THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2006

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

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THE PRESIDENT'S BUDGET FOR FISCAL YEAR 2006

TUESDAY, FEBRUARY 8, 2005

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

The committee met, pursuant to call, at 10:36 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Ryun, Putnam, Wicker, Garrett, Diaz-Balart, Ros-Lehtinen, Lungren, Bradley, McHenry, Mack, Conaway, McCotter, Portman, Spratt, Moore, DeLauro, Edwards, Ford, Capps, Baird, Cooper, Allen, Case, McKinney, and Cuellar.

Chairman NUSSLE. Good morning, and welcome to this Budget Committee hearing on the President's budget for fiscal year 2006. This is the starting point for the United States Congress and its crafting of the budget. We certainly have one of the most important discussions that will be held in Congress all year long, as we begin to lay out the blueprint for the fiscal situation of this government over the next year.

Today, I am pleased to welcome back our witness, Joshua Bolten, who is the President's Director of the Office of Management and Budget (OMB), and a friend of this committee and someone who has been before us before.

As it is the tradition, the OMB director sat before the committee last year at this time to walk us through the President's budget request. So let's take a moment to review that discussion and how things have developed since. The President submitted his budget yesterday, and Budget Committee Chairman Jim Ryun received the budget.

I don't know if you saw CNN. I am watching CNN as he, you know—as Jim gets the budget and it says Budget Committee Chairman Jim Ryun gets the budget—and I thought now wait a minute, I only went home for the weekend, you know. There has already been a coup here at the budget committee. No, actually, thank you, Jim, for doing that.

As I told you, part of the reason I was gone was my daughter was competing in Special Olympics, she won the blue ribbon, and yes, it was a big deal. So she had—so I thought it was very appropriate that a gold medal olympiad got the budget for me so that I could be at her event.

I would gladly yield to the Chairman of the Budget Committee, Mr. Ryun.

Mr. RYUN OF KANSAS. I would actually like to yield back to the chairman. Frankly, I just wanted to comment on the fact that you had your priorities right.

Chairman NUSSLE. Thank you.

Mr. RYUN OF KANSAS. I congratulate you on that.

[The prepared statement of Jim Ryun follows:]

PREPARED STATEMENT OF HON. JIM RYUN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. Chairman, one of the main reasons that I ran for Congress was to help restore fiscal restraint to the Federal spending process. Too often, we spend irresponsibly and far beyond our means.

I am pleased that the budget before us today is based on principles of strong fiscal discipline. By holding spending below inflation, this budget begins our return to surpluses.

The President's budget does this, however, without compromising the needs of our military or the security of our borders.

Over the next few weeks, this committee will take a detailed look at this plan. As we do this, I implore my colleagues to maintain the principles set forth by the President—principles of discipline and eliminating waste.

Mr. Chairman, by presenting us with a budget based on these principles, the President has done his job. Now it's time for us to do ours.

Chairman NUSSLE. Well, I am not sure everyone would suggest that, but the budget is very important, and I appreciate that you are here to accept that.

Last year at this time, Director Bolten, you told us that the President's economic proposals would help to build on the economic recovery of growth that was already under way.

Now we know the rest of the story, as it goes. Real gross domestic product has increased for 13 consecutive quarters with the strongest growth in 5 years—one of the strongest sustained economic performances in the last 2 decades.

It doesn't end there though. Over 2.7 million new jobs were created over the past year and a half, and the unemployment rate has fallen from 6.3 percent to 5.2 percent.

So while we are going to talk about the big shot Federal budget here today. Let us remember that the most important budgets to our constituents are the ones that they heartache over around their kitchen tables, and those are improving as well. Total employment is at a record high; with 140 million people working.

Business equipment investment is at its best rate in 7 years. Homeownership rates are at their record levels, with new home construction at its best pace in over 25 years. The private Blue Chip forecasters agree that our economy is in for a sustained expansion.

Last year at this time, Director Bolten, you presented the President's proposal to hold to 0.5 percent, all nonhomeland security and nondefense spending. Congress held that spending to 1.4 percent, according to your numbers, down from a previous 5-year average of 6.3 percent.

We didn't get exactly where we wanted to be. We wanted to restrain spending even more, but we certainly did a better job than I think we had in the last 5 years.

Last year at this time, you told us the shocking news that our budget deficit would be at $521 billion for fiscal year 2005. You also told us that the President's budget would be able to cut that in half by 2009.

We ended last year with a $412 billion deficit. Let me show you a chart with regard to this, that I think is important for us to recall. As I say, last year you told us it was going to be $521 billion deficit. At the end of last year, we were able to reduce that to $412 billion, a $109 billion reduction in 1 year.

Now, before anybody—I hear some snickering, that is right—snicker away. But there wasn't one person here last year in the room who thought that it was going to go down. Everyone predicted it was going to go up with the cost of the war, AMT, tax relief for Americans, overspending was going to be what everyone predicted. Instead, we went in the opposite direction.

Why did we do that? Because the economy grew; because people went to work; because they paid taxes; because they dealt with their own home budgets and family budgets; and because we were able to limit the growth of spending in Washington.

We have been here before, folks. In the 1990s, we got to a surplus because we knew that increasing economic growth, increasing economic activity, increasing the amount of money that taxpayers control and at the same time limiting the growth of spending was a perfect formula to get back to fiscal sanity.

That is why we adopted the budget we did last year and that is why we need some more of that medicine this year.

So now let us switch gears to this year's budget. Clearly the driving force of the President's proposal is to ensure, first and foremost, that America's most urgent needs are met.

Advancing freedom and security at home and abroad; ensuring our economy continues its robust growth; the creation of jobs; preserving and strengthening America's most critical institutions; and doing all of this while continuing on our path to cutting Federal deficits. This and these are our highest priorities.

Of course, we must also continue to honor our commitment to other domestic priorities such as education, health care, veterans benefits, transportation, science, agriculture, and the list goes on and on. Everyone has something they want to accomplish, and all of it requires spending.

We have got to recognize that while we build on our efforts to meet our priorities, we have to eliminate some of the wasteful spending that we have accumulated—largely through neglect in the face of enormous increases that we have heaped on these programs over the past decade.

Let us also remember the old adage I have heard—reading the newspaper today has been kind of an interesting experience. Almost all of the headlines talked about the Bush budget: cutting, spending, cutting, gouging, and eliminating. Well, you look through the budget and precious little is in the area of actual cuts.

What we see in Washington is the definition of cuts that we have got to be real about. A cut in Washington is often a decrease of an anticipated increase. People will scream bloody murder, as my mother used to say, about how these cuts are going to eliminate this and eliminate that. Yes, there are some cuts in there. But by and large the way we get our budget under control, the medicine that we have prescribed and the medicine the President is prescribing is to just slow things down. We don't have to grow faster than the rate of inflation. So we will continue to meet our prior-

ities, and in all of these different categories, but can do so in a restrained way.

It is no secret that we will also have a whole host of new demands in the near future and some pretty substantial challenges, including funding transportation and energy bills, welfare reform, correcting Medicare's doctor payments and working to find a solution for the Social Security shortfall that is looming.

To add to that crowded list, I am sure members will have other priorities. So how do we get it all done? Well, again we made progress last year. We made some tough decisions and it is just the start. We have to continue it. The administration's budget takes on some tough but necessary next steps in its proposal for slowing spending while insuring that our priorities are met. The proposal includes holding all nonhomeland and nondefense spending below inflation. Let me say that again. If you are not part of the budget that is there to secure our homeland and to make sure that we are protecting America, you are on the table. We are going to take a look at you.

As the President laid out in much more eloquent language than I could ever muster or come up with, the most important use of a taxpayer's dollar is in their own pocket, not in our pocket here in Washington.

So every program requires scrutiny to make sure that if we are going to take $1 from a taxpayer, it is for a good reason, it is for a worthy cause, it is for something that is a proper role of the government, something that people cannot do for themselves, and for helping people who need help and requiring personal responsibility in return. The administration's budget takes some tough but necessary next steps in its proposal from slowing the spending while ensuring that our priorities are met.

Their proposal includes holding all nonhomeland and nondefense spending below inflation. It also looks for savings, in the largest part of the Federal budget. Folks, 55 percent of our budget is on automatic pilot. I know I am saying that to the mirror, because this is to both sides. I am not just looking at the Democrats or the Republicans, I am looking at everybody. Our budget is 55 percent automatic. We don't control it. It just happens.

Most people back home probably don't realize that. They think when we are talking about the budget, we are controlling every single last cent, $0.55 on the dollar now, $0.55 out of every dollar you send us folks, is spent automatically without Congress or the President having anything to say about it.

We are all, wherever your district might be, whatever side you are on, we are all going to have to make some very tough decisions, and we would probably not have to make them. They are going to be tough politically. Everyone has something that they are nervous about. None of us are going to get everything we want.

But the decisions are there, and we are going to have to make them. We are going to have to work, and we are going to have work to do. The blueprint that we are going to set is going to be jampacked full of needs that are critical for the tipped safety and prosperity of our Nation and its citizens—not just for the upcoming year, but well into the future.

So, and many of you are already getting a running start. I was watching C–SPAN and saw all sorts of press conferences that have already started. It is always interesting to me how it takes maybe 30 seconds to read this before all of a sudden the opinion pages start going and this is only part of the budget. I mean, the rest of the tables that we have got that go along with it, to actually get your arms around it, stack a lot higher. I will get you a copy so you see what we are talking about.

But within 30 seconds, people are holding a press conference and lambasting the budget saying, oh yes, this is in there, that is in there.

Look, we know this is what it is. Now, you tell me that somebody has already had the opportunity to read all of this and come out and criticize it. It is easy to criticize. It is the easiest job in Washington to criticize something you haven't even read. The plastic is not even off of this thing.

People can—you know, they can already come out and hold their press conference and have all sorts of fancy charts saying this is bad, that is bad, gosh, we can't do that. People are going to be thrown out in the street, not in my program and not in my backyard. That is exactly how we got to the position we are in.

So, if you don't like something, come up with your own. You are not allowed in this committee to say no without an alternative.

This is to my colleagues on my side as much as it is to anybody. Because I know the Democrats and we have already seen them saying no, no, no. They may be the party of no this year for all we know.

Mr. FORD. Mr. Chairman, could I ask you one question.

If we hadn't read it to criticize it, how did you read it to praise it, just out of curiosity?

Chairman NUSSLE. The gentleman is out of order. I am sure the gentleman will be happy to be given his own time. Thank you for interrupting.

I am speaking to my side now, because I know you are not going to have an alternative. On my side, if you don't like it, come up with an offset.

I have heard people already say they don't like the so called-cuts in the defense budget. All right, I can understand that. I don't like some of the cuts I have seen in the agriculture budget. We are all going to have something we don't like.

But you are not allowed to just come out here and criticize it and say you don't like it and no is the answer. No is not an answer, all right.

We are going to come up with alternatives and solutions if we are to be credible. If you don't like it, whether you are the opinion page of a newspaper or you are a Member of Congress, that is fine, but come up with your alternative. No is not an answer. Nothing is not an answer.

We need to get hold of this spending that is growing beyond our means. We need to do it by setting a fair squeaky-type budget and then doing our work to live within its limits.

I commend the President for setting a strong starting point. No, I haven't read every detail of it either, but I know something because I know the man, and I have had an opportunity to work with

his administration. That's why when they set these top limits, they mean business, and we need to mean business about the top limits.

The details are up to the Congress. We are the ones that hold the purse strings. If we don't like something, we are going to change it. That is the way Congress works. But the overall agenda that says we are going to protect the homeland, we are going to grow economy, we are going to limit spending, is something as far as I am concerned is not negotiable.

It is not negotiable to this Member. I am going to do everything I can to ensure that we get our arms around this budget deficit and certainly start controlling it. I certainly know and hope that members will participate in this process in a constructive way. I understand members can say no. Go ahead and say it, I just want them to be doing it in a constructive way.

So I welcome you to the committee, Director Bolten.

This is always one of the fun lively meetings that we have. I now would be very happy to turn it over to my friend and colleague, John Spratt from South Carolina for any message that he would like to make.

Mr. SPRATT. Thank you very much, Mr. Chairman.

Mr. Bolten, thank you for coming today and presenting the budget to us. We look forward to your testimony and the questions and the opportunity we will have to put forward to you.

Let me follow up what our chairman has said, and say we on this side of the aisle, who represent the working people of America—that is what the Democratic Party is about. We are glad to see the economy recover—it has been a long time coming.

For 17 million Americans, 7.7 who are still unemployed, 5 million who have dropped out of the labor market because they are discouraged, and 4.4 million who are, working part-time and are underemployed would like to be fully employed—for 17 million Americans, they are still waiting on the recovery.

Another fact that we have to bear in mind is that even though the economy has recovered, the budget has not. If anything, it is getting worse. So we have a structural deficit on our hands which requires significant policy changes in order to bring the deficit down.

I would like to start first by saying, Mr. Chairman, every year we have put up an alternative budget, and we will have one this year. Every year for the last several years we have incurred less debt and gotten to balance sooner than your budget resolution. We will do that again this year.

Let me go back to where we started, back in the 1990s, and first of all, put this chart up to put the budget in perspective. I would like to make, first of all, the simple point that we can balance the budget. We did it in the 1990s.

This chart shows that during every year of the Clinton administration, from 1993 till the year 2000, the bottom line, the budget got better and better and better to the point where we had a surplus 5 years ago, a surplus of $236 billion.

The second President Bush came to office with an advantage that no president in recent times had enjoyed, a surplus, a budget and surplus, a big-time surplus estimated by your office, the OMB at $5.6 trillion over 10 years. Every year since, the graph shows it

more graphically and dramatically than I can state it. The deficit has declined precipitously to the point where in 2003, we had a record deficit, $375 billion. In 2004, last year, we had another record, $412 billion. The Office of Management and Budget acknowledges this year, that record will be broken and the record, the deficit for this year will be $427 billion.

The next table or chart sums up in very basic terms, the bottom line of the last four budgets presented by the Bush administration. When the Bush administration came to Congress with their huge tax cuts built into their budget, they assured us that their budget would remain in the black, even if we adopted those tax cuts. Within a year, they were back. They were back again this time asking for an increase in the debt ceiling so they could borrow more, an increase of $450 billion in 2003.

The following year, they were back again, this time asking for an enormous increase in the debt ceiling, $984 billion. Last November, just a couple of months ago before we could adjourn Congress, Congress had to pass still another increase in the debt ceiling of $800 billion.

That means that to accommodate the first four budgets of the Bush administration, the debt ceiling, the limit on how much we can borrow had to be raised three times by a total of $2.234 trillion. Blows your mind, $2.234 trillion.

Last year, looking at this dismal record, the Bush administration tried to put the best face they possibly could on it. They said they will cut the deficit in half over the next 5 years. But if you look at the budget in the near term, this year, last year, next year, it is clearly, Mr. Bolten, not on that path.

The deficit goes up this year by $427 billion and barely goes down next year to $390 billion, fiscal 2006. But that calculation leaves out several important factors, one of which is the cost of our deployment in Iraq and Afghanistan, even though Secretary Wolfowitz was here last week telling other committees that there will be, you should expect, there will be a substantial defense supplemental in 2006.

That is not included at all in your numbers here, even though we have been warned by the Defense Department to expect it. When the defense supplemental that is likely is factored into the budget for 2006, it is almost certain to produce another record-breaking deficit. That is why the likely cause ought to be included in today's budget, so that we can look at the budget and realistically understand what all of the expenditures of the government during 2006 are likely to be.

Broadly speaking, Mr. Bolten, there are two problems with the budget before us. One is what it includes and the other is what it excludes. This budget increases defense by $19 billion. It increases international affairs, it increases homeland security. But instead of paying for these increases, merited as they may be, it still calls for substantial tax cuts, notwithstanding the fact that we have huge gaping deficits. Given that arithmetic, there is no mystery why we have huge deficits. Here is one simple way of getting at the causes of the problem.

When the Bush administration sold its tax cuts to Congress, it projected that revenues from the individual income tax—which is

the largest source of revenue for the Federal Government—that revenues from the individual income tax in 2004 would be $1.118 trillion. As it turned out, revenues for 2004 from the individual income tax were $804 billion, according to the budget numbers you submitted yesterday.

That means we are $300 billion below what was estimated in the way of revenues for that year, and $300 billion happens to be about three-fourths of the deficit for that year. Now that is back-of-the-envelope accounting, but that shows you that revenues are a critical part of this problem.

The budget that you presented offsets all of these spending increases and tax cuts to a small degree, by cuts in nondefense discretionary spending; that is education, there is veterans health care, that is law enforcement, that is environmental protection, that is the National Institutes of Health, that is the National Science Foundation, that is the general administration of the government, the Federal Bureau of Investigation, the Park Service, the courts, and what have you. No one can argue, no one can argue that these programs are the sources of the deficit because it barely increased over the last several years.

Taken together, they are not big enough any event—about 15 percent of the budget—to wipe out the deficits that are running close to half a trillion dollars, but the cuts you are proposing are significant. They take elementary and secondary education, for example, and provide $12 billion less than the level that was authorized for No Child Left Behind. Cuts like this hurt but in the end, they barely make a dent in the deficit.

So the budget is known also for what it excludes. It excludes some major items that make the deficit much larger and much more intractable and much more tougher to deal with.

For example, the President is pushing hard, and made it his chief agenda initiative for this year in Congress, privatization of Social Security, partial privatization, personal accounts, call it what you will. You acknowledge the cost will be $754 billion, but that is mainly because you shove the implementation of it to 2009. By our calculation, over the first 10 years, the cost will be 1.4 trillion, the first 10 years after implementation. The second 10 years, it will be another $3.5 trillion, the total additions to the deficit due to the privatization proposal now being pushed will be $4.9 billion over the next 20 years—trillion, excuse me, trillion, I can hardly get my tongue around it.

So that is a major omission in this budget. Now, granted, you could say we don't know the form it is going to take, but you can't send it up here and not at least footnote it as a contingent liability—because if it is not implemented, I don't see how we ever put this budget back in balance.

The realistic war cost, not just in 2006, but in the years afterward, CBO has said let us try to get a handle on this. Let us assume that the force levels in theater, not in country, in theater in CENTCOM, will be reduced to 40,000 troops, about two divisions for the next 4 or 5 years after 2006. That number is $384 billion by their calculation over the budget timeframe you have got here, the cost to repair AMT, the alternative minimum tax. You have got a number of tax cuts, the excision of retiring tax cuts and some

new tax cuts, easily $1.6 trillion, $1.7 trillion, $1.8 trillion in tax cuts that you are pushing—but nowhere is there any mention of the AMT.

We all know this is a looming problem that will have to be dealt with. You haven't even put into this budget what was put into the last budget, and that is a 1-year bridge to patch up the problem until there is a permanent solution. All of these things omitted and left out of your budget, and it comes to $2 trillion.

Just for these dissolutions, about $2 trillion, as you would well expect, the deficit plummets and as this chart shows, the deficit will, according to this calculation, when all of those things are included, the deficit will not be cut in half over 5 years, it will actually grow with time. Once this Social Security privatization is fully implemented, it will plummet.

I don't understand how you can do the arithmetic and put that budget back in balance if you implement your Social Security proposal because of the $4 trillion that it will add to national debt at any time in our lifetime.

So this budget is not going to put us on a path to balancing the budget, not in 5 years, not in 10 years, and not in 20 years. It will probably even get worse if it is implemented literally. It will put us on a path to endless deficits and a Mount Everest in debt.

It is daunting, Mr. Bolten, to consider where we were 5 years ago. As we sat here on a surplus of $236 billion. It took us 10, 15 years of budget effort to get the deficit down, put the budget in surplus for the first time in 30 years. Here we are today after 4 years, $2.2 trillion deeper in debt and going deeper.

It is even more daunting to see your budget with spending increases and tax cuts and the diversion of payroll taxes, which could come to almost $4.9 trillion over the next 20 years. We don't know where this leads, but we don't think it makes a budget better. We think it makes its decidedly worse, and I fear even an insolvable, intractable problem.

So we have great concerns about this. We look forward to your testimony and hope we can answer some of the questions we put to you, and maybe even allay some of our concerns about, the course the budget before us takes us upon.

Chairman NUSSLE. Thank you, Mr. Spratt.

I ask unanimous consent that all members be allowed to put a statement, an opening statement in the record. At this point.

Without objection, so ordered.

Director Bolten, welcome back to the Budget Committee. We are pleased to receive your testimony at this time.

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

Mr. BOLTEN. Mr. Chairman, thank you very much.

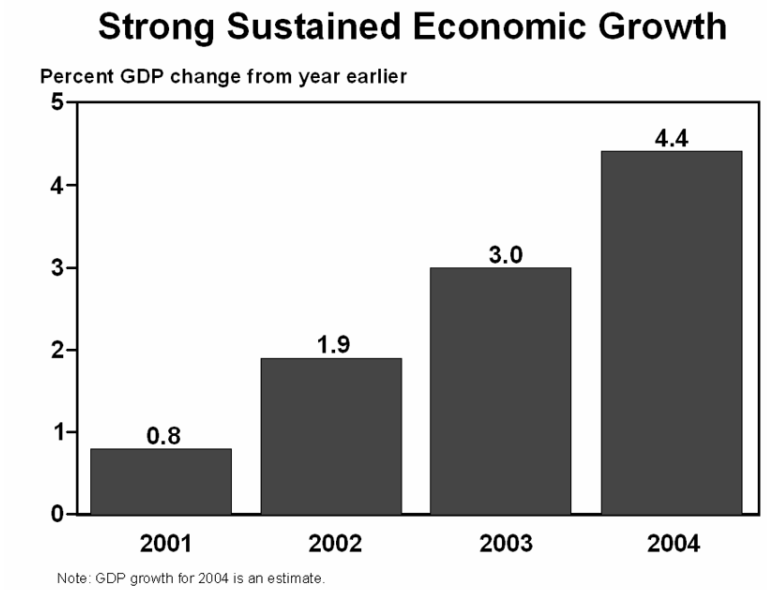
Thank you, Mr. Spratt.

Mr. Chairman, I want to associate myself with your excellent opening remarks. I obviously disagree with those that Mr. Spratt just made, but I am at least heartened to see that there is bipartisan enthusiasm for getting our budget situation under control, and I hope we will be able to work together on that as much as possible.

Mr. Chairman, distinguished members of the committee, the President's 2006 budget, which was transmitted to the Congress yesterday, meets the priorities of the Nation and builds on the progress of the last 4 years. We are funding our efforts to defend the homeland from attack, we are transforming our military and supporting our troops as they fight and win the global war on terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools so that our children gain the skills they need to succeed. We are promoting the pro-growth policies that have helped to produce, Mr. Chairman, as you said, millions of new jobs and restore confidence in our economy.

Over the past 4 years, the President and Congress rose to meet historic challenges. A collapsing stock market, a recession, the revelation of corporate scandals, and, of course, the terrorist attacks of September 11, 2001. To meet the economy's significant challenges, in each year of the first term, the Congress and the President enacted major tax relief that fueled recovery, business investment and, most important, job creation.

The strong economic growth unleashed by tax relief is reflected in this chart that is on your screen now. Since the recession year of 2001, the recession that was on the doorstep as the President entered office, economic growth has increased in each of the following 3 years. A primary goal of this 2006 budget is to assure that that economic growth continues.



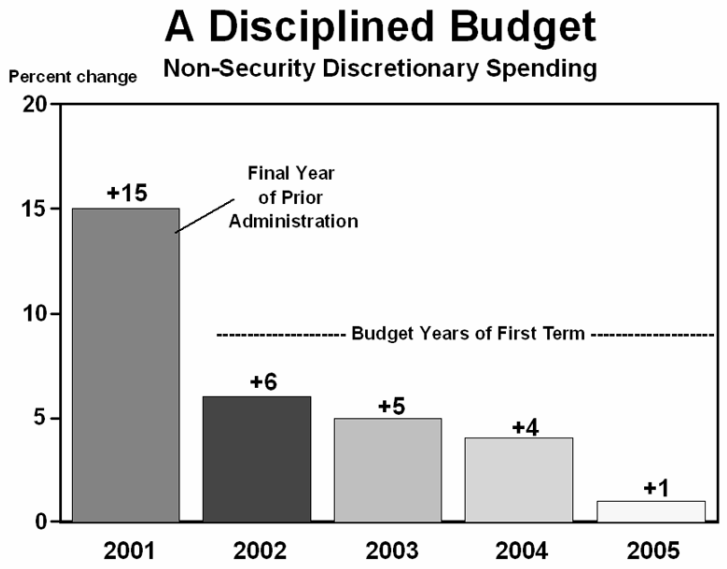
A strengthening economy produces rising tax revenues. Last year, after declining 3 years in a row, Federal revenue grew by nearly $100 billion. That is the 5.5 percent increase you see for 2004. Reflecting strong continued growth, we project that Federal revenues will grow by an even larger figure this year. Those

growth figures in revenue reflect full implementation of the President's tax cuts which have fueled economic recovery.

The President and Congress have also devoted significant resources to rebuild and transform our military and to protect the homeland. In the first term, the defense budget grew by more than a third, the largest increase since the Reagan administration. To make our homeland safer, the President worked with Congress to create the Department of Homeland Security and nearly tripled funding for Homeland Security governmentwide.

While committing these necessary resources to protecting America, the President and Congress have focused on spending restraint elsewhere in the budget. Working together, we have succeeded in bringing down the rate of growth in nonsecurity discretionary spending, each year of the President's first term.

Mr. Chairman, as you referenced in your remarks, in the last budget year of the previous administration, nonsecurity discretionary spending grew by 15 percent. That is the green bar there. In 2005, such spending will rise only about 1 percent, thanks to the cooperation of many of the members on this committee.



Because of this increased spending restraint, deficits are below what they otherwise would have been. In order to sustain our economic expansion, we must exercise even greater spending restraint than in the past.

When the Federal Government focuses on its priorities and limits the resources it takes from the private sector, the result is a stronger and more productive economy. The President's 2006 budget proposes that enhanced restraint.

As you can see from the chart that is now on your screen, the 2006 budget proposes a reduction in the nonsecurity discretionary

category of the budget. This is the first proposed cut in this nonsecurity spending since the Reagan administration.

The budget proposes more than 150 reductions, reforms and eliminations in nondefense discretionary programs, saving about $20 billion in 2006 alone.

As a result of this enhanced restraint, overall discretionary spending, even after significant increases in defense and homeland security, will grow by only about 2.1 percent. That is less than the projected rate of inflation. In other words, under the President's 2006 budget, overall discretionary spending will see a reduction in real terms.

In addition, the budget also proposes savings from another set of reforms in mandatory programs, saving about $137 billion over the next 10 years. Mr. Chairman, these are the programs that you referenced as constituting 55 percent of our budget.

As you well know, both mandatory and discretionary categories of spending are inherently difficult to control, but mandatory programs are especially difficult because of what referred you to, Mr. Chairman, as their auto pilot feature. The administration looks forward to working with the Congress on a package of savings in this mandatory category.

We will also work with Congress on budget process reforms. Last year I transmitted to Congress on behalf of the administration proposed legislation to establish statutory budget enforcement controls. We plan to transmit a similar set of proposed statutory controls to establish caps on discretionary spending and pay-as-you-go requirement from mandatory spending only and a new enforcement mechanism to control new unfunded long term obligations.

The President's budget also proposes that Congress include these budget enforcement mechanisms and associated reforms in your 2006 budget resolution.

In addition, the administration proposes other enforcement and budget process reforms, such as the line item veto, a results commission and a sunset commission. These reforms would put in place the tools we need to enforce spending restraint and would bring greater accountability and transparency to the budgeting process.

This budget restrains spending in a responsible way by focusing on priorities, priorities, principles and performance. We were guided by three major criteria in evaluating programs. First does the program meet the nation's priorities, the budget increases funding to strengthen our armed forces,improve the security of our homeland, promote economic opportunity and foster compassion.

Second, does the program meet the President's principles for the use of taxpayer resources? If an appropriate Federal role could not be identified in a program submission, the budget generally proposes to reduce or eliminate its funding.

Third, does the program produce the intended results? The Bush administration is comprehensively measuring the effectiveness of the government's programs, and the results are helping us make budgeting decision. As part of the President's management agenda, the Program Assessment Rating Tool, known to many of you as the PART program, was developed to measure the performance of all programs. Roughly 60 percent of all Federal programs have under-

gone PART assessments and those scores figured into our budgeting process.

By holding government spending to these accountability standards, by focusing on our priorities, and by maintaining pro-growth economic policies, we are making progress by bringing down the size of the deficit in 2006 and beyond.

Last year's budget initially projected a deficit of 4.5 percent of GDP in 2004 or $521 billion. The President set out to cut this deficit in half by 2009. Largely because economic growth generated stronger revenues than originally estimated and because the Congress delivered the spending restraint called for by the President, the 2004 deficit came in $109 billion lower than originally estimated.

At 3.6 percent of GDP, the actual 2004 deficit, while still too large, was well within historical range and smaller than the deficits in 9 of the last 25 years. We project the 2005 deficit to come in at 2.5 percent of GDP or $427 billion. If we maintain the policies of economic growth and spending restraint reflected in this budget, the deficit is expected to decline in 2006 and each of the next 4 years.

In 2006, we project the budget deficit to fall to 3 percent of GDP or $390 billion, in 2007 the deficit is protected to fall further to 2.3 percent of GDP or $312 billion.

By 2009, that is the 5-year mark, the deficit is projected to be cut by more than half from its originally estimated 2004 peak to just 1.5 percent of GDP, which is well below the 40-year historical average deficit of 2.3 percent of GDP and lower than the deficit level in all but 7 of the last 25 years.

Mr. Chairman, the administration intends to submit shortly a supplemental appropriations request of approximately $81 billion. This is primarily to support operations in Iraq and Afghanistan for the remainder of the fiscal year.

The 2006 budget spending and deficit projections fully reflect the outlay effects of this supplemental request, as well as the prior $25 billion supplemental bill already approved by the Congress. However, the budget does not reflect the effect of an undetermined but anticipated supplemental request for ongoing operations in Iraq and Afghanistan beyond 2005.

Mr. Chairman, the published version of the 2006 budget, the large documents before you now, also does not reflect the effects of transition financing associated with the President's proposal to create personal retirement accounts as part of a comprehensive plan to permanently fix Social Security.

As the administration announced last week, the type of personal accounts the President is proposing will require approximately $664 billion in transition financing over the next 10 years with an additional $90 billion in related debt service.

This transition financing would result in a deficit in 2009 and 2010 of 1.7 percent of GDP. This is still consistent with the President's goal to cut the deficit in half by 2009 and still well below the 40-year historical average.

You can see that now on the chart that I have on the screen now. The chart we presented yesterday, which shows 2009, 2010 with the President's Social Security plans included, a deficit still down

at 1.7 percent of GDP, well below the historical average deficit of 3.2 percent of GDP. It is also important to remember that this transition financing does not have the same effect on national savings and thus on the economy as does traditional borrowing. Every dollar the government borrows to fund the transition to personal accounts is fully offset by an increase in savings represented by the accounts themselves.

In addition, the transition financing of retirement benefits does not represent new debt. These are obligations that the government already owes in the form of future benefits. Perhaps most important, comprehensive Social Security reform that includes personal accounts can eliminate the system's current $10.4 trillion in unfunded obligations. Those of us who devote our time to thinking about fiscal policy all share a common interest in averting this danger. There is no task as vital to fiscal policymakers this year than removing those unfunded obligations by enacting comprehensive Social Security reform.

Confronting these long-term obligations, combined with our near-term budget reduction efforts, will help assure a strong economy both now and in the future.

I look forward to working with the committee and the Congress on this budget which meets the priorities of the Nation in a fiscally responsible way.

Thank you, Mr. Chairman. I am happy to take your questions.

[The prepared statement of Joshua Bolten follows:]

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

Chairman Nussle, Ranking Member Spratt, and distinguished members of the Committee, the President's 2006 Budget, which was transmitted to the Congress on Monday, meets the priorities of the Nation and builds on the progress of the last 4 years.

We are funding our efforts to defend the homeland from attack. We are transforming our military and supporting our troops as they fight and win the Global War on Terror. We are helping to spread freedom throughout the world. We are promoting high standards in our schools, so that our children gain the skills they need to succeed. We are promoting the pro-growth policies that have helped to produce millions of new jobs and restore confidence in our economy.

Over the past 4 years, the President and Congress rose to meet historic challenges: a collapsing stock market, a recession, the revelation of corporate scandals and, of course, the terrorist attacks of September 11th.

To meet the economy's significant challenges, in each year of the first term, Congress and the President enacted major tax relief that fueled recovery, business investment, and job creation.

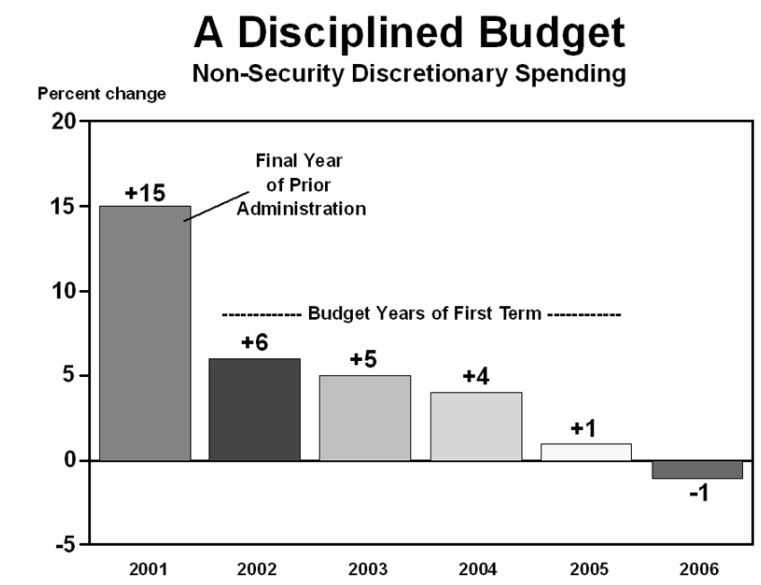
Recent economic indicators support the case for tax relief. Since the recession year of 2001, economic growth has increased in each of the following 3 years. A primary goal of this Budget is to assure that our economic growth continues.

A strengthening economy produces rising tax revenues. Last year, after declining 3 years in a row, Federal revenue grew by nearly $100 billion. Reflecting strong continued growth, we project that Federal revenues will grow by an even larger figure this year.

The President and Congress have also devoted significant resources to rebuild and transform our military, and to protect our homeland. In the first term, the defense budget grew by more than a third, the largest increase since the Reagan Administration. To make our homeland safer, he worked with Congress to create the Department of Homeland Security and nearly triple funding for homeland security government-wide.

While committing these necessary resources to protecting America, the President and Congress have focused on spending restraint elsewhere in the Budget. Working together, we have succeeded in bringing down the rate of growth in non-security discretionary spending each year of the President's first term. In the last Budget year

of the previous Administration, non-security discretionary spending grew by 15 percent. In 2005, such spending will rise only about 1 percent. Because of this increased spending restraint, deficits are below what they otherwise would have been.



In order to sustain our economic expansion, we must exercise even greater spending restraint than in the past. When the Federal Government focuses on its priorities, and limits the resources it takes from the private sector, the result is a stronger, more productive economy.

The President's Budget proposes that enhanced restraint. The 2006 Budget proposes a reduction in the non-security discretionary category of the Budget. This is the first proposed cut in this non-security spending since the Reagan administration.

The Budget proposes more than 150 reductions, reforms, and eliminations in non-defense discretionary programs, saving about $20 billion in 2006 alone.

As a result of this enhanced restraint, overall discretionary spending, even after significant increases in defense and homeland security, will grow by only 2.1 percent—less than the projected rate of inflation, which is 2.3 percent. In other words, under the President's 2006 Budget, overall discretionary spending will see a reduction in real terms.

In addition, the Budget also proposes savings from an additional set of reforms in mandatory programs, saving about $137 billion over the next 10 years.

As you well know, both mandatory and discretionary categories of spending are inherently difficult to control, but mandatory programs are especially difficult because of their "auto-pilot" feature. The Administration looks forward to working with the Congress on a package of mandatory savings.

We will also work with Congress on budget process reforms. Last year, I transmitted to Congress, on behalf of the Administration, proposed legislation to establish statutory budget enforcement controls. We plan to transmit a similar set of proposed statutory controls to establish caps on discretionary spending, a pay-as-you-go requirement for mandatory spending only, and a new enforcement mechanism to control long-term unfunded obligations. The President's Budget also proposes that Congress include these budget enforcement mechanisms and associated reforms in the FY 2006 Budget resolution.

In addition, the Administration proposes other enforcement and budget process reforms, such as the line-item veto, a Results Commission, and a Sunset Commission. These reforms would put in place the tools we need to enforce spending restraint and would bring greater accountability and transparency to the budgeting process.

This Budget restrains spending in a responsible way by focusing on priorities, principles, and performance. We were guided by three major criteria in evaluating programs:

First: Does the program meet the Nation's priorities? The Budget increases funding to strengthen our Armed Forces, improve the security of our homeland, promote economic opportunity, and foster compassion.

Second: Does the program meet the President's principles for the use of taxpayer resources? If an appropriate Federal role could not be identified in a program's mission, the Budget generally proposes to reduce or eliminate its funding.

Third: Does the program produce the intended results? The Bush Administration is comprehensively measuring the effectiveness of the government's programs—and the results are helping us make budgeting decisions. As a part of the President's Management Agenda, the Program Assessment Rating Tool, or PART, was developed to measure the performance of Federal programs. Roughly 60 percent of all Federal programs have undergone PART assessments and those scores figured into the budgeting process.

By holding government spending to these accountability standards, by focusing on our priorities, and by maintaining pro-growth economic policies, we are making progress in bringing down the size of the deficit in 2006 and beyond.

Last year's Budget initially projected a deficit of 4.5 percent of Gross Domestic Product (GDP) in 2004, or $521 billion. The President set out to cut this deficit in half by 2009. Largely because economic growth generated stronger revenues than originally estimated, and because the Congress delivered the spending restraint called for by the President, the 2004 deficit came in $109 billion lower than originally estimated.

At 3.6 percent of GDP, the actual 2004 deficit, while still too large, was well within historical range and smaller than the deficits in 9 of the last 25 years. We project the 2005 deficit to come in at 3.5 percent of GDP or $427 billion. If we maintain the policies of economic growth and spending restraint reflected in this Budget, the deficit is expected to decline in 2006 and each of the next 4 years.

In 2006, we project the budget deficit to fall to 3.0 percent of GDP, or $390 billion. In 2007, the deficit is projected to fall further to 2.3 percent of GDP, or $312 billion.

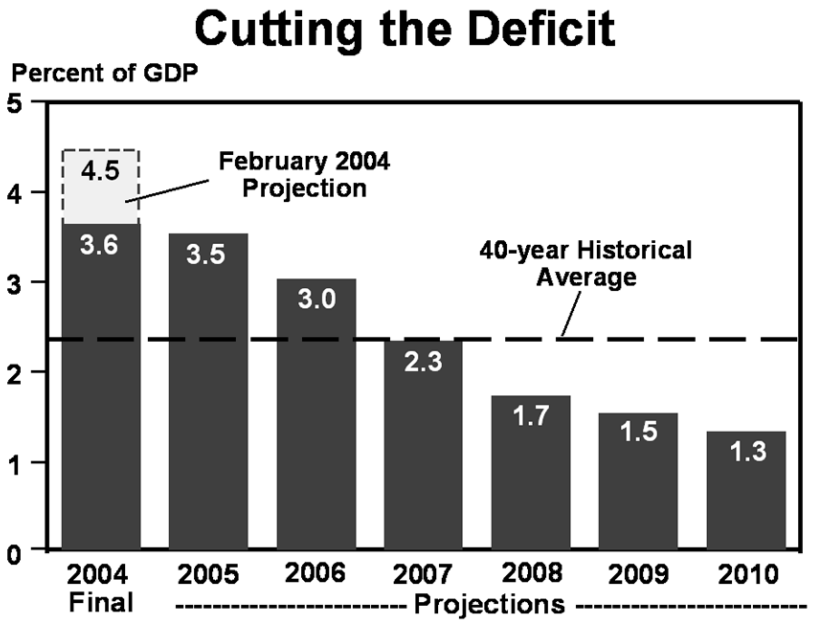
By 2009, the deficit is projected to be cut by more than half from its originally estimated 2004 peak-to just 1.5 percent of GDP, which is well below the 40-year historical average deficit of 2.3 percent, and lower than the deficit level in all but seven of the last 25 years.

The Administration intends to submit shortly a supplemental appropriations request of approximately $81 billion, primarily to support operations in Iraq and Afghanistan for the remainder of the fiscal year.

The 2006 Budget's spending and deficit projections fully reflect the outlay effects of this supplemental request, as well as the prior $25 billion supplemental bill already enacted by the Congress. However, the Budget does not reflect the effect of an undetermined but anticipated supplemental requests for ongoing operations in Iraq and Afghanistan beyond 2005.

The published version of the 2006 Budget also does not reflect the effects of transition financing associated with the President's proposal to create personal retirement accounts as part of a comprehensive plan to permanently fix Social Security. As the Administration announced last week, the type of personal accounts the President is proposing will require approximately $664 billion in transition financing over the next 10 years, with an additional $90 billion in related debt service. This transition financing would result in a deficit in 2009 and 2010 of 1.7 percent of GDP, which is still consistent with the president's goal to cut the deficit in half by 2009, and still well below the 40-year historical average.

It's important to remember that this transition financing does not have the same impact on national savings, and thus on the economy, as does traditional borrowing. Every dollar the government borrows to fund the transition to personal accounts is fully offset by an increase in savings represented by the accounts themselves.



In addition, the transition financing does not represent new debt-these are obligations that the government already owes in the form of future benefits.

Perhaps most important, comprehensive Social Security reform that includes personal accounts will eliminate the system's current $10.4 trillion in unfunded obligations. Those of us who devote our time to thinking about fiscal policy all share a common interest in averting this danger. There is no task as vital to fiscal policymakers this year than removing those unfunded obligations by enacting comprehensive Social Security reform.

Confronting these long-term obligations, combined with our near-term deficit reduction efforts, will help assure a strong economy both now and in the future.

I look forward to working with the committee and the Congress on this Budget, which meets the priorities of the Nation in a fiscally responsible way.

Chairman NUSSLE. Thank you, Director Bolten.

Let me start by reacting to a statement by my very good friend, Mr. Spratt, the ranking member. He said that it staggering to consider where we were just 5 years ago when we were running surpluses. It is staggering to consider that just 5 years ago, we were running surpluses.

But I don't want to go back. I don't want to go back 5 years. I would love to have surpluses again, because the green eyeshades guy in me would love to be able to go home and tell my folks, hey, I did it, I balanced the budget.

But, let us just look at a couple of charts. Let me put up chart No. 5. Would I want to do that at the cost of our military? Would I want to go back 5 years to where we were in our military situation and not defend the country?

Let us go to chart No. 6. Would I not want to fund Homeland Security and protect the country? Of course not. Let us go to chart No. 8. Would I not want to pay for the war and combat terrorism?

These are reasons why we are in deficit, folks. How about No. 9? Would I not want to grow the economy and put people back to work? Do we want to go back 5 years to where we had negative

growth and a recession and not put money back in people's pockets so that they can make those decisions for themselves around their kitchen tables? Would I want to go back 5 years for that?

I mean, we can live in the past and say, wouldn't it have been nice to live in a surplus world? But we made deliberate decisions, in a bipartisan way. As Americans, we said we are going to get the economy growing, we are going to protect the homeland, we are going to do whatever it takes to prosecute this war against the terrorists, that is what we said back then.

Now we are acting, oh I don't know how we got there. I don't know how we got to this deficit. Folks, we made deliberate decisions and interestingly enough checked the voting records. Just about every member of this committee did with a glad heart vote for many of those proposals, including me. I say it is more important to deal with those problems than it is to just run a surplus, and be able to go home and tell your mom, dad, your constituents, or your family, my green eyeshades are working, I was able to balance the budget. We did whatever it took.

So, yes, it is staggering to look back 5 years, but it is also, I think, important to look forward and to say these are things are important to do. So let us talk about some much these proposals.

First of all, I would like to know from the Director, what are you willing to recommend to the President to enforce this budget? I can already tell you what I am hearing—you can imagine, if you are hearing it in the newspapers, you are hearing it from interest groups, you are hearing it from Members of Congress, and you are hearing it from constituents.

I was on C–SPAN this morning and people were calling in already complaining about this program, cut in that program, that is gouged, and all sorts of things. What are you willing to recommend to the budget in order to enforce the top line of this budget? I mean, I think we are going to need some help up here.

There are a number of us that are willing to make some tough decisions, but I think we are going to need a little bit of help from the administration. What are you willing to recommend to the President to enforce the budget that you have put up, at least in the top line or enforce the fences that are part of making sure that this budget is physically responsible?

Mr. BOLTEN. Mr. Chairman, we heard many of the same comments a year ago.

We got the dead-on-arrival comments when the President was asking that the overall discretionary budget be kept to 4 percent growth, that the nondefense element of that be kept to 1 percent growth, and there were screams of you can't cut this, you can't cut that and the budget is dead on arrival.

Now we didn't get everything that we specifically asked for, but what the Congress delivered was, in fact, a budget that held overall discretionary growth around 4 percent, and the nondefense portion of that, just above 1 percent, as have pointed out in your opening remarks.

So we got what we asked for last year in the big perspective, and that came about through effective leadership from you, Mr. Chairman, and other key leaders in the Congress. It came about from the President's determination that he was not going to sign appro-

priations bills that exceeded the limits that he had set. I expect the President will do the same this year, and that will be my recommendation to him.

Chairman NUSSLE. I didn't hear the—I was kind of hoping. I was listening carefully for the V word. I didn't hear the V word. Is it possible that depending on exactly how these bills come forward, that the V word might be used for the first time in this administration's tenure?

Mr. BOLTEN. Sure, it could be. The reason you didn't hear the V word in what I just said—or you didn't have to hear it last year—was that we had great cooperation from the leadership in delivering appropriations bills. By the way I should say, this includes the leadership of the Appropriations Committees.

We had great cooperation in delivering bills that were within the President's limits. I don't anticipate that cooperation will break down. But if the President needs to enforce his spending limits through the use of the veto, I am sure he won't hesitate to do that.

So far, that has hasn't been necessary. I don't anticipate that that will be necessary this year.

Chairman NUSSLE. Let me put up chart No. 3.

Just so people have a chance to see this, because this is to me staggering. We are going to talk about—we are going to hear a lot. So far the news has been about, you know, cuts, cuts, cuts, cuts, cuts, cuts, cuts.

I just want you to see the total amount of spending. There is nothing cut. We are increasing the budget. Every single year we have been here, we have been increasing the budget. Let me go to chart 4. Because this is the amount that we control. This is the discretionary amount. This is where you talk about the military, and you talk about some of the programs that were illuminated earlier in my friend, Mr. Spratt's comments.

Look at the discretionary growth. I mean, these are actual dollars. You can see what was going on during the late 1990s. When we were controlling the budget, and when we were saying, look we are going to look for waste, fraud, and abuse. We are going to look for programs that aren't working. We are going to look for ways to save money.

You saw how we got the balance in 1999. It is right there in black and white. That is by controlling the rate of growth and spending. Look what happened when we got to surplus. The explosion took place.

Now, granted, there is a lot of this money that is in defense. I am not trying to say that every single dollar here we could have saved. But I just want to see the rate of growth that we are you can taking about illuminated in just a slightly different way. So when I hear people talking about cuts, I just want you to remember. In Washington, a cut is described too often as a decrease in an anticipated increase, meaning somebody wants something.

It is like my son coming to me and asking for $10, and I give him $9. He screams that I gave him, you know, $1 less than he wanted, so that is a cut. Well, no, son, first of all, it wasn't your money to begin with, and second of all I only gave you $5 last week. So you got a $4 increase.

So just because people want something doesn't mean it is a cut. We are meeting our priorities and we are dealing with these things. But there are programs that you have highlighted and you have suggested that you are going to be sending up for the purpose of actual cuts or elimination. So my understanding is, from listening to your conference yesterday, that there is 150 so-called programs. Are you willing to give us—I would like to see the list. I would like to see them all together, because I know what is going to happen. If you start sending one down and the other all—I found out here that there is a constituency for everything. Every single thing. There is a reason why we spend money on it. Somebody cared about it at one point in time or another and had a constituency, a member, or whatever that got it in.

So I think what I would like to suggest is that you send them up in a package with your—if I could humbly suggest with your justification behind it. So that we see, not only the proposal, but we see some sense from OMB what the pluses and minuses of the program might be so we can see them taken together.

Is that something that we could be provided?

Mr. BOLTEN. Sure, Mr. Chairman.

We will be glad to do that. We will prepare something for you shortly. I appreciate the way you have approached that, because you are absolutely right. Every single program has a constituency among some part of the population, some member somewhere. This budget is all about setting priorities.

So I appreciate the perspective that you are bringing to look at this budget overall, which is what I am presenting today, and then I will appreciate the perspective that you take to look at this whole package of program savings and reforms—there are more than 150 of them.

We will put them together for you in some comprehensive way with a justification. I think what you will see is that we are trying to make responsible decisions all across the budget. Every single one of you will agree that collectively those are the kinds of actions we need to make to get our budget situation in order.

(Editor's note: See *www.whitehouse.gov/omb/budget/fy2006/pdf/savings.pdf*)

Chairman NUSSLE. Next, I would like to ask you to put up chart No. 14. This is the mandatory expenditure chart. Because I have also heard people suggesting that these are going to be the hardest and the most difficult decisions to make. These are the automatic spending charts—for again our friends that are listening, this is spending decisions that are made automatically. Congress doesn't have to vote on them. They just occur. The checks just get sent out the door.

Now, I don't see any cuts in any of those. They are all going up. The only one, thankfully, that we had a small dip in was net interest there for a little while. But unfortunately even now that is going back up, and we will have a chance to talk to Chairman Greenspan about that at the appropriate time.

But what I am getting at here is as I read the budget and get a sense for these mandatory programs, they are growing now at approximately 5 percent. I want to say 5.6 percent, and what you are basically saying is not cut them, but slow it down to about 5.5 per-

cent or some percentage slightly lower than that growth of 5.6 percent.

I would like you to just touch on mandatory spending. How would you like us to approach this as we go through this? A new word that people are going to have to get familiar with out there is reconciliation, which means we are going to send instructions to committees and say we want you to find savings in order to dip that growth curve slightly. Not cut, just try to slow it down. Would you touch on the mandatory side of the budget?

Mr. BOLTEN. Yes, Mr. Chairman, you are absolutely right that on the mandatory side of the budget, that is the part of the budget with the largest portion of expenditures. You referenced about 55 percent today that is growing steadily over time in ways that exceed inflation or, in most cases, the growth of the economy. You need to divide them into separate pieces, and I think the right way to look at this is in the different entitlement programs.

For example, we are carrying in the budget a Medicaid proposal that captures net savings of $45 billion, gross about $60 billion over 10 years. We have already heard a lot of complaints about that, but the effect of those savings is to reduce the growth in Medicaid from 7.4 percent per year over the budget window to 7.2 percent.

So you are absolutely right in focusing on the nature of what people are calling a cut is really a slight decrease in a large increase. Those are really the kinds of costs we need to get under control if we are really going to control our budget situation.

Chairman NUSSLE. Then last I would like to touch on taxes, and if I could. I would like to go to chart No. 12. Mr. Spratt mentioned—and his chart showed—that top line dip in the individual tax that this government is collecting. Thankfully, that dip is there.

That dip in our pocketbook out here around this committee table means an increase in the amount of money that is in the pockets of Americans that are making decisions around their kitchen table, balancing their checkbooks.

But interestingly enough, what the chart that Mr. Spratt did not show you is what happens this year and out into the future, look at it go back up? This is with tax cuts being made permanent.

Now, wait a minute, how can this be? What kind of magic is going on in this world that you can cut taxes and the amount of money that comes into Treasury goes up? Isn't this a miracle? Well, let us go to chart No. 11, and I will show you how it works. Look at the same dip.

Now, that dip is in the people who are working. So when more people are working, they pay taxes and more money comes into the government. When we have a dip in the amount of people working, less money comes in. It is the reason why we have focused on economic growth, and it is the reason why economic growth, together with spending restraint, gets us back into a situation that is long term a much more sustainable situation.

So, I appreciate the fact that you are continuing the progress that we have made to make tax relief permanent to get—and permanent around Congress is always a misnomer. I always think it is funny when people talk about tax cuts being permanent. It is more about tax relief being predictable, so that people can plan for

the future, that is what we are saying. We are not saying that anything around here is permanent.

What we are saying is that we want it to be predictable. We want people to be able to plan for their future. When people have a job and they are able to pay taxes and they are able to pay slightly lower, but there are more people actually working. It is good for our economy, and that is the reason why taxes are rebounding. So could we go back to chart 12?

If you want to make, as part of your proposal, if your answer today or in the future is going to be a tax increase, I just want you to look at that. I want to know where it is coming from. I want to know who you are going after. With now close to 47 percent of our country not paying individual Federal income taxes, I want to know where you are going to get it from.

So I understand there are those who have this simple answer. Let us just make the rich pay their fair share as the bumper sticker said, I think. Unfortunately now, I don't think that is going to be enough to get us back to where we are. It is going to slow down the economy and that is what is driving the train right now.

So I hope that if you are going to make these kinds of simplistic answers, that tax increases are the way to solve this—that you get specific and you put your proposal on the table.

It is the same challenge I give to you. I want to increase taxes as I give to those who don't like the spending cuts or the spending restraint. The simple way of putting it, put up or you know the rest of us, shut up. Put up or shut up.

You have to come forward with the proposal. It is not good enough to complain. I thank the Director and I yield to my friend, Mr. Spratt.

Mr. SPRATT. Mr. Chairman, let me just join with you on one particular chart that you had by showing a bar graph that identifies where the spending increases over and above current services have occurred over the last fiscal years. The bar graph, 90 to 95 percent of all the increases in discretionary spending over and above current services occurred in defense, homeland security and 9/11.

Now why is that important? The administration sought almost all of these increases. The support for them was on both sides of the aisle. So the administration is saying that there is runaway spending. They usually use the discretionary spending level, but most of this spending was spending that you specifically sought and that both sides of the aisle supported, and the difference between us primarily was we thought there should be a plan by which we pay for these increases. If they couldn't be paid for now, we shouldn't shove the tab off onto our children. It is a moral as much as a fiscal issue.

Mr. Bolten, let me go back to some of your charts and say the problem I have with them is all these charts require that we take the budget you presented as all inclusive. As I indicated in my opening statement, there are some major omissions in this budget.

First of all, if we could have chart 3—first of all, the realistic assessment of what the war, that is Iraq, Afghanistan, North American enhanced security, is likely to cost over the next 10-year period, we don't know what it is. We know that CBO, being diligent, has tried to model what the expenditure is likely to be in order to

adjust projections for reality. We do know from what Mr. Wolfowitz told us that we should expect a substantial supplemental in 2006. Wouldn't you agree that your numbers, if they don't include this, nevertheless have to be adjusted for these likelihoods in order for us to make judgments about whether or not you are closing in on your target?

Mr. BOLTEN. Mr. Spratt, the answer is yes and I expressly said so in my opening statement and we said so in the budget. What I do want to point out to you is that we are coming forward with a supplemental for 2005 very shortly. In the interest of providing as much disclosure as we could about the numbers we do know, we did include that $81 billion supplemental in the numbers that I presented to you this morning.

Mr. SPRATT. The outlay effects in 2006?

Mr. BOLTEN. Both in 2005 and 2006. That $81 billion supplemental, probably not even half of it will spend out in 2005 because the likely timing of enactment.

Mr. SPRATT. If you were to baseline $80 billion, the number I have there would be off by half. Let us hope it is not that substantial. But CBO is assuming that we reduce to two divisions, roughly 40,000 troops, by 2006 and maintain that steady state for the rest of the time period you have here, and they have come up with an estimate of $384 billion.

Mr. BOLTEN. The numbers for the 2005 supplemental are in the budget and are reflected there both in 2005 and 2006.

Mr. SPRATT. Do you expect that there will be a substantial supplemental request in 2006?

Mr. BOLTEN. I do. And as I said in my statement and we have said in the budget, you do need to add those costs in. Take a look at the supplemental when it comes out. What you will see is that we are putting a substantial investment into training and equipping the Iraqi forces themselves, the military and the police, to take over the job that the U.S. military is now doing. And our hope and expectation is that over time that will reduce——

Mr. SPRATT. It could be a substantial time. We are training right now an Iraqi Army of 24,425 troops. The target level has been reduced from 36,000 to 24,425. It is hard to believe that an army of that size is going to be able to take over responsibility for the security of the country when we have 140, 150,000 American troops well led and well trained and well equipped who haven't been able to quell the insurgency themselves. We are likely to be there for some time and we are likely to be underwriting the construction of those troops. There has to be a significant number added in to the 2006, and I would guess that is close to $50 billion at least. And if that is true, once again you have a budget deficit that is not coming down, but going up. And you are not closing in on your own stated goal of cutting the deficit in half by 2009.

Mr. BOLTEN. Mr. Spratt, I disagree with you. I don't necessarily expect the number in 2006 to be that high, certainly from an outlay effect of an additional 2006 supplemental. You are right that we will have significant costs going forward. Our hope and expectation is though by the time we get to the outyears of this budget window, 2009 and 2010, that our supplemental funding requirements will be substantially reduced and we will be able to cover all or most

of what we need to cover in our base defense spending, which is also increasing substantially.

Mr. SPRATT. Let us go to the cost of Social Security and privatization, which you are assuming in your budget, but you moved it to the far end of the budget window and you barely see any consequences. Using your numbers for the first 10 years, the first 10-year time frame for the budget, you estimated $754 billion. That is not for full implementation.

Mr. BOLTEN. With debt service, yes.

Mr. SPRATT. You would agree that that is an appropriate addition assuming that your proposal is adopted as proposed?

Mr. BOLTEN. Yes, I agree that is a correct addition. And it is also correct what I showed on the last chart that I had up on the screen, which is in 2009 and 2010, as the program ramps up, we would expect a deficit around 1.7 percent of GDP, including the transition financing elements of Social Security. And I would not expect that we would see substantially higher deficits as a percentage of GDP in the succeeding 5 years as a result of that transition financing.

Mr. SPRATT. You have to add $754 billion in several of your bottom lines in those years.

Mr. BOLTEN. True. I think if we follow the pro-growth policies that I was talking about and the chairman was talking about, if we exercise the kind of spending restraint across the budget that the President's budget proposes, I don't see any reason why we shouldn't be in that low deficit category out toward the end of this budget window and beyond that leaves plenty of room for that additional Social Security transition financing.

Mr. SPRATT. What about full implementation then? Once you have allowed everyone to divert at least 4 percentage points off their payroll tax, their FICA contribution tax into a private account, we estimate that with full participation, that will amount to an increase in the deficit of $1.4 trillion over the first full 10 years of implementation and $3.5 trillion over the second 10-year period, so that over 20 years there will be a $4.9 trillion increase in the deficit. You don't have anything like that factored into here. You leave the impression in saying we are going to cut the deficit in half in 5 years and it is linear, and in the second 5 years it will continue its effect and eventually wipe out the deficit. With that occurring and getting bigger and bigger, the Social Security privatization initiative in the second 10 and the second 20 years is deficit forever.

Mr. BOLTEN. Mr. Spratt, that first 5-year period we are showing in our budget, and I feel confident that we are on the right path, and we will get well below 2.3 percent of GDP.

Mr. SPRATT. Well, there is actually nothing in the budget. You indicate this could be the cost, but you haven't put that number in your budget, have you?

Mr. BOLTEN. It wasn't reflected in the budget because the budget went to print before any of the proposals were out, but I just showed it to you. It comes out at 1.7 percent of GDP in 2009 and 2010. And I don't see why we couldn't keep it that low deficit level in the succeeding 5 years.

Let me make a point beyond that, because 10 years from now, we face a very serious problem in our budgeting from the unfunded obligations in our entitlement programs, including Social Security. Regardless of what we do now, especially if we do nothing now, we are facing a very difficult budget situation beginning in 10 years if we don't address the crisis in our entitlement programs, including Social Security.

Let me make one very important point about the transition financing associated with these accounts and I alluded to it in my opening statement. These are not new costs to the government. This is an obligation that the government already owes in the form of future benefits. What personal accounts do is take these future obligations that the government already owes to beneficiaries, bring them forward, let people keep them in their own accounts, in accounts that are likely to grow much better than the Social Security system can promise. So it is very different from adding new spending into the budget. It is bringing forward an obligation that the government already owes.

Mr. SPRATT. But, Mr. Bolten, you have come to us from Goldman Sachs and have been an investment banker. You know that this requires the government of the United States to go into the capital markets in this country and the world and borrow at least $5 trillion more debt than they otherwise would do over that time period, over the first 20 years. Surely the fact that we are participating to that extent in the private capital markets, borrowing $5 trillion, will have an impact.

In addition, it is debt and it has to be serviced. One thing that is obligatory is that we pay the interest on the national debt. As you mount up, $4, $5, $6 trillion of additional debt to pay the cost of transition, the debt service has to be serviced on a current basis and pretty soon it eclipses. It wipes out everything else in the budget. I don't see how you can shoehorn it into this budget without catastrophic consequences.

Mr. BOLTEN. I don't accept the numbers that you have used there. Beyond that, if you go to Wall Street and talk to some of my former colleagues and other analysts there, if they thought we were actually going to be putting in place the kinds of plans the President is talking about, they would be applauding, because what they see is a huge unfunded liability, in the $10 trillion range of unfunded liability. And it is in the context of comprehensive reform, what we are doing is bringing forward the obligations we owe, letting people keep it in their own personal accounts. They will regard that as a fiscally responsible thing to do. It is.

Mr. SPRATT. In the meantime, we amass trillions of dollars of debt and the interest on it has to be paid out of current annual budgets. This chart here shows what happened under your budget as projected. We will see an increase in the interest rates, in the debt service on the national debt of—from $150 to $350 billion over the time frame we are talking about, and that means to the extent that has to be paid something else has to be foregone if you are going to balance the budget. That is a big wedge in the budget crowding out other things, and that is what is going to happen.

Do you disagree with the calculation that the first 10 years of full implementation will require the government to borrow $1.4

trillion? And the second 10 will require the government to borrow another $3.5 trillion?

Mr. BOLTEN. Mr. Spratt, I think you have to wait and see what the full proposal is. What we have been able to reflect is the first several years from the proposal that the President put out and no, I do not accept the numbers you put out. I think we need to see where the proposals come out and see the full balance of the entire proposal to see what the net effect on the government's borrowing needs are. One thing we know for sure, there is more than a $10 trillion present value unfunded liability out there. And each year we wait to address it, we are probably adding $600 billion.

Mr. SPRATT. That is one way to state it, but that assumes the perpetual cost to the system. If you look at 75 years, the cost of making the system solvent in present value terms is $3.7 trillion. That is an actuarial number. The Social Security Administration publishes it. In the sense of getting all of us on the same sheet of music, I think that is the fairest way to describe where our liability is. It is daunting enough. You don't have to hype it by saying it is going to be $10 trillion.

Mr. BOLTEN. I am not trying to hype it, but the right way to look at it is on a permanently sustainable basis.

Mr. SPRATT. You know any system we have got around here where we say what is this going to cost to have in perpetuity, for infinity?

Mr. BOLTEN. This is the system we have for Social Security, which is putting us on a path toward fiscal disaster and the reason where we are today is because we have limited ourselves to the 75-year low, because we have limited ourselves to looking out over a—what in the Social Security context is a relatively short horizon. We go 10 or 20 years down the line and we realize we didn't fix it. The President is planning to come forward with a proposal that would fix the system permanently. That is the right way to look at this system.

Mr. SPRATT. We would ask you once that proposal is put on the table to provide us for the record and for our own information what it is going to cost in the way of additional government borrowing, additions to the national debt and the national deficits over the first 10 years and the second 10 years. We think that the numbers are likely to be pretty close to what we are talking about. By our calculation, if the numbers we are proposing, the construction that we put on the President's proposals is enacted, the date of cash imbalance will be moved from 2018 to 2012 and the date of trust fund exhaustion will be moved from 2042 to 2031. So what you are doing is hastening the onset of the day of reckoning for Social Security. You are making the situation closer to a crisis than it needs to be or has to be.

Mr. BOLTEN. I don't disagree with the dates you put out. You need to see the whole proposal. If we do that in the context of an overhaul reform of the Social Security system, that insolvency date will not occur. We can forget about that problem. We may accelerate the date in which the Social Security system goes into cash deficit. If that is the price for getting comprehensive reform, that fundamentally solves the problem permanently going forward. I think that would be a great development. I think Wall Street and

financial markets around the world would consider that a great investment. It is the fiscally responsible thing to do.

Mr. SPRATT. One final question, Mr. Bolten. Would you agree that the privatization is such that the diversion of these funds into private or personal accounts does not by itself solve the insolvency problem of Social Security, that something else has to be done. And in particular, the President has identified his preferred alternative as being something close to plan 2, as formulated by the Presidential Commission on Social Security. And plan 2 includes a proposal to re-index the so-called basic insurance amount, the initial insurance amount determined for every beneficiary when he or she retires. Today, those income streams are indexed to wages; in other words, once you have determined your average monthly income, Social Security pays you 92 percent of a certain portion of it, 32 percent of another portion and then 15 percent of the final portion. Those bench points, so to speak, are indexed. Those income streams are indexed every year to rise with the rate of increase and wages in the rest of the economy.

What was proposed by the plan two is that the indexation be changed from wages to prices which would mean the rate of increase would be about half what it is and has been for some time. If that is done over a period of 40 to 50 years, the replacement ratio that a median average income worker would receive retiring at age 65 would decline from 43 percent to 22 percent. That is a number that is developed in plan 2.

Do you agree with that? Is this the means by which Social Security will be made solvent in the President's plan?

Mr. BOLTEN. The details of the President's plan will be forthcoming as the consultations with the Congress go forward. I can say this, I agree with you that the private accounts, the personal accounts do not in themselves solve the full Social Security problem. Other reforms will need to be made. What the personal accounts do do is make it possible for individual retirees to—individual beneficiaries to get a much better return on their money, much better than they otherwise would. One thing we know for sure about Social Security model 2 from the Social Security Administration, almost any of the reform plans, is that they will provide beneficiaries a better benefit than the Social Security system can now afford to pay. That is why Social Security reform is so important.

Mr. SPRATT. Even if the replacement ratio is reduced from 43 percent to 22 percent for the median worker?

Mr. BOLTEN. I don't have any disagreement if this comes from the Social Security Administration's own numbers. But what their numbers do show is that on their model 2, the benefits that future retirees will receive will, A, be higher than what current beneficiaries are receiving and, B, will be better than what the Social Security system can now afford to pay.

Mr. SPRATT. This assumes private accounts. It assumes a rate of return on private accounts. But in any event when the actuaries did their analysis, this was a model they used and they indicated that this particular mode of computing the initial insurance amount would correct the Social Security imbalance by 2.07 percent of payroll. The problem is 1.89 percent of payroll, this more

than compensates for that and by itself achieves solvency. That seems to me to be an inherent feature of the President's proposal and has dire consequences of Social Security if you are going to cut in half the replacement ratio that the average worker can look forward to getting out of Social Security.

Mr. BOLTEN. Mr. Spratt, I just caution you to wait and see what the full proposal is.

Mr. SPRATT. In the meantime, we turn to model 2 and see what they did and this is an integral part of model 2.

Mr. BOLTEN. And what you will see in model 2 is that the benefit that the beneficiaries will receive in the future is substantially better than what the Social Security system can now afford to pay.

Chairman NUSSLE. We will now recognize members under committee rules. Mr. Portman for 5 minutes.

Mr. PORTMAN. Thank you, Mr. Chairman. And Mr. Director, I commend you today for coming forward with a responsible budget. I know it wasn't easy to put together, but you have funded our critical priorities. And you have made tough decisions to make sure we meet this target. And I think we all share reducing the deficit in half by 2009. You have also put in place policies that promote pro-growth economics and that is critically important to keep the economy growing as we see in some of the charts.

I also want to commend you for putting the $81 billion supplemental in the budget. Mr. Spratt didn't give you enough credit for that because last year Mr. Spratt was critical of that not being included, as were some of us. This year you have done it. You deserve a little credit for that and we will see what happens.

On the remarkably successful elections that we all witnessed about 10 days ago, I for one believe we will not continue to have the same commitments we have had and certainly none of us know that. For 2006 and 2007, I think it is impossible for you to reflect that in the budget, and I respect that.

I want to go back to the impacts of tax relief on our economy, but I think it is a credible part of what we are talking about today. It is the impact on our economy and the impact on tax revenues and the impact on our budget deficit.

You stated that the long-time tax cuts back in 2001 and 2002 and 2003 were very important in the strong economy we have got now and the strong job growth. I agree with you on that. I think the basic budget debate that we have seen here this morning that is going to be played out over the next couple of months is between those who believe we should get to this having a deficit in half over the period between now and 2009 by increasing taxes, which is basically what my friend Mr. Spratt is talking about by not having the tax cuts become permanent because that is an increase in taxes, or whether we should look where we can reduce spending and basically restrain the growth in spending and encourage more economic growth. And it is an interesting debate. I think what I would ask for you today is give us your thoughts on the specifics on what the impact is on tax relief on the budget and looking forward over the next 5 years, what would happen if we were to increase these taxes?

Mr. BOLTEN. Thank you for those remarks and for the credit. It is not coming very often these days, so I am especially grateful.

And I am glad you have raised the importance of the tax relief and economic growth, because particularly reflecting back to the charts that Mr. Spratt first put up on the screen, what is missed there is that as this President entered office the economy was entering recession. We had a burst stock market bubble, the bubble that had greatly expanded Federal revenues burst and the reverse effect was occurring. As huge capital gains turned into huge capital losses, revenues plummeted. This is the first time this has happened since the 1920s. Since the President entered office, we have had three straight years of declining Federal revenues, and the principal reason was the burst stock market bubble and the recession that the President found on the doorstep as he entered office.

The tax cuts were essential to restoring economic growth in this country, and as we have had restored economic growth, we have seen revenues rise once again. Last year in 2004 we had revenues up by $100 billion. We are projecting even more than that for 2005.

Mr. PORTMAN. Could we see chart 12?

Mr. BOLTEN. That is the real key to getting our budget back in shape, because what we need to be doing is restraining the growth in our spending, at the same time that a growing economy helps bring our budget back toward balance. We are projecting, by the end of the budget window, that revenues will recover to pretty much the historic average of 18 percent of GDP, and that is with the President's tax cuts made permanent. In other words, by the end of the budget window, with the President's tax cuts made permanent, we will be at the historic levels of revenues that income and other taxes take away from the economy.

Now there are a lot of people who want to see that line go higher. They may want to see us take a larger than historic average bite out of the economy through tax revenues. That would be a huge mistake. That would send us back in the direction that we started out at the beginning of this administration, which is a weak economy, which means weak Federal revenues, which means a weak Federal budget picture.

Mr. PORTMAN. So, Mr. Director, you are actually telling us where we have chart 12 up there again now showing individual taxes actually going up in 2004, 2005 and into your 5 years, you are telling us as a percentage of our economy, percentage of GDP, despite making the tax relief permanent, we will see a larger amount of revenue coming in and a larger percentage of our GDP?

Mr. BOLTEN. Absolutely correct and it is a crucial point.

Mr. PORTMAN. Thank you.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman, and thank you, Mr. Director. I learned in September of last year that the death gratuity paid to a family of a young person killed in Afghanistan and Iraq was $12,000, which I consider a slap in the face to a family who has just lost a loved one in the service of our country. I filed a bill to increase that death gratuity and before the end of the session last year we had 219 bipartisan cosponsors on that bill. Of course, it died at the end of the session and wasn't passed.

I filed the bill again in January, just last month, we have 222 cosponsors, that would raise this death gratuity benefit to $100,000. I saw the President issued a statement last week, I be-

lieve, and said he would support this concept and it would be funded. My staff and I are going through this and we haven't gotten all the way through it.

Do you know if there is a proposal for funding that 100,000 death gratuity benefit in this submission?

Mr. BOLTEN. Yes, Mr. Moore, and the President does agree and we have taken a look at that. It will be reflected in the supplemental proposal that is coming forward in the next few days so that we can actually begin to address this problem immediately. If it were just in the 2006 budget, we have to be waiting for the 2006 year. We want to address the problem immediately. It will be reflected in the supplemental, and then in future years it will be part of the base.

Mr. MOORE. Thank you very much, and I think all of us on this committee appreciate the President's support.

Mr. Chairman asked us in his opening remarks if we don't agree with portions of the budget submission that we make our own proposal and don't just say no. Mr. Chairman, I appreciate what you said and I want to do that.

I tell the people back home when the President is right, I support the President. For example, I voted for the use of force resolution based on the intelligence briefings we had. I voted for No Child Left Behind because I thought it had some good accountability concepts in there. I tell people if the President, if I think he is wrong, I will respectfully say Mr. President, I think there is a better way. And I want to talk to you about a better way in at least a portion of this, the President's plan for partial privatization of Social Security accounts. I will today file a bill that is called the Social Security Truth in Budgeting Act in 2005, and this would take the radical approach of setting aside into a true trust fund Social Security dollars that are paid by American taxpayers for Social Security so they wouldn't be used for any purpose other than Social Security and I am talking about education and health care. And these may be worthwhile programs that all of us would want to support, but put aside into a true Social Security Trust Fund and couldn't be used for education, for health care, tax cuts or anything worthwhile but for Social Security. And I wondered if you could support a proposal like that. Now does this solve the solvency problem of Social Security funding? No, it does not, but it takes several steps in the right direction, and I would ask that the administration support this concept and that we start being honest with the American people about how Social Security monies are presently being used.

Mr. BOLTEN. Regardless of how we account for it in our official books, these are obligations that the government owes, and that is why the President is pursuing comprehensive reform that puts it on a permanently sustainable basis. Whether we say it is actually set aside in a trust fund or whether, in fact, the government ends up spending those surplus revenues as it has historically, going back well before this administration, however you account for it, we do need to solve that problem because you are absolutely correct that we have a serious problem coming down the pike. In the next decade, we will see the Social Security system go into cash deficit, and if we are going to address that problem, what we call it is probably a lot less important than putting it on a sustainable basis.

Mr. MOORE. I think people in this country think when they talk about a trust fund for Social Security that there is actually money in a fund, and actually what it is is an obligation of the United States Government, which I hope and believe we would honor in the future. But it is putting us further and further and further, our Nation and our children and grandchildren, in debt, and that is what I am concerned about and what we need to change.

I practiced law for 28 years before I came to Congress, and under Kansas law, and I think the law in most of the States, attorneys are required to have a trust fund to segregate their own money from their clients' funds and it is an absolute no-no to mix those funds. In fact, you can be disbarred and maybe prosecuted for doing that. And I think maybe we should have a similar rule here to protect Social Security funds to make sure that they are there for the intended purpose in the future and not used for every other purpose even if it is a worthwhile purpose.

Again, that doesn't correct the solvency problem, but takes several steps in the right direction, and I think that is what the American people think is happening now, and we need to be honest to tell them that it is not and we want to change it.

Chairman NUSSLE. Mr. Putnam for 5 minutes.

Mr. PUTNAM. Thank you, Mr. Chairman, and welcome, Mr. Bolten. I appreciate the fact that this is a very forthright budget that recognizes the need to set priorities, that recognizes the reality that there are trade-offs domestically for what we are accomplishing abroad, and I appreciate the President's willingness to tackle what I consider to be a generational issue and that is the long-term solvency of Social Security, recognizing that for younger workers and even younger Congressmen it will not be there when they are ready to retire.

If I may talk about that secondary leg of that mandatory spending stool now that we are at a point where are over half of the Federal budget is on autopilot being driven by mandatory spending. If you would comment on the mechanisms that were put in place in the Medicare reform bill that would enable us to get our arms around long-term Medicare spending challenges in the future.

Mr. BOLTEN. There were some good mechanisms put in place in the bill that the President signed about a year ago, designed to basically raise a flag for the President and the Congress when it appears that the Medicare system is taking too large a share of its revenues out of the General Treasury, because there is also a trust fund mechanism in the Medicare system but it only covers part of the cost of Medicare. Medicare is paid heavily out of the General Treasury with funds that are increasing almost geometrically out over time. There are mechanisms in the Medicare Modernization Act that give you and the President an alert saying that several years from now the system is going to be taking, I believe it is more than 40 percent of its money out of the General Treasury and providing a procedure for the President and Congress to step in and deal with it at that point. We would have liked to have seen stronger measures than that, but you at least have that mechanism formally built into the Medicare system.

There are more important things, though, that I think the Medicare bill does and that is that the real problem we face in Medicare

is also the problem we face in health care, and that is the costs in the health care arena are growing substantially higher than inflation or even the growth in the economy. Right now, our budget projections are that Medicare will grow by about 9 percent per year going out in the future. That is far higher than we can expect the real economy to grow, and ultimately that poses an enormous challenge to the budget. What we need to do is be sure that we bring those health care costs and Medicare costs with them down in a more reasonable range. One of the essential reforms in the Medicare Modernization Act was to try to shift over to a more private sector-oriented system where it allows plans to compete in providing Medicare services. A lot of us have great confidence that that will make it possible to provide Medicare services both more efficiently and at a higher quality. That is an important reform, so are health savings accounts, which push in the same direction, letting people choose more on their own—make more of their own health care decisions and make more sensible health care decisions over time. Better preventive medicine and better elimination of all the inefficiencies that we have in the health care system.

Mr. PUTNAM. I agree and appreciate that. It is vitally important that we get our arms around those cost drivers. Let me shift gears with the time remaining as someone who had three hurricanes pass over my district last summer and was the beneficiary of tremendous and thorough FEMA response that was well thought out and well executed, recognizing that those types of scenarios play out in this country every year.

What is the administration's approach to budgeting for emergencies and to what degree can we plan for those things and build them into our budget blueprint?

Mr. BOLTEN. We appreciated the opportunity to work with you during the hurricane disasters. You were extremely helpful in making sure the right relief got to the right place promptly in your district and the whole State of Florida that got hit with the triple whammy. I would hope we won't see that kind of situation again. That was extraordinary, really historically anomalous and I express special sympathy to you and the folks in your district who were at the intersection of all those hurricanes.

What we try to do with the Federal budget is set aside enough for the predictable level of emergencies, so we have substantial funding in our FEMA accounts and several other emergency accounts. We know there are going to be floods somewhere. We know that we are going to have some hurricane activity at some point in the next year, the next 2 years. But what we try to account for is the level that is normally predictable. Last year was not predictable. That was truly anomalous. What we would ask the Congress to do, when we make the request for that unknown or unpredictable funding, that you fully fund us on it. It is an easy place to find savings because it is not actually money spent on a known item. It is a reserve account, and it is easy to dial that account down in favor of accounts where it is spending that a particular constituent is asking for.

What I would ask you and the other members of the committee and Congress to do as you look at the appropriations is not sac-

rifice these emergency accounts we have set aside for the realistic level of unanticipated needs that we do have.

Mr. PUTNAM. I thank the gentlemen and Mr. Chairman.

Chairman NUSSLE. Ms. DeLauro for 5 minutes.

Ms. DELAURO. Thank you, Mr. Chairman. President Bush has said that his 2006 budget is a budget that sets priorities. To examine the priorities and seeing just who will benefit and who will suffer, it is a moral concern in my view. Budgets reflect the values and priorities of a family, of a church, an organization, a city, State or a Nation. Once we examine the priorities reflected in this budget we will find that they are the wrong priorities for this Nation and do not reflect the values of Americans.

This institution is about improving people's lives. It is a goal that I share with my colleagues, and in fact it is what ties us to our serving in this institution.

This budget runs directly counter to that goal. The policies reflect a deepening income inequality and remarkably raises the barriers for those who are struggling and working to do better. This budget calls for the extension of $1.9 trillion in tax cuts primarily to the wealthiest Americans, those making over $350,000. It compromises our ability to face our most pressing challenges, and it comes at the expense of the social safety net that might rescue those who live in poverty. The decision to eviscerate Medicaid by $60 billion over 10 years will leave many low-income families with nowhere to turn for medical care and many seniors with no way to afford long-term care; decrease in food stamps by more than 1 billion over 10 years making it more difficult, even impossible for low income families to qualify; funding for low income energy assistance, a program crucial to low income families and seniors. Child care funding is frozen for the fourth straight year, making it more difficult for families who are struggling to find someone to care for children while they go to work.

These are a few examples of the policy decisions that will have a devastating effect on real families across this Nation. They are not just numbers on a page. These decisions make a real difference for families who struggle to feed and care for their children. With this budget the President has turned his back on these families, and the President talks about a budget, this budget will put us on a path for cutting the deficit in half is simply not honest, but dishonest. The administration has left out key costs, ongoing military operations, privatizing Social Security, and when you take a look at the long term we are talking about saddling our children and grandchildren with the kind of debt that is immoral. The cost of the deficit should not be borne by those who are least able to afford it.

Budgets are moral documents, which reflect the values and the priorities of this great Nation, and I will quote you the Catholic bishops: The obligation to provide justice for all means that the poor have is the single most urgent economic claim on the conscience of this Nation. And the more that I hear this administration's justification for the harsh decisions that are in this budget, the more I believe that there truly is no justification. This budget is not only dishonest, but simply reflects the wrong values and the wrong priorities of this great Nation.

Mr. Chairman, I yield back the balance of my time. I have no questions.

Chairman NUSSLE. I thank the gentlelady. Mr. Wicker for 5 minutes.

Mr. WICKER. Thank you, Mr. Chairman. I want to thank you and the administration, Director Bolten, for having the courage to come forward with a proposal, which we will see specifics of in more detail, concerning Social Security individual accounts. And I want to remind members of the committee of a quote from Albert Einstein when asked what was the most powerful force on the face of the Earth. He answered that the most powerful force on the face of the Earth was the power of compound interest. And that is what the administration is talking about and that is what talented members like Mr. Ryan, who is a member of this committee, have been proposing for some time now when it comes to giving workers an opportunity to put more of their money in individual accounts.

My friend from Kansas mentioned setting aside Social Security money in a way that government spenders couldn't get their hands on it. I would submit to you, Mr. Director, and to the members of the committee that the best way to do that is to put the money in an account controlled by the individual where it would be able to accumulate funds and also that great power of compound interest, and certainly in that instance the government would be prevented from tapping into millions and millions of nice locked boxes that individual taxpayers would have.

I understand that the administration is going to come forward soon with particulars about individual Social Security savings accounts and that details will include the fact that the proposal will be entirely voluntary, that individual workers now will not have to participate in this at all if they do not want to, that it will guarantee at least the same benefit that we are promising now with the Social Security Administration and the Social Security laws as they are currently; that there will be no tax increase involved; that there would be no increase in the retirement age; and that the goal would be to give workers upon retirement significantly more than they are promised now or that they can expect now under current law. And I think it is really unconscionable, Mr. Chairman, and Mr. Director, for the government to promise a Social Security return on investment of approximately 1 to 1-1/2 percent when we know we can do better. Of course, for some individuals, depending on where they live and the demographic groups, the return is actually less than that. Sometimes it is a minus figure. And when we can do better and give retirees more money upon retirement than they are getting now, I think we certainly can do that and it is incumbent upon us to do it. I think we can do it, Mr. Director, without a cut in benefits. I think we can do it without forcing a change in the cost of living adjustment, as the ranking member just discussed.

I think we can do all of these things, make it voluntary, give workers more on retirement and save the system in the end. How can we do it? Is it the magic the chairman was talking about when he said you can cut tax rates and increase tax revenue? We have proved that can happen. The magic in this proposal will be exactly what Einstein said and I repeat that. The most powerful force on

the face of the Earth is the power of compound interest. I think we need to unleash that for the benefit of today's workers so we can do better for them with this program.

Let me ask you, we have been talking about the transitional costs. The Vice President said it will cost trillions. The question on a lot of people's minds, can we afford these transitional costs? The question I would ask you, can we afford not to do this? And what is the cost of doing nothing and leaving the system as it is currently constituted?

Mr. BOLTEN. Mr. Wicker, the best estimate of the cost of doing nothing right now is a present value unfunded liability of over $10 trillion. So the truth is we cannot afford not to take action for comprehensive Social Security reform as the President has outlined. And I would add one other thing, and that is as we talk about the personal accounts, it is very important for people to realize that these are not new costs to the government. You are exactly right in saying that if somebody is worried about the government taking your money away and spending it on something else, the right measure is to give people their own money to keep in their own accounts. And that is not a new cost to the government. These are benefits that we owe later on that we are letting people keep today.

When you talk about the transition financing cost, cost in my judgment is the wrong word. It is a financing element. It is a problem of having to deal with a slightly higher deficit as a percentage of GDP over the near term. If in fact what that does is make it possible for us to provide a better plan for retirees, let them keep their own money and permanently solve the Social Security fiscal disaster we have on the way, it is exactly the right thing to do.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman. If Republican colleagues want to privatize Social Security and have the right to argue for that, what is real is the Federal Government will have to borrow more than $2 trillion in the future to pay for that program. That is real.

Mr. Chairman, in all due respect I think there is not a weatherman in America who has been less accurate than some of my colleagues in this House about budget projections. You know, what the American people are seeing today are some of the same architects of the three consecutive largest deficits in American history are now telling us it is good news that we all have a $412 billion deficit predicted. Keep in mind before this administration, the largest deficit in more than 200 years of American history was $292 billion in the former Bush administration. Now what these same architects of these massive deficits are saying, well, our promise is to be able to fight the war on terrorism, the war in Iraq and the war in Afghanistan and to fund trillion dollar tax cuts and balance the budget. Well, that promise didn't turn out to be true. Now we are making the new promise. Now over the next 4, 5 years, we are going to cut the deficit in half. I predict that promise will turn out to be as false as the promise of the last 4 years that we would fight a war on terrorism, balance a budget and have massive tax cuts. One of the reasons it is going to be false is that two of the largest expenditures, the Social Security privatization program and the

payment for the war in Iraq are soon to be zero in this budget. That simply is not realistic.

Let me comment on cutting the deficit in half. To use the analogy, that would be like my family saying we used to have a surplus. We used to save money every year. But my wife and I went on a spending spree for the last 4 years and then racked up, you know, $50,000 each of the last 4 years, which for our family would be an enormous debt. Kind of like the $412 billion debt is to our Nation. We go to our banker and say, Mr. Banker, if we can assume some of our largest expenditures for the next 4 years are going to be zero, we are going to be able to cut that $50,000 a year family deficit in half. There is not going to be a banker in America that would be impressed with that. I think when the American people think about what it means to take a $276 billion surplus, just 4 years ago, turn it into a $400 billion plus deficit and then to say making a bunch of unrealistic assumptions saying you are going to cut it in half, I don't think the American people are going to be impressed with that and I don't think the markets are going to be impressed with that either. Let me say in my opinion, this budget is fiscally irresponsible and unfair to millions of working people. It is fiscally irresponsible because it will lock in massive deficits as far as the eye can see making us even more dependent on the Communist Chinese to fund our debt and upon other foreign countries to fund our debt. It will drown our children and grandchildren in a sea of deficits, and that is morally wrong.

This budget is unfair to working families because it will cut nursing home care for seniors, health care for veterans and education loans for middle class college students while continuing a $200,000 a year tax break for those fortunate enough to be making a million dollars a year in dividends. Where is the fairness in that?

Mr. Bolten, my question to you is this, this budget doesn't keep up with inflation for veterans health care. So many of the veterans I have represented at Fort Hood for the last 14 years, 40,000 of whom have served in Iraq, are going to have less funding in real dollars for health care services at the VA. They are going to have to pay $250 a year for an enrollment fee if they make over $30,000 a year if they have a spouse and one child, and they are going to have to pay more than double for prescription drugs. I understand the sacrifice this President has asked for our veterans. Specifically, tell me what sacrifice this budget asks those Americans making a million dollars a year in dividend income this year who received a $200,000 tax break because of your proposals.

Mr. BOLTEN. Let me talk first about veteran spending, because I think the President's record on spending on veterans health care has actually been very strong, and if I could ask for chart No. 18 up here, what you will see is that the President's proposals over the course of his 5 years now have resulted in a 47.6 percent increase over 5 years on spending in veterans health care, and that includes a substantial increase this past year. We believe we are serving a larger number of veterans better than they have ever been served before. We are asking for an increase in some fees for Category 7 and 8 veterans, an enrollment fee and increase in their drug copay from $7 to $15. I think most ordinary folks would consider that still a very reasonable request to be made and one that

the system ought to be able to bear. But I think the President's record on spending of veterans health care is very strong and we are doing a good job with those folks.

Mr. EDWARDS. You are not keeping up with inflation this year in this year's budget.

Mr. BOLTEN. I believe we are and we are keeping up with what we think the needs are in the veterans medical health care system. A nearly 50 percent increase over the last 5 years I think is a very substantial increase. And just as importantly, I think the Department of Veterans Affairs is doing a good job in providing quality care, reducing the waiting time for adjudication of appeals and such, and I think they deserve a lot of credit rather than criticism for the job they are doing for the veterans of this country.

Second, the tax cuts that you referred to are in large part responsible for the restoration of economic growth in this country. The reason why we ended up in the deficit situation that you are quite properly very concerned about, as are we, the principle reason we ended up in that situation is the flagging of economic growth, a burst stock market bubble, a recession. All of these had a tremendously negative effect on our revenue receipts in this country, declined for 3 years in a row, and therefore on our budget situation. The key factor that will bring this budget back to health along with restraining spending is good economic growth. That economic growth comes from a variety of factors. One of the reasons why we have had the good strong growth in the last few years is precisely because of the President's tax cuts, and that includes the dividend and capital gains cuts, which most economists will tell you are the most effective bang for your buck in restoring economic growth.

Mr. EDWARDS. You are not asking for any sacrifice for people who are making a million dollars a year in dividend income.

Chairman NUSSLE. Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman. I appreciate your work on the budget. I guess it is surmountable. A couple of quick points and the last one—first one has already been touched a little bit and that is with regard to the veterans. You pointed out it was a 50 percent increase in veterans spending increase in the last 4, 5 years. It was about a 15 percent increase in spending just over the prior year. But I do hear that charge from the critics and the media already that we are cutting spending for veterans. So the short answer to this when I go back to speak to veterans groups is to the allegation of cutting spending, the answer is, we are not cutting spending, is that correct?

Mr. BOLTEN. That is correct. In fact, there have been very substantial increases over the course of this administration in spending on veterans' health care.

Mr. GARRETT. The short answer is as far—and you have addressed one issue—is as far as the health care side of the equation, I believe we have also reduced the amount of time, the amount of waiting time for veterans who are waiting 6 months or longer for getting health care services over the last 5 years from—almost a 95 or 99 percent reduction; is that correct?

Mr. BOLTEN. I don't have the precise details off the top of my head, but one of the great accomplishments of Secretary Principi

during his tenure in the Department of Veterans Affairs was to reduce that waiting time dramatically.

Mr. GARRETT. I mean, I fundamentally feel that one of the chief responsibilities of the Congress and of the Federal Government is to first just protect and defend our borders and then to take care of those individuals who are doing the job for us now, and in the past as well, because we are not going to be able to get a fighting force in the future if we don't take care of those who have taken care of us in the past.

So I think it is fundamental. I think this is a thought that is shared from both sides of the aisle. I think the administration has stepped up to the plate on that, and so I am encouraged to hear we are going to do that in the future.

The second area, just a quick one, the President has spoken with regard to relief, tsunami relief in countries. Now, I have not had the ability to go through that entire sealed package up there to see how this should be taken care of.

My belief is this should be taken care of in offsets by whatever amount of money we are going to finally provide. Is that addressed in the budget, or will that be addressed through the supplementals?

Mr. BOLTEN. I will save you from going through the sealed package. The tsunami relief will be addressed in supplemental funding. It is something that is urgently upon us and I expect will be part of the package that the administration sends up in the next few days.

Mr. GARRETT. Has the administration made any thoughts with regards to the offsets for that amount?

Mr. BOLTEN. It will be part of a roughly $81 million supplemental proposal, principally for the war in Iraq and Afghanistan. We have not attempted to propose offsets for any part of that.

We, of course, happily would entertain any suggestions on offsets that ought to be taken, but we think our first priority is to get the needs met that are saving lives and saving communities out where they have been affected by the tsunami.

Mr. GARRETT. Well, since I have a minute here, I will throw them out so you can entertain them when you go back, and that is that any money that we are going to be providing them should be a contribution from this generation and not to a future generation. So if we are going to be providing them over $350 million of assistance, which I think is an appropriate amount that we do, that this should be coming from today's citizens and not being borne on the backs of our children or future children, and, if that would be the case, simply adding to the deficit.

So a simple solution would be for each department to be spreading across the board evenly and each department can look within its own current fiscal budget to decide where they can shave that off their operating from waste, fraud, abuse, or otherwise. To each department, simply says that is what their contribution of the American government will be to them. So I would appreciate if you would consider that.

That is all. I yield back the remainder of my time.

Chairman NUSSLE. I thank the gentleman.

Mr. Ford for 5 minutes.

Mr. FORD. Mr. Chairman, thank you. It is good to see you, my friend and alma mater mate and neighbor, Director Bolten.

Let me jump into two things. One, the comments that Chet Edwards had, Congressman Edwards had about the veterans' piece. I am curious. Your comment was a strong one about what you are doing for veterans. I think it is important to note that the administration's numbers are $732 million below what it would take to keep track with inflation alone.

That doesn't include Iraqi veterans coming back home. So as excited as the administration is about those things, I think it is important to keep a lot of this stuff in context.

What I want to do is just talk briefly about what this does to my State. Now, when you consider education, I know we talked about increases, and you all are excited about the increases. But in my three largest school districts in Tennessee, including Memphis in my own district and Nashville where Jim Cooper is from in Knox County, You have shortfalls of 36 million in Memphis, 15 million in Nashville, and 8 million in Knox County, or Knoxville.

All of this is going to be compounded by vocational education cuts and the elimination of a TRIO program which has helped thousands of kids across Tennessee, and, for that matter, the Nation.

I know the President eloquently said in a meeting with all of the Cabinet secretaries—and I believe you were there Director Bolten—that the American people want us to spend money on programs that work, and I agree. Yet there seems to be a disconnect, because you all are cutting programs that are working.

The COPS program, which we in Tennessee have used to hire more than 2,300 police officers and sheriffs, appears to be working, because crime is down. Now, you may not say COPS had something to do with it, but when the economygrows you all attribute it to tax cuts, so I am going to assume because more cops are on the street and crime is going down that COPS has something to do with that.

You talk about veterans' affairs. I mention it again, because of all the things to be cutting—and Chet mentioned it so well—forcing people who make more than $30,000 a year to pay a $250 fee to get into a drug program.

I mean, all my friends on the other side, we just know that is unfair. It is not night. Your kids, nieces, nephews and neighbors over there—I know all of you know somebody that is over there from your district or family—it just doesn't seem right to me we are doing those kinds of things.

Not to mention the number of Guard and Reserve members that are over there. You have 9,000 from my State. They are all concerned about health care. There is a backlog of people trying to get appointments at hospitals, the backlog of people trying to ensure that they are reimbursed and that payments are made. It is just hard for me to believe that we sit here and we pretend that somehow or another all this spending that we are doing in the President's lean budget is to take care of all these things.

Now, I can respect the fact that your priorities are different. As a matter of fact, I think we can all run on those things. You all have a set of priorities. We have a set of priorities.

You happen to believe the $2.5 trillion budget is the best we can do. And, Mr. Bolten, I imagine or venture to say that that comment you just made about veterans is going to be seen in my State and some other places—when you say we are doing the best we can by veterans and the best we can by servicemen and women. I don't think we are, and they don't think we are.

But that being said, those are your priorities, and I hope you are willing to defend them. Because if you give me the choice of providing any kind of a break to someone earning over $1 million or $2 million in dividend income versus making it where veterans don't have to pay a copay or where veterans don't have to pay $250 to insure their part of a—or, I should say, prescription drug care program, I am going to side with the veterans.

You can call me a liberal. You can call me whatever you want to call me, but you are not going to be able to call me unfair when it comes to veterans.

Now your predecessor, our friend Mitch Daniels—remind you, he is a new Governor—the first thing he did—Chairman Nussle, you talk about taxes—he raised taxes. Why? Because Governors can't do what we can do. They can't just borrow indefinitely.

I have a Governor faced with a big problem called TennCare, which we hope CMS and others will give us a little relief on. He doesn't have the advantage that we have here. He can't just keep borrowing against my kids, who I don't have yet, and their kids when they do have them. He has to balance the budget.

Mitch Daniels, your predecessor, he has learned a sharp, stark reality. Now that he is Governor, he has to balance the doggone budget. What is he doing? He has to raise taxes.

Now, I have a question for you, and I know I have done a lot of talking here, and you have said a lot of things that kind of tickle me a little bit. When you said that the budget—I think deficit—is a slight decrease and a large increase—I am going to use that one, too. But I want to ask you this question: Is there such thing as a tax cut that doesn't work? Because I am curious, I like tax cuts, too. But at some level, I don't know if we are getting the bang for the buck. You may say the growth has produced all of that, but we keep spending more and more.

Is there ever an instance where we could find a tax cut, we could find a better tax cut, like cutting taxes for 94 percent of people in my State who earn under $100,000 a year or the 65 percent who earn beneath the national median income who aren't affected by the $1 million in dividend income which we cut taxes on?

Is there ever such a thing as a tax cut that doesn't work? And maybe we should switch and provide tax cuts to those who actually need them, whether it be in the form of prescription drug care for veterans, education funding for local school districts, or even that mom and dad who are working their tails off, a tax cut for them who earn $50,000 a year.

Mr. BOLTEN. Economists will tell you that tax cuts will have a variety of effects depending on what the tax cuts are. The tax cuts that Mr. Edwards referred to economists consider to be among the most effective in restoring economic growth; which actually is the best antipoverty plan we have got—to make sure we have a growing economy and people can get jobs.

Let me point out one fact about the President's tax cuts, and that is the effect of them has been to make the Tax Code more rather than less progressive. If you take the top 5 percent of earners in this country, that is, people making more than about $140,000 a year, without the President's tax cuts, they would be paying about less than 52 percent of the total income tax taken in this country. After the President's tax cuts, they pay about 54 percent, a little more than 54 percent.

Mr. FORD. That number is 140,000 or above?

Mr. BOLTEN. That's correct.

Mr. FORD. Ninety-four percent of people in my State make less than 100,000, because——

Mr. BOLTEN. That is exactly right. Those who are in the bottom 50 percent of earners under the President's tax cuts, their share of the total—they got a tax cut too—their share of the total income tax burden went down from 4-point something to 3-point something percent of the total income tax taken in this country.

So the effect of the President's tax cuts, while everybody got a cut, was to not make the Tax Code less progressive, it was to make the Tax Code more progressive on balance.

Mr. FORD. Mr. Nussle has been kind—but that doesn't take into effect the increases in local and State taxes, I would imagine, because my property taxes have gone up in my district. All those folks at 50,000 or less who benefited from that tax cut are seeing those increases that States have to show.

I appreciate your answer, but reality is when you pay taxes, you don't care who you are paying it to, you have got to write the check.

Mr. BOLTEN. Well, that is right. I think that is why what we are dealing with here is the Federal Income Tax Code, which the President has made more progressive, but why I think States need to watch their revenues as well. By the way, State revenues, along with the economy, are responding very well. The State revenues are up.

Mr. FORD. Mr. Chairman, thank you for the time.

Chairman NUSSLE. The gentleman from Florida, Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman,

I am always amazed at what I hear in the press and what I hear even today from my dear friends, the Democrats.

Mr. Bolten, of course, has had to deal with it also all day.

I hear complaints that the deficit is too high, and I share that concern. Then sometimes in the same breath, we hear that the President is not spending enough. You know, it doesn't take rocket science to understand that if you are concerned about the deficit, you either have to raise taxes or cut spending.

What is very interesting for me to hear is that the same people who complain about a high deficit then complain about not enough spending by this budget.

I just want to read, Mr. Chairman, something that I got off of an Internet Web page. If you will bear with me, it says the President is committed to ensuring that all domestic discretionary spending, excluding Defense and Homeland Security, does not grow any faster than inflation. Continues on later to say that this person—obviously the President here—discretionary spending pro-

posals will be paid for by freezing or cutting nonpriority programs. It is paid, the priorities—I want to make sure I am not misunderstood here—I may have said the President. No. This was a person who was running for President. Who every single one, as far as I know, of my friends on that side of the aisle supported in the Web page—on the Web page it says what I just quoted.

Yet when the President proposes a budget that actually is very—does just that, all of a sudden it is the sky is falling again.

I guess, Mr. Chairman, to again quote a very popular phrase by a very well-respected Democratic leader, and paraphrasing a little bit my friend, the Democrats—I guess they support restrained spending before they oppose it, and in the same breath.

Again, it is just an amazing thing to me to see, for us to witness here, live on national TV and in person.

Mr. Bolten, thank you for your testimony. I think it has been extremely enlightening. One of the things that a lot of us are concerned about, as well as the President, is to make sure that we protect the American taxpayer and the beneficiaries who are supposed to receive the benefits. And you and the President have implemented a variety of tools to do so, including, again, to look for efficiency and effectiveness in the programs.

One of the most important tools I think that the President has implemented is the so-called Program Assessment Rating Tool, known as PART. It is obviously to rate the effectiveness of the government programs in order to make sure that—to help them form management and spending decisions.

By the way, I want to thank you and others for your leadership there, and others like Clay Johnson who we work with quite a bit, we harass quite a bit.

Did this program, PART, play a role in developing this budget, number one? Number two is how can Congress better utilize that system that you all have spent so much time and effort developing to also do a better job in prioritizing our spending in the future?

Mr. BOLTEN. First of all, Congressman, I know my deputy, Clay Johnson, has very much appreciated the opportunity to work with you on improving the measures by which the government decides what is working and what isn't. That is our PART program.

What we have tried to do is systematically go through all the accounts in the budget and do an assessment—what are these programs doing, what are they supposed to do, are they meeting their objectives—and apply some neutral criteria to these analyses.

We do that with PART ratings. Those are now ever more integrated into the budgeting decisions we make. In each of the important budgeting decisions that has come up in the course of this administration, we have always asked the question, do we have a PART score; what is it; what is that telling us about the program? For Congress we make those PART ratings available.

So I encourage you and the other members to draw on those ratings as you decide what ought to get funded and what ought not to get funded. There are a lot of tough choices to be made in a budget like this.

Mr. Ford referred to a bunch of them that we have to decide—well, OK, we can fund a little more here, but that means that we have to dial down somewhere else. We have tried very hard to

make those choices based on which of the programs is performing best in accomplishing the objective. That is what the PART ratings do, and I thank you for raising it.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

Chairman NUSSLE. I thank the gentleman.

Mrs. Capps for 5 minutes.

Mrs. CAPPS. Thank you, Mr. Chairman.

Director Bolten, I have a question about the $45 billion in Medicaid cuts in this budget. And I am recalling Chairman Nussle's son's allowance for these purposes. Let us assume that the $5 he gave his son last year was for health care.

Chairman NUSSLE. Don't get his hopes up it is going to be that high.

Mrs. CAPPS. This year his health care allowance costs are $10, and he is only given 9. That is what we are talking about in the arena of cuts. My question is based on three realities:

First, spending on the Medicaid program has been growing, but a large part of that growth is due to enrollment increases. Specifically, enrollment increased by over 8 million, almost 8.5 million enrollees, between 2000 and 2003. These enrollment increases were driven by what you referred to as the recent recession and subsequent loss of income and job loss, as well as drops in employer-sponsored insurance. And in this case, then, Medicaid did exactly the job it is supposed to in such a situation, which is to serve as a safety net. Without Medicaid, the increase in the number of uninsured would have been very much larger than the 5.2 million increase in uninsured we have already seen during President Bush's tenure.

Second, growth in Medicaid spending reflects the overall problem of rising health care costs all across the board, which is an issue for all health insurance, private and public, and not specifically Medicaid. In fact, according to The Urban Institute, Medicaid per-capita spending grew at an average annual rate of 6.1 percent over 2000 to 2003, far better than the private health premiums, which rose over 12 percent annually during that same time period.

So, finally, we are looking at Medicaid cuts as merely shifting the costs. The cost will either be shifted to the States, or to the beneficiaries who can ill afford them, or to providers in the form of lower payment rates.

My question to you is: Under these spending cuts, to whom are you shifting the cuts? Do you envision that States will have to pick up more of the costs? Do you expect States to cut payment rates to providers, or do you imagine that beneficiaries are going to have to pay more out of their own pockets?

I have here the image I would like you to reference, which is that of working parents anxious about their children's college education, whose own parents are Medicaid recipients in nursing homes facing the cuts that this proposal will entail.

Mr. BOLTEN. Let me ask for my chart 12 to be put up to show the magnitude of the numbers we are talking about. Mrs. Capps, what we are looking at here is a situation—the green line is the lower line, the just barely lower line. The blue line is our current estimate of the trajectory of Medicaid spending.

If the President's proposals are adopted, we would end up at the green line in Medicaid spending. That is a reduction from 7.4 percent growth per year to roughly 7.2 percent growth per year.

So we would still propose to meet the expanding expectations in Medicaid, but at a slightly reduced rate. Most of these savings are expected to come from insisting that the States receive the right amount of reimbursement from the Federal Government.

There are a lot of mechanisms there used to dial up the reimbursements they get. We are just trying to ensure that the Federal Government pays its appropriate share of Medicaid funding.

Much more important than all of this, though, is the Medicaid reforms that Governor Leavitt talked about in his speech last week. I commend that to you, because I think it was a very important speech, and I think it will be a very important proposal when it comes out in full detail.

The purpose of that is to give the States more flexibility in how they spend their Medicaid money, because we are not making the best use possible of that money that we could. If we give the States more flexibility in spending that money, they are likely to be much more effective in treating more of the most needy people in a more effective way.

Mrs. CAPPS. Well, let me just refer to Secretary Leavitt's home State of Utah and the flexibility that was used there, which meant that in his State, some Medicaid-qualifying adults were not even allowed, or are not even under that plan, allowed to have their inpatient hospital care covered.

Does this notion of flexibility that the States are going to be able to use—does it mean that they are going to be cutting prescription drugs offered to Medicaid recipients or low-income pregnant women's prenatal health care, whatever the areas that this is being touted as being such a magic bullet for?

Mr. BOLTEN. Well, I think most Governors will agree that the flexibility allows them to target the funds where they are most needed to where they are most useful. The system right now is relatively hidebound and inflexible and provides funding for things that many Governors think are not their highest priority. We want them to be able to allocate funds to their highest priority.

Let me mention one other thing that is in the President's budget, and that is an effort to make sure that all the kids who are eligible for SCHIP funding get signed up. We are putting $1 billion into that initiative, I forget over how many years, but it is a substantial initiative to get more of the kids who are eligible for SCHIP funding signed up. Our budget numbers reflect an increasing number of SCHIP members in the program that actually expands—expands Medicaid funding slightly.

Mrs. CAPPS. Thank you, Director.

Mr. Chairman, if I could just reference. I applauded also when I saw SCHIPs funds going up. That is another example of shifting costs that is going to come from seniors in nursing homes most likely, or some other, because of the huge numbers of the costs that are implied—entailed with seniors in nursing home cost care, for their care.

Thank you.

Chairman NUSSLE. Yes, Mrs. Capps, since you referenced my son, let me just say that we have got to get a handle on the costs. I mean if my 14-year-old son's costs were growing faster than his growing allowance, I would build me a woodshed, as the saying goes, because we want to get a handle on this.

So I understand that there will be some complaints. But as the Director's chart clearly shows, we are going to increase the funding. It is a matter of trying to begin to slow the rate of growth by finding cost savers, and I understand that you believe that is going to be a tough job. It is a tough job, and we need to do it. We can't allow it to continue to grow out of control.

Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Chairman.

I am very pleased to be a new member of your committee, and I thank you for the opportunity.

Chairman NUSSLE. The gentlelady is recognized for half an hour.

Ms. ROS-LEHTINEN. Thank you, sir.

I am also pleased to have Mr. Bolten here, because I have a very important constituent in my congressional district in the tip, in the southernmost tip of my district, Key West.

Mr. Bolten's mom resides there, and so I am always treating very carefully the children of my constituents.

Mr. BOLTEN. In addition to your half hour, that is an extra billion.

Ms. ROS-LEHTINEN. There we go, thank you.

But I wanted to follow up on a statement that you made, Mr. Chairman, and my good friend Lois, and that is about the coverage that we are giving to needy children. We have got such great programs that are included in the President's budget that truly do reflect the values of our caring society. The President's budget has this cover the kids' program, which is $1 billion in grant money over 2 years to help coordinate with the Federal, State, and local community and all of these programs.

I think that more should be highlighted about the great innovations that are in this President's program. I just wanted to highlight that in my district that is going to be very important.

But I am on the International Relations Committee. I wanted to ask you about some—two topics related to our committee. One is the global HIV/AIDS initiative. I think the budget funds this unprecedented program.

The President's compassion is reflected in the budget numbers, and I want to congratulate him for that. He has made that one of the centerpieces of our international relations cornerstones of this program, and I think that it is meritorious of highlighting it that, once again, it is in the President's budget. It is $3.16 billion, and I congratulate you for that.

I wanted to ask you about how we know how those funds are being implemented, how do we engage success on that? And if we have any time left over, on the Millennium Challenge Corporation, another innovative program that goes to the very poor countries—they need it very much and it is a great increase for those countries. That is the best way that we can promote freedom and democracy. That is, to make sure that the economies of those coun-

tries are self-supporting, and we have got to help them with their health care problems as well as helping them to rise out of poverty.

I think the President's international affairs budget helps us to reach that goal.

Mr. BOLTEN. Thank you, Congresswoman. Thank you for raising these issues. I am sorry Ms. DeLauro was not here to hear you talk about that because these are two initiatives of which the President is very proud, and do reflect the great heart that America has, and the President's initiatives of promoting freedom and development around the world so that we are safer at home and people are better off abroad.

The AIDS program that the President announced, I think, 3 years ago—and he announced a $15 billion 5-year program to combat AIDS internationally—I think it is turning out to be a tremendous success. It is a very rough world in which to be operating. The Congress has stepped forward and given the President ample funding for that. We are ahead of pace to meet the President's goal of $15 billion over 5 years.

You have referenced that we are at almost $3.2 billion in this proposed budget. Much more important than the dollars is the effect that this program is having on lives. All of the reports we have been getting back from the field is that there are tens of thousands of people now able to live normal lives who are HIV-infected, who are able to live normal and productive lives, who are not leaving behind orphans, and, most important, are not spreading the disease elsewhere. So there is great success out there.

We have asked Ambassador Tobias, who is the head of our operation there, to do his best to give us metrics about how to measure the success we are achieving. But I think he and his counterpart in the global AIDS fund, Mr. Feacham, are doing a terrific job addressing an urgent international crisis in a way that does reflect the good heart of the United States and all the contributors to the global fund.

Ms. ROS-LEHTINEN. Just quickly in my remaining 5 minutes, the Millennium Challenge Corporation.

Mr. BOLTEN. The Millennium Challenge Corporation is indeed a way to approach foreign aid. The President's proposal was that we target our foreign aid to those countries who are stepping up in other ways to make sure—that helps ensure that the aid is well used. So we are putting our aid money into countries that are attacking corruption or are attacking mismanagement, and that we know that we are not just pouring aid money down a dark well, which has been a criticism of aid funding in the past.

So it is targeting the money where it is likely to be most useful and targeting aid money in countries, developing countries that are likely to put them on the best path to development. It is an innovative approach to foreign aid. The President has requested for this year $3 billion in that account. That is twice what the Congress appropriated last year, so it is one of the biggest increases in this budget for this important program of compassion and development.

The President's goal was to reach $5 billion in funding for that program this year. We are slower in the funding than we would like. The President is still expecting to meet that goal next year. It is very important for these countries. I think it is very important

for the national security of this country that we step up and meet all of our responsibilities overseas where we can and where we can be confident that we are making good use of those dollars.

May I take another minute of your 30 to make a comment about the President's commitment to oversees development assistance? The core development assistance in 2006 under this President will have risen to $19.8 billion.

That is an increase of $8.2 billion over what was enacted in just 2002. That is about a 71 percent increase. The President's commitment on the national security side and the overseas development side has been unprecedented, I think is leading the world, and I think we will go a long way toward making sure that we are living in the kind of safe world that will not require the sorts of war funding that we are now having to experience.

Ms. ROS-LEHTINEN. Those dollars are an investment in our national security.

Mr. BOLTEN. They are.

Ms. ROS-LEHTINEN. Say hi to mom.

Thank you. Thank you, Mr. Chairman

Chairman NUSSLE. I thank the gentlelady.

Mr. Cooper for 5 minutes.

Mr. COOPER. Thank you.

Director Bolten, you have put a very pleasant face on some pretty draconian budget cuts. The President's budget really depends on one thing. This giant budget project you just completed really just depends on one thing; that is, whether Wall Street will buy it.

You mentioned a couple of times today, and I think you mentioned yesterday in your press conference, that you feel that Wall Street has given it a pretty positive reaction. In fact, I think today you even used the word "applaud," applaud the idea that our government would continue to be borrowing billions and maybe trillions of more money, increasing the national debt beyond anything our forefathers could have imagined. What worries me about this is that you mentioned Wall Street approval.

It kind of sounds like it is a Good Housekeeping Seal of Approval. That worries me because even though Wall Street may be happy, I am worried that Main Street probably shouldn't be happy, because I am not sure a lot of folks on Main Street understand how Wall Street bankers work.

Now, I used to be an investment banker, you used to be one. When you borrow money on Wall Street, it is not like Wall Street bankers are loaning you their own money. They are loaning you other people's money, right? In this case, even as big and as rich as our Wall Street banks are, they wouldn't have enough of their own money to loan us all the money that we need. They have to go to other sources of capital, right? It worries me because Wall Street really doesn't care what interest we pay on our borrowings, as long as they find a buyer for the bonds, as long as they complete the transaction, right?

Wall Street isn't being so helpful because they are all patriotic. They are good folks and many of them are patriotic. I have got nothing against Wall Street, but this is the way business works. They would loan money to the worst dictatorship on the planet as long as they found a buyer for the debt, right?

So Wall Street really doesn't care who loans us the money as long as somebody does, as long as they earn their precious fee. So in many ways, the ideal transaction from a Wall Street standpoint is to get the Chinese or some other country to buy the whole thing, to buy all the bonds in one gigantic private placement, as long as they earn their fee.

Because, Director Bolten, you and I both know on Wall Street there is a famous phrase, "There is no such thing as a bad deal, there are only bad fees," by which they mean low fees.

I think that should give the average American on Main Street a little bit of pause, because when you say that Wall Street applauds what you are thinking about doing here, it is like throwing red meat to sharks. Of course they are happy. If sharks had hands, they would be applauding, but that doesn't necessarily make it right.

This administration could decide to sell Wall Street the Lincoln Memorial and the George Washington Monument on our Mall to Wall Street, and as long as Wall Street found a buyer, even the Chinese, and we were able to put up advertising all over it, why then Wall Street would be happy.

So I would urge you, and also Secretary Snow in your statements, to be very careful when you mention Wall Street approval or acquiescence or applauding. It doesn't necessarily mean what a lot of folks back home might think it would mean, because these folks are not about to loan us their own money, and they don't really care whether the transaction is good for the Nation or not as long as they earn their fee, right?

Mr. BOLTEN. Mr. Cooper, you are raising an interesting caution, but I think you have misunderstood what I was trying to say. I was responding to a question about how Wall Street would react. Because, first of all, I can guarantee you that the President cares a whole lot more about Main Street than he does about Wall Street, just ask him, anytime.

Second, what is important about how Wall Street reacts to the Social Security plan and the additional financing that might be needed in the short run for transitional accounts is the point that whether Mr. Spratt or somebody was raising—which was, whether we would get a terrible reaction from the financial markets, Wall Street, from this additional borrowing, that is, would it cause interest rates to go up? So far we are not hearing that concern from the markets. Interest rates have not gone up in the course of the past few years.

Mr. COOPER. Because the Chinese are funding our debt. Never have more foreigners funded our debt than they do today.

Mr. BOLTEN. Yes, and to some degree it is important that we maintain the confidence of both the domestic and international markets in what we are doing. But one of the ways we maintain that confidence, and in fact the most important way I believe we can maintain that confidence—and this is the point I was making about Wall Street—the most important way we can maintain that confidence is by getting assurance that we are getting control of our long-term unfunded liabilities of our entitlement programs.

The reason I say you would get applause is that if adopted as part of a comprehensive plan, the personal accounts and the rest

of the comprehensive plan to address Social Security, if we did that, we would be giving both domestic and international markets confidence that we can deal with the long-term unfunded liabilities in our system with the fiscal danger that we face, not the perceived danger from the additional borrowing that personal accounts might require. That is why I referred to Wall Street, and only for that reason.

Mr. COOPER. But Mr. Bolten, again you are giving Wall Street too much credit. As long as they earn the fee, as long as they sell their bonds, those folks will be happy and they will get big bonuses at the end of the year. You and I may care about substance, but the market doesn't work that way. They care about completing the transaction, closing the deal.

Chairman NUSSLE. The gentleman's time has expired.

The gentleman, Mr. Lungren, for 5 minutes.

Mr. LUNGREN. Thank you, Mr. Chairman. Thank you for inviting me to this battle of the dueling charts. I appreciate it.

Chairman NUSSLE. You ain't seen nothing yet.

Mr. LUNGREN. Mr. Spratt, I want you to know that I seriously took into consideration last week—you made a reference to my hair, so I went home and got a haircut before I saw my mom. So I appreciate that.

Mr. SPRATT. I just thought Congressmen from California knew how to grow more hair. That is, I was impressed.

Mr. LUNGREN. I listened very carefully to your conclusion of your statements where you talked about debt—our national debt may be an insoluble or intractable problem. I think I get a sense of why you may feel that way and why the folks across the country may feel that way.

I hear the reticence from anybody on either side of the aisle to talk about cuts. We do everything we can to say that what we are going to do is not cut, can't be considered a cut, doesn't look like a cut.

Well, where I come from, cut is not a four-letter word. The American people, it seems to me, are suggesting to us we have to get our fiscal house in order. It may, in fact, require us to look at some cuts.

I thank Mr. Cooper for reminding me what it was like when I was here before. I feel like Rip van Winkle or maybe it is Groundhog Day. I heard these same arguments 16 years ago when the President was named Ronald Reagan, and he was being castigated for suggesting that we night actually have to restrain spending on the one hand and being blamed for the size of the deficit on the other.

I note that Mr. Bolten has suggested that this is the first time that we have had nonsecurity discretionary spending reduced—you actually used the word—I think you said "cut," someone must not have given you the language lesson before you came here—since the Reagan administration.

Ronald Reagan once said that the best example of immortality on Earth is a Federal program. I think we are seeing that once again. My reflection, having been gone from this institution for 16 years and now coming back, is that everybody wants to be Santa Claus,

no one wants to be Scrooge. I guess you are our designated Scrooge here today. Maybe we should thank you for that.

In reference to the question about Federal programs, first of all, I would like to ask you two questions:

The first one is this. Mr. Bolten, do you know, in the last 16 years since I have been gone, has there been a single government program eliminated? If you can't tell me whether there has, what I ask is that your staff prepare a list of all the Federal programs that have been eliminated over the last 16 years so that we might have that context to look at your proposals here today.

Mr. BOLTEN. Mr. Lungren, we will give you that list. It is going to be a pretty short list.

PROGRAM TERMINATIONS

The Office of Management and Budget does not track program terminations over time separately.

This administration believes the Nation's priorities can be met in a fiscally responsible way. As part of the President's 2005 Budget, 65 programs were proposed for termination. The Congress concurred and ended funding for the following seven programs:

Department of Commerce

Technology Opportunities Program

Department of Education

Eisenhower National Clearinghouse for Math and Science Education
Eisenhower Regional Math and Science Education Consortia
Federal Perkins Loans: Capital Contributions
Regional Technology in Education Consortia

Department of Housing and Urban Development

Public Housing Drug Elimination Program

Department of Justice

Local Law Enforcement Block Grant

The President's 2006 Budget proposes to substantially reduce or terminate more than 150 programs that are not getting results, duplicate current efforts or do not fulfill essential priorities. These programs and the rationale for reducing or eliminating funding are presented in the OMB document *Major Savings and Reforms in the President's 2006 Budget.*

Mr. LUNGREN. I would think so. That, you know, just goes to the question of the infallibility of Congress and the Federal Government itself. We seem to think that once we create a program, it must necessarily maintain itself. If you dare stop a program, it is because you are making an immoral judgment which reflects on our society in a bad way, when in fact we as parents make decisions every single day.

My children are now adults, but when they were growing up I didn't give them everything they wanted, nor did I perhaps give them everything that they needed, in one sense, because we couldn't afford it at the time. No one said I was immoral, nor did I believe I was immoral. But to suggest that somehow if we come to grips with spending, we are making immoral judgments, is a strange way of looking at things, at least in my judgment.

The other thing I would suggest is that we are the Federal Government, not the local government, and there are other levels of government that can do some things; that used to be known as the principal subsidiarity—as it used to be known in Catholic social doctrine—which suggested that that local government closest to

you would be the one that was most effective in performing certain tasks, and that if they couldn't do it then you moved up that chain. I have never heard that talked about.

But that brings me to my last questions. I am here because of 9/11. That is the reason I came back. Homeland Security, the preservation of our country the way it is, it seems to me, is the primary obligation of the Federal Government.

Can you tell me whether this budget reflects that? That is, if we only have a finite amount of money, and our number one objective is to protect this Nation against terrorism or attack in other ways, should not the budget reflect a shift in priorities in that direction, number one?

Number two, with respect to homeland security, can you tell me what this budget does, if anything, to deal with the problem that has gone unaddressed for over 3 years? And that is the problem of interoperability, the failure of our various first responders to be able to deal with one another. The costs to deal with that problem are large, and I couldn't find whether this budget begins to address that. In all the discussion we have had about everything else, it seems to me that those are the kind of fundamental issues we ought to see reflected in a budget.

Thank you.

Mr. BOLTEN. Mr. Lungren, we will get you information about the interoperability. But your overall question about the shift in priorities is exactly on target. Homeland security wasn't even an understood phrase before September 11, and it was not a major priority in the budgets of this country. Over the course of the budgets since September 11. Over the course of the last 4 years, this Congress and this President have increased Homeland Security funding by more than triple. The President's proposal would take it well above triple.

There is a net increase in proposed Homeland Security funding in this budget of close to 8 percent—I am sorry, a gross increase of close to 8 percent, offset by some increased fees. It does reflect the priorities.

Now, are we doing everything we need to do as well as we need to do it? No, not yet. There is growing expertise in the government about how best to go about it. There is an enormous range of needs to pursue. But you can be sure that it is at the top of the President's and the administration's priority list, just as it is at the top of yours.

Chairman NUSSLE. The gentleman from Maine,

Mr. Allen, for 5 minutes.

Mr. ALLEN. Thank you, Mr. Chairman. And thank you,

Mr. Bolten, for being here. In looking over this budget in the time we have had, I was struck by several things.

I would have hoped that this would be a budget that would help create a stronger, more competitive economy, and that is much more than about tax cuts. I also believe this budget should have broadened the prosperity in this country.

But when I look at it and see that you are proposing new tax cuts for the wealthiest people, it is pretty clear that it doesn't do that.

Third, it ought to lead to a better future for our children, but we are instead burdening them with debt that they very well will have a very hard time digging out of.

You know, I am just a new member of this committee. You know, I haven't been to these sessions before. But when I look at this budget and what it does to my home State of Maine, some things jump right out. It will weaken Maine's economy, bottom line.

First of all, there is no destroyer in the 2007 budget for Bath Iron Works. So there is a gap. The DDX program is being delayed, there are fewer ships being organized. We have 6,000 people there. That will mean a significant loss of jobs.

Second, the Medicaid program is being reduced. I can assure you, that is going to move some people out of nursing homes who need to be there. I know what Governors say when they hear the words "flexibility," and they hear "block grants," and they know it means less money.

Vocational education is being reduced. Job training is being reduced. What that means is that fewer people are going to have the opportunity to really become part of this economy.

The Chairman said at the beginning that a reduction, a cut, in Washington is sometimes a reduction in an anticipated increase. Well, back home people have a real simple idea: If they can't provide the same services year to year, they know that services are being reduced. It doesn't matter what the number on some piece of paper in Washington is. If they can't provide the same services, they are losing ground.

You talked about tough choices. One of the tough choices though, I suspect, that wasn't so tough for this administration is whether or not to keep that upper 1 percent, the people who earn $350,000 a year or more, to make sure that they keep the $89 billion in tax cuts that they will get this year, $89 billion; make sure they keep that money instead of dealing with vocational education or Medicaid or Navy ships or support for small businesses, which is going to be harder to get with the Manufacturing Extension Partnership being reduced.

We have some responsibility to each other on the government side to try to encourage economic growth. It is not just about tax cuts. At one point you said tax revenues take away from the economy. Well, I thought that school teachers were part of the economy. I thought that police and firefighters were part of the economy. I thought the young men and women serving in our military are part of the economy. I think this notion that the private sector has all the answers, and that is where all the energy comes from, is wrong.

Let me just, if I could, call up chart 11, because I did want to touch on the Social Security issue before you finish. No, before I get to that, if I could make just one request of you.

The budget, we understand, proposes more than 150 reductions, reforms and eliminations in nondefense discretionary programs, exactly the kinds of programs I was just talking about, which would save about 20 billion in 2006 alone.

Can you provide this committee, if you don't have it today, with a complete list of those 150 programs?

Mr. BOLTEN. Yes.

Mr. ALLEN. Would you do that?

Mr. BOLTEN. At the outset, the Chairman made a similar request, that we do it as one full package with an explanation for each of the cuts. So I assured the Chairman that we would put together a package like that, and we will have it available to the committee shortly.

Mr. ALLEN. Thank you. Thank you.

If I could call back chart 11. This is one analysis of what happens with the President's Social Security privatization plan—reflecting debt as a percentage of gross domestic product. The Vice President said the other day that it would cost trillions of dollars in new debt, trillions of dollars, in order to put Social Security privatization in place.

You have talked a little bit about Wall Street analysts. But, you know, the economic report of the President every year has wildly overpromised the number of jobs that would be created by these tax cuts. We have all the promises made at the outset on Iraq.

I mean, as you look at this chart, do you see the risk that is there in moving toward privatization and having to borrow all of that money that you have to borrow inevitably over the first couple of decades and beyond? I mean, that money has to come from somewhere. It is coming out of the private markets. And wouldn't that necessarily mean slower economic growth?

Mr. BOLTEN. No. First of all, I am not exactly sure what data are used for this chart. But the answer is that

we face an enormous unfunded liability in our Social Security system if we don't do something about it.

The personal accounts, which, as I have emphasized before, are a mechanism that allows people to keep more of the benefits they will receive later. To keep the benefit now, let it grow faster than it would in the Social Security system and let them own it themselves. It is not a new cost to the government, and that is why the additional financing that is likely to be needed for it, which I don't think is properly reflected in that chart, but the additional financing that will be needed for it I do not think poses a burden on this economy. And especially it does not pose a burden on this economy because it is not a reduction in net national savings. It is money that the government will, in the short run, have to borrow because it is not paying benefits later. In the short run, we will have to borrow what goes into these personal accounts, which goes into savings. So there is no reduction in that national savings, and therefore not the kind of economic effect that you would have from normal government spending.

I am glad you raised the economy overall, though, because the tax cuts have been absolutely crucial to the recovery in the economy that we have seen over the last several years. Job growth was slower in recovery than expected, but it has recovered. We had over 2 million new jobs created in the last year alone and I think the prospects going forward also look good.

There are a lot of other parts, though, to the President's economic plan, and you will see those reflected in this budget. That means a responsible energy policy. It means similar justice reform, it means open trade policies, it means controlling health care costs. All of those things will contribute to a better economy. I want to

repeat something I said earlier. Our best fiscal tool is a growing economy.

Mr. ALLEN. Mr. Chairman, if I could just—in response to one thing. This is Social Security Administration data analyzed by the Center for Budgetary Policy and Priorities, and that is why we believe the source is good. But I thank you for your time.

Chairman NUSSLE. The gentleman from New Hampshire, Mr. Bradley.

Mr. BRADLEY. Thank you very much, Mr. Chairman. It is certainly a pleasure to be on this committee and I am looking forward to a very interesting month to 6 weeks ahead of us.

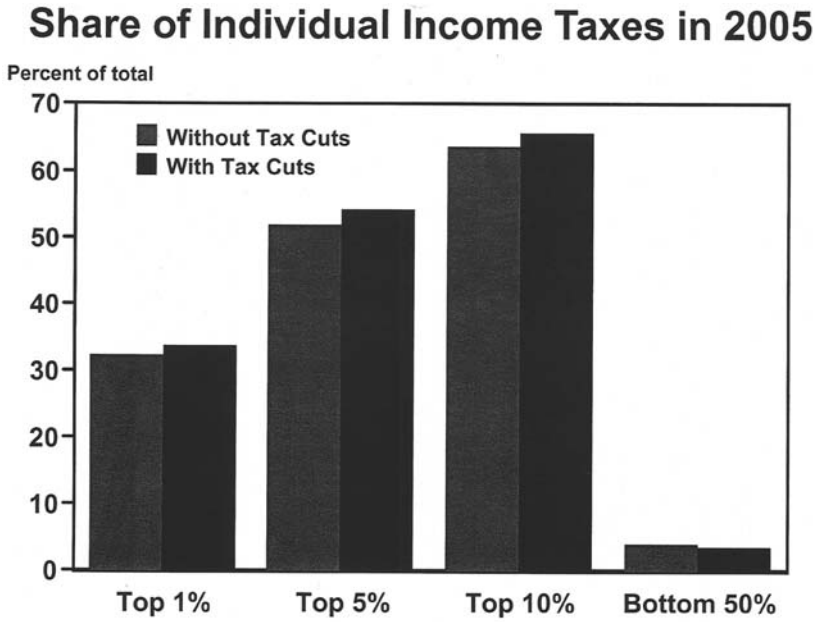
Mr. Bolten, a pleasure to meet you, I meant for your position on agricultural subsidies, and I hope that the $5.7 billion that we are talking about over the next 10 years is just a start.

Secondly, I think it is very interesting, the whole discussion about the top tax bracket and the percentage that is paying those taxes. Obviously, if we have gone in the top 5 percent from 52 to 54 percent, that means that somebody at the other end of the spectrum is paying a lesser percent; and it must mean in my point of view that the tax package has not only become more progressive, but that it has helped middle-income Americans because every tax bracket has dropped. There has been marriage penalty relief. The child credit has been upped. The 10 percent tax bracket has dropped. I believe 3 or 4 million people off the tax rolls, and the small business expensing provisions have helped small businesses grow.

So my request would be if your staff would be able to prepare a couple of charts that would show some of that information, that would be very helpful. It is a very important story, I think, not only if we look at Chairman Nussle's charts 11 and 12, that has contributed to increasing revenues and increasing jobs, but it also—how it has changed the dynamics of who pays.

My question is if you could touch on some of the budget restraint mechanisms, line-item veto, the rescissions authority, the importance of those in making sure that a budget that we passed actually has the backbone for the President to be able to enforce that.

Mr. BOLTEN. First of all, Congressman, we can provide you a chart. I am looking at one that we don't have on the screen now but I think that you will find useful as you look at it. But what it does show is that the result of the President's tax cuts is that people in all of the upper-income brackets are paying a larger share of the total income tax take than they would be without the President's tax cuts.



The one category that is going down substantially is the bottom 50 percent. I didn't have the figure when I answered a previous question, but the bottom 50 percent of taxpayers in this country, those in the bottom half of income, would, without the President's tax cuts, would be paying 4.1 percent of the total income tax taken in this country. After the President's tax cuts, they pay 3.6 percent of the total income tax take in this country.

Thank you for raising the budget process reforms that I alluded to in my opening statement. They are very important. You will find them amply discussed in the main budget volume that you have in front of you.

There are several important proposals there that include statutory caps on discretionary spending, pay-go for mandatory spending. That means if someone wants to propose an increase in mandatory spending, that there be an offsetting decrease in mandatory spending. It includes some proposals to ensure that we are not expanding the unfunded liabilities we have out in the future, because it is easy to make proposals that are outside the 10-year budget windows that resolutions have traditionally operated in, so to make sure that those additional expenses are also captured.

We are also coming forward with a proposal on the line-item veto that we have carried in the past. There seems to be increasing interest in the Congress in some measure, in some sort of measure, whether it is our specific one or not, of giving authority to line out a lot of the individual spending items that find their way into big appropriations bills.

Finally, we are proposing a sunset commission and a results commission as a way for the Executive and the Congress jointly to take a look at our spending programs overall in context, and where we can find savings to capture those savings, where we find pro-

grams that aren't delivering the best results, to capture those savings as well. It is a big package of proposals, and I think you will see it well reflected here.

We are glad to provide additional materials as you might need.

Chairman NUSSLE. Thank you. Thank you, Mr. Bradley.

Mr. Case for 5 minutes.

Mr. CASE. Thank you, Mr. Chairman.

Mr. Bolten, I am going to refer to the President's budget, Historical Tables on page 118, which is Federal debt at the end of the year, historical 1940 to 2010, the last 70 years.

Mr. Bolten, I guess what I was listening for in your testimony and what I did not hear was really any mention of the debt. In fact, I actually went so far as to count the number of times you said the word "debt" in your testimony. You said it twice.

Going back to the Chair's comment at the very beginning, which was: what do people worry about, what do they have heartache over when they are sitting around the kitchen table at home? Well, when I am home sitting around my kitchen table with my wife Audrey, worrying about household finances, or back in the old simple days where I was running a business and I worried about our business budget with my partners, I worried mainly about debt.

Now I worried about revenues, and I worried about expenses, and I especially worried when revenues and expenses got out of whack with each other, and I worried when expenses exceeded revenues in a particular year, even a particular set of years. But the thing I worried most about was what did it all add up to in the end. How much debt was I carrying?

I worried about debt for two obvious reasons. The first reason I worried was because prolonged debt at excessive levels is a sign of mismanagement, period, not just getting through some bad times. I also obviously worried—and if I could have chart 7, please—about the total amount of interest I was carrying on that debt, because obviously interest has a way, if you don't watch it, of taking over your budget, as you well know.

Looking at the historical levels, of course, I think we are all very well aware at this point that we are carrying the highest level by far of gross Federal debt in our country's history; gross Federal debt referring to all debt, so debt held by the public as well as debt held by government accounts. All debt, the debt that is subject to the debt ceiling, the debt ceiling that we have raised three times in the last couple of years.

Now, you have characterized the President's effort on the deficit not in absolute numbers but by reference to the percent of GDP. We can argue about whether that is proper or not, but so that we are talking about apples and apples rather than apples and oranges, let us not take the total amount of debt—which under your projections if I am not mistaken will increase by 60 percent under this President's budget in the next 5 years, 2010, 2004, 7.3 trillion to 2010 projected $11.1 trillion—that is 60 percent by my calculations--but let us take it from a different angle as a percentage of GDP. See, you have it right on the chart.

Now my understanding—correct me if I am wrong, I don't think I am—is that under this President's budget, by the year 2010 we will see the highest percentage of debt to gross GDP since 1954. If

you can track back through that column and tell me the last time you get to 70 percent, I think it is 1954, is that right? That is at the end, obviously, of a very expensive 15-year cycle of two wars—one World War and the Korean War, and then you can see that it dropped off from the 70 percent for 50 years. Even through the Vietnam War we didn't have Federal debt at 70 percent of GDP.

So clearly something is wrong with our debt. I don't hear from this President and from you a recognition of the problems associated with the Federal debt. I don't hear a plan to get us out of long-term debt.

In fact, if you want to go back to the points made by the Ranking Member, Mr. Spratt, you will see that if you add in the items he was talking about—if you add in, for example, interest on the borrowings to jump-start the Social Security plan, I will bet you anything that in the years after 2010, you will see not only a significant increase in Federal debt on an absolute level, but you will see a very significant increase as a percentage of GDP.

So here is the straight question, Mr. Bolten. We are talking about priorities here. I don't think the Federal debt is this President's priority or this administration's priority. Somehow they have just decided to coast on the debt for a while, and it is easy to do because you can cover it up. It is not very sexy to talk about, it is not like vets and destroyers and everything, but it is debt.

So where are the priorities, how are you going to get us out of debt?

Mr. BOLTEN. Well, Mr. Case, I am glad you have raised that, because that is a matter of great concern to me and the others in the administration who follow these issues.

The relevant measure is as a percent of GDP. Just as it would in any business or family, you worry about your mortgage relative to your overall income. And so the right way to look at this is as a percent of GDP.

Economists also look to the other column in here, which is the debt held by the public is normally considered the relevant measure of the debt, not the debts that the government owes itself, but the debt held by the public. What you see on that column there, which is a very important column, and I am glad you pointed it out—and I appreciate your doing that, because it is a very important measure. What you see right there is the Federal Government's debt to GDP ratio in our projections, basically peaking around 40 percent of GDP and beginning to decline slowly thereafter.

Forty percent is around the modern historic average of debt to GDP. It is also quite a bit less than most of our trading partners internationally. Most of the rest of the industrialized world has debt to GDP ratios much higher. But you are absolutely right to focus on that, because that is what really matters.

Mr. Cooper and I were just talking about Wall Street. By Wall Street—I mean the financial markets. What is the interest rate that is going to be imposed on Federal debt and on ordinary borrowing out there in the economy? Because that is going to have a substantial effect on how our economic growth grows.

When the government's debt to GDP ratio is declining, in other words, if we are at 40, and if we heading down to 39 or 38, that

is good news for us, and I think that will be good news for restraining interest rates. So that is something we very much need to keep in mind.

There are two parts to that equation. One of them is the overall debt that we are building up, and the other is how quickly is the economy growing. As long as we are growing the economy faster than we are adding debt to the Federal Government—which it would be great if the amount we were adding were zero—but I think you and I agree we want to keep that number as restrained as we possibly can. But as long as we are growing the economy faster than we are adding debt to the Federal Government as a percent of GDP, I think we are doing a good thing for the Federal budget, and interest rates ought to remain low.

So you are very right to focus on it. That is a ratio that we want to see in a positive direction. I think this budget shows a responsible way to get those numbers in a positive direction.

Mr. PORTMAN [presiding]. We have to move on. Thank you for your answer.

Since Mr. Nussle left, you all have done these run-on questions to me. To be sure that our long-suffering colleagues can get these questions answered and to be sure Mr. Bolten doesn't have to leave before that happens, let us try to keep our questions and answers to 5 minutes.

Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman. Thank you, Mr. Bolten, for being here today.

I first want to applaud you and the President's bold budget this year that looks at eliminating 150 duplication of services as well as ineffective programs in the Federal budget. I think it is a bold statement that you are looking at mandatory spending as well and looking at $130 billion worth of savings over 10 years there.

I want to first ask that you and the President look kindly to Congress that would look to expand the number of programs that we eliminate or are cut or are duplications of services that have outlived their usefulness and are no longer serving the people well. I hope you also look kindly upon us here in Congress, at least those on the conservative side of Congress, that wish to look at controlling mandatory spending as well. I think this is a strong start, but I think we need to go further.

Beyond that, I think it is interesting, as far as my first budget meeting, to hear the schizophrenia of the left here today. You have many great quotes I have listened to from my colleagues on the other side of this aisle. There is this great schizophrenia. They rave that the President is doing horrific things to the budget deficit, and at the same time they are crying foul that the budget is being reduced for nondefense, nonhomeland security discretionary spending. They are crying foul that the President would dare look at cutting ineffective programs.

In fact, the Ranking Member of this committee has a wonderful quote in the paper today. It says, "In the end, these cuts barely make a dent in the deficit, but they hurt."

Well this is just—I don't know any other way to describe it other than schizophrenia. I think it is important to look at ways to both reduce the deficit, reduce the size and scope of government, and

look at ways to better help my constituents at home as well as all those here across the United States that are being represented today.

There is also something interesting here that the other side won't step forward and say, and that is that they want tax increases. If you don't cut government services, if you don't cut ineffective programs and you want to reduce the deficit, there is only a third way; as Bill Clinton would say, that will be to raise revenue by taking more from taxpayers across the country.

We have got a lot of great quotes. Our Ranking Member here today said revenues are a critical part of the problem, which is a nice way of telling the taxpayers of this country we want more from you. We want to take more from you to create more government programs and to give more to other people that are not willing to do for themselves. So I want to say your budget is a strong start.

As far as Social Security, which as a youngest Member of Congress—I retire in 2042, when even the Democrats say that the trust fund is exhausted. Even the left will say that.

I read in the newspaper today that the minority leader here in the House refuses to offer a Social Security reform plan.

My question to you today—as Ms. DeLauro said in her opening statement, it is a moral concern, the debt we are leaving to our children. So this segues perfectly into President Bush's initiative to allow for personal Social Security accounts for my generation so that we can fix Social Security for generations to come. So my question to you today is of those on the other side of the aisle that say that Social Security is fundamentally sound. That is a quote that I have taken from the newspaper, and they were reciting that like it is Scripture. After the values election, I think we might hear more from that on the other side of the aisle.

But I want to ask you, how do you see the Federal budget being impacted by, well, by looking at personal Social Security accounts? What that will do for revenue generation, what that will do in terms of so-called transition costs, which are really putting up funded liabilities on the books and being honest about the obligation we have in Social Security, if you could explain what impact that will have long term for the budget. And thank you for being here today.

Mr. BOLTEN. Thank you. Thank you, Congressman, and thank you for speaking for that younger cohort.

First of all, we would be happy to work with you on any additional spending reductions or even program eliminations or reforms, that you and your colleagues have in mind. The budget, after all, is just the administration's ideas of where we can go to find these savings. And we will give the package that the Chairman requested, but we would welcome any additions and suggestions and look forward to working with you on it.

On Social Security, Social Security is not fiscally sound as it is currently constituted. There is a huge unfunded liability out there which the system cannot now afford to pay. Fundamental reform is needed. Each year that we delay in pursuing fundamental reform adds to the cost of fixing the problem.

The calculation is that the total unfunded liability on a present-value basis is over $10 trillion. That figure has to go up by 600 billion or more per year every year that we don't address the problem. So it just gets harder to close the gap each year that we let go by, even though many people find comfort from the fact that today's current retirees or near retirees will see no change at all.

But for those in your generation, in your cohort, we do need to make a change. And one of the key changes that we should be making is a switch over to personal accounts which provide an opportunity for the beneficiary to keep more of their own money up front. Invest it in a safe and sound investment managed by professional managers in a secure way, which can grow much faster than Social Security now promises benefits, in a way that does not impose an inordinate financial burden on the Federal budget.

When we move forward personal accounts, when you say you can keep some of your money that you are paying now in Social Security in your own personal account, what we are saying is the government is not going to owe you money later on that you are paying in, and therefore we are reducing our liability in the long run. We have to recognize that liability more up front, but we can do that in a way that we believe will not threaten our deficit goals in the short to medium term and will put this country in a much better fiscal position in the long run.

Mr. PORTMAN. Thank you, Mr. McHenry.

Mr. Baird.

Mr. BAIRD. Thank you, Mr. Chairman. I thank the gentleman. Yesterday at 3 a.m., I was at McChord Air Force Base, welcoming our soldiers home from Iraq and Afghanistan. It strikes me when we look at the budget and recall the testimony we heard last year, last year the budget was estimated to be $1 billion shy of the needs of current services for veterans. As I look at this budget on page 271, I see admittedly in some categories some increases, but in other categories real dollar cuts. What I don't see are adequate increases to provide for the increased enrollment of veterans into the system, inflation as adjusted for health care and the demands of our soldiers and their families as they come back from Iraq.

Frankly, I have got to say that I think parts of this budget are dishonest, and I think some of it represents a betrayal of promises made to our soldiers.

I, along with Congresswoman Darlene Hooley and many other Members of Congress, believe that as part of the supplemental appropriation of $80 billion, we should add at least 1.3 billion immediately, not wait until 2006, but add it immediately to meet the needs of the returning soldiers and their families.

I would sure like to be able to discuss that with the administration. If we can send $80 billion over there, we ought to be able to spend 1.5 or so here, so that when those soldiers come home with prostheses and with mental health challenges and the family readjustment issues, we could take care of them. Is that something we could work with you on as we look at the $80 billion supplemental coming up?

Mr. BOLTEN. I don't anticipate that that will be part of the $80 billion supplemental, but I am sure that Secretary Nicholson will be interested to engage with you on what the needs are in the vet-

erans' community. We feel we are appropriately meeting those needs. I think you were out of the room when I put a chart up on the screen that showed that over the——

Mr. BAIRD. I was present, but what I didn't see in the chart is a comparison of enrollment growth and inflation growth, medical inflation growth, vis-a-vis the portion you put up. I think there was something absent from the chart.

Mr. BOLTEN. Well, we will try to provide you additional information. But I should say that Secretary Principi and now Secretary Nicholson are very proud of the quantity and quality, very importantly, of the care.

Mr. BAIRD. My question isn't whether you are proud of it or not. I think if you run for office on the platform and the President runs for office on the platform that the veterans' benefits would see cuts in terms of benefits, I think there would have been a different outcome.

Let me move to a couple of other issues.

Mr. BOLTEN. Congressman, let me say we are not proposing cuts in veterans' services.

Mr. BAIRD. In cuts in services? You are absolutely committed to providing current level of services to our veterans, including new enrollees and including adjustment for inflation.

Mr. BOLTEN. Congressman, we—if you look at the budget, what you see there is increasing expenditures on veterans' health care.

Mr. BAIRD. I didn't ask about veterans' expenditures, sir. I asked about benefits, which was a word you used. Are you making a commitment to this body and to the people of the United States that will there be no benefit or service cuts to our veterans?

Mr. BOLTEN. We don't intend any in this budget. I will let Secretary Nicholson engage with you on what you think is needed. But what I think I will say is that we are confident that we are amply meeting the needs of today's——

Mr. BAIRD. Let me not go to confidence. It is not a subjective process.

Will you say to us here that if you adjust for inflation, additional enrollment and additional demands of the returning population from Iraq, Afghanistan and other theaters, this budget will not result in long waiting lists, will not result in increased costs of service to those people?

Mr. BOLTEN. I can't predict how every piece of the budget will play out, but what I can tell you is we have amply met the needs of our veterans.

Mr. BAIRD. Wait, we are rehashing turf.

Let me bring up another matter, if I may. Could I bring up chart 3, Bush Budget Omits 10-year Cost. I would ask the gentleman to help us with this a little bit.

As I look at this, I think there is a real cost that is absent. That, I think, we find on page 362 of your budget.

Here is the question. If—and you can help us add to this possibly of the omitted costs. If we were to list how much borrowing we are doing from Social Security over the next 10 years, under your budget, the President's budget, what would that amount be, borrowing from the trust fund?

Mr. BOLTEN. I think you can probably do the arithmetic as quickly as I can. But the bottom of page 362 does show the off-budget surplus that is being used for government expenditures, as it has been for many years.

Mr. BAIRD. So correct me if I am wrong. I don't think it says it has been for many years. I see an increase in borrowing from $155 billion in 2004 to $252 billion in 2010. So I think we are adding $100 billion and borrowing from the Social Security Trust Fund even as we are claiming to cut the budget deficit in half, and that is the first 5 years.

My guess is maybe that trend goes up. I may be wrong with that. It seems to me you are close to borrowing $1 trillion in the next 5 years alone, while saying you are cutting the budget deficit in half. Does that strike you as inconsistent?

Mr. BOLTEN. No. The way the Federal accounts have always been kept is to keep account of what the government is taking in and spending out, which is what is reflected in those deficit numbers. Now, Social Security has been running a surplus. For many years the government has been spending that surplus, while putting aside, as an accounting mechanism, the obligations owed to retirees.

One of the reasons why we needed to get Social Security costs under control is that sometime toward the end of the next decade that cash surplus will shift to deficit. As big as you saw those numbers going up, they are going down. That is why we need——

Mr. BAIRD. Let me make two closing points if I may. First of all, we stopped borrowing from Social Security in the final years of the Clinton administration and actually began to pay back on that.

Second of all, I think it would have been a different outcome—it might be a different reception in the public today. I said at the outset I think parts of this budget are dishonest.

I would invite President Bush and yourself to travel around the country and say we will cut the deficit in half, and part of the way we are going to do that is to increase borrowing from Social Security from $150 billion to $250 billion every single year, over $2 trillion for the next decade. I think that would be an honest statement to the American people.

I yield back my time.

Mr. PORTMAN. Mr. Mack for 5 minutes.

Mr. MACK. Thank you, Mr. Chairman. Thank you, Mr. Bolten, for being here and for putting up with so many of us. I appreciate that very much.

I guess I want to commend you on the principles that are laid out before us. That is, tax relief, cutting the deficit. And eliminating or reducing—reforming programs that aren't working. I think those are principles that the American people would understand and support.

So although being a freshman member on this committee, and I haven't had a chance to look at every page in that budget, those are principles that I think are important. In fact, I think if you go back to when Congressman Lungren was here and Ronald Reagan, they talked about—just a little jab—they talked about tax cuts, they talked about stability in taxation so people can plan for the

future, and they talked about reducing the deficit to not burden the future.

Those are exactly what I see that the President is trying to move forward; that we are going to cut the deficit, that we are going to continue to have tax cuts so that we can put more and more people back to work, and then we are going to eliminate programs that don't work.

I guess I am a little bit curious as to how others think and maybe 1 day I will have an opportunity to sit with them on a personal basis and find out.

My question is this. Once, as I hope, that we make the tax cuts permanent, are there further tax cuts that could be made that will still have an effect of enhancing and growing the economy and creating more jobs?

Mr. BOLTEN. Congressman, thank you for that statement. Undoubtedly there are. They are not contained in this budget. There are some extensions of existing tax cuts that are contained in this budget, but there are undoubtedly other ways that the Tax Code can be adjusted so that we promote economic growth.

The President has called for fundamental tax reform. He has appointed an advisory panel that is to report to the Secretary of the Treasury by the end of July, their object being to put forward proposals designed to make the Tax Code fairer, simpler, and more pro-growth. There is plenty of room for improvement on all three counts.

From the budget director standpoint, the most important of those is last, the pro-growth elements of the Tax Code. Even on a revenue-neutral basis, as the President has asked the panel to report back, even on a revenue-neutral basis there is an enormous number of improvements that I believe could be made in the Tax Code to promote growth in this economy. And I come back to the fundamental point that I have raised several times here: Our best fiscal tool is a growing economy. If we can do that additionally through the Tax Code, hurray for that.

Mr. MACK. Thank you. Maybe—I will give you an opportunity to maybe reiterate what you have said earlier. Being near the end of the line, I think everybody has pretty much asked everything, that, you know, we are just repackaging at this point.

If you could talk about the significance of the tax cuts on job creation and moving this economy from a recession back into where we are having the strong growth that we are having now.

Mr. BOLTEN. I believe and I think most economists believe that the tax cuts deserve a large portion of the credit for the good recovery we have had over the last few years. There was a study done by the Treasury Department and the Council on Economic Advisors at the White House which concluded that the tax cuts are responsible for at least 3 million new jobs and about 3 and a half percentage points of gross domestic product growth in the last several years. That is tremendous, and I think that is one of the elements that should give people pause when they start talking about increasing taxes above the levels that we now have, because our growth is intimately tied to the level of taxation that we impose on the economy. A tax increase at this point or I would say any point

in the foreseeable future would turn us in the wrong direction and might in fact turn us in the direction of a fiscal problem.

Mr. MACK. We don't want to go back to the times where the tax policies that were such that created the recession. We want to continue to move forward. Thank you.

Mr. PORTMAN. Ms. McKinney.

Ms. MCKINNEY. Thank you, Mr. Chairman.

Earlier, it was joked that the chairman might have had his priorities straight yesterday, but I think that remains to be seen with respect to this administration. The chairman mentioned job growth, home ownership and economic growth in his remarks. He likened our Nation's budget to our families' budget, and that is where I would like to begin today, with the families I represent. On home ownership, economic growth, the families in my neighborhood and in my district aren't feeling the robust economy that you seem to describe in your charts.

Now the President recently met with some of the Members of the Congressional Black Caucus. He even remarked—I read that he used some of the CBC issues in his State of the Union address, and I would suspect that those issues have been reflected in this budget. It seemed to me that the President was trying to revive positive images of compassionate conservatism.

I also recognize this administration would like us to believe that this budget will provide opportunity for all to experience this country's coming prosperity, but, sadly, that has not been the case in the past and is not the case today and won't be the case tomorrow. A significant chunk of the American people have been left behind, and I represent too many Americans that have been locked out and left behind.

According to just about every reputable study, the disparity between black quality of life and white quality of life is not narrowing nearly as fast as we would like. In fact, according to Whole House United for a Fair Economy, the National Urban League reports on some indices the black/white disparities are worse now than they were at the time of the murder of Dr. Martin Luther King, Jr.

The chairman mentioned home ownership in his opening remarks, but according to United for a Fair Economy, it will take 1,664 years to close the gap between blacks and whites in home ownership rates.

Mr. Bolten, you call this an economic growth budget, but that growth must not leave a significant chunk of America behind. What in this budget will reverse the trends of increasing disparity in America? Not just that there is increasing income disparity overall in our country, but there is increasing racial disparity, in infant mortality, family wealth and, of course, home ownership. And, two, how can we be assured that your priorities include all Americans, that your principles insist on opportunity for all Americans, and that by your important measure of performance these glaring disparities and the trend they represent will be reversed in the budget you have submitted to Congress?

Finally, real homeland security is not just the forward projection of one force. Homeland security is also family and neighborhood security and health care, education, veterans' care, income security and community vitality. Economic opportunity ought to mean for

all of us, not just the haves and the have-mores, as the President described his base. And compassion recognizes that we are indeed our neighbor's keepers.

I look forward to your responses on eliminating these disparities that I think also threaten our Nation's vital security.

But, in addition, I also would like to mention in your testimony you have mentioned PART, Program Assessment Rating Tool. I would like to ask you, what is the Defense Department's PART score? Is defense spending subjected to PART? The DOD, according to the GAO, as you are fully aware, has lost $2.3 trillion. So in the environment that you have suggested of increased defense on spending, obviously, the PART couldn't work.

Thank you, Mr. Chairman.

Mr. BOLTEN. Let me start with the last. We do PART defense programs. There are substantial savings to be achieved there. We are constantly trying to achieve them in an area where we spend a large part of our discretionary budget, and I think you will have an opportunity to review some of the PART scores and see how we are doing. We are trying to be as transparent as possible with the way we do our performance assessment ratings.

Ms. MCKINNEY. You will provide the DOD PART scores for all the DOD programs to us?

Mr. BOLTEN. For all of those that have been PARTed so far, we have those available.

Ms. MCKINNEY. What percentage of the DOD programs have been PARTed?

Mr. BOLTEN. I don't know specifically, but in dollar terms overall in the government we have PARTed about 60 percent of all programs, and I think the defense portion of that is about the same.

Ms. MCKINNEY. And with respect to income to racial disparities and your budget addressing those.

Mr. BOLTEN. I am sure it was reflected in your conversation with the President, his deep concern about racial disparities in this country, and I think that is also reflected in a lot of his proposals.

Ms. MCKINNEY. Specifically, you talked about home ownership, and the statistic there is 1,664 years to close the home ownership gap. What is in your budget that is going to address these appalling disparities that in my opinion affect our national security and, in fact, homeland security?

Mr. BOLTEN. There are proposals in there to promote home ownership to help people shift from subsidized public rental housing over to home ownership. I think you will see them reflected in the budget. The President has been very concerned about the home ownership gap. As of today——

Ms. MCKINNEY. The President didn't even know that the Voting Rights Act was going to expire in 2007.

Mr. BOLTEN.—the rate of minority home ownership is at the highest it has ever been in this country. The gap is not closing rapidly enough to your satisfaction nor is it to the President's, and that is why the President's proposals are trying to close that gap more tightly. In the last couple of years, we have seen the highest rate of minority home ownership ever in the history of this country, and we are hopeful to see that go forward.

Mr. PORTMAN. Thank you for the full answer. We added a couple of minutes there; and, in order to get to everybody, we have to have to move on. Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman, I appreciate that.

Being brand new to Congress and to this committee, you get some license to make some incredibly profound statements that everybody in the room knows have been made thousands of times. With that said and understanding that risk, your three criteria for deciding where to spend folks in the back of the room's money, for lack of a better phrase, the first one is does the program meet the Nation's priorities. The priorities, I think, ought to be set with a view toward the Constitution. What is the Federal role?

Your second one says an appropriate Federal role could not be identified. I don't know that would separate those two. Those are the same in my mind.

Ms. McKinney, I am not sure that home ownership is necessarily a Federal role in this instance. I feel a little different in that comment. As we look at what we are doing in government, we ought to try to decide on those things that make sense, Obviously, national defense and homeland security and those kinds of things. But let us pay particular emphasis next year when you hear that the idea of a proper Federal role gets a better, higher priority within the way the President brings up his budget.

That said, another profound statement, we split your numbers and the numbers in the President's budget between Federal funds and trust funds. I am an accountant, CPA, by background; and I know that the genie is out of the bottle for this year's budget. But maybe with the budget process that we will go through—my own home budget or businesses that I have consulted with, one of the ways you keep that business viable is you don't spend more money than you have got.

In the 2005 budget we are operating under right now, Federal funds revenues went up $128 billion. Spending went up $176 billion. The budget that you presented today, tax revenues are going up $79 billion, and spending is going up $83 billion. My thought would be let us keep it at $79 billion. Let us don't spend any more funds than we have got coming in.

2006 is a tough year. It is only $4 billion. 2007, tax revenues are going up $115 billion, and spending is estimated to go up only $42 billion. Let us try to capture some of that in the 2007 budget and do something else with it like pay down the debt that everyone is concerned about.

My colleague, Mr. Moore, talked about using the Social Security surpluses. I understand that it is taking money out of one pocket and put into the other when we use Social Security surpluses to fund current operations. Everyone on our side of the aisle thinks that we ought to be doing something about Social Security, and personalizing those accounts is one of those ideas.

In the heartland of America, they don't understand this budget process. The rank and file folks in Texas, when they talk about 6.2 percent coming out of their check, it goes somewhere up here that should be safe for them.

It is all about perception. We have Ward Smith telling us to use personal accounts and the abuse of lawsuit reform. I think we

would make a great statement if you could look the public in the eye and say, you know, as a down payment—whatever the transition costs are going to be, $10 trillion, whatever it is, as a down payment on that, we are going to take two numbers, either the total surplus, which over 5 years Mr. Baird talked about would add $1.4 trillion in surpluses or just the increase off the baseline of 05.

The increase this year is almost $41 billion. Next 5 years, that is about $309 billion. That looks like, to the rank and file folks in west Texas, a down payment. We would borrow that money from the public instead of borrowing it from ourselves. It might make our sell a little easier on fixing Social Security if were we to make that cosmetic statement. Then we are going to set that aside.

The last thing I will finish with, and you don't need to respond because my good friend, Mr. Henry Cuellar, has some profound things to say. Nancy Reagan started the Just Say No program for drugs. Spending money, other people's money, is a darn good aphrodisiac drug. Let us just say no for the next 3 years or 2 years. Let's say no to new programs, the new programs that are in this—throughout this budget, got great supporters and great ideas behind it, but they are 6, 8, 10 months off.

We are living without them today. Let us figure out a way we can say no to new programs and get the existing programs in order as kind of a guideline not only for this year's budget but maybe over the next couple of years while the President has time to do that and say no to new programs. As worthy as they may be, as honorable as they may be and the needs they may meet, they may not meet a role that the Federal Government ought to be funding.

With that, I yield back.

Mr. PORTMAN. Thank you, Mr. Conaway.

Mr. Cuellar.

Mr. CUELLAR. Thank you, Mr. Chairman.

Mr. Bolten, let me direct your attention to the budget process reform that the administration is proposing. I agree that budgetary tools should be used to make government more efficient, more effective, more accountable. The question that arises, of course, when you look at the budgetary tools, what type of tools you are going to use, who and how are they going to be used, whether by the legislature or the executive branch.

When I look at the three criteria that the administration is proposing, they look awfully familiar. I served in the State legislature budgetary committee up there 10 years, and 6 out of those years I got to work with the then Governor Bush in that particular time. And as I look at this criteria—it is pretty much, I guess, a compliment to Texas—it is pretty much a blueprint of what we used there.

But I feel there are some steps that are missing. Because, again, we have to have a government that is efficient, effective and accountable, but still you have to have that compassion because you have to deal with the people's factor when you deal with the budget.

I have two requests. The first request, and I believe it was the chairman that made this request when he talked about getting some information on those 150 programs. What I would ask you to do, as you provide that information, if you can provide this infor-

mation using your three criteria that you listed here. That is, when you talk about the 150 programs that are proposed to be cut, one, can you provide information to say how that particular program doesn't meet the Nation's priority? Number two, why is it that that program's mission does not meet the appropriate Federal role? And on top of that, list the Federal roles that you feel that the administration feels that we should be following, the different Federal roles. Finally, if you could also provide the performance measures for those particular programs that are slated to be cut, that is, the 150 programs, request number one.

Request No. 2, who is your lead staff person on performance budgeting?

Mr. BOLTEN. Deputy Director for Management Clay Johnson is the leader for the government on the whole performance evaluation process.

Mr. CUELLAR. Could he meet with me on a one-to-one basis so we can go over some of these steps?

Because I like some of the steps, but I think in my opinion, in my humble opinion, I think there are a couple of steps missing, and I would like to meet with him to talk about some of those steps. Because, again, I feel very strongly that, for example, there is a suggestion of a sunset commission. I agree with that. We have used that successfully for many years.

On the results commission, I would like to go into some details. Because, again, I feel that it belongs to the legislature. Congress should provide an oversight, and I feel that we should do a lot more on the oversight and especially when we look at the performance of the different agencies.

So there are some steps and some details that I would like to go over with you all, and if he has time this week, I would like to meet with him this week, if possible.

Mr. BOLTEN. I am sure Mr. Johnson would be happy to make time for a fellow Texan.

Mr. CUELLAR. From an appointment process to a budgetary process, that is a good promotion.

Mr. BOLTEN. He is a fine manager. I think you will enjoy dealing with him.

Mr. CUELLAR. Mr. Chairman, I yield back my 10 minutes and 7 seconds.

Chairman Nussle [presiding]. Mr. Cuellar, if I could, when you are done with your investigation and discussion, I would like to visit with you and your staff. This may be worth a separate hearing on this entire topic where we look at how we can make this a more manageable and consistent process within the legislative calendar. There may be some other things we need to look at, but this may be worth its own hearing to talk about a results-based management approach to our program.

Mr. CUELLAR. Mr. Chairman, I would like to do that. If it is OK, I would like to meet with the minority staff and the majority staff together when we meet with Mr. Johnson, have both staff there.

Chairman NUSSLE. I think that would be helpful.

Mr. McCotter for 5 minutes.

Mr. MCCOTTER. Thank you, Mr. Chairman.

First, I would like to point out the irony is not lost upon me that we are having a budget hearing on Fat Tuesday. I hope everybody gets their paczkis later.

Three questions, and I will try to keep them succinct.

The first thing is with the Manufacturing Extension Partnership Program. I represent a district that borders the City of Detroit. In World War II, Detroit was known as the arsenal of democracy. Now, during the war on terror, much of that arsenal has been disarmed as our manufacturing base continues to erode.

In the proposed 50 percent reduction for the manufacturing extension partnership, it is said that there are new operating environments in which these MEPs find themselves, that they should be more self-sufficient. As the role of these MEPs is to help small manufacturers, the new environment they find themselves in in my district is that there are fewer people to engage in partnerships with because these businesses are disappearing and likely never to return. So I would like an estimate of what, in the administration's mind, the new operating environment is, if my assessment of it is incorrect.

Secondly, more of a philosophical question, is that we have an increase in the screening security user fee or some would call it a tax. It strikes me that the protection of life and limb is an essential function of government and that the government should not ask you to pay a, quote, unquote, user fee for the protection of your life and limb, let alone your property. And, as we learned on 9/11, it is not a user-specific fee, because the airplanes can be used to kill Americans in several capacities, not just those utilizing it.

Furthermore, my concern, especially because Northwest Airlines and other airlines form a hub in my district and just outside of it, is that the impact of a tax increase according to $1.5 billion or a user fee seems a moot point because the impact will be extremely detrimental upon any industry and any business utilizing that industry in one way, shape or form and the jobs related to it. I wonder if that was factored in.

Thirdly, I am curious to know what the President's initial proposals or pronunciations on the Social Security reform is, how much of his current position is reflected in the budget.

Thank you.

Mr. BOLTEN. Thank you, Congressman.

On the MEP program, that is one of the programs you will see in the book of the 150 that we present to you shortly, and you will see a full justification for that there. Our judgment has been that, while it has been a good and useful program for many companies, for many manufacturers, they can get many of the same services in the private market or elsewhere in their communities and that, in the current budget environment, that is not where we need to put our largest resources. We still do have money in the budget for the MEP program, but we are trying to bring that program down and focus on some of the other priorities. It is one of the tough decisions in the budget. You will see 150 more as you look through there, but these are decisions that need to be made if we are going to be using the taxpayers' dollar effectively.

Second, on the TSA user fee, we really have two choices, that we can either impose the cost of passenger and baggage screening on

the people who are flying on the airplanes or we can impose the cost on everybody whether they are flying on airplanes or not. Where we have the opportunity to put the cost on where the service is being used, my judgment, the right policy is usually to put it there, which is why we have made the proposal that we have, knowing that it is likely to be fairly controversial.

Third and finally, on the budget presentation on Social Security, the formal printed documents you have, Congressman, do not reflect any transition financing elements from Social Security. They went to print before the President's initial elements of a proposal were announced last week. But I did show in some of the charts that I presented earlier today what the deficit effect we would see of that, and I expect that as more details of the President's plan come out we will give you updated spending and deficit charts to show you what the effects would be.

Chairman NUSSLE. Mr. Cooper stuck around in order to be able to ask a final question.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. Bolten, I am worried you are going to be around for awhile with this administration, so I want to prick your conscience on two issues.

Mr. BOLTEN. Are you worried that the administration is going to be around or that I am going to be around?

Mr. COOPER. I am confident they will be.

First, Pamela Olson testified to this committee last year—pretty remarkable document. She is a first-rate former civil servant and a tax expert. She told us, "in recent years, the Internal Revenue Code has been amended repeatedly with provisions intended to encourage or reward or reduce the costs of certain favored activities through exclusions, deductions, exemptions, special rates and credits." Here is the kicker: "While the goals of some of the provisions may be admirable, they represent uncapped, unverified and, in large measure, unverifiable indirect spending programs." In other words, the worst form of government spending: unmeasurable, uncontrollable. And it is barely addressed in our efforts, yours or anyone's. So I would hope in future years you could take a look at these, because she is quite an expert on these topics.

Another topic is using the Social Security and Medicare Trust Funds to hide the true size of the deficit. You know, the good stuff in financial documents is always at the end. And you discussed with Congressman Baird at page 362 when it says, the real deficit in 2005 isn't $427 billion, it is $589 billion, unless you use Social Security and Medicare Trust Funds to hide the size of it. And the outlook seems to be not a deficit next year of $390 but $560. So I think it is quite a problem to use the Social Security deficit to—Social Security surplus to hide the size of the deficit.

I want to focus on an editorial in today's Financial Times. It is kind of interesting how the leading financial newspapers review our handiwork. They say here, in the concluding paragraph, a real fiscal conservative would seek to balance the budget excluding these trust funds over the economic cycle. Alas, Mr. Bush is not such a man. Our President is not such a man. And I am not pointing the blame at him, everyone is to blame, but that is one of the

central challenges of our generation and we are not rising to it today.

Your former boss at Goldman Sachs, or one of them, was quoted today as saying, if you are looking at this from abroad, you are saying to yourself that, over the last 3 years, there has been an absence of any budget discipline in Washington. An absence of any budget discipline in Washington. And this is a government where the Republicans control the White House and the Republicans control the Congress. And let me fault Democrats, too. But, together, we have not gotten the job done for the country. So hopefully in future months and years we can do a better job.

Thank you.

Chairman NUSSLE. Could I borrow that Financial Times for just a second? I was noticing that you read the last part. It is interesting because the first sentence says, Bush's spending cuts are real but far too narrowly focused. So it sounds as though they want the administration to go even further, as opposed to just suggesting that they were being gratuitously—providing criticism gratuitously.

I would ask the question, since you didn't, would the administration be open to reforms to the earned income tax credit, which is what Pamela Olson was focusing on when she talked about how we have spending within tax programs that are unverifiable and out of control. If the Congress would consider reforming the earned income tax credit, would the administration be open to that or is that something contemplated by the administration's budget proposal?

Mr. BOLTEN. Mr. Chairman, I anticipate in response to that question—and, Mr. Cooper, I anticipate that all subjects will be on the table for fundamental tax reform, which I am glad to see Mr. Cooper has enthusiasm for it. I think it will come in handy in the months ahead. Because there is a big task ahead of us in making the Tax Code simpler, fairer and more pro growth; and going after some of the types of provisions and goals that Pamela Olson was talking about is a good place to start.

Chairman NUSSLE. And last but not least, let me emphasize, your former boss has talked about an absence of discipline with regard to spending in Washington. Mr. Spratt suggested that most of this increase in spending has been in homeland security and national defense. I just asked the question or I lament the proposal that was made at the beginning of the hearing. I mean, I would love to be able to claim victory and say we balanced the budget. I would love to be able to say that we did it by tomorrow. I lament, like many people do, wasn't it nice, the moments that we had a surplus?

But the surplus didn't protect us. The surplus wasn't growing the economy. The surplus wasn't protecting our borders. The surplus didn't prevent 9/11 from occurring. It didn't provide us from having to go and defend our freedom around the world.

So it is great to be able to say at the bottom line it is in surplus. But what does it get you if your country isn't meeting its challenges, defending itself, and that we have an economic engine that is creating jobs and opportunities for the future?

So I, like everybody, would love to be able to go home and claim victory that we balanced the budget. Because that is the most important Holy Grail, but we have to balance it in a way that not

only talks about the bottom line but talks about a balance of priorities. And I believe what the President has done in putting this budget forward today that says balance means protecting the country; balance means growing the economy; balance means making sure we have good intelligence to make decisions on our foreign policy; balance means instead of taking another dollar from the taxpayer for a government program for a role that may or may not be the proper role of the Federal Government—before we take one more dollar out of your pocket, let us make sure that all of the dollars that are already out here are spent wisely.

That is why I wanted to join with the gentleman from Texas when he wanted to talk about the performance of these programs. I call it weeding the garden. Always fun to plant the garden, but no one ever wants to go in and pull the weeds. We have got a lot of weeds in there, and they need pulling. This President's budget has begun that process of pulling the weeds. It is always tough. It is the toughest work in Washington, to go and pull weeds, but we have to start that process.

Director Bolten, you set this up as well as possible here today in beginning this discussion. I wish you all of Godspeed in the Senate tomorrow as you carry this message to the other body, and we look forward to working with you as we craft the budget proposal. You have been here for 4 hours today, and we greatly appreciate your willingness to sit here and have this conversation with us. Thank you.

Mr. BOLTEN. Been a privilege. Thank you.

Chairman NUSSLE. If there is nothing further to come before the committee, we stand adjourned.

[Whereupon, at 2:25 p.m., the committee was adjourned.]

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