PRESIDENT'S FISCAL YEAR 2005 BUDGET WITH OMB DIRECTOR BOLTEN

HEARING

BEFORE THE

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

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

FEBRUARY 11, 2004

Serial No. 108–39

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

94–729 WASHINGTON : 2004

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

COMMITTEE ON WAYS AND MEANS

BILL THOMAS, California, *Chairman*

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

CONTENTS

PRESIDENT'S FISCAL YEAR 2005 BUDGET WITH OMB DIRECTOR BOLTEN

WEDNESDAY, FEBRUARY 11, 2004

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

The Committee met, pursuant to notice, at 2:15 p.m., in room 1100, Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

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

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 25, 2004
FC–12

CONTACT: (202) 225–1721

Thomas Announces Hearing on President's Fiscal Year 2005 Budget with OMB Director Bolten

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2005 within the jurisdiction of the Committee on Ways and Means. **The hearing will take place on Wednesday, February 4, 2004, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:30 a.m.**

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

BACKGROUND:

On January 20, 2004, President George W. Bush delivered his State of the Union address in which he outlined numerous budget and tax proposals. The details of these proposals are expected to be released on February 2, 2004, when the President is scheduled to submit his fiscal year 2005 budget to the Congress.

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

FOCUS OF THE HEARING:

OMB Director Bolten will discuss the details of the President's budget proposals that are within the Committee's jurisdiction.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person or organization wishing to submit written comments for the record must send it electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, by close of business, Wednesday, February 25, 2004. In the immediate future, the Committee website will allow for electronic submissions to be included in the printed record. Before submitting your comments, check to see if this function is available. **Finally**, due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in WordPerfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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

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

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

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

*** * * NOTICE CHANGE IN DATE AND TIME * * ***

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
February 03, 2004
FC–12–REV

Change in Date and Time for Hearing on the President's Fiscal Year 2005 Budget with OMB Director Bolten

Congressman Bill Thomas (R–CA), Chairman of the Committee on Ways and Means, today announced that the Committee hearing on the President's fiscal year 2005 budget with OMB Director Bolten, scheduled for Wednesday, February 4, 2004, at 10:30 a.m., in the main Committee hearing room, 1100 Longworth House Office Building, **will now be held on Wednesday, February 11, 2004, at 2:00 p.m.**

All other details for the hearing remain the same. (See full Committee Advisory No. FC–12, dated January 26, 2004.)

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person or organization wishing to submit written comments for the record must send it electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, by close of business, Wednesday, February 25, 2004. In the immediate future, the Committee website will allow for electronic submissions to be included in the printed record. Before submitting your comments, check to see if this function is available. **Finally**, due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-packaged deliveries to all House Office Buildings.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in WordPerfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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

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

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

Chairman THOMAS. We will ask our guests to find a seat, please.

Good afternoon. Today we continue our series of hearings to examine the President's fiscal year 2005 budget. In this session, we are honored to have the Office of Management and Budget (OMB) Director, Josh Bolten, I believe testifying for the first time in our Committee in your capacity.

Thank you for coming. We look forward to your testimony, and probably Members are more interested in a more intimate and direct discussion of some of the particulars of the President's budget.

It is always useful to talk to someone like a Secretary, Secretary Snow, on this occasion, but oftentimes, the discussion does not get to the level of some of the mechanical aspects of the President's budget that this Committee is going to have to grapple with.

We were very pleased to hear from the Secretary in terms of the positive benefits of the economic policies pursued by this Administration in concert with Congress. We have seen the economy growing at a very robust rate. We have seen the unemployment rate drop, frankly, significantly; it is not low enough, but when I was in college, 6 percent was full employment, and it is no longer a criterion that we apparently use the old Humphrey-Hawkins Act (P.L. 95–523), it is something less than that, but certainly—it has begun a dramatic turnaround, but that is obviously not enough.

We need to continue to build the economy, to make sure that every American who wants a job has a job and that some of the changes that we have made in the Tax Code continue to be available for Americans.

I do commend the President's budget plan to help reduce the deficit through spending restraint. Everybody talks about it. It is a little harder to do it, but it is our responsibility to make sure that the tax dollars from the American people that we spend are spent as wisely as we possibly can.

I do want to commend the Members of this Committee in comparison to other committees. Sometimes you run against the clock, sometimes you run in comparison with what others do. Frankly, our Committee has made great strides in eliminating waste, fraud, and abuse within programs in our jurisdiction. Last year, the Committee on Ways and Means eliminated over $32 billion which—I think we can find it did not have a major impact on any program. I would not say it was all wasteful spending, but sometimes spending that isn't necessary in today's conditions needs to be closely examined as well.

As a matter of fact, today on the floor there will be a discussion, and there will be some Members who will be with us—not with us as we carry out that discussion on H.R. 743, the Social Security Protection Act, which will be another step forward in reducing waste, fraud, and abuse in the Social Security system.

So, Mr. Bolten, it is nice to have you with us, and we look forward to an informative dialogue. The gentleman from New York is not yet back from voting. I would recognize the gentleman from Michigan, if he wishes to make an opening statement for the Minority.

[The opening statement of Chairman Thomas follows:]

Opening Statement of the Honorable Bill Thomas, Chairman, and a Representative in Congress from the State of California

Good afternoon. Today, we continue our series of hearings examining the President's Fiscal Year 2005 Budget. We are honored to have Office of Management and Budget Director Josh Bolten testifying for the first time before our Committee. Thank you for coming, and we look forward to hearing your testimony.

As we discussed last week with Treasury Secretary Snow, the U.S. economy is reaping the positive results of President Bush's sound economic policies. We have seen signs of mounting strength: the economy grew at a robust rate of 4.3 percent last year, while the unemployment rate dropped from a recent high of 6.3 percent in June to just 5.6 percent last month as more Americans found good jobs.

Despite this positive news, our work is not complete. We need to build on the economic growth we have already achieved. I share the President's desire to make the tax relief enacted in 2001 and 2003 permanent. Failure to extend this relief would not only be an unwelcome tax hike on working Americans, but would also shift the recovering economy into reverse.

I commend the President's plan to reduce the deficit through spending restraint. It is crucial we take an honest look at how the government uses taxpayer dollars to ensure they are spent wisely.

On a budgetary note, this Committee has made great strides in eliminating waste, fraud and abuse within programs in our jurisdiction. Last year, the Ways and Means Committee eliminated over $32 billion of wasteful spending in Medicare as part of the new prescription drug bill. And [today/later this week], the House is expected to pass H.R. 743, the *Social Security Protection Act*, which also will reduce waste, fraud and abuse in Social Security. This Committee is dedicated to eliminating wasteful spending.

I now recognize the gentleman from New York, Mr. Rangel, for any opening statement he may have.

Mr. LEVIN. First of all, welcome. We are all eagerly looking forward to your testimony and our ability to inquire. I would ask that any statement that Mr. Rangel have be entered into the record.

[The opening statement of Mr. Rangel follows:]

Opening Statement of the Honorable Charles B. Rangel, Ranking Member, and a Representative in Congress from the State of New York

Mr. Chairman, I join you in welcoming Josh Bolten. This is the first time this Budget Director has appeared before our Committee, and we are most pleased you have agreed to spend some time with us.

On NBC's *Meet The Press*, President Bush called himself a "war president." In his State of the Union address, he said, "I will send you a budget that funds the war, . . ."

Instead, the budget we received did NOT include funding for the on-going operations in Iraq and Afghanistan. Of course, there is a section labeled "Winning the War on Terror," and it contains pictures of brave soldiers, airplanes and ships, and the press conference on Saddam Hussein's capture. But nowhere is there a mention of the costs of the war—fiscal and otherwise.

When I asked Secretary O'Neill why such an important cost was left out, he said, "Because the costs aren't known at this time . . . it's impossible to lay them out with any precision." and "That we could give you a better number on that once we're much closer to the real facts there."

That answer is similar to one you (Josh Bolten) gave the press the day before: "[I]t's not appropriate to put a number in there, because we don't know what it's going to be. It's going to be requested in supplemental funding."

So, the Administration clearly feels that if the costs cannot be determined, then we should assume they are zero and not include them in the budget.

Most businesses and families would never budget that way. If a family has a child who will need an operation and, as is likely, the family's health plan does not fully cover it, that family will try to save every penny to pay for the surgery even if they don't know exactly how much it costs. They won't throw up their arms and say they don't know and take a vacation with their extra money.

Instead, though, this budget denies the very existence of the war and creates a new way of keeping down opposition to military action. From this day forward, when an Administration decides it is politically inconvenient to show the cost of war, it simply takes them "off-budget" until after the next election.

So when the President says, "I know that some people question if America is really in a war at all," I know he is not talking about the families of the 530 soldiers killed and more than 2000 injured in Iraq. They know we are at war no matter what the budget says.

The Iraq war is not the only thing left out of this budget.

- The President wants to divert Social Security funds into individual accounts, but nowhere in the budget is the over $1 trillion needed for the transition alone.
- The cost of extending tax cuts is only partly counted. The $1 trillion 10-year cost ignore that the AMT will take back much of the Bush tax cuts, unless we fix it at a cost of roughly $700 billion.
- The President talks about going to Mars but again nothing is included in the budget for this trip, estimated by the press to cost another $700 million.

When the Bush Administration took over in January 2001, the 10-year budget surplus for 2002–11 was projected to be over $5.6 trillion. Now, according to CBO's latest report (released Jan. 26th), that $5.6 trillion surplus has deteriorated to a nearly $2.9 trillion deficit—a turnaround of eight and a half trillion dollars.

We have to add to that deficit the projected shortfalls you ignore, including the full tax cut extensions, fixing the AMT, privatizing Social Security, and going to Mars. Then, we are on track to double the national debt in ten years.

I know the Administration has been bragging about cutting in half the annual *deficit* within five years. But that's like catching a robber who tells you not to call the cops because, tomorrow, he'll steal half what he did today.

The record deficit is so large today that, even if you could cut it in half (which you cannot if you actually carry out the policies you talk about), it will still be higher than the worst deficit of the Reagan years.

And how do you propose to shrink the amount that you steal from future generations every year? Cut spending for everything except defense:

- You eliminate 38 programs for educating our kids, underfund "No Child Left Behind," and cut vocational education by 25%.
- You cut Medicaid funding and leave states even more strapped to provide health care for citizens.
- You provide $13½ billion less than is needed over five years to maintain the current level of health care for veterans.

These cuts hit public school children, public hospitals and veterans hard, they barely put a dent in the deficit.

These cuts will overwhelmingly affect middle- and low-income communities—the same communities that provide most of the troops in Iraq. Many of these soldiers have served their nation before and have been called back up from the National Guard or Reserve. Some of our volunteers have been forced to stay on much longer than the original tour that they volunteered for. This is taking its toll on families—people losing their marriages, their careers, their homes.

The lower- and middle-income citizens of this nation have been asked to make financial sacrifices as well. We have had 42 straight months of declines in manufacturing jobs for a total of more 2.6 manufacturing jobs gone since President Bush took office. Whole towns and cities of working Americans are in trouble.

Lower- and middle-income Americans received only a small fraction of the Bush tax cuts. Yet, they have had to pay a relatively high proportion of the increases in state and local taxes created by added homeland security and health care costs combined with Bush budget cuts.

So, we have a budget which exacts large sacrifices from the millions and millions of American families who are living from day-to-day. The same families that provide our soldiers, and the same families that mourn our war dead.

This budget not only denies the war in Iraq by not including a single dollar for it, but it denies any need for shared sacrifice.

This budget contains talk about going to Mars but there is no plan to get our brave troops home from Iraq.

The budget contains more tax breaks for the wealthy but no mention whatsoever of the more fortunate sharing some of the burden of paying for war.

Big companies such as Haliburton and Bechtel salivate at the budget's mention of "Re-building Iraq and Afghanistan," but there is not even a mention of re-building our communities in America.

Mr. Bolten, if the Administration insists on keeping the country at war and maintaining his doctrine of attacking any country that, as the President says "had the capacity to make a weapon" than it is not acceptable to ignore the costs. It is unfair to expect only certain segments of society—the lower- and middle-income families in cities and small towns—to send their children to war and make all the sacrifices while the wealthy and certain companies get a financial windfall.

Instead of denying the war, we need a budget that calls for shared sacrifice.

Chairman THOMAS. Without objection.

Mr. LEVIN. Sir, let me just say briefly why we have looked forward to your testimony. You have been in a different hot seat, but it has been fairly hot in other places, and I think you can expect there will be some heat and, I hope, light here.

You are coming here, presenting a budget that has a record deficit. We heard this morning testimony from the U.S. Department of the Treasury about a number of matters, including the alternative minimum tax (AMT).

The response to the AMT problem is really not embedded in this budget of yours, and while there is a difference of opinion as to how much it will cost, we are talking about, likely, hundreds of billions of dollars.

I was reading in the paper this morning about the testimony from some of our military experts and their chagrin that there is no, no provision in this budget for supplemental expenditures that are surely to happen and are likely to be $40 to $50 billion, so you have a historically high budget deficit with some omissions.

I know there has been a temptation to minimize this, and I was handed Mr. Greenspan's testimony earlier today, where he said the fiscal issues that we face pose long-term challenges, but Federal budget deficits could cause difficulties even in the relative short-term. I came across, and I mentioned it earlier today, some less diplomatic statements by a former official in the government—he was in the Reagan Administration—who said this about your budget, Mr. Director, "I despair about this budget. I do not think Bush is being honest with the world. I am not sure he is being honest with himself." That is the statement of William Niskanen.

So, we look forward to your testimony, and you can expect, I would hope from Republicans as well as Democrats, some searching, if not searing, questions about your budget. So, with that, welcome.

Chairman THOMAS. Thank the gentleman. Mr. Director, your testimony will be made a part of the record and you can address us in any way you see fit in the time sufficient.

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

Mr. BOLTEN. Thank you, Mr. Chairman. Thank you, Mr. Levin, for that warm welcome. Distinguished Members of the Committee, the President's 2005 budget, which was transmitted to the Congress last week, continues to support and advance three overriding national priorities—winning the war on terror, protecting the homeland, and strengthening the economy.

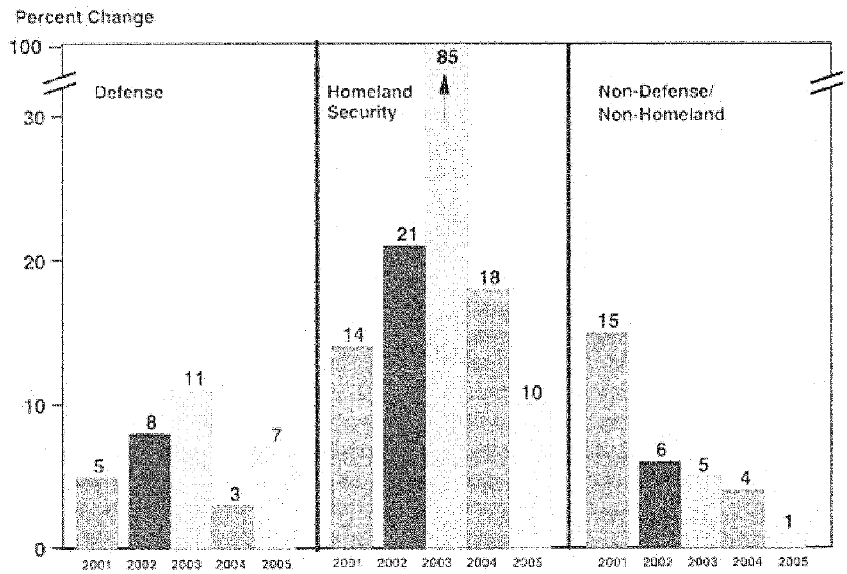
The President is committed to spending what is necessary to provide for our security and restraining spending elsewhere. Since September 11, 2001, more than three-quarters of the increase in the Federal Government's discretionary spending has been directly related to our response to the attacks, enhanced homeland security, and the war on terror. The President's 2005 budget continues this spending trend: significant increases in essential funding for our security programs, combined with a dramatic reduction in the growth of discretionary spending unrelated to security.

With your support in enacting this budget into law, we will be well on the path to cutting the deficit in half within 5 years.

Mr. Chairman, at OMB, we found it useful to divide the discretionary budget into three broad categories shown on the chart to my right, to the left of the dais. The categories are defense, which is basically the U.S. Department of Defense, homeland security, which is not congruent with the U.S. Department of Homeland Security. About two-thirds of the Department qualifies as real homeland security spending, but there are also other Departments' activities reflected there; notably, the U.S. Department of Health and Human Services (HHS), the U.S. Department of Justice, and the U.S. Department of Agriculture have significant homeland security spending elements to them. Then the third block on the right is everything else, which we refer to as non-defense, non-homeland discretionary spending.

[The chart follows:]

Enhanced Security -- Restraint Elsewhere



The President's 2005 budget is reflected in the yellow bars in those three categories, and what you will see is that the budget increases defense spending by 7 percent to support our men and women in uniform, by nearly 10 percent for homeland security spending, and it holds the rest of discretionary spending to half of 1-percent growth—that is significantly less than half the rate of inflation—while continuing to increase funding for key priorities, such as the President's No Child Left Behind (P.L. 107–110) education reforms.

The President's budget is built on the sensible premise that government spending should grow no faster than the average increase in American family incomes, which is approximately 4 percent. This 2005 budget proposes to hold the growth in total discretionary spending to 3.9 percent and again to reduce the growth in non-defense, non-homeland security spending to half of 1 percent, well below the rate of inflation.

In the last budget year of the previous Administration, discretionary spending unrelated to defense or homeland security soared by 15 percent. That is reflected in the green bar in the far right column.

With the adoption of the President's first budget, that growth rate was reduced to 6 percent, then 5 percent the following year, 4 percent for the current fiscal year, reflected in the appropriations that you all adopted just a couple of months ago, and then in the President's 2005 proposal down below 1 percent.

The President's budget builds on the program of economic policies that have laid the foundation for the economic recovery now under way and for sustained economic growth and job creation in the years ahead.

Mr. Chairman, the tax cuts that you were so instrumental in seeing to enactment have been critical to achieving the President's priority of strengthening the economy and creating jobs. Perhaps the best-timed in American history, these deserve much credit for today's brightening economic pictures. I will not go through all of the elements, but I will note that the last half of last year had the largest growth in gross domestic product (GDP) in 20 years.

All of the indicators suggest that job growth, which typically lags recovery, should continue to strengthen in the months ahead. The President will not be satisfied, however, until every American who wants a job can find a job, so this budget supports the President's six-point plan for economic and jobs growth, including making permanent the tax relief that has fueled our economic recovery.

The sustained growth that this budget supports will be good news for our budget picture, as well. As the economy improves, Treasury revenues will, as well.

Like America itself, the Federal budget has faced extraordinary challenges in recent years: a stock market collapse that began in early 2000, a recession that was fully under way in early 2001, revelations of corporate scandals years in the making, and of course, the September 11th attacks and the ensuing war on terror.

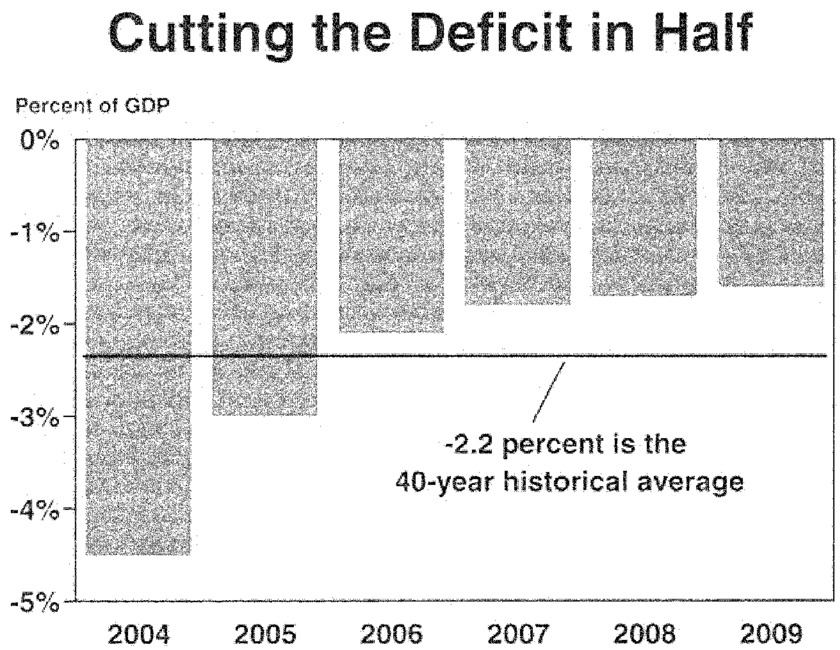
With Treasury receipts only beginning to reflect a recovering economy and major ongoing expenditures in Iraq, Afghanistan, and elsewhere in the war on terror, we still face a projected deficit of $521 billion for the 2004 fiscal year. That size deficit, at 4.5 percent of GDP, is not historically out of range. Deficits have been this large or larger in 6 of the last 25 years, including a peak of 6 percent in 1983.

Under the circumstances that created it, today's deficit is certainly understandable, but that deficit is also undesirable and unwelcome, and enactment of this budget will bring it down.

With continuation of the economic growth policies and sound spending restraint reflected in this budget, our projection shows the deficit will be cut by more than half over the next 5 years. We will see that on the chart that is now being displayed. You see that in 2004 we are showing a deficit of about 4.5 percent of GDP. You see it coming down dramatically after that.

We are projecting $364 billion of deficit in 2005, which is about 3 percent of GDP. The reductions build up speed thereafter and fall as low as 1.6 percent of GDP by 2009. That is not only well below its current, 4.5-percent level; it is also well below the 2.2 percent average deficit during the last 40 years. That is the black line that is reflected on that chart. The average Federal budget deficit is 2.2 percent over the last 40 years, and our projections show that with implementation of the President's policies, we will fall well below that average over the next 5 years.

[The chart follows:]



This deficit reduction is the combined effect of economic growth and spending restraint. The spending restraint reflected in the budget is not automatic, so we are also proposing new statutory budget enforcement mechanisms, establishing in the law limits on both discretionary and mandatory spending, and requiring that any increase in spending be paid for by spending offsets.

We plan to transmit legislation to the Congress that has three elements: first, the reinstatement of the caps on discretionary spending for 5 years, through 2009; second, the pay-as-you-go requirement, limited to new mandatory spending; and third, measuring the long-term, underfunded obligations of major entitlement programs and proposing a 60-vote hurdle in the Senate for legislation that would expand these obligations.

I look forward to working with the Congress and particularly some of the Members of this Committee to gain enactment of these proposals to restrain spending.

Finally, Mr. Chairman, the President is keeping his Administration focused on what the American people care about, and that is results. The measure of government's success is not how much we spend, but rather how much we accomplish. This budget includes a scorecard that measures the progress agencies are making in achieving results, so that the government continues to be accountable to the taxpayers.

Since President Bush took office, our Nation has confronted a cascading set of challenges. The President and this Congress responded on all fronts, with tax relief to get the economy going, the largest reorganization of the Federal Government in 50 years to create a new Department of Homeland Security, and the largest increases in the defense budget since the Reagan Administration to wage and win the war on terror.

The President's 2005 budget builds on this record of accomplishment. With renewed economic growth and the Congress' cooperation in restraining spending and focusing it on our most critical priorities, we can accomplish the great goals the President has set for this country while dramatically improving the budget situation. I look forward to taking your questions.

[The prepared statement of Mr. Bolten follows:]

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

Chairman Thomas, Ranking Member Rangel, and distinguished members of the Committee, the President's 2005 Budget, which was transmitted to the Congress on February 2nd, continues to support and advance three overriding national priorities: winning the war on terror, protecting the homeland, and strengthening the economy.

The President is committed to spending what is necessary to provide for our security—and restraining spending elsewhere. Since September 11, 2001, more than three-quarters of the increase in the Federal Government's discretionary spending has been directly related to our response to the attacks, enhanced homeland security, and the War on Terror. The President's 2005 Budget continues this spending trend: significant increases in essential funding for our security programs, combined with a dramatic reduction in the growth of discretionary spending unrelated to security. With your support in enacting this budget into law, we will be well on the path to cutting the deficit in half within five years.

The President's Budget:

- Increases defense spending by 7 percent to support our men and women in uniform and transform our military to ensure America has the best trained and best equipped armed forces in the world;
- Increases homeland security spending by nearly 10 percent to strengthen capabilities created to prevent future attacks; and
- Holds the rest of discretionary spending to half of one percent growth—less than half the rate of inflation—while continuing to increase funding for key priorities such as the President's No Child Left Behind education reforms.

The President's Budget is built on the sensible premise that Government spending should grow no faster than the average increase in American family incomes of approximately four percent. This Budget proposes to hold the growth in total discretionary spending to 3.9 percent and, again, to reduce the growth in non-defense, non-homeland security spending to half of one percent, below the rate of inflation. In the last budget year of the previous Administration (2001), discretionary spending unrelated to defense or homeland security soared by 15 percent. With the adoption of President Bush's first budget (2002), that growth rate was reduced to six percent; then five percent the following year; and four percent for the current fiscal year.

The President's Budget builds on the pro-growth economic policies that have laid the foundation for the economic recovery now underway, and for sustained economic growth and job creation in the years ahead.

The tax cuts you enacted and were signed into law have been critical to achieving the President's priority of strengthening the economy and creating jobs. Perhaps the best timed in American history, these tax cuts deserve much credit for today's brightening economic picture, which includes:

- Nine consecutive quarters of positive growth through the end of 2003;
- The highest quarterly growth in 20 years—an 8.2 percent annual rate in the third quarter of 2003; and the highest growth for any six-month period in 20 years as well;
- Extraordinary productivity growth;
- Continued strength in housing starts and retail sales; and
- Encouraging signs of renewed business investment.

These indicators suggest that job growth, which typically lags recovery, should continue to strengthen in the months ahead.

The President will not be satisfied however until every American who wants a job can find a job. So this Budget supports the President's six-point plan for economic and jobs growth, including making permanent the tax relief that has fueled our economic recovery.

The sustained growth that this Budget supports will be good news for our budget picture as well: As the economy improves, Treasury revenues will as well.

Like America itself, the Federal budget has faced extraordinary challenges in recent years: a stock market collapse that began in early 2000; a recession that was fully underway in early 2001; revelation of corporate scandals years in the making; and of course, the September 11th attacks and ensuing War on Terror.

With Treasury receipts only beginning to reflect a recovering economy—and major ongoing expenditures in Iraq, Afghanistan, and elsewhere in the War on Terror—we still face a projected $521 billion deficit for the 2004 fiscal year. That size deficit, at 4.5% of GDP, is not historically out of range. Deficits have been this large or larger in six of the last 25 years, including a peak of 6 percent in 1983.

Under the circumstances that created it, today's deficit is certainly understandable. But that deficit is also undesirable and unwelcome, and with enactment of this Budget, we will bring it down. With continuation of the economic growth policies and sound spending restraint reflected in the Budget we released last week, our projections show the deficit will be cut by more than half over the next five years.

This dramatic reduction begins in the fiscal year of this Budget, 2005, for which we are projecting a deficit of $364 billion, roughly 3.0% of GDP. The rapid deficit reductions continue in subsequent years, with our projections showing the deficit falling to 1.6 percent of GDP by 2009. This is not only well below half its current 4.5 percent level, it is also well below the 2.2 percent average deficit during the last 40 years.

This deficit reduction is the combined effect of economic growth and spending restraint. As the economy recovers, tax receipts as a percentage of GDP rise to historical levels by the end of the budget window, while spending restraint keeps outlays flat or slightly declining as a share of GDP.

The spending restraint reflected in this Budget is not automatic. So we are also proposing new statutory budget enforcement mechanisms, establishing in law limits on both discretionary and mandatory spending, and requiring that any increases in spending be paid for by spending offsets. We plan to transmit legislation to the Congress that has three elements:

- Reinstate caps on discretionary spending for five years through 2009.
- A pay-as-you-go requirement limited to new mandatory spending. Any proposed increase in mandatory spending would have to be offset by a reduction in mandatory spending. Tax increases could not be used as an offset and pay-go would not apply to tax legislation.
- Measure the long-term unfunded obligations of major entitlement programs and propose a 60 vote hurdle in the Senate for legislation that would expand these obligations.

I look forward to working with this Committee to gain enactment of these proposals to restrain spending.

Finally, the President is keeping his Administration focused on what the American people care about—results. The measure of government's success is not how much we spend, but rather how much we accomplish. This Budget includes a scorecard that measures the progress agencies are making in achieving results, so that the government continues to be accountable to the taxpayers.

Since President Bush took office, our Nation has confronted a cascading set of challenges. The President and Congress responded on all fronts, with tax relief to get the economy going, the largest reorganization of the Federal Government in 50 years to create a new Department of Homeland Security, and the largest increases in the defense budget since the Reagan Administration, to wage and win the War on Terror. The President's 2005 Budget builds on this record of accomplishment. With renewed economic growth and the Congress' cooperation in restraining spending and focusing it on our most critical priorities, we can accomplish the great goals the President has set for the country, while dramatically improving our budget situation.

Chairman THOMAS. Thank you very much. I do think it is important to send us a budget that clearly outlines the President's priorities, and I believe the President's priorities are in line with the general thrust and direction that this Congress should take, especially over this fiscal year.

I do want to compliment you and the Administration you represent. When you understand that the product you create and present here is a top-down hierarchical agreement and what we produce is legislation, is a broad-based, as-little-as-possible additive process to reach quantitative majorities or we do not make law; you need to stick to your guns on what you think needs to be done, and we will, when you are right, be with you. When we face the fact of not passing needed legislation or adhering to some a priori position, we do want folks to appreciate and understand this particular institution, and the way it works.

I guess that is the long way of saying I think we understand where we need to go, and we probably have a better chance of getting there if we do not start drawing lines in the sand right away. I want to compliment you and your Administration for not doing that, and if you have occasionally, the tide comes in, washes the line away and we get to draw another one, but that is the only way we can get through this very difficult period.

There are a number of people who want to make statements for eternity. I would just like to get us through the responding economy, make sound policy where it is appropriate, and continue to help the American people carve a better life for themselves, so I am not going to bombard you with a lot of thick questions. I think some of my colleagues might. I just want to compliment you for taking on a job which, if anybody in the know would identify, those that you probably do not want in the Federal Government, yours would be high on the list.

That does not mean I do not think you do not know. That is where I want to compliment you for taking on the job that you have, Josh. With that, I recognize the gentleman from New York, the Ranking Member, for any questions he may have.

Mr. RANGEL. Thank you Mr. Chairman. Once again, I welcome you, Director Bolten, to this Committee.

Last Sunday, I saw and heard the President say that he wanted to be known as the "War President," and earlier, he said at the State of the Union that he would send us a budget that included the funding for the war. Yet we do not see any provisions in the budget for Iraq and Afghanistan.

When we ask members of the Administration, they would say that they do not know what the costs would be and they do not want to just guess it, so we have to give an estimate that it will not cost anything.

I have a deep concern that this war that we are engaged in is really not a question of shared sacrifice, because the priority is not given to those who are fighting the war and losing their lives, but those who are making the money and enjoying the tax cuts. So, it really surprises me where, at a time of crisis and a time of war, instead of advocating raising the funds to pay for the war, we are actually talking about giving tax cuts and further tax cuts that go beyond 2010.

I am also concerned that there are no provisions for the AMT, because unless the Congress provides some type of relief or remedy for these people who got caught in this legislation, we will be giving them a $700 billion tax increase. The Administration said this should not happen, but they have not shared with us how we can fulfill their mandate to make this revenue neutral.

I assume that the President has had second thoughts on financing a trip to Mars, but—it was mentioned in the State of the Union, but there was no provision made to fund for such an expedition.

There is a lot of talk about fixing privatized and Social Security. I think the advocates for that will estimate it will take a trillion dollars for the transition, so maybe these are post-election issues that will be taken up later, but when the President states it in the State of the Union and stresses it in the budget and does not provide how you spend for it, some of us are very skeptical.

What we are not skeptical about is the spending cuts for everything except defense; and it just seems to me that if you take credit for leaving no child behind, you should take credit for raising the funds to fund these programs, and this is especially so when you talk about our veterans.

I cannot think of any citizens that we should want to go out of our way, whether we are talking about the agent, whether we are talking about kids or people with disabilities, but it is veterans that are putting their life on the line in order to preserve the security of this Nation. Yet the budget provides for cuts in their programs, especially in the veterans health programs, and there is nobody, Republican or Democrat, that does not have problems in their area in providing the services that are needed. So, we find ourselves with citizen-soldiers being pulled out of the National Guard, the reservists, for a war which we do not know when it is going to end. We do not know how much it is going to cost. It is not even included in the budget. We have lost over 530 men and women, over 2,000 people are in hospitals; there is no end in sight. What hurts the most is that the budget does not ask anybody to make sacrifices financially.

Indeed, the moneys that we are spending for non-military activities, the number of private corporations that are getting hundreds of billions of dollars, to them, if you just look at the balance sheet, the war makes a heck of a lot of sense in terms of profits. So, I would hope that the Administration could dispel this selective sacrifice to the men and women fighting the war and share with us this morning what is it going to cost, because this omission is just a screaming indication that it was not important enough to give us some figures to know what it is going to cost us.

I would be less than honest if I did not tell you that many of us in the Congress believe that it was omitted because this was an election year and that those numbers, at least what are known— and we will know better after the election what the cost of the war is and not be able to consider that—as you advocate further tax cuts.

So, I wish I could congratulate you for having the courage to assume this great responsibility, but I sympathize with the problems you are going to have to wrestle with in the future, and I thank you for coming before this Committee.

Mr. BOLTEN. Mr. Chairman may I take one moment in response?

Chairman THOMAS. Just one moment. The gentleman's time has expired in expounding the question if there was one.

Mr. RANGEL. Mr. Chairman——

Chairman THOMAS. You obviously can respond.

Mr. RANGEL. Thank you so much. You are so kind. You really are.

Chairman THOMAS. I appreciate your growing awareness.

Mr. BOLTEN. I appreciate, Mr. Rangel, your sympathy. I will not try to respond to everything you raised, although I hope I will have a chance during the course of the rest of the questioning. The one point I do want to respond on is about the defense spending in the budget. It says right here in this budget document that the costs for the war in Iraq and Afghanistan have not been given a specific figure in this budget.

Mr. RANGEL. Right.

Mr. BOLTEN. Because we do not know what they are going to be, and we are going to request them as a matter of supplemental funds.

Mr. RANGEL. Could I hear that again? It is not in the budget because you do not know what it is going to be?

Mr. BOLTEN. We do not know what the costs in 2005 will be for the incremental costs of conducting——

Mr. RANGEL. So, for purposes of our work, there is no cost?

Mr. BOLTEN. No, I did not say that. I said, we do not know today what they will be and the Administration will request them as a matter of supplemental funds.

Mr. RANGEL. I am saying you have no idea what number to give us, and so we have to deal with zero. We cannot provide for it. You cannot give me a number.

Mr. BOLTEN. That is not what I said.

Mr. RANGEL. I thought it was.

Mr. BOLTEN. No. What I said was, we do not know today the amount of the costs. Let me tell you this about the costs: that is, we do know today the spend-out rate for the war in Iraq and Afghanistan is below $50 billion a year, probably well below $50 billion for 2004.

If you choose to believe that the level of our commitment in Iraq and Afghanistan is going to need to be sustained at the same level it is today, what you should expect in the way of a supplemental request from the Administration is roughly the same number, somewhere between $40 and $50 billion a year. I do not happen to believe that. I think our costs will be substantially lower, but if you choose to believe our costs will be as high as they are today, you should anticipate a supplemental request as high as that.

When the Administration does have a better idea of exactly what the situation is, when we know what the security situation in Iraq is, when we know what the election situation is in Afghanistan, all of these things are yet to come, we will come forward with a proposal, but as a supplemental spending proposal, which I think is the right way, as a budgetary matter, to handle these expenditures.

Chairman THOMAS. I thank the gentleman. Does the gentleman from Ohio, Mr. Portman, wish to inquire? This is based upon the fact that on the previous panel we did not get through all the Members and those Members who were here at the time of the gavel and remained, but did not get recognized, will now be recognized first. That happens to be the gentleman from Ohio and the gentlewoman from Ohio, and then we will proceed in regular order.

Mr. PORTMAN. Thank you, Mr. Chairman, for your generosity letting an all-Buckeye inquiry here for a while.

Mr. Bolten, thank you for sending us a budget that does reduce the deficit. I appreciate your testimony today, where you talked about the deficit being undesirable and unwelcomed, and I applaud the fact that your level of domestic discretionary spending, taking out the needed expenses for our country, our homeland defense, is practically zero, practically a freeze.

I read it as a 0.5-percent increase which does not keep up with inflation. That is an austere budget, and I think where we are in our economy—given where we are with our economy and our spending over the last decade, not just in the last few years, that that is appropriate, and I commend you for it.

I am also very pleased to see that your budget acknowledges the economic recovery that is under way and does not do things which would keep us from continuing that recovery.

We are beginning to see incredible uptake in our economy. As you said, in the last half of 2003 we had the best growth since 1984. As I look at the numbers, it is incredible that investment has accelerated at triple the rate for the first half of the year, and this Committee would agree with you and your budget that it is the tax relief that we got through this Committee in 2001–2002, and also more recently in 2003.

My question would be, when you look back at the deficit—so we can learn from it, how much of the deficit that we have built up in the last couple of years is due to the economic downturn that began before this President was sworn in? How much of it is due to the revenue not coming in because of the economy being off?

Mr. BOLTEN. Congressman, that is the essential question, and what our economists say is that at least half of the deficit situation that we find ourselves in, the change in situation from the projections of surpluses that existed just a few years ago, is the result of a downturn in the economy.

The tax cuts that you all constructed and enacted are a principal reason why the economy is turning around now; going forward into 2005 and beyond, we are able to project for the first time in 3 years firming revenues in the Treasury and the prospects of actually heading that deficit back down toward zero.

Mr. PORTMAN. When you look at the deficit, you mention tax relief. More than half of it, you say, is due to the economy and the lack of revenue coming in because the economy, again prior to this President being sworn in, started to have a downturn, which is now having the opposite effect; we are beginning to see an uptake in the economy.

How much of that deficit over the last few years is attributable to increased spending on things like defense related to our war against terrorism or homeland security or just responding to 9/11? If it is over 50 percent due to the economy, how much is due to increased spending?

Mr. BOLTEN. About a quarter in our economists' estimation.

Mr. PORTMAN. So, about 25 percent due to spending. How much is due to the tax relief that this Committee again has passed three times in the last few years?

Mr. BOLTEN. Again, about one-quarter, but one thing I would say about that quarter is that it is a static score, and the Members of this Committee are well familiar with the difficulties involved with static scoring. That static score—in accounting for the deficit and for the change into a deficit position, that static score does not take account of what the tax cuts have done to restore growth to the economy, which is the essential feature in restoring our budget picture.

So, you can say that a quarter of the deficit can be laid at the feet of the tax cuts, but that is not including what the tax cuts have done to bring the economy back, which is actually bringing our budget situation back.

Mr. PORTMAN. Thank you, Mr. Chairman—or, Mr. Director. I appreciate the testimony; I think it puts it in perspective. Having the best growth we have seen since 1984 and having the increased receipts that come with that economic growth makes that 25 percent of the deficit over the last few years an investment; does it not?

Mr. BOLTEN. I believe it does.

Mr. PORTMAN. Yes. Thank you, Mr. Chairman.

Chairman THOMAS. I thank the gentleman. The gentlewoman from Ohio.

Ms. TUBBS JONES. Thank you, Mr. Chairman. To my colleague from Ohio, we are looking from different perspectives in Ohio. I guess our perspective on what is going on is clearly going to be a little different.

Let me point to some statistics for Mr. Bolten. Welcome. I hope you enjoy your new position. I am glad you have an opportunity to testify before our Committee.

The facts: unemployment, it is down to 5.6 percent in January from 5.7 in December, but unemployment among blacks and Hispanics rose. Blacks was 10.3 percent in December, 10.5 percent in January; Hispanics, 6.6 percent in December, 7.3 percent in January.

Manufacturing and employment are continuing to thaw, by 11,000 jobs just this past month. In my Congressional District, the city of Cleveland, the unemployment rate is 13.1 percent. Ohio lost 160,100 manufacturing jobs since this Administration took office, 200 jobs lost just in December of last year.

Reflecting on the Administration's dedication to the creation of new jobs, are you familiar with a gentleman by the name of Gregory Mankiw—is that how you pronounce his name—who is the Chairman of the President's Council on Economic Advisers? Are you familiar with him, sir?

Mr. BOLTEN. Dr. Mankiw is Chairman of the Council.

Ms. TUBBS JONES. He recently stated in reference to jobs, "Outsourcing is just a new way of doing international trade. More things are tradable than were tradable in the past, and that is a good thing." The people in Ohio, at least from my Congressional District, are not real happy about jobs being traded.

I would like to ask you, sir, what in this budget do you foresee, predict, that we are going to have more job growth—not just economic statistics and economics, job growth. That is what I want to know about.

Mr. BOLTEN. We are projecting economic growth in this budget of roughly 4.4 percent, which is on the conservative side of estimates; and that is the most important thing for job growth, getting economic growth back into this economy.

Now, we have had lagging job growth in this recovery——

Ms. TUBBS JONES. Hold up just there for a moment. We have had lagging job growth. What is the lagging job growth related to? What do you connect that to, sir?

Mr. BOLTEN. I am inclined to believe Chairman Greenspan's analysis, when he testified about that this morning.

Ms. TUBBS JONES. No, I want to know what you say. I do not want to know what Chairman Greenspan says. You are the OMB guy. Tell me what you think.

Mr. BOLTEN. I believe what Chairman Greenspan was talking about this morning, which is that lagging job growth is, in large part a product of extraordinary productivity growth in this economy. That is a two-edged sword.

Productivity growth is actually a very good thing. It means we are more competitive; it means we are more efficient.

Ms. TUBBS JONES. Stay with me for a minute. I only have 5 minutes. I need short answers, not the answer that you were going to give if you were giving a professorial speech at a college, okay? Are you done?

Okay, let me ask you something else. I noticed in a statement that you released that we all do op-ed pieces in newspapers. Your op-ed piece in the Wall Street Journal commentary, dated December 10, 2003, and your statement before this Congress, dated today, February 11, 2004, are substantially similar. I am wondering if anything happened between December and February that might have caused you to make—to improve upon your projections in your statement today, sir.

Mr. BOLTEN. No. I am not sure what you are referring to.

Ms. TUBBS JONES. Are those economic indicators you have been talking about?

Mr. BOLTEN. Yes.

Ms. TUBBS JONES. Might they have improved what was going on in the job or economy since December and January?

Mr. BOLTEN. I think the economic indicators are continuing to show pretty good strength in the economy.

Ms. TUBBS JONES. Let me ask you one more question. The budget stops at 2005, right? Your projections stop at 2005. Excuse me.

Mr. BOLTEN. In 2009.

Ms. TUBBS JONES. A 5-year budget, 2004–2009. What happens from 2009 to 2014, which is the usual length of time, a 10-year period, to deficits? What happens then?

Mr. BOLTEN. Well, for budgeting purposes the usual length of time is 5 years; there was a brief period when it was done for 10 years.

Ms. TUBBS JONES. The Congressional Budget Office (CBO) does 10 years, right?

Mr. BOLTEN. They do 10 years.

Ms. TUBBS JONES. They are the official office for budgets, and so forth, for Congress in the Senate and the House, correct?

Mr. BOLTEN. Correct.

Ms. TUBBS JONES. The CBO says that at 10 years out, what is the deficit going to be? It is not going to be equal, not even. We are not going to be at a surplus, are we, sir?

Mr. BOLTEN. We do not do 10-year projections on deficits or surpluses, but I would expect on the chart that I had up there just a moment ago, showing the deficit declining to 1.6 percent of GDP by 2009——

Ms. TUBBS JONES. Do me a favor, Mr. Bolten. When you get back to your office, read what the CBO says is going to happen in 10 years, and send me a note, based on what they sent you, okay?

Mr. BOLTEN. I would be glad to correspond with you, but if I——

Ms. TUBBS JONES. I thank you very much. I yield the balance of my time, Mr. Chairman.

Mr. BOLTEN. Mr. Chairman, if I might finish my sentence? The succeeding 5-year period, I do not have any reason to believe that that trend will not continue; and I think the CBO numbers to which you were referring probably confirm that, although their set of assumptions is different.

Ms. TUBBS JONES. Thank you for your response, sir, but the 10-year out, there is a deficit of $1.3 trillion; is it not?

Mr. BOLTEN. If you are referring to the CBO numbers, they may be, although——

Ms. TUBBS JONES. That is all I have to refer to, sir. You do not have any for me.

Mr. BOLTEN. They actually show the budget returning to balance, although their set of assumptions is very different from ours.

Ms. TUBBS JONES. Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentlewoman. Gentleman from Illinois wish to inquire?

Mr. CRANE. Thank you, Mr. Chairman, and I appreciate your appearance here today, Mr. Bolten. I used to teach history, and I used to remind kids that if Adam had never bitten the apple, we would never have needed government in the first place. It is the fall from grace. That was reflected when the Founding Fathers created this government, in creation of a Department of Defense, first and foremost; State Department, because it is better to talk than fight; Justice Department, because we might pass laws that spilled over to people in all 13 States; and finally Treasury, because you might have to borrow in time of war.

Now, if we just go back to basics, that is only 18 percent of the total budget for next year. Boy, we could have a huge surplus without raising taxes, we could cut taxes even more than we have. I appreciate the Administration's proposal to rein in non-defense and non-homeland security spending by increasing it just 1 percent this year.

I am worried though by the fact that Congress suffers the affliction of our entire Nation, obesity—biggest health problem we are experiencing today—and the appetite for spending in this town grows every year. One way the Administration can help in this regard is to state unequivocally that it will reject spending bills that go over and beyond the allotted increases. Can you speak to that point?

Mr. BOLTEN. Mr. Crane, I anticipate that, as occurred last year, we will have a good, cooperative process with the leadership, with the Budget Committee Chairmen, with the Appropriations Committee Chairmen, and that, as with last year, when the President reached an agreement with the leadership on what the total discretionary increase would be, that increase will stick.

It stuck last year. Total discretionary spending increases last year in the regular budgeting process were held below 4 percent. The President is proposing below 4 percent this year. I anticipate the President will hold firm on this this year.

Mr. CRANE. That means he will not have any reticence about utilization of the veto, if need be?

Mr. BOLTEN. I do not anticipate the President would be at all reticent about using a veto if need be, but the record here is that the veto has not been necessary because this House has done its job, and the other body has typically done its job, and there have not been spending bills sent to the President that exceeded his expectations.

Mr. CRANE. Well, we hope and pray it does not happen. It is of paramount importance that we must spend in deficit, and that we should do it with an eye toward investing in economic growth. As regards long-term growth of the economy, can you comment on how critically important it is that Congress makes permanent the tax cuts that otherwise will expire over the next several years?

Mr. BOLTEN. Congressman, we think it is absolutely critical that Congress make permanent the tax cuts that you all enacted over the last 3 years. Especially those that are expiring this year that are of great importance to those in low- and middle-income areas—the child credit, the marriage penalty reduction, and the 10-percent bracket. Those are all critically important, both for the working families of America and for ensuring that the recovery is sustained.

If you are interested in jobs, it is very important that there be some certainty in the Tax Code. The wrong thing to do with this economic recovery right now would be to raise taxes in this environment.

Mr. CRANE. I could not agree more. Thank you.

Chairman THOMAS. Thank the gentleman. I will remind my colleague that one of those departments started out as the War Department. We did pretty well over the years as the War Department. When it got switched to the Department of Defense, we have not done nearly as well. The gentleman from California wish to inquire?

Mr. STARK. I do, Mr. Chairman. I would just like to take a moment to remind my distinguished friend and colleague from Illinois that I think I am the only one in the room that was here when he ran for President, and how much more conservative your party has gotten since you gave up that quest. I really enjoyed your comment.

Mr. Bolten, I am concerned. We talked about a veto just a minute ago. In a book that I suspect summarizes the budget, you suggest that in your tax credit, which you think will help reduce the number of people without health insurance, your budget includes an offset for that $70 billion credit, but you do not define it. You just suggest that, if we follow your wishes and provide for the health care credit, we are expected to offset it, so that really it is not in your budget.

So, my first question is, if we did not have an offset, would you recommend that the President veto the offset, the credit?

Mr. BOLTEN. Well, Mr. Stark, our intention would be to work with you and come forward with specific offsets.

Mr. STARK. If we did not, would the President veto it?

Mr. BOLTEN. I cannot say for certain what the President would do.

Mr. STARK. I know there is nothing in the health care area. Is there anything else in your budget that requires an offset?

Mr. BOLTEN. Mr. Stark, what we are proposing is that mandatory spending increases be offset with mandatory spending cuts, so there are mandatory spending increases. We do have, I believe it is $35 billion worth of mandatory spending cuts, which could be applied to the health credit, and we would work with you on the balance.

Mr. STARK. Well, I guess I am wondering why it has only this tax credit for health, for which you require an offset and nothing else, but——

Mr. BOLTEN. I think, Mr. Stark, we would seek an offset for all mandatory spending.

Mr. STARK. So, if we corrected the AMT, we would run an offset?

Mr. BOLTEN. We would not regard that as a mandatory spending increase.

Mr. STARK. Oh. Oh——

Mr. BOLTEN. Our proposal for the budget process reform proposal——

Mr. STARK. This is a tax credit for health care, I got you.

Mr. BOLTEN. Which is scored as a spending proposal.

Mr. STARK. You also suggest in your testimony that the measure of your Administration's success is not how much we spend but how much we accomplish.

Now, as I read it, you are going to spend $110 billion in health savings accounts (HSAs) and tax credits, and Secretary Olson suggested to us that there might be 4 million people who would become insured out of the 40 million who are uninsured. Other independent economists suggest it is more like 2 million people who would pick up health insurance for the expenditure of this $110 billion. Do you think that that is an accomplishment of which you should be proud?

Mr. BOLTEN. I think any reduction in the number of uninsured is——

Mr. STARK. Even if you spend $110 billion to get 2 to 4 million people?

Mr. BOLTEN. I do not think we would agree with those numbers, Mr. Stark, but——

Mr. STARK. Well, Secretary Olson of the Treasury happens to think it is 4 million, and economists who have some credibility in this field think it might be 2 million. How many do you think it will be?

Mr. BOLTEN. I do not know exactly what number of uninsured might be reduced by the tax credit proposal, but there are a number of proposals in the President's——

Mr. STARK. The HSAs and the credit, which totals $110 billion, and it does not seem to me that that is much of an accomplishment. I suggest that my kids could do that with their third grade math and have a lot of money left over to go to McDonald's.

Let me ask you this, further. The cornerstone of the President's effort to contain health care costs is malpractice reform, and I do not see anything in your budget. If this is such a hotshot area in which to save money, why did you not—CBO tells us it may be 2 percent of all health care spending, which isn't very much, but why did you not include the savings in your budget? Or did I miss it somewhere?

Mr. BOLTEN. Mr. Stark, there is a proposal pending that I believe has passed this House, is pending before the Senate.

Mr. STARK. It is not in your budget, though. I would think the great savings you would want. Why did you not use it in your budget?

Mr. BOLTEN. You mean why did we not claim it in that provision?

Mr. STARK. Yes. Yes.

Mr. BOLTEN. We would be glad to go back and take a look.

Mr. STARK. Or take the credit, sure.

Mr. BOLTEN. It may be difficult to——

Mr. STARK. Probably find it there with those weapons of mass destruction. It helps you close the credibility gap is what it really does. Thank you.

Mrs. JOHNSON. [Presiding.] Thank you Mr. Stark. Just as a matter of information before the Committee, because we will be delving into the issue of the uninsured, since the tax credit for the uninsured is targeted to the low-income and it is most advanceable and refundable, 80 percent of the money is seen as spending.

Mr. STARK. Excuse me, am I still recognized, Madam Chair?

Mrs. JOHNSON. No, you consumed your time.

Mr. STARK. I see, and I was wondering, if the Chair would yield, if you heard the discussion with the Ranking Member and the Chair about the Chair question, about the Chair commenting and——

Mrs. JOHNSON. Mr. Stark, I did not have any time, so I have a right to use a little time myself.

Mr. STARK. Great.

Mrs. JOHNSON. I did want the record to note and the Members of the Committee to understand that the uninsured are a very varied population. A small sliver of them can actually afford insurance.

What is beautiful about the tax credit proposed by the Administration is that this just reaches the portion, if I am not mistaken, of the uninsured that are the poorest, and so, since it is both refundable and advanceable, it is under the budget spending. That is the point I wanted to make, spending versus taxing.

Mr. STARK. Would the gentlelady yield? How would you pay for it?

Mrs. JOHNSON. Mr. McCrery.

Mr. MCCRERY. Thank you, Madam Chair. Mr. Bolten, I would like to switch to a different subject here, which is welfare. In your budget, you accommodate, I believe, the increase in—that is reflected in the House-passed welfare bill, but do not substantially increase spending for welfare. Can you give us some background on why you think the current funding of the Temporary Assistance for Needy Families program is sufficient?

Mr. BOLTEN. Well, Congressman, I know, as one of the leaders in welfare reform, you yourself are probably well aware that that program has been spectacularly successful in reducing the number of families on welfare, I think by about half, so that in keeping the funding levels basically flat for the welfare program, we are actually making substantially more money available to deal with those families who do remain on welfare.

Now, those families who remain are in large part, as you know better than anyone, some of the tougher cases and may require a broader range of attention from the State than some of those that have been able to work their way off of welfare. We think that the $16.9 billion funding level that we have included in our proposed budget is more than adequate to meet the current needs.

Mr. MCCRERY. If you break that funding down to a per-family basis, is it true that in 1996 the funding that we set aside was approximately $7,000 per family and under your budget for next year it would be about $16,000 per family?

Mr. BOLTEN. I do not have those exact figures off the top of my head, Mr. McCrery, but I am guessing that you are right.

Mr. MCCRERY. I am pretty close, I think. Now, switching gears again, I want to go to income taxes, because we are talking now about extending some of the tax cuts that have been passed. Others are advocating that some of those tax cuts be repealed or let expire; and in that debate, we have heard a lot of charges from some that if these income tax cuts were to take place, then the vast benefit would go to the wealthy, and the wealthy would be paying less in taxes.

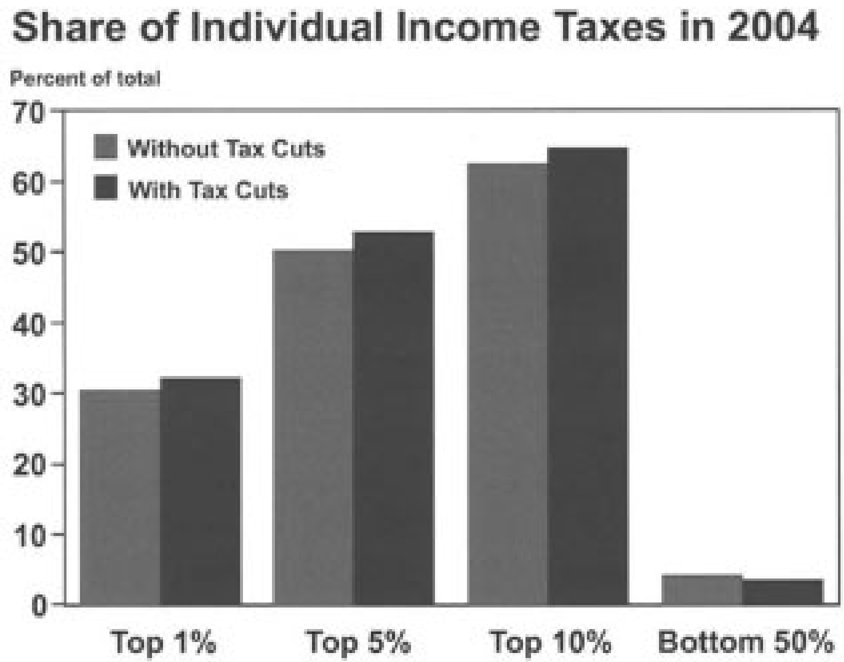
Can you give us any idea of what has happened since the tax cuts were enacted, in terms of the share, the total income tax pot that is paid by the wealthy, compared to the rest of the population?

Mr. BOLTEN. I can, Mr. McCrery. We have a chart, I believe, that shows the share of the income tax. Yes, that is the one.

Congressman, I am glad you have given me an opportunity to address this, because the tax cuts that this Committee was so instrumental in enacting have, in fact, made our income Tax Code more, rather than less, progressive.

There is a lot of talk about a tax cut for the rich. I repeat, the effect of the tax cuts has been to make the Tax Code more, rather than less, progressive. The wealthier income tax payers in our economy today pay a larger share of the income tax today than they would have without the tax cuts. So, for example, if you look at the graph, the bars that say "top 5 percent," Mr. McCrery, those are people making, I think, roughly more than $135,000 a year.

[The chart follows:]



Without the tax cuts, that income group was paying about 50 percent of the total income tax revenue of the United States; after the tax cut, that group pays 53 percent.

Mr. MCCRERY. So, in fact, the effect of the tax cut has been the top 5 percent of wage earners in the country are actually paying a bigger share of the total income tax, personal income taxes, than they were before the tax cut?

Mr. BOLTEN. That is correct. Everybody got a tax cut, but as you said, as a result of the cuts that were focused especially on the lower- and middle-income earners in this country as a result of those cuts, of those making in the upper-income brackets, they are paying a larger share of our income tax than they were before the cuts.

Mr. MCCRERY. Well, for the general population, what has happened to after-tax income the last few years? Has it gone up or down?

Mr. BOLTEN. It has gone up. Again, I would be happy to provide some figures for you for the record, but that has gone up. If you take your average family income, they have in percentage terms a very substantial tax cut. A family of four making in the $40,000-a-year range have had a tax cut in the range of $2,000. Many of them have been taken off the rolls entirely.

Mr. MCCRERY. Thank you very much.

Mr. BOLTEN. Thank you, sir.

Mrs. JOHNSON. Mr. Levin.

Mr. LEVIN. Well, there will be plenty of time, Mr. Bolten, to debate this in the Presidential campaign. I know this question was a spontaneous one. You just happened to have a chart here.

Mr. BOLTEN. Mr. Levin, actually, it was, but I do carry that chart with me wherever I go; it always comes up.

Mr. LEVIN. I hope you bring a chart showing what has happened to income in this country the last few years, and the reason the share of income tax has gone up is because the share of income of the very wealthy has gone up.

You talk about income tax. Sometimes others and even the President forget the word "income" before "tax," and that omit the Federal Insurance Contributions Act (Social Security Act, 1935, 49 Stat. 620) tax. So, we will have a lot of chance to debate this in the days ahead. By the way, the Secretary of HHS yesterday said 50 percent cut in the uninsured; I haven't found anybody who knows where that figure ever came from. The testimony we have had today talks about 4 or 5 million, when there are some 40 million uninsured.

Let me just ask you quickly, this reference in the budget, the contingent offset for refundable portion of health care portion Mr. Stark referred to, you don't have any idea where that offset would come from?

Mr. BOLTEN. We have proposed about $35 billion in offsets in the budget, including a program called Medicaid Intergovernmental Transfers.

Mr. LEVIN. In Medicaid cuts?

Mr. BOLTEN. Not in cuts. In actual Medicaid reimbursements. The intergovernmental transfer is going after a practice by which the States——

Mr. LEVIN. You don't put that in your budget?

Mr. BOLTEN. That is proposed in the budget.

Mr. LEVIN. Where is the $65 billion from?

Mr. BOLTEN. The $65 billion is the actual cost.

Mr. LEVIN. You have contingent offset. Where does the $65 billion come from?

Mr. BOLTEN. To offset the $65 billion.

Mr. LEVIN. And $35 billion is in your budget?

Mr. BOLTEN. We are carrying $35 billion in mandatory spending.

Mr. LEVIN. Part of the $65 billion is the $35 billion——

Mr. BOLTEN. We could use that $35 billion to pay for the mandatory spending.

Mr. LEVIN. Then it comes out of someplace else in the budget. Can't use it twice.

Mr. BOLTEN. We would not propose using it twice.

Mr. LEVIN. So, $65 billion short. You used that $35 billion for something else. So, we would have to come up with $65 billion in addition to the $35 billion or replace that $35 billion, right?

Mr. BOLTEN. If the Congress chooses to move on the President's proposals for these mandatory spending increases, we would come to you with our suggestions of which mandatory spending decreases be proposed as offsets.

Mr. LEVIN. I have never seen this reference to contingent offset before. It is plugging a huge hole, and it indicates that if we can't find it, the deficit even gets worse. In your testimony it gets interesting. On page 3 is it, or page 2, you say that the 5.5 percent of GDP is not historically out of range. Then you say a few paragraphs down, this is not only well below half its current 4.5 percent level, it is also well below the 2.2-percent average deficit during the last 40 years. So, the deficit for this year is twice of what it has been on the average the last 40 years.

Mr. BOLTEN. Correct.

Mr. LEVIN. Unemployment comp, 375,000 people exhausted their benefits in January. The Administration has not proposed extension of Federal benefits. Why not?

Mr. BOLTEN. We have been monitoring the situation, and we would be glad to work with you on it.

Mr. LEVIN. Are you for it or against it?

Mr. BOLTEN. We are glad to work with the Congress.

Mr. LEVIN. Look, 375,000 unemployed, exhausted their benefits. It is estimated 2 million more, and you are monitoring it. So, you want my colleagues and me to go back and say the position of the Administration is you are monitoring it?

Mr. BOLTEN. We have worked with the Congress on three different occasions now to extend the temporary unemployment benefits.

Mr. LEVIN. Are you for it or against it?

Mr. BOLTEN. As I said, Mr. Levin, we are prepared to work with the Congress.

Mr. LEVIN. You have not proposed it.

Mr. BOLTEN. We have not carried a proposal in the budget.

Mr. LEVIN. Why not?

Mr. BOLTEN. We are prepared to work with the Congress on extending, if that is the direction in which the Congress wants to go.

Mr. LEVIN. How about the Administration wanting to go? I am pressing you because people don't need vagueness, they want an answer from the Administration. What is the answer, yes or no or maybe? What is your answer?

Mr. BOLTEN. I have given you the best answer I can, Mr. Levin. We are prepared to work with you on it. I would point out that in previous cycles that the extended unemployment benefits have been cut off at much higher levels of unemployment.

Mrs. JOHNSON. Mr. Lewis.

Mr. LEVIN. Much lower levels of exhaustion, and you know that.

Mrs. JOHNSON. Mr. Levin, your time has expired. Mr. Lewis.

Mr. LEWIS OF KENTUCKY. Mr. Bolten, thanks for being here today. We appreciate you appearing before our Committee. By the way, I don't think people want extended unemployment checks. They want jobs. That is what the Administration is concentrating on, and that is what we are seeing starting to happen. So, I appreciate the job the Administration is doing in bringing that about.

You mentioned a little while ago, I think when Mr. Portman was questioning you about dynamic scoring, and the Administration released the Economic Report of the President on Monday, which contains an entire chapter on dynamic scoring. Could you comment on how these more advanced microeconomic models could be used to improve the accuracy of budget scoring, and tell us what steps the Administration is taking to implement dynamic scoring?

Let me say this. I remember in 1997 when we passed the Balanced Budget Act (P.L. 105–33), it was projected to balance in 5 years. I know the projection in the President's budget is to cut the deficit in half in 5 years, but there has got to be a better way of projecting out and get a more accurate scoring on some of these things. I think the problem with budget balance with a little over a year—and CBO did not see that coming, none of us saw that coming. I think the problem is that we don't have the accurate vehicle to do the scoring to see what the future is like.

Sometimes I think maybe I should call a psychic and see if there would be a better way of coming up with some of these answers. Anyway, what is the Administration doing with dynamic scoring?

Mr. BOLTEN. The vagaries of scoring are one of the huge frustrations of this whole area of budgeting, and we have seen it time and again in what turned out to be good faith but unrealistic estimates of surpluses several years back. One of the key sources of frustration, though by no means the only source, are the economists' inability to correctly take into account the dynamic effects of tax cuts, which have profound effects on the economy that feed back into the budget.

In our budgeting, we basically take a static model, and that model does not give, in my judgment, anywhere near full credit to tax cuts that they deserve in looking forward to how much they can improve our budget picture. The economists have been working very hard on this. I understand they are refining the art, if not the science, and are coming closer to being able to come to some consensus on dynamic scoring, but in the absence of that consensus or something close to it, we have not attempted in our budgeting to take credit for dynamic scoring. I would emphasize for all the Members that we really should, at least in some general sense, be aware of the important effects the tax cuts do have on the economy, because as they work their way through the system, they substantially improve our budget picture.

Mr. LEWIS OF KENTUCKY. I think history proves that with several tax cuts through different Administrations. We have seen that to be the case and in some of the States, too.

One quick last question. The Economic Report of the President also released on Monday predicted that the economy will create 2.6 million new jobs in 2004. Can you explain what recent economic indicators lend support to the Administration's estimate of job creation?

Mr. BOLTEN. That is from tables that were included in the Economic Report. I don't think it should be regarded as a prediction. It is what the economic models themselves produce. Other economists, including the blue chip economists, are somewhere in that range. I believe this morning Chairman Greenspan said he thought these were realistic projections if productivity returns to a more normal level. That is important because the large job growth that we should be seeing in the economy is somewhat dampened by the otherwise excellent news of strong productivity growth. What the economists' modeling does is take note of historical patterns, and historical patterns would tell us that we should have that many jobs going forward if the economy reverts back to normal productivity growth. However, if we continue to have the extraordinary productivity growth which we have had in this economy, which I would repeat is otherwise excellent news, we may not see job growth nearly that high. I hope we will see job growth that high or even higher.

Mrs. JOHNSON. Thank you, Mr. Bolten. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Madam Chair. I am pleased that we could have another reading of a chapter from George Bush's "Alice in Wonderland" here today. We have had four of them now, and I notice by the fact that there is practically no press here, it is obvious they don't believe they are going to find anything worth believing. My favorite headline recently was, "We Were Almost All Wrong." That was about the war.

The budget stuff is even more disastrous if you look at it. I remember a guy named Shinseki. He was the head of the chiefs of staff, and he said we need more people. Mr. Lindsey got fired because he said we are going to need $200 billion in Iraq. Anybody who tells the truth in that seat is on the way out. I wonder if you could tell us when Mr. Principi is going to have to go. He testified yesterday that we need $1.2 billion for veterans.

What is your answer? Do you think the Administration is going to let him hang around talking like that?

Mr. BOLTEN. I think Secretary Principi does a fabulous job in a very tough position, and I have no expectation or hope that he is going anywhere.

Mr. MCDERMOTT. You agree with him that he needs $1.2 billion more, and he is perfectly within the Administration's rules and regulations on how they talk in public?

Mr. BOLTEN. I think what Secretary Principi said was that his agency requested more from OMB than he actually got in the budget, which happens to be true of every single agency. Every agency comes in and asks for more than they have any reason to expect that they can get in a budget. If during the budget process I actually granted the wishes of every Cabinet secretary who is an ardent advocate for his or her Department and agency's spending priorities——

Mr. MCDERMOTT. I understand. You have to cut people off. Your job is to be the hatchet man. This morning the Joint Chiefs of Staff say they are going to need more money before the end of the year. Are we going to deal with that, or is that going to be another one of those things like Principi; that they say it, and we ignore it and pick it up in a supplemental down the road, I think is what you are telling us.

Mr. BOLTEN. We have said that, in black and white, here in the budget that there will be supplemental requests. I think what the chiefs were expressing is that they get that money rapidly enough. The Comptroller of the Defense Department has as recently as today said—and he is the person who hands out the money and is responsible for it—is that he is confident, with a supplemental request made during fiscal 2005, that there will be no difficulty meeting the spending needs of the Defense Department.

Mr. MCDERMOTT. Does that mean after October 1st? Do you think we are going to be in session between October 1st and January 1st?

Mr. BOLTEN. I have no idea when you will be in session, but what I do know——

Mr. MCDERMOTT. Do you know there is an election this year? Has that been brought to your attention?

Mr. BOLTEN. I have been awfully busy.

Mr. MCDERMOTT. I have always thought of the International Monetary Fund (IMF) as being a bunch of fuddy-duddies over there who just have their head buried in the sand, and they go around the world messing up countries and making analyses and telling them how to run their economy. Here these guys are saying, with the budget projections showing large Federal fiscal deficits over the next decade, not that 5-year chart you showed us, but the next decade—they are doing 10-year projections—they said the recent emphasis on cutting taxes may come at the eventual cost of upward pressure on interest rates, a crowding out of private investment, and erosion of long-term U.S. productivity.

Now, do you agree with them or do you think they are just kind of off the wall or alarmists or what? What do you think of the IMF?

Mr. BOLTEN. The IMF performs an important function. What we have presented in the budget is an entirely credible path if the President's policies are adopted, and that is continued pro-growth economic policies, sound fiscal restraint. Those two things combined in both the 5-year window—and I would expect continuing in a 10-year window if we did 10-year projections.

Mr. MCDERMOTT. Reexamine IMF then. You are borrowing this year half of the 4,500 billion you are offered from foreign investors. The Congressional Research Service tells us $264 billion you are borrowing abroad. If the world reads what the IMF says, you think they are going to keep putting money in our economy, wondering if we are going to tank?

Mr. BOLTEN. The record shows that foreign investors are finding this a very attractive place to invest, and we have to make sure that is still true, which is why we need to pursue pro-growth economic policies.

Mr. MCDERMOTT. So, my granddaughter is going to pay back the Chinese $90 billion and the Saudis $20 billion and all that money when she is working 40 years from now; she is going to be paying this debt back, and that is okay with you? You think cutting taxes is really the answer?

Mr. BOLTEN. I think it is essential to sustain the growth in this economy. If you look at our revenue projections, even assuming continuation of the tax cuts, you will see the revenue that dropped off so dramatically over the last 3 years before we had any tax cuts returning strongly to the economy. I think it is exactly the right way to go.

Mr. MCDERMOTT. You are no more credible than the weapons of mass destruction. It is really appalling that the budget director would come in here and not tell us what the impact is going to be of the war. We will tell you later. You can't certify this is a decent budget. It doesn't answer the questions that you know you are going to face.

Mrs. JOHNSON. Thank you, Mr. McDermott. Mr. Brady.

Mr. BRADY. Thank you, Mr. Bolten, for being here. I think the criticism you are hearing is from those whose philosophy is that this is Washington's money and not the taxpayers' dollars, and we will decide what is best for working families. Thankfully we have got a President and a Congress that believes that it is the people's money, and that is working.

Let us talk about spending for a minute. I think one of the frustrations that I share, Congress shares, and you share is that our Federal budget is like a big leaky bucket, and we pour resources in trying to accomplish something, but there are so many ways it gets spattered that by the time it gets to where we really want it, not enough is being applied. Some here, many of our Democratic friends, measure by how much water we can pour in that bucket. Republicans are trying to close those leaks, trying to get the money and the resources to defense, education, and health care where it really applies. I appreciate you and OMB working with us in Congress, trying to fill the holes in that bucket so we can do more with less.

On spending, you studied the numbers from January 2001 to today where we had a projected surplus at the time to the deficit we have today. A lot of people are saying that is all due to tax cuts. My hunch is that spending and the economy has played an overwhelming role in creating the steps. Can you tell us what the numbers show?

Mr. BOLTEN. Our economists' estimate is that through 2003 the principal reason why we moved from what appeared to be a substantial surplus position to a deficit position is the economy. About half of that move was directly related to flagging economic activity, which means lower revenues. About a quarter of the move was additional spending, much of that related to September 11th and the war on terror, and about a quarter related to the tax cuts. Although as I had discussed with Mr. Lewis just a moment ago, that quarter number for the tax cuts does not take into account the dynamic effects that those tax cuts have had on the economy, and therefore have had on restoring our budget situation, not to mention saving a lot of jobs in the process.

Mr. BRADY. The projections, I think it would be difficult to look out 10 years. Is it safe or accurate to say that we have control, some say, over that 10-year reality, that as we get the economy going, if Congress will work, the President, to cut spending—that deficit isn't set in stone? In fact, it can be turned around into a surplus, and we can get back into the black, is that correct?

Mr. BOLTEN. Absolutely. I think our 10-year horizon, if we follow the kinds of policies that are laid out in this budget, is very promising. I should add that looking beyond that, we face an enormous challenge, which is the retirement of the baby boomers. We face a serious structural unfunded liability with respect to our Medicare and Social Security programs. Those need to be addressed on their own merits, but within that 10-year window you are talking about, I am very optimistic the policies reflected in this budget can get us well back toward balance.

Mrs. JOHNSON. Excuse me, Mr. Becerra.

Mr. BECERRA. Thank you Madam Chair. Mr. Bolten, thank you for being with us. I just wanted to return to something quickly. You made a comment about this chart that talked about the share of individual taxes, income taxes paid by the various sectors of the

American public, the top 1 percent, 5 percent, the bottom 50 percent. It is fascinating because when you talk in terms of percentages, I can see how you shift the numbers, but I would be interested to see what the actual dollar amounts are that are paid.

What I would be more interested to see is if you would be willing to provide us with charts that show the distribution of the tax cuts in the capital gains category. Would you be willing to provide us with a chart that talks about the distribution of tax cuts for the capital gains tax cut?

Mr. BOLTEN. Sure. If we have that data, we will be glad to provide it.

Mr. BECERRA. Perhaps for the dividend tax cuts as well. I would like to see the distribution, if you could provide us a chart for the tax cut that went in the area of the estate tax repeal and provide us that as well. Any idea when you could probably get that to us?

Mr. BOLTEN. I don't know. It would depend on what data is available. With respect to the death tax, those tax cuts have not been implemented.

Mr. BECERRA. Actually, I think we can do it pretty quickly, because if we are going to talk about the distribution of that tax cut, all we have to do is worry about the 2 percent of wealthiest Americans, because 98 percent of the rest of Americans aren't getting a tax cut. It would be pretty easy to make the chart that all the tax cuts go to the 2 percent wealthiest, 98 percent of the rest of America doesn't get anything?

Mr. BOLTEN. That may be possible to produce a chart looking at the future. The charts we have presented to you have been what we see the situation as of today.

Mr. BECERRA. I would be more interested if you could give us the charts that show us the distribution for the different sectors of the American public.

Mr. BOLTEN. We will provide you the data we have.

[The information follows:]

The analysis available is for the effects of all the provisions of the 2003 tax cut combined, not the individual elements. The analysis recognizes the importance of obtaining the full picture to show where possible how much tax liability is paid by each income group, as well as the amount of tax relief that group would get. This is problematic, however, for the dividend tax because it represents the second level of tax such that it applies to corporate distributions from income that has already been subjected to the corporate income tax, and so to calculate the total amount of tax paid by dividend recipients requires some knowledge about the incidence of the corporate income tax, and unfortunately there is little consensus on the incidence of the corporate income tax. A similar problem arises with respect to the capital gains tax to the extent the asset giving rise to the tax reflects ownership of corporate equity.

What we can say with confidence is that lowering the tax rates on dividends and capital gains will cut taxes an average of $798 for 26 million taxpayers, including seven million seniors who will save an average of $1,098. This is too broad a swath of the taxpayer public to characterize as 2 percent.

We can also say with confidence that reducing these taxes reduced the cost of capital in the United States, reducing the tax disincentive to invest in new plant and equipment so that America's corporations can grow faster, increase employment faster, raise productivity faster, raise wages and other forms of labor compensation faster, and compete more effectively in international markets.

Mr. BECERRA. The issue of jobs. I was listening to the give-and-take with Congressman Levin, and I wasn't sure exactly what we should tell the American public, our constituents when we go back home, when it comes to over 2 million Americans who have lost their jobs, something around 9 to 10 million Americans who have been without a job in some cases over a year. What is the message we should say is emanating from the White House with regard to those working Americans who lost their job in the last year, 2 or 3 years, and are still looking? What do we tell them with respect to the insurance benefits if they have exhausted them?

Mr. BOLTEN. What you can say is the President wants everyone who is looking for a job to find a job.

Mr. BECERRA. These folks who have now exhausted their unemployment insurance benefits, in other words they have been out of work for several months now, what is the word—what do we say that the Administration is saying to them? These are working Americans, because of the faltering economy or other reasons have lost their job, are ready and willing to work and have exhausted their unemployment benefits, and now are trying to make ends meet for the family. What do we tell them?

Mr. BOLTEN. I think what you ought to tell them is that the Administration is doing everything possible to make sure they can get back to work, because I assume you will agree that is what they really want to do.

Mr. BECERRA. I would also like to tell them that we are actually going to extend their benefits while they are looking, and we have the leadership in the White House saying that the White House would like to extend them. I don't hear that yet, but we will work with you on that.

With regard to Iraq, am I correct in saying that this budget provided by the President provides $0 for Iraq reconstruction or security of our troops in Iraq?

Mr. BOLTEN. This budget says that we will request supplemental funding for that during the fiscal year 2005 season when the needs become clear. We have in the past requested supplemental funding.

Mr. BECERRA. This budget doesn't request any moneys to date. You are not going to request any supplemental funding for Iraq?

Mr. BOLTEN. We will.

Mr. BECERRA. Before November 2004?

Mr. BOLTEN. We don't know the exact date, but what we were advised by the Defense Department is that they don't expect to need to request that money during 2004.

Mr. BECERRA. My last question has to do with the deficits. Listening that you are going to cut the deficits in half from $521 billion to something in the order of $250 billion, I don't know how many people should feel comforted that we are still going to have deficits in the range of $250 billion, but I did some quick math, as I did when Secretary Snow was here. The $521 billion deficit for this fiscal year translates into $15,200 debt tax, because that debt tax will have to be paid by somebody, by each tax filer in America. If you talk about the American public, in all there are some 292 million people in America. That, still, for every man, woman and child, totals about $6,800 per every man, woman, and child that this year's alone fiscal deficit of $521 billion will cost Americans. I don't know of many Americans, average families that got anywhere near even a $1,000 in a tax cut, but to see that we are going to put that type of burden on our children—and that is just this fiscal year. Over the 10-year period, we are increasing the size of our debt from $4.5 trillion to about $6.4 trillion. I am talking about $521 billion, not $6.4 trillion. I think most families are asking, how are we going to budget? It really is our money, not the government's money. It is not going to be the government's debt, but the people's debt. When the government runs a deficit of $521 billion, that is not the government's deficit, that is the people's deficit. When the government runs a $6.4 trillion debt by 2014, that is not the government's debt to the world financiers and bankers, that is every man, woman and child's debt. I think what worries so much of us is that we haven't put our fiscal house in order. The President is talking about making permanent tax cuts that took us, to some degree, to where we are.

Mr. BOLTEN. There is no disagreement about the problem. I think the disagreement is about what the remedy is, and a very important part of the remedy is a strong economy. A very important part of a strong economy is making those tax cuts permanent.

Mr. BECERRA. I would agree with you on most of that except the very end.

Mrs. JOHNSON. Thank you Mr. Becerra. Mr. Ryan.

Mr. RYAN. Thank you, Madam Chair. Mr. Bolten, I want to commend you for bringing a lean budget to Congress. It is my belief and hope that you can see your lean budget and make it leaner as it moves through the House and Senate. It is my hope we can actually make good on the fiscal restraint that you provided and actually go a little farther.

In doing so, every time we pass the budget, inevitably what seems to happen in this institution, in Congress, is we break the budget. If you take a look at the baseline spending that occurred in discretionary spending for the 2000 spending bill, where we had 15.3-percent increase in discretionary spending, I recall coming back early from my honeymoon to vote against that omnibus bill; but if you recall, we put in a 15.3-percent baseline increase in discretionary spending. Then I believe your first budget came after that.

Mr. BOLTEN. Non-defense discretionary.

Mr. RYAN. What were your discretionary spending numbers after that, your non-defense discretionary numbers after that 15.3 percent?

Mr. BOLTEN. In 2002, it was 6 percent; next year, down to 5 percent; and for the current fiscal year, down to 4 percent. That is non-defense discretionary. For 2005, we are proposing below 1-percent growth in that category.

Mr. RYAN. One of the problems that occurred, that I witnessed from that huge spending spree when we did 15.3-percent domestic discretionary in the 2001 budget, was that that was out of conformity with the budget resolution. One of the things we noticed is that every time we write a budget resolution, we have a budget process that produces this springsmanship that at the end of the process, at the end of the year, we end up breaking our budget caps, breaking our budget agreement, to spend money to get out of town. So, many of us have been concerned that the budget process we have before us is broken.

So, in that vein, a lot of us have gotten together, and a group of us from the moderate to the conservative camp of the Republicans in the House released 12 principles for budget process reform. In that vein, I along with Congressmen Hensarling, Chocola, and Cox are introducing a bill tomorrow to rewrite our Federal budget process. We sent you an advanced copy of that bill. What is your take on some of the provisions we have put in there?

Mr. BOLTEN. It is a big bill, and I don't want to comment on all of it, but in general, we are very enthusiastic about what you are doing. In this budget we sent up last week, we proposed several elements that I understand are part of your bill. Your bill does a number of other things, but in my judgment, if we could accomplish what the Administration sent up and even some of the things that you are proposing, to go farther in the way of budget process reform, we have done an enormous service to the budgeting process, in this country and enormous service to all of those, like Mr. Becerra, who are concerned about the debt burden that may be loaded on future generations. I think that is the best hope for constraining spending in an environment where it is otherwise difficult to do so.

Mr. RYAN. We are not going to cut the deficit in the next 5 years if we don't enforce our budget. I hope that we can continue to work together to get budget enforcement rules that stick.

I have one more quick question, since I see I have some time. That is, last week Secretary Snow and Mineta sent us a letter with respect to the transportation bill. In that letter they said they would recommend a veto threat to the President if it used any increase in gas taxes, any kind of bond financing other than private activity bonds, or any new deficit spending, or any deficit spending at all. They also alluded to the fact that they would recommend a veto threat if the overall spending level in that transportation bill exceeded $256 billion. Could you clarify as to whether or not that is a number that the Administration plans to stick by?

Mr. BOLTEN. That is the number that was contained in our budget, Mr. Ryan. The three principles that the Secretary has enunciated are no gas tax or other Federal excise tax increases, no mechanisms like bonding that conceal the true cost to the taxpayers—I am reading from their letter right now—and that highway spending should be financed from the highway trust fund, not the general fund. The number that came to—that meets those principles is $256 billion.

Mr. RYAN. If you read that letter, it looks like if the principles are violated, they are going to recommend a veto. They don't really necessarily say if the number is violated, they will or will not recommend a veto. I wanted to clear that up. Is the number part of that veto threshold?

Mr. BOLTEN. The way it is stated in their letter is that if a bill that breached these principles were presented to the President, his advisers would recommend a veto. What I can say in addition to that, though, it is hard to imagine there are provisions, other than those that have been contained in our budget, which comes to $256 billion, that would not violate these principles.

Mr. HERGER. [Presiding.] I thank the gentleman from Wisconsin. Now the gentleman from North Dakota to inquire.

Mr. POMEROY. Thank you, Mr. Chairman. Mr. Director, you will go down in history. You have advanced the budget with more red ink than any OMB director in our Nation's history. I would think that under these circumstances that you would be under tremendous pressure to try and show credibility at this hearing today. Frankly I don't see it, in light of specific points of testimony that I will now walk you through.

You said in your first response to Congressman Portman, and you repeated it later to Congressman Lewis, that about half of the budget shortfall was due to economic circumstances. Anyone reading the Wall Street Journal today is going to have access to a chart that adds a little more specificity to the actual figure. Just looking in the Wall Street here, they have got a breakout: legislative tax cuts, far and away the largest contributor to widening the deficit; technicals, including unanticipated revenue shortfalls, that is revenue coming in below what was projected is the next leading indicator; spending increases is the next leading indicator; and, last but not least, a weaker-than-projected economy. Again, I cite you to the chart in the Wall Street Journal.

I have never before heard anyone talk about clumping the technical readjustments in budget scoring other than a flat-out relationship to the economy. I don't think it lies, and I think that was a misrepresentation by you in your testimony today, but that is not the end. You stated that——

Mr. BOLTEN. May I respond on that one?

Mr. POMEROY. Let me go through the itinerary first and then you can go back and rehabilitate yours. You stated not putting the cost of the war in the budget because you don't know how much it is going to be is established accounting principles, and that certainly is not the case. Can you imagine a corporation displaying their financials, a publicly traded corporation displaying their financials but leaving blank liabilities, known but uncertain, leaving it blank because it didn't know how much it was going to be? I used to be an insurance regulator. There is no way in the world I would have let insurance companies file financials like you file your budget. They had to estimate what future claims were going to be and figure it into your financials.

You say the budget, you are going to cut the budget deficit in half, but you don't count a penny to the war which you indicated could be $50 billion this year, could be $50 billion next year. I certainly hope not, but you consistently low-balled the cost of the war. That right there will keep you from meeting your cut-the-deficit-in-half target. We know the war is going to cost something. You sit here today and say not a penny is provided for in the budget, and that comports with budget principles. It does not comport with budget principles. I think it is fairly staggering that you make that suggestion.

You go on to say, and have a chart prepared, that shows the Tax Code has become more progressive. This is really a game of semantics at that point. Without question, the largest share of the tax cut went to the most affluent few households in the demographic spreads there are clearly well known.

Additionally, you state that we are going to cut this deficit in half and maybe we go into surplus in the second 5 years of this decade. I cite to you the “Analytical Perspectives, Fiscal Year 2005,” prepared by the Administration, I believe prepared by your department. Pages 192 through 196 have a variety of scenarios charted in terms of what happens to the deficit if your policies are enacted. In each case, you see revenues tailing down, reflecting spiraling deficits. The only—there is only one scenario that has any possibility of hitting budget—a budget balance in the second decade. That doesn’t count any money whatsoever for fixing the AMT, a price tag estimated that could be as much as $600 billion, and you indicated that the Administration is inclined to support the AMT, although you have not provided for it in this budget. So, quite frankly, you not only have the record for advancing more red ink than any other OMB director, you have also offered the most disingenuous, consistently misleading testimony of any Administration official that I have heard since I have been on the Committee on Ways and Means. Very unimpressive performance. I invite you to respond if the Chair will allow.

Mr. BOLTEN. Mr. Chairman, may I take a moment?

Mr. HERGER. Yes, please.

Mr. BOLTEN. First of all, despite the difficult situation, I am proud of this budget. I think it is a strong budget and sets us on the right path, and I think it reflects forthrightly what our situation is.

First, you raised the issue of how do we get where we are. Our economists have done the analysis, which has been confirmed by other economists, and they have shown clearly that our change in budget position from surpluses to deficits, which is what I was addressing with Mr. Portman, is about half the result of the economy. When the budgeteers say technical factors, they usually mean change in economic performance. I stand by those numbers, and I think most economists would support the proposition that overwhelmingly the largest cause of the deficit situation in which we now find ourselves is not the tax cuts that you all enacted, which have done a lot to bring this economy back, but rather the impact of recession that was well underway by the time this Administration took office.

Second, on defense spending, it is in fact typical in the case of war for an Administration to seek additional money for supplemental spending for emergencies and war separately, not to carry them in the regular budget, especially when we don’t know what the costs are. We said in this budget that we intend to ask for supplemental funding. I don’t anticipate that that need for supplemental funding will affect our ability to meet the goal of cutting the deficit in half within 5 years. It will affect our numbers in the immediate years, our ability to cut the deficit as rapidly as that chart showed, because the chart I had did not in fact reflect Iraq and Afghanistan spending. I would anticipate that by the time we got toward the end of that chart, 2008 or 2009, that we would not need supplemental funding for the ongoing war effort.

Third, I stand by the chart that we presented on the progressivity of the income tax cuts. While it is certainly true that wealthy people, if you add up total dollars, got larger dollar cuts than most middle- or low-income people, it is also true that they are paying a substantially larger share of the income tax. As a result of the tax cuts that this Congress enacted, they are paying an even larger share than they otherwise would have. That is not to minimize the cuts that have been included for both the working families of America, the $40,000 income family of four that has a $2,000 tax cut embedded in this bill, and the small businesses of America.

Finally, looking out and beyond our budget window, the optimism I expressed with Mr. Brady, I think, and with Mr. Lewis was for the coming 5-year period. I think we are showing in this 5-year period a very solid and sustainable path toward bringing the budget deficit well below half of where it is today, and I have optimism that the succeeding 5-year period has good prospects of bringing that deficit down toward zero. The difficulty comes about a decade from now, when the baby boomers begin to retire and we face a tidal wave of unfunded liabilities in our entitlement programs. I think those need to be addressed separately in the context of the entitlement programs.

I think the budget that is reflected here is entirely responsible and forthright in dealing with a 5-year and even 10-year situation. We need to address the longer term situation in the entitlements separately, and I look forward to the debate and conversation on that.

Mr. HERGER. The gentleman from Michigan, Mr. Camp, is recognized.

Mr. CAMP. Thank you, Mr. Bolten, for your excellent testimony and for the great job you are doing here today. My question really involves small businesses and smaller manufacturers. As you know, the Jobs and Growth Act (P.L. 108–27) did some great things in terms of small business expensing. My question to you is, what do we have in the President's budget that might help in terms of bonus depreciation last time and the expensing issues that could help our small businesses and small manufacturers, which really are the job creators in many of our districts and really need the assistance—is there anything in the President's budget that might help with small business?

Mr. BOLTEN. There is continuing strong funding for the Small Business Administration. I think just as important for the small businesses of America is the extension of the tax cuts that I was just discussing with Mr. Pomeroy. A lot of our small businesses pay their business tax through the top rate in the individual income tax. So, when there is referring to cuts for the wealthiest Americans, a lot of the people paying at that top rate are, in fact, the small businesses of America. If they are going to be in a position to plan for investment to add jobs, to add plant and equipment, they need to know those tax cuts will remain in place, which is why the Administration is strongly urging this Congress to make those tax cuts permanent.

Mr. CAMP. I know you have mentioned today, and on other occasions, that about 50 percent of the deficit is revenue loss, revenue not coming to the Federal Government. Could you elaborate on that a little bit for me; and particularly which kinds of revenue we are not seeing, and what might be the cause of that?

Mr. BOLTEN. Sure, and that 50 percent is revenue loss associated with flagging economic activity. The economists disagree somewhat on what the causes are for the radical dropoff in revenues that this country experienced over the last 3 years, I think the only 3 years in modern history where the United States has had actually declining revenue for 3 straight years. I believe that one of the principal causes of that is, in fact, the stock market bubble, the tech bubble, that this country experienced in the 1990s. There was a great increase at that time in capital gains earnings and in options earnings. Then when the stock market collapsed, that collapse rippled through, surprised the actuaries and the estimators, and produced a decline in revenue much deeper than anyone had projected or even had seen before in the history of this country.

The tax cuts that you all enacted in response to that have been extraordinarily well-timed to help bring the economy back from a trough like that. Our projections show the revenues of the United States firming substantially over the next few years, even assuming permanent enactment of all of the tax cuts you have enacted so far, because economic growth is really the key to a healthy budget.

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

Mr. HERGER. Thank you. The gentleman from Tennessee, Mr. Tanner, you are recognized to inquire.

Mr. TANNER. Thank you, Mr. Bolten, for your patience. I was reviewing your budget, and it shows that under your projections that the gross Federal debt would increase by approximately $4.8 trillion in the years 2001 to 2009; is that correct?

Mr. BOLTEN. I don't have the tables in front of me. Let me ask my folks.

Mr. TANNER. I assume that that is your opinion and best estimate of where we are and where the country is going; that is your best guess of where we are going.

Mr. BOLTEN. That is basically a projection out of current trajectories with policies proposed in the budget.

Mr. TANNER. How do you categorize interest on the debt?

Mr. BOLTEN. In what sense?

Mr. TANNER. As a tax or as an obligation, as a payment on revenues coming in? How would you categorize interest on the debt as an obligation of the Federal Treasury?

Mr. BOLTEN. I think it is reflected in the charts.

Mr. TANNER. Would you further agree that that obligation has to be paid, as we say, off the top before anything else is paid?

Mr. BOLTEN. Yes.

Mr. TANNER. So, one could argue, then, by policies that result in $4.8 trillion of additional debt, were we to pay interest at 4 percent on that debt at the end of that time, we would have effectively put $192 billion deficit or tax, if you will, on the American people because of the policies that we pursued from 2001 to 2009. Somebody has got to pay it.

Mr. BOLTEN. I have been doing a little bit of arithmetic in my head, and I am coming up with $3.8 trillion, but for the general direction that your point is making, yes, with that additional debt.

Mr. TANNER. The point I am making is we only tell half the story when we say we are going to continue to cut revenue and cut taxes with borrowed money, which is going to result in additional taxes in the future, just not right now, but additional taxes in the future as to whoever is around in those days to pay it.

Mr. BOLTEN. Well, what I would say is that the important element about our budget is that what is going to make it possible for the Treasury to get revenues in and keep that debt as low as possible is a strong economy.

Mr. TANNER. I understand that and I agree with that, but what I am saying, when you come with a budget document that I have from 2001 to 2009, $5.7 to $10.5 trillion debt, which is $4.8 trillion—regardless of whether it was $3.8 trillion to $4.8 trillion, whatever it is, when you come with policies that result in this much additional debt—I know that and I agree that the economy is what we want to do—but when you say this is the kind of policy we want to follow, you are in effect putting a tax on the American people at 4 percent, 5 percent, whatever it is, that must be paid—and that is page 2—of cutting taxes with borrowed money, in my judgment, because somebody has to pay the interest on the debt and it has to come off the top.

Mr. BOLTEN. There is no disagreement, those obligations have to be paid, and we want to keep them as low as possible. What we disagree about is how do we keep them as low as possible.

Mr. TANNER. The White House, the Senate, and the House—and when you show me a document that says that the best you can do is to accumulate this kind of red ink between now and 2009, that is in many ways we could do much better—I can't do anything about it, but it seems to me we can do much better as a country.

Let me go to one other factor here when you say, no evidence of anybody having a problem with the policies we are pursuing that results in this kind of red ink. I know you know that the G–7 has expressed concern about it. Every day in the London Financial Times there are alarm bells ringing all over Europe about our financial situation. It seems like everybody in the world is concerned about what we are doing but us.

The Wall Street Journal said that a number of Asian central banks, among the biggest investors in the Federal Government, they are looking at alternative targets for their vast dollar holdings. It goes on to talk about the treasuries of Japan and China. The Japanese Prime Minister said in response to a question, we are looking at diversifying.

For you to say that there is nothing going on that we ought to be concerned about with respect to the rest of the world buying debt, I think you are not reading something, or else I am reading different things than you are, because I see alarm bells going off all over Asia and Europe. We sit here as the only ones on Earth that are not concerned about it. It just is incredible to me.

Mr. BOLTEN. I certainly don't want to leave the impression that it is not a matter of concern. We haven't seen evidence of foreigners being reluctant to invest in the United States, which is a good thing, but I do agree with you, we do need to be concerned about it. The right way to address it is with the right kinds of policies as reflected in this budget. The most important thing we can do to ensure foreign confidence in our market and to keep foreigners investing in our market—including buying our Treasury bills—is to keep the economy growing strongly. Where we have the disagreement is whether the tax cuts are part of that. I happen to believe, and the Administration believes, that the worst thing we can do for this economy is raise taxes at this time.

Mr. HERGER. The gentleman's time has expired. The gentleman from Pennsylvania, Mr. English.

Mr. ENGLISH. Thank you. Mr. Bolten, I have been listening with a great deal of interest, and I think a couple of things have to be put into context. I appreciate your budget submission because you put into place, really the first time in my memory that I have seen this coming in a Presidential budget, a significant new set of budget enforcement rules building on the pay-go rules that had expired. I wonder if you could explain how the new budget enforcement rules proposed in the budget are designed to control spending.

Mr. BOLTEN. I am happy to, Mr. English, and thank you for the opportunity. We have proposed three measures:

One is to put into statute caps on discretionary spending similar to those that arise in budget resolutions each year, but require a fight over the budget resolution each year. We would like to make that statutory over a 5-year period.

The second is to restore what is called pay-go caps on mandatory spending. The requirement would be that if any proposal comes before the Congress that would increase mandatory spending, then there would be a corresponding offset, a decrease in mandatory spending coupled with the increase. I think that may be the most important thing we can do, because a lot of the spending that has been difficult to control in the legislative process has been the mandatory spending that isn't subject to the normal authorization and appropriations process, but rather tends to go out the back door in a way.

The third element of our proposal is a point of order in the other body to make it difficult to increase the long-term unfunded liability of some of our big entitlement programs. I think the real concern ought to be focused beyond the 10-year window. We need desperately to take a look at the unfunded liabilities in our big entitlement programs.

Mr. ENGLISH. Why is it important that these rules not apply to tax changes?

Mr. BOLTEN. Thank you for reminding me of that. We have not proposed that tax cuts be subject to the same sort of limitations. The principal reason is that the real problem we see in the budget is the increases in mandatory spending, not the tax cuts, which have a tendency to actually help economic growth, which helps our budget situation.

Spending increases and tax cuts are not equal as far as the budget is concerned. A spending increase will increase the deficit by at least the amount of spending increase plus interest, as I was discussing just a moment ago with Mr. Tanner. Whereas a tax cut will actually have important feedback effects in the economy, making the economy stronger and able to bear a larger debt burden than it otherwise would. That is why we have done that. That is true both in the short run and the long run.

I note that Chairman Greenspan, when he was testifying this morning, if I understood his testimony, also emphasized that our longer term problem is on the expenditure side.

Mr. ENGLISH. On a rather different front, Mr. Tanner, and others have expressed concern about the long-term impact of deficits and increases in the national debt, but I think the real target and what affects economic behavior and conditions more than anything is the size of the debt relative to the economy. Would you not agree?

It seems to me that there is a point we discovered a few years ago at which, even when you are still running a deficit but headed toward a balanced budget, the deficit begins to—I am sorry, the national debt begins to shrink relative to the economy. The economy grows faster than the national debt does.

Under your budget projection, under your proposal, how soon does the national debt start to shrink relative to the economy, assuming the economy continues to grow based on your assumptions?

Mr. BOLTEN. Mr. Chairman, if I may take 60 seconds to respond, because Mr. English I think has raised the absolutely crucial point here that I didn't have a chance to address.

Mr. ENGLISH. We wait until the end of the hearing.

Mr. BOLTEN. I appreciate you raising it, because the economists will tell us the reason to worry about deficits is because they raise the national debt. The reason to worry about the debt is that at some level it begins to crowd out private investment in the capital markets. So, I think you are focusing on exactly the right question.

In our projections, the debt-to-GDP ratio peaks in 2007 and then begins to decline after that, and that is assuming the permanent enactment of all of the President's tax cuts. The average, postwar debt-to-GDP ratio is about 44 percent. We are today, in 2004, at about 38.6 percent. We expect the peak to be around 40 percent in 2007 and then the rate is expected to decline thereafter. So, we are not in a historically out-of-range situation. We do need to keep an eye on that debt-to-GDP ratio. That is what the capital markets will be looking at.

With the policies proposed in this budget, which include progrowth economics and spending restraint, we see the debt-to-GDP ratio peaking well below the postwar average in 2007, and coming down thereafter.

Mr. ENGLISH. Thank you for the brilliance of your analysis and a very excellent presentation.

Mr. HERGER. The gentleman's time has expired. The gentleman from Texas.

Mr. JOHNSON. Thank you, Mr. Chairman. Mr. Bolten, we are pressed for time, so I am going to give you a whole bunch at once and see if you can come up with some answers. I would like to know the difference between private activity bond under consideration and elsewhere in reference to the highway bill reauthorization. Are the bonds a cost-effective way to get roads built? In your view, what benefits would private activity bonds provide for transportation? You know they are different from what we are talking about.

Mr. BOLTEN. In the interest of time, Mr. Johnson, I will ask to give you a long answer for the record, but basically they are a good thing, because they make it possible for the States—sometimes in cooperation with the private sector—to finance important infrastructure projects without substantially burdening the Federal budget. There is some burden in these bonds because the interest is not taxable, and so we do need to take account of that cost, but they don't actually impose a direct cost on the Federal budget. From where I sit today, that is extremely important.

[The information follows:]

A private activity bond is a municipal bond that is either used entirely or partially for private purposes and is given Federal tax-exempt status. The bonds would be issued by local governments (localities, states, other bond issuing authorities), but the proceeds may be provided to a private firm to develop or operate a facility like a toll road. The firm would repay the local government from revenue generated by the facility. Currently, tax-exempt private activity bonds are issued for a wide range of privately developed and operated facilities, including: airport facilities, docks and wharves, water, sewage and solid waste disposal facilities, mass commuting facilities, qualified residential rental and other capital projects.

Unlike private activity bonds, other financing proposals that have been considered in the context of highway reauthorization involve creating new Federal bonding programs to supplement spending on Federal transportation programs. These options were developed to take advantage of Federal scoring rules and are not the most efficient means for the Federal Government to raise money to pay for roads and transit systems. These options also could potentially disrupt the established marketplace for Treasury bonds, increasing the government's cost of borrowing. Moreover, creating a transportation bonding program would set a dangerous precedent for using special bonding to pay for other government programs.

In many instances, yes. The private activity bond proposal is intended to encourage private participation in surface transportation infrastructure projects. This has the potential to reduce the costs since the private sector can apply its management expertise to the development and operation of transportation facilities. In addition, unlike other bonding proposals for highways and transit, private activity bonds minimize the risk and liability to the Federal Government.

The primary benefit is to permit state and local governments to leverage their funding and permit more construction. The bonds also foster greater flexibility for state and local governments for use in funding transportation projects, which should facilitate greater private investment. Another benefit is that the investment and risk is shared between the government and the private sector.

Mr. JOHNSON. I asked the question before, if we are not getting that tax right now, why is it a loss? That is our scoring system. Thank you so much for your testimony. I appreciate it, and I appreciate you supplying a long answer for us for the record.

[The information follows:]

It is not possible to predict with certainty the extent to which private sector capital invested in these tax exempt bonds would have otherwise been invested in taxable investments, other tax exempt investments, or some other taxable use. That being said, when creating a new tax exempt investment opportunity, it is prudent to make conservative assumptions about the impact of such a policy change on Federal revenues, which is why both the Executive Branch and Legislative Branch have traditionally scored such proposals as a loss to the Treasury.

Mr. HERGER. I thank the gentleman from Texas. I would like to conclude, Director Bolten, with just a couple of comments, if I could. Number one, I want to thank you and the Bush Administration for the leadership that you have shown during this incredibly challenging time on the war on terrorism and with—and at the same time, having inherited this recession that we have been in, and for hanging in there. We so often hear from our good friends on the other side of the aisle the fact that these tax cuts are going to the rich. It is interesting, I have some statistics here from the Internal Revenue Service which indicate—and I guess my question is just how much should we have the rich pay?

My question would be, if we had the top 1 percent of those paying Federal income tax pay 33.9 percent of the total Federal income tax paid, would that be enough? Well, that is at least what they were paying just a couple of years ago. It is probably greater than that now. The top 5 percent pay 53.3 percent. Again, these are 2001 stats and you may have some that are more current than that, but over half of the tax paid by the top 5 percent. The top 10 percent are paying 64.9 percent, almost two-thirds. The top 25 percent, 82.9 percent. The top 50 percent are paying 96 percent, which leaves the bottom 50 percent paying only about 4 percent.

It is interesting with the chart that you gave us, even with the tax reduction, those that are in these highest brackets, taxpayers are still paying more than they were before. So, clearly I think it could be argued that the rich are more than paying their fair share.

Again I want to thank you for the courage and of the Administration for spurring the economy at this time that we so much need it, and we do see the economy improving. I thank you for appearing before us today. With that, this hearing stands adjourned.

[Whereupon, at 3:15 p.m., the hearing was adjourned.]

[Submission for the record follows:]

Statement of Credit Union National Association, Inc.

The President's 2005 Budget, which was transmitted to the Congress on February 2, 2004, contains a number of proposals that the Credit Union National Association (CUNA) supports. CUNA represents over 90 percent of the nation's approximately 10,000 state and federally chartered credit unions and their 84 million members. We are pleased to provide comments for the record in connection with the February 11, 2004, hearing of the House Committee on Ways and Means on the "President's Fiscal Year 2005 Budget."

The Administration's FY 2005 budget plan would, among other things, create an Individual Development Account (IDA) tax credit and simplify personal saving by replacing existing tax-preferred saving options with Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs) and Employer Retirement Savings Accounts (ERSAs).

IDAs are matched savings accounts that may be opened by persons who meet a net worth test and are eligible for the Earned Income Tax Credit or Temporary Assistance for Needy Families. The accounts are restricted to three uses: 1) buying a first home; 2) funding post-secondary education or training; or 3) starting or improving a small business. They were first authorized by the Personal Work and Responsibility Act of 1996 (P.L. 104–193). In 1998, the Assets for Independence Act (P.L. 105–285) established a five-year $125 million demonstration program administered by the Department of Health and Human Services to evaluate the effects of savings incentives on persons of limited means.

Currently, contributions are not deductible but are matched by contributions from a program run by a state or a participating nonprofit organization. Matching contributions and their earnings are not taxed to the individual. The Administration's IDA proposal would provide dollar-for-dollar matching contributions of up to $500 supported by a 100 percent transferable tax credit to sponsoring financial institutions. An additional $50 per account per year would be available to offset administrative costs and expenses associated with providing financial literacy training.

In this connection, CUNA notes that H.R. 7, the "*Charitable Giving Act*," passed by the House on September 17, 2003, by a vote of 408–13 and S. 476, *The Charity,* *Aid, Recovery and Empowerment (CARE) Act of 2003*, passed by the Senate on April 9, 2003, by a vote of 95–5 both contain IDA expansion provisions and await further congressional action in conference. We urge you to include the transferable tax credit provision included in the Senate bill in the final agreement reached on this most important legislation.

Under the Administration's Lifetime Savings Accounts proposal, individuals of any age or income could contribute up to $5,000 annually (nondeductible) to a LSA, regardless of whether they had any earnings that year. Investment earnings and distributions from the account would be tax-free. There would be no required distributions from LSAs during the account owner's lifetime. Coverdell Education Savings Accounts (ESAs) and Section 529 Qualified State Tuition Plans (QSTPs) could be converted to LSAs up to December 31, 2005.

We agree that these more relaxed rules could encourage individuals to save who might otherwise not do so in targeted savings plans because of restrictions on and penalties for withdrawals.

The Administration's Retirement Savings Account proposal would allow individuals of any age or income to contribute up to $5,000 per year [1] (nondeductible) from earned income to a RSA. Qualified distributions [2] would be tax-free. All other distributions would be subject to tax on amounts exceeding contributions. Current "Roth IRAs" would be renamed RSAs and would be subject to the rules for RSAs. Owners of traditional IRAs could convert them to RSAs.

We agree that RSAs would simplify the range of choices for taxpayers saving for retirement by making the Roth IRA concept available to all taxpayers. Any taxpayer could contribute up to the lesser of $5,000 or their earned income. Unlike current law, however, withdrawals could only be made for retirement, beginning at age 58. RSAs would address a key component of retirement—personal savings.

By eliminating income restrictions, the RSA could become a strong vehicle for retirement savings, particularly for those who are within a decade of beginning to retire.

The Employer Retirement Savings Accounts proposal would make many of the employer plans easier to understand. Beginning in 2005, § 401(k), § 403(b), Savings Incentive Match Plans for Employees (SIMPLE plans), Simplified Employee Pension (SEP) plans and governmental § 457 plans would be consolidated into ERSAs, which would be available to all employers. Qualification rules under the Internal Revenue Code would be simplified.

LSAs, RSAs and ERSAs could provide additional encouragement for all taxpayers to save. *However, we urge you to also include and expand the current law SAVER's tax credit in the provision.*

American's private savings rate remains low and many low- and middle-income individuals continue to have inadequate savings or no savings at all. Lower income families remain more likely to be more budget constrained with competing needs such as food, clothing, shelter, and medical care taking a larger portion of their income. Applying the SAVER's credit to RSA and ERSA contributions would provide a needed additional tax incentive that would enhance their ability to save adequately for retirement. *We believe the credit should also be made refundable to be available to individuals who might not have to pay tax in any particular year.*

CUNA urges Congress to pass tax legislation that would encourage all Americans to increase personal savings. We understand that Congress may address other tax matters, either as a part of this package or later in this session. Should such an opportunity arise, we request that you consider legislation that would:

- Simplify the Earned Income Tax Credit;
- Create Farm, Fish, and Ranch Risk Management Accounts ("FFARRM" accounts);
- Permanently extend the retirement and savings provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 EGTRRA;
- Permit tax free withdrawals from IRAs for charitable contributions;
- Provide a tax credit for developers of affordable single-family housing;
- Permanently extend the disclosure of tax return information for administration of student loans; and
- Extend the protections of section 7508 of the Code to all Armed Forces reservists and National Guardsmen called to active duty.

[1] For a married couple, the maximum contribution would be the lesser of annual earned income or $10,000.

[2] Qualified distributions would be those made after age 58 or if the account owner died or became disabled.

CONCLUSION

CUNA appreciates having this opportunity to present our views on the revenue provisions contained in the President's fiscal year 2005 budget proposal. We look forward to working with you in the future on these most important matters.