spending results from a current trend toward early retirement. My understanding is that the average American retires at about the age of 63. I wanted you to comment, if you are aware of the work that the Urban Institute has done to identify barriers to encouraging longer work, embedded in programs, important programs like Medicare, ERISA, and IRS regulations. I wonder if OMB is currently doing anything to evaluate these particular programs and regulations to consider possible reforms. Finally, has OMB estimated the cost savings that could be achieved if some of these institutional barriers to a longer work life would be removed?

Mr. BOLTEN. Mr. English, I don't know that we are doing that kind of work. It sounds like the Urban Institute study is a very useful one, and I will make sure that we and the trustees in particular of the Social Security and Medicare systems do take a close look at them, because those are precisely the kinds of areas that we do need to take a look at if we are going to get fundamental entitlement reform.

Mr. ENGLISH. I also noted that the President proposed creating a commission to examine the full impact of baby-boom retirements on Social Security, Medicare, and Medicaid, with the understanding that the commission would include Members of Congress of both parties and would try to move us back toward that bipartisanship that seems to be so elusive in the current environment. What details can you provide about the composition, the goals, and the expected product of the commission?

Mr. BOLTEN. Mr. English, I cannot provide any details for you now. That is something that I think will be forthcoming from the White House, but also will depend on the interests of the Members on both sides of the aisle as to how they believe that such a bipartisan effort should be constructed. The message that the President was delivering in that important phrase in the State of the Union was an appreciation that the desperately needed entitlement reform that we do need to pursue is not something that can be pur-

sued alone by one party. It does require both sides to buy in. We are hopeful of getting cooperation from both sides, and to that end, I think the White House will be interested in getting input from Members on both sides as to how such a commission ought to be constructed.

Mr. ENGLISH. Well, I thank you for that, and I yield back the balance of my time.

Mrs. JOHNSON. Mr. Becerra?

Mr. BECERRA. Thank you, Madam Chair. Mr. Bolten, thanks for being here with us.

Mr. BOLTEN. Thank you.

Mr. BECERRA. Let me continue along the same lines of Mr. English on this issue of Social Security and the reforms that are being called for. You just mentioned that reforms cannot be pursued alone by one party, and the President did make an eloquent call for a bipartisan commission to discuss entitlement reform, including Social Security, Medicare, and Medicaid. Give me an idea of how it was that the President, to your understanding, decided to include in this budget the proposal to privatize Social Security or to use moneys from the Social Security trust funds to divert them to private accounts to the tune of about three-quarters of a trillion dollars over the next 10 years.

Mr. BOLTEN. That is the President's position. We do think that is the best proposal. What the budget reflects is the President's proposals. It does not mean it is the only position that can be brought to the table.

Mr. BECERRA. So, would it be then your position that the President would come into any bipartisan commission with a set agenda on what to do on Social Security?

Mr. BOLTEN. I hope the President would come to the table, the administration would come to the table with a set agenda with its own proposals. But that does not predetermine what other people's agendas are.

Mr. BECERRA. So, are we to take what is in this budget presented by the President to Congress as simply some talking points on what the administration would like to do on the budget or that it is serious about trying to divert three-quarters of a trillion dollars in Social Security trust fund moneys for private accounts?

Mr. BOLTEN. Mr. Becerra, I think we are serious about all the proposals in the budget, and those are our positions, but those are the positions that we present to the Congress for its consideration.

Mr. BECERRA. This joint commission that would be formed, I think you mentioned to Mr. English that you are not too familiar with how it would be constructed or formulated. You wouldn't be able to answer the question as to how the President would want it to go about accomplishing its work, would you?

Mr. BOLTEN. I think that remains to be seen. As I said, it is something that I know we are all hoping that Members on both sides can come together and come to an agreement on both how to construct such a commission and how it ought to go about its work.

Mr. BECERRA. But the President then comes in to this commission, if it is ever formed, positioning that Social Security should move toward private accounts, as reflected in his budget.

Mr. BOLTEN. That is the President's view, yes.

Mr. BECERRA. In terms of Social Security, a little bit further, moving to a question that was raised by Congressman Doggett most recently, by other Members as well, the $255 death benefit that is payable to surviving widows upon the death of a worker, anachronistic you called it. Tell me how it is that $255 to a widow who probably receives no more than about a $960 benefit in retirement is not important when it comes to something as simple, as Mr. Doggett mentioned, as helping bury the deceased spouse?

Mr. BOLTEN. It is obviously very important, and all of the benefits might flow, including her benefits as a widow under the Social Security system, are important. This particular provision, though, has been frozen since 1952——

Mr. BECERRA. So, eliminate it because——

Mr. BOLTEN. It is not means tested in any way.

Mr. BECERRA. So, eliminate it because it has not seen any change in 50 years?

Mr. BOLTEN. Sure. It is not providing any——

Mr. BECERRA. That is fine. You have given me an answer. I am just trying to understand the rationale for removing a program that has helped in many cases widows pay for the burial expenses of their deceased spouses. You couldn't have found some money out of the $721 billion that you are taking out of Social Security for privatization to help ensure that you could save this $255 benefit for widows of deceased workers?

Mr. BOLTEN. Well, I mean, you can find money anywhere in the budget for anything if you want to.

Mr. BECERRA. But it was not a priority to say save $255 by taking an infinitesimal amount out of the $721 billion over the next 10 years that the President plans to dedicate to private accounts?

Mr. BOLTEN. Well, no. It was a low—this particular program was a low priority, providing a minimal benefit that costs almost as much to administer as it does in the money actually going out to people. Which, by the way, I should emphasize is not means tested. It is going to——

Mr. BECERRA. I appreciate your response. Let me ask one last question before my time runs. In the process of making a number of these cuts, always tough decisions have to be made. One of the programs that you decided to eliminate completely was funding for the State Criminal Alien Assistance Program, and that is moneys provided to States to help pay for the cost of incarcerating illegal immigrants in this country. A State like mine, California, obviously needs that assistance for the lack of Federal response to immigration policy, and I am wondering why it is that the President chose to eliminate a program which helps pay for the cost of the failures of the Federal Government to enforce its immigration laws.

Mr. BOLTEN. Well, I think the right answer to that problem is to effectively enforce the immigration laws, and——

Mr. BECERRA. But until that happens, what do the States do? They are having to incarcerate folks for having committed crimes, those individuals being here because the Federal Government is failing to enforce its immigration laws.

Mr. BOLTEN. What is included in this budget is a very substantial increase for border enforcement activities——

Mr. BECERRA. That does not help us if they are already in this country committing crimes.

Mr. BOLTEN. Well, there are people in this country committing crimes all over the country, not just in California. Many of them are illegal immigrants, many of them not. That is traditionally considered a State responsibility. The right answer to the underlying problem is that the Federal Government should effectively enforce its borders. We believe we are putting the resources into this budget to do that.

Mr. BECERRA. Thank you. Thank you, Madam Chair.

Mrs. JOHNSON. Thank you. Ms. Hart?

Ms. HART. Thank you, Madam Chair. Mr. Bolten, thank you for taking the time to come before the Committee. I know you have had a busy day. I want to compliment the administration on continuing to explain the relationship between economic growth and low taxes. As someone who has worked in State government for 15 years and for 7 of them chaired the tax-writing Committee in my State, we saw the exact same thing happen there as it happening here. When we give the people their money back, they reinvest it in the economy, and we have had a lot of success with that. It is wonderful to see the—14.7 percent, I guess?

Mr. BOLTEN. 14.5 percent.

Ms. HART. 14.5 percent, thank you.

Mr. BOLTEN. Increase in revenues last year.

Ms. HART. Increase in revenues as a result of this much better policy. That having been said, we still have some statistics that we are trying to find create ways to solve, and that is the amount of people who do not have health coverage in this country. I think the change in the economy, a lot of people who are now self-employed, a lot of people who are now working for much smaller businesses, the cost of health insurance, a lot of factors are involved in that. I know the President had mentioned an expansion of health savings account in the State of the Union, and I am not familiar with exactly in what way he wants to expand them, and I am not sure if you have more of those details. But if you do, I would like you to share them with us.

Mr. BOLTEN. I do have some of the details with me, and I would be glad to provide additional materials to you. The expansions involve permitting people to put more money into the health savings account than they have been in the past, also to allow a deduction for—just as when your employer in the private sector provides you health care, that health benefit of the insurance is not subject to taxation.

Ms. HART. Right.

Mr. BOLTEN. So the proposal is to treat HSAs, health savings accounts, in a parallel way so that the money you put in that is excluded from your income for purposes of taxation.

Ms. HART. It is also already excluded from the employer's income if they contribute?

Mr. BOLTEN. Well, I think it is considered on the employer's side an expense of doing business.

Ms. HART. Okay. So, that is good.

Mr. BOLTEN. But to give that exclusion to the employee and also the portion that relates to the Social Security and Medicare taxes that are applied to that level of income.

Ms. HART. That is good because I have a bill that would actually provide that kind of relief to the self-employed individual buying insurance. So, it would include any health coverage or health savings account contribution then to be not taxable.

Mr. BOLTEN. Yes, and I think the President's proposal would be in parallel, at least with respect to health savings accounts.

Ms. HART. Great. I will count on the administration supporting my proposal then. One of the things that people have said about health savings accounts and I think you may be helping to cure by this proposal to expand the amount that an individual can contribute to that account is that there won't be enough there for the person to cover whatever problems they may have. Is there an amount additional that the administration has proposed that a person can actually contribute to those accounts tax-free?

Mr. BOLTEN. I am going to ask one of my colleagues for assistance here. The amount of contribution will increase from? I am told it is the amount of the deductible to the out of payment limit.

Ms. HART. Well, okay. We will have to talk about that further after the hearing. Okay. I appreciate that. Just as a point of information, I have employers in my district who, when I first ran, had asked us to please look at the medical savings account law and fix it. Of course, we looked at that when we did the Medicare Modernization Act and moved forward with the HSAs. One of the complaints I did hear was a concern about being so restricted in how much they can contribute to those accounts. We have a number of other things available on the Federal level that do have those limits like flexible spending accounts. I would certainly be willing to work with the administration to make sure that we provide the maximum flexibility to those kinds of accounts so that people will be able to cover different kinds of expenses that they need to for their health and well-being. I thank you for your attention to that. I yield back.

Mr. BOLTEN. Thank you, Ms. Hart.

Mrs. JOHNSON. I would like to recognize Mr. Thompson.

Mr. THOMPSON. Thank you, Madam Chair. Mr. Bolten, thank you very much for being here. Recently the Commerce Department released a report stating that the savings rate in this country is disappointingly low. As a matter of fact, it is as low now as it was during the Great Depression. So, as I read this, it indicates that Americans as individuals are a lot like America as a country, and they are having a hard time living within their means. They are spending much more than they are making. Does this trouble you at all?

Mr. BOLTEN. Yes, we do need to raise the savings rate in this country, and the President has proposals in the budget to address that.

Mr. THOMPSON. Well, you have argued that the tax cuts actually encouraged private savings and investment. How do you reconcile that with the fact that the savings rate is so low?

Mr. BOLTEN. I don't know if there is any particular way of gauging the extent to which a tax cut either raises or lowers the

savings rate beyond what it otherwise would have been. But we do know that if you leave more money in people's pockets, they are more likely to have more money available to save.

Mr. THOMPSON. So, can you give us an idea how the tax cuts have actually helped just regular Americans save more money?

Mr. BOLTEN. Well, I think when you leave a couple of thousand dollars in the pocket of an average family of four, and with that extra $2,000 it may be that they need to spend some of that on their current expenses, but also that may be money that they can put aside for their kids' education. So, while the savings rate is low, I think it is entirely plausible, in fact, likely that in the absence of the tax cuts, the savings rate would be even lower.

Mr. THOMPSON. Not only is it low, it is extremely low, and that, coupled with the unbelievably high amount of personal debt that most regular Americans are carrying today, I think is emblematic of maybe your tax cuts did not do as much as you are suggesting that they did. I am troubled by the combination. I am troubled by either one of those indicators, but certainly the combination of the two, high debt, low savings, I think that spells trouble. I have not seen any benefit accruing to those folks from these proposals. To shift gears a minute, the President said that the AMT should be addressed within the context of fundamental tax reform. Can you tell us where in the budget that plan for fundamental tax reform can be found?

Mr. BOLTEN. The Secretary of the Treasury had a commission report to him a few months ago on fundamental tax reform. He is studying that now. That is a——

Mr. THOMPSON. There is nothing in the budget that——

Mr. BOLTEN. No, and I would anticipate further that since we are calling for revenue-neutral budget tax reform, then it would not substantially affect the numbers that you see in the budget.

Mr. THOMPSON. If there is no plan outlined by the President for the fundamental tax reform, how is it that we are to believe that the AMT issue is to be fixed?

Mr. BOLTEN. Well, it can be fixed in the context of fundamental tax reform, which——

Mr. THOMPSON. But it is not there. That is what I am saying.

Mr. BOLTEN. Which we hope and expect will be coming along in the months ahead. Bear in mind that the AMT, we are assuming, will be patched for the 2006 tax year, for which people will be paying taxes in 2007. That has not been yet adopted by the Congress.

Mr. THOMPSON. But even if it is, it is just a 1-year fix.

Mr. BOLTEN. It is indeed a 1-year fix, and, therefore, when people get around to paying their taxes in April of 2007, that is the point at which people would begin to——

Mr. THOMPSON. Are there other tax cuts from 2001 and 2003 that are not proposed to be made permanent, or is it just AMT?

Mr. BOLTEN. AMT was not part of the 2001 and 2003 tax cuts.

Mr. THOMPSON. I didn't ask that. I said, Were any of the 2001, 2003 tax cuts that were not made to be permanent?

Mr. BOLTEN. No. The President's position is to make all of the——

Mr. THOMPSON. Make them all permanent.

Mr. THOMPSON. —2001 and 2003 tax cuts permanent, with the exception of, I believe, a bonus depreciation provision that was intended to expire.

Mr. THOMPSON. Yet AMT is not addressed by this administration, and this is a tax cut that has already expired. It puts in place a problem for about 17 million Americans who are going to have to pay more taxes because this was not fixed. As you just explained, there is no proposal within this budget or no—it is not a priority within this administration and this budget to fix AMT on a permanent manner.

Mrs. JOHNSON. Thank you. Mr. Brady?

Mr. BRADY. Thank you, Madam Chair. I appreciate Director Bolten being here today.

Mr. BOLTEN. Thank you, sir.

Mr. BRADY. I think you have some work to do on the budget, but I think the President's priorities of supporting our troops and winning this war on terror, securing our borders, helping families with their health care, which is so expensive, and trying to move to energy independence—those back home in Texas are the priorities for Texas families, things they want us to work on. You know, the one frustration I have is that we do a lot of important things in government, but we just seem to waste so much money as we do it. I think the best way that we can trim the fat from the budget is a proposal that the President has endorsed, and you have as well, a sunset commission, which, you know, is a very proven method, has worked in 24 States. What it does is it puts an expiration date on every—as you know, it puts an expiration date on every agency and program where they have to justify their existence or face elimination. What it does and what States have shown us that we have so many programs that duplicate each other. We have programs that are now obsolete. Yet we have new priorities, such as the war, such as Medicare and Social Security and others, that must be funded that we have to look at the 500-some different urban aid programs, the 300-some different, separate economic development programs, and 90 different early childhood programs spread across 11 agencies. I think it is critical, for us to get to a balanced budget and stay there, we have got to find a bipartisan way, proven way, thoughtful way where every agency, every department is held accountable. A sunset commission has been endorsed by OMB, yourself, and the President. Are you still committed to using that as a tool to reduce the waste and fraud?

Mr. BOLTEN. We are indeed, Mr. Brady, and you may not be aware, but when this idea was first gaining currency within the administration, it was referred to as a Brady commission.

Mr. BRADY. Well, that is a scary thought.

[Laughter.]

Mr. BOLTEN. But we appreciate the work that you have done on this. The administration does remain committed to that proposal, I think even more so now than in the past, particularly as we see a growing number of Members interested in that sort of process reform, certainly more so than have been interested in the past. I know you have worked with our Deputy director for Management, Clay Johnson, on fashioning a sunset commission pro-

posal, and we hope it will get serious consideration in the Congress this year.

Mr. BRADY. Thank you, Director. Thank you, Madam Chairman.

Mrs. JOHNSON. Mr. Emanuel?

Mr. EMANUEL. Thank you very much. I feel like an Agatha Christie novel: "Then There Were None." It is just me and you now, that is it. I knew if I waited long enough, I could be the Ranking Member, so here it is. My big moment has come.

[Laughter.]

Mr. EMANUEL. Thanks for laughing. I like that he laughs. You never know if the guy taping will hear you. You know, look, we have gone through this. You have been the whole set of questions. You had to do Budget Committee today. Let me make a set of proposals for bigger cuts. You know, I am not going to argue. I think your survivor's benefits cut is stupid. I can put a prettier face on it, put some lipstick on it. You want to cut survivor benefits for 250 bucks because—you could reform it, you can alter it, you can means test it. You made those suggestions. You didn't do it. I think it is a stupid idea to cut people who just lost their parents for $250. I am not going to give it to you any prettier.

But here are four ideas or five for bigger cuts. A, in the health care area, because they are a total waste of taxpayer dollars, and you can move it into uninsured, deficit savings, anything you want to do. We now pay—and the PPO slush fund, close to about $10 billion. We have an overpayment, 107 percent, versus fee-for-service. That comes to about $30 billion. We double-pay for education, $5.5 billion. Those are just a couple ideas. There are a couple other in what I would call in the Medicare area, total—prior to you it was Secretary Leavitt made the recommendation $49.2 billion in additional cuts, all are corporate welfare. You would have to hit some very big contributors. But you are leaving $49.2 billion on the table, and I agree with the President in the State of the Union. You want to make big cuts. It is a time of belt-tightening. We got to do belt-tightening. You left $49.2 billion. I am sending Secretary Leavitt a letter based on today's hearing. I am going to cc it and also send it to you. Why—the Chair Lady was there. MedPAC is always used as an umpire here. The recommendations for $36 billion in cuts for Medicare, were all based on one rationale—MedPAC. Med-PAC also made recommendations every area I am saying, so you have left $49.2 billion in corporate welfare on the table. Could be cut today. Bigger reduction in the deficit. You decided not to.

Second, Mr. Director, in the area of energy, today—I don't know how it closed today, but on average, futures in oil have been trading somewhere between $66 to $69 a barrel. We pay $14.5 billion in corporate subsidies, taxpayer subsidies to big oil companies, $2 billion for the ultra-deepwater oil drilling, where they are drilling already, and we don't even collect the revenue that they owe on royalties. Basically about $16 billion you can collect if you eliminate those subsidies. Total—I am personally set off on a mission. We are going to find you $100 billion in additional cuts you guys are too chicken to do. I am going to give it to you in a letter and lay them out to you. I want to know why you chose to leave those on.

Now, I don't have a problem if we are going to—you know, oil prices, energy prices, cutting it close to about $2.75. But by subsidizing oil companies to do their business plan is the wrong way to go, especially we are cutting survivor's benefits for kids who have just lost a parent and widows. You are cutting educational programs, freezing Title I, all the areas you could justify—and I am not saying replace. I am saying you left by my calculation $60 billion on the table. So, this is not a budget of right priorities. Your rhetoric, not mine. I will say—one of the things I find that all my colleagues compliment this, what you do, these tax cuts have led to this, quote-unquote economic boom. What I find fascinating, you 1 day will explain to me, because I do know—was that a gavel down?

Mrs. JOHNSON. No.

Mr. EMANUEL. Okay. Was that in the nineties we had an economy that was growing with a totally different tax structure. So, you will one day explain to me how the economy grew in the nineties under a different tax code, which you all rallied against and railed against as big, big tax increases on folks. So, 1 day I would like to have an explanation or a discussion of how the nineties economy grew at the level it did with the Tax Code and the taxes that we had level there. Last, I want to pick up on what my colleague Mr. Thompson said, and that is—it relates to the AMT. You did ask for a permanent—making permanent the tax cuts in 2001 and 2003. But you did let the AMT expire, and it does hit middle-class families, and it is hitting—I think in 1999 there was 1 million. Today there is 19 million. Over the next 4 years, it will get up to 30 million families—or taxpayers, rather, who will be hit by it. Is there any intention to do tax reform? We all read the same papers that you read. Basically tax reform isn't getting done this year.

Mrs. JOHNSON. Thank you, Mr. Emanuel, and thank you, Mr. Bolten, for your patience and for listening throughout these hours. I am sorry. Your time has expired——

Mr. EMANUEL. But if he is willing to answer the questions, we can stay, right?

Mrs. JOHNSON. You can talk to him after about it, but I am going to adjourn the hearing because we have a vote going on, and we are down to the last few minutes. Thank you very much for your patience and——

Mr. EMANUEL. Thanks for the dialog.

Mrs. JOHNSON. —your courtesy and a pleasure to have you. Thanks.

Mr. BOLTEN. Thank you, Madam Chairman.

[Whereupon, at 6:40 p.m., the hearing was adjourned.]

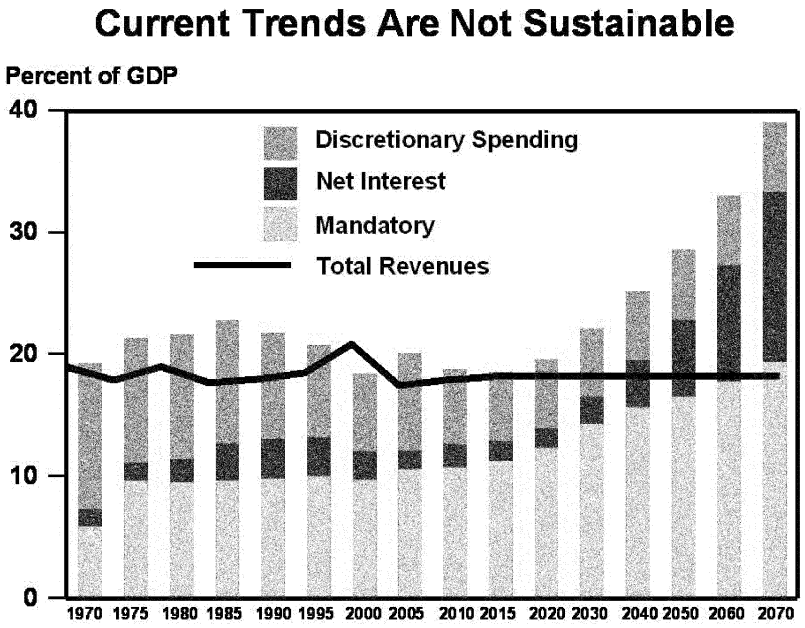
[Submission for the record follows:]

Statement of the Embassy of Peru to the United States

The Embassy of Peru would like to congratulate the Ways and Means Committee of the U.S. House of Representatives for holding a hearing and receiving written statements regarding the U.S. President's Fiscal Year 2007 Budget.

We are aware that the Office of Management and Budget (OMB) has presented a budget in the framework of the Andean Counterdrug Initiative of U.S. $721.5 million ($13 million less than Fiscal Year 2006). Unfortunately, in said initiative the amount assigned for drug cooperation to Peru is U.S. $98.5 million or a proposed reduction of more than U.S. $8.42 million in comparison to Fiscal Year 2006 (U.S. $106.92 million). Within the full respect for U.S. legislation, the Government of Peru

would like to express its utmost concern about the current tendency of reduction of amounts for bilateral antidrugs cooperation with Peru in the U.S. Budget:



Year	2002	2003	2004	2005	2006	2007sa (requested)
In U.S.$ millions	142.5	128	116	115.37	106.92	98.5

In times like these, we see this proposed reduction as counter productive, particularly if we take into account the significant progress made in the fight against drug-trafficking in Peru and the challenges we must face.

On November 17, 2005, the Director of the White House Office of National Drug Control Policy (ONDCP), John Walters, made an important presentation where he shared some very good news on the results of our joint efforts in the fight against drug trafficking. The reduction on the cocaine (-17%) and heroin (-22%) purity available in the U.S market; as well as the increase in price of both cocaine (+19%) and heroin (+30%), mentioned by Mr. Walters, are exactly the type of results we are looking for. It is necessary to continue to work and fight together to have less drugs available in the streets of the United States by attacking the demand and the supply.

Also, in said presentation it was noted that in the case of Peru, as part of the successful strategy in the Andean region, there has been a reduction of 20 metric tons of export quality cocaine from 2003 (185 MT) to 2004 (165 MT).

These are concrete results that a high ranking official of the U.S. Government provides with important data on the fight against illegal drugs. These positive results are obtained not only in U.S. territory but also in countries such as Peru.

Peru and the United States have the same interest to cooperate against illegal drugs as they see this matter as a grave menace to national and hemispheric security. That is the reason why the fight against drug-trafficking has been placed as one of the high priorities of the Government of Peru since July 2001. Positive results based on this effort are at hand, where more than 41,000 hectares have been eradicated in the last 4 years and approximately 52 tons of cocaine and basic paste of cocaine have been seized from drug traffickers in the same period.

These results would have not been achieved without the commitment of our Government and the support provided by the United States. However, to continue with this effort, the valuable and important support of the United States is needed. Furthermore, any reduction of these cooperation funds will have a negative effect in the real progress we have obtained in the fight against drug-trafficking. We still have to take in account the success of "Plan Colombia" on the eradication of coca crops, and the "balloon effect" it has developed. New coca crops have started to grow in neighboring countries. We have to realize that from a regional perspective facing this problem will have a negative correlation effect for the interdiction and eradication success in other countries of the region. Issues like security, drug trafficking and terrorism are closely related and the support of the United States is instrumental to continue facing together, as partners, these new challenges.

We believe that the House of Representatives has an important role to play in this matter. We also believe it has the power to re-examine the Administration's Budget proposal for Fiscal Year 2007 in regard to the Andean Counterdrug Initiative (ACI) and, particularly, the proposed amount assigned for the cooperation with Peru. Therefore, we respectfully request that the proposed anti-drug cooperation funds for Fiscal Year 2007 be reconsidered or, at least, the amount provided by the U.S. Congress for Fiscal Year 2006 be maintained.

Our joint effort is based on the principle that United States and Peru have a shared responsibility in this matter. Drug-trafficking affects both countries and we must work together to stop illegal drug from reaching the United States. This principle, which is the basis of the joint fight against narcotrafficking, has a renewed applicability due to the current dimensions, the diversity of methods used in drug trafficking and the expansion reached by drug dealers in their crimes and related illegal activities such as money laundering, deviation of chemical precursors and arms trafficking, as well as other crimes such as human trafficking, corruption and terrorism.

The U.S. Congress is aware and has been very supportive of the efforts carried out by Peru in the fight against illegal drugs in the Andean Region. In 1991, U.S Congress approved the Andean Trade Preferences Act (ATPA) which was renewed and expanded by the Andean Trade Promotion and Drug Eradication Act (ATPDEA) of 2002. These U.S. laws have significantly contributed to coca eradication efforts in Peru by providing and assisting farmers and other populations at risk, with alternative economic activities to the highly profitable illegal crops.

Thanks to the benefits provided by the ATPDEA, in 2005 our exports to the United States grew by more than 41.8% compared to the previous year. Textiles and

apparel, agro-products, like paprika, asparagus, mangoes, melons, white onions, watermelons, among others, as well as gold jewelry, lead the expansion of sales to the U.S., generating thousands of new jobs and improving the livelihood of peasants and workers in Peru, especially in rural areas.

In December 2005, we finalized with the United States the negotiations for the Peru Trade Promotion Agreement (PTPA). This agreement, which has been applauded by U.S. associations, such as National Pork Producers Council, the U.S. Sugar Producers, and the U.S. Chamber of Commerce, is an important tool in our efforts to fight against drug trafficking and continue with alternative development programs in Peru.

The Government of Peru is firmly committed to the fight against drug trafficking. The National Commission for Development and Life without Drugs (DEVIDA) was created to design, conduct, and supervise the anti-drug policy and rehabilitation programs in Peru.

The Peruvian Government is currently executing the Peruvian National Strategy to Fight Drugs 2002—2007, approved in January 2005, which focuses on four major actions:

- Reduction of the drug consumption and rehabilitation
- Interdiction
- Alternative development and protection of the environment
- Eradication and auto eradication of illicit crops

Farmers in Peru need to be given the opportunity to grow alternative products to coca leaf. But not only that, we need to have to have an integral approach in this matter: by building roads so they may transport their crops to the coast. From there, these crops may be sent to Lima, Peru's major market or be exported, and in the latter case we have the importance of a PTPA. We need to provide a market for these farmers to export their alternative products, such as high quality coffee, cocoa, bananas; tropical products that are hardly grown in the United States, therefore not competing with U.S. local producers.

If these farmers are not given an alternative crop and a market as a destination for their products, they will continue being "cocaleros" coca farmers, with the selfish support of narcotraffickers who want to continue with the supply of coca leaf.

As stated previously, we have to give farmers a chance to develop alternative crops and protect the environment. The production of alternative crops is only feasible if they can be delivered to major markets, either in Peru or abroad, where they can be sold.

On January 25, 2006 the President of Peru, Alejandro Toledo, with the presence of U.S. Ambassador in Peru, inaugurated a road 56 miles long between Juanjui and Tocache in the Alto Huallaga Valley in Peru. This road, with a cost of U.S. $30 million was financed in part by the U.S. Government, through USAID. Even though this is a concrete result of the Alternative Development program and the cooperation funds between the United States and Peru, these are the funds that are being reduced every year.

There will be 123,000 beneficiaries of 42 towns located at the side of said road, which will reduce the trip from Juanjui to Tocache from 16 to 4 hours. Farmers (many of them former coca growers) will save valuable time in transporting their agricultural products to Lima or export markets.

The environment is also negatively affected by drug traffickers. Chemicals precursors which are used in the elaboration of cocaine and its derivatives, many of them highly toxic, are thrown into the rivers of the highlands and jungle of Peru, contaminating clean waters and endangering wild flora and fauna.

The efforts of Peruvian authorities since July 2001 have been very important, and the projected goals or eradication have been achieved in the last 3 years. As shown in the following chart, in the last 4 years, more than 40,000 hectares of coca crops have been eradicated, either through forced or voluntary eradication.

Coca Crops Eradication

(Hectares)	2002	2003	2004	2005
Forced eradication	7,134	7,022	7,605	8,957
Voluntary eradication	0	4,291	2,733	3,266
Total	**7,134**	**11,313**	**10,338**	**12,223**

Source: DEVIDA

Interdiction

In regard to interdiction, our National Police and Armed Forces, in cooperation with U.S. and other foreign enforcement agencies, have been able to seize great amounts of cocaine ready to be shipped to the United States, Mexico and Europe.

Illegal Drugs (kgs.)	2002	2003	2004	2005
Seized:				
Basic Paste of Cocaine	10,439	4,366	6,329	4,572
Cocaine	4,129	3,574	7,303	11,588
Total	14,568	7,940	13,632	16,160

Furthermore, and important task has been developed in Peru by the Financial Intelligence Unit. This Unit, which is parte of the Ministry of Economy and Finance, has the following responsibilities:

- Receive and analyze the Report of Suspicious Operations
- Request additional information to the obligated persons
- Request to any public institution all reports, documents, background information, and any other document that may be useful in their investigation.
- Request of information to any person regarding asset/money laundering and terrorism financing
- Transmit to the Public Ministry (for judicial action) the detected cases of money laundering and terrorism financing
- Cooperate and participate in joint national and international investigations.
- Provide technical assistance.

Since September 2003, when the Financial Intelligence Unit became active, there have been 1,088 reports of suspicious operations that have been detected by this Unit. In this same period, this Unit has sent 39 reports to the Public Ministry (for judicial action), 19 of them involving drug trafficking activities. These reports have identified more than U.S. $200 million that may be seized due to their illegal origin.

In the framework of the Annual Plenary Meeting of the Egmont Group, in July 2005, the Financial Intelligence Unit of Peru was incorporated into the abovementioned group, thanks to the sponsorship of the United States and after completely complying with the admission requirements established in its norms.

The Egmont Group, was created in 1995 in Brussels, with the purpose of articulating the efforts of the Financial Intelligence Units of 101 countries in their fight against the asset laundering of activities proceeding from the illicit trafficking of drugs, corruption and terrorism. It has permitted the Government of Peru to exchange financial intelligence information, including the lifting of banking secrecy, with all of the UIF members, which has reinforced the actions taken by our country in the fight against crimes that generate illicit profits.

Regional situation

Based on the latest events of the Andean region, we would like to emphasize that the Government of Peru is respectful of all its international commitments in the fight against illegal drugs. Also, our country is convinced that the fight against narcotrafficking is the best path to obtain development and social peace and stability in our country. When narcotrafficking grows it has a negative effect on democratic institutions; it expands poverty and social exclusion, putting democracy in risk.

Security

Having drugtraffickers benefit from these illegal activities is only a source of destabilization for our country and its democratic institutions. It is also a threat to security, not only security in Peru but also in this hemisphere. It is well known that these transnational criminal organizations that have no borders are responsible for these illegal activities.

We must also have in mind the existing link between narcotraffickers and terrorists, and alliance that is well proven, particularly in Peru. Terrorism is also a worldwide major threat against whom we have to fight together in a coordinated manner.

Conclusion

Together, our governments must face these enormous challenges in the fight against drug trafficking. In order to continue winning successful "battles" in this war, we truly and respectfully consider that United States anti-drug cooperation with Peru should be increased and not reduced.

The outstanding results in the United States and in Peru during the last 12 months prove that there has been real progress. Consequently, this joint effort, where U.S. support is instrumental, needs to continue.