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MID–SESSION REVIEW

TUESDAY, JULY 16, 2002

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

The committee met, pursuant to call, at 10:46 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Bass, Gutknecht, Collins, Watkins, Hastings, Granger, Culberson, Brown, Kirk, Spratt, McDermott, Bentsen, Davis, Clayton, Price, Clement, Moran, Hooley, Baldwin, McCarthy, Moore, Honda, Hoeffel, Holt, and Matheson.

Chairman NUSSLE. Good morning. This is the full committee hearing on the mid-year budget status, mid-session review of the budget. Today's hearing will examine the Office of Management and Budget's Mid-Session Review of the United States Federal budget. I am pleased that, once again, we will have testifying today the Honorable Mitch Daniels, who is the Director of OMB; Office of Management and Budget.

I made a commitment to this committee and to the Congress that we would begin, as a committee, to review these reports. Some of them are less glamorous and less worthy. In years past they have not gotten as much attention as they evidently will receive today, in part because we face so many challenges as a Nation.

Over the last year our country has weathered a recession, a terrorist attack and a war; and, at the same time, we have launched a massive nationwide effort to strengthen our security at home. Our emergency response to the attacks, paying for the war and the need to quickly strengthen our homeland security has created urgent and very necessary spending demands. Couple those with the spending demands with the recession that was aggravated by the attacks of September 11 and which caused lower-than-expected tax revenues, and no one should be surprised that the Office of Management and Budget would expect these short-term deficits.

Thankfully, we passed last year's tax relief at just the right time to soften the blow of the economy and to keep the economy from getting much weaker. Without that tax relief the recession would have been deeper and unemployment would have been higher. But, as beneficial as the tax has been, it is not enough on its own to get us out of deficits. To do that, Congress must control spending.

The good news in this report is that we can be back to balance in 2005 and begin to pay down the publicly held debt again if, and only if, we control spending and stick to the plan that has been submitted by the President, passed by the House of Representatives and deemed to be the budget for the United States as a result of inaction by the Senate. Only by controlling spending can we ensure that these deficits will not be deeper and last longer. Otherwise, the country will return to the days of deficits as far as the eye can see.

That is why it is so unbelievable to me to see Members calling for even more spending above the past budget. Some want to spend $9 billion more than the President next year in fiscal year 2003 alone. That would translate, just so we are clear, to $120 billion of new government spending over the next 10 years alone.

So we have a real challenge facing us with regard to these budgets.

Let me show you a few charts that I think are important for this.

First of all, as reported by OMB, the deficit will be $165 billion this year. We will be able to return to surpluses in 2005 and begin at that point to once again add to the accomplishment of paying down $453 billion of publicly held debt. We will begin to be able to do that once again by 2005 if we maintain the spending plan and the discipline of this budget.

Almost all of the change in the surplus estimates this year is a result of slower-than-expected revenue collections, and return to surpluses can only be contingent on sticking to the House budget resolution.

You can see from this chart exactly what that means as far as the near-term deficits—$165 billion this year, 109 next year, 48 in 2004, and back to surpluses to begin to pay down publicly held debt in 2005.

What is the cause of the deficits? Well, there will be lots of rhetoric, but the facts still bear out, particularly in the short term, in 2002 you can see that the tax cut that we provided last year certainly and deliberately did provide less revenue to the Congress and to the Federal Government. And thank goodness that we did, because it was needed in order to give a jump-start to an economy that was sluggish.

We found ourselves in a good physical position on September 10, in going into this, having paid back $453 billion worth of debt and having provided tax relief to the American people to get the economy going. So we found ourselves, even though we faced a triple threat, on good, sound physical footing.

But what has happened as a result of the weakening economy, as a result of the cost of the war and as a result of bipartisan spending and bipartisan stimulus to the economy? Over 62 percent of the reduction in that surplus is caused by that weak economy and bipartisan response to the crisis.

The next chart shows that we have a challenge, but it is not a challenge that we haven't met before. You can see from the red line that spending has been much higher in years past according to a comparison to GDP and that receipts have also fluctuated during that same period of time. But this is not an insurmountable problem, but it is one that we have addressed in the past by controlling spending, not by increasing revenue. That is the reason why we believe that restraining spending is the key to getting back to those budget surpluses.

We also know that recent—continuing recent spending growth will lead to perpetual deficits. If we follow the average spending growth of the last 5 years, from 1998 to 2003, our discretionary growth of spending was 7.4 percent. You can see that that will result in deficits as far as the eye can see. But you can see that if we follow the President's budget path or the House-passed resolution, that in fact not only can we get back to surpluses by 2005 but, as you can see there, we will continue to pay back the publicly held debt.

Now, just so we make it clear, there is another possible plan on the table. We have seen from the minority leader Dick Gephardt the plan that he put forward, particularly with regard to defense, to calls for increased spending in a number of different programs, as well as the prescription drug benefit that was proposed just 2, 3 weeks ago by the minority leader. If we pass the so-called Democratic plan, either the one that was proposed and yet not passed in the Senate or the one that we were able to cobble together from the proposals here in the House, there would be perpetual deficits over and above the average growth curve that we have experienced the last 5 years, again not paying down the debt and dipping much further into trust funds far into the future.

So why did the 10-year surplus estimates drop so sharply? Again, if you look at it from the 10-year plan, using the $5.6 trillion figure that was used by OMB and CBO and others over the last couple of years, you can see that, yes, $1.5 trillion of that was deliberately reduced in taxes for the American people. But the economy and our own spending took as much of that, if not more, and that has been the largest cause in the 10-year drop to the estimates of surpluses.

You can see from the next chart that we have provided for you exactly the specific numbers both in 2002 and through the next 10 years exactly where that would come from. The economic slowdown in revenues being, over the next 10 years, $1.442 trillion worth of the reduction in the surplus, as well as $227 billion of that in a bipartisan way in addressing the economic slowdown from Congress.

Now there are factors that have been without any control. Some of it we have controlled. That is the line there that you see from the February, 2001, baseline surplus to the February, 2001, baseline-less legislation. Certainly, we have deliberately made some choices, much in a bipartisan way; and that has resulted in part of the reason why we find ourselves in deficits. But you cannot forget the context of the economic slowdown and the unanticipated changes to the surplus, which amount to about $1-trillion less in revenue as a result of this economic slowdown.

Finally, the House budget resolution assumes that the total appropriations should not exceed $759 billion for the fiscal year. Increased base levels of government spending will make balanced budgets unachievable in the near term. Deficit spending will reduce and will reverse the progress we have made on paying off the national debt, and that is why we have to stick to that. We have paid off $453 billion, and we can go back to that by 2005 and continue to pay down that debt if we stick to our plan.

A couple of things just for context. You cannot have a discussion about this—and I have heard quite a bit of debate on the floor during the prescription drug bill, during the increase of the debt ceiling, during a number of debates. We have forgotten what happened last September. In fact, here, many of my colleagues discuss—you would think September 11 didn't happen, so we put up what might be called a Democratic September calendar for last year. We are out of context here, folks.

That is September 11, and yet it seems as though the tax cut is getting blamed for everything. I find it troubling that we cannot put it in the context of September 11, the war, terrorism, and what was I think a bipartisan spirit of accomplishment in addressing the emergency, in addressing homeland security, in addressing the war. Much of that has brought us into the——

Mr. HOEFFEL. Would the gentleman yield?

Chairman NUSSLE [continuing]. The deficits that we——

Mr. HOEFFEL. Will the gentleman yield?

Chairman NUSSLE. Yes. I would be happy to yield, although I think typically in opening remarks we—I think in a spirit of bipartisanship we have not interrupted the speakers. But I would be happy to yield. Do you have a question?

Mr. HOEFFEL. I agree with the chairman, in a spirit of bipartisanship——

Chairman NUSSLE. Does the gentleman have a question?

Mr. HOEFFEL. No, I have a statement.

Chairman NUSSLE. Well, then all members would be given the opportunity to enter a statement in the record at this point if they care to, as we have always done as a practice in this committee.

Mr. HOEFFEL. Well, I have two questions for the chairman.

Chairman NUSSLE. Alright. I would be glad to try to answer them.

Mr. HOEFFEL. Does the Chair mean to suggest by that September calendar, the Democrats have some less feeling about what happened on September 11?

Chairman NUSSLE. Absolutely not.

Mr. HOEFFEL. Then what is the purpose of that calendar?

Chairman NUSSLE. I will be happy to describe—does the gentleman have another question?

Mr. HOEFFEL. I do. Do we ever get to hear from the witness, or do we have to hear a very partisan presentation by the Chair?

Chairman NUSSLE. Well, my understanding is that there will not be a partisan presentation by the Democrats today?

Mr. HOEFFEL. I am just wondering when we get to hear from the witness, Mr. Chairman.

Chairman NUSSLE. Well, I appreciate that, and I appreciate your coming to the hearing for that purpose, and there will be ample opportunity to do this. This committee has now met for now a month in anticipation of this review, and I would be happy to describe and answer both the gentleman's questions.

First of all, I am tired of hearing the partisan remarks on the floor that seem to forget that September 11 happened. In fact, if you view floor debate over the prescription drug bill alone, you will find no context in the debate over raising the debt ceiling to September 11. All you hear is a tax cut that happened a year ago, that was voted on in a bipartisan way, and there was bipartisan support even from members of this committee. But you don't hear that context about September 11, and you cannot in my humble opinion—and you may differ with that opinion.

And no, I am not suggesting that you don't care about September 11 or terrorism or the war. We have all voted in a bipartisan way to address that. But you cannot in my opinion discuss this mid-session review of our Federal budget without the context of September 11. It is impossible to discuss this without the context of September 11, and as long as the Democrats in this Congress continue to blame only the tax cut—and, yes, we deliberately lowered taxes, and we would do it again to address the economy as we did in a bipartisan way subsequent to September 11.

But if you continue to have the drumbeat of blaming the tax cut for the fact that we find ourselves in this situation, and forget that the economy has become worse as a result of what happened in September, and forget the bipartisan addressing of the war and homeland security as a result of that, then I will continue to show this calendar that seems to demonstrate that there are people around here that seem to forget that September 11 has happened. You cannot have this context today without describing what happened on September 11.

Does that answer the gentleman's question?

Mr. HOEFFEL. I wonder if the chairman would tell us which members by name have forgotten that September 11 has occurred?

Chairman NUSSLE. We will review the record of the debt ceiling increase and the votes, what I think is an irresponsible vote to not address what happened in September by increasing and allowing us to make some borrowing—short-term borrowing with a plan to get back on solid footing. I would be glad to review with the gentleman the context that was debated on the floor during the debt ceiling increase, if the gentleman would like. But we are going to move on at this point in time.

Mr. HOEFFEL. I would suggest that none of us claimed that September 11 didn't happen, Mr. Chairman; and I think that the reports that Mr. Daniels has brought forward indicate that increased spending on the war might be $600 billion over the next 10 years and the tax cut $1.5 trillion. Those numbers speak for themselves. Nobody is arguing September 11 didn't happen. But I think, if this committee is going to be able to deal with the return of deficits, we have got to do so in a bipartisan way. In my short service here, this committee has become more and more partisan, and I am afraid today's activity just makes that point even stronger.

Chairman NUSSLE. Well, I will take back my time and just report to the gentleman that, obviously, your service on this committee has been short. Because this committee has been, obviously, one of the necessary partisan committees, necessary for a reason. We differ on what we need to do at this point in time in our history. We have a plan that we voted on, and this is also the context for today. We have a plan. Where is your plan? Where is the plan from the Democrats in the House? Where is the plan from the Democrats in the Senate?

We are in a crisis. We are facing a war and economic recession and an emergency, and it is only going to get deeper if we don't have a plan to address it. But the House has a plan. The President has a plan. When you have a plan, then we will talk, then we will have a discussion, then we will have more votes. But as long as you don't come forward with a plan, don't tell me about who is being partisan.

It is easy to sit on the sidelines and snipe. It is easy to sit on the sidelines and say, somehow, "I told you so last year," which is what we heard during the debt discussion on the floor. I told you so, that we are going to have to raise the debt?

I told you so seems to indicate that you knew that September 11 was going to happen. How could you possibly—how could anybody possibly know that?

So the context of today that we find ourselves in is directly related to September 11 and only a responsible governing party would come forward with a plan, and that is why we have done so.

Mr. HOEFFEL. Would the chairman yield?

Chairman NUSSLE. So I would say—so I will take back my time and conclude by just saying that we have to do something. We have got to act. The House has acted; we have passed a plan. We have passed the President's plan. I am going to stick with the President; we are going to control spending, and we are going to enforce it.

Let me end by saying this: we have some appropriations issues that are coming up. The supplemental to start with, which is 4 months late, in my opinion, in addressing the needed contingencies that we face, the war and homeland security. We have got to get our work done, and we have got to get it done now.

The President has given us a number. The House has passed the appropriate supplemental. The Senate has got to get off the dime and start acting and realizing that the President is going to veto anything above $28.8 billion—period. And this committee and other members of this House are going to help the President enforce that if he cares to use a veto.

It is the spending that is going to get us in more trouble if we don't start enforcing the budget and the budget plan that we have.

So I went longer than I expected, and I apologize to members. I wanted to at least give the opportunity to have the interruption and to answer the questions, which I am happy to do; but I thought it was important to lay out the context here, because you cannot have this discussion without a little bit of context.

Mr. DAVIS. Would the chairman yield?

Chairman NUSSLE. With that, I would be happy to yield to Mr. Spratt for any opening comment he would like to make. And, just so we are clear, I ask unanimous consent that all members be allowed to put a statement in the record, as we typically do at this time. Members are allowed to do that. Unless there is an objection, that will be so ordered.

Mr. Spratt.

Mr. SPRATT. Mr. Davis.

Mr. DAVIS. Mr. Chairman, if I could have 30 seconds. I just wanted to respond to what was said to Representative Hoeffel, because I think we are moving to the point.

Mr. Chairman, you are perfectly correct in asking for a solution instead of "I told you so." "I told you so" is very easy here. But all you need to do is to schedule for a markup the Moore-Spratt-Moran-Davis bill, which received a vote—a version of which received a vote on your side of the aisle which represents one attempt at a solution. So I would urge you at another hearing to schedule that. It represents our attempt to come up with a solution to dig out of the hole.

Thank you.

Chairman NUSSLE. I would be happy to—would the gentleman yield? We gave you an opportunity to offer that during the budget markup, and nothing was offered.

Mr. DAVIS. No, we did offer a Moran-Davis trigger. This is a version that we——

Chairman NUSSLE. A trigger.

Mr. DAVIS [continuing]. Developed in response——

Chairman NUSSLE. That is a trigger.

Mr. DAVIS. No, Mr. Chairman. This is not a trigger. It is something in response to the concerns you have raised. But if you would schedule that bill for a hearing, that would present an opportunity to debate on the merits one attempt at a solution on our side that we think represents a potential for a bipartisan support.

Thank you, Mr. Spratt.

Mr. SPRATT. Mr. Chairman, thank you for yielding time; and, Mr. Director, welcome again. We appreciate your coming to testify.

Let me say that our role is not to be contentious, but it is to be critical in the sense we are the outside directors in this organization, and it is our role and our responsibility to ask searching questions about real concerns we have with the report you have brought to us today.

I will stipulate from the outset that the deterioration in the surplus that we have seen since April of 2001, going from $3 trillion to minus a deficit of $1.968 trillion between April, 2001, and July, 2002, is attributable to many factors—terrorists, tax cuts, and a slowdown in the economy, partially a recession. I readily stipulate to that.

My problem with the report that you have sent up today, the bottom line that you presented us with, is that 4, 5 months ago in February of this year, the estimate of the deficit for this year was $106 billion. Today, it is $165 billion. That is a 60 percent calculating mistake in 4 to 5 months.

To put it in today's context, if a CEO or a CFO were to report that his expected earnings or losses were going to be X and 4 months later acknowledged that he was off by 60 percent, the stock would plummet.

If you look through the book that you have sent to us, the Mid-Session Review, it appears that 80 percent of the deterioration in the deficit is assigned to economic and technical factors. Since you are assuming that the economy has gotten better since February, all of that has to be laid at the doorstep of technical miscalculations, which is highly technical and difficult to discuss. But that is an enormous amount in the space of 4 months. So that gives us pause as we pick up this report and start to look at it.

OMB blames the recession largely. I believe you said in the summary sheet to this Mid-Session Review that the recession, quote, "erased two-thirds of the surplus;" but since February you have assumed a substantial increase in the GDP, the gross domestic product.

If we could have chart 10. This reflects the increase in the higher projection of GDP. This is one of the reasons you are able to claim a turnaround in several years in the budget. You are assuming that GDP growth will be significantly higher by at least $150 billion, growing to $250 billion over the next 10 or 12 years.

So while you assign the problem to the recession, in fact you are looking at a pretty robust recovery, and we have still got a problem. We have still got a budget that is in the Social Security surplus and eating into the surplus of the Social Security accounts every year for the next 10 years for as far as this forecast reaches.

You also paint a very bleak picture in your report of tax collections, revenues actually being collected by the Government. I think you called the drop in personal revenue tax and personal income taxes a precipitous drop, as steep as any that you have seen at OMB in years. Yet when we look at your revenue assumptions, if you see the little curlicue on this chart that is now being displayed, the assumption is that tax revenues in a short period of time, between now and 2004, 2005, will rebound to their previous level. There will be an uptake, a decided increase in tax revenues.

Yet when we read through this booklet—and you question whether or not we will see again the phenomenon of a three-fold increase in capital gains tax revenues, a 150-percent increase in exercise stock option revenues, whether we will see that in the first decade of this century as we saw it in the last decade of the last century. One is left in real doubt when you read your report. Nevertheless, we are left in even greater doubt as to whether or not that uptake in revenues can be achieved unless you have a recurrence of those phenomena that pumped and drove revenues in the 1990s.

There is one thing missing from your report, interestingly enough. Last year when you did the "Blueprint for a New Beginning" and then did the Mid-Session Review, within the first few pages you had declared your support, you had embraced what you called a bipartisan commitment to stay out of the Social Security surplus, to get the budget out of the Social Security surplus. Now that we were able to do it, we lay that down as one of the first principles and one of the key objectives of our budget policy.

I have read your whole Mid-Session Review. I can't find anything in it where that goal is laid down, where any kind of plan or any kind of prospect of getting out of the Social Security surplus is held out.

This chart shows how much of the revenue, how much of the Medicare trust fund—all of it—will be consumed over the next 10 years; how much of the Social Security trust fund—$1.9 trillion will be consumed—a substantial invasion of these trust accounts. A 10-year period of time to devise a workout plan so we can get back on the track of staying out of Social Security, using the trust fund solely to buy up debt held by the public. There is no prospect, no plan. Apparently, you have forsworn, given up, that particular goal. At least I can't find it in the Mid-Session Review.

Now you can counter with some credibility that the economic downturn and terrorism have put that goal out of reach. But in this particular report, this Mid-Session Review, you actually propose—on top of the tax cuts that have already been enacted last

June—you actually propose another $540 billion in additional tax cuts.

You could say that the invasion of the trust account today is due to the fact that we were bushwhacked by terrorists and surprised by a recession that we didn't think was coming, but we know what the results of that recession and terrorism and the previous tax cuts are: They put us in the Social Security trust fund eating up that surplus for the next 10 years. If you add $540 billion in new tax cuts on top of that, you can't assign that to some supervening cause like the terrorists. You can't assign it to inadvertence. It is intentional, if we carry out this budget plan on invading the Social Security trust fund by another $540 billion.

So where is the goal we all embraced last year as a bipartisan objective?

OMB says that your projections assume spending restraint. If I can have chart 11. Basically what I was able to glean from what I read about your other statements last week and this report itself, you seem to be supporting what you call a 2-percent increase in domestic discretionary spending, a limit of 2 percent over the next 10 years. Let me show you how this works out according to our calculation.

The top line there shows total discretionary budget authority. This year, $688 billion; next year, $757 billion. Now that is a big increase, but we have to keep in mind $48 billion is there for defense. There is homeland defense there that wasn't even named and identified in previous budgets. That accounts for a lot of it. And there is a farm bill that has to be accommodated in there, too. No, it is not. It is not discretionary spending. I beg your pardon. Most of that is entitlement spending.

Nevertheless, most of the increase from 688 to $757 billion was for things that the administration saw and both parties in Congress supported.

Now if you propose that domestic discretionary spending be held to 2 percent, here is what will happen: First, you have to back out defense from total discretionary. Then, in fairness, you have to back out homeland security. That leaves $348 billion for other government operations. To make that domestic, you have to back out international spending, foreign aid, and you have to add transportation, because that is not in the tally, contract authority or obligation limits.

When you do all of that, when you make those adjustments—if I am wrong, I want you to tell me so in your testimony. By our calculation, that is not a 2-percent increase in domestic discretionary. That is a minus four-tenths of 1 percent decrease in nominal spending. And for all of the ideas of this projection, that would entail a decrease in real spending for domestic homeland.

So the President is talking about more for education. He is talking about more for medical research. How do you pay for it out of a budget that is crimped in this manner?

There is one other thing that is not mentioned in your report that was prominent in last year's debate and the year before. We discussed at great length just how much debt we could actually pay down. Mr. Nussle just talked about the reduction of $453 billion in national debt, but most of that occurred through the year 2001, which was largely on the other guy's watch.

You have to read to the very last page of your report to get to the answer, but on the last page of your report you finally display the bottom line. The bottom line for this budget is, in terms of debt held by the public, $3.32 trillion, $3.529 trillion at the end of this year. That will go to $3.655 trillion next year, $3.718 trillion the next year, and drop back to about $3.67 trillion the following year.

The prospect of paying off any substantial share of the debt held by the public simply isn't here. It doesn't work.

So, these were two of my key budget goals. We had bipartisan consent to them, and from all I can tell by this Mid-Session Review they are totally off the table. They are beyond reach. We can't accomplish them anymore. There is no plan for it, and there is no prospect of it.

So these are the reasons that we have problems with what you presented to us today, the budget reports you presented to us today. In all good faith and all fairness, these are the reasons we will be asking you some searching questions as we go through the day.

Chairman NUSSLE. Thank you, Mr. Spratt.

Welcome, Director Daniels.

Mr. DANIELS. Thank you, Mr. Chairman.

Chairman NUSSLE. We appreciate your willingness to come forward and to discuss the mid-session review from OMB today, and you may proceed as you see fit.

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

Mr. DANIELS. Thank you. I was rather enjoying the foregoing. Quite often, the spectator part of these experiences is more fun.

I will let the report stand as our testimony. Let me just make a few comments and respond to a couple of the important questions, particularly that Congressman Spratt just raised.

I think we are closer together here in our analysis of the situation than rhetoric may sometimes suggest.

First, let me just make a couple observations. It is very interesting and important to note that just 6 months ago we were very much in error on the low side in terms of the economy. Past budgets over all the years have frequently been faulted for rosy pictures in which economic growth was assumed to be better than it was likely to be. In this case, the reverse mistake was made, if you could call it a mistake. In an attempt to be cautious and conservative, we estimated 0.7 percent for this year; and now that has been raised by two full percentage points. Our estimate is still a little under the private sector consensus, but we did miss on the cautious side by two points.

Now, interestingly and importantly, despite that fact, revenue did not run better than expected, which history would have taught us to expect. It ran substantially worse. And we talk about what we think is an important new phenomenon or growing phenomenon at the margins of the Federal budget. That is to say, income tax payments related to the stock market.

I think our report is properly candid and modest about the difficulties of forecasting and, in particular, the new uncertainties about revenues, which again ran counter to history. Historically, there was a reasonably fixed relationship: economic growth up, revenue is up. Here we have had economic growth up much more than was expected. The recession, thank goodness, seems to have been milder, shorter than anyone forecasted, including us. But revenue is still well down.

So we acknowledge a lot of uncertainty, at least at the margins of the $2 trillion in Federal Government revenue; and to us it really means we have got to be all the more careful about what we can control. And what we can control, of course, is what the Federal Government spends. We think that the choice is relatively clear. We can adopt a course the President has recommended of modest spending growth—not cuts, not freezes, but modest spending growth over the near term gives us the prospect, a fighting chance to get back to balance, or we can continue on a business-as-usual path.

I have illustrated on this chart that is in this document what 10 more years of the recent run rate would mean, and the difference between that path and the President's recommended path is $2 trillion. Here, too, we think the message is just unmistakable. The budget submitted in February is entirely consistent with this point of view. It suggests that we must address the Nation's new, suddenly different priorities for a stronger defense, war fighting and what we now call homeland security. But, having done that, we need to depart from business as usual with regard to the rest of government's activities, at least while we surmount this challenge.

I would point out that the 2 percent growth that the President suggested for non-defense and non-homeland security this year is not some unattainable fantasy. In fact, discretionary spending rose by less than that for several years in the early part of the last decade. In fact, the 50 States collectively in this country right now, as the Governors meet together out in the West, have restrained their spending, when you add them all together, to 2 percent. This is nothing that cannot be done in either public life or family budgeting for that matter, and so we think that it is an entirely responsible thing to ask for.

Let me address not all but a couple of—several important points that Congressman Spratt made.

A second way to look at the revenue shortfall is simply to note that, because we are reasonably close—historically, reasonably close to a balanced budget, the deficits we are looking at, no one is happy about and least of all me. But often, when they are measured against GDP, they are much smaller than those that we have known in the past; and, for that reason, a miss of $60 billion is—another way to say it is 2 to 3 percent of total revenues, not an infrequent occurrence.

In terms of GDP growth, we do believe that the forecast moving forward, Congressman, are again cautious and conservative. We are at or below the Blue Chip consensus, both in the immediate future and in over the time line. Of course this could be wrong, in some years will surely be wrong, but we are working with the best and we think the most responsible numbers that we can.

You mentioned the revenue assumptions going forward. It is very important to watch these regularly. We have been through now a whipsaw of surprises. In the late 1990s, they were happy surprises. We now, I think, can see it traced in large measure to the explosive growth in the stock market. The misses were very, very large, but happily they were—more money came in than was anticipated, and now we have the mirror image of that.

But the growth coming out of the recession is actually smaller than was experienced in the recovery from previous recessions as we looked back at those.

Lastly, I would just say that it is important that you bring us back to the question of debt reduction and the question of achieving that by regaining surpluses at or above those attributable to Social Security, and these remain an important goal. And as suddenly as they became attainable—they were never attained, of course, until very recently. And as suddenly as they became attainable once, we hope they will become reachable again.

Chairman NUSSLE. Thank you, Director Daniels.

Let me begin by going back to what I started with. If I—to Mr. Hoeffel or anybody else, and I mean this sincerely—if I offended you, I apologize. And I mean that. That is heartfelt.

I obviously do not believe that there is anybody—there is no one who could ever forget what happened that day. What troubles me about the debates I heard, particularly with regard to the debt ceiling, was that the context seemed to be only pointed toward the tax cuts.

As Mr. Spratt indicated, he would be willing to stipulate that the economy had a fairly large impact on where we find ourselves today. Certainly we would also stipulate very deliberately that the tax cut also was deliberately envisioned to reduce the revenues that were coming to the Federal Government so that they could be in the pockets of people so that we could stimulate the economy.

My only reason for bringing this up is that—and I have not seen it by members of this committee, but I have seen it from other Members that seemed to forget the impact to the budget—we have not forget September 11. No one could possibly do that. So if I misstated that and offended the Member, I apologize. I just can't believe Members would come to the floor and debate what happened or why we would need to increase the debt ceiling, as an example, and do it out of context of September 11. That is the reason I brought this up today.

So I mean sincerely to apologize if in fact that offended you, because I meant nothing, as the gentleman may have taken it, to indicate that you or anyone else would have forgotten.

I would yield to the member.

Mr. HOEFFEL. Thank you, Mr. Chairman. I thank you for your comments; and if I said anything that was offensive to you, I apologize to you.

We all can agree that September 11 and the war spending that ensued, the economic downturn and the tax cuts have all combined to reduce revenue. The question is, what do we do about it? And I know we need to move together to try to figure that out. I thank the chairman for his comments.

Chairman NUSSLE. That is the point of what I was getting at when I talked about partisanship. We have differences of opinion of where to go from here, and that is fine. I don't consider that to be partisan in a negative sense. It is fine for you to have a difference of opinion or for all of us to share a difference of opinion of what to do at this point.

My struggle is, as the chairman of the committee and trying to shepherd through a budget and then to try to enforce it is that when you don't see alternatives—clear alternatives, not triggers, with all due respect to some who have proposed them—and it is fair to propose them. But if you don't have a comprehensive plan, it becomes difficult to see the light at the end of the tunnel. Now you may not like the light at the end of the tunnel—some may call it a train—but the point is that, without a plan, we can't even have the next discussion. And that is what today is all about.

Director, thank you for your testimony. You mentioned the things that we can control and the things that we cannot control. It is clear that the projections, we are going to get them wrong. I don't like that. I have said this to the Director of the Congressional Budget Office. I will say it to you. We have got to get better at projecting. To understand that they are outside of our ability to predict the future is certainly understandable, but they have ramifications for making decisions.

In that regard, then, you have to hang your hat, you have to have an anchor in the storm, and that anchor is what you can control, those things that you are able to anchor to.

The budget that the President submitted that you obviously wrote and helped to craft, which by and large is the budget, as I understand it, that was passed by the House, is that still the budget that you and the President endorse and will stick to as we move through this process of this particular legislative session and into the future?

Mr. DANIELS. It is, Mr. Chairman.

Chairman NUSSLE. The President has submitted a supplemental now almost 4 months ago. The House passed a version of that supplemental, not identical but a version of it, which, as I understand it, spent $28.8 billion in necessary emergency spending for 2002. Is that the level at which the Office of Management and Budget and the President intend to support as you continue to move through negotiations?

Mr. DANIELS. It is the maximum. Yes, sir. The President did indicate that it was acceptable at the time the House passed it, to be precise, 27–1, and the spending he asked for on a contingent emergency that he might or might not spend above that of about 1–7. Having indicated that was acceptable, he in good faith has stuck to that position.

I have to tell you that it has been by now 117 days since he submitted that request. There are only 70-odd days left in the fiscal year. We know more than we did now, and we have fewer days left than we expected. If we were submitting that request today, it would be somewhat smaller. But in the discussions with those who are responsible in the appropriations process, he has stayed in good faith at the position he took when the House acted.

Chairman NUSSLE. Understanding that the details within the number itself of 27–1, with the contingency to 28–8, is left for you and the President and the negotiators from the House and the Senate to work out the details, is the President prepared to veto anything above $28.8 billion in the supplemental for 2002?

Mr. DANIELS. Yes, he is.

Chairman NUSSLE. Then I will report to you as well that we have secured enough votes in the House of Representatives to sustain such a veto, and we are willing to do so. We don't want it to get to that point. In some respects, presenting the President with a bill to veto suggests a certain degree of failure on our part in the first instance. But in the second instance, just so we are clear, not only has the President indicated his willingness to veto a bill above that level of $28.8 billion but that the House has enough votes to sustain such a veto.

Just for context again, and we have heard some discussion already today about the need for maybe some additional spending in some of the domestic programs, what would happen if we went above $28.8 billion, let's say, by a billion or $2 billion? Give us the ramifications particularly in the out-years as we try to get back to some ability to pay down the publicly held debt.

Mr. DANIELS. I have heard it said frequently, that what is all the fuss over the mere 3 or 4 billion on the supplemental, a mere 11 is about the difference, at least, in terms of the 2003 bills. My first observation is that most Americans would find that a strange question. In Indiana, where I live, we don't use "mere" and "billions" in the same sentence very often.

But this is—even by Washington's standards—real money. The compound nature of that is illustrated over here on this chart, the 3, 10, $20 billion that was spent this year does compound over time, because we have proven generally unable to root these things out of the base of Federal spending, and we are going to work hard on this.

One answer to many of the questions raised today, of course, is that we—as we become serious about identifying those Federal activities that don't work well or have outlived their time, we will free up more assets for those things that are important or essential to do.

So, finally, I would say that I do believe that the American public and your colleagues are looking for signals that there must be boundaries; and we cannot add to every single bill that comes along because of the way in which it quickly compounds to create the kind of problems that we all want to avoid.

Chairman NUSSLE. Just—my final question is, how much of that supplemental could still be spent this year? How much of that 2002 supplemental of $28.8 billion, now that it has taken 117 days and may even take a little longer—how much of that can practically physically be spent by the agencies and departments that need those resources this year?

Mr. DANIELS. The majority can still be spent. In some cases, the agencies have been postponing major investments. The Defense Department has been using other funds that it would like to replenish, the operations and maintenance area, for example. But by no means all of it can be spent. For that reason, we think there is plenty of room for an agreement; and I must say I am very encouraged that there will be one.

A veto is not the President's preferred outcome. I think you indicated it is probably not yours or any of the members here. And I am very hopeful that we won't get anywhere near that. You know, the important thing is to fund the essential business of fighting the war and getting a homeland security infrastructure established to defend the lives of Americans. It is too bad we have lost the time we have. I hope we can get to a real quick resolution this week.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

Mr. Director, I would like to put in context and try to get some understanding about what the actual cost of homeland security actually is.

Now I have got a chart in which we have tried to include all of the things that have happened since 9/11 that are related to and associated with 9/11. Once again, this is not to be contentious. I would just like to get it settled and see if we can get a common baseline to talk about.

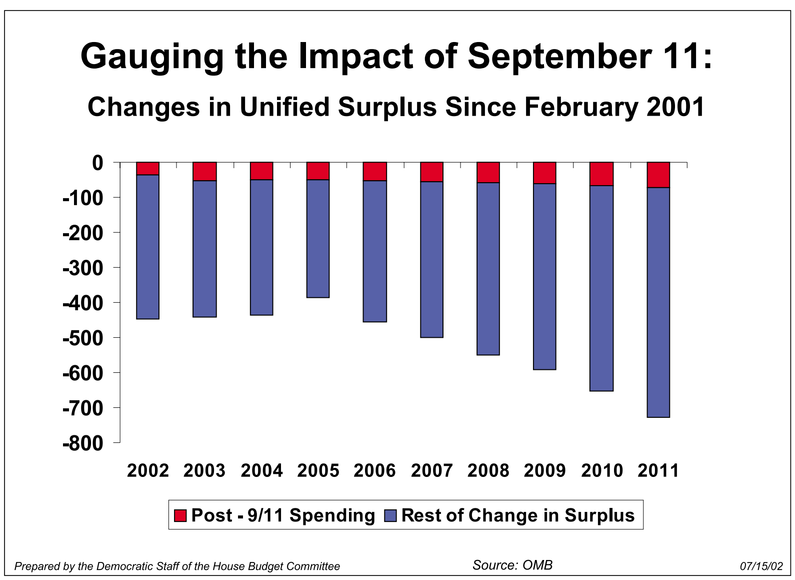
Do you have a copy of the chart there, Mr. Director?

Mr. DANIELS. Well, I can see it on the high-tech equipment here.

Mr. SPRATT. Well, this is the simplest way of saying it. But look first at the chart; and, Mr. Chairman, I would like to ask unanimous consent that the chart be made part of the record.

Chairman NUSSLE. Without objection.

[The information referred to follows:]



Mr. SPRATT. This chart shows that on the stub on the left we have included the $40 billion emergency supplemental. Obviously, that stemmed from 9/11. We have included the Air Transportation Stabilization Act, the PATRIOT Act, the Victims of Terrorism Relief Act; and we add all of those up. Then in pending legislation we include the supplemental, an increment for DOD to fight the war on terrorism over and above their regular budget, which we calculated something in the range of $20 billion a year.

These are outlay numbers, so it takes a while to build up to $20 billion. But that is our initial amount for that increment, a small amount already included in the President's budget and an allocation for homeland security over and above what we were already spending on that rubric on 9/11.

When you add all of that together, we get $554.6 billion from 2002 through 2011 for that 10-year period of time, 2002 included. Does this comport with your calculation of what these costs would be?

Mr. DANIELS. I would agree that all these are included, Mr. Spratt. As far as it goes, I don't know that it captures in the near level alone the out-years, what may lie ahead of us. But I agree that all of this should be counted.

Mr. SPRATT. Could you take—I don't want to put it in front of you and ask you to stipulate to something this complicated just off the seat of your pants. But could you give us an answer as to whether or not this is a broad approximation of likely cost associated with post 9/11 expenses that OMB would stipulate?

Mr. DANIELS. I regret to say it is probably a minimum cost. There are categories here which could well grow. Let's hope they don't. But there are categories here that certainly could.

Obviously, defense, we don't know what direction things may take. We obviously are now looking to defend against threats that seem larger than they did.

And ditto for homeland security. We believe this rapid and very forceful recommendation the President has made will certainly create the platform for an effective homeland security infrastructure, but I don't know for sure that it won't need even more.

Mr. SPRATT. Well, this accounts for about 12 percent, if this computation is correct, about 12 percent of the deterioration in the budget since January, 2001. If you could give us a response for the record, both to the accuracy of this chart, areas where it might grow and the percentage calculation, we would appreciate it. I just wanted to put it in context.

Mr. DANIELS. I would be glad to.

Mr. SPRATT. In addition to that, I said in my opening statement that a 60 percent estimating error over a period of 4 to 5 months is pretty substantial. Eighty percent of that is sort of assigned to a nebulous category called economic and technical factors, which the general public doesn't understand and neither do we unless somebody breaks it down for us.

As I indicated, we don't think you can include any technical adjustment for the economy in the period between February and July, because you actually increased your estimate of GDP growth from then to now. So all of that has to be assigned to technical factors, which would mean the technical factors are probably close to 100 percent wrong over that short period of time. How do you account for that? Number one, can you verify that for me? In a response for the record, can you give us a breakout of how much is technical and how much is economic?

Mr. DANIELS. Sure thing, Congressman.

I guess my answer would be, I think you are using the wrong denominator. You know, I think especially when we are talking about the revenue of the Federal Government, the extent of the miss—and I am not any happier about it than you are. I tried to write about that pretty candidly in the report. But I think that the fair denominator is the total revenue base, which is $2 trillion. So the miss is 60 over 2 trillion, not 60 over the—as I said, historically small projection of $106 billion deficit.

Let me take you back. In days of yore, the Federal Government was running deficits of $250 or $300 billion. You would have said that $60 billion miss was relatively small if you looked at it your way. I would have said it was relatively large, because total revenue at the time was a lot smaller than it is now.

So, again, we highlighted the revenue change; and you appropriately do, too. I just think in fair perspective it is not as huge a miss as you were suggesting.

Now, let me come at it from a slightly different direction. When you talk about technicals and so forth here—and I agree with you. I try to de-jargon our reports. And these are—our friends at Treasury do these estimates, as you know, and do the best job I know humanly possible; and we use their terminology when I can't get away with slang.

But I will say this: This miss was much larger when you look at it compared to its real source and all—it is entirely—almost entirely attributable to, as we talked about, to non-withheld income which is, loosely speaking, that related to the market, but also does include proprietorship income and so forth. But it is heavily influenced by capital gains, mutual funds, perhaps the income from incentive pay related to the market; and that was transformed dramatically.

It is not the largest factor at all in the Federal revenue picture, but it became very important this year because it fell through the floor.

Mr. SPRATT. You mentioned in your testimony that there has been a substantial drop this year in tax collections. You were just referring to it again. In your testimony or in the summary page you handed out with your statement last week, you indicated that individual income taxes were down a total of $121 billion—and that accounted for the lion's share of the $124-billion decline in taxes. In fact, if you looked at the whole year, there has been a decline of about $180 billion, has there not, total tax revenues collected?

Mr. DANIELS. That sounds about right.

Mr. SPRATT. Now, let us get to our chart here. You spent a lot of time explaining the qualitative change in tax revenues due to the fact that we can't expect the continuing boom in capital gains revenues and in exercise stock option revenues or in stock rent. Yet, could you tell me how then you account for that uptake in revenue growth, which appears to be taking you right back to the plateau you were on less the amount of the tax cut? If we can't count on the capital gains taxes, we can't count on the exercise of stock option tax revenues, if we have to back those out or normalize those, how do we get back to that revenue growth rate of 8 percent which you appear to be assuming in your forecast here?

Mr. DANIELS. These are good questions, Congressman. I am asking the same ones, and we will keep pressing back on this. But let me give you the answer or the reason that I believe this is responsible now.

You are right that the revenue review forecast—I think it is 8.6 or something, year-end increase, that is much smaller than the—I think it is roughly a 14-percent average increase coming out of recession. In recession, always revenue is suppressed substantially. So the comparison coming out is positive. This forecasts a much less rapid rate coming out than we have seen in the past.

I asked the question. Alright. Fine. This was a pretty mild recession. We thought it was going to be worse than it was, and I think for that reason it might be accurate to expect less than the historic recovery.

But I quite agree with you. We don't know. We have learned I think how much more volatile in an era in which more Americans have been deriving more of their income from what I will call stock market related sources than ever in our history, we have learned how much more volatile Federal revenue can be, and we have all got to work carefully on this together to understand this better.

And it takes me back to the central point. Let us control what we can control, which is the rate at which we spend the public's money. Let us make sure that it is coming in before we commit to spend it.

Mr. SPRATT. Mr. Director, there is another place where you make a major assumption, almost a heroic assumption, that accounts for the claim you are able to make that by 2005 the unified surplus, including Social Security, will be out of the red and back in balance; and that is, you are assuming a 25-percent increase in corporate profits between 2004 and 2005 in the year 2004. That is a pretty substantial assumption.

Mr. DANIELS. We don't know. Obviously profits were driven way down last year. It was another major reason for the drop in revenues. My colleague Glenn Hubbard is testifying this week that over the last two quarters corporate profits are up 26 percent, but I think that the common forecast for this year is more like 14 percent. So profits do seem to be recovering but I quite agree with you.

Mr. SPRATT. You have got the "bounce-back" effect this year. We are coming out of a recession; so normally you get a fairly high percentage. I would assume we are planed out, we are growing normally then. The only thing that would be a boost to profits, an abnormal boost, that year would be the expiration of the accelerated depreciation provision.

Mr. DANIELS. Yes, sir. That is probably a set that would be a central factor in why that spike occurs in that year.

Mr. SPRATT. So this assumes it will expire? You are not calling for the extension of the accelerated depreciation provision?

Mr. DANIELS. No, sir, we are not. Congress may want to reexamine that as it arrives, but the President is not calling for that. He did call, you are quite correct, for a targeted approach to investment. It seemed to be a remaining problem or a major problem in the recession we were experiencing, and he is appreciative that the Congress agreed on that surgical approach, but it is and was from the beginning designed to be time limited.

Mr. SPRATT. Let me direct your attention to the chart that is now on the screen because it shows another major assumption that is buried in the detail of this budget; that is, not all of our gross domestic product is subject to taxes. Certain entities earn things and they are exempt from taxes, and we have assumed, CBO and OMB both in the past have assumed, that the increasing cost of health care and employer-provided health care insurance premiums would make less and less a share of GDP subject to taxation.

As recently as a few months ago, last year at least, you were assuming the curve that is on the lower side there which was consistent with previous forecasts. This was the likely decline expected in GDP principally because of the share of income attributable to health insurance premiums.

Now without much fanfare, you had to dig this out of the detail, there is a substantial jump there of about 2 to 3 percentage points of GDP, a small percentage change but a huge base upon which it is applied, and in the long run over time it has an enormous effect on revenues. How do you justify that?

Mr. DANIELS. I think you will feel better about this when CBO comes out, Congressman. It is a perfectly appropriate question to ask and it comes from a timing and we were not able to resolve in a different fashion, but although they have signaled very, very publicly a change in their long-term outlook, the Commerce Department's Bureau of Economic Analysis will not formalize that or publish an official number until the end of the month. CBO will take that into account. We have adjusted this, which is, I would call it, the interacting variable, an attempt to be accurate.

What I am saying is that we were not free to use what we think is the new BEA estimate and still deliver this report on time. One option was to hold this report and deliver it late, incorporate their new estimate, and these lines would have come essentially together, or to take what we know from their public statements and make an adjustment to try to make the end product revenues as accurate as we could. And I do think that our revenue forecast, at least as it is impacted by this variable and CBO's, will be close.

Mr. SPRATT. Does this mean you expect a decrease in the employer-provided health insurance premiums?

Mr. DANIELS. No, sir, it does not.

Mr. SPRATT. What does it mean then?

Mr. DANIELS. This is a highly technical area. Can I submit something for the record for you on this?

Mr. SPRATT. I would appreciate that. I have three more questions that I would like to submit for the record, and I will hand them up to you. Thank you very much.

[The information referred to follows:]

MR. DANIELS' RESPONSES TO MR. SPRATT'S QUESTIONS SUBMITTED FOR THE RECORD

Question: Please provide for the record a year-by-year breakdown of the economic and technical changes to the 10-year budget baseline, separating the economic factors from the technical factors as has been done by past administrations. Please show separately this economic and technical breakdown for the baseline changes (i) from February 2001 to August 2001, (ii) from August 2001 to February 2002, and (iii) from February 2002 to July 2002.

Answer: Although the Mid-Session Review document did not separate the economic and technical factors, more detailed backup was provided to your staff that shows the breakout for the changes since the 2003 budget for our policy estimates.

Attached is a similar breakout for the baseline changes. This breakout is based on information collected from each agency that provides estimates for the Mid-Session Review. We do not centrally collect detailed information from the agencies explaining changes between the Mid-Session Review and the following budget. We calculate policy changes based on Budget Enforcement Act scorekeeping and define the residual change as economic and technical factors.

The split between what is defined as economic assumptions and technical reestimates is not precise. In general, economic changes are defined as changes that come directly from the economic assumptions developed by Troika (Treasury, the Council of Economic Advisors, and OMB) and distributed to the agencies. All other estimating changes are considered technical and are determined by the Treasury Department. Furthermore, the distinction between economic and technical changes is especially misleading in the circumstances where a significant revision in the underlying data is anticipated.

Question: (Part one) Please provide the analysis that lies behind your claim that costs associated with September 11 account for 19 percent of the deterioration of the 10-year surplus. The Democratic staff of the House Budget Committee calculates that such costs account for no more than 12 percent of the budget deterioration, an analysis that will be provided to you. Please highlight any costs not included in the analysis by the Democratic staff of the House Budget Committee. (Part two) Please provide the analysis that lies behind your July 12 claim that (i) the recession erased two-thirds of the projected surplus for 2002–11, and (ii) the tax cut accounted for less than 15 percent of the change in the projected surplus for 2002–11.

Answer: Relative to the February 2001 baseline forecast, 9 percent of the swing from a projected surplus to a projected deficit is attributable to the tax cut. Similarly, including debt service, 29 percent of the reduction in the projected 2002–11 surplus is due to the tax cut. Table 2 of the Mid-Session Review was correct in its presentation of these figures. However, the initial Mid-Session Review preview press release was not correct with respect to the effects of the recession, and was subsequently corrected and reissued as soon as the error was detected. The recession erased nearly two-thirds of the 2002 surplus, not the 10-year surplus as stated in the press release.

For 2002 and 2003 combined, the costs of security and the war account for 10 percent of the surplus deterioration. Obviously, since neither the scope nor the duration of the war is known at this time, we are unable to provide 10-year forecasts of the costs of security and the war. Your table, which holds spending constant in real terms after 2003, is probably the minimum amount that will be required.

Question: Congressman Spratt presented a chart titled "Taxable Portion of GDP" and asked for an explanation of the 2–3 percentage point increase in the taxable portion of GDP in the administration's current economic projection compared with the projection used for the fiscal year 2002 Mid-Session Review. He also asked if the higher taxable portion was due to an assumption that employer-provided health insurance premiums would decrease over time.

Answer: Most of the increase in the share of taxable income occurred in the projections made for the fiscal year 2003 budget. This upward revision reflected several factors including a new macroeconomic forecast, the incorporation of information for the third quarter of 2001 that showed a faster growth of GDP incomes than of GDP output, and an upward revision to the historical data for taxable income that was not available at the time last year's Mid-Session Review projection was finalized. CBO also made an upward adjustment in its projection of taxable income shares in its January 2002 forecast.

The changes made between the fiscal year 2003 budget projection and the fiscal year 2003 Mid-Session Review were relatively small. The largest increase reflects the incorporation in the Mid-Session Review of the temporary 30-percent expensing provision of the Job Creation and Worker Assistance Act. This provision will lower taxable corporate profits through 2004 and raise them beginning in 2005.

In addition, as I noted in my response to the committee on July 16, the issue of how to project taxable wages and salaries in the fiscal year 2003 Mid-Session Review posed a dilemma in light of statements from the Bureau of Economic Analysis, the source of the historical wages and salaries data, that it expected to make a significant downward revision to wages and salaries that would be published after the Mid-Session Review was to be released. One option was to base the wages and salaries projection on the existing official, but errant, data. The second option was to guess at the size of the forthcoming downward revision and base the projection on that guess. We chose the first option, which is consistent with prior practice, and Treasury made a "technical" downward adjustment to individual income tax receipts to take into account the error in the data. The important point is that the projection of receipts would be the same whichever option was chosen. That is because the projection of the growth in future individual income tax receipts depends only on the projected growth rate in wages and salaries, not the level of wages and salaries.

The projected share of employer-provided health care insurance premiums in GDP is projected to increase and has not changed appreciably since last year's Mid-Session Review.

Chairman NUSSLE. Mr. Sununu.

Mr. SUNUNU. Thank you, Mr. Chairman. I won't hold you at fault for not knowing exactly what the percentage payment of employer sponsored health insurance premiums will be in the year 2008. I can appreciate the fact that you don't have all that information at the tip of your——

Mr. DANIELS. I do. I just didn't want to take the committee's time.

Mr. SUNUNU. Touche. To that point when I first came here, we were forecasting 5-year budgets and that was always a cause for concern to me because I don't know and I don't think anyone on this committee knows what GDP will be in the year 2005 or 2006, and now we have seen a number of charts today looking at forecasts and projections for revenues and GDP and corporate profits 10 years out. We are looking at 10-year budget numbers, and I have a very healthy—what I think is a very healthy—scepticism about this sort of thing, and I will not quibble with you about what OMB or CBO or good economists are projecting corporate profits to be in the year 2004, 2005. I think where their kind of forecasting is concerned, the best we can hope for is to take a good guess, make a good estimate of our overall level of economic activity and then based on policy try to estimate what percentage of that economy is going to be collected in tax revenues. So tax revenues as a percent of GDP, we look at spending perhaps as a percent of GDP, we look at the growth rates and make the best estimates we can.

Even more important though, I reflect on the fact that the title of this hearing today is "Mid-Session Review" for this current economic year 2002, and I want to look at 2002, the budget picture in 2002 specifically. I think that is a little more revealing, especially when we hear discussion and debate and even a little rhetoric about the tax cuts. I look at the Mid-Session Review and I see where the Budget Office projected in August 2001 a surplus, a unified surplus of $176 billion, and today you are making a projection of unified deficit for 2002 of $165 billion. I do the math. I see that the change in our budget picture is approximately $340 billion.

Is that an accurate reflection of what you are presenting today for fiscal year 2002, the change in our budget picture between August 2001 and today for this fiscal year?

Mr. DANIELS. Right.

Mr. SUNUNU. Three hundred forty billion dollars. Of that 340 billion, the change in the fiscal picture for 2002, what percentage is a result of the tax relief legislation we had signed into law last year?

Mr. DANIELS. Fourteen percent.

Mr. SUNUNU. Fourteen percent. So the change in the budget picture which is significant, dramatic, the chairman made clear as a result of economic downturn after September 11, some additional spending, of that entire change in the picture, 86 percent is due to a number of factors, 14 percent is due to the tax relief legislation signed into law, correct?

Mr. DANIELS. That is correct, Congressman, with this possible proviso that that is a static way of looking at life, which presumes that every dollar of the rebate checks Americans received generated not one cent of additional economic activity or additional tax payments, and we may never resolve exactly what the so-called dynamic or feedback effect is, but I don't think anyone believes it is zero.

So I do believe, although you are quite right that it is only 14 cents on the dollar of change in the deficit picture, it was the most important 14 cents. There is a lot of economic testimony, and just common sense tells us it probably helped shorten and make more moderate the recession we had and probably will help us recapture the lost tax revenues more quickly.

Mr. SUNUNU. Now, the static effects of that tax relief package have been included in the forecasts that you are presenting us today, correct?

Mr. DANIELS. Yes. Only static. We do assume, I always say, the one answer we know is wrong which is zero, that leaving more money in the pockets of taxpayers and businesses generates no greater activity but that——

Mr. SUNUNU. I would like to talk more about that because there are a number of additional provisions of the tax relief package that are included already in the forecast that will begin to take place over the coming years. Could you talk a little more about the economic effect of those reductions in marginal rates and of course ultimately the elimination of death taxes that hit small businesses disproportionately?

Mr. DANIELS. The President thinks this is very important to long-term growth, and nothing is more important to our budget than sustained long-term growth. I will point out that the gradual nature of the tax relief as it was passed means that it does not have much effect in the near term. If Congress decided it was wise, of course the President would not agree, but someone could suggest stopping the next few steps in the tax cut, but it wouldn't do anything about the deficits. It is a trivial amount of money compared to what we are talking about. It would also have, I think, the effects of unfairness. Tax relief was much about fairness as well as economic growth. Fairness to parents of children, the child deduction through ending the marriage penalty and so forth. He also mentioned the death tax. So those debates may continue and of course can be resumed by people who would like to try to repeal parts of the tax relief, but what everyone should understand for purposes of this discussion is it doesn't have much of anything to do with returning us to balance or not because the big effects are in the out-years.

Mr. SUNUNU. One final question. I know Chairman Greenspan is testifying in the other body today, but in your opinion, do you think that making the provisions of that tax relief package permanent for individuals and working families on the marriage penalty, on the elimination of death taxes, would making all those provisions part of permanent law improve the level of certainty and confidence in the economy as we move forward?

Mr. DANIELS. Yes. The President does support that. Once again, its effects for purposes of this discussion are many, many years out, but I think we have all learned how important confidence and certainty is through the events of recent months in the market movements and the rest, and this is a major reason in addition to fairness and then assuring families that the tax code will remain fair after it has been made more fair, a good reason to establish the permanence of that relief now.

Mr. SUNUNU. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman. This may have been an unfortunate time to bring up this subject in this committee, but this liberal paper from Richmond, the Richmond Times Dispatch, says "U.S. leads in cooking the books," and a quote here from Bill Frenzel, an old Republican, is "If you look at the books of the corporate world, even the fraudulent ones, they are less subject to manipulation than the Federal budget is."

I would suggest that one of the things we argue about here over and over again, and I wrote the budgets in the State of Washington in 1983 to 1987, so the worst of the Reagan years, we established something called a revenue forecasting committee that was made up of Republicans and Democrats and the Governor's people, and we came up with one estimate and we lived with whatever that estimate was. The biggest thing we are arguing about here is manipulation back and forth between the House and Senate and all the assumptions and everything else. I think the reason why I am pleased the chairman is having this hearing is that it is good for us to have an opportunity to prepare for the "I told you so."

Now, if you put up that chart, the "Skating on Thin Ice" one, this is what we said the last time we showed you, left no margin for error, just left no margin for error whatsoever, and for us to be accused now of saying that is just an "I told you so," where was your plan? It's pretty thin; so I want to lay out the future.

Go to slide 7 because I want to show that one. It is the "Mid-Session Review numbers are not credible." This is the outline for when Mr. Spratt is chairman of this committee next year and we have to deal with the mess created by this administration and this policy. In this one you have optimistic GDP growth. There is no reason for it suddenly to jump up. You say well, "we are correcting the error from before." Oh, thank you very much. I see. Now you need the money; so you are going to bring some around. The highest share of GDP-assumed taxation, Mr. Spratt went into that in length, and then you say, well, you know, let me send up a written review of why it is that health costs and whatever—just the fluff in here.

The next one, "Medicare baseline is more optimistic than the CBO." Now, all of us know what you are doing to Medicare. You are trying to make it privatized and get to a voucher system. There is no mystery around here. So you keep underestimating or overestimating the baseline.

There is no fix for the AMT. I sit on the Ways and Means Committee and it is just incredible to me that people could be sitting out here with serious faces saying you are not going to have to fix the AMT when you have got half the people having to figure their income tax twice. You are going to have a change in this place and we all know it, but no one will even talk about it.

Then we come to the interesting ones. Here is the "Assumed expiration of depreciation benefit in 2004." Now, every time we talk about letting a tax thing expire, you call that a tax increase. The likelihood of this House letting anything expire is simply in my mind zero because they couldn't stand to raise taxes; and then you have omitted the extra cost of the House Medicare bill; and you have omitted the costs of the President's proposed spending; and there is nothing in here for national disasters.

So when you have taken a budget and you have inflated the amount of money you have and then you don't spend things that we know we are going to spend, it is absolutely predictable that we will be back here 1 year from now with Mr. Daniels explaining away with a new set of—I mean I hope we don't have to have another war or terrorist attack so you can blame it all on that, but you started out this biennium or this administration with an estimate that was inflated and you spent it all. You didn't leave yourself one nickel in case a problem came along, and I don't know why you do that. That is my question. What is the purpose of all these optimistic things when you know what has happened?

It seems, I suppose, a little strange for me to talk conservatively, but I don't know why you make conservative estimates and say in the light of what is happening we can't expect we are going to get more revenue. We have gotten less revenue now than we thought and suddenly we are jumping up and we are going to get more revenue so I would like to know what the basis—you have got seven or eight things here you can pick on to explain why you did what you did.

Mr. DANIELS. Great. Thanks, Congressman. Let me go through them. First of all, the margin for error, actually I know it has been a while, but if you were to go back and read last year's budget, you would see the forecast that was made, which was entirely consistent with the one that the last administration had made over the 10 years, absolutely spoke to this issue and left a trillion dollars in what was described as a contingent reserve. In plain English in that budget it said no one can see that far out and therefore 18 percent, I think it was, of the expected, then expected surplus is simply left aside because no one can know and there may need to be a buffer. It turned out we needed a bigger buffer than that, but it wasn't that no one thought about it.

Let me move quickly through the questions you did ask. On GDP growth we underestimated it this year by 2 percent. I have got to be the first Budget Director ever attacked for having been too conservative about that, but so be it, and I have explained about GDP coming out. If we are wrong, so is the private sector consensus of 50 forecasters who have no axe to grind in budget debates.

I have to tell you my view is we should simply embrace the private sector estimate so that——

Mr. MCDERMOTT. You mean the Arthur Andersen School of Accounting, that's what we have ought to embrace?

Mr. DANIELS. There is a Blue Chip consensus that tends to take the outliers out of the picture by pulling together and averaging I think 52 analysts and economists from every direction and——

Mr. MCDERMOTT. Our committee used them and we came up with one.

Chairman NUSSLE. The gentleman's time has expired.

Mr. DANIELS. I would just say if you are smarter than the amalgamation of those 52, you ought to be a wealthy man. The higher share of GDP, this is the question I answered before. When the BEA issues its new update of wage and income as a share of total income, this problem I think you will see we resolved it the best way we could and we were not in a position to use their number, as I told Congressman Spratt. So we adjusted the number which it interacts. The Medicare baseline, we actually raised our Medicare baseline in this report. I don't know where CBO will be when they come out next month. It possibly will be much closer, but we talked about this in the spring and our total entitlement baseline was almost identical to theirs; that is to say, they had a little bigger number for Medicare and we had a little bigger number I think for Social Security. So there was no difference in terms of what was expected in mandatory or entitlement spending.

The fix of AMT is a real issue. We have talked about it before. It wouldn't make much difference in the first year or two. The year 2005 for instance, the year when we hope to fight our way back to balance; it is only a few billion. But this is an important issue and I think part of the tax simplification study that the Secretary of Treasury is leading right now.

We are not going to assume anything further. That is what the President asked for and got. No other assumption I think is reasonable at this point. Yes, we omitted extra costs of various bills because the President hasn't embraced them.

Your next to last point I don't understand. Any increase the President has proposed, which does include Medicare prescription drugs at a different number than the House voted for, does include defense spending increases, for instance, does include coverage for the uninsured through the credit he has proposed, those are all in there. So reasonable questions, but there are answers for each one determined.

Chairman NUSSLE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. And thank you, Mr. Daniels, for your information you provided here today. I am pleased that Mr. Spratt is focusing on cash flow. My only problem with his focus is he has blinders on. He only talks about outgoing, not coming in except a little bit of terminology referring to it. But there are a lot of problems in the environment here today in the Congress and in Washington and across the country dealing with corporate profits. It is a reflection on what has happened the last few days with some revealing of some people who may not have done everything proper within the structure of their corporations.

But corporate profits reflect individual tax revenues; is that not true, Mr. Daniels? Corporate profits reflect individual income tax?

Mr. DANIELS. Ultimately, yes, sir.

Mr. COLLINS. It does. It is right here in your testimony. It is called capital gains, it is called jobs, investments, dividends that are paid by corporations. All those are part of corporate profits; is that not true?

Mr. DANIELS. Yes, sir.

Mr. COLLINS. My question to you then is twofold, both dealing with cash flow. Yes, projections were wrong. That is what they were, predictions. It is easy to be a Monday morning quarterback. But as we see the reality of the cash flow coming in and you made some mention to it and the question was asked for a figure, but I never heard the figure. Based on the supplemental, you said there is room for lowering the amount of supplemental requests. Do you have a figure in mind based on the fact that the revenues are down?

Mr. DANIELS. We would still like to resolve, and I think there are very hopeful signs we can resolve the supplemental at the limit that the House set and the President had indicated was acceptable.

Mr. COLLINS. But that is a higher figure than the President asked for, and you said there is room for reduction. So we will pass on that. Evidently there is not. But I am concerned with the portion of cash flow coming in, which is down some. If you look at this report, it varies, 6, 8, 10, 12 percent. What measures are we going to hear from your end of the street that will reflect a possible return to profits for corporations which you have already agreed reflect individual income tax? What are you proposing or do you have any proposals or does the President have any proposals?

I will just throw out a couple. When you compare what takes place in this country that has reference to corporations as far as their profit structure, costs that we impose as a government on corporations such as corporate rates, the corporate AMT, and I am pleased to hear Mr. McDermott is very interested in personal AMT, but there is a corporate AMT, also. We have varying depreciation allowances that we allow for capital investment return. We have provisions in law dealing with double taxation of incomes such as stock dividends.

Does the administration have any proposals that would address any of those areas so that we can, as you say, return back to enjoying corporate profits in this country rather than criticizing corporate profits which reflect the individual income? Do we have any proposals coming from the administration in those areas?

Mr. DANIELS. No new ones at this point, Congressman, but the President is very fixed on the state of the economy. He has acted twice already. Once in the tax relief of last year which was modified to take into account the recession that has become apparent and then again, and I must remind everyone sort of swimming upstream for quite a while in asking for a follow up stimulus bill this year. I take you back to January: the prevailing opinion aside from the President seemed to be, oh, let it go, it looks like the recession will not be a severe one and so forth, but he fought that bill through. Now the effects of both those bills will continue. One has only been in effect for a few months, and the tax relief of course has subsequent installments, very important to small business and those millions on the individual rate schedule.

So I would say there are additional effects coming, but I would say that if the economy should stutter or recovery seemed to be stalling out, the President won't hesitate again to look at other measures that might be helpful.

Mr. COLLINS. Out of the four areas that I mentioned, there was one that was in the first stimulus package but it was omitted from the final version and that was the corporate AMT repeal, which is something I think only this Nation has when it comes to taxation of corporations. We have lost a lot of our industry base. A lot of this comes from the standpoint we have extreme costs when it comes to environmental regulations, we have extreme costs when it comes to taxation compared to some other nations who industrialize, and we have lost a lot of our tax base.

And I will close with this. I appreciate the fact that the President will veto anything that goes above the $28.8 billion in the supplemental. I agree with you. I think that number could be much lower, lower than the 27.1 that the President sent up here. I will help to sustain a vote if he so does because I will vote against the supplemental again. I voted against the first one because I thought at that time it was too high.

So we appreciate your comments and I hope that the present administration will come forward with some relief that will help us to be competitive in the world marketplace corporately which reflects the individual income in this country due to the jobs, dividends, capital investment, capital gains and such.

Thank you.

Chairman NUSSLE. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Daniels, I want to say at the outset, and our colleague from New Hampshire is no longer here, but I continue to be somewhat amused by our colleagues on the other side of the aisle who say you really can't trust these numbers going very far out; we should only look at it 1 year or not. The book that you sent up to us has 5-year budget numbers, 10-year economic numbers and talks about policy changes in the ninth year going out. And last year as I recall when we were debating the tax cut we were being told, look, we have got $5 trillion unified surplus going out 10 years, in fact it may even be larger and so we should be confident in building in a tax cut and other policy changes into that. Now a year later we find out that those numbers didn't pan out. The book you sent us today shows that we have had a reversal in the level of the unified surplus of about $5 trillion in the space of 1 year.

The chart that is up there now shows that from going from a net surplus in 2000, we are now looking at deficits as far as the eye can see—at least to 2012 even in your own numbers, and granted we are going back to the old definition of deficits as opposed to the newer definition that occurred in 2000. Now we are going back to the old definition that a deficit is just that, a deficit on budget, and we count Social Security and Medicare as a way to pay for it. But the fact is that the debt numbers that Mr. Spratt raised and others show we are not getting out of debt anymore 10 years from now from where we are today. The fact remains, and the chart shows up there, that the President's fiscal policy is in a ditch and a lot of our colleagues on the other side, rather than trying to figure out how to pull it out of that ditch, are talking about pushing it deeper in by adding another half trillion dollars and that is part of the President's policy as well. But the numbers show we are making the situation worse for the baby boomers and worse for the people depending on Social Security and Medicare than making it better, and I think that is an undeniable fact that everybody has to take a look at.

Even if your numbers are accurate, and there are a lot of reasons to believe they are not given our experience over the last 18 months, this is where we are today, and the chairman can say, well, the Democrats haven't put forth a plan, but the President hadn't put forth a plan either to get us back into a real surplus situation. Even if we assume the spending numbers, the discretionary spending numbers that you talk about in your Mid-Session Review, that only gets us back into a surplus in the on-budget account but not in the unified account. And that still means that we are in—that we have $3½ trillion of debt outstanding, we have not positioned our economy to deal with long-term obligations of the entitlement programs that again you reference in your report.

So I think that is quite startling, and I would like you to respond to that and I would also like you to respond to why OMB still has a difference in the baseline for Medicare, absent any policy change with respect to prescription drugs of about $173 billion as compared to CBO, $173 billion, more optimistic when we have seen that those numbers are quite unstable, and I would like you to respond.

Mr. Spratt and others talked about the 25 percent pickup in corporate profits in the 2004–05 period, and you talked about the impact of capital gains and dividends and interest that led to the ramp-up in receipts in the latter part of the 1990s.

Do the numbers you present to us today in your economic assumptions assume that we are going to have a pickup in those numbers again in the 2003–07 period, because there are a lot of folks now saying perhaps we are heading back into a 1974–76 period, a bear market period that could tamper down those numbers? I would like you to address those issues.

Mr. DANIELS. Thanks, Congressman. I think I got most of them. First of all, in terms of a plan to get back to goals that we do share—those goals being substantial surpluses, enough to reduce debt and so forth—there is one plan here, and we would be glad to work with you on ways to elaborate on it, but the choices are pretty simple. I keep saying the thing we must do is what we can do. We can control spending and we would be receptive to ideas you may have as we proceed through this year and put the next budget together about ways to restrain spending more than the President has suggested at this point. Every dollar we do, it will clearly be one dollar toward the goal that you are talking about.

One thing I think the President believes will not work is to try to tax our way back. That is a formula for economic downturn if there ever was one. I suppose somebody could get out the chalkboard and claim academically if we jacked up tax rates high enough, all that revenue would come into the Federal Treasury, but it wouldn't. Economic activity would slow down.

Mr. BENTSEN. Nothing in the proposed policy changes in the Mid-Session Review would get us back into the surplus position that we were in in 2000.

Mr. DANIELS. All that would get us back to projections, estimates like that, that we can see is very strong economic growth, stronger than we are willing to forecast. We are not willing to assume growth beyond what we think is moderately reasonable. We are not going to play that game. And it might happen. It did in the 1990s and if we can all work together to create the right conditions it might again. I think we now see that would probably have to include a pretty darn strong stock market as well as good old-fashioned GDP, but that is the way and the only way we can once again estimate surpluses that big. You talk about corporate profits or taxes, I think, corporate tax payments, and as I said a lot of that assumes and we do assume that the 3-year accelerated depreciation, that is what it was called, to accelerate depreciation and then really to accelerate investment in the near term runs for 3 years and only 3, and on Medicare again we raised our Medicare forecasts. I don't know what CBO, whether it will stay where it was or increase. The differences had to do with estimates about percentage of Medicare beneficiaries that were disabled, things like that.

I take you back again to say that the differences across trillions of dollars of Medicare spending were not very big and there were places in the entitlements area where we expect more spending than they did. If you put entitlements together, we were right on top of each other. So there was no real difference in the long-term fiscal outlook.

I hope I hit your main questions.

Mr. BENTSEN. My time is up, and you can respond for the record, but whether or not you make any assumptions with respect to corporate share earnings or dividends and interest if we are actually in a bear market for an extended period of time similar——

Mr. DANIELS. I would be glad to respond. Again this is the area that the review says I think we have all got to work on harder. I will take a second to make a point, Mr. Chairman, that struck me many times. I think my first day in this job, I didn't even know what to call it, but I knew somewhere there must be a sensitivity table that would tell us what a point of GDP was worth up or down and what inflation was worth up or down. In fact there is in every budget document. And history has told us that a point of GDP this year ought to be worth on the order of $28 billion more revenue. We were low on GDP by two points, but instead of getting 50 or $60 billion more revenue, as history would suggest, we got less, and that is a new phenomenon at work that we have to study, and there is nothing in that sensitivity table today that says if the S&P goes up a hundred points or down, this is what you can expect. There may never be, but it is a phenomenon we are going to have to understand better.

[Information referred to follows:]

MR. DANIELS' RESPONSE TO MR. BENTSEN'S QUESTION REGARDING A BEAR MARKET

The forecast for earnings, dividends, and interest income is based on past historical relationships. It is driven by our overall macroeconomic forecast which is almost identical to that of the consensus of private-sector forecasters. As such, we believe our economic assumptions are the most likely outcome. We do not make alternative economic and budget projections based on other, less-likely alternative scenarios.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Watkins.

Mr. WATKINS. Thank you, Mr. Chairman. And, Director, your comment was probably very appropriate, and that is the sensitivity table. We watch that sensitivity if you are in corporate or Wall Street in most cases, the sensitivity of our stock not doing very well. Things happen and we don't see the growth taking place, et cetera; so it becomes a big variable. We all are known for our mistakes, I think, with that question, David. We realize we have erred along the way and most of those are not intentional, I don't think. I think on either side we try to estimate or guesstimate what is going to happen, and that is what we are talking about here today is how can we get our hands on more solid figures. I think that is something we have to wrestle through, whether it is our personal budget or whether it is the budget when you are in business or in corporate America to a certain extent.

I have taken two small companies through IPOs, and let me tell you the sensitivity there is always at a boiling point as you get through those. But I want to say sometimes we beat ourselves over the head in here but there is no guide, actual guide, on how to get to some of these, and I know we have to use an estimated GDP which can vary quickly, and it is happening out there today.

It seems like we are out of step there. So I guess trying to get those solid numbers is one of the things that we have to try to do because, as I stated in some earlier groups today, we have got a problem out in America. There is a lot of credibility that is at stake. There is a lot of uncertainty out there of just what is going to be happening, and we have got to know what role we can play.

I agree we cannot raise taxes. That is the wrong step, the wrong direction, especially when earnings have been going down. There are some I know in this body that would not go along with reducing taxes and some people will use that, but I would like to sound a warning that we have got to make sure that this golden goose that has laid the golden egg for us, free enterprise, is not the whipping boy at this time because we might find ourselves way down. But we have got to find a way, I think, to reduce the deficit across the board.

I don't know about some of your States, but our State has balanced budget amendments and we have to balance it. So we are taking a 7½-percent cut.

Has there been any discussion of that in your office or anything about how we try to get back to this balanced budget?

Mr. DANIELS. We discuss it all the time, Congressman, including ideas like you are mentioning. I know before you know it we will be putting the next budget proposal together and we have to look at ideas like this, especially in view of lower revenues that we have just discovered. For the moment I think the President would be very pleased if he and the Congress were able to agree to limit spending aside from those things we cannot avoid in winning the war, defending Americans here at home, to limit spending that alone would be a big step forward.

We are having trouble enough right now persuading some of your colleagues to set aside business as usual and do as I mentioned and as your question points out what 50 States of this country manages to do every time they have a squeeze. The 50 States have just limited spending increases to 2 percent. I don't know what it was in Oklahoma. In many States they actually had to reduce spending year after year. And businesses do it, families do it and all the President asks is that the Federal Government do it, not in the overall but just in those things that for the meantime have to take second place to winning a war and defending Americans.

Mr. WATKINS. I would like to ask one other thing, if I may, Mr. Chairman.

I wish you would maybe get the President to ask the Governors, who have probably got the strongest lobbying group here, that they need to back off. The Governors here are trying to get a lot of programs that fund their State programs so they can do what they want to do with their budgets. I think the Governors should be backing off and not be putting us all in a big spot, John, out there as we go about doing it, and I think this Congress needs to tell—but I think there are a lot of things that would not have to be cut out. We could carry out a program, but it might be reduced 7 percent and——

Mr. DANIELS. Yes, sir.

Mr. WATKINS [continuing]. That is what we have to do in our household budgets. We have to sometimes say we can have this but we are going to have 7-percent less. You had better not be buying this, this or this because we cannot do it.

Mr. Chairman, thank you. It is a tough nut to crack to say the least. It is always challenging and always quite interesting.

Chairman NUSSLE. I thank the gentleman. Mrs. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Thank you, Mr. Daniels, for being here. Thank you for your testimony and the mid-year review of our budget. It obviously is a very useful document, but when we put our documents out, we put them out for a reason. I gather the reason is for the accounting and give the American people the assurance where things stand.

The chairman started the meeting off by giving some contextual standards by which we can now understand this discussion. Given the contextual view of how Americans are outraged at the corporate accounting procedure—certainly investors are because they have lost their money and retirees have lost their money, people are losing their jobs based on how their books are kept, and records are kept.

Should the American people have confidence in the integrity of our books, and how we are keeping the books and the projection for the future of retirees in Social Security based upon your opinion here?

Mr. DANIELS. I think regrettably, Mrs. Clayton, in a way I would say they should because the facts are very plain and the facts are very stark. Members of this committee frequently remind us of this. The extent of our unfunded liability in the entitlement programs is there for all to see. It is measured in the trillions. It does underscore the need for entitlement reform, as the President has called for some time in the years just ahead of us. But in this case the numbers are all too accurate. We know how many people will retire and we know actuarially about what to expect in terms of how many payments they will draw, and so forth, and it is plain as day that right now those programs are not built to sustain themselves.

Mrs. CLAYTON. I agree they will not sustain themselves. Would you agree that that would be an accurate projection that Social Security would have sustained itself but in this light—it will not?

Mr. DANIELS. No, ma'am. Social Security would not have sustained itself. If we could return to large surpluses, we would increase the Federal Government's borrowing capacity by paying down debt, and let us all hope we can resume doing that the first possible date, but that never was going to solve Social Security's problems and it wouldn't today.

Mrs. CLAYTON. Let me phrase the question differently. Is it not true that what we are experiencing now in the projection of Social Security is much more severe than it would have been since the budget of 2001 and 2002—we had a projection in 2001 that there would be $3.6 billion. Now, that might have sustained itself over the long term, and we may quibble over that amount, but the severity of the Social Security Trust Fund is far more severe now than it was when we began the budget process in 2001 and 2002; is that not correct?

Mr. DANIELS. No, ma'am. Just to separate the questions: first of all there is not a doubt, I don't think, in anybody's mind that every penny of Social Security benefits promised will be delivered now, next year, every year, I guarantee every year this President is in office, one way or another that will happen. The real question that you are quite appropriately pointing us to is what happens about out here about 13 or so years from now when Social Security begins to pay out substantially more than it takes in and that is if the system has not been reformed between now and then, and as that happens there is no doubt, I don't think, that this top priority of government will be honored but the question will be how will we pay for it then and we can start borrowing from a higher base——

Mrs. CLAYTON. I will agree with you, Mr. Daniels, that every Member of Congress and the President included will never renege on trying to pay for that, but in doing so under the circumstances they will renege on their commitments to other things. There is no way we can keep both of them. Our budget's shared responsibility is more than controlling expenditures. A budget is not an expense statement only. A budget is a combination of revenue, assumptions, and expenses. And, if we don't plan for the unexpected, as we did not in the year 2002, we will find ourselves going into deficit. So what we can control is limited. But it is a misrepresentation of what we should consider in a budget analysis when we should expect what we do policy-wise in terms of stimulating the economy, having receipts and tax revenue. These are all part of it. We run away from tax revenue as if there is some other way to get income. There is no other way.

So tax revenue should be addressed just as we look at controlling expenses. We are being disingenuous, all of us collectively, by not engaging in a comprehensive statement of how we balance the budget and how we are responsible for the total obligation of the American services, defense. Any contingency has to be based on what we have to work with, and if we ignore that the tax part was part of that, and the unexpectancy of terrorists is part of it, all of that has to be a balanced approach. And, to suggest that because we are acknowledging we had some misconnections or mixed assumptions, Mr. Chairman, with all due deference, I think the American people are wondering if we are not held to a different standard than corporate America. I think we ought to be held to the same bookkeeping accounting as corporate America.

Mr. Chairman, I yield back the balance of my time.

Chairman NUSSLE. I thank the gentlelady, and I guess part of my concern with what you were just saying and since there are no members on my side that are left, I will take the time for just a moment. When your chart says that the Republicans spent the surplus, that assumes that it was all spent in a partisan vote, and my recollection is—and the gentlewoman can correct me if I am wrong—that you supported the stimulus package, you supported the emergency supplemental, you supported the defense appropriation that just went, you supported all of the bills. Now, you did not, I believe, support the decrease in taxes last year which as the Director suggested was 14 percent of the reduction of that surplus this year but the other 86——

Mrs. CLAYTON. Because——

Chairman NUSSLE. We have a difference of opinion. But my point is that 86 percent of that I believe the gentlelady voted for.

Mrs. CLAYTON. Incorrect. His analysis of the taxes was 14 percent.

Chairman NUSSLE. What is your analysis?

Mrs. CLAYTON. I will assume that Mr. Spratt is correct.

Chairman NUSSLE. What is his analysis?

Mrs. CLAYTON. I think it was 29 percent.

Chairman NUSSLE. So in other words, 61 percent you voted for?

Mrs. CLAYTON. I did not vote for the supplemental.

Chairman NUSSLE. So what percentage is left? You didn't vote for any of those things?

Mrs. CLAYTON. I did not vote for the budget.

Chairman NUSSLE. When you say Republicans spent——

Mrs. CLAYTON. I didn't say Republicans.

Chairman NUSSLE. That is what the chart says.

Mrs. CLAYTON. I didn't make the chart, but you have to assume responsibility if you are in control.

Chairman NUSSLE. I am here.

Mrs. CLAYTON. Don't run away from that.

Chairman NUSSLE. I have the time and I won't run away from it. In fact so much so—and I would be happy to yield to the gentlelady for the discussion.

Mrs. CLAYTON. You usually do.

Chairman NUSSLE. So much so that we took the floor last week, 2 weeks ago now, and voted to increase the debt ceiling in order to manage this problem. My point is this: When you come in here and say the Republicans spent it or that the Republicans dragged us into Social Security, it forgets some pretty important votes.

Mrs. CLAYTON. Why don't we——

Chairman NUSSLE. I will be glad to yield in a moment. It forgets some pretty important votes that were done in a bipartisan way where we were together unified in an appropriate response to terrorism; in an appropriate response to emergency; and in appropriate response to stimulate the economy. We reached into that surplus and decided in a bipartisan way to spend it, and that is the concern I have got and that was the reason I brought the calendar out. It was the reason I have done a couple of things here today that if you forget that context, I can understand you will say in a chart like that Republicans spent Social Security or Republicans dragged us into deficits. But it forgets some pretty important votes that the gentlelady and others cast, appropriately.

I am not suggesting they were wrong votes. I joined you. All I am suggesting is that when those are the charts you put up, it forgets some pretty important context, and that is that we did this together and we did it together in an appropriate response to some pretty vexing national emergencies that were facing us since September.

And I would be happy to yield.

Mrs. CLAYTON. I agree with the gentleman. There was some shared responsibility because there were some shared votes, but there are differences. On September 11, all of us shared that responsibility and there are other areas that we shared. My concern is making the analysis of where we are now. Where we are going is that we are ignoring the whole issue of revenue. We are ignoring the whole issue of a tax. The tax bill was part of that. The economy is another part of it as well as the terrorist attack.

So to balance our discussion, as you had pointed out earlier, you said we forgot September 11. I don't think we did, but that was your emphasis. My emphasis was that over consumption with controlling expenditures as the only way of addressing this issue forgets some shared expense. You and I both had to increase expenditures. When we say we are going to control that to a very limited growth, where is the opportunity to fulfill the President's commitment to ″Leave no child behind?" Where is the opportunity if we don't do that to have prescription drugs?

That is my only point. We are in this together and we ought to find how does this mid-report add to confidence? And we ought to get together and say let us now look at the budget again, and how can we make sure as we go forward—we now know some things we didn't know.

And I thank the gentleman for yielding time.

Chairman NUSSLE. Sure. Let me just say that there is a difference of opinion here and that is fine. We have decided to take a path of a 3-year glide path which has been confirmed today by the Director of OMB to get us back to the unified surpluses and the ability to pay the debt. Part of the reason we chose that glide path as opposed to trying to attempt it this year is because of those new challenges of homeland security and defense and because we also believe it is important to modernize Medicare and provide a prescription drug benefit. You share in that. I understand that. But if you made those two choices alone, homeland security-defense and Medicare-prescription drugs, you cannot possibly get back to even unified surplus this year without some type of effect on revenue which is what you are saying.

We choose not to repeal the tax cut. I am not suggesting that the gentlelady does, but without a plan it is in a little bit of uncertainty. We choose not to. We choose to make them permanent. That is a choice we make. We will have to stand accountable for those choices, but my concern is that without knowing what your plan is people can read into it or partisan comments can be made and that is the reason that I take the time in order to——

Mrs. CLAYTON. Mr. Chairman, would you yield one more time?

Chairman NUSSLE. One final comment, yes.

Mrs. CLAYTON. I don't think this is politically motivated. Please understand that, but because I have a vested interest I want to raise it. Did I hear you say a 3-year glide path or a 5-year——

Chairman NUSSLE. My point was that what we were trying to do here and was confirmed here by OMB is we were trying to get back to paying back the debt. That was one of the goals that we announced as a result of what happened in September in the new budget that we proposed and passed in the House, and we want to try to stick to that so that by 2005 we can accomplish that. We may or may not be able to. That is a goal we set, and the glide path that we have passed with this budget in the House seems to continue to be able to accomplish that.

Mrs. CLAYTON. The farm bill that we just passed was a 10-year plan and I notice in the review you give a 5-year projection, and it goes specifically less than we approved. That may be just this way of projecting, but those of us who live in the Farm Belt question how do we keep the commitment for the next 5 years.

Chairman NUSSLE. I think we are scoring that probably exactly right from what I can see. It was more than anyone anticipated, but it certainly has been added to the bottom line here.

The gentleman, Mr. Davis, from Florida.

Mr. DAVIS. Thank you, Mr. Chairman. Mr. Daniels, thank you for being here. If I understood your testimony not just today but earlier correctly, you like many of us continue to extol the virtues of a balanced budget and paying down the Federal debt as a priority for the Federal Government's budget.

Mr. DANIELS. Yes, sir.

Mr. DAVIS. And it is fair to say in that regard that you from time to time have not been bashful for criticizing the Congress for excessive spending in some of those supplemental appropriations bills and many of us have voted against some of those bills on that basis.

Mr. DANIELS. The supplemental bills during this administration, I am happy to say, have not ballooned and have been controlled at the levels they were requested at, but it certainly has been a problem in the past.

Mr. DAVIS. My question is given those two points, why is the administration continuing to advocate tax cuts like making the estate tax repeal permanent, and there are other examples of that which minimize our ability to get back to the balanced budget and begin to pay down the Federal debt as opposed to grow it as we are now?

Mr. DANIELS. I think they are really separate questions in two ways: the estate tax or the death tax. First of all, the President has seen it as a fairness issue. I think many Americans also believe that income has been taxed many times during life and ought not to be taxed yet again at death, and that was the nature of the debate that led to that reform.

Secondly, whatever one believes about the fairness of the death tax, it has nothing to do with whether we can or can't, do or don't get back to balance in the Federal Government because the extension of that is years, 9 years away if it happens, and in the interim, and this is essentially a non-factor in the things we have been discussing here. So it is a legitimate debate, but I don't think it has much bearing on the critical issue of getting back to balance and debt reduction.

Mr. DAVIS. I agree there is a fairness issue and I have supported, as many have, a middle ground to have a substantial exemption approaching $5 million or more. But as we debate tax cuts just as we debate spending bills, shouldn't we temper our desire to pass tax cuts against our primary goal of balancing the budget and paying down the Federal debt?

Mr. DANIELS. I think they have to be weighed together and I think the central point is that our shared responsibility is to create the strongest economy we can. I have said it so often, but a strong economy creates surpluses, not the other way around, and taxation when this President came to office was at record highs. Both overall taxation and individual income taxes were at the highest levels we had seen measured against the income of Americans, and he felt that both for fairness and for economic reasons it was a good idea to moderate that and bring it down. I will point out that even after the tax relief was in place, taxation on Americans and individual income taxation on Americans will remain at near record levels, certainly peacetime levels.

So we do have to balance these things, but the President felt we were out of balance before on the high tax side.

Mr. DAVIS. The tax cut, people use different numbers, $1.6 trillion that was passed. As I recall, it was based on an assumption of the rate of growth in the GDP of about 3.2. Many of us said that was a reckless assumption and, unfortunately, I think that proves to be a correct statement. I think it is fair to say, and you are not going to do this, I know, that if you were to ask forgiveness for that mistaken assumption, some would give you the benefit of the doubt on that.

But my question is, given that we blew it before—and I am going to refer now to chart No. 7—why shouldn't we, Mr. Daniels, be using very conservative assumptions about the forecast? Because I think the major criticism that I offer today as to your mid-session review is that I don't think you are being sufficiently conservative in the assumptions you are making and chart No. 7, which I am sure you have already covered, illustrates some examples of that. Why shouldn't we be more conservative in some of these assumptions so we don't make the same mistake again and go into further deficit spending than we are already?

Mr. DANIELS. First of all, Congressman, we don't know whether the 3.2 percent long-term assumption—you were contrasting it to the full cost over 10 years of the tax cut—we don't know if that was conservative or not. We can all hope that over those years' growth will exceed that percentage and maybe if we take the right steps—Washington can't control this. It is in the hands really of millions of Americans and their businesses.

But if things go well, it may actually exceed that. All we know is that in the very front end, there was a recession that was not seen as far as I know by anybody, and a hiccup in that long-term line. Now, the line we have embraced going forward is a little less than that, but it is the one that, consistent with the Fed, the Blue Chip private consensus, and CBO, we are, if anything, a touch to the conservative side. We were very conservative this year, as I pointed out.

The biggest error, any way you want to measure it, the biggest error in our February submission was we were too conservative about economic growth this year. We missed a mile. We said it was 0.7, and, as I said, it is going to be 2.6 or more.

So I quite agree with you. I agree with you very much that we should be very conservative looking forward.

The chart you mentioned, it was a good question. I asked the same question repeatedly of our Treasury colleagues about this growth rate coming out, and we will be glad to show you the details. It is substantially slower than the growth rate coming out of past recessions. But it may still be too fast, and we are going to have to watch it every month. And the day I believe that it is too fast, I will let you know, because—you know, accuracy is what we are all after. Honestly, that is what we are all after. And events have really thrown us all some curve balls.

Mr. DAVIS. Mr. Daniels, I couldn't agree with you more. One of my favorite adages is, everybody is entitled to their own opinion, not their own version of the facts. And I think that is what is separating us here and causing a lot of consternation, at least on this side.

My final question, which gets back to something the chairman has harped on repeatedly today, is about solutions; because it is painfully obvious that it can be said we told you so. That is too easy. There have been repeated attempts by Democrats to try to offer what we think is the basis for a bipartisan discussion about how to dig out of this hole, taking into account the fact that we all believe that there is some very important security spending that needs to occur and that we are not going to get out of this hole overnight.

And what I am referring to is the Moore-Spratt-Davis-Moran bill which has been filed. Do you have any comments on that bill as a basis for us to start to come together to have a discussion about how we dig out of this hole?

Mr. DANIELS. Well, first let me say, Congressman, with regard to the phrase, "We told you so," I would have to know, you know, we told you what? Nobody told us there would be a—that a recession was really on already. Nobody told us there would be an attack on September 11 or that it would cost $21 billion to rebuild New York from it, et cetera, et cetera. These, as has been pointed out repeatedly here, are the reasons that explain five-sixths of the difference between last year and this. So just, before moving to your——

Mr. DAVIS. Let me just clarify, Mr. Daniels, because the figure I recall is—and I think it was CBO or another credible third party said that roughly 40 percent of the decline we have experienced in revenues associated with the tax cut—and the chairman is perfectly correct that it is important not to overstate that, because 9/11 clearly entered into it, and so did the recession. And so the "told you so" was just that the 3.2 left little margin for error.

Mr. DANIELS. Well, I think when the CBO comes out yet again, you will find that they don't have any material difference from us in terms of the small role, and, frankly, the positive role I think the tax cut has played in events from last year to this.

But I know your central question had to do with your bill. I would just say that we appreciate very much your—and certainly Congressman Spratt's—continuing commitment to fiscal strength. I would be glad to talk to you about possible common approaches. As I said, we have got to be putting together our next budget submission, just starting weeks from now, and I would be glad to look at ideas that might be incorporated.

Mr. DAVIS. Do you have a specific comment on the bill I described, Mr. Daniels?

Mr. DANIELS. I am sorry, I haven't made a close enough study, and I probably should have, but I haven't seen it close up enough to tell you. But I would be glad to take a look and write you.

[The information referred to follows:]

MR. DANIELS' RESPONSE TO MR. DAVIS' QUESTION REGARDING H.R. 4758

H.R. 4758, the Restore Fiscal Discipline and Safeguard Social Security Act of 2002, would condition future increases in the debt limit on a plan to restore on-budget surpluses by 2007 without reducing Social Security benefits. Specifically, it would:

(a) Restrict increases in the debt limit to $100 billion until a budget resolution is in place reaching on-budget surpluses by 2007;

(b) require the President to submit a budget reaching on-budget surplus by 2007, preferably using CBO economic and technical assumptions; and

(c) establish points of order against any budget resolution that does not reach on-budget surplus by 2007, except in time of war or low economic growth.

The administration fully supports the goal of returning the budget to surplus, but it has reservations about H.R. 4758, in particular about those provisions of H.R. 4758 linking changes in the debt limit to a particular fiscal policy. The size of the debt subject to limit is the result of past fiscal policy decisions, current economic conditions, and other budget developments. Delaying necessary increases in the debt limit does not lead to any meaningful change in fiscal policy. Instead, it only creates uncertainty about paying the Government's bills, and raises the specter of Treasury defaulting on debt. In particular, the bill's provision to limit increases in debt subject to limit to $100 billion at a time would create the prospect of protracted uncertainty in financial markets about Treasury borrowing.

Mr. DAVIS. Thank you, Mr. Chairman.

Chairman NUSSLE. Let me just take a moment and comment on your bill. First of all, I think it is an important process that we ought to consider. But I would say to the gentleman with all due respect, there is a ticket to get into the dance. We are willing to dance, but there is a ticket to get into the dance. And the ticket to get into the dance is a budget. And we have danced before, and we have learned how to dance before. But when the Senate can't even pass a budget, that is, the ticket to the dance, we can't sit down and discuss anything without something to discuss. We are not going to discuss process, we are not going to discuss triggers. I refuse to do that. I am willing to discuss budgets. I am willing to discuss solutions, but I will not sit down at the table and discuss a process.

So the ticket to get into the dance is a budget, and the Senate is unable or unwilling, or however you want to characterize it, to pass a budget resolution to do so. As soon as they do, the dance begins. I have danced before. I danced last year. There are others that have come before. We are willing to sit down at the table and to come up with a budget between the two bodies. But you can't even get into the dance if you don't have a ticket, and that ticket is a budget.

Mr. DAVIS. Mr. Chairman, I will just——

Chairman NUSSLE. Because we have a vote, let me just go to Mr. Price. I would love to continue this, but I want to make sure he has an opportunity before the vote.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Daniels, I will add my welcome. It looks like this may be wrapping things up. So let me observe that the questions that have been raised today at least on this side of the aisle, seem to be in two broad categories. First of all, the question about possibly overly optimistic projections. This is a very important question given the accuracy of past projections.

You have raised your projections of GDP. Despite your constant blaming of the long-term deficit on the deteriorating economy, you are making some very optimistic assumptions about GDP, more optimistic than were made some months ago.

You have raised the projections of the taxable share of GDP. As Mr. Spratt indicated, you have made optimistic assumptions about corporate profits, especially in the years 2003 and 2005. I expect, although I am not sure you have directly answered this today, you have made optimistic assumptions about the revenue from capital gains.

And if you don't have this today, I would appreciate your furnishing it for the record. What are your projections about capital gains revenues, and how have these projections changed given the experiences of the last 12 to 18 months?

So there have been these questions about the rosy projections.

Secondly, there have been questions raised about what all this means for the Medicare surplus and for the Social Security surplus. Even accepting the administration numbers, my reading of your budget is that over the next 10 years, we are going to be spending all of the Medicare surplus and all or most of the Social Security surplus every year. And my understanding is, there is no year in the next 10 years when all or most of the Social Security surplus will not be diverted to fund the general operations of government.

This leads, then, to a third area of questioning that I would like to explore. It is, of course, related to the first two, and that is the implications for debt retirement. You have objected today to some of the rhetoric about the Social Security trust fund, but I imagine you would agree that when the cash flow in Social Security reverses in the next decade, we would be in a much stronger position to meet those obligations, to cash out those bonds that the trust fund is holding, if we were no longer saddled with the $3½ trillion of publicly held debt and spending over $200 billion a year in interest on that publicly held debt.

So when we look at the very last page and the very last line of your report here, that is a cause of concern. The debt held by the public at the end of 2007 is going to be $3½ trillion, considerably more than it is today.

I wonder if you can compare that with what you were saying and what lots of people were saying 18 months ago. As I recall, the administration predicted that all the debt that could prudently be paid down would be gone by 2008. That projection, of course, has gone by the board. Figuring out how much debt we can pay down is no longer our problem. Are we looking essentially at $3½ trillion of publicly held debt and having to pay yearly the interest on that debt for the foreseeable future?

Mr. DANIELS. Well, thank you, Congressman. First of all as to assumptions, actually I disagree that we have raised them. We have lowered them as to GDP. The recession caused the economy, of course, to step back. And we do see it—because this is the best advice that we are given, it is the common consensus of the markets as well, Chairman Greenspan and others—we do see it resuming a growth rate a little above 3 percent, but there is no question that we see a lower GDP over time.

Mr. PRICE. But your GDP projection vis-a-vis what you predicted in February of 2002 has been increased. Is that not true?

Mr. DANIELS. Well, I am not sure what numbers you are referring to here, Congressman. Obviously—for this year, obviously not. We forecast a growth of only .7. Yeah, we see it growing faster this year than we did in February. But if you are referring back to last year when the hope was there that we would have large surpluses to work with over the next few years, we saw a stronger GDP than today.

Mr. PRICE. I am referring to chart 10 while we are talking here, but go ahead, please, with my main question.

Mr. DANIELS. Alright. And, you know, your point about "will we not be in a better position if we are able to resume paying down debt?" Yes, we would; and, yes, we should. And let us hope that the economic conditions that made that possible for a few years will return sufficiently to make it possible again.

I keep pointing out that we need to do what we can in the meantime, and that is to control spending. One way to assure that we never pay another nickel of debt is to keep on spending at the rate that we are at. And that is within our control. It ought to be a reasonable—it ought to be reasonable policy that we can come together on how to do that. And we seek your support for that.

But to answer your basic question, although it would be better if we were able to reduce the outstanding debt, it would be no solution; and it would be a danger to think that it would somehow allow us to procrastinate and put off reform of entitlement programs just because we are able to borrow a little more or start borrowing from a lower base when the time gets here.

Mr. PRICE. The hill is a lot steeper to climb, though, you are agreeing, when we start having to meet those obligations if we are saddled with $3½ trillion dollars of publicly held debt and the attendant interest payments.

You will furnish for the record, I trust, the figures on the capital gains receipts, the estimated capital gains receipts, and the way you have or have not revised those in the last 12 to 18 months?

Mr. DANIELS. We will tell you everything there is to know, Congressman. What the report goes into, in hopes of provoking people's interest in this very subject, is that I think we have known far too little about this. Once again, it is not a high percentage of the Federal revenue, but it has now proven to be sort of the critical swing factor. And I was frustrated trying to dig into this by the fact that the data on specific components, like capital gains or other forms of incentive-based income, trails by a couple years. What we know in more like real time is the so-called entire category of non-withheld income, income that doesn't come right off a paycheck.

We will give you all we can, and we would certainly welcome your thoughts about how we all can get a better handle on this.

[The information referred to follows:]

MR. DANIELS' RESPONSE TO MR. PRICE'S QUESTION REGARDING CAPITAL GAIN REVENUES

The forecast of tax receipts, prepared in December 2001 by the Department of the Treasury's Office of Tax Analysis (OTA) for the fiscal year 2003 budget, projected that taxable capital gains income and revenue would decline by 16.6 percent in tax year 2001 and would further decline by 3.8 percent in tax year 2002. The recently released Mid-Session Review receipts forecast, prepared in June 2002, projects that taxable capital gains income declined by 18.4 percent in tax year 2001 and would further decline by 8.9 percent in tax year 2002. Tax return data needed to attribute recent collection shortfalls to particular income sources will not be available until later this year. Despite this fact, OTA's forecasts of tax liability fully incorporate the impact of the fiscal year 2002 shortfall in income tax collections. We suspect that a portion of the unallocated shortfall is attributable to declines in taxable capital gains income beyond those forecast by our models. Reinforcing this suspicion is the fact that mutual fund capital gains distributions reportedly fell by 80 percent from 2000–01. Since there is only a weak statistical relationship between taxable capital gains income and mutual fund distributions, however, there is considerable uncertainty about the quantitative implications of this information.

Mr. DANIELS. Once again, I associate with all the comments from the Democratic side about the need to strive for accuracy. None of us are served by anything else. And that is what we are trying to do.

Mr. PRICE. Thank you.

Chairman NUSSLE. Let me just end with our chart No. 12. And if I could, if you could get chart No. 4 ready from your side.

Chart No. 12 shows you the options that we have got right now. Continuing on where we have been sends us $2 trillion more into publicly held debt. It is a very similar chart to the one that you brought along, Director Daniels, on the spending trends, as opposed to the President's budget path or the House budget path, which begins to pay back the publicly held debt in about 2005 according to your projections.

Then, if you could switch to the Democrats' chart No. 4, you see the glide path shown in slightly a different way.

I am willing to do better than that glide path. I am ready. I will vote for it. And I will bet the President would sign a glide path that would be possibly a little bit better than that. But we currently only have consensus around that glide path in the administration and in the House of Representatives. We have no consensus in the Senate. Until we get a better consensus, that is the glide path we are on.

And I believe we should do our best to at least—if nothing else, if we can't come to a different agreement, at least agree to enforce the glide path that we are on. I know it is challenging to come up with one that gets us back quicker. Because, trust me, I have tried to put it together and it was difficult. But I am willing to go steeper, but only if we have got the votes to do it. And until we see the plan that gets us to that point, this is the glide path we are on and I intend to enforce it.

If there is nothing else, then, to come before the committee, I appreciate your testimony today, Director Daniels. We appreciate the news. It is not always good news, but it is given with very direct, plain speaking, and we appreciate the work that you are doing to get us the information. And unless you have any final comments, then we are adjourned.

Mr. DANIELS. Thank you, sir.

[Whereupon, at 1:10 p.m., the committee was adjourned.]

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