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NOMINATION OF HON. ROBERT J. PORTMAN

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON THE

NOMINATION OF HON. ROBERT J. PORTMAN, TO BE DIRECTOR, OFFICE AND MANAGEMENT AND BUDGET

MAY 11, 2006

Printed for the use of the Committee on the Budget

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NOMINATION OF HON. ROBERT J. PORTMAN

THURSDAY, MAY 11, 2006

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to notice, at 9:59 a.m., in room SD–608, Dirksen Senate Office Building, Hon. Judd Gregg, chairman of the committee, presiding.

Present: Senators Gregg, Domenici, Allard, Sessions, Bunning, Crapo, Alexander, Conrad, Sarbanes, Murray, Wyden, Stabenow, and Menendez.

Staff present: Scott Gudes, Majority Staff Director; and Denzel McGuire, deputy staff director.

Staff present: Mary Naylor, Staff Director for the Minority; and John Righter, deputy staff director & commerce and housing credit.

OPENING STATEMENT OF CHAIRMAN JUDD GREGG

Chairman GREGG. We are going to call the hearing to order a little early and thank everybody for being here on time, obviously, and for having Ambassador Portman here as nominee to be the Director of OMB.

As a courtesy to the people who are going to be introducing him, the Senators who are going to be introducing him, we thought we would let the Senators who are introducing Ambassador Portman go first, and then we will do our opening statements. And then we will go to Ambassador Portman for his opening statement and then we will proceed to questions.

So I understand that the Ambassador is going to be introduced by Senator Jim Bunning from Kentucky, who is a neighbor and has been for many years of the Ambassador; and Senator Mike DeWine who represents Ohio, which is the residence and the home of the Ambassador.

So why do we not proceed with Senator Bunning as a member of the Committee.

STATEMENT OF THE HONORABLE JIM BUNNING, A UNITED STATES SENATOR FROM THE STATE OF KENTUCKY

Senator BUNNING. Thank you, Mr. Chairman.

I am honored to have the opportunity to introduce my good friend Rob Portman to the Committee today.

As my colleagues all know, Rob served in the House of Representatives for over 10 years, representing the Cincinnati area District just across the river from where I live in Kentucky. We also served together for 4 years on the House Ways and Means

Committee, and worked on everything from trade to pensions to health care, even constituency case work.

Just as importantly, Rob and I and our wives, Mary and Jane, have spent many hours together, more of them than we care to count, talking as we sat on planes going back and forth from Washington and Cincinnati, which, is always like to remind Rob, the Cincinnati airport is in Northern Kentucky.

Over the past year or so, I have gotten to know Rob Portman as well as any Member of Congress. I can tell my colleagues wholeheartedly that President Bush could not have picked a better man to trust with the important responsibilities that come with being the Director off the Office of Management and Budget.

Rob is one of the smartest guys I know. He works hard. He is destined for great things. He did a wonderful job as our trade representative, and would do a fine job as head of OMB.

I urge my colleagues to act favorably and quickly on his nomination.

Thank you, Mr. Chairman.

[The prepared statement of Senator Bunning follows:]

OPENING STATEMENT OF HON. JIM BUNNING
FOR SENATE BUDGET COMMITTEE HEARING ON ROB PORTMAN TO BE DIRECTOR OF OFFICE OF MANAGEMENT AND BUDGET

MAY 11, 2006

Thank you, Mr. Chairman. I am honored to have the opportunity to introduce my good friend, Rob Portman, to the committee today.

As my colleagues all know, Rob served in the House of Representatives for over 10 years, representing the Cincinnati area district just across the river from where I live in Kentucky.

We also served together for 4 years on the House Ways and Means Committee and worked on everything from trade to pensions to health care, even constituent casework.

Just as importantly, Rob and I, and our wives, Mary and Jane, have spent many hours together, more of them than we can count, talking as we sat on planes going back and forth between Washington and Cincinnati, which as I always like to remind Rob, the Cincinnati Airport is in Northern Kentucky.

Over the past few years or so, I have gotten to know Rob Portman as well as any member of Congress. I can tell my colleagues wholeheartedly that President Bush could not have picked a better man to trust with the important responsibilities that come with being the Director of the Office of Management and Budget.

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He did a wonderful job as our Trade Representative and will do a fine job as head of OMB. I urge my colleagues to act favorably and quickly on his nomination.

Thank you, Mr. Chairman.

Chairman GREGG. Thank you, Senator. It is an honor and a privilege to have you here testifying, as well as a member of the Committee.

Senator DEWINE.

STATEMENT OF THE HONORABLE MIKE DEWINE, A UNITED STATES SENATOR FROM THE STATE OF OHIO

Senator DEWINE. Mr. Chairman, thank you very much for allowing me a few minutes to speak on behalf of my good friend and fellow Ohioan, Rob Portman.

Let me first congratulate Rob on this nomination. Really no one is more qualified or more prepared or more ready to be our next Director of the Office of Management and Budget than Rob. He brings commitment, sincerity, intelligence, expertise, and skill to this position.

Mr. Chairman and members of the Committee, I have known Rob for many, many years. I have worked with him in Congress on many issues.

Rob Portman, as I think we all know, is the real deal. He is thorough and thoughtful on all of the issues that he undertakes. He is as honest and genuine and sincere as they come. He is a devoted, serious, hard-working, and caring man who always puts his family first.

It does not seem that long ago that I had the opportunity to introduce Rob to the Senate Finance Committee after he was nominated to be our U.S. Trade Representative. I jokingly told Rob that I was just going to get my old introduction out and read it again today.

But during that introduction, I talked about Rob's diplomacy and his skills as a negotiator, and he certainly has shown that over the last year or so.

In his new position, Rob, you are certainly going to need those skills even more.

In all seriousness, Mr. Chairman and members of the Committee, I know Rob Portman. In Rob Portman, we are going to have a man who will listen to our concerns and while we may not always agree with him, we know that he will take our concerns into consideration and we know that he will always shoot straight with us.

Rob's legislative accomplishments speak for themselves. He has helped make Government more accountable through his efforts to overhaul the IRS and his efforts to reform pension law. I am very proud to have worked on several legislative issues with him over the years. He has always been there to make a difference for Ohioans and for our country. He has been a true champion in the fight to get illegal drugs out of our communities. And he has been instrumental in turning the vision of an Underground Railroad Freedom Center into a reality. Because of his commitment and his hard work, Cincinnati is now home to our Nation's premier history center dedicated to telling the story of freedom and perseverance through the legacy of the underground railroad network.

Again, let me congratulate Rob, and I thank you, Mr. Chairman, for giving me the opportunity to appear here today to introduce my good friend to this Committee.

Chairman GREGG. Thank you, Senator, and thank you both for presenting the nominee today. It is obviously a reflection of his quality and caliber that he would have folks of your quality and caliber representing him and presenting him today.

It is a pleasure, obviously, to have the nominee before us today for the OMB directorship. Congressman, Ambassador Portman has been a tremendous public servant, somebody that has set an extraordinary track record of ability and intelligence as he has approached issues which have faced our Nation.

One must ask the question, however, why someone would leave the USTR to become head of OMB. That may be the most significant issue we have to address in this hearing.

But the fact that he is willing to take on the job of OMB is clearly a reflection of the fact that he is willing to take on significant challenges. The OMB directorship is the center, the epicenter of fiscal policy at the Federal level. And the OMB Director is put in the position of having to discipline spending throughout the Government and make sure that that spending is done effectively when it is done. It is a job that does not win a whole lot of friends, but does play an absolute critical role in maintaining fiscal discipline.

I know that Ambassador Congressman Portman has all the talent and ability to accomplish and carry forward what I think was an extraordinary job done by his predecessor in Director Bolton, who I enjoyed working with immensely and who was moved on to be Chief of Staff, obviously, for the President.

There are a lot of things going on today that involve fiscal policy. Ironically, on the floor of the Senate today we have the extension of the tax rates relative to a number of areas that were put in place in 2003.

The tax cuts of 2003 are producing huge dividends to this country. The revenues are up dramatically. Just in the first 6 months of this year we have seen an 11 percent jump in revenues over the baseline projection, $134 billion of additional revenues coming in. Last year it was a 14 percent jump. We have seen, as a result of the economic activity energized by these tax cuts, tremendous increase in job growth, 5.3 million new jobs added to the economy. We have seen once again the philosophies of John Kennedy and Ronald Reagan and now George W. Bush, which says that if you put a fair tax rate in place, especially on the formation of capital, what you get is much more entrepreneurship, much more creativity, much more willingness to go out and take risk and as a result create jobs. And the result of creating jobs and economic activity in an economy is that you generate revenues to the Federal Government.

We are a government which is seeing huge explosions in our revenue growth and that does not appear to be abating at all. In fact, it appears to be going up, as this economy continues to grow and grow in a very positive and effective way. We have not had any significant inflation.

I think that the Administration's policies relative to tax policies can take a lot of credit for this economic turnaround. We were confronted obviously with a major recession, the attack of 9/11 and the right policies were put in place to bring us out of that and they have brought us out of that in a way which has shown a robust

and aggressive growth in our economies and has proven once again that if you give people an incentive to go out and work and be productive in our economy they do. And as a result they generate revenues to us as a Government.

But on the only other side of the ledger, we still have the question of fiscal discipline. Especially in the entitlement accounts, we confront some very serious problems. The biggest problem we confront is a demographic problem. Clearly the deficit is moving downwards, moving in the right direction. In fact, deficit projections are well below what they were just three or 4 months ago and dramatically below what they were 6 months ago.

But those deficit projections, which are moving down, are good and they are positive and they reflect good economic policies. But in the long run we still have to face up to the fact that as we head out into the next decade the baby boom generation is going to retire on us. Most of us here are members of that generation. And the effects of that retirement is that it will put tremendous strain on our Government, but more importantly tremendous strain on our children as they try to pay for the cost of those fiscal policies of maintaining a retired generation which is twice the size of any generation that has ever retired before.

This becomes an issue for this Government and for us as policymakers. We should not allow ourselves to get to this precipice. We should anticipate it and try to make it less of a precipice. And so that is something I would like to hear about when the witness speaks, relative to what the policies will be to address the issues of the demographic shift in our country and how it is going to affect entitlement spending.

In addition, of course, we have the question of discretionary spending, and specifically the issue of how we are budgeting. The fact that we have adopted this two-tier budgeting approach where we are basically running a budget that is under the control of the budget policies, which hopefully we will be seeing passed by the House this week, and a budget which is under no control, the emergency budget. And the emergency budget being a function of our fighting the war and the function of the Katrina situation.

Obviously, those numbers are going to start to fall, we hope. They will fall, there is no question about that. Clearly, the Katrina situation is being addressed. And the war, at least in Iraq will, it appears to me, start to cost us less.

So I will be interested to hear what the witness has to say relative to that issue of discretionary budgeting and how we handle it effectively.

But we do congratulate him for being willing to step into this turf to take on this job. It is one of the most challenging jobs in the Government and, in my experience of working with Ambassador Portman, I think he is the right guy to do the job and I know he will do it well.

At this point, I will yield to the Senator from North Dakota for his thoughts.

Senator CONRAD. Thank you, Mr. Chairman.

OPENING STATEMENT OF RANKING MEMBER KENT CONRAD

Welcome, Ambassador Portman.

First of all, I want to say you had the good fortune to be introduced to the Committee by a respected member of this Committee, Senator Bunning. We know that you are very close neighbors there, that border between Ohio and Kentucky.

First of all, I want to say I like Ambassador Portman personally and have high regard for him professionally. He certainly was an outstanding member of the House of Representatives and we welcome him here before the Committee.

With that said, I think you would expect that we also have serious policy differences. The great thing about our democracy is we express those openly and honestly, and we will do that here today.

With that I would like to, Ambassador Portman, take you back to 2001 when this fiscal policy was put in place. And the time you said, "President Bush outlined his budget last week, which showed for the first time in decades we are going to be able to actually preserve the Social Security and Medicare Trust Funds. We have never done that before. It is historic. We are also going to be able to pay down all of the available public debt, $2 trillion of it, also be able to increase spending for important priorities like education, national defense, and yet there is almost $2 trillion left over for tax relief for the American people."

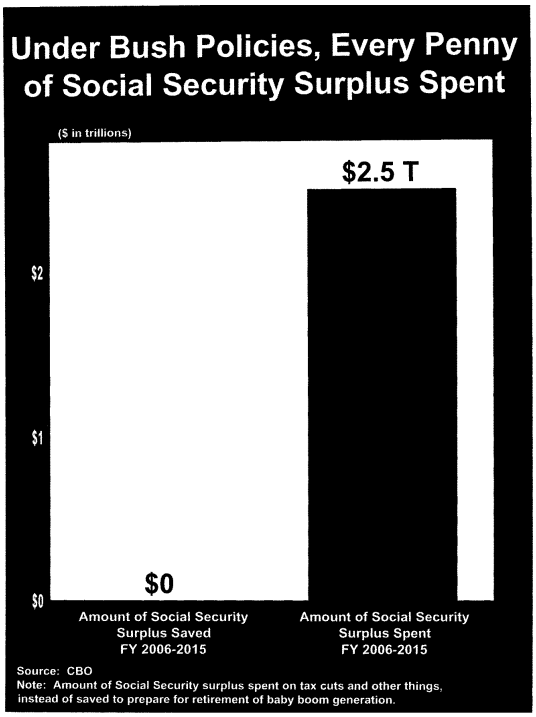
Then-Rep. Portman Believed Tax Cuts Would Not Threaten Social Security/Medicare, Ability to Pay Down Debt, and Spending on National Priorities

"President Bush outlined his budget last week, which showed that for the first time in decades we're going to be able to actually preserve the Social Security and Medicare trust funds. We've never done this before. It's really historic. We're also going to be able to pay down all of the available public debt, $2 trillion of it, also be able to increase spending for important priorities like education, like national defense and yet there is almost $2 trillion left over for tax relief for the American people."

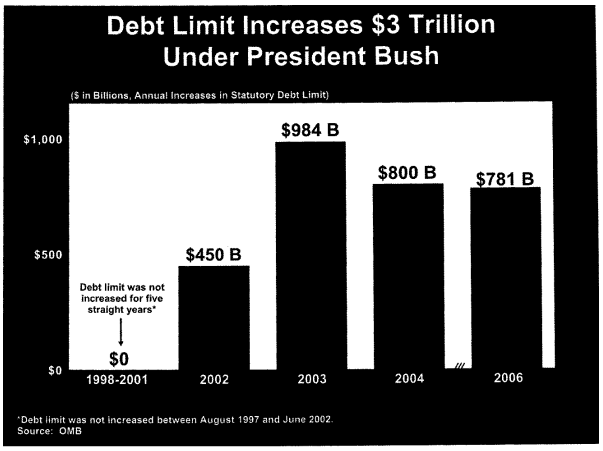
— Then-Representative Rob Portman (R-OH)
CNN interview
March 8, 2001

I would just go back now and test those claims against what has actually happened.

What has actually occurred is quite different. The fact is none of the Social Security Trust Funds have been preserved or lock-boxed or used to pay down the liability. Instead, all of it has been spent and will be spent for other things, $2.5 trillion from 2006 to 2015.

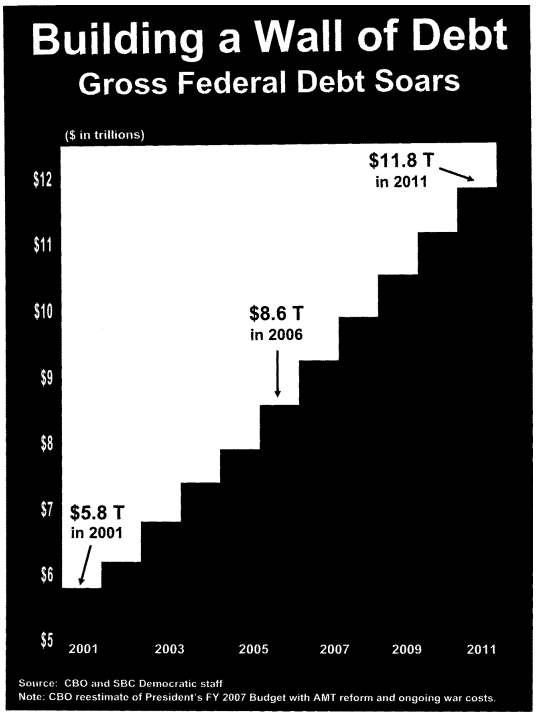


And on the assertion that all of the public debt was going to be paid down, instead of debt being paid down what we have seen is the debt sky rocket. In fact, the debt, just in the first 5 years of this Administration, has increased by $3 trillion, $450 billion of increase in 2002, $984 billion in 2003, $800 billion in 2004, $781 billion in 2006. So there is no debt being paid down here. None. The debt is exploding.

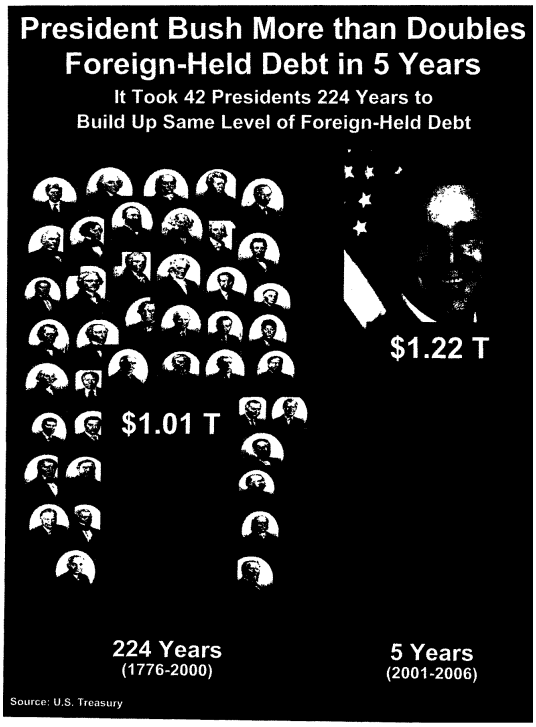


And in large measure, I believe, because of the failed fiscal policies of this Administration.

The result is we are building a wall of debt that is really unprecedented in American history. At the end of the President's first year in office the gross debt of the United States stood at $5.8 trillion. If we continue on the current course with the budget that is before Congress, the estimates are now that it will reach $11.8 trillion in 2011. That is truly an astounding buildup of debt, about a doubling of the debt of the country on this president's watch.



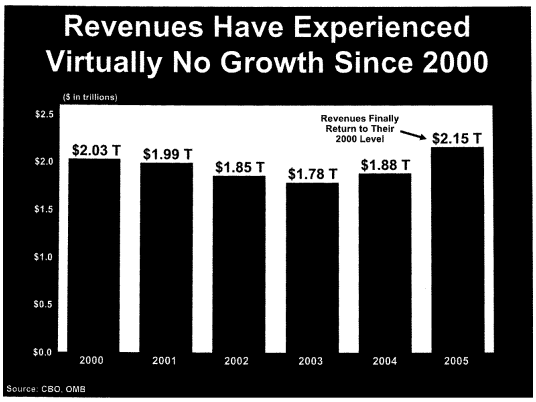
Perhaps even of deeper concern is how much of this debt is being financed by foreigners. As I have pointed out before with this chart, it took 42 presidents 224 years to run up to $1 trillion of external debt, U.S. debt held abroad. This president has more than doubled that amount in just 5 years.



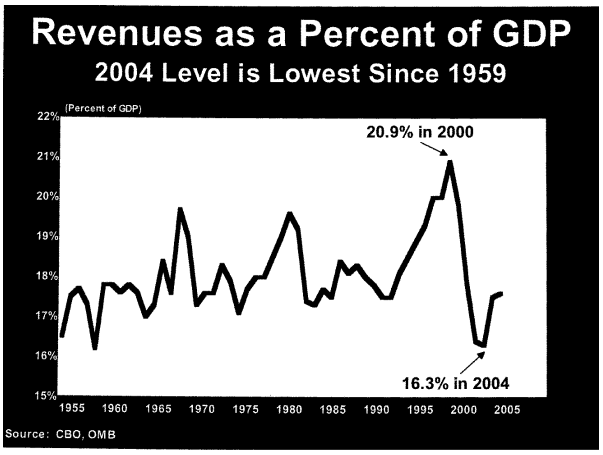
Some see that as a sign of strength. I do not. It seems to me to be an extraordinary vulnerability for our country. Just as the President said we are addicted to oil, I also believe we are addicted to foreign capital.

Our Chairman indicated that revenues have exploded because of this fiscal policy. He is talking about the recent few months. If you go back to where revenue was in 2000, you see that it was over $2 trillion. And after all of the tax cuts that we were repeatedly promised would lead to this explosion in revenue, we see we did not get back to 2000 revenue until 2005. In fact, after 2000 revenue went down in 2001, we had big tax cuts. That was supposed to lead to the explosion of revenue. But in 2002 revenue went down. In 2003 revenue went down some more. In 2004 revenue stayed down.

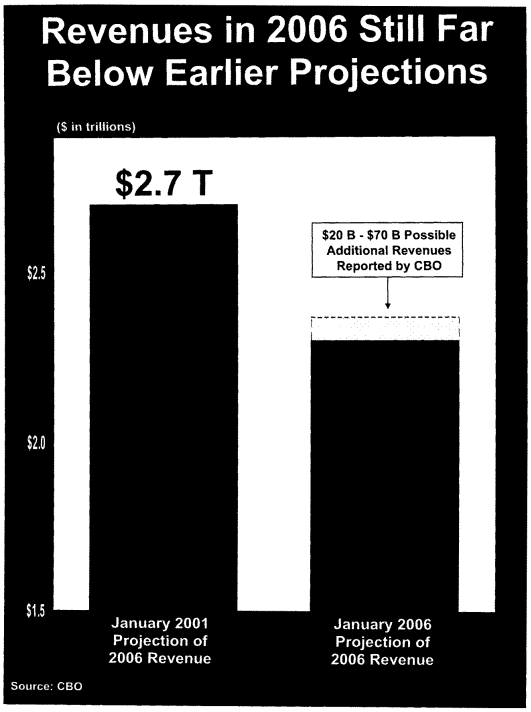
Only when we got to 2005 have we seen revenue get back to where it was in 2000.



As a share of GDP the numbers are even more stark. As a share of GDP this chart shows we went from a record in 2000 of 20.9 percent to in 2004 revenue was 16.3 percent, the lowest it had been since 1959.



Finally, even now we see that the revenue for this year has not come anywhere close to what the prediction was in 2001. In 2001 they said that revenue now would be $2.7 trillion. Instead it we see revenue in the range of $2.3 trillion, far below what the estimates were in 2001.



The result of all of this is a massive run-up in debt, increasingly financed by foreigners. Many of us are deeply concerned about what that means for the future of the country because all of this is happening before the baby boomers retire. And when the baby boomers retire, as the Chairman has correctly described, then we face a real tsunami of debt. It is incumbent on all of us to work to change direction to get this country back on a more firm fiscal footing.

With that, I again welcome the Ambassador and look forward to your statement.

Chairman GREGG. Mr. Ambassador, you have received the true Budget Committee welcome, chart-wash we call it.

Mr. Ambassador, under the committee rules, I have to swear in for your testimony, if you would rise, please?

Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

Ambassador PORTMAN. I do.

Chairman GREGG. Mr. Ambassador, we look forward to hearing you.

STATEMENT OF THE HONORABLE ROBERT J. PORTMAN OF OHIO, NOMINEE TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Ambassador PORTMAN. Thank you, Mr. Chairman. I was looking forward to some charts today and I was not disappointed. I hope my friend, Mr. Conrad, is not done with those charts because I would love to have the opportunity to address them perhaps in more detail during the question and answer period.

I want to thank both the Chair and ranking member for the introductions and for the input and, again, I look forward to getting into some more detail about the fiscal situation.

I also want to thank them for meeting with me before this hearing. I want to thank the other members of the Committee for spending some time with me prior to the hearing. It was very helpful and I look forward to continuing to stay in close touch with you.

I want to thank my friend and your colleague, my former Ways and Means colleague, Jim Bunning, for that very kind introduction. I accused him of having his wife, Mary, write it because it was so kind.

But as was noted, Jim Bunning and I shared a border when he represented a Northern Kentucky District in the House, actually about 100 miles of the Ohio River. And through that we got to know each other quite well. He was not only my neighbor but also he and his wife, Mary, are dear friends of my wife, Jane's, and mine. And I appreciate his support and comments this morning.

I know in his questions he will be as tough as any member of the Committee, by the way, which I also love about him.

And to Mike DeWine, who has since had to depart, I thank him for his nice words. As a fellow Ohioan, we have worked very closely together on a number issues, as he said, economic, education issues and others. He has been a good sounding board and a good friend.

Mr. Chairman, as you know, a little more than a year ago I left the House Budget Committee to assume the role of U.S. Trade Representative. Now I find myself happily back in the budget world as the President's nominee to be the Director of the Office of Management and Budget.

It was a great honor and has been a great honor to serve as U.S. Trade Representative. I have enjoyed the job immensely. I have also enjoyed working with, as I look around the room, every member of this Committee who is present at least on trade issues. And should I be confirmed as Director of OMB, I intend to continue that kind of close Congressional consultation in both the House and the Senate and on both sides of the aisle.

As a former House member, I place a very high value on open lines of communication with the U.S. Congress. I also believe that with the budget challenges we face, which were just discussed in the two opening statements, we can only solve them through a constructive dialog with both sides of the aisle about the very real issues again that have been addressed in the opening statements.

As you know well, OMB has a unique role in our system of government. All spending decisions and major regulatory changes are within its purview. It also oversees the management of the executive branch and the agencies. It is a serious responsibility. And if

confirmed, I will approach it with a seriousness of purpose and with the interests of our country at the forefront.

Working together which this Committee, which includes a number of key budget policymakers, we can help influence the legacy that we are leaving to our kids and our grandkids.

In the last 5 years our country and its budget have faced a number of very serious challenges, from the 2001 recession, the corporate scandals, the stock market decline, to the horror of 9/11, the ensuing war on terror, and of course most recently the unprecedented natural disasters on the Gulf Coast with Hurricanes Katrina and Rita.

In facing these challenges, the American people and our economy have proven up to the task. With help from the bold steps the President took, our resilient economy has bounced back. We are now experiencing strong and positive growth in the economy in general, and in jobs and in revenue, as the Chairman said, in particular.

From a budget perspective we are on track to meeting the President's target of cutting the deficit in half by 2009. We have done this by working with Congress in recent years to focus spending on our national priorities while reducing spending elsewhere. We need to do more and I look forward to your thoughts and recommendations on how we can accomplish this goal while continuing to protect Americans at home and fight terrorism around the globe.

Restraining discretionary spending, as we have done in recent years, is an essential part of deficit reduction. But I think the greatest threat to our budget comes from the unsustainable growth in entitlement programs, including Medicare, Medicaid, and Social Security. It is absolutely critical that we work together to develop sound policies that address the long-term fiscal danger and put these programs on a sustainable footing for future generations. There, too, I welcome your input as to how we can achieve this difficult task together.

As we work to rein in spending I hope we will always keep in mind that need to continue our strong economic expansion. GDP grew at a healthy 4.8 percent in the first quarter of this year. That follows our economic growth of 3.5 percent in 2005, the fastest rate of any industrialized nation. Productivity increased at a strong annual rate of 3.2 percent in the first quarter. And just last week we learned that hourly compensation rose sharply at a 5.7 percent rate in the first quarter.

Together with Congress, the President has put in place pro-growth policies to create the environment for this economic expansion. I believe keeping these pro-growth policies in place is critical if we are to continue benefiting from strong economic growth and growing revenues that are essential to deficit reduction and entitlement program solvency.

As you know, in 2005 tax receipts grew by 14.5 percent, or more than twice as fast as the economy itself. In February, the Administration estimated that receipts would grow. This year again the estimate was 6.1 percent growth in 2006. Most private sector and other Government forecasters have since estimated that revenues this year will be significantly higher than that, higher than was just projected in February.

Just yesterday the Treasury Department reported that Federal revenues surge in April with corporate receipts at a record $46 billion. Tax receipts for the first 7 months of the fiscal year, fiscal year 2006, are now at an all-time high. Obviously, this higher revenue growth will have a very positive effect on deficit reduction.

Even with this good news, there is a lot of hard work ahead to ensure our fiscal house is in order. I am optimistic that working together we can be creative and find solutions to the challenges we face in ways that will continue to strengthen our economy, meet our national priorities and serve the American people.

Again, Mr. Chairman, I appreciate the Committee's consideration of my nomination today and I look forward to your input and to your questions.

Chairman GREGG. Thank you for your statement. Do you like to be called Ambassador or Congressmen or what is the right term for somebody who has had as many jobs as you have had and done so well at all of them.

Ambassador PORTMAN. You know, it is interesting, I never really got used to be Ambassador thing. I would prefer rob, if you are comfortable with that.

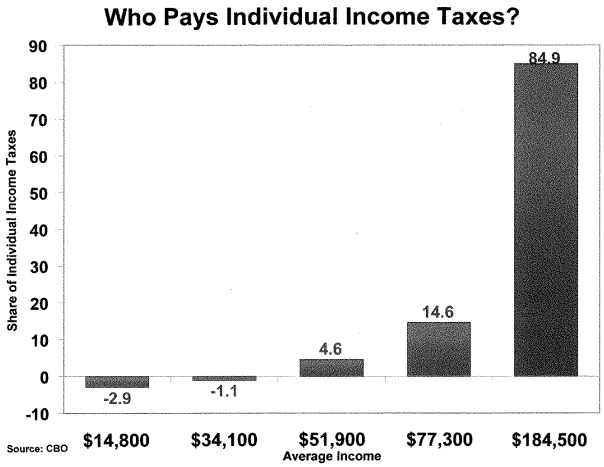
Chairman GREGG. I think we will stick with Ambassador, as a term of reflection of your success, which has been considerable obviously. And you have seen the Government from a variety of different angles.

I am interested that you outlined some of the things that have been happening. There were some statistics that you did not mention that I think should be noted. For example, you are probably aware of this, but capital gains receipts last year were $30 billion higher than projections. Capital gains receipts this year are going to be $30 billion higher than projections.

And when you see that type of revenue coming in as a result of the President's policies on capital gains, you see a win-win situation where not only is the Government getting more revenues but people are out there recognizing gains and then taking those dollars and reinvesting them probably in a more productive way because they are taking out assets that have been locked up and investing them in assets which logically are going to give them an even better return. As a result the bottom line is you are going to create more jobs, more economic activity, and then again more receipts.

So it is very, very positive.

In addition, another number, you mentioned it, alluded to it, that individual income tax revenues are up about 10 percent. In fact, the vast majority that revenue is coming from the top taxpayers. I saw a chart a while ago, a couple days ago in I think it was the Post, that said how these tax rates affected different income groups. What it did not put in, they should put up another chart, is the taxes being paid by those income groups and the fact that we have seen a dramatic increase in the amount of taxes being paid by higher income individuals.



There is a chart there that reflects that 85 percent of the taxes today are now being paid by people with incomes over about $80,000. The vast majority of that is coming from people with incomes over $180,000. And that reflects the fact that these folks are paying a higher tax because they are being more active. They are generating more capital gains activity instead of sitting on assets.

In addition debt, and my colleague from North Dakota talks a lot about debt. But the publicly held debt, non-government held debt, is actually below the average of the publicly held debt as a percentage of GDP—which is the right way to value it rather than in dollar terms—throughout the Clinton Administration. The Clinton Administration average of publicly held debt was about 38 percent. Today it is about 36 percent and has been through this Administration.

So the stewardship of this economy, considering the cards that were dealt to this president, has really been rather extraordinary in that this president was dealt the bursting of the largest bubble in the history of the world, the Internet bubble, which was bigger than the Tulip bubble and bigger than the South Sea bubble. And when that burst, we should have had probably a huge recession. Instead, we had a shallow recession because we put in place tax cuts that worked.

That hit was then geometrically increased by the attack of 9/11, was obviously dislocated this country in a long of a lot of ways, not the least of which was the fact that so many Americans were so viciously killed and injured. But in addition, the economy was viciously attacked by that. So we did have a recession. And those reflect, those revenues reflect the fact we went through a recession of the Internet bubble, and a recession of the 9/11 attacks. But because we put in tax cuts which energized economic activity, we have turned that around.

So I guess my question to you is do you not think that was pretty good policy? I mean, it is a tough question, but let me ask it? Tell us your thoughts on that policy.

Ambassador PORTMAN. First, I thought your opening comments and the statement you just made were absolutely accurate in terms of what has happened. Senator Conrad talked about the projections in 2001 and that we were going to have a big surplus. That was a mere projection and I am glad to see that he does not believe, based on his comments about my comments at the time, that we should be viewing that as anything more than a projection.

Unfortunately, what happened is this President found a recession on his doorstep. Literally, the economy started to go down in 2000, and 2001. In early 2001 we had a recession. And then as you say, we had the corporate scandals. We had the stock market bubble burst. Then 9/11, the ensuing war on terror, and of course more easily over $100 billion out of our Federal deficit has been added just by Hurricanes Katrina and Rita.

These are big challenges. And despite all of that, what we have seen is not just a growing economy and growing jobs, but actually substantially increased revenues.

You mentioned the capital gains increases and I will go back to your opening statement where you talked about the fact that we want to encourage people to take risk. Why? Because that encourages entrepreneurial activity and economic activity and therefore jobs and revenue. And so I think you are absolutely right about the capital gains changes that have resulted in more revenue coming in, as you say $30 billion more than projected last year.

I will also say though, Mr. Chairman, if you look at what happened last year, we had a 14.5 percent increase in revenue overall which means $274 billion more revenue came in last year than the year before.

This year we had predicted it would be about a 6 percent increase even on that relatively high 14.5 percent, which was the highest revenue increase in a couple of decades. We are seeing, in the first 7 months, that it is higher than that.

Not to be one that relies too much on projections for the next 5 months, but that increase over the first 7 months of this year has

been 11.2 percent increase. Again, that is a substantial increase. It means about $241 billion in additional revenue this year, should we continue to have this 11.2 percent over the next 5 months.

This is substantial and it does help us to get the deficit numbers down. The deficit we projected in February, before I was involved in this budget process, will be substantially less thanks to the increase in revenue.

So I think you are absolutely right. What has happened is that the tax relief was well timed to deal with the very serious challenges that we faced. When you look back now at what happened since May of 2003, which is when all the tax relief that you passed was implemented, you see an amazing correlation between those tax cuts being implemented and economic growth, job growth, now over 5 million jobs created since that time period, and revenue increases as those tax cuts began to take hold.

So it is a very positive story and it is a story that I think, for all of us, we should take the lesson that we need to do everything we can to continue to encourage economic growth. That means it would be, in my view, a great risk for us to raise taxes at this time. Rather we should be continuing what has been a successful process of encouraging investment, savings, and as you say, encouraging entrepreneurs to take risk and therefore growing the economy.

Can I mention one other statistic that you did not mention but is implied in your remarks? That is what should be the take? What should be the percentage of our economy represented by taxes? It was mentioned by Senator Conrad at the outset and it is very interesting because if you look at the historical numbers on revenues, historically we see about 18.2 percent GDP represented by taxes. And this President, as you know, has been criticized sometimes by some saying that we are not paying enough taxes.

My view is that it was very necessary to put the tax rates in place. As we have seen it has resulted in exactly the kind of economic growth and increased revenue we had hoped it would. But even as a percentage of the economy, I ran some numbers this morning showing that if we continue to have this relatively high revenue surge this year, and again it is a risk because we have five more months left in the fiscal year, but we will actually be above the historical average, barely, in terms of the percentage of the economy represented by taxes. That is extraordinary. No one has predicted that.

If you look back in February, in fact, it was predicted we would be in the 17, I think 17.6 or 17.8 range.

So what we are seeing here is, I think to address your opening statement and your question, is that the tax relief is working in a few ways. One is it is growing the economy. It is growing jobs. It is creating a better environment for all Americans. Working Americans are better off. Wages are up, as I said in my opening statement.

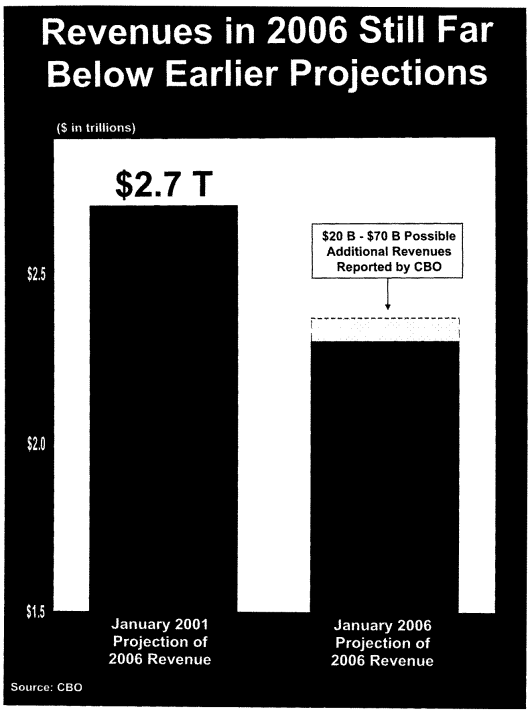
But second, its impact on the deficit is actually going to be very positive this year, as it was last year. It is the only way, in my view, that we are going to get back to the kind of fiscal discipline that we all seek.

Chairman GREGG. Thank you.

Senator Conrad.

Senator CONRAD. You know, sometimes I feel like I am in a surreal setting. When I hear you describe what is occurring as a great success, all I can tell you is I would hate to see a failure. If this is a success, I would hate to see what you would describe as failure.

Here is what is happening to the debt of the country. Now the Chairman just wanted to talk about publicly held debt. But we all know that leaves out something pretty big. That leaves out all of the money that this Government under this Administration is borrowing from Social Security. Trillions of dollars, over $1 trillion so far, another $2 trillion to come. All of it has to be paid back. None of it is in the debt numbers he is talking about. it is all in this chart that shows the total debt, because this is what has to be paid back.

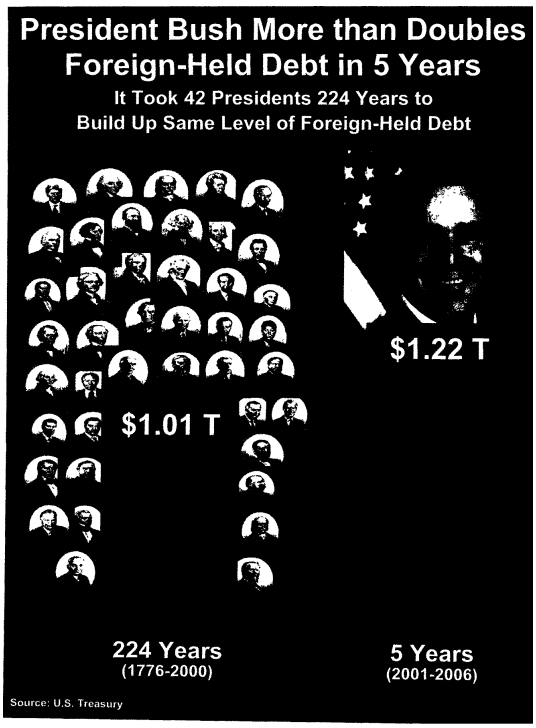


This is not my view of a success.

Let me go to the next one.

Even more, I think, stunning, in terms of the fiscal pair of this Administration is this chart. It took 42 presidents 224 years to run up $1 trillion of debt held by foreigners, U.S. debt held by for-

eigners. This president has more than doubled that amount in 5 years.

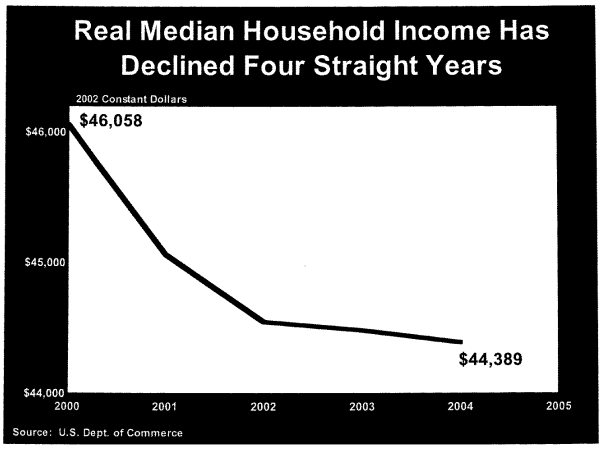


This is not a success. This is a failure. It is a stunning failure.

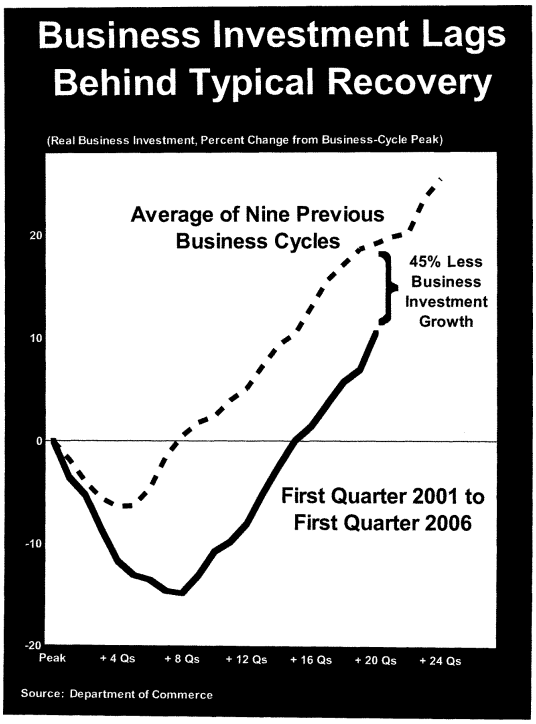
I would say to you, Mr. Portman, you said at the time this fiscal policy was adopted that it was going to lead to maximum pay down of debt. There is no pay down of debt going on here, as you well know. The debt has exploded.

Let us go to the questions on performance of the economy. I think there was a reference that the economic performance has been extraordinary. Yes, it has been extraordinary. It has been extraordinarily bad.

If you compare this recovery to the nine previous recoveries since World War II, what you see is this is the weakest of all and by a big margin, not even close. We have seen real median household income decline for 4 years in a row. That is a pretty good indicator of whether this strategy is successful.

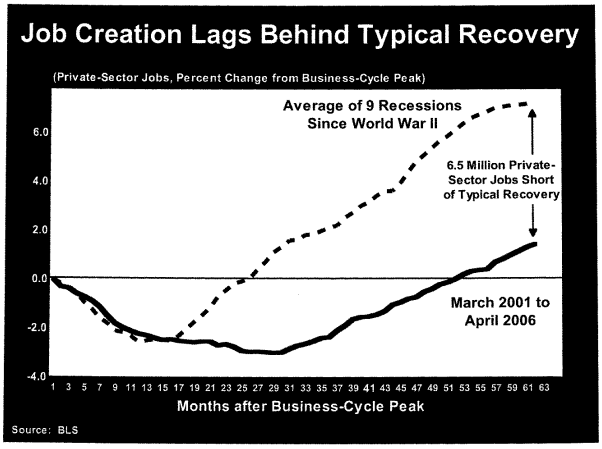


Let us go to the question of business investment. Business investment, the dotted red line shows the average of the nine recoveries since World War II. That is the dotted red line. The black line is this recovery. We are running 45 percent behind the typical recovery.



Something is wrong here. Something is not working.

Let us go to the next one. There was a mention of job creation. Well, you compare this recovery to the nine previous recoveries since World War II, look at the difference. The dotted red line is the average of the nine recoveries since World War II. The black line is this recovery. We are 6.5 million private sector jobs behind the typical recovery. Something is wrong.



We have an economy that, in comparison to other recoveries, is under performing. Can you tell us why do you think we see these shortfalls compared to previous recoveries?

Ambassador PORTMAN. Partly because the recession was not as deep, as Senator Gregg said. The fact is, Senator, I have spent the last year spending a lot of time, as you know, with trading partners around the world. Whether it is in Europe or Japan, they look at us and say how do you all do it? Our economy has grown over the last few years at twice the rate of our other G–7 partners, the other industrialized countries.

Senator CONRAD. Let me just answer that and say to you, you know you can get amazing results if you write hundreds of billions of dollars of hot checks. You can get pretty good economic performance.

It kind of reminds me of——

Ambassador PORTMAN. You said it was a good economic performance.

Senator CONRAD. Yes, you have economic performance that is utterly unsustainable because it is all based on borrowed money.

I will tell you, this reminds me of a guy, in my previous life before I came here, I remember very well a guy that came to me and told me he was doing great. And I said to him well, share with me what your financial situation was.

He had maxed out every one of his credit cards. He had completely tapped out his home equity line. He was borrowing money from his parents and his in-laws. And he told me everything was great. Everything was great for the moment.

That reminds me very much of what is going on here because you have doubled the National debt. You have more than doubled the amount that we owe foreign countries. And I hear you saying everything is fine.

We compare this recovery to the nine previous recoveries and we are way behind in job creation, in business investment, and revenue. By the way, if you look at revenue growth, we are lagging far behind the average of the previous business cycles.

So your answer is the reason, as I hear you say it, the reason that we are lagging behind is because the recession was shallower? Why would that not—if the recession were shallower, why would we not have better performance than previous recoveries?

Ambassador PORTMAN. Your question was you were comparing this recovery to other recoveries. And I was saying that the recession was not as deep as other recessions because, in my view, of the bold steps the President took in 2001 to put tax relief in place that helped us get out of not just that recession but the other challenges that we faced.

Let me give you a couple of numbers that are statistics that I do not think we would quibble with. Last year we had a $274 billion increase in revenue. That is the largest increase in 24 years. We have 4.7 percent unemployment.

I do not know how to compare that except to say that it is lower than it was on average during the Clinton years, the 1970's, the 1980's or the 1990's. We have created over 5 million new jobs.

And when I talked about the U.S. being the envy of the other countries in the world, they have not seen that kind of growth or that kind of job growth.

Senator CONRAD. They have not seen this kind of growth in debt either, have they?

Ambassador PORTMAN. On the debt, as you know, you and I have talked about this, I could not agree with you more. You are absolutely right. The challenge we face, in my view, is unsustainability of our mandatory spending over time, which creates those charts that you put up, which show the stepping up of the debt. That is a huge challenge.

And I hope that nothing that I have said indicates to you or any other member of the Committee that I do not see that as a huge problem that this Committee and the Administration and future administrations are going to have to deal with. And I look forward to working with you on that.

But in terms of the economy, my gosh, something is happening very positive in terms of revenue growth that is helping on the deficit short-term. I do not think we should look at that and say that economic growth is not both important to the people we represent and to the deficit. And, we should take lessons for the importance of keeping that growth going while restraining spending in terms of the domestic discretionary issues we talked about and so on. But looking, as you rightly point out, and as you have said many times to me, not just in this time period, in prior discussions we have had, looking at that long-term issue which is how do we sustain that steady growth on the entitlement side, over 6 percent growth in Medicaid, over 7 percent growth in Medicare, Social Security, and how do we deal with that?

And that is your internal debt issue that you talked about, as well.

Senator CONRAD. My time has expired. let me just conclude by saying look, we agree on economic growth. That has to be the top priority.

The grave question I have and the grave doubts I have about this strategy is that it is built on a mountain of debt. And that is unsustainable. I see this economic performance as not doing well compared to the previous recoveries since World War II. I think the statistics are very clear on that.

So I welcome the opportunity to work with you. The place we clearly agree on two things, economic growth is the key to our future. And No. 2, that we have a situation long-term that is unsustainable. And together we have to face up to it.

Chairman GREGG. Thank you. Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

Welcome Ambassador Portman.

I am going to get a little more specific as far as things that OMB and the current budget address. America is blessed with an abundance of coal—that black stuff—that comes out of the ground. Coal is essential in producing electricity and helping our country achieve energy independence.

President Bush highlighted this importance in his State of the Union Address and previously pledged $2 billion for this initiative. Yet this year the Department of Energy proposed nearly $50 million in budget cuts for coal R&D programs.

As Director of OMB, will you work to fully fund these programs?

Ambassador PORTMAN. Thank you Mr. Bunning.

Did I not tell you he would ask me tough questions, tougher than anybody else probably by the end of the day.

If confirmed, I am going to be looking into this, but let me tell you what I have learned so far, based on our conversation of a few days ago. One is that you are right, the budget this year for overall coal research is a reduction of about $33 million. But my understanding is that that reflects a drop in new funds for the Clean Coal Power Initiative, which has a backlog. The backlog, I am told, is over $500 million.

Senator BUNNING. Only because of permitting, state permitting.

Ambassador PORTMAN. But it is an unused balance that is that account. I am told that is why there is any reduction at all. I am also told that the commitment that was made will be kept. I cer-

tainly would be the first to say that that is important to keep. Representing Southwest Ohio, as I did, and understanding the importance of coal to our economy, and particularly given our current energy issues, I concur with you.

So I look forward, if confirmed, to working with you on this. I also agree with you that we need to be sure that we can use those hundreds of years of coal that is in the ground in a productive way.

Senator BUNNING. Here is the problem: getting a site permitted for a Clean Coal Initiative or recycling of a plant and getting it permitted for clean coal technology to be introduced into that plant. If we do not get it permitted and you do not fund, through OMB, the Clean Coal Initiatives at full dollars, even though they are not used immediately, you stymie the growth in the initiative on clean coal and clean coal technology initiatives.

So I urge you, I know there is a $500 million backlog of appropriated funds currently. Many of these unused balances are obligated but waiting for permitting.

Without additional funding, the next round of project solicitations will be delayed. So please have OMB maintain the future projects and fund them. Because if we do not get them funded, they will not get in line for the money. And if we do not get them funded, we surely will not get the people asking for those new permits.

TVA and SEC. I have been watching TVA for years, since I got to the Congress, because we have a big group of TVA customers in Kentucky inside the fence. We finally have regulations in place that the TVA had to file their debt, TVA had to file their debt with the SEC. The President's Budget this year, for the first time, has required TVA to register their debt securities with the SEC, providing the needed oversight of other utilities.

I support the OMB proposal. Someone needs to keep a watchful eye on TVA. If you become OMB Director, will the OMB continue to push for more oversight of TVA?

Ambassador PORTMAN. Again, Mr. Bunning, having not had the time to look into this issue closely, I am not sure I can answer your question in any detail except to say that I support what was in the President's budget, which you just mentioned, which requires TVA to register its debt securities with the SEC.

And I will certainly support that proposal and continue to work with you and others to ensure that we do have appropriate oversight on TVA.

Senator BUNNING. Maybe if we get a GSE law or regulator out somewhere between the Committee on the floor right now and get it to the floor, maybe we can do something else on TVA.

Thank you very much.

Ambassador PORTMAN. Thank you.

Chairman GREGG. Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman, and welcome, Ambassador Portman.

I enjoyed working with you in the House and in your current position, and I am supportive of your move to this new position and wish you well.

I do not know what is more difficult, trying to get other countries to obey trade rules or trying to deal with the current deficits and challenges of the budget.

But I do want to followup on some of the things that Senator Conrad said. First of all, I will start by saying when we talk about what President Bush walked into, the reality of what this Administration walked into was a $5.6 trillion projected surplus over 10 years, which has now become the largest series of deficits in the history of the country. So that is what the president did. He magically turned huge surpluses into huge deficits, which we are now having to deal with.

What I want to speak specifically to, though, is a series of numbers. You have talked about how things are going so well. I would like to present a different picture. I think it depends on who you are in this country as to how things are going. I represent Michigan. You come from Ohio. My guess is Ohio is lot like Michigan, in the Midwest, where folks really feel like they are in a fight for their way of life right now. They are not seeing big increases in salaries.

In fact, the average weekly wage since President Bush has come into power has been $1.52. The average weekly wage has gone up $1.52, adjusted for inflation. So $1.50 basically as what we have seen the average person's wages go up.

But we all know gas prices are up, the cost of college tuition is up. We saw a $12 billion in interest to college loans which are being shifted over to the people that we represent now, so they are going to be paying more for college. Interest rates on home mortgages are up. Lord knows health care costs are up. Anxiety about losing pensions, and I think that is immoral that anybody who has paid into a pension their whole life would lose it, but that is certainly up. Costs for small businesses are up.

So there is a very different picture here.

On the other hand, if you are an oil company, if you are the former head of ExxonMobile, who was making $110,000 a day, which is more than the average person in Michigan makes in a year or I would guess Ohio or the majority of America. If you are ExxonMobile, you are feeling pretty good right now. You are feeling pretty great.

If you have been making over $100 billion a year in profits, when we look at the oil companies, you are feeling pretty good.

So I think it depends on where you sit in this country. I think the majority of people are feeling squeezed on all sides. And what we are seeing because of their costs going up, their jobs being in jeopardy, their health care, their pensions being in jeopardy, what is happening as it relates to trade and jobs going overseas. You have folks who really believe they are in a fight for their way of life.

So what is the answer here? Well, we have a tax bill in front of us that will give somebody making $20,000 a year, $2, $2. That will not even buy maybe half a tank of gas, maybe two-thirds of the tank—I mean a gallon of gas, $2.

If you are making $100,000 or less, you get less than $100.

But if you are making over $1 million a year, you are going to get $42,000 or more back on the tax cut we are going to be voting on today.

So what I am concerned about is the fact that middle America is being squeezed on all sides, and frankly split apart. So that the

rosy numbers you talk about, the majority of Americans are not feeling those rosy numbers.

The question that I have for you relates to a provision in the tax bill right now, because there are ways for us to save money and there are ways for us to help with the deficit. One of those is a provision that the Senate tax bill passed, we included in that was closing loopholes for oil companies that would create almost a $5 billion closing of loopholes that could be used to help pay down the deficit. And this was taken out in the final bill.

So here we have the highest gas prices that people are paying right now, the highest profits by the oil companies, and we are going to continue to subsidize them, one of many subsidies which is in this tax bill which is about a $5 billion continued tax subsidy for them with no accountability on what is happening for consumers.

I wondered if you might comment on that because we could find $5 billion for you to put on that deficit right now if we would tell the oil companies, who make more than anybody else right now in the country or the world, that we are not going to have taxpayers continue to subsidize them with that $5 billion.

Ambassador PORTMAN. Thank you, Ms. Stabenow, and again I have enjoyed working with you on some of the trade issues and appreciate your leadership there. I think there is now plenty of work for us to do, as you said, on another issue which is our fiscal situation.

On the $5.6 trillion surplus you talked about, if I could restate what I said earlier, that was a projection. And it was based on economic growth, and it was based on not having some of the external factors that I talked about like 9/11, like the corporate scandals and the stock market bubble bursting. And what happened instead was we went into a recession.

So I just want to make it clear, when I made my comments that Senator Conrad was talking about, or others made comments, as I am sure you did and others, based on that projection, it was a projection based on something that ended up not happening, which is instead, starting in 2000 and then a recession in 2001, our economy went down to the point that revenues were dramatically decreased.

Senator STABENOW. With all due respect, though, I might just say is that where I disagree is with the policies that came after that, which have kept the hole getting bigger and bigger.

Chairman GREGG. Senator, we have a lot of members who want to ask questions. We are going to have to stay to the 5-minute time limit.

Ambassador PORTMAN. Let me just quickly say, I was just asking about the budget proposal. I think the President's budget proposal does deal with some of these oil and gas incentives. And I believe that even in the legislation that you are going to be considering there are some incentives which are changed in ways that you would find helpful, from what you said.

I think this one particular provision you talked about on the $5 billion is not likely to be in the conference report. But I just do not know enough about these issues yet to be able to give you the specifics.

I will tell you I am happy to sit with you and talk about what is actually in the President's budget with regard to some of these incentives because we do make some suggestions in the 2007 budget to change some of those incentives, to reduce some of those incentives, and eliminate some all together, along the lines that you talked about.

Senator STABENOW. Thank you.

Chairman GREGG. Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman.

Ambassador, I welcome you here.

I, too, have very fond memories of the time I served in the House with you and the friendships we have developed and look forward to working with you in this new position. I am glad the President nominated you and look forward to your prompt confirmation by the Senate.

I hope to get to two questions. I have about a dozen but just a couple I would hope to get to in my 5 minutes.

I want to go back, frankly, into the debate that we are having here among ourselves on the Committee about the policies of management that the Administration and this Congress are pursuing as we face the challenges that we have as a Nation these days.

I want to also reiterate that as we talk about what has happened over the last term, the two terms of this president, we have to remember that when all of us were debating these issues at the beginning we did not know then that the stock market bubble was going to pop. We did not know then that 9/11 was going to occur. I believe that very few people can deny that 9/11 changed this country in many, many ways, not the least of which was economically in terms of what it did to our budgets both in terms of spending and in terms of revenue.

So while we can debate these things endlessly, what I would like to do is come back to you to an issue that has been raised by Senator Conrad and has been discussed to some extent, and that is the effort to blame the growth in debt on this president.

I know that Senator Conrad has talked a lot about the debt and he has referred to the hot checks that this country is apparently issuing because we engaging in so much debt. And you have indicated that you agree that the growing debt that we are incurring in this country, as I do, is a serious problem.

But what I would like to ask you to do is to talk with us a little bit about that debt. What is the major cause or causes or what are the major causes, in your opinion, of the mounting debt? And who is responsible for it?

Ambassador PORTMAN. Thank you, Mr. Crapo, and I appreciate you giving me the opportunity to do that.

One, the public debt, of course, is an accumulation of deficits. And this current debt we have, of course, reflects deficits not just in this administration but in all previous administrations. So it is an accumulation.

We had one short period, as you know, you were part of this, a balanced budget in 1997 and going to 1999 and 2000 where we actually reduced some of that debt, over $500 billion of it. So we did reduce some of it, not all of it, not nearly all of it.

But the point is this is an accumulation. That is the public debt.

The internal debt that was talked about, or the governmental debt, would be debt that relates to these entitlement programs we talked about, primarily Social Security and Medicare. And those are the long-term issues that we addressed earlier.

Again, I agree wholeheartedly with those on the Committee, including Senator Conrad, who believe we need to focus on the unsustainable growth there and the debt that is being built up internally.

With regard to the public debt, the historical average is about 35.4 percent of our GDP. As Senator Gregg indicated, currently we are within that historical average. We are a little higher than that, as I see on my figures for this year. We may be a little lower than that coming up, but we are basically within that range.

It was mentioned by Senator Gregg that during the Clinton years that percentage was higher. I do not have those data points in front of me here.

But the point is our public debt, which is what most economists will focus on as the critical element because it can affect our economy, including interest rates and inflation, is within the historical average. Should we have it come down? Absolutely.

The way you get it down is you restrain spending and grow the economy, which is exactly what we have been trying to do.

Senator CRAPO. In terms of spending, for those who would like to create the impression that we have an uncontrolled spending here, which I believe we do, is it not correct that we are approaching the point at which about 63 percent or 64 percent of the spending on an annual basis is mandatory? Meaning it is either entitlement spending or interest on the national debt?

Ambassador PORTMAN. That is roughly correct. As I understand the figures, roughly 20 percent for defense and homeland security, roughly 19 percent for so-called discretionary spending that is non-security and non-homeland related, which would include the day-to-day operations of the Government. And the rest, just over 60 percent, would be as you indicated sort of on autopilot. In a sense, it is the entitlement programs and it is payment on the debt.

Senator CRAPO. And until this Congress will authorize the president to be able to submit a budget that addresses Medicare and addresses Social Security, that is spending that is on autopilot at this point; is that not correct?

Ambassador PORTMAN. That is correct. It takes a change in law. Again members of this Committee, as I said at the outset, are going to be absolutely critical to making those changes to enable not for us to cut anything. It is about reducing the rate of growth so that it is sustainable and doing it in smart ways, so that we are keeping our promises to seniors and others.

And I believe, maybe I am too optimistic, Mr. Crapo, but I believe that we can do it. And we have time to do if we act now. If we wait too long, as Chairman Gregg has said, and wait until we are on the precipice as he has said, or as Senator Conrad has said, looking at the way the debt increases, that would be a major problem for our economy and for many Americans. So we need to act and act now.

Senator CRAPO. I have not had a chance to get to my next question but my time is up so I will yield back. Thank you.

Ambassador PORTMAN. Thank you, Mr. Crapo.

Chairman GREGG. Thank you, Senator.

Senator WYDEN.

Senator WYDEN. Thank you, Mr. Chairman, and welcome, Mr. Ambassador. I have two questions, as well.

As you know, the Administration wants to sell off hundreds of thousands of acres of public land in order to pay for rural schools. This proposal makes no sense because nobody thinks you ought to sell off your crown jewels to pay your operating expenses.

Last week, before Senator Domenici's Committee, Dirk Kempthorne, who is sort in your shoes as a nominee coming before us, said that he was going to back away from the Administration's funding proposal for those rural schools. He said he would work with Senator Craig and myself to develop an alternative funding mechanism.

I want to see if you will do a Dirk Kempthorne here, because you are the person who counts. We are very pleased about Dirk Kempthorne's statement that he will not support that funding mechanism. I would like you to say what Dirk Kempthorne said last week, that you will work with Senator Craig and I for an alternative.

What is your view on that?

Ambassador PORTMAN. First of all, I appreciated, Mr. Wyden, talking to me about this the other day. It sounds like, if confirmed by this Committee and the Senate, I may have some interesting challenges on my hands in terms of this issue.

But as you and I talked about, it is important that we continue to provide funding that is provided in the budget, although as you know, originally this was to be transition funding.

Senator WYDEN. That is not correct. There is no history that it was a transition.

Ambassador PORTMAN. Well, it expired. And in the process of reauthorizing it, my understanding is the Administration was looking for offsets, which I think is reasonable. And the question is what should the offsets be? And because it has to do with Forest Service lands, I suppose they thought gee, it would make sense to do it within the Forest Service budget.

That is what I have been told and there is a certain logic to that.

The question is are these lands surplus lands and isolated lands, as some have said? Or are they, as you said, the jewels—or maybe not crown jewels but they are the jewels of the Forest Service system?

I will certainly take a careful look at it. I committed to you to do that when I met with you. And I look forward to trying to work with you to find the appropriate offsets in this program.

Senator WYDEN. I appreciate that. Please look at Dirk Kempthorne's statement to the Energy Committee.

Ambassador PORTMAN. I will now. That is very interesting. Thank you.

Senator WYDEN. Because I want you to do a Kempthorne. That will give us a chance, on a bipartisan basis, to fund this program properly.

Let me turn to an area that I think is particularly fruitful for bipartisan support, and that is tax reform.

To me, I want a tax code that gives everybody in the United States the chance to accumulate wealth. I want a tax code that is simpler and fairer. I have introduced a proposal that I think could be the basis of a bipartisan effort. It is called the Fair Flat Tax and it will save the Government, according to the Congressional Research Service, $100 billion—a modest step toward paying down the deficit. A simplified system, according to the Tax Advocate for the Internal Revenue Service, would save the American people billions of dollars on tax compliance.

Where are we in terms of getting the Administration moving on a tax reform proposal that is simpler, gives everybody the chance to accumulate wealth in this country, and gets out these ridiculous expenditures we have for tax compliance?

This year the American people spent more complying with their taxes than the Government spent on higher education. This is a disgrace. The President had a Commission but then the Administration just sort of vanished. And I would like to work with you all on what could be done on a bipartisan basis in this area.

Ambassador PORTMAN. As I told you in our meeting, I applaud your efforts in this regard and your interest in it. Senator Conrad and I have talked about another issue, which is the tax gap, and the fact that our current system is not collecting all the revenue due, and there may be ways to reform the system to be able to do a better job in that, which is to the tune of hundreds of billions of dollars now.

As you know, through my career I have been an advocate for tax reform and worked on a bipartisan basis to try to promote some major changes in our tax system.

I like what you said about simpler and fairer. You also talked about, in essence, savings and allowing people to accumulate wealth which help our economy and is one of the issues we have with regard to our economy today.

And the other one I would mention that you and I talked about is competitiveness, is to be able to compete in our new global economy, which is increasingly focused on competition as the world gets more and more integrated in an economic basis.

So I look forward to working with you on that. My understanding is the President's Commission has now given its report to the Secretary of the Treasury. The Treasury is analyzing the proposals and is going to make a recommendation to the President.

So I think that is where the status is. But I think with the information we have from the Commission, with the work that has been done over the last couple of decades, I would love to work with you, with the Treasury Department and others on this.

Senator WYDEN. My time has expired. I just hope that you can be a catalyst for speeding this up. I would really like to work with you on a bipartisan basis. I have talked with Mr. Bolton about this. I think there is a real chance to come up with something that could be seen like what was done in 1986, where Ronald Reagan got together with folks on a bipartisan basis and did something that really resembles my Fair Flat Tax Act.

Thank you, Mr. Chairman.

Chairman GREGG. Thank you. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman. I also would like to welcome Ambassador Portman to the Committee. I also had an opportunity to serve in the House and appreciated his leadership in working with him over a number of years.

I have been working with you on trade issues as recently as this past week. And I think your capacity as United States Trade Ambassador, those responsibilities have been carried on very well.

I look forward to continuing to work with you as Director of OMB.

I have to say that I think the economy right now is experiencing unprecedented growth, particularly in light of some of the adversarial things that have been happening out here that could have really—any one of them separately could have driven our economy really down into the doldrums. We have a record number of Americans that are working. We have revenues that are coming into the Government at record levels.

This is all a reflection, I believe, of the President's economic policies.

I do not think we should downplay those at all. I recall back in the late 1970's, during the Carter Administration, when we had energy problems that were driving high energy costs. It drove this economy right into double digit inflation, double digit interest rates, double digit unemployment.

We are facing a similar situation today with very high energy costs, but we are not seeing the economic impact that happened in the 1970's, the late 1970's. And I think this reflects the strength of the President's economic and incentive growth package that he presented to the Congress and the Congress passed. We now have that package before the Senate, trying to get those tax incentives put in and extended out so that we do not have tax increases occur in what I think would be a very unfortunate thing to happen during this economy when we are experiencing the growth that we are having.

My question that I have for you is that in the President's past budget he had talked about the deficits, and right now our deficits are going down at a very encouraging rate. But he talked about 2009 having the deficit cut in half.

I wondered if you feel like we are on—are we meeting that goal? And how you feel about that personally?

Ambassador PORTMAN. Thank you, Mr. Allard.

With regard to the trade issues, I have enjoyed working with you. And as recently as this week I have still got my day job, which is U.S. Trade Representative, and I am very interested in trying to solve some of the issues we talked about, including the SOC issue and with regard to the China textile agreement. I appreciate your giving me some more input on that this past week.

We are on track to achieve the President's goal of reducing the deficit in half by 2009. If the spending restraints that we have been able to put in place over the last couple of years on the domestic discretionary side, non-homeland and non-defense, continue which I think is crucial, if the economy continues to grow as projected—and I say as projected having warned others that those were projections in 2000 and 2001 and they are projections now.

If revenues continue particularly to increase, as they have in 2005, and in the first 7 months of 2006, we will achieve those targets.

In fact, if you look at the trajectory we would more than achieve those targets. Now that assumes we will not have some other major hits on the economy. As Mr. Crapo said, 9/11 was not just increased Federal spending which affected our deficit, but also reduction of economic growth. But assuming that, we are on track. And we are on track because I think we are getting the message, all of us, that fiscal discipline requires two things. One is making tough decisions on spending. We have to continue to that. And second, do everything we can to continue to grow this economy.

After 2009, and in those out years, we then have the baby boomers retirement beginning to hit the budget, and therefore our deficits, in more significant ways. So I do not want to leave with just assuming that we are on track to have balanced budgets forever.

In fact, we face a very real challenge in terms of the unsustainable growth in the entitlement programs. That is something that I look forward to working with you and other members of the Committee on.

Senator ALLARD. The fact remains is the President's economic package, built around tax reduction rates that would stimulate the economy, has worked. You have affirmed that in your comments and I thank you.

Mr. Chairman, I see my time has just expired.

Ambassador PORTMAN. Thank you, Mr. Allard.

Chairman GREGG. Senator Sarbanes.

Senator SARBANES. Congressman Portman, I join my colleagues in welcoming you before the Committee. I use the "Congressman" advisedly. Avril Harriman, who held many, many distinguished positions in our Government, always wanted to be called Governor Harriman. When asked about that, since he had held some very high ranking sub-Cabinet positions and so forth, he said in a democratic society, the highest appellation is the recognition that comes from the people in choosing you for elected public office.

Ambassador PORTMAN. Yes, sir.

Senator SARBANES. Presumably, we will soon be calling you Director. But I want to put some questions to you before we get to that stage. I have a number of them. I will try to be brief, and if you could be brief in response, maybe we can get them all in.

Do you think it is appropriate and relevant, in judging the unemployment rate, to look at the labor force participation rate?

Ambassador PORTMAN. I think it is one thing that should be looked at. I think the way we have measured unemployment over the years, through Republican and Democrat administrations alike, through payrolls also, the appropriate measure if we are to benchmark from past years.

Senator SARBANES. I ask the question because the participation rate right now is about 66 percent. Before the recession it was 67.2 percent. If you were to assume the same labor force participation rate, the unemployment rate today would be not quite 6 percent.

So I think it is a relevant criterion as we are looking at the performance of the economy. If people drop out of the labor force, we

do not count them as unemployed. And a fair number of people do that if they are discouraged by job prospects and so forth. So I just wanted to add that.

The next question I have, is it your intention as Budget Director to put the war on budget? How long are we going to go on with this fiction where we fund the war, now to the tune of some $280 billion over the period of the war, off budget in emergency supplementals? Do you not think it ought to be on budget?

Ambassador PORTMAN. Senator, you and I talked briefly about this in our meeting. And I was pleased, frankly, to see the 2007 proposal from the Administration in February include, for the first time ever, an amount for the war in Iraq and Afghanistan.

Senator SARBANES. I regarded that as a small down payment on honesty in budgeting, and I am just looking forward to what the future might bring.

Ambassador PORTMAN. Well, I think the $50 billion will probably not cover the full cost. But it is a step, I believe, in the right direction.

The difficulty, of course, is predicting what those costs will be. The budgets are put together about 2 years in advance and then about 9 months in advance presented. So it is difficult to know. None of us, with certainty, are going to be able to know what the amount is. So some supplemental funding will be necessary.

Senator SARBANES. Let me ask you this question: do you recall any previous instance in which, in time of war, we cut taxes?

Ambassador PORTMAN. I do not know the answer to that, Senator.

Senator SARBANES. I urge you to take a look. My understanding is there has not been a case where we are in a wartime context that we cut taxes.

Given the way the tax cuts are weighted, very much to the upper end of the income scale, the consequence of that is that the people at the top are making no sacrifice in this war. And the people in the middle and on down are making a very substantial sacrifice, since the overwhelming number of the men and women who go to fight in Iraq and risk their lives and their limbs come from those categories in our society.

So you have not only the inequity in terms of the tax structure but you have an inequity in terms of the burden being borne with respect to the war. And I think that ought to enter into the calculations.

I want to ask you a question about the current account deficit. In 2005, last year, the current account deficit rose to the staggering figure of $805 billion. Of course, you are familiar with this because you have been the Trade Representative so it is an important part of your portfolio. That is more than 6 percent of GDP, over 6 percent. And so foreigners are financing our deficit to absolute record amounts and many have expressed a deep concern about that.

Furthermore, a recent column in the Wall Street Journal said there is growing concern that foreign governments may decide for political reasons to reduce their appetite for U.S. dollars. The argument is always made, they will not do it for economic reasons because it is counter to their own economic interest.

That is not an altogether empty argument and I recognize that.

But this went on to say, and I quote the column, "Economists speak in particular of the danger that China, in defending its vital interests, Taiwan's status or threats to a key energy providing friend like Iran, might significantly reduce its buying of U.S. treasuries or sell billions of dollars. Politics in such a case might prompt China to overlook the damage it would do to its biggest overseas market by showing the muscle to drive the dollar value down, U.S. home mortgage rates up, and demonstrate the limits to American clout."

How serious a problem is this?

Ambassador PORTMAN. If I could address those two last questions quickly, the current account deficit is driven by a lot of factors, macroeconomic factors. Significantly, it is our economic growth, as you know. More recently it is oil. In particular, about 60 percent of the growth last year, as you know, in our trade deficit, came from increased prices of energy, which is foreign oil almost exclusively.

Second is the way in which the U.S. has driven economic growth globally, along with China, over the last several years. This has led to us consuming more and, in fact, other countries, Japan and Europe in particular, have not grown as fast, meaning they have not been absorbing the imports we have.

Finally, it is a structure issue with the way our economy works as compared to some other economies. Our savings rate, we talked about earlier, is relatively low, particularly our personal savings rate. Whereas in other countries, China as an example, over 50 percent personal savings rate. Here our personal savings rate is below zero now. So there are a lot of factors that affect it in terms of the impact.

I agree with you there is a concern that at some point, if this imbalance is not corrected, you could have an issue. What we are hoping for, of course, is a soft landing not, as that column might indicate, a harder landing. And I think that is the more likely scenario.

Why? Because it is in their interest both economically and in terms of keeping stability in our economy with the large amount of investment those countries and their investors have in the United States. As long as we continue to grow the economy, as long as we continue our unique political stability in this country, we will be a good place to invest.

So it does not concern me particularly, in terms of the possibility of that hard landing. But I do think we need to start working toward the soft landing.

As you see, with Japan beginning to grow this year, and some countries in Europe beginning to grow, and some changes in terms of the policies that China at least is saying that they are advocating, some of those factors are now in place for a softer landing.

The one that I would like to see more of here, obviously, is increasing our savings rate. And that goes to some of the issues we are addressing today on the public side, as well as the personal savings rate.

Just quickly on taxes, Mr. Sarbanes, not a lot of concern has been raised here about the tax relief, and particularly the relief on the floor this week. The only point I want to make to your point about who should be bearing the burden, particular during war-

time, is that actually the wealthiest taxpayers, whether it is the top 1 percent of taxpayers, the top 5 percent, or the top 10 percent, are paying a bigger burden of the taxes, a bigger percentage overall than they were before the tax cuts were in place.

Why? Because the tax relief included, as you know, the Child Tax Credit, the 10 percent bracket, and other relief that went primarily to the middle income——

Senator SARBANES. Of course, they are realizing a bigger share of the income, too. It is like Willie Sutton. He went to the banks because that is where the money was. You have had a marked concentration of income and wealth at the top of the scale, so when you cite these figures that they are contributing more in revenues you have to keep that in mind. I mean if they had all the revenues, they presumably would pay all of the taxes.

Well, my time is up. I do, Mr. Chairman, look forward to further exchanges with soon-to-be, I think, Director Portman. And I welcomed his statement at the outset that he looks forward to having open lines of communication with the Congress, which I think is extremely important.

Thank you.

Ambassador PORTMAN. Thank you.

Chairman GREGG. Thank you, Senator.

Senator DOMENICI.

Senator DOMENICI. Senator Sarbanes, let me just say I listened attentively to your questions and I commend you on the probative value of the questions, very interesting and to the point questions that you have asked today.

The one on who is the work force, what part of the work force is seeking work, I just wanted to suggest I have been wondering about that myself, but from a different point. It would seem to me that there may be a growing percentage of the American population that just does not seek work period. And it may be bigger than we think, if you understand what I am saying.

It is because of what is going on in this society. I think whatever the percent was, I think it is getting bigger of those who just do not seek work in the country. They are not counted anywhere in the numbers you have been referring to, and I think your questions were very probative.

First, let me commend you on this new job. I came almost singularly to look you over and see if you were really sane.

Ambassador PORTMAN. I wonder myself sometimes, Senator.

Senator DOMENICI. Why in God's earth you leave the wonderful safety and accomplished potential job you had to take this one, but everybody says that you are just that kind of person. From what I have heard so far, I think that is correct. And I commend you for the courage to take the job.

It is a tough job, no matter how you cut it. It is very difficult because the American budget is made up of untouchables that you have to continue to explain away. Whatever we call them, they are untouchable.

I would like to talk a little bit about something that I think is very important that is waiting here in the wings and that was discussed in the President's State of the Union Address. He talked about a number of very exciting things, but one that it just seemed

to me he threw in. And that was a statement about a commission to be appointed to look at and recommend to him and the Congress solutions to the problems of Medicare and the problems we have with our over-promises to the people versus the real expectations that you and I know should be there.

I would like to ask you do you not think it would be good for the President to get on with pursuing that bipartisan commission and get it appointed so that it can be referred to as looking at this major, major problem of the entitlements on the health care side and studying them and referring, in a bipartisan way, some real solutions to us as soon as possible?

Ambassador PORTMAN. Mr. Domenici, you are absolutely right, it is critical. You and I talked a little bit about this during our meeting. And I told you that you have been at this longer than I have, and I asked your advice on what the proper form should be.

The critical element is that, as I said earlier, we address the unsustainable growth in these programs not by cutting them but by reducing the rate of growth. And we do it in a bipartisan way. Because in my experience, and I think you confirmed that in our meeting, that is the only way we are going to have success here, both in getting it through the process but also in having it be sustained over time.

The commission was something that the President felt strongly about. he also talked about it including Members of Congress, which I like, because I have always thought that these commissions are more productive where Members of Congress are directly involved, those who have a stake in it and therefore can move it through the legislative process.

My understanding is there is a consultation process going on right now with leadership on both sides of the aisle in both houses, and it has not been named yet. But I think there is a good faith effort going on to determine who the members should be and what its scope might be.

But whether it is a commission or whether it is a group of you who, with the right experience and clout, including members of this Committee, and good will are willing to look at it, I think it is absolutely critical.

And I intend to, in my role, if confirmed, be encouraging from the administration side that we engage directly with you on that critical issue.

Because if you look at the budget, as I said earlier, we are making good progress in the short term, some would say even in the mid-term. But the long-term continues to be unsustainable. That is because we cannot continue to have this high growth, as you said, particularly in the health care area, but also in Social Security.

This is something that we all now recognize on a bipartisan basis and we need to deal with it.

Senator DOMENICI. Let me once again repeat to you here and, publicly for the record, state that I see no solution to the problem unless it is done in a bipartisan manner. And I do not see a bipartisan development unless it is done in some way by Presidential commission.

We cannot get it done here. The House cannot get it done. We are in a box where the first party to speak on the issue of changing

significantly Medicare, so as to save money and deliver what we can afford rather than to leave out there the expectations that cannot be paid for, the first party that does that is dead at the next election. At least that is what is perceived.

So it has to be done in a bipartisan way.And this Senator sees no way, short of something like this commission. And so I urge you, in your position as OMB Director, to push vigorously for that commission to be appointed. You have just stated publicly, and I am glad to hear it, that the White House is engaged in trying to put it together. Is that a pretty good assessment of what you said?

Ambassador PORTMAN. Yes, sir.

Senator DOMENICI. They are trying to see who should be on it out, how do you put it together in a way that is satisfactory?

Ambassador PORTMAN. That is my understanding.

Senator DOMENICI. Because if you do not put it together in that way, then everything I said about its potential is also for naught. It cannot be something Congress disagrees with.

So the chairman, whoever it is, is going to be a very powerful person. But Congress is more or less going to have to say we concur, or he will be engaged in a battle from the beginning.

I have been through this where you attempt to make changes. And let me tell you it gets to the point where you cannot put up your hand before the other guy on a change. We even invented words to describe what that was. I invented one called the simultaneity test, the simultaneity test. We had to vote on a change in Social Security and everybody had to see your hands at the same time.

So that commission is going to have a tough job. The sooner they get started the better.

We are doing more than a good job on the domestic programs under this Chairman. We are on a path on the domestic spending. In my opinion, that is almost not sustainable it is so vigorous, in terms of the reductions and the restraint. And I say that publicly.

The domestic programs that are controllable are being controlled, in spite of all the talk about us wasting money. They are being controlled in a way that if the American people could just get the overall message, they would be proud of us, proud of the way this Committee has helped do that.

But that is not the issue. Because we can do all of that and still end up with this mounting debt and say well we have everything under control. What happened?

Well, Medicare, Medicaid, Social Security and other entitlements related principally to pension-type activities are just commitments in the out years, in the future years, that we have over committed compared to the available resource. That is what is showing up there as that gigantic overage.

I just want you to know that many of us understand it. We are empathetic. We want to help you. It just cannot be done, it seems to me, unless we do it through this commission. And I urge that we do that quickly.

Thank you.

Ambassador PORTMAN. Thank you for the counsel.

Chairman GREGG. Thank you, Senator. Those are very wise words. I know the Administration will listen to them, I would hope, and is listening to them hopefully.

Senator MENENDEZ.

Senator MENENDEZ. Thank you, Mr. Chairman.

Ambassador, welcome, and I enjoyed the working relationship we had in the House. And I think you are well on your way toward moving to this new position and we look forward to having that same type of attitude you brought to the House that while is strong partisan in some respects, is also reaching out to the other side. so we look forward to that in your role as the OMB Director.

I have two specific lines of questioning.

One is OMB utilizes the Program Assessment Rating Tool as a way to assess the results of discretionary programs and helping to achieve better results. There is no equivalent mechanism to look at the effectiveness of tax expenditures, which are an increasingly large revenue loss, $872 billion in the 2007 President's budget.

Given our fiscal climate that we are looking for ways to cut the deficit and cut unnecessary or ineffective spending, and considering the countless tax provisions Congress has created, I am wondering if you support or will support as the OMB Director using that same PART system to assess tax expenditures?

Ambassador PORTMAN. That is a very interesting question and not one I have thought about honestly, Bob.

The program you talked about, what you call the Program Assessment Rating Tool, as you know is a way to rate the effectiveness of programs. It is not perfect because it does not look at whether it is a Federal role or not, or how important the Federal involvement ought to be. But I think it has been very helpful, from what I can understand.

Applying that to the tax side, which I guess would be something the Treasury Department would have the expertise in, not OMB, I guess would be looking at not performance in a management sense but performance in an economic sense.

Senator MENENDEZ. GAO, in its report last year, said that it recommended that the Director of OMB, in consultation with the Secretary of the Treasury, take that has one of four actions. I certainly think that I would urge it to your consideration.

Ambassador PORTMAN. I will take a look at it.

Senator MENENDEZ. Because as I read your statement upon accepting the nomination as the OMB Director, I think one of the problems with what you said is that there is a significant part of the equation you did not consider. I think it is a false paradigm to simply talk about spending in entitlement but not talk about the fiscal picture, as well.

And when you do not automatically include that, then I think you are undercutting the ability to truly dig into both the deficit and the debt, which I think are the most challenging parts the country has to meeting its long-term and short-term needs.

The question is who is this economy working for? Even if we accept the statements of our colleagues about this economy, who is this economy working for? If you talk to families in New Jersey, they will tell you that they are treading water just to keep their head above it and to be able to try to make ends meet.

So in my mind, we have to look at the effectiveness of tax spending, as well. We extend tax breaks that are not even expiring, and yet we have a vast middle class in which we will put a patch on the AMT, 15 million people in this country, who are at the very core of the underpinning of this Nation's economy by virtue of the middle-class efforts that they promote.

So it seems to me that that has to be a big part of the equation.

And PAYGO provisions, which seem to be have been rejected here, something that I know when you were in the House you were a big supporter of. I would assume that we would hope to see those again, and talk about fiscal responsibility, something that has been jettisoned, in my mind, by the majority.

And second, I looked with great interest on you talking about greater transparency in budgeting. If we talk about transparency in budgeting, it seems to me that the President's budget for 2006 and 2007 did not provide details for program funding beyond the immediate budget year, which is a break from past Presidential budgets.

Yet when OMB documents surfaced and they were taken by some public entities to do a vetting of, under those projections there are some very deep cuts that some question are either so severe that they will affect the very fabric of the essential programs in our society or really not very serious.

So I just want to ask you, under those projections over the next 5 years, domestic discretionary programs would be cut $183 billion, meaning that higher ed would be cut by nearly $16 million, elementary and secondary education by $18 million, veterans benefits by $10 billion, and so on.

Is that the Administration's intent, to pursue those cuts in that way? Is it your interpretation that these are to be taken seriously?

Ambassador PORTMAN. Mr. Menendez, I am not sure what you are referring to in terms of the greater transparency that was previously provided. I will look into that.

In terms of the 5-year versus 10 year, maybe that is part of the concern that you are raising. I understand that during the Clinton Administration for a short time there was a 10-year projection but that typically it has been 5 years. And we have found that these projections——

Senator MENENDEZ. Actually, the President's budget for 2006 and 2007 do not provide details for program funding beyond the immediate budget year, beyond the immediate budget year.

Ambassador PORTMAN. You are talking about the second through fifth year.

Senator MENENDEZ. Some of us believe in 10 years, but 5 years might be a good starter to look at the real results of some of these cuts along the way.

Brian Riedl at the Heritage Foundation, not someone who is loath to necessarily be of my view all of the time, takes the view that in fact the figures should not be taken as serious.

So the question is, as we are talking about this debt, and I will close up on this, the reality is there should be transparency in budgeting. And it should start with the Administration who, in the first instance, moves the budget. There needs to be long-term opportunities to understand the long-term consequences of the presi-

dent's suggested cuts. And you need to put tax spending on the table, as well, if you want to be intellectually honest about where we are going on the debt.

Thank you.

Chairman GREGG. Thank you, Senator.

Senator ALEXANDER.

Senator ALEXANDER. Thank you, Mr. Chairman.

Mr. Ambassador, thank you for joining us. I look forward to working with you and appreciate your service.

Just one comment about Senator Domenici's comments and the frequent comments about Medicare and Medicaid.

We have to get Medicare and Medicaid under control. That is where the spending problem is. But it seems to me that this commission that the President is working on appointing somehow has to also look at transforming health care policy before we start figuring out how to restrain growth in spending. Because if we restrain growth in spending on the old model, it might not work.

I do not know whether that is part of the goal but I want to observe that.

What I want to ask you about, though, is a different subject upon which we seem to agree around here, and that is the subject of helping our country keep its edge in science and technology so that we can keep our good jobs from going to China and India and other places. We have a remarkable economy in the United States and most studies show that since World War II 85 percent of our growth in per capita income have come from advances in science and technology.

But it was as a result of a budget hearing last year that some of us asked the National Academy of Sciences to tell us exactly what we needed to do to keep our edge in science and technology. Because we could see that if we continued to grow with unsustainable Medicare and Medicaid that we would not make the investments in engineering, education, science and research to fuel this economy.

In other words, if we spent all of our money on war and welfare and debt and Medicare and Medicaid, we would not have an economy to support these urgent needs.

The Academy did a tremendous job with a report from Norm Augustine and others. And they came back with 20 specific proposals. And there were other proposals around. Much of this work has been going on for quite a while, as you well know. But there is a consensus now. We have a consensus document, the Augustine Report, written by the National Academy of Sciences and Engineering, Institute of Medicine—IRS 20 recommendations are broadly supported across the country.

In the Senate we have a consensus, 70 Senators have sponsored legislation that fairly closely resembles the PACE recommendations, 35 Republicans, 35 Democrats, including Senator Frist, the leader, and Senator Reid, the Democratic leader. It is hard to find anything else around here about which there is that much consensus.

The President's budget was very generous toward this idea, and he proposed his own American competitiveness initiative, for which

I give him great credit, exactly the kind of Presidential leadership that we need for our country.

According to my figures—and he recognized the need.

For example, the proposal would increase Federal funding for research. It would provide fellowships to grow more of our own scientists. A Nobel Prize winner told me earlier this week that he just hired his postdoctoral students. He did not hire a single postdoctoral fellow who was not from another country. University of North Carolina, over the last 5 years, has graduated 9,500 teachers. Three of them have been physics teachers. So we are not growing our own scientists and engineers.

I am now coming to my question. The President has done a terrific job here, taking the lead. His budget has about $6 billion, as I see it, for a competitiveness initiative. That is a lot of money in a tight budget. About $4.6 billion of it is for the research and development tax credit.

The PACE recommendations, which we support, have a little more than that, $8.8 billion in the first year. We set aside the majority of that, too, for the Research and development tax credit. So in the area of Federal expenditures for the research and education and energy, we are about $2 billion apart.

I would describe this as having gotten the ball down to the red zone, within the 20 yard line. And we need your help to help get it passed and help find the money in the rest of this year.

So my question is what will you be doing to make sure we properly fund the President's American Competitive Initiative and the recommendations of the Augustine Commission, so we can meet these urgent needs in this year?

Ambassador PORTMAN. First, Senator Alexander, if I could say your leadership in putting together a bipartisan group of members and then a nonpartisan group of experts is one reason you see these budget numbers. This is in the context of a budget proposal from the president in this general area, which is discretionary spending that is not homeland or defense spending of a minus 0.5 percent, in other words below a freeze.

We think that is necessary to keep spending under control, but we also think it is important to prioritize key programs. And that is why there is an increase in the American Competitiveness Initiatives, which are entirely consistent, as I look at them, with the Gathering Storm Report that you shared with me that came out of this group of experts led by Chairman Augustine, and the PACE legislation that you now—you did not say how many cosponsors. I understand it is——

Senator ALEXANDER. 70.

Ambassador PORTMAN. —the majority of the Senate.

So you have moved this ball down the field substantially. That red zone, it is always hardest to move it within the red zone. But you should be receiving a lot of credit for where we are in terms of prioritizing, as you say, science and technology and being sure America has a competitive edge there.

I will take a look at this. If confirmed, I will be working closely with you on it. One of the issues you raised with me was the R&D tax credit being made permanent and how that compares to some of the other initiatives you have talked about.

One of the concerns, honestly, that I have heard as I have looked into this even since our conversation is the issue of creating new programs when in the Department of Education, which you know better than anyone, there are a lot of programs that do not meet some of the effectiveness standards that we talked about earlier, whether it is a PART analysis or other analyses.

So there is some concern about creating new programs at a time when we are trying to figure how to consolidate and make more efficient the programs that we have.

But there is a substantial increase in the budget for these areas that are, again, entirely consistent with where you are headed. And I look forward to working with you going forward on that.

Senator ALEXANDER. Thank you.

Chairman GREGG. Thank you.

Senator MURRAY.

Senator MURRAY. Thank you, Mr. Chairman.

Welcome, Ambassador Portman. And we appreciate your willingness to take on this tremendous responsibility.

As we told you when we met, I really appreciated your excellent leadership where you are now. We will miss you there. But I hope that we can continue to rely on your knowledge and openness and in the new role and wish you the very best.

You certainly are taking this on at a very challenging time and I want to share some of the concerns that I heard Senator Sarbanes allude to, in terms of continuing to see budgets, as I have said many times, that do not reflect the true cost of the war or the tax cuts. I am deeply concerned that we seem to be governing by emergency supplemental, which I think is a dangerous way to go. And I hope that we get, from the Administration, budgets that really reflect the expenditures that we are having today.

I also just will say I am concerned that we are just focused solely on the earmark as a way of walking us out of this debt. I think that is not going to get us there. And I hope that we look at a much more fiscally responsible budget, with real costs, coming from your agency.

Having said that, let me focus on a national issue that resides in my home State, that of the Hanford site, which we had a chance to talk about when I met with you. But I wanted to reiterate it.

I have been working on Hanford for 13 years. I have worked with a number of OMB Directors and Energy Secretaries, every one of them who come and see this financial plan as a way to solve other problems.

As I told you, we have a radioactive plume that is moving into the groundwater and toward the Columbia River with a very complex funding that is in place that we need to keep in place because of the danger to not only the people in the region but to the entire country if we do not get that solved.

I just wanted to ask you a personal request, that if you see anybody in your agency come forward with a proposal to rescind funding for Hanford, will you please contact me so that we can talk and your agency can be aware of the significance of that before we see it publicly?

Ambassador PORTMAN. Thank you, Senator.

I did appreciate our opportunity to visit on this and some other issues. And I told you at the time that when I was in Congress I had the opportunity to work a lot on a smaller facility, but an important one, at Fernault, where we were able to expedite the cleanup and save the taxpayers billions of dollars. These costs are tremendous. They are a huge burden on the budget. But this is a responsibility for the Federal Government.

As you know, the Hanford site in this 2007 budget receives an increase. Overall the environmental management budget is reduced because of some of these cleanups, including Fernault. But there is a substantial increase here. So far you have been very persuasive. It is an 8 percent increase above the 2006 level, again in the context of the part of the budget that overall is under a freeze.

So my understanding is that the cleanup——

Senator MURRAY. Right, and I am most concerned about the VIP Plant because it is a complex spending plan that has been in place that we talked about. But I just want to make sure that we are on track.

Ambassador PORTMAN. It continues the money for the Hanford waste treatment plant, I think which is one of your concerns.

Senator MURRAY. Let me ask you about funding for the VA because we faced a very serious $3 billion shortfall last year, as you well know, and had to go through a lot of work here in Congress to make that up at a time when we are asking young men and women to service overseas as well as seeing an increasing number of veterans who are facing this.

I am positive that that shortfall was due to the fact that we were not looking at realistic projections to our service members who are now accessing the VA. And I wanted to find out from you what we can expect when it comes to making a VA budget based on real numbers and real expectations?

Ambassador PORTMAN. Thank you.

Again, I do not pretend to know all of these issues yet. But I do believe that there has been a change in the 2007 budget. I think you see it reflected in the numbers, which is that OMB is now not just working with but in agreement with the actuaries at the VA, which apparently was not always the case, in terms of coming up with a more realistic model showing, I assume, increased utilization. And so I think you will find that the resource projections have been improved.

Senator MURRAY. I would just ask your personal attention to that because we do not want to get back to that point again. So I hope that you can focus on that.

In my last few seconds I am going to ask you a question I am positive you do not have the answer to but I hope you can get back to me.

That is because for the past of 5 years I have been working to try and ban the production and importation of asbestos in this country. We still allow asbestos to be used in many products. And we are now looking at billions of dollars in Federal liability to bail out that industry.

OSHA and EPA have been working really hard to implement some workplace safety and indoor quality standards to reduce the exposure of asbestos and their efforts have been hindered so far by

OMB. They are trying to deal with this very serious public health threat.

And I would like you to get back to me if you could. If you can look into this issue and let me know what is holding up, in particular, the publication of the OSHA fact sheet at EPA. I understand that that is being held up at OMB. It is a critical health issue in this country.

And I want to find out if you can provide me with information on when EPA is going to be sending their brake mechanic guidance around for review as a part of that, as well.

So if you and your staff could get back to us, I Would really appreciate it. It is a serious health issue in this country.

Ambassador PORTMAN. Thank you, Senator.

If confirmed, I look forward to working with you on that, too.

Senator MURRAY. Thank you very much.

Chairman GREGG. Thank you, Senator.

Senator SESSIONS.

Senator SESSIONS. Thank you, Chairman Gregg, for your leadership and your effort to make sure that we manage the taxpayer moneys wisely.

Mr. Portman, you are moving into a difficult spot. But I think, based on what I hear about your reputation and what your colleagues have said about you in the House, how well you performed as a Trade Representative, and the bipartisan respect that you have engendered, I think you are a good person for the job.

It certainly looks to me that you will not have any serious opposition to your confirmation. And we look forward to working with you.

As a matter of perspective, of course OMB prepares the budget for the president, and that comes to the Congress. You, therefore, coordinate with every Federal agency and department to review their budgets. And you do have an opportunity and play a key role in containing the growth of spending and management. I believe you are committed in that area.

Let me ask you this: Tell me what were the latest numbers that just came out showing an increase in revenue, projected revenue, for the U.S. Treasury?

And then I would like to ask you a followup question about that.

Ambassador PORTMAN. My understanding is Treasury just issued a report saying that the first 7 months, through as I understand the first week of May, there was an increase in Federal revenue over last year of 11.2 percent.

Last year, as you know, was 14.6 percent increase in revenues, which is a substantial jump. In fact, in absolute terms, the biggest increase in Federal revenue in 24 years. So this is an increase even above last year's relatively high increase.

Senator SESSIONS. So it would be 11 percent on top of 14 percent, which will really be more than 25 or 26 percent over 2 years.

Ambassador PORTMAN. This is again to caution the Committee, this is the first 7 months of the year. So we still have 5 months left to go.

Senator SESSIONS. What I would like to ask you to state for us, should we feel great about that? I think we should. Should we therefore assume that we can spend more money? Or should this

not give us encouragement that if we contain spending and stay disciplined, we can make more progress on reducing this deficit than a lot of people have projected?

Ambassador PORTMAN. I like the latter option a lot better. We should not look at this as an opportunity to spend more. I think we have made that mistake. I think we made it when I was in the House in the late 1990's and early part of this decade, and we cannot afford to do that. The last year of the Clinton Administration, we had an increase of 15 percent in our domestic discretionary spending.

That cannot be the reaction of Congress or the Administration to this increased revenue. Rather it needs to be what many members have talked about here, which is keeping our fiscal belt tight and reducing these deficits and eventually reducing these debts and then dealing with our long-term issue of entitlement.

Senator SESSIONS. I could not agree more. To repeat, we are in a position where we can make a real dent in this deficit if we stay on course and hold our spending down, and we should be proud of that.

I am looking at potential legislation that would authorize the president to effect efficiencies in various departments, in every department. It may be limiting that number to 2 or 3 or 4 percent, and requiring or allowing the president who affects those efficiencies to pay that down on the national debt.

Right now some agencies feel like every dollar that is authorized and appropriated by Congress they must spend. And if they do not spend it, somebody else will.

Do you think that might encourage the various agencies to be more responsible in creating efficiencies?

Ambassador PORTMAN. Senator, I think it is an interesting proposal and I am happy to look at it further. You did share a copy of that with me yesterday, which I appreciated. And although not confirmed, I took the liberty of sharing it with the OMB staff.

I think you are right, that every agency and department of government, and I am coming from one right now at USTR, we have our annual budget and go through this process, needs to look at ways to save on the administrative side or you say the overhead side, but also to have the proper incentive in place so that there is an incentive to look at these efficiencies rather than an incentive working the other way, which would be to keep the funding, to ensure perhaps that you have adequate funding in the next fiscal year.

I like the idea of creating the kinds of incentives to encourage that the taxpayer dollars are spent as wisely as possible.

Senator SESSIONS. And having been in the Congress and now assuming this new job, do you feel like your life could be made easier, Congress's life could be made easier, and the agencies' lives could be made easier if we had a 2-year budget instead of a 1-year budget? Have you thought about that and do you have any opinions on that?

Ambassador PORTMAN. Senator, you are trying to get me into some hot water here and I will step into it.

I have supported that in the past. More importantly, the President has supported that. My understanding is again this year the

President has indicated his support for biannual budgeting, in part because, as I read the material and I happen to agree with this, it encourages more oversight. Some would say that maybe that is not something we want to encourage. I think it is good to have the opportunity to be focused more on oversight here in the Congress and also at the Office of Management and Budget.

Senator SESSIONS. Thank you, Mr. Chairman.

Chairman GREGG. Thank you.

Senator Conrad for the last set of questions.

Senator CONRAD. Let me just say, first of all, on the question of biannual budgeting, the most important oversight is budgeting. And I think it is a profound—myself, I think it is a profound mistake to go to biannual budgeting. I think absolutely the most important discipline we exercise is the budget process and we need to go through it every year.

I really suspect you would not get more oversight. I suspect you would get less.

With that said, I want to say, Ambassador Portman, before I go to my final questions, I intend to support your confirmation. As I told you privately, and as I have said publicly, I think you are a high quality person. Although we have profound disagreements on fiscal policy, and we do, I think you are an outstanding person. And I look forward to working with you.

I want to try to get you to think a little more about the question I asked you earlier. Let me first mention this. While the deficit is showing some improvement, the difference between the deficit and the debt is very dramatic.

So this year we have just been told by CBO that the deficit will be in the $300 billion to $350 billion range. We took the midpoint of that range, $325 billion, for this comparison.

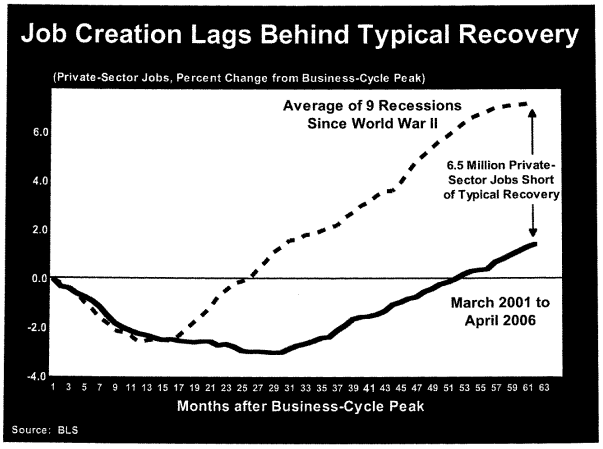
We then looked at how much the debt is going to increase this year. And it is not $325 billion. it is over $600 billion.

And I find in my own constituency people think the deficit is the amount by which the debt will increase. But of course, you know that it is not. And there are these other factors, the biggest one among them Social Security, money that is being borrowed that is not counted as part of the deficit but is part of the debt and does have to be repaid.

Let me go to the thing I really wanted to focus on, though, Ambassador Portman. I go back to these charts. Looking at the typical recoveries since World War II, there have been nine of them, nine of them. And your suggestion was the reason we have been lagging in all of these measures on this recovery of what we have seen in the nine previous recoveries is that we had a shallower recession.

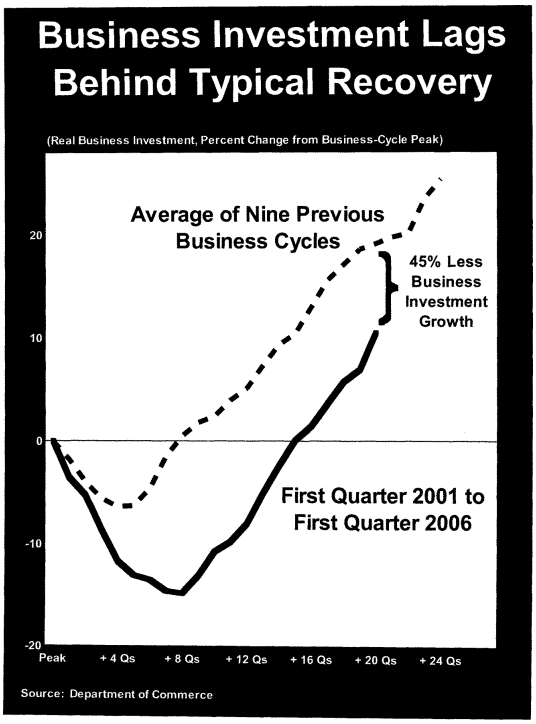
But as I look at it, I do not see that. On job creation, the dotted red line is the nine previous recoveries since World War II. The black line is this recovery. You can see the job loss on the front end was almost identical to previous recoveries.

But look at the gap here between the other recoveries, the dotted red line, and this recovery where we are running way beyond what we have seen in other recoveries. In fact, we are now 6.5 million private sector jobs behind the typical recovery.



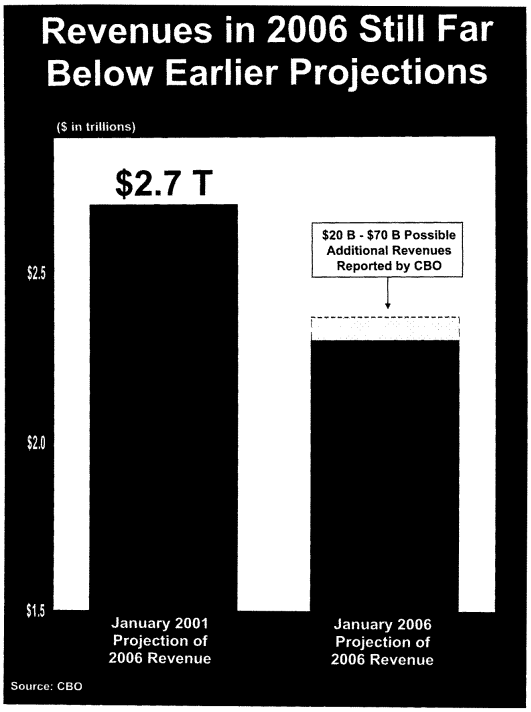
Let me go to the next one, and then I am going to ask you to seriously help me understand what you think is going on. Because I find these numbers very troubling, that there is something else going on here that perhaps we do not fully appreciate.

This is business investment. Again, the dotted red line is the average for nine previous recoveries and the black is this recovery. In fact, we saw a steeper falloff in business investment in this recovery than the nine previous recoveries. And these are in real terms here, so we are comparing apples to apples.



Something is wrong here. Something is not going right. And what I am trying to understand is why is this recovery lagging the previous recoveries? Is it because of international competitiveness? Is it because, and I have had people in the business sector tell me at this stage of the recovery they should be doing much better than they are.

Let me go to the next one, which is the question of revenues. Here is the nine previous recoveries. The dotted red line is what happened to revenue. This is this recovery. And again, the revenue falloff was far sharper on this downturn, and we are still far below where we should have been compared to the nine previous recoveries.



So your earlier answer to me is that it is because the recession was shallower. I do not see that in the data. Do you have any other ideas as to why this recovery seems to be so badly lagging the nine previous recoveries since World War II?

Ambassador PORTMAN. Senator Conrad, I should probably restrain myself from answering, since I have not thought about it carefully, but let me give you a couple of observations anyway.

One, this is, from my understanding, one of if not the shallowest recession we have experienced measured by GDP. In other words, when you look at the other recessions, they were deeper, the trough was longer in most cases.

Senator CONRAD. In terms of loss of GDP?

Ambassador PORTMAN. Yes, which is how you measure recessions. Is it not two successive quarters of negative GDP? So it was a more shallow recession, technically speaking.

In terms of jobs, when you look at what has happened in terms of the unemployment numbers, and we can talk about whether unemployment numbers are properly reflected, but it is the same standard that was used in previous administrations and recessions,

this 4.7 percent number someone earlier was talking about the significance of that and some would say that is close to full employment.

If you look at the 5 million jobs, 5.3 million jobs that have been created since 2003, which was when the tax relief took hold and was fully implemented, compare that to other recoveries, I do not have the data in front of me but I cannot believe that this is not a substantial both increase in jobs but also the percentage.

What does this mean? It probably means, in terms of those other recessions, that we had higher unemployment.

If you look at, even within our adult lifetimes, other times when there has been a downturn in the economy, we have had unemployment in double digits. We never had that. We never experienced it in this one.

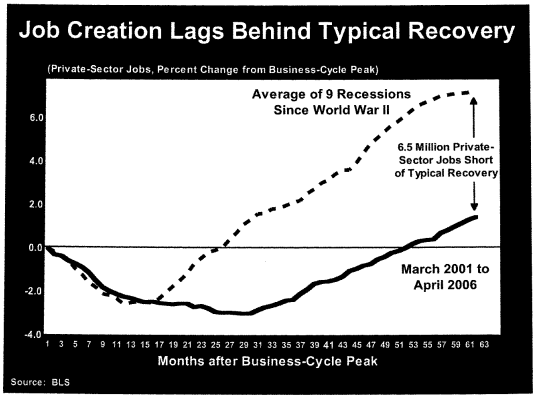
So again, I am jumping in here where I probably should not because I do not have all the data that you do. But I would say that part of the answer to this is that because we did not have as deep a recession, because unemployment numbers never got as high as they have in previous downturns, that the upturn in the economy may not look as a dramatic.

But what is important to you and to me, I think, is where we are now. And at 4.7 percent unemployment nationally, that is relatively low, as I said, both in terms of the average in the 1970's, 1980's and 1990's, below that of course, but also significantly in the time during the 1990's in the Clinton Administration when we had substantial economic growth. So these are good numbers, strong numbers.

In terms of revenue, gosh again, looking at these projections that were talked about, we will see whether they are true or not. But if they are, to have that kind of growth last year, the best growth in 24 years in revenues, and then to build on it this year with something even approaching 11 percent would be pretty dramatic and frankly outstrip any of our estimates.

Senator CONRAD. Let me just end on this. I am really not trying to score political points. I really am struggling to understand. I am struggling to understand what is going on.

Because I suspect there is something going on here that we have not correctly analyzed. And I go back to this job creation. That red line is the nine previous recoveries.



And you see, this is from business cycle peak. So we tried to do this on a fair comparison. The initial job loss tracked very closely, the nine previous recessions and this one. Do you see what I am saying? Initially it tracked very closely. You had about 2.5 percent job loss. This is private sector jobs.

But then you had, in these nine previous recoveries, much faster recovery. In this one, recovery has really been stalled.

Ambassador PORTMAN. But 2.5 percent from what base, though?

Senator CONRAD. That is from the cycle peak.

Ambassador PORTMAN. No, but I mean what was the unemployment percentage at the bottom of that trough? In other words, what was it from?

Senator CONRAD. This is jobs. This is jobs, not unemployment. This is job creation.

So job creation in both of these, in the nine previous recoveries job creation was off about 2.5 percent. Job creation, not unemployment. And in this recovery, as well. But then we saw, in all of the other recoveries, much faster recovery on private sector jobs than we are seeing in this one.

Now remember unemployment, this year we are on a war footing. Of course, that affects employment. I think we also have a lot of people who just quit looking for jobs so they do not get counted, which is what Senator Domenici was talking about.

But I do think we need to seriously analyze this gap and try to understand is there something structural going on here? I suspect there is. I suspect our dominance in the world economy and our vulnerability on energy and on borrowing money has something to do with this gap.

In any event, we look forward to working with you.

Ambassador PORTMAN. If I could just add one issue here that is critical to determining whether we are losing footing, would be productivity. Every economist turns that issue to determine whether or not we are losing our competitive edge.

It has been high. A 3.2 percent growth——

Senator CONRAD. That may be part of the reason for the gap.

Ambassador PORTMAN. It is increased efficiency. We are doing more with less. Our industrial output is actually up. Our manufacturing output is up. Our manufacturing exports are up. But there are fewer jobs.

Senator CONRAD. Well productivity, that may be one of the elements here as to why the private sector——

Ambassador PORTMAN. But that keeps us competitive internationally. It enables us to have strong economic growth.

Chairman GREGG. We have actually had, we are now at a historical level, post-World War II period our productivity is the highest in history. Last year we had a 3.2 percent growth in productivity. We have had 32 months of consecutive expansion and growth.

And so the numbers are very good. You can compare them to other recessions, but the fact is there are more people working today than ever before, and 4.7 percent is full employment or historically is deemed to be full employment. Revenues are up to their historic levels. They are closing in on the historic levels, as you said in your opening statement.

So to the extent we continue to have a deficit, I think it is really a function of we are spending too much money. That is a function of entitlement spending and the fact that we are at war and the Katrina event.

In two of those areas on the discretionary side I think we are going to start to see a lessening of the pressure on the budget. But on the entitlement side we really need is still address that, something which Senator Conrad and I totally agree on.

In any event, just for the record, this record will stay open until 6 p.m. tonight for other questions or comments. I have talked with Senator Conrad. I intend to support your nomination, also. So that is two of us and so you are doing pretty well. You are on a roll.

Senator CONRAD. The rest of the votes look a little shaky.

Ambassador PORTMAN. They were fine until today.

Chairman GREGG. Senator Conrad has been generous enough to say that we can move on your nomination probably. So I would hope that we will probably do it next Tuesday after a vote off the floor. Staff may advise their staffs of that.

And ironically you are, I think, the only member of the administration who is subjected to two committees for your nomination.

You have to be approved by two different committees. So I know you still have the Government oversight committee to go before. But we do intend to expeditiously move your nomination and appreciate the fact you are willing to continue to participate in public service.

Thank you very much.

Ambassador PORTMAN. Thanks for expediting this hearing and thanks for the input today. I appreciate it.

[The prepared statement of Ambassador Portman follows:]

Hearing of the Budget Committee
Testimony of Ambassador Rob Portman
Nominee for the Director of the Office of Management and Budget

Thank you, Chairman Gregg. I appreciated your opening remarks and those of Senator Conrad. I also want to thank both of you and other Members of the Committee for your willingness to meet with me prior to the hearing.

As you know, a little more than a year ago, I left the House Budget Committee to assume the role of U.S. Trade Representative. Now I find myself back in the budget world as the President's nominee to be the Director of the Office of Management and Budget.

It's been a great honor to serve our country for the past year or so as the U.S. Trade Representative. And I have enjoyed working with many Members of the Committee in that capacity.

Should I be confirmed as the Director of OMB, I intend to continue close congressional consultation in both the Senate and the House, and with Democrats and Republicans. As a former House Member, I place a high value on open lines of communication with Capitol Hill. I also believe that our budget challenges will only be solved through a constructive dialogue between both sides of the aisle about the very real issues facing our country.

OMB has a unique and important role in our system of government – all spending decisions and major regulatory changes are within its purview. It also oversees management of the executive branch and all of its agencies. It is a serious responsibility, and if confirmed, I will approach it with a seriousness of purpose and with the interest of our country at the forefront.

Working together with this Committee, as key policymakers on budget matters, we can help influence the legacy we are leaving to our children and grandchildren. In the last five years, our country and its budget have faced serious challenges, from the 2001 recession, corporate scandals and stock market decline to the horror of 9-11, the War on Terror and the unprecedented natural disaster on the Gulf Coast from Hurricanes Katrina and Rita.

In facing these challenges, the American people and our economy have proven to be up to the task. With help from the bold steps the President took in his first year, our resilient economy bounced back. We are experiencing strong and positive growth in our economy in general, and in jobs and revenue in particular.

From a budget perspective, we are on track to meeting the President's target of cutting the deficit in half by 2009. We've done this by working with Congress in recent years to focus spending on our national priorities while reducing spending elsewhere. We need to do more and I look forward to your thoughts and recommendations on how we can accomplish this goal while continuing to protect Americans at home and fight terrorism around the globe.

Restraining discretionary spending, as we've done together in recent years, is an essential part of deficit reduction. But I think the greatest threat to our budget comes from unsustainable growth in entitlement programs, including Medicare, Medicaid, and Social Security. It is absolutely critical that we work together to develop sound policies that address the long-term fiscal danger and put these programs on a sustainable footing for future generations. There, too, I welcome your input on how we can achieve this difficult task together.

As we work to rein in spending, I hope that we'll always keep in mind the need to continue our strong economic expansion. GDP grew at a healthy 4.8 percent annual rate in the first quarter of this year. This follows our economic growth of 3.5 percent in 2005 – the fastest rate of any major industrialized nation. Productivity increased at a strong annual rate of 3.2 percent in the first quarter. And just last week we learned that hourly compensation rose sharply at a 5.7 percent rate in the first quarter.

Together with Congress, the President has put in place pro-growth policies to create the environment for this economic expansion. I believe keeping these pro-growth policies in place is critical if we are to continue benefiting from strong economic growth and growing revenues that are essential to deficit reduction and entitlement program solvency.

As you know, in 2005 tax receipts grew by 14.5 percent, or more than twice as fast as the economy itself. In February, the Administration estimated that receipts would grow 6.1 percent in 2006. Most private sector and other government forecasters have since estimated that revenues will be significantly higher than the Administration projected.

Just yesterday the Treasury Department reported that Federal revenues surged in April with corporate tax receipts at a record $46 billion. Tax receipts to date for FY 2006 are at an all time high. Obviously, this higher revenue growth will have a positive effect on deficit reduction.

Even with this good news, there is hard work ahead to ensure our fiscal house is in order. I am optimistic that working together we can be creative and find solutions to the challenges we face in ways that will continue to strengthen our economy, meet our national priorities and serve the American people.

Again, I appreciate the Committee's consideration of my nomination, and look forward to your input and questions.

Chairman GREGG. Thank you.
We are adjourned.
[Whereupon, at 12:16 p.m., the committee was adjourned.]

United States Senate Committee on the Budget

Room SD–624

(202) 224–0642

Washington, DC 20510–6250

STATEMENT OF BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF PRESIDENTIAL NOMINEES

A. BIOGRAPHICAL INFORMATION

1. Name: Robert Jones Portman

2. Position to which nominated: Director, Office of Management and Budget

3. Date of nomination: April 27, 2006

4. Address: Office: Office of the United States Trade Representative, 600 17th Street, NW, Washington, DC 20508

5. Date and place of birth: December 19, 1955; Cincinnati, Ohio

6. Martial status: Married to Jane Dudley Portman (maiden name Dudley)

7. Names and ages of children:

8. Education: University of Michigan Law School, 9/81–6/84, J.D. 5/84; Dartmouth College 9/74–5/79, B.A., 5/79

9. Employment Record:

- 5/81 Select Commission on Immigration; Research Assistant; Washington, DC
- 6/82–8/82 Taft, Stettinus & Hollister; Summer Law Clerk, Cincinnati, OH
- 6/83–9/83 Surrey & Morse; Summer Law Clerk; Washington, DC
- 9/83–12/83 US Department of State; Legal Extern; Washington, DC
- 10/84–10/86 Patton, Boggs & Blow; Associate (Attorney); Washington, DC
- 11/86–3/89 Graydon, Head & Ritchey; Associate (Attorney); Washington, DC
- 3/89–9/89 White House, Executive Office of the President; Associate Counsel; Washington, DC
- 3/89–5/91 Executive Office of the President, Deputy Assistant to the President and Director, White House Office of Legislative Affairs
- 9/91–4/93 Graydon, Head & Ritchey; Partner (Attorney); Cincinnati, Ohio
- 5/93–4/29/05 US House of Representatives; US Representative; Washington, DC
- 4/29/05–present Office of the United States Trade Representative, Executive Office of the President, United States Trade Representative.

10. Government Experience:

- Co-Chairman, National Commission on Restructuring the Internal Revenue Service (1996–97)

11. Business relationships:

- Board of Trustees 1991–2000, The Springer School (Elementary School for learning disabled)

- Government Relations Committee, 1999–2002, United Way of America

- State and Federal Relations Committee, 1996–2002, Greater Cincinnati Chamber of Commerce

- Board of Directors, 1996–2000, Community Anti-Drug Coalition of America (CADCA)

- Member, Congressional Advisory Committee 2003–2005

- Founder and President, 1996–2001, Coalition for a Drug-free Cincinnati

- Chairman, 2001–2003

- Founding Chairman, 2003–4/2005

- Board of Directors, 2002–4/2005, The Clement and Ann Buenger Foundation, Cincinnati, Ohio
  (Section 501(c)(3) private charitable foundation)

- CincyTech USA Leadership Council, Cincinnati, Ohio (non-profit regional technology initiative) 2002–4/2005

- Board of Directors, 2002–4/2005, Jobs for America's Graduates, Inc.

- Advisory Board Member, 2003–4/2005, The Nelson A. Rockefeller Center for Public Policy at Dartmouth College

- Member-Board, 2003–4/2005 Coalition to save Hillcrest Cemetery, Cincinnati, Ohio

- Co-Chair, Fundraising Committee, 2002–4/2005, ACT (Accountability & Credibility Together), Cincinnati, OH

- Honorary co-chairperson, 2002–4/2005, Promount House Museum Campaign, Milford, OH

- Government relations Committee, 1991–2004, Greater Cincinnati United Way & Community Chest

- Reginal Public Policy Council, 2004/2005, Greater Cincinnati United Way & Community Chest

- Honoray Member, (non-voting), 2003–4/2005, Clermont County Convention & Visitors Bureau Board of Trustees

- Board of Selectors, 2001–4/2005, Jefferson Awards for Public Service

- Honorary Chairman, 2002–March 25, 2005, America's Majority Trust

- Limited and General Partner, Portman Investors Limited Partnership, 2003–3/31/2005

- LLC Member, Peavler Partnership, General Partner, 1988–4/2005

- Limited Partners Interest, Village Properties, 1992–2004

- LLC Member, Shaker Properties, Managing Member, 1996–4/2005

- LLC Member, Graustark, Managing Member, 1997–4/2005

- Shareholder, Portman Equipment Company, (1960–2004)

- Board of Directors, Portman Equipment Company, (1991–5/1993)

12. Memberships:

Member, The Explorers Club, NYC

13. Political affiliations and activities

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

US Representative-Ohio–2002

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Vice Chairman, Hamilton County Republican Party (4/11/2000 until 2/13/2001)

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 5 years.

- 07/06/2005, $1,000 Schmidt, Jeannette
- 07/25/2005, $1,000, Schmidt, Jeannette
- 11/7/2000, $1,000, Shaw, E. Clay Jr.
- 6/30/1999, $500, Baker, Richard
- 8/9/2000, $1,000, Lazio, Rick A.
- 9/30/2003, $2,000, Bush, George W.
- 7/30/1999, $500, Bush, George W.
- 10/11/1994, $500, Ney, Bob
- 4/11/1994, $500, DeWine, Mike

14. Honors and awards:

- Emergency Committee for American Trade 2006 Trade and Investment Leadership Award
- Clermont County Leadership Award 2005
- Honorary Degree Chatfield College 2005
- Ohio Parents for Drug-Free Youth, Annual Hope Taft Substance Abuse Prevention Advocacy Award, 2005
- Securities Industry Association, Foundation for Investor Education, for support of the Stock Market Game program at Ripley-Union-Lewis-Huntington High School, Spring 2004
- Coalition for a DrugFree Greater Cincinnati, Portman Award, May 5, 2003
- American for Tax Reform, Hero of the American Taxpayer Award 2004, 2000
- Southern Ohio Health Services Network, 2003 Community Health Award
- Honorary Degree Urbana University 2002
- American Bar Association, for commitment to simplification of tax and pension laws, May 7, 2002
- National Conference of State Legislatures, Restoring the Balance Award, for leadership on pension portability and simplification and service to our federal system of government, February 2002
- National Defined Contribution Council, Public Sector Leadership Award, 2002

- The Small Business Council of America Special Congressional Appreciation Award, 2002
- Friend of the Farm Bureau
- FMI/FDI Thomas Jefferson Award, 1994–2004
- National Federation of Independent Business, Guardian of Small Business Award, 103rd–108th Congresses
- National Association of Manufacturers, Award for Manufacturing Legislative Excellence, 105th and 107th Congresses
- Coalition to Preserve Retirement Security, for Outstanding Leadership, January 30, 2001
- Institute for Electrical and Electronics Engineers Distinguished Public Service Award, 2001
- National Defined Contribution Council, in recognition of bipartisan leadership on pension reform and simplification in the US, September 2000
- American Shareholder Association, 2000 Friend of the Shareholder Award
- Cincinnati Health Network and Affiliated Organizations, in appreciation, 2000
- Savings Coalition of America, Philadelphia Financial Freedom Award, 2000
- Citizens Against Government Waste, 1999 Taxpayer Hero Award
- National Association of Professional Employees, 1999 Millennium Award
- Association of Ohio Philanthropic Homes and Housing for the Aging Board of Trustees, Citation Award, 1998
- Christian Coalition, Friend of the Family Award, 1998
- National Family Partnership, 1998 Kiki Camarena Award
- Mid-American Multicultural Travel and Tourism Network, Beacon of Freedom Special Legislator of the Year, September 17, 1998
- Boston University School of Public Health Join Together Certificate of Appreciation for leadership in promoting interdisciplinary collaborations to create safe and health communities, 1997
- Community Anti-Drug Coalitions of America, Congressional Leadership Award, 1997
- National Association of Enrolled Agents, Tax Legislator of the Year, 1997
- Community Anti-Drug Coalition of America, Congressional Leadership Award, 1996
- Pride, Special Achievement Award, 1996
- S Corporation Association Crusader of the Year Award, 1996
- Young Republicans, Award of Special Recognition, March 31, 1995
- National Association of Counties, Legislator of the Year Award, March 5, 1995
- U.S. Chamber of Commerce, Spirit of Enterprise Award, 1993–2002
- Citizens Against Government Waste, in appreciation of dedication to taxpayers of America, March 15, 1994

- Free Congress Foundation, Sound Dollar Award, 1994
- SBSC Small Business Advocate, 1994–2004
- Associated Builders and Contractors, Award, 103rd–106th Congresses
- Citizens for a Sound Economy, Jefferson Award, 103rd Congress
- Watchdogs of the Treasury, Inc., 103rd–106th Congresses
- National Association of Government Defined Contribution Administrators, Award of Appreciation
- National League of Cities Award
- National Society of Accountants, Champion of Small Business
- Young President's Organization, Sharing of Knowledge Award

15. Published writings:

Wisdom's Paradise: The Forgotten Shakers of Union Village (with Cheryl Bauer) Orange Frazer Press, December 31, 2004, 296 pages, ISBN 1882203402

16. Speeches:

17. Selection:

(a) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

House Member, 1994–2005
Member, Ways & Means Committee
Member, then Vice-Chairman, House Budget Committee
Previous White House experience as Associate Counsel to the President 1998 and Director, White House Office of Legislative Affairs 1989–1991

(b) Were there any conditions, expressed or implied, attached to your nomination? If so, please explain.

No.

(c) Have you made any commitment(s) with respect to the policies and principles you will attempt to implement in the position for which you have been nominated? If so please identify such commitments and all persons to whom such commitments have been made.

No.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes, other than the limited partnerships and LLC interests I have listed in question 11 of this Questionnaire and in my SF–278 report.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, please explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service? If so, please identify such person(s) and commitment(s) and explain.

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, please explain.

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain.

None to my knowledge.

2. Identify and describe all investments, obligations, liabilities, business relationships, dealings, financial transactions, and other financial relationships which you currently have or have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None to my knowledge.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy other than while in a federal government capacity.

None to my knowledge.

4. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the Office of Management and Budget and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

5. Explain how you will resolve potential conflicts of interest, including any disclosed by your response to the above questions.

I am not aware of any financial holdings or personal relationships that would create a conflict of interest. Should I ever become aware of any potential conflict of interest, I will notify the Designated Agency Ethics Official to seek appropriate advice.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

None to my knowledge.

2. To your knowledge, have you ever been investigated, arrested, charged or convicted (including pleas of guilty or nolo contendre) by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

None to my knowledge.

3. Have you or any business of which you are or were an officer, director or owner ever been involved as a party of interest in any administrative agency proceeding or civil litigation? If so, provide details.

None to my knowledge.

4. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with our nomination.

None to my knowledge.

E. TESTIFYING BEFORE CONGRESS

1. If confirmed, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

Yes.

2. If confirmed, are you willing to provide such information as may be requested by any committee of the Congress?

Yes, all appropriate information.

F. FINANCIAL DATA

All information requested under this heading must be provided for yourself, your spouse, and your dependents. (This information will not be published in the record of the hearing on your nomination, but it will be retained in the Committee's files and will be available for public inspection.)

AFFIDAVIT

Robert J. Portman being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

Robert J. Portman

Subscribed and sworn before me this 8th day of May, 2006

Notary Public
Commission expires 1/31/2008

ADDITIONAL STATEMENTS

Statement of Michael B. Enzi

Senate Budget Committee Hearing:
Nomination of Robert J. Portman to be Director of the Office of Management and Budget
May 11, 2006

I would like to thank Ambassador Rob Portman for testifying before the Senate Budget Committee today. Ambassador Portman, I was pleased to learn that President Bush nominated you to succeed Josh Bolten as the Director of the Office of Management and Budget.

If confirmed, and I hope that you will be confirmed, you will have a very interesting and critical job as Director of OMB. As the head of OMB, you will take the lead and act as the President's point person for his annual budget. As you will soon learn, every year I look forward to reading the President's budget. This important annual document serves as a fiscal blueprint for our nation. However, I always encourage my colleagues and constituents to take a step back and recall that the President's proposal is only the first step in a long budget process.

Ambassador Portman, you bring an impressive resume to the OMB. From your current post as the United States Trade Representative to your time in the United States House of Representatives, you have plenty of experience working with people who have differing views. You will need those skills over at OMB. Developing the President's budget is no easy task. However, I hope that you will continue to work with Congress on ensuring that our nation adopts sound fiscal policies that control spending and reduce the deficit.

I hope that you will have a quick confirmation process and I look forward to working with you in the future. Thank you again for taking the time to testify before the Senate Budget Committee today.

Michael B. Enzi

APPENDIX

Questions From Senator Conrad
for Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. Do you believe deficits matter? Why or why not? If yes, how specifically do you think deficits impact the economy? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- Yes, I believe deficits matter.
- In simple terms, a deficit is an imbalance between revenue and spending. Efforts to match those two sides of the budgetary equation demonstrate that the Federal government is committed to living within its means.
- From an economic perspective, what is important about deficits is that they must be financed by borrowing, which reduce national savings and create obligations on future taxpayers.
- Running a deficit can be appropriate during times of economic slowdown or national emergency. However, persistent and large deficits are cause for concern. Today's deficits are within historical range in relation to the economy. (I do believe the most appropriate way to measure the deficit is its relationship to our GDP.) However, in my view the deficit is too high and there is a special urgency about reducing it, especially given the pending retirement of the baby boom generation and the pressure on entitlement spending. We can reduce it steadily over time through economic growth and spending restraint on domestic discretionary spending. However, if we don't solve our entitlement problems, in the longer term excessive growth in mandatory spending will push deficits out of control and threaten the economy.

2. CBO, JCT, former Federal Reserve Chairman Greenspan, current Federal Reserve Chairman Bernanke, and the vast majority of academic and business economists believe that tax cuts reduce revenues relative to what otherwise would have occurred. Do you agree with them? If no, why not? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- As a general matter, most tax cuts do not pay for themselves. However, lower taxes can clearly have positive effects on the economy. The extent to which these effects reduce the net revenue impact of a given tax cut depends on the timing and design of the tax cut in question.

- I believe the President's 2001 and 2003 tax cuts were exceptionally well-timed, and well-designed, to bring an economy out of recession and to strengthen the recovery once it began to take place.

- We see the results of those policies in the strong economic and job growth now in progress, and in the healthy increases in receipts in the last several years. With the tax cuts in place, revenues were up 14.5 percent last year.

3. Are you satisfied with the President's goal of cutting a projected, record $521 billion deficit in half by 2009? Given that the budget had been in surplus for several years when the President took office in 2001, isn't a deficit of $260 billion unacceptable eight years later? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

Today's deficits must be viewed in the context of the major challenges the President and the Nation faced going back to 2000. The stock market bubble burst in 2000 and we saw three consecutive years of declining revenue in 2001-2003. In addition to a collapsing stock market, the President assumed office in 2001 as the country was entering a recession. Nine months later the country was struck with the terrorist attacks on September 11th. The President responded boldly to all these challenges, gaining enactment of tax relief to strengthen the economy, tripling funding for homeland security activities, and pursuing the global war on terror. This past year, when Hurricane Katrina struck it represented the worst and most costly natural disaster in the Nation's history.

The President has set out a goal to cut the deficit in half. If this goal is achieved, it would also result in a lower deficit (in terms of the deficit to GDP ratio) than in 18 of the past 25 years. We can achieve this goal if we pursue pro-growth policies, such as the extension of tax relief, and spending restraint. We should continue to strive to reduce deficits after 2009 and a balanced budget is a laudable goal. But it is important to remember that as the baby-boom generation begins to retire and becomes eligible for Social Security and Medicare it will cause a surge in mandatory spending. If we do not take action to reform these programs to slow their growth, federal spending will rise to unprecedented levels and threaten the Nation's future prosperity. The President made clear that we do not need to cut these programs, but we do need to adopt common-sense reforms to slow their growth to sustainable levels.

4. What specific policies would you recommend to the President to reduce or eliminate the deficit? By what fiscal year do you think the budget could reasonably return to a surplus? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- First, I believe The Administration and Congress must stay focused on those policies, including tax policies, trade policies, regulatory policies, and spending policies, that will provide the strongest possible non-inflationary economic growth. A stronger economy means stronger revenue growth, which, when combined with spending restraint, will steadily reduce budget deficits.

- Second, I believe that spending restraint is critical to maintaining a responsible and affordable Government. While focusing resources on meeting the unavoidable costs arising from the September 11th attacks, the Global War on Terror, and the impact of Hurricane Katrina, the Administration has also sought to reduce or eliminate funding for ineffective, duplicative, or low priority programs. Last year the Congress acted on 89 of the President's 154 termination and reduction proposals, and I hope to build on this success in the future.

- The President has set a goal to cut the deficit in half by 2009. I believe that is an appropriate and achievable goal.

- Beyond 2009, I hope that with continued economic growth and spending restraint we can work toward a balanced budget.

- However, The Administration and Congerss will not be able to hold deficits to sustainable levels unless we address the fiscal challenges of our entitlement programs. Without entitlement reform, no reasonable tax increase or cut in discretionary spending will cover the growing budgetary imbalance.

5. How much of the deficit do you believe can be eliminated by constraining non-defense, non-homeland security discretionary spending? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- It is my understanding that in the last year of the Clinton Administration, non-defense, non-homeland security discretionary spending was allowed to grow by nearly 15 percent. If this growth in spending had been allowed to continue unchecked during the last five years, an additional $520 billion could have been added to the deficit.

- Instead, the rate of growth in non-defense, non-homeland security discretionary spending has decreased in every year of the Bush Administration. Last year, Congress delivered appropriations bills that outright cut spending on non-security discretionary programs.

- The Congress achieved this spending discipline by reducing funding for programs that were not getting results or were not fulfilling essential priorities. The Administration consistently proposes savings in low priority programs and programs where there is not a clear Federal role, and through striving for greater performance of Federal programs at a lower cost.

- I do believe it will be very difficult, under current economic growth assumptions, to eliminate the deficit simply by constraining non-defense, non-homeland security discretionary spending. That is why this Administration has also embraced proposals to control mandatory spending and called for long-term entitlement reforms.

6. At what point, if ever, do you believe that higher deficits and debt lead to higher long-term interest rates? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- A situation of chronic, increasing deficits would likely result in higher interest rates at some point, because those higher rates would be required in order to attract investors to supply the capital necessary to finance the Government's excess spending.

- But, as we have seen, the relationship is complex and depends on broad factors in U.S. and international financial markets that policy makers and analysts are still trying to better understand.

- It's not clear how high deficits would need to rise before interest rates began to rise noticeably. Today's deficits in relation to the economy are within historical range, and long-term interest rates, which should be the most sensitive to the Government's fiscal outlook, are remarkably low. We would need to go back to the 1960s to find a period when the 10-year Treasury rate was as low as it is today on a sustained basis.

- Even so, today's deficits are too large and we need to reduce them as the President has proposed by pursuing pro-growth policies and spending restraint.

7. Do you believe that the system of PAYGO and caps on discretionary spending that was created in the 1990s is a good mechanism for dealing with the current deficits and debt? Do you believe that deficits can be eliminated without budget enforcement mechanisms such as PAYGO and caps on discretionary spending? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- I support caps on discretionary spending and I support bringing greater discipline to mandatory spending growth. We should look to the Budget Enforcement Act of 1990 for tools to limit spending and spending growth. They did prove to be effective in slowing spending in the 1990s.

- The President's Budget includes a number of budget reform proposals to slow the growth in spending.

- I do not support the extension of pay-as-you-go that applies to tax legislation or allows revenue increases to offset mandatory spending increases, because I fear this proposal could be used to block the extension of the President's tax relief program and encourage other tax increases. However, I do support the use of pay-as-you-go procedures for new mandatory spending.

- While I think we probably can reduce deficits without enactment of budget reforms, if confirmed, I'm eager to work with Congress to adopt budget reforms to limit discretionary spending and to slow the growth in mandatory spending.

8. Do you believe that the budget and accompanying projections should reflect the best estimate of the costs of ongoing military operations in Iraq, Afghanistan, and the Global War on Terror? If troops are likely to remain in Iraq and Afghanistan for several years, shouldn't the budget include estimates of these costs? If the concern is with building war costs into the regular defense budget, can't the administration reflect these costs separately in a general allowances function rather than in the defense function? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

My understanding is that the President's Budget fully reflects the cost of the war for FY 2006. The $50 billion "Bridge Fund" already enacted by the Congress is included, as are allowances for 2006 supplementals for the Global War on Terror and Katrina recovery. These were requested in mid-February.

Following Congress' lead, the President's Budget also includes a $50 billion allowance for the next fiscal year, FY 2007, and acknowledges that additional resources will be needed. The Budget does not include resources beyond FY 2007 for two reasons.

First, it is impossible to predict the precise situation on the ground in Afghanistan and Iraq one to two years in advance. There is a risk that attempting to estimate levels more than one year in advance will produce levels that are either too high or too low.

Second, there is a risk that these allowances would migrate to DOD's base budget and it would be extremely difficult to extract these resources from DOD's budget as the pace of operations in Afghanistan and Iraq decline. In addition, Congress frequently shifts funds from defense to other programs and may cut such an allowance to justify higher spending on other programs.

9. Do you believe that farmers and ranchers who suffer severe economic damage from weather-related disasters should receive emergency assistance from the federal government? How do you distinguish support for recovery from hurricanes from support for recovery for farmers and ranchers from drought and/or excessive rainfall? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- I believe our existing farm policies, when coupled with crop insurance, provide a strong safety net for our farmers.

- According to Secretary Johanns, our existing farm policies are adequate to protect against a wide range of disaster losses. The 2002 Farm Bill, in combination with crop insurance, was designed to eliminate the need for ad-hoc disaster assistance.

- Despite the hurricane and other weather-related problems, crop losses in 2005 were very low. In fact, crop insurance payments for the 2005 crop are expected to be a near record low. Most crops experienced near record production and cash receipts were the second highest ever in calendar year 2005.

10. The IRS estimates that the tax gap -- the difference between the taxes owed and the taxes collected each year -- is about $350 billion. Do you believe the administration and Congress should aggressively address the tax gap? If so, what specific measures do you think should be put in place to reduce the tax gap? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- Yes. I believe reducing the tax gap is important to increase revenue and to improve the fairness of the tax system. Fundamental tax reform could reduce the tax gap by making the system simpler, fairer and easier to enforce.

- We need a multifaceted approach to reducing the tax gap. The Administration has proposed a number of useful strategies.

  - The 2007 Budget maintains the tax enforcement spending increase first provided in 2006 by targeting additional resources for tax enforcement.

  - The Budget also proposes carefully targeted tax law changes to improve compliance with a minimum burden on taxpayers.
  - The Budget proposes continued investments in IRS technology to give IRS staff the tools they need to improve their effectiveness in closing the tax gap.

11. The President's budget and supporting documents customarily have included details for all years covered by the budget. The 2006 and 2007 budgets, however, failed to provide any discretionary account-level policy detail for years after the budget year. This lack of discretionary spending data denies both Congress and the American public the information needed to fully assess the President's budget policies, particularly his proposal to reduce the growth in overall domestic discretionary spending. As OMB Director, will you commit to reverse this decision and again make available to the public the multi-year discretionary policy detail? If not, why? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- Because the appropriations process is on an annual basis, the President's budget for domestic discretionary programs reflects policy decisions only for the budget year.
- Except for a handful of accounts, no account-by-account policy decisions are made for the outyears and the Administration has not published this level of detail because it does not represent the President's policies.
- It is my understanding that some have distorted the President's Budget to claim cuts in programs in the outyears that he has never proposed.

12. The level of foreign holdings of U.S. debt has more than doubled over the past five years and now exceeds $2 trillion. Do you view this increase in foreign-held debt to be a problem for the United States? Why or why not? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- Foreigners, both individuals and governments, are buying U.S. financial instruments first and foremost because they believe the U.S. is a good place to invest – we have a stable political system, stable inflation, relatively low tax rates and relatively strong growth prospects. We need to continue pursuing policies to assure that taxes remain low, inflation remains stable, and the economy remains strong.

- Acquisitions of U.S. assets by foreign investors represent the confidence that foreigners have in the Federal government and the ability of the U.S. economy to continue to outperform most of its major trading partners.

- We need to ensure that U.S. debt is at sustainable levels and we need to pursue policies that encourage greater savings in the United States.

13. The Congress is expected to consider the President's line item veto proposal this summer. Can you provide the Committee with a sense of the kinds of new items of spending or revenues you would recommend to the President that he propose the Congress rescind under an expedited process? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- To be clear, the President's proposal is prospective only. Current spending is not subject to the new line item veto authority. Therefore, it is hard to specifically identify spending or revenue provisions that will be proposed for rescission in the future.

- I do think it is an important tool to reduce spending by eliminating funding for unjustified and wasteful earmarks and programs.

14. The President's line item veto legislation proposes vastly different treatment of tax benefits as opposed to new spending. What is the rationale for allowing spending to be cancelled no matter how many people the spending benefits, but allowing tax breaks to be cancelled only if they benefit 100 or fewer people? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- It is my understanding that the President's proposal defines a "targeted tax benefit" using the definition enacted into law with the Line Item Veto Act of 1996. That definition was developed on a bipartisan basis in 1996.

- The Administration recognizes that tax bills can contain unjustified benefits and believes the President's authority should apply to these very narrow special interest tax provisions.

- If confirmed, I would work with Congress to look at this definition as long as it remains focused on special interest tax provisions affecting a relatively few taxpayers.

15. With regard to items of direct spending, this Administration's line-item veto proposal would allow the President to propose rescinding an item of direct spending "in whole or in part" This would seem to grant the President substantial powers, not just to eliminate parts of entitlement legislation but to rewrite them. Similarly, the "definitions" section of S. 2381 in paragraph (g)(4) defines the terms "rescind" or "rescission" as "to modify or repeal a provision of law". Wouldn't this provision allow the President to go beyond proposing to strike a provision but also allow him to propose rewriting or redrafting legislation sent to him by Congress? For instance, couldn't the President use the authority to propose modifying a formula or to redefine who is eligible to receive a new entitlement? Doesn't this represent an extraordinary expansion of the powers granted to the President? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- I believe this question was raised during the Committee's recent hearing on the President's Line Item Veto hearing and Acting Deputy Director Smythe provided an answer.

- My understanding is that it is not the Administration's intent to seek broad authority to reshape entitlement programs. Any benefits existing under law prior to passage of the new law could not be affected.

- It is also my understanding that the Administration would interpret this authority narrowly in such a manner where the President could only recommend to either reduce or eliminate new direct spending. This corresponds with the authority granted for reducing or eliminating discretionary spending.

- If confirmed, I would be happy to work with the Committee, if you feel it is necessary, to modify the language to ensure this authority applies narrowly to reduce or eliminate new direct spending provided in new legislation.

16. OMB and CBO both develop baselines to assess the current condition of the budget under existing laws and policies and to judge the impact of proposals to change those laws and policies. Do you believe these baselines are useful and reliable? How many years do you think a baseline should cover? Are there any changes you would recommend making to the rules guiding how OMB and CBO develop baselines? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- Baselines may be useful in providing a neutral yard stick against which to judge budget policies. I think the most useful baseline is one which reflects a "steady state" of outlays and receipts and does not repeat funding enacted in response to extraordinary needs, such as September 11 and Hurricane Katrina, or assume the expiration of major provisions of the tax code that were designed to be permanent in nature.

- The baseline estimates are as reliable as the estimates in the budget itself. Much of the budget is sensitive to economic factors, which are difficult to predict with exact precision. Technical factors, such as the demand for medical services and the rate at which states draw down certain grants, also affect the accuracy of budget estimates. Because the deficit is the difference between two much larger numbers, relatively small errors in the projections of receipts and outlays can result in relatively large changes in the estimate of the deficit. The likelihood of errors in the economic and technical assumption underlying budget estimates increases the further out you go. Therefore I think it makes sense to limit the budget and baseline projections to five years.

17. The President proposes to change the baseline rules to require CBO to ignore the sunset dates included in the 2001 and 2003 tax cut bills and to instead assume those tax cuts are permanent for baseline purposes. Isn't it true that CBO and OMB took those sunsets into consideration when originally scoring the cost of those tax cuts? Wouldn't extending the two tax cuts in the baseline result in Congressional scoring *understating* the actual impact of the tax cuts on the budget? Shouldn't it be the policy of OMB to ensure that the budgetary process fully captures the cost of all proposals? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- My understanding is that the President had proposed that the 2001 and 2003 tax cuts be permanent. Because of the Senate's Byrd rule, the tax cuts were sunset.

- Extending these provisions in the baseline provides a more accurate view of the government's fiscal position, very much in line with the baseline rules that require extension of major spending programs that expire during the projection period.

18. The Board of Trustees of the Medicare trust funds recently released the 2006 annual report. In that report, they project that general revenue financing for Medicare will exceed 45 percent in 2012. As a result, they have issued their first Aexcessive general revenue Medicare funding@ determination in this report. If a Medicare funding warning is issued under your watch, what criteria will you use to determine what steps should be taken to address this funding warning? Will you only consider cutting Medicare spending in order to bring the program's general-revenue financing under 45 percent? Do you believe that across-the-board spending cuts in Medicare are an appropriate and effective way to contain the program's costs? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

- I understand that the purpose of this warning is to encourage the Congress and the President to address Medicare's long-term solvency. But, regardless of whether the Trustees issue a warning next year, action is necessary to address Medicare's financing shortfalls.

- The 2006 Trustees' Report takes the first step toward issuing a warning. Making Medicare sustainable for the long-term will require a sustained and comprehensive effort. The 2007 President's Budget includes initial reform that would slow Medicare's rate of growth. These policies would be a good start towards addressing Medicare's long-term finances.

- The 45 percent trigger threshold is set in law by the Medicare Modernization Act. This is an arbitrary threshold. A large portion of Medicare is general revenue financed, as required by law. Reducing the portion of Medicare that is financed by general revenue to 45 percent of the next 75 years would require deep reductions in Medicare spending. For example, the policies proposed in the FY 2007 Budget would reduce the long-term gap by about $5.5 trillion, and eighty percent of these savings are attributable to the proposal to require automatic across-the-board cuts after the trigger has been exceeded.

- If confirmed, I look forward to reviewing options and working with Congress to address the critical fiscal issues posed by Medicare.

19. Recently, the annual reports of the Social Security and Medicare Boards of Trustees have included measurements of the unfunded liabilities of the Medicare and Social Security programs over an Ainfinite horizon@. Many analysts believe these Ainfinite horizon@ calculations are speculative and provide little, if any, useful information about the long-range financial outlook for these programs. Do you believe that these Ainfinite horizon@ calculations provide the most accurate, informative picture of the long-term funding challenges facing the Social Security and Medicare programs? As Congress and the Administration work together to strengthen the Social Security and Medicare programs, do you believe that our goal should be to close the funding gap over the infinite horizon? Should such calculations be used for other policy analyses, such as projecting the long-term costs of tax cuts? (*Senator Conrad, Senate Budget Committee, Minority*).

Answer:

Programs like Social Security and Medicare are intended to continue indefinitely, and so long-range projections for Social Security and Medicare have been prepared for decades. The 75 year estimate is an important measurement and should be maintained. However, limiting all calculations to 75 years understates the deficiencies, because the actuarial calculations omit the large deficits that continue to occur beyond the 75th year. Even though values in the distant future are discounted by a large amount, this understatement is significant. For example, adding one additional year to the Social Security 75 year estimate widens the imbalance from $6.4 trillion to $6.5 trillion. Over the infinite horizon, Medicare's imbalance is $70.5 trillion compared to $32.1 trillion for 75 years. The Administration does publish long-term analyses of spending and outlay levels that show the burden of spending and revenue over a 75-year horizon. These projections show (assuming the full extension of the President's tax relief program) that the Federal tax burden grows to its 40-year historical average and spending rises to unsustainable levels because of the long-term problem associated with entitlement programs as currently structured.

Question From Senator Sarbanes
For Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. Let me ask you this question: do you recall any previous instance in which, in time of war, we cut taxes?

Answer:

- My understanding is that taxes have been reduced in time of war.

- During the Vietnam War, Congress enacted the Revenue Act of 1971, which increased personal exemption and standard deduction amounts, repealed an automobile excise tax, and cut other taxes to address the 1969-70 recession.

- Perhaps a somewhat similar situation to the current War on Terror is the Cold War period, in which taxes were reduced in 1981 during the Reagan Administration.

- The tax reductions enacted under this Administration have been critical in first limiting the severity of the 2001 recession and then in providing strength to the subsequent recovery. Since enactment of the Jobs and Growth Tax Relief Reconciliation Act in May of 2003, building on prior tax relief in 2001 and 2002, private sector jobs have grown steadily, with a cumulative increase of 5.2 million through April 2006. The resulting strong economic growth generated an increase of 14.5 percent in receipts in fiscal year 2005, and receipts to date in fiscal year 2006 are up more than 11 percent over the same period in the prior year.

Question from Senator Murray
For Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. OSHA and EPA have been working really hard to implement some workplace safety and indoor air quality standards to reduce the exposure to asbestos, and their efforts have been hindered so far by OMB. They are trying to deal with this very serious public health threat, and I would like you to get back to me if you could, if you could look into this issue and let me know what is holding up the publication of the OSHA fact sheet at EPA? I understand that is being held up at OMB. It is a critical health issue in this country and I want to find out if you can provide me with information on when EPA will be sending their brake mechanic guidance around for review. So if you and your staff could get back to us on that, I would really appreciate it. It's a serious health issue in this country.

Answer:

- It is my understanding that, in 2003, in response to an Information Quality Act correction request, the Environmental Protection Agency (EPA) committed to updating its "Guidance for Preventing Asbestos Disease Among Auto Mechanics," which is also known as the "Gold Book." EPA also committed to engaging the public in the process.
- If confirmed, I will look into this matter and will work with EPA, and OSHA, to find out when they plan to release a draft for review.

2. Ambassador Portman, when we met previously, I spoke to you about the importance of the Vit Plant out at the Hanford Site in my home State.

I've been working on Hanford for 13 years, and I've worked with many different OMB directors and Energy secretaries. At times, I've had to explain to them the history of this project and the legal obligations that the Federal Government has under the Tri-Party agreement.

As you know, this is the Department of Energy's largest construction project, and it's a priority for me.

Last year, under the previous director, OMB offered the Vit Plant as an offset to fund a supplemental package. That proposal ignored the spending plan for Hanford and complicated my efforts to fund the clean up.

If enacted, it would have delayed the cleanup and threatened families in the Tri-Cities as that radioactive plume moves toward the Columbia River.

Fortunately, in the end, I was able to intervene and prevent that outcome.

This is a complex project, and the funding schedule called for a build-up of fund for anticipated peak years of construction. That money wasn't really available, but someone at OMB either didn't know that or didn't care to ask.

To prevent a repeat of last year's mistake, I'd like to make a personal request of you.

If you see—somewhere in your agency—a proposal to rescind funding for Hanford, will you reach out to me so that I can make sure you understand the implications of any proposed recession?

Will you offer me that courtesy?

I have dedicated myself to the clean up of Hanford, and I hope that OMB will work with me in that effort.

Answer

I enjoyed the chance to talk to you about the issues at the Hanford site, and appreciate your dedication to the clean up. I will work with you to ensure that the Hanford site is cleaned up in a cost-effective manner that protects the public and the environment. As I hear of the Hanford site issues, I will certainly have in mind you and your special interest in the site.

3. Ambassador Portman, as you know, last year it was announced that the VA faced a nearly $3 billion shortfall.

I worked with my colleagues to provide emergency funding to cover this shortfall, but it has been made clear by the VA, GAO and others that much of this shortfall was due to the fact that the VA did not base its budget on the real demands it faces, and did not adequately take into account programmatic efforts within the VA.

I believe much of that was due—in part—to pressure from OMB for the VA to do "more and more" with "less and less" funding.

In the end, our veterans are the victims. As you know for every service member killed in Iraq, we have 1,000 returning home wounded.

Recent reports indicate that over one-third of all those who return are in need of mental health services. I am very worried that when these veterans turn to the VA in need, the VA won't be able to help them.

What can we expect from you when it comes to making the VA budget based on real numbers and real expectations?

Answer:

I understand that VA and OMB jointly developed the FY 2007 budget and worked to improve projection models. Together, both organizations are also closely monitoring performance and workload to ensure that veterans' needs are covered.

The 2007 Budget proposed $34.3 billion for medical care—an 11.3 percent increase over the 2006 enacted level and over 69 percent more than the budget in effect when President Bush took office.

If confirmed, I will work to ensure that these efforts continue and that the appropriate resources are requested to meet our veterans' physical and mental health care needs.

4. As you may know, I've been working for the past 5 years to ban the production and importation of asbestos into the US. It has been a frustrating and difficult challenge.

As we are looking at billions of dollars in Federal liability to bail out the asbestos industry, we have done little to actually ban the use of asbestos.

It is my understanding that OSHA and EPA have been working to implement workplace safety and indoor air quality standards to reduce the expousre to asbestos, but these efforts have been hindered by OMB.

OSHA and EPA are trying to address the serious public health threat, and OMB is killing these efforts.

Will you look into this issue and let me know what is holding up the publication of the OSHA fact sheet at EPA?

Will you also provide me with information on when EPA will be sending their brake mechanic guidance around for review by OSHA, NIOSH and other government agencies?

And, finally when will EPA's new version of their brake mechanic guidance be released for public comment?

I urge you to do whatever you can to move OMB on these efforts. Every day that OMB delays progress is another day that workers are exposed to deadly asbestos.

Answer:

It is my understanding that, in 2003, in response to an Information Quality Act correction request, the Environmental Protection Agency (EPA) committed to updating its "Guidance for Preventing Asbestos Disease Among Auto Mechanics," which is also known as the "Gold Book." EPA also committed to engaging the public in the process.

If confirmed, I will look into this matter and will work with EPA, and OSHA, to find out when they plan to release their respective drafts for review.

Question From Senator Wyden
For Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. Senator Snowe and I have been trying to get bargaining power into the Medicare prescription drug benefit. We got 54 votes on the Senate floor the last time we brought this up on the budget resolution. The Congressional Budget Office sent me a letter in 2004 stating that there could be savings for single source drugs for which there are not alternatives. Don't you think that since the American taxpayer is paying 75 percent of the drug benefit before the doughnut hole and 95 % after the doughnut hole, we should be looking for every single penny that we can save and end the prohibition on the Secretary being able to negotiate?

Answer:

- As you know, the Medicare Modernization Act takes a different approach. It relies on private-sector competition, not government regulation, to moderate drug spending. The theory is that a competitive system is the best way to offer affordable drug coverage to Medicare beneficiaries.

- I believe that we need to give this important new program a chance to work before the Congress begins contemplating changes.

- My understanding is that the Congressional Budget Office believes competition will reduce costs and does not believe that giving the Secretary this authority would result in any meaningful reduction in drug prices.

- I have also been advised that the Administration's estimate of the ten-year costs of the drug benefit has decreased 20 percent since last summer and that much of these savings are attributed to competition in the prescription drug marketplace. I believe that we should allow this competition to continue working.

2. Ambassador Portman, at a time of high energy prices, why is the Bush Administration proposing rate increases for the Northwest? If you are not already aware I'm sure you will soon learn that OMB's budget proposal this year included an assumption of $924 million in revenue over 10 years to come from secondary power sales of the Bonneville Power Administration. Those secondary sales are now used to help hold down rates for Bonneville's customers.

3. In response to the Administration's proposal, Northwest Senators, on a bi-partisan basis, have been forced to add language to the supplemental appropriations bill to stop this effort to raise electricity rates for Northwest consumers by up to $1 billion. At a time when the Republican leadership in Congress and the President are jawboning the oil companies about high energy prices, how does this Administration justify raising energy prices in the Pacific Northwest to fund general spending by the federal government? Is it more than a little inconsistent for the Administration to propose raising energy rates for Northwest energy consumers at the same time you're complaining about high oil and gas prices for the driving public?

Answer (to 2 and 3):

It is my understanding that early payments on BPA's debt are intended to benefit Pacific Northwest ratepayers over the long term by making more borrowing room available to BPA and by reducing BPA's debt service costs. If confirmed, I look forward to working with you on this issue.

4. Ambassador Portman, isn't the Bush Administration reneging on agreements with the Northwest? Contrary to statements in the Administration's budget, Bonneville is not subsidized by the US Taxpayers. To the contrary, the costs of BPA power are all borne by Northwest ratepayers. The Northwest taxpayers are currently repaying all costs of the Federal hydropower system attributable to electric power production with interest. In fact, Bonneville even made an additional $100 million payment to the Treasury as part of the Omnibus Appropriations Act of 1996 to satisfy in full Bonneville's outstanding obligations to the Federal government for the costs of the Federal hydropower system. Given that the US government accepted Bonneville's payment to the Treasury in 1996 as a settlement in full, how can this Administration come back to Bonneville than $2.5 billion more than was agreed to 10 years ago? Doesn't this Administration believe it is important to honor the Federal Government's commitments, especially one embodied in law as is the case here?

Answer:

It is my understanding that the Bush Administration is not reneging on agreements to the Pacific Northwest and that the Administration is working with the Senate Pacific Northwest delegation on these issues. If confirmed, I look forward to working with Senator Wyden and others in the Pacific Northwest on this issue.

5. Ambassador Portman, do you think last year's sweetheart deals on oil royalties a good idea? About nine months ago, on August 8, 2005, President Bush signed into law an Energy Bill that expanded the Interior Department's "royalty relief" program. It also included embellishments like extra breaks on royalties for companies drilling in the deepest waters. At that time, consumers were already facing record high gas prices and oil companies were reporting record profits. Do you think it was in the public interest for Congress and the President to sweeten the royalty relief program with additional breaks when oil companies were making record profits and consumers were paying record prices?

6. Ambassador Portman, will you oppose more sweetheart deals in the future? Former Interior Secretary Gale Norton also used her authority to offer sweeteners to oil and gas drillers under the Department's royalty program. Starting in 2001, she offered royalty incentives to shallow-water producers who drilled more than 15,000 feet below the sea bottom. And in 2004, Ms. Norton made the incentives far more generous by raising the threshold prices. According to news reports, her decision meant that deep-gas drillers were able to escape royalties in 2005, when prices spiked to record levels, and would probably escape them again this year. If you're confirmed as Director of OMB, what will you do prevent any more sweeteners to oil and gas companies under the royalty program, such as those Secretary Norton provided in the last few years? Will you commit to use your position to require energy companies to pay royalties in full on all oil and gas they extract from Federal lands in the future?

7. Ambassador Portman, what do you plan to do to stop further revenue losses from royalty relief? The Government Accountability Office (GAO) estimates that royalty incentives for drilling in the Gulf of Mexico will cost the Federal government at least $20 billion over the next 25 years. They also warn that as much as $80 billion in revenues could be lost over this period if drillers win their lawsuit seeking reduction in their royalties. What will you do to prevent these losses of tens of billions of dollars in revenue to the Federal Treasury and the taxpayers?

Answer (to 5, 6 and 7):

My understanding is that this royalty relief was enacted and implemented during the previous administration. I also understand that it only includes a portion of Federal offshore production. This relief was originally put in place by Congress in order to spur new production in "frontier areas" in the deep waters of the Gulf of Mexico.

Of those areas where royalty relief has been provided, this relief has generally been subject to price caps, most of which have now been exceeded. So for most of those leases, royalty relief has already been suspended.

My understanding is that OMB is reviewing the issues raised by GAO. If confirmed, I look forward to working with your Committee and others on this important issue.

8. Ambassador Portman, budgets are about priorities. Instead of making tax reform a top priority, the Bush Administration has made extending the President's tax cuts the top tax priority. The lower rates on capital gains and dividends don't expire until 2008. By making extension of these tax cuts a higher priority than tax reform, isn't the Bush Administration essentially saying that tax simplification is a low priority for this Administration, even lower than continuing policies that are set in law until 2008? Aren't you saying that tax reform can wait until years in the future while our citizens have to go through bureaucratic water torture?

Answer:

- My understanding is that a key priority for this Administration is making permanent the tax cuts that have played such an important role in restoring our economy to rapid economic growth, strong job growth, and low unemployment. I believe this is especially important in the case of the tax relief you mention (capital gains and dividends) because more certainty as to those rates will spur more investment and economic growth.

- I place a very high priority on tax reform and I do not think the two should be mutually exclusive.

9. Ambassador Portman, shouldn't saving taxpayers' time and money and saving the government money be a top priority? At a Senate Finance Committee hearing last month, I asked the National Taxpayer Advocate and an expert from the Government Accountability Office about the savings to taxpayers from tax reform. They agreed that a simplified system like what I proposed in my Fair Flat Tax Act could save taxpayers billions of dollars and hundreds of millions of hours of time. What's more they said that simplification would also save the IRS and, in turn, the taxpayers millions of dollars more. This is a potential win/win/win for our citizens. Don't you think this is something that the Administration should be pushing for in its budget proposals instead of dragging its feet on?

Answer:

- I agree with you. The Federal income tax system imposes significant compliance costs on taxpayers, and significant administrative costs on the Internal Revenue Service. Certainly, an important objective of tax reform would be to simplify the tax system and thereby reduce these costs.

- I believe that this Administration takes tax reform very seriously. The President has called for tax reform and appointed a Tax Reform Panel that made its recommendations to the Treasury Department.

10. Ambassador Portman, aren't the problems of complexity and tax compliance costs getting worse during the Bush Administration? According to a recent study by the Tax Foundation, the cost of tax compliance ranged from 14-16 cents per dollar of tax collected during the 1990's. But, in 2002, the cost of compliance soared up to almost 22 cents per dollar collected and it has stayed between 22 and 24 cent per dollar collected in the past three years. The cost per dollars of tax collected is about 50 percent higher now than it was 10 years ago. Doesn't the increasing cost of tax compliance in the past several years compared to the prior decade show that the problem is getting worse during the Bush Administration?

Answer:

- While I am not familiar with the Tax Foundation's recent study, it is clear that the Federal income tax system imposes significant compliance costs on taxpayers, and significant administrative costs on the Internal Revenue Service. Certainly, an important objective of tax reform would be to simplify the tax system and thereby reduce these costs.

- Under the Paperwork Reduction Act, OMB works with the IRS and other agencies to minimize tax compliance costs inherent in the burden of tax information collection and to maximize the utility of the information collected.

- If confirmed, I look forward to working with the Congress to enact tax reform and with the IRS to reduce the compliance burden to be as small as possible.

Question From Senator Johnson
For Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. Last year, I introduced the Assured Funding for Veterans Health Care Act (S.331). This bill would ensure that veterans receive adequate health care by making funding for VA medical care mandatory rather than discretionary. This legislation has been endorsed by all of the leading veterans' organizations. Do you support this legislation? If not, please explain why.

Answer:

I am not familiar with the specifics of this proposal regarding veterans health care. If confirmed, I look forward to working with you and the Committee on this issue.

2. As you may be aware, the U.S. Department of Education's Impact Aid program provides funding to public school districts that have been impacted due to the presence of the Federal Government. The Impact Aid program is undergoing a significant change in its demographics as the result of actions currently on-going within the department of Defense (DoD). Because of these changes, DoD estimates that over 70,000 military personnel will be moving state side from missions in Europe and Asia. It is estimated that as many as 32-38 thousand school aged children will be entering public school districts state side. This, coupled with a higher concentration of children moving to certain areas within the U.S. due to BRAC and Army Modularization will and is already filling many schools beyond their capacity.

Because of these changes I am concerned that, without additional resources for the Impact Aid program, there will be fewer dollars per student available to the over 1,400 public schools eligible for Impact Aid funding. At a minimum, I believe that we need to ensure that Impact Aid program funding is increased to maintain it present levels of aid to federally-impacted public school districts.

Can you assure me that the Office of Management and Budget will give serious consideration to these changes in the demographics of the Impact Aid program as you begin to develop the Fiscal Year 2008 budget?

Answer:

Yes, if confirmed, I will review the Impact Aid program and the impact of returning military families when the Administration develops the FY 2008 Budget.

3. In South Dakota, shippers rely on a dependable and competitive railroad network to connect producers to markets and move finished goods from factories to customers.

In 2005 the Congress passed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (Public Law 109-59). Section 9003 amended the Railroad Revitalization and Regulatory Reform Act of 1976 to expand the scope of existing federal railroad infrastructure loan programs. The intent of the program is to create a permanent and revolving authorization to provide direct and guaranteed loans for rail equipment and infrastructure improvements. I am concerned, however, that the Office of Management and Budget (OMB) and the Federal Railroad Administration (FRA) has failed in the past to implement the loan program as provided for in the Transportation Equity Act for the 21st Century (Public Law 105-178) and now in Public Law 109-59. Section 9003 directs the Secretary of Transportation to publish *the substantive criteria and standards* to approve applications for loan financing.

In your capacity as director of OMB, will you ensure that the FRA and OMB implements the railroad infrastructure credit assistance program in an open and transparent manner in full and complete accordance with public law 109-59?

Answer:

If confirmed, I will support the Administration's implementation the RRIF program in accordance with legal requirements.

4. Concerns have been raised that the recently issued power mobility device rule fails to provide physicians and Durable Medical Equipment Regional Carriers (DMERCS) with clear and objective criteria for deciding when a power mobility device is medically necessary for a beneficiary. In an attempt to meet a standard that is perceived as subjective, physicians have had to produce a great deal of paperwork. Do you agree that there may be some concern about a lack of objectivity in the power mobility device rule? Should you agree, what actions will you consider taking to address this concern and ensure that the process is clear and maintains objectivity?

Answer:

I am not familiar with this rule. If confirmed, I would work to ensure that the paperwork burdens associated with this rule are minimized while continuing to monitor the standards as are needed.

5. Concern has been raised that the final rule for power mobility devices issued last month did not provide sufficient clarification to assist suppliers, physicians and clinicians in attempting to meet the rule's data collection requirement. Some have raised concern that the lack of guidance will result in physicians duplicating their patient's entire medical record, which could put patient medical privacy at risk.

As the head of OMB would you work to ensure that the power mobility rule and other similar rules in the future protect medical privacy of Medicare patients? If so, please describe how you would accomplish this.

Answer:

The power mobility rule, as with any similar rule, must comply with medical privacy requirements. It is my understanding that medical privacy will remain one of many issues that are considered and addressed in administrative rulemaking.

Question from Senator Menendez
For Ambassador Robert Portman, nominee to be
Director, Office of Management and Budget

1. Given our fiscal climate that we are looking for ways to cut the deficit and cut unnecessary or ineffective spending, and considering the countless tax provisions Congress has created, I am wondering if you support or will support as the OMB Director using that same PART system to assess tax expenditures? .... GAO, in its report last year, said that it recommended that the Director of OMB, in consultation with the Secretary of the Treasury, take that as one of four actions. I certainly think that I would urge it to your consideration.

Answer:

If confirmed, I will look into the recommendations in the GAO report. I do think tax legislation should be examined, and I know the Treasury Department already does some of that.

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