# THE PRESIDENT'S FISCAL YEAR 2008 BUDGET

## HEARING

BEFORE THE

## COMMITTEE ON THE BUDGET
## HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

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# THE PRESIDENT'S FISCAL YEAR 2008 BUDGET

**TUESDAY, FEBRUARY 6, 2007**

House of Representatives,
Committee on the Budget,
*Washington, DC.*

The committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. (Chairman of the committee) presiding.

Present: Representatives Spratt, Ryan, DeLauro, Barrett, Cooper, Garrett, Allen, Hensarling, Becerra, Diaz-Balart, Doggett, Tiberi, Berry, Smith, Boyd, Lungren, Sutton, Bonner, Andrews, Bishop, Etheridge, and Edwards.

Chairman Spratt. We meet today to receive the President's budget. And the bearer of that budget is an old colleague who has served here in the House with us, sat on this Committee with us, and is not only respected but well like by everyone in this Committee room, indeed, on both sides of the aisle of the House of Representatives. We do not always agree with the budget decisions made by the Bush administration but the decision to hire Rob Portman as the Director of the Office of Management and Budget was a splendid decision. We look forward to working with you. [Applause]

We honestly welcome you and look forward to working with you not just today but over the rest of this year and into the future. Hopefully in a search for common ground, so that we can put the budget back in the black, back in balance where it should be, particularly given the situation we found ourselves in American history where the baby boomers are about to retire. We should not be incurring, we all agree, the substantial deficits that we are today.

I have to remind you that President Bush inherited a budget that was in surplus. A surplus by his own count by $5.6 trillion from 2002 to 2011. But by the end of 2002 that surplus was gone, replaced by deficits as far as our forecasters could see. The budget for 2008 acknowledges that this administration's deficits will not be restored to balance, at least on their watch. It will be in 2012 according to these projections. We have our doubts about that.

The President's budget does reach balance on the far horizon, 2012. But we think that is unrealistic for several reasons that we hope you will address in your testimony today. First of all, there is no fix in your budget for the alternative minimum tax after 2007. Now that is a convenient assumption, because it generates about $1 trillion in extra revenues. But it is also an unlikely assumption because it means that there will be about 39 million taxpayers paying the extra $1 trillion. Thirty-nine million as opposed to about five or six million today, and we think that is politically unlikely for you as Republicans and for us as Democrats to allow to happen.

There is a major difference between OMB, your shop, and CBO, our shop, in projecting revenues. OMB assumes that revenues will continue to grow at seven percent per year. Now, CBO is optimistic. They assume that revenue growth will be 5.8 percent per year. The different is slight, 1.2 percent of GDP, but it lowers the deficit by $155 billion. It affects the deficit by that much, the difference between you and CBO in your revenue assumptions alone affect the deficit by $155 billion in the target year 2012.

We have found in your budget some big hits on healthcare entitlements: $252 billion in Medicare cuts; $29 billion in Medicaid cuts; and we think too little funding for SCHIP, the State Children's Health Insurance Program, to be renewed and over the next ten years provide the minimal coverage it provides for some four million children. We doubt seriously that there is enough provision made for all of the existing children to be covered, and we think really SCHIP should be reaching out to include more children.

There is a big increase, however, in defense spending to $643 billion. That includes a supplemental of $141 billion for 2008 and it is accompanied for a supplemental of $163 billion for 2007. But in 2009, after having a supplemental of $141 billion one year and $170 billion the previous year, in 2009 the supplemental for war costs drops to $50 billion and then it disappears. Would that it was so, we hope that it happens. But we do not think that it is realistic budgeting to assume that it drops precipitously from $141 billion to $170 billion to $50 billion to zero in ten, eleven and twelve.

You are proud of the fact that there are no tax increases in this budget, and I think we should all try to minimize taxes on the American public. But there are some user fees, taxes by another name. Fees for everything ranging from veterans' healthcare to USDA meat inspection. Veterans' healthcare alone, the fees you would charge for things like enrollment at veterans' hospitals, come to $4.9 billion, not a small item over a period of ten years. Meat inspections have been around the track repeatedly, like most of these fee requests, and have yet to make it to the finish line. So we think it is probably fooling yourselves if you think that these fees are going to be suddenly accepted this year when they have been rejected in previous years.

There are significant constraints on discretionary spending. Now, this strikes us as a bit odd because the source of the deficit problem is not discretionary spending, non-defense discretionary spending. It has not been growing. Today it is about 3.6 percent of GDP. It is not the source of today's deficit. And a little, a near freeze, which is what you are providing. I think you are providing a one percent increase. It leaves little funding for initiatives and programs that we think are important, like education.

For the third time in three years this administration is requesting a cut in education from $57.5 billion to $56 billion, a $1.5 billion cut. You may say that is not much. You may say, "We have got to cut spending somewhere and we have got to tackle the entitlements." We say that the one way to make the entitlements more affordable is to make our people more productive. And the answer to that is education, job training, employment services, particularly in a world of free trade that we find ourselves in today. And yet that function, Function 500 which goes to education and job training and related activities, that function is being cut by $4 billion. We find that hard to believe in the face of challenges that we have as a country.

Today is chilly. I got up early with Mr. Ryan, and we went and were on C-SPAN. It was cold coming to work. LIHEAP is cut by $400 million. We do not see how you can support that at a point in time when fuel is so expensive.

So even with these assumptions though, because as I have said you are squeezing a turnip, you can only get so much blood out of it, we find the results that you claim unconvincing. And as one indication, and of what is happening to the budget as a whole, when you look at debt accumulation, the bottom line on the back of the envelope over the next several years, if you could put up Chart A please. As you will notice Mr. Portman, when President Bush came to office the national debt, the gross national debt, was $5.7 trillion. That has grown by $3 trillion over the last six years to $8.7 trillion today. The debt added so far, therefore, is $3 trillion on the watch of this administration. The debt that is projected at the end of this period of time is $9.5 trillion, based upon the on budget deficits that this budget shows, which are about $450 billion a year. Add that up and it comes to almost $4 trillion over the tenure of this administration, debt service.

So if we are skeptical it is because we are looking at the past performance of the administration, not on your watch, but on the President's watch, which has accumulated this mountain of debt. The consequences are that net interest has grown from $171 billion in the first full fiscal year of the Bush administration to $261 billion this year, nearly $100 billion that could have been used for other purposes that is not there. And when we talk about entitlements, tackling entitlements, we think this one has to be one away with first. Because this is a truly obligatory item. You can cut Social Security, you can cut Medicare, you can adjust them, shim them to fit in the budget. But debt service has to be paid or our credit will collapse. So we think that this is the first order of business. Before we move onto the other entitlements, this has to be dealt with.

All of these questions are in this period of vigorous debate. We look forward to working with you. We hope that we can find common ground, but we also find that the differences between us are substantial and that is what we would like to discuss today.

Once again, thank you for coming. Thank you for your responsiveness. We look forward to your testimony. But first, Mr. Ryan would like to make a statement.

Mr. RYAN. I thank the gentleman from South Carolina. I want to just recognize Rob, and welcome to the Committee, former Vice Chair of the Committee. And I just want to tell my friend from South Carolina, if you think this is cold you ought to come back to Wisconsin with me. It was fourteen below zero when I got on the plane yesterday, wind chill about negative thirty-five, so we maybe ought to do one of these meetings back there.

As always, there will be specific proposals in the President's budget that members are going to agree and disagree with. We need to have those discussions. And these are the critically important decisions and it is our job to make them. But this budget lays down some key markers that I wholeheartedly support. Number one, the President balances the budget without raising taxes. This budget maintains the successful pro-growth policies that have fueled the solid, sustained economic expansion that has created more than seven million new jobs, boosted federal revenues, driven down the deficit, and put us on the path to balance. We have seen double digit growth in revenues in the past few years, and we are now collecting more in taxes as a share of the economy than the average of the past forty years. Even CBO, which tends to be conservative about revenue estimates, has raised its projection of tax receipts for the next two years. Simply put, our budget challenge is not that working Americans are sending us too little of their hard earned money. It is that the federal government is spending too much of it, too fast, to be sustained and that is particularly true of our entitlement programs.

In the past two weeks this Committee has had very good meetings that the Chairman set forth where we have heard from the Comptroller General and the CBO Director, who clearly told us that these programs must be reformed in order to survive, that they are simply unsustainable as currently structured. And this is particularly true of social security, Medicare, and Medicaid. If we fail to act in this Committee, these programs will impose a crushing burden on both the budget and the economy, and will ultimately fail the very people that they are intended to help. I appreciate that the President has begun to address this in his budget. Congress must also address it in ours.

The President also included several recommendations for reforming the way the budget works by making the process more transparent and more accountable. This is something we can do here in this Committee, hopefully in a bipartisan way. He has included the house-passed version of the line item veto that members here have worked on, Mr. Cooper, Mr. Cuellar who was here before worked on it. He has also incorporated some worthwhile earmark reforms as well, which the majority has done a good job in bringing forward.

Finally, I will note that this budget for the first time includes the full estimated cost of the War in fiscal year 2008. And I think that is a testament to the fact that Rob Portman is now the Budget Directory. Clearly, this is a central issue that Congress will debate this year and we need to know what we are dealing with. So it is immensely helpful that these costs are included up front rather than later on in supplemental requests, and we want to compliment you on this new budget transparency.

In short, critics have tried to dismiss the President's budget, in fact before it was even submitted, claiming that it rests on rosy scenarios or fuzzy math, that it either does not spend enough money or it spends too little, that it is not bipartisan enough, that it cuts Medicare, Medicaid, things like that. Look, let us just make one thing clear. It does not cut entitlements. This saves $96 billion as the proposal. But what that means is Medicare, Medicaid, social security, will spend more money next year than they spent the year before, more money the year after that, and more money there on after. So we need to make sure that we really address these issues in a truthful way. That when it does actually reduce spending that is a cut. But if it increases spending at a slightly lower rate that is not a cut.

So I think it is important that we keep our language clear and realistic so that we can come together to solve these problems. It is my hope that this Committee will use this budget as a starting point, then take the lead and work in a bipartisan way to craft the best possible plan to meet our nation's needs both in the short run and the long term. I thank the Chairman for yielding, and I am just happy to see Director Portman here, and welcome Rob.

Chairman SPRATT. Mr. Portman, once again welcome. Before turning it over to you though let me ask for a unanimous consent that your statement be made part of the record. You can summarize as you please. And also I ask for unanimous consent for any member who wishes to file a statement, an opening statement.

With that accomplished, Mr. Portman welcome again. The floor is yours.

**STATEMENT OF HON. ROBERT J. PORTMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET**

Mr. PORTMAN. I will attempt to summarize some of the statement that you have before you. First, it is good to be back here in the hearing room. I must say, I am not sure I like being on this side of the witness table. But it is good to see a lot of good friends and former colleagues. I appreciate your opening statement, Mr. Chairman, and I hope to have the opportunity to address each of those issues that you raised during the course of the hearing, some of which I will address now.

I am here before the Committee today to discuss, as you say, the President's fiscal year 2008 five-year budget proposal. And we have good news for the American people. This budget achieves balance, reducing the deficit every year, while meeting our nation's priorities. Mr. Chairman and Mr. Ryan, I have had a number of conversations with each of you about what you are looking for in the President's budget this year and how we need to work together to achieve balance.

I hope you will appreciate some of the changes you see reflected in this budget. I hope you will appreciate that instead of painting a rosy scenario on revenues to get to balance we actually take quite a cautious approach. And I will address that in a moment. I hope you will take note that we have responded to congressional concerns by showing more war costs. For the first time we have included these war supplementals as part of the budget in a transparent way. And incidentally, all of those war costs are included in the calculation of reduced deficits and a balanced budget by 2012. I hope you will see that we have changed our projections from past year's from a freeze or a cut to include a slight increase in nonsecurity, discretionary spending throughout the budget window, incidentally consistent with what Congress and President have done in the past three years including this year. You will also see that we have eliminated some of the policies that show budget savings but are unlikely to materialize because of congressional opposition. One example there, Mr. Chairman, would be one that you all have raised with me which is the TSA fees.

I have had many conversations with Republicans and Democrats on this Committee about the issue of the unsustainable growth in our entitlements, which is the biggest budget challenge we face as a country. This includes important programs such as Medicare, Medicaid, and social security. I will address this further in a moment, but the progress we are making on getting our fiscal house in order short term must not distract us from this longer term challenge. Both Mr. Ryan and Mr. Spratt addressed that in their opening comments. In this budget, we have proposed sensible reforms, primarily in Medicare, that are less than a one percent reduction in the annual rate of growth, but that do represent an important first step in beginning to reduce the unsustainable growth in these important programs.

While restraining spending over all, the President's budget also provides new resources for key priorities. Mr. Spratt has talked about it increases funding for our national security to combat terrorism and protect the homeland. It includes new policies to address issues of concern to America's families, including educating our children, access to affordable healthcare, and reducing energy costs.

On the whole, we have attempted to give you a credible and more realistic plan to maximize our chances of working together, as Mr. Spratt has talked about, to achieve balance. Over the past two years, we have worked together to reduce the deficit by $165 billion. That is a fact. We have been able to make progress for two primary reasons. First, because we have been blessed with a strong economy that has generated record revenues, and second because we have done a better job restraining spending, especially keeping non-security spending under inflation for the past three years.

It is exactly these elements, the solid economy and reasonable restraint on spending, that can now lead to balance. As you will see from this first chart, our budget reduces deficits every year and results in a surplus in 2012. In fiscal year 2007, as you see, we have projected that the deficit will decline to $244 billion. Incidentally, that is a reduction of $95 billion since our last estimate in July of 2006. The deficit in 2008 falls again to $239 billion. As you will see from this chart, the projected fiscal year 2008 deficit is 1.6 percent as a share of our economy, which is really the key measurement of the deficit because it shows the impact of government borrowing on economic activity. This projected fiscal year 2008 deficit is lower than eighteen of the past twenty-five years as a percent of our economy. The deficit then continues to decline each year, both in nominal terms and as a percent of the economy, until we reach a budget surplus, as you will see, of $61 billion in 2012.

You will recall that three years ago President Bush set out a goal of cutting the federal budget deficit in half in five years, from its projected peak in 2004. At that time, many expressed skepticism this goal could be met. But it was actually achieved last September, three years ahead of schedule. We will now build on that success and work with you to balance the budget within five years.

To keep our economy vibrant, we continue pro-growth policies that have helped to fuel this robust economy. The 2008 budget continues to support growth, innovation, and investment by making permanent the President's tax relief which would otherwise expire in 2010. As you can see from this next chart, since the tax relief took full effect in 2003 we have seen strong and steady job growth with the creation of more than 7.4 million new jobs. We have also seen a dramatic increase in business investment. Productivity is strong. Paychecks are now growing. After 2003, the economy not only strengthened but federal revenues surged, hitting record levels over the past two years.

The President's 2008 budget uses five-year economic projections that are in line with the forecasts by outside experts. As you will see from this chart, we assume GDP growth will average about three percent over the budget window, closely tracking the forecasts of the blue chip outside forecasters. This year, incidentally, our 2.7 percent forecast is now below most outside forecasts and certainly below market expectations.

As you will see from the next chart, with solid economic growth our total receipts are now slightly above the historical average of 18.3 percent as a share of the economy. And we project these receipts would remain, incidentally, at or above the historical average for the entire five-year period.

We have what I would term a cautious revenue forecast for this fiscal year and going forward. We forecast revenue growth will be 5.5 percent in fiscal year 2007, and average 5.4 percent through 2012. Mr. Spratt put out some other numbers a moment ago. I think that might be some baseline numbers. But when you look at our budget, Mr. Spratt, including our policies it is actually not a seven percent growth it is 5.4 over the five-year period. You said that compares to 5.6 at CBO. If that is the case then we are slightly below where CBO would be. This 5.4 percent estimate over the five-year period is below the forty-year average, which is 7.6 percent incidentally. And it is well below the dramatic 11.8 percent we had last year. And well below the 14.5 percent growth we had the year before. In fact, as members of this Committee know, it is below the actual first quarter results for this fiscal year already in, which are 8.2 percent over the same period of last year.

So, as in the past, our revenue projections are produced by the career professionals at the Office of Tax Analysis at the Department of Treasury. We choose to use them. We are not statutorily required to do so, but we have chosen to. And I will tell you, Mr. Chairman, and I will tell the Committee this morning, as was the case in the past two years we may well find that our revenue projections are low. They were about half what they ended up being last year, in our projection of six percent and actual of 11.8 percent. So, I just want to warn you now because I may be back here in the summer with a mid-session review and, again, we may see a decline in the deficit as we have seen in the last couple years. And I do not want you to think that we are doing anything other than depending on these career professionals. But the fact is in the first quarter, we are at 8.2 percent and our projection is 5.5 percent. So you should know that. Incidentally, in the next month, which is January, we just got in and we are four billion above where we thought we would be. So I think these projections are actually quite cautious.

Even with a cautious forecast on revenues, this budget demonstrates that we can achieve balance by 2012 and do so without raising taxes. In addition we have plans to more effectively and efficiently collect the taxes owed. Our budget helps close the tax gap in two ways. First, we improve the effectiveness of IRS' activities with a $410 million package of new initiatives to enhance enforcement and taxpayer service and to improve IRS technology. Second, we include in the budget sixteen carefully targeted tax law changes that promote compliance while maintaining that important balance between taxpayers and taxpayers' rights and their government. These changes, Mr. Chairman, are estimated to raise $29 billion over the next ten years. So it begins to try to close this tax gap. We agree with those members on both sides of the aisle that want to approach this tax gap, and we have the most aggressive proposal we have ever included to try to do that.

The 2008 budget proposes to hold the rate of growth for non-security discretionary spending to one percent. Mr. Spratt said, that is below the rate of inflation. Again, we believe this is both fiscally prudent and realistic. As noted earlier, Congress and the President have done a better job restraining spending in this area over the past few years. In fact, the average growth in this area of non-security spending has been about one percent over the past three years, including spending growth in the long term continuing resolution that the House just passed. So under Democrat leadership we just passed a long term CR that holds non-security discretionary spending at about one percent. We believe we can address our nation's top priorities within this level of funding. And we show how to do it in our budget.

Within discretionary spending, the administration closely examines each program to determine whether it is a priority or not, and whether it is effective, and whether it is producing the intended results. Based on these thorough reviews, the budget proposes to terminate or reduce 141 discretionary programs for a savings of about $12 billion. These reforms will help us reduce the deficit and channel resources to higher priorities, and more effective programs.

We are able to make these judgments of how to spend taxpayer dollars more wisely in part with the tools developed through the President's management agenda. Last year to ensure greater government accountability, we launched a new website called expectmore.gov, which is shown in this next chart. This site includes information for taxpayers on the programs that have been assessed for effectiveness using what is called the Program Assessment Rating Tool, commonly known as PART. With this website, Congress and the President now have an unprecedented view into which programs work, which do not, and what they are doing to try to improve. It is another way we are trying to provide greater transparency, holding ourselves accountable and demanding results. With the new and improved version of this website we launched yesterday, we now have program level information about the performance of nearly one thousand federal programs. By the way, this represents, Mr. Chairman, ninety-six percent of government and about $2.5 trillion in federal spending. I encourage members and staff and anybody watching today to check out *expectmore.gov.*

The President's 2008 budget also outlines a comprehensive series of budget reforms that will improve fiscal restraint, transparency and accountability in government spending. Mr. Ryan talked about this a moment ago, but it includes the legislative line item veto. This Committee led the effort on this last year, by the way. Mr. Ryan did a lot of work on this on a bipartisan basis. Now both the House and the Senate have demonstrated by a majority vote that each chamber supports this legislation. But allowing Congress to take a second look at legislation at the end of the process, we could work together to help eliminate unwarranted earmarks and other wasteful and unnecessary spending. The budget also proposes discretionary spending caps, expanding the PAYGO concept so it applies to both discretionary spending and to new mandatory spending.

The budget contains the President's key reforms to the earmarking process as you know, including full disclosure of earmarks, putting earmarks in actual legislative language rather than committee reports, and cutting the number and amount of earmarks by at least half.

Our budget shows how we can work with you to achieve balance by 2012, but that accomplishment will be short lived without addressing our long term budgetary challenge, again the unsustainable growth in Medicare, Medicaid and Social Security. As you can see from this next chart, mandatory spending is overwhelming the rest of the budget. In the space of four decades, mandatory spending has grown from about twenty-six percent of our budget to over half of our budget in 2006. As the next chart shows, the current trends are not sustainable. Under current law, we estimate that by 2040 spending on these and other important programs, plus interest on the debt attributable to them, will crowd out all other spending. This would mean no spending for homeland security, or defense, or education, unless we make the necessary reforms.

It seems to me, Mr. Chairman, there is now nearly universal, bipartisan agreement that the unchecked growth of these programs represents real, long term threats to beneficiaries, to our federal budget, and to the economy. We now face a $32 trillion unfunded obligation in Medicare over the next seventy-five years. Our choices without reform will be massive benefit cuts, enormous deficits, or huge tax increases. The balanced budget is important in part because it positions our country to address these looming fiscal challenges. Mr. Spratt made this point in his opening comments. But our five-year budget proposal also makes an important down payment towards sensible reform of mandatory spending, reducing spending growth by $96 billion over five years. These reforms are primarily in the Medicare program, but also in Medicaid and other programs. The proposals are very similar to character to those this administration has offered in the past, and the administration before us, and that many in Congress have offered.

To put these reforms in context, as you can see in the next chart, the size of our budget proposal in this area is considerably smaller than we have done in the past. In 1997, when we joined together

Republicans and Democrats again with divided government under the Clinton administration to achieve balance, you can see what the percentage was of mandatary spending, savings as compared to what we are proposing today.

Although an important first step, the savings in this proposal would only reduce the unsustainable annual growth rates of mandatory spending by less than one percent. Specifically, over ten years the annual growth in Medicare is scheduled to be 7.4 percent. All our proposals together would reduce that to annual rates of growth of 6.7 percent. However, while these proposals deliver relatively small savings in the short term, the effects that build over time are substantial. The changes we have proposed to Medicare would reduce the unfunded obligations of the programs by twenty-five percent over the seventy-five year horizon I talked about earlier. $8 trillion of the $32 trillion unfunded obligation.

Frankly, under our policies we have laid out for you today we can achieve balance within the five-year window without any of these mandatory savings. But we would only be digging a deeper hole by ignoring it for another year. Balance is not coming at the expense of our commitment to seniors and low income Americans, quite the opposite. We must begin the reform of these programs now in order to protect those very commitments. Addressing entitlement spending is the right thing to do, because small changes now can have a big impact later. I urge the Committee to take a careful look at these reforms.

As we restrain spending, we are also investing in our nation's highest priorities: combating terrorism, protecting the homeland, and addressing pocketbook issues that affect the standard of living for American families. As Mr. Spratt said, the 2008 budget supports our troops fighting terrorism abroad, strengthens our military for the future, supports our efforts on the diplomatic front, and protects our homeland from attack. It invests substantial resources to maintain high levels of military readiness and the continued transformation of our military to meet the new threats of this century.

I want to make the next point very clearly because I think it is often misunderstood. The cost of the War and all the increases in defense spending are reflected in our deficit projections. In fact, again, there has been $165 billion reduction in our deficit over the last two years even with substantial war costs. As noted earlier, the administration supports greater transparency and accountability and this budget improves the timeliness and specificity of the information provided to you and the American public about the cost of Iraq, Afghanistan, and the Global War on Terror.

Within the 2008 budget the administration goes further than we have in the past. We show the full cost of war for the rest of the President's term. We were providing our request for the full cost of the War both in 2007 and in 2008, and for the first time including account level detail and justifications. Specifically, we were requesting additional resources of $99 billion for fiscal year 2007 to support Iraq, Afghanistan, and the Global War on Terror; $145 billion for fiscal year 2008; and an allowance of $50 billion for anticipated war costs in fiscal year 2009. The administration welcomes oversight of its war spending and we hope these details will help you to more fully understand our war related requests. This is a good faith effort on our part to be as transparent as possible in what we anticipate the needs will be as far out as we can reasonably project.

Mr. Chairman, the budget before you shows that we can achieve balance, reducing the deficit every year by keeping the economy strong and imposing sensible and realistic spending restraint. We are committed to working with you and all members of this Committee on both sides of the aisle to ensure that our fiscal house is in order for the time all of us will be in office, but also for the future. I am optimistic that we can do it, cross party lines as the American people expect and deserve.

Mr. Chairman, thank you for your time and I look forward to your questions.

[The prepared statement of Robert J. Portman follows:]

PREPARED STATEMENT OF HON. ROBERT J. PORTMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Chairman Spratt, Ranking Member Ryan, and distinguished members of the Budget Committee, it is good to be back in the hearing room with you. Thank you for having me before the Committee today to discuss the President's FY 2008 five-year budget proposal. We have good news for the American people. The President's 2008 Budget reduces the deficit every year and balances the budget by 2012, while meeting our nation's priorities.

Mr. Chairman, and Mr. Ryan, I have had a number of conversations with each of you about what you are looking for in the President's Budget and how we want to work together to achieve balance. I hope you will appreciate that instead of painting a rosy scenario on revenues to get to balance, we take a cautious approach. I hope you will take note that we have responded to Congressional concerns by showing more war costs, and for the first time we have included these war supplementals as part of the budget in a transparent way. And all of those war costs are included in the calculation of reduced deficits and a balanced budget by 2012.

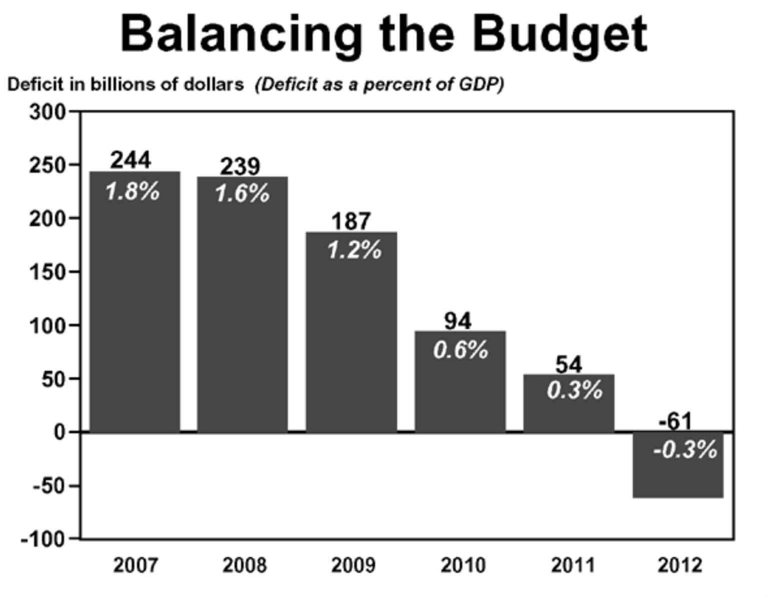
I hope you'll see that we have changed our projections from past years from a freeze or a cut to include a slight increase in non-security discretionary spending throughout the Budget window, consistent with what Congress and the President have actually enacted for the past three years. You will also see that we have eliminated some policies that show budget savings but are unlikely to materialize because of congressional opposition.

I've had many conversations with Republicans and Democrats on this committee about our biggest fiscal challenge: the unsustainable growth in entitlement programs, such as Medicare, Medicaid and Social Security. I will address this further in a moment, but the progress we are making on getting our fiscal house in order short-term must not distract us from this longer-term challenge. In this Budget, we've proposed sensible reforms, primarily in Medicare, that are less than a one percent reduction in the annual rate of growth, but that represent an important first step in reducing the unsustainable growth in these important programs.

While restraining spending overall, the President's budget also provides new resources for key priorities. It increases funding for our national security to combat terrorism and protect the homeland. It includes new policies to address issues of concern to America's families, including educating our children, access to affordable health care, and reducing energy costs.

On the whole, we have attempted to give you a credible and more realistic plan to maximize our chances of working together to achieve balance.

Over the past two years, we have worked together to reduce the deficit by $165 billion. We have been able to make progress for two primary reasons: first, because we have been blessed with a strong economy that has generated record revenues and, second, because we have done a better job of restraining spending, especially keeping non-security spending under inflation for the past three years. It is exactly these elements—a solid economy and restraint on spending—that can now lead to balance.




As you can see from this first chart, our budget reduces deficits every year and results in a surplus in 2012. In FY 2007, we project that the deficit will decline to $244 billion—a reduction of $95 billion since our last estimate in July 2006. The deficit in 2008 falls again to $239 billion. As you can see from this chart, this projected FY08 deficit is 1.6 percent as a share of our economy, the key measurement of the deficit because it shows the impact of government borrowing on economic activity. The projected FY 2008 deficit is lower than 18 of the past 25 years, as a percent of our economy. The deficit then continues to decline each year, both in nominal terms and as a percentage of the economy, until we reach a budget surplus of $61 billion in 2012.

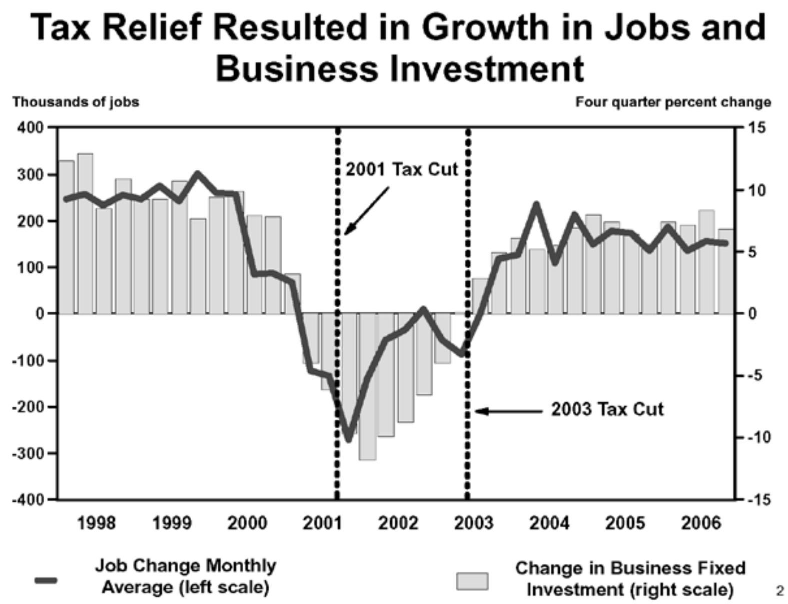
You will recall that three years ago, President Bush established the goal of cutting the federal budget deficit by half in five years from its projected peak in 2004. At the time, many expressed skepticism that this goal could be met, but we achieved this goal last September, three years ahead of schedule. We will now build on that success and work with you to balance the budget within five years.

KEEPING ECONOMY STRONG

*Pro-growth policies*

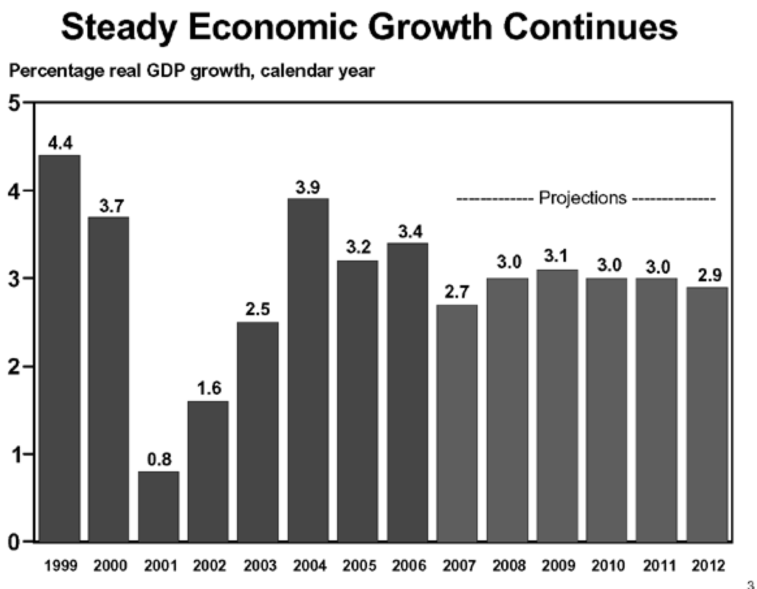
To keep our economy vibrant, we continue pro-growth policies that have helped fuel our robust economy. The 2008 Budget continues to support growth, innovation, and investment by making permanent the President's tax relief, which would otherwise expire in 2010.

*Economy / Jobs*

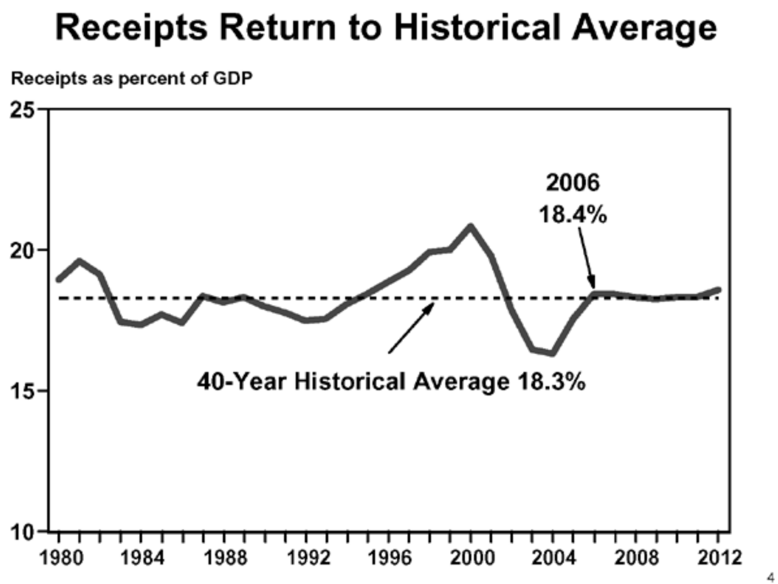



As you can see from this chart, since the tax relief took full effect in 2003, we have seen strong and steady job growth—with the creation of more than 7.4 million new jobs. We've also seen a dramatic increase in business investment. Productivity is also strong. And paychecks are growing.

*Revenue*




After 2003, the economy not only strengthened, but Federal revenues surged—hitting record levels over the past two years. The President's 2008 Budget uses five year economic projections that are in line with forecasts by outside experts. As you can see from this chart, we assume GDP growth will average about 3 percent over the budget window, closely tracking the forecast of the Blue Chip forecasters. This year, our 2.7 percent forecast is now below most outside forecasts and market expectations.




As you can see from this next chart, with solid economic growth, our total receipts are now slightly above the historical average of 18.3 percent—as a share of the economy—and we project receipts remain at or above the historical average for the five-year period.

We have what I would term a cautious revenue forecast for this Fiscal Year, and going forward. We forecast revenue growth will be 5.5 percent in Fiscal Year 2007 and average 5.4 percent through 2012. This is below the 40-year average of 7.6 percent, and well below the dramatic 11.8 percent and 14.5 percent revenue growth we've seen for the last two years. In fact, it is below the actual first quarter FY 2007 revenue increase of 8.2 percent over the same period last year. As in the past, our revenue projections are produced by the career professionals at the Office of Tax Analysis at the U.S. Treasury. And, as was the case in the past two years, we may well find that our revenue projections are low.

Even with a cautious forecast on revenues, this Budget demonstrates we can achieve balance by 2012 without raising taxes. In addition, we have plans to more effectively and efficiently collect the taxes owed. Our Budget helps close the tax gap in two ways. First, we improve the effectiveness of the IRS' activities with a $410 million package of new initiatives to enhance enforcement and taxpayer service and to improve the IRS' technology. Second, we include in the Budget 16 carefully targeted tax law changes that promote compliance while maintaining an important balance between taxpayers and their government. These changes are estimated to raise $29 billion over the next ten years.

## SENSIBLE AND REALISTIC SPENDING RESTRAINT

To keep spending under control, our Budget provides realistic spending restraint for the annually appropriated, day-to-day government spending that isn't focused on national security. It strengthens our efforts to better manage taxpayer resources, and it proposes significant budget reforms to eliminate unnecessary and wasteful spending. And as noted earlier, it also takes an important first step in implementing changes needed to address our long-term challenge: the unsustainable growth in entitlement programs.

### *Domestic Discretionary spending*

The 2008 Budget proposes to hold the rate of growth for non-security discretionary spending to one percent, below the rate of inflation. We believe that this is both fiscally prudent and realistic. As noted earlier, Congress and the President have done a better job restraining spending in this area over the past few years.

In fact, the average growth in this area of non-security spending has been about 1 percent over the past three years, including spending growth in the long term continuing resolution that the House just passed. We believe we can address our nation's top priorities at this level of funding.

Within discretionary spending, the Administration closely examines each program to determine if it is a priority and whether it is effective and producing the intended results. Based on these thorough reviews, the Budget proposes to terminate or reduce 141 discretionary spending programs for a savings of $12.0 billion in 2008 alone. These reforms will help us reduce the deficit and channel resources to higher priority and more effective programs. We are able to make these judgments of how to spend taxpayer dollars more wisely, in part, with tools developed through the President's Management Agenda.

*Management/ExpectMore.gov*


Last year, to ensure greater government accountability, we launched a new website: ExpectMore.gov—which is shown on this next chart. The site includes information for taxpayers on the programs that have been assessed for effectiveness using the Program Assessment Rating Tool, commonly referred to as the PART. With this website, Congress and the public now have an unprecedented view into which programs work, which do not, and what they are all doing to improve. It's another way we are providing greater transparency, holding ourselves accountable—and demanding results.

With the new and improved version of this website launched yesterday, we now have program-level information about the performance of nearly 1,000 Federal programs representing about 96 percent of government and $2.5 trillion of federal spending. I urge Members and staff to check out ExpectMore.gov.

*Budget Reforms*

The President's 2008 Budget also outlines a comprehensive series of budget reforms that will improve fiscal restraint, transparency and accountability in Government spending.

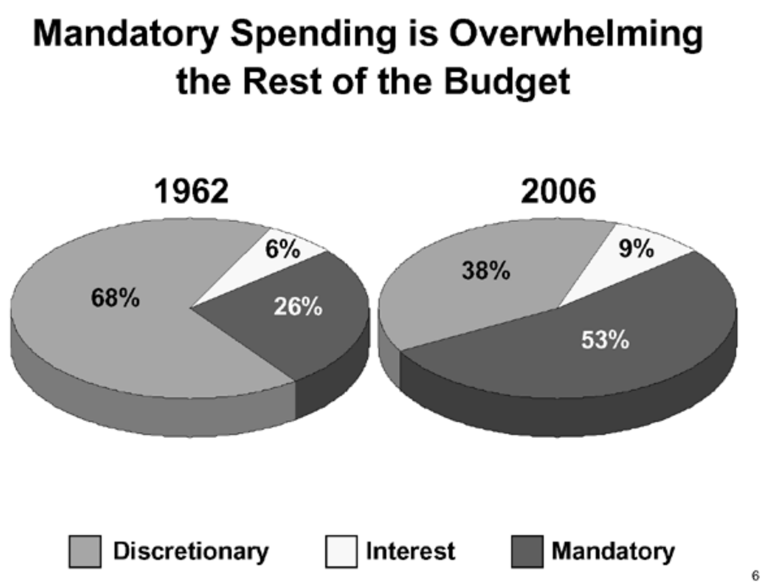
The President has again proposed a legislative line-item veto. Mr. Ryan and this Committee led this effort last year, and both the House and Senate have demonstrated by a majority vote that each chamber supports this legislation. By allowing Congress to take a second look at legislation at the end of the process, we could work together to eliminate unwarranted earmarks and other wasteful and unnecessary spending.

The Budget also proposes discretionary spending caps, expanding pay-go so it applies to both discretionary and new mandatory spending.

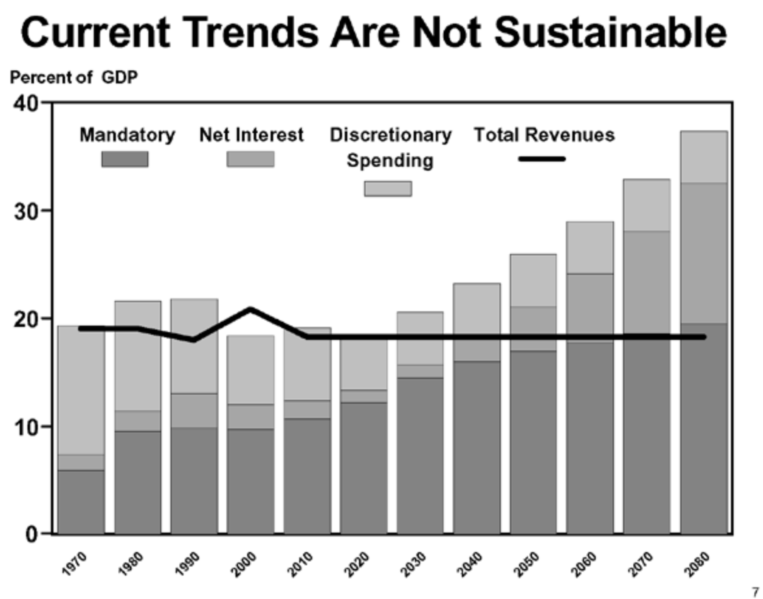
The Budget contains the President's key reforms to the earmarking process, including, 1) full disclosure of all earmarks, 2) putting earmarks in actual legislation instead of in report language so they can be voted on, and 3) cutting the number and amount of earmarks by at least half.

*Entitlements*

Our Budget shows how we can work with you to achieve a balanced budget by 2012, but that accomplishment will be short-lived without addressing our long-term budgetary challenge: the unsustainable growth in Medicare, Medicaid, and Social Security.



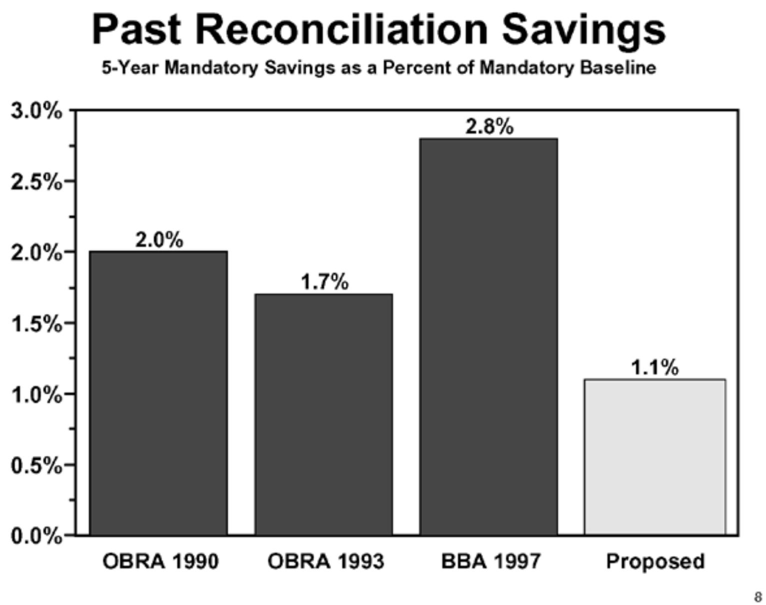

As you can see from this next chart, mandatory spending is overwhelming the rest of the Budget. In the space of four decades, mandatory spending has grown from 26 percent of our budget in 1962 to 53 percent of our budget in 2006.




As the next chart shows, the current trends are not sustainable. Under current law, we estimate that by 2040, spending on these and other important programs, plus interest on the debt, will crowd out all other spending—for defense, homeland security, and education—unless we make the necessary reforms.

It seems to me there is now nearly universal, bipartisan agreement that the unchecked growth of these programs presents real long-term threats to beneficiaries, our federal budget, and the economy. We now face a $32 trillion unfunded obligation in Medicare over the 75 year horizon. Our choices without reform will be massive benefit cuts, enormous deficits and huge tax increases.

The balanced budget is important, in part, because it better positions our country to address these looming fiscal challenges. But our five-year budget proposal also makes an important down payment toward sensible reform of mandatory spending—reducing spending growth by $96 billion over five years. These reforms are primarily in the Medicare program, but also in Medicaid and other programs. The proposals are similar in character to those this Administration has offered in the past.




To put these reforms in context—as you can see on this next chart—the size of our budget proposal is considerably smaller than the savings in the Balanced Budget Agreement of 1997, the last we worked together on a bipartisan basis to achieve balance.

Although an important first step, the savings in this proposal would only reduce the unsustainable annual growth rates of mandatory spending by less than one percent. Specifically, over 10 years the annual rate of growth in Medicare would be reduced from 7.4 % to 6.7%. However, while these proposals deliver relatively small savings in the short-term, the effects that build over time are substantial. The changes we have proposed to Medicare would reduce the unfunded obligation of the program by 25 percent or $8 trillion over the next 75 years.

Frankly, under our policies, we can achieve a balanced budget within the five-year window without these mandatory savings, but we would only be digging a deeper hole by ignoring it for another year. Balance is not coming at the expense of our nation's commitment to seniors and low-income Americans—quite the opposite. We must begin the reform of these programs now in order to protect those commitments. Addressing entitlement spending is the right thing to do because small changes now have a big impact later. I urge you to take a careful look at these sensible reforms.

### INVESTING IN CRITICAL PRIORITIES

As we restrain spending, we're also investing in our nation's highest priorities: combating terrorism, protecting the homeland and addressing pocketbook issues that affect the standard of living for American families.

*Global War on Terror*

The 2008 Budget supports our troops fighting terrorism abroad, strengthens our military for the future, supports our efforts on the diplomatic front, and protects our homeland from attack. It invests substantial resources to maintain high levels of military readiness and to continue the transformation of our military to meet the new threats of the 21st Century.

I want to make this next point very clearly because I find it is often misunderstood. The cost of the war is reflected in the Administration's deficit projections. In fact, there has been a $165 billion reduction in our deficit over the past two years even with substantial war costs.

As noted earlier, the Administration supports greater transparency and accountability, and this budget improves the timeliness and specificity of the information provided to you and the American public about the cost of the war.

With the 2008 Budget, the Administration goes further than we have in the past—we show the full costs of the war for the rest of the President's term. We are providing our request for the full costs of the war in both FY2007 and 2008—and for the first time including account level detail and justifications. Specifically, we are requesting additional resources of $99 billion for FY 2007 to support Iraq, Afghanistan, and the Global War on Terror, $145 billion for FY 2008, and an allowance of $50 billion for anticipated war costs in FY 2009. The Administration welcomes oversight of its war spending, and we hope these details will help you more fully understand our war-related requests.

This is our good faith effort to be as transparent as possible in what we anticipate the needs will be as far out as we can reasonably project.

*Education, Health Care, and Energy*

The President's Budget addresses three key issues that are on the minds of many American families: the quality and cost of their children's education, access to affordable health care, and our Nation's dependence on foreign sources of energy from unstable parts of the world.

Regarding our schools, No Child Left Behind (NCLB) is already working to achieve the goal of all students performing at or above grade level in reading and math by 2014. It has raised student achievement for millions of children in schools nationwide. The 2008 Budget directs more funding to high schools to better prepare our students for college or the workplace, and offers new school choice options so children in low-performing schools have a chance to attend a school where they can learn and succeed. To help low-income families afford college, the 2008 Budget substantially increases Pell Grant maximum awards.

The 2008 Budget also improves Americans' access to affordable health care through a number of proposals. It proposes a significant change in the tax treatment of health care to expand coverage and bring greater fairness to the system. With more transparency and competition, it will also slow the growth of health care costs, all of which will reduce the number of uninsured Americans.

The Budget includes a number of proposals to increase our energy security while improving our environment. As noted in his State of the Union speech, the President is proposing to increase the current standards for the use of alternative fuels and for fuel economy in order to cut our domestic gasoline consumption by 20 percent over the next ten years, thereby reducing projected air pollution and CO2 emissions.

The Budget also continues the Advanced Energy Initiative to make alternative sources of fuel and electrical energy—like cellulosic, hydrogen, solar, nuclear and clean coal—more cost-competitive.

## CONCLUSION

The Budget before you shows that we can reduce the deficit every year and achieve balance in 2012 by keeping the economy strong and imposing sensible and realistic spending restraint. We are committed to working with all members of the committee to ensure that our fiscal house is in order for the time all of us will be in office—but also for the future. I am optimistic we can do it—across party lines—as the American people expect and deserve.

Mr. Chairman, thank you for the time, and I look forward to your questions.

Chairman SPRATT. Thank you very much for your testimony, and as I said, this begins a long debate which we will engage in with you and we do so in search for common ground. The tag line of your testimony is that you are achieving balance without raising taxes. We have a problem with that because the alternative minimum tax is, I think you will agree, clearly a tax increase. And as we read your budget, after 2007 the AMT is in full force and effect, it is not patched, it is not mitigated. And according to CBO over a ten-year period of time unless it is in some way mitigated or modified the alternative minimum tax will go from six million tax filers to 39 million tax filers, and the additional revenues raised with it in place will be close to $1 trillion, I think it is $1.041 trillion per CBO's estimate. Do you not agree that this is a tax increase in that it contributes significantly to your ability at this point to declare that you will have achieved balance by 2012?

Mr. PORTMAN. Well, thank you Mr. Spratt. You and I have talked about this issue a lot. As you know, in our budget we do address it, we do provide a patch that Congress has not yet enacted for the 2007 year. It is about a $36 billion change in our revenues, mostly in 2008, a reduction in revenues because of that. We look forward to working with you on that patch for 2007. That would give Congress, actually, about twenty months, until the end of 2008, to have to take action again to avoid the very consequences that you are talking about. So, just to be clear, the budget does address AMT in the sense of providing this patch. The one we chose to provide, incidentally, is the most generous patch that Congress has provided in the past which is the past called "No New Filers." So it avoids the AMT falling to middle income taxpayers, as you address.

With regard to the long term, absolutely, it is a huge issue we need to address together. What we have said in this budget, which we have said in our past budgets, is that we believe that AMT does need to be reformed. We believe that it is misguided tax policy. And we want to work with you to do that. I will take a little issue with your point that we are saying that 39 million taxpayers will pay AMT under our budget. We do not assume that in our budget. In fact, our budget assumes that we will have a revenue neutral correction to AMT, and so it would not fall on those taxpayers.

Chairman SPRATT. Your predecessors have testified to the same effect, that the AMT will eventually be fixed within the context, on a tax neutral basis within the context of the tax code. Could you give us some idea of how you would find enough loophole closing, exemption repealing tax measures to do something that significant? I am not being sarcastic. I do not have a rabbit ready to be pulled out of a hat, either, but we would like to know your wisdom about how it can be done.

Mr. PORTMAN. Well, we are looking forward to the rabbit you will pull out of the hat when you do your own budget, Mr. Chairman, and I am sure it will be interesting. But what we have said in the past I think continues to be true, only because AMT is now interacting with so much of the tax code. Which is it ought to done not as part of some limited loophole closing but it ought to be done as part of tax reform, which will necessarily involve larger tax issues.

Chairman SPRATT. Factored into your presentation is the assumption that AMT will not be fixed after 2007, because the incremental revenues that it collects is factored into your revenue base. And so if you back that out, I think you back yourselves out of being in a balanced condition by 2012.

Mr. PORTMAN. Well, again, it is an intellectually honest position we are taking, which is that those revenues continue but that we ought to reform. And I think twenty months is enough time for us to get together and do that. I think members on this Committee, on both sides of the aisle, believe that the AMT, because it is not indexed, is something that ought to be reformed.

Chairman SPRATT. But if we neutralize it and you cannot claim those revenues, you are not in balance. That is my point. Here is a point that CBO made——

Mr. PORTMAN. No, if we neutralize it we would have the, it assumes, you know, implicit in this budget is that those revenues would be there. So we still come to balance, the question is how we do it.

Chairman SPRATT. Well, that would mean you would raise taxes. You said you were going to balance the budget without raising taxes, and you——

Mr. PORTMAN. Well, the alternative minimum tax is current law, as you know Mr. Chairman. And again, I look forward to seeing your budget in this regard. I did see your budget from last year in this regard and I noticed that you did something very similar to what we are doing, although you did not patch for 2007 because you were not at that point yet. But we are patching forward. Congress has not yet provided such a patch, but we are assuming that that is good policy to give us time to come up with a longer term solution.

I also believe Mr. Chairman, as I said earlier, that our revenue estimate is cautious. And we will see, come this summer I suspect I will be back before you just as we were the last two summers and saying that the revenues had come in a little higher than we expected. Last year it was, again, 100 percent higher. And we are going to be in a position to show even lower deficits. These kinds of revenues can be used for priorities. I would put AMT at the top of that list, in terms of priorities.

Chairman SPRATT. We hope it happens. With respect to the percentage growth, the seven percentage point growth is based upon the assumption that there are no tax cuts, this is before tax cuts in other words. CBO's corresponding number is 5.8 percent if we are comparing baseline before tax cuts. If you adjust both for the tax cuts then your number is 5.6 percent growth with tax cuts and theirs is 4.3 percent. There still is a substantial difference between you. And as I said earlier, the difference between you on that assumption alone is about $155 billion in 2017.

Let me read you what CBO said that concerned us.

Mr. PORTMAN. Okay.

Chairman SPRATT. Because it goes with the point I am trying to make. They said, "This is a baseline forecast, but keep in mind if all of the tax provisions set to expire over the next ten years are extended, which is what you propose, and if the AMT is indexed for inflation, which is basically what we are talking about, the budget outlook for 2017 would change from a surplus ten years from now, from a surplus of $249 billion to a deficit of $476 billion." Big swing. "And debt held by the public would climb to thirty-nine percent, and the ten-year cumulative deficit would total $3.2 trillion." The two assumptions there, fixing the AMT and renewing the tax cuts, and you have a totally different world here that this is what CBO is projecting to us.

Mr. PORTMAN. As you know, we take issue with CBO's assumptions, as does, by the way, most of the outside forecast world. So part of the difference between us and CBO is that CBO assumes a different rate of growth of the economy, because they assume that labor participation will be lower. Again, our rates of growth are consistent with the blue chip forecasters, which is an accumulation of private sector forecasters.

The biggest difference, though, between us and CBO is on inflation. About two-thirds of the difference, which is about $96 billion in 2012, is because CBO has a rate of inflation that is lower than ours. In fact, it is lower than any private forecast that I have seen. And because of that difference we are going to have different assumptions on economic growth. That leads to some differences in 2012 and, of course, even bigger differences as you say over the ten-year period. I think our assumptions are more realistic. I think they are in line with the, again, private sector forecasters who look at the economy. I think they are more accurate.

With regard to the assumptions they are making about our budget, I would ask them to look at the budget. In other words, the assumption on AMT is not what we are saying in the budget. So you can come up with all kinds of numbers but I think what we ought to go back to is, you know, what is the most realistic projection of growth? We think economic growth that we have got, that I showed you up there, of about three percent on average is realistic. We think our revenue projection of 5.4 percent over the five-year period and 5.5 percent this year is cautious. We are sticking with it, it is how our budget numbers are shown. And I mean my hope, as you know Mr. Chairman, is we can get together and at least agree on some of these assumptions so that moving forward, you know, we are working from the same basic facts about our economy today and looking forward in a conservative way. I do not think we ought to have a rosy scenario. But I think that if we can get beyond that it might be easier for us to come together and show balance together.

Chairman SPRATT. It seemed to us in looking at each of the criteria, job growth, employment, inflation, GDP growth, all of these things, that you are about two-tenths or three-tenths of a percentage point of GDP greater than CBO in most of these categories. And the bottom line effect of it was substantial, as I have said. It is about $155 billion in revenues.

Let me show you chart two and conclude with this because there are a lot of members here who have questions they want to ask. This is our concern. And we are not trying to be polemical. We are not reaching to make a point. We have put Bush policy deficits based upon two broad assumptions. One is that you fix the AMT so that it does not affect any more taxpayers than it affected in 2006, and the other is that you continue war costs per CBO's model through the forecast period 2017.

Those two factors have a dramatic impact. They are the difference between having a budget that you can stand and salute and one that is still in big trouble. And, as I said, one is AMT, the other is war costs. This assumes that we will begin building down our 225,000 troops deployed in Iraq and Afghanistan in a couple of years, that we steadily decline to the point where in 2013 there are 75,000 troops in theater. Not necessarily in country, but in theater. That may be a bit high, it may be a bit low, but that is one of the models that CBO gives us. When we factor those two assumptions in there, the budget goes south in a hurry and ends up about $400 or $500 billion dollars in the red at the end of the forecast period. That is our concern about your budget, in a nutshell.

Mr. PORTMAN. Again Mr. Chairman, I appreciate the fact that CBO has attempted to make some of these assumptions but they are not our assumptions, including on the economy. We think CBO's inflation in particular, by the way it is four-tenths of a percent lower than us and yet what seems like a small amount, and yet it makes a $96 billion difference in 2012. And we think we are in the mainstream here and CBO is not. We think CBO does a great job, by the way, but in terms of their revenue estimates we think their GDP numbers and their inflation are not accurate.

Chairman SPRATT. Well, we are concerned that you have overstated revenues and understated costs, particularly war costs, in the out years beyond 2009.

Mr. PORTMAN. Well, we should sit down and talk about all this because I think we are in line with where, again, private forecasters are. And certainly I think we are cautious compared to the last three years, where we have reduced the deficit by $165 billion over the last two.

On the war costs, I think that is an interesting assumption that there would be 75,000 troops in theater in 2013.

Chairman SPRATT. You would agree the incremental, supplemental costs in 2010, 2011 and 2012 is not likely to be zero. It is going to be something greater than zero.

Mr. PORTMAN. Well, again, CBO is saying 75,000 troops in 2013. That is not our assumption. We do not hope that there will be 75,000 troops nor do we assume there will be 75,000 troops. So, you know, it depends on what your assumptions are. On AMT, again, the assumption they are using there is not the assumption in our budget.

Chairman SPRATT. Thank you very much.

Mr. PORTMAN. Thank you, Mr. Chairman.

Mr. RYAN. There are two directions I want to go into. But first, welcome back, Rob. It is great to have you. Revenue assumptions, you know both CBO and OMB missed the boat on revenues over the last few years. We, both CBO and OMB, you know, fell so far short on predicting the revenues that came in. And as a consequence, you know, we all were delightfully surprised that our deficit has gone down much more because of higher revenue growth. How much of the recent deficit reduction resulted from the significant growth in tax revenue up until now? But more importantly, going forward, how much deficit reduction in the President's budget do you depend on future revenue growth versus savings in the budget?

Mr. PORTMAN. That is a great question. When you look at what has happened in the last year as an example, about seventy-five percent of the reduction in the deficit compared to what we had projected, as you say both CBO and OMB were off. CBO was closer, by the way. They thought the deficit would be lower than we did. But we were both way off. We were about $95 billion off in July. In other words, the deficit is $95 billion lower today for 2007 than we were projecting than the one we projected back in July. Seventy-five percent of that is due to increased revenues from a healthy economy. About twenty-five percent of it, though, is due to, as I said earlier, a little better restraint on the spending side.

And I say publicly a lot, and it really gets picked up, Congress is to be commended because in the appropriations process you all took some tough votes over the last few years to begin to restrain the growth of so called non-security spending. And, you know, it is a fact over the three-year it is somewhere between 1.1 and 1.2 percent growth in non-security spending. This year it is about one percent. So I think it is a combination, Mr. Ryan, of both of those. But most of it has been driven by revenue up to this point.

Going forward, however, our projections on revenue, as you have noted, are cautious. And so the improvement in our deficit is more driven by the spending side than it is by the revenue side. You would start from some sort of a baseline, but 5.5 percent growth this year in the revenues is something that we think is cautious. On the spending side we continue to see, again, improvement on the long term CR in terms of the non-security spending and that is of course factored into our calculation.

Mr. RYAN. That is really the key. We, I think, will all agree that we cannot keep banking all this high revenue growth, that it is going to stay like this forever. So going forward, whatever budget we pass we are going to have to pass it on the spending side instead of just assuming higher organic revenue growth. But the discussion we are going to have this year is going to largely talk about taxes and entitlements. And if I could pull up the Medicare growth chart, chart number one. I think you know which one I am referring to, Jose. The Medicare chart that is about to come up is going to show OMB's projection of growth.

Here is the question I have. Over the weekend some of your critics have said that the entitlement changes you are proposing are necessary to so called "finance the costs of the President's tax cuts." This is, you know, pretty darn misleading from my perspective, given the fact that we had two highly astute witnesses that came here, the Comptroller General, the new Director of the CBO. Nonpartisan, objective people who said even if you let all of the taxes go away, all the tax cuts go away, and raise all the taxes, that still won't even come close to solving our entitlement problem. The question I basically have is, take a look at this chart which shows Medicare growth before and after the reform you are proposing. If you go to the second chart please, which shows Medicaid growth before and after reform, we are showing that in your proposal, which these two right here net about $62 billion in savings that both of these trend lines are clearly up. I mean, you cannot even see the daylight between the Medicaid savings. And go back to the last chart, please, the Medicare. And there is a slight savings difference in the two trend lines. The point is, even if we slightly restrain the growth of these entitlements, they are still growing and they are growing at an unsustainable rate. So I think you said that with these two policies in place carried out to the seventy-five year window, which is how we actuarially, you know, judge these things, that that only gets us twenty-five percent of the way there, of balancing and making solvent Medicaid and Medicare. So even if, I guess the question is this. Let us suppose we do away with all of the tax cuts. Let us suppose we do what CBO assumes, and we get rid of all the 2001 and 2003 tax cuts. We forget about the AMT and just let it kick in. Will that solve this problem long term? Will that make these entitlements solvent?

Mr. PORTMAN. No, it is not adequate to address the shortfall that you show on your chart. It also would put the economy at risk. It is our view that when you look at what happened in 2003 there was an incredible correlation between tax relief being put in place and the increase in production, in productivity, in jobs, 7.4 million new jobs since that time period, and in wages now going up. So it would be a mistake in our view to jeopardize that economic growth, which ultimately creates the revenues, which has enabled us to be in this better position today. So not only does it not close the gap, it also could put at risk some of the very benefits to our economy that are letting us have this discussion today about how to get to balance, not whether to get to balance.

Mr. RYAN. So even if we raise taxes on capital gains, raise taxes on dividends, raise taxes on all income tax payers, cut in half the per child tax credit, bring back the marriage penalty, and let the AMT hit about 50 million taxpayers at the end of the decade, even if we do all that that still will not fix our entitlement problem and still will not balance the long term budget?

Mr. PORTMAN. No, we need to make changes in these programs and we can make sensible smart changes in the short term that have significant impacts longer term. I talked about the fact that these proposals that we have made, you are not very impressed with twenty-five percent, I take it, but I am pretty impressed. And I look forward to the proposals from both sides of the aisle to see how we can further, as they say, bend the curve in order to save these programs long term and avoid the catastrophic fiscal crash we are going to have if we do not make changes, relatively small changes now, to change that program. 7.4 percent is the growth projection for Medicare over the next ten years. All of our proposals would reduce that to 6.7 percent, less than a one percentage point reduction. So that is what we are proposing in our budget. It is only a first step, we acknowledge that. But it is an important first step. And we would hope that Congress at a minimum could come together with us and figure out ways to begin to address this problem Mr. Ryan has so well explained.

Mr. RYAN. So it seems that, I think you are going to hear from both sides of the aisle, everybody is going to say, "We need to balance the budget." And I think you will get a near unanimous vote on that goal. I guess the question that is before all of us is, do we balance the budget at a higher level of spending and taxing? Or do we balance the budget at a lower level of tax rates and spending? And what is the difference for our country, what is the difference for our economy? You have picked a side in that debate from your budget, and it appears that you are choosing to balance the budget at a lower level of spending rather than to balance the budget at a higher level of spending. Why did you choose that path and why is that materially different both for the economy and for the long run fiscal sustainability of our budget?

Mr. PORTMAN. It is an incredibly important debate because it goes to our economic health. The average tax burden on our economy, which is measured by the percent of GDP or economy, is 18.3 percent. That is the forty-year average. As I indicated earlier the budget proposal that we are sending forward is actually slightly above that average. It will be about 18.5 percent this year and no time during our five-year budget period does it fall below the historical average. So it is not that we are under-taxed. And by the way, that includes the President's tax relief being continued in 2010. It is that we are spending too much. And that is why our budget does in the non-security area, again what Congress has done in the last few years which is restrain that rate of growth, where all of us have a bigger role to play because it is the annually appropriated amount. We do spend more on the security side, and I think that is necessary given the situation we are in with the Global War on Terror. And then finally, we begin the process of addressing the unsustainable growth in more than fifty percent of our budget now, which is the so-called entitlement programs or mandatory spending.

Going the other way, which is adding more of a tax burden to the economy we believe puts at risk some of the same economic growth and job growth, again, that has gotten us to this point of higher revenues to be able to even talk about a balanced budget.

Mr. RYAN. Well, let me just close by sharing a concern with you. And it is a concern, quite frankly, I bring from Wisconsin, you know, from a manufacturing state, from a state that saw a lot of loss in manufacturing jobs. It is doing better now, but still we have a ways to go. And my concern is that America's the sole superpower. We are the world's largest economy. But we cannot take that for granted anymore. And my concern is that in this new era of globalization, with new economic challenges and threats from new countries, emerging countries like China and India and others, that we cannot just take for granted that we can balance the budget at a higher level of spending and therefore higher taxes. That we have to think about, when we put this budget together, what this means to the competitiveness of our economy, what this means to the competitiveness of our workers. Should we balance the budget by taxing labor and capital and businesses more or less? And those decisions will determine how competitive our workers and our businesses are in the international marketplace in this new era of globalization.

And so, I simply want to just put out a word of caution that, you know, we cannot do it like we used to do it before. We used to take for granted our leadership role in the economy. We used to take for granted that our children are going to be better off than we are, that our standards of living are going to automatically increase. We do not have that luxury anymore. And so, all I simply want to say is a word of caution that as we go through this process of balancing the budget, that we focus on the spending side instead of the tax side. Because more important than just whether or not people pay more taxes, it directly speaks to the competitiveness of our country, of our workers, of our companies, and as to whether or not we can enjoy ever higher living standards. So I just hope you put that in mind as we negotiate and come to an agreement about how we balance the budget or not. And with that, I know other people want to ask questions, I yield.

Mr. PORTMAN. Thank you, Mr. Ryan.

Chairman SPRATT. Thank you, Mr. Ryan. I would simply add that one way to make our entitlements more affordable is to make our people more productive. And that is why we are concerned about the cuts in Function 450, job training, education. We think that that is a false economy.

I now recognize the gentle lady from Connecticut, Ms. DeLauro.

Ms. DELAURO. If I could take a moment to talk about our children and their healthcare, which seems to be an area that I would think, especially those youngsters who are most vulnerable, that this would be a shared priority. And it does not make any difference what your political persuasion is, that we are all looking for the opportunity to increase that opportunity for health insurance for our kids.

Nine million low income children are uninsured today. The President's budget fails to provide sufficient funds to the SCHIP program to continue to insure the same number of children as the program currently insures. And in addition to that, it provides no funding to support state efforts to be able to cover more children. As I understand this budget, it would limit healthcare funding for children and families earning more than 200 percent of poverty, even though we have sixteen states that in fact cover children and families above this level. There are about four and a half million children and families earning between 200 and 300 percent of poverty who are either uninsured or who depend on public coverage.

Excluding these families from participating in the SCHIP program would leave them without healthcare, would undoubtedly increase that number of uninsured children. Now, this brings in another piece here. The way the President's budget would fund SCHIP is by making $13 billion in new cuts to the Medicaid program. That is $13 billion over five years. If you deal with the regulatory changes, as I understand it we are going to be looking about $25 billion over five years. That comes on the heels of $6.9 billion dollars in cuts to Medicaid over five years that was part of the Republican reconciliation, package.

So you have the President's budget not providing enough funding to cover health insurance for children currently under SCHIP. It does not increase the number who will get insured. You cut Medicaid, which covers the poorest kids in this nation. So you are pitting poor children against children and families that are just above the poverty line. It is hard to figure out where the decision making in these two efforts, and how the President who talks about wanting to insure more of the nation's children and how we can get that coverage.

My questions here are, to whom are these costs shifted? Do you believe that they will be shifted to the states to try to help them cover the uninsured? To the providers who serve the uninsured? Or will Medicaid beneficiaries have to pay more out of their pockets? Do you know what the state by state effect of all of these spending cuts will be? And I would just ask you to please provide us with a state by state analysis for the record. Let me just leave it at that, Mr. Portman and see if we can get some answers here.

[The information requested follows:]

RESPONSES TO CONGRESSWOMAN DELAURO'S QUESTIONS FOR THE RECORD FROM DIRECTOR PORTMAN

*Ms. DeLauro:* The way the President's budget would fund SCHIP is by making $13 billion in new cuts to the Medicaid program. That is $13 billion over five years. If you deal with the regulatory changes, as I understand it we are going to be looking about $25 billion over five years. To whom are these costs shifted? Do you believe they will be shifted to the states to try to help them cover the uninsured, to the providers who serve the uninsured? Or will Medicaid beneficiaries have to pay more out of their pocket? Do you know what the state-by-state effect of all of these spending cuts will be? Please provide us with a state-by-state analysis for the record.

*Answer:*

- The Administration remains committed to increasing the number of people with access to affordable, quality health insurance and health care. The Budget proposes to reform the healthcare market place and reduce the ranks of uninsured by removing the tax bias for employer-sponsored coverage, establishing association health plans, reforming medical liability law, and reauthorizing SCHIP.
- With these reforms, Medicaid will continue to cover benefits for Medicaid beneficiaries. Many of the FY 2008 Medicaid reforms focus on improving the fiscal integrity of Medicaid. Currently, inappropriate financing practices undermine the Federal-State partnership and jeopardize the financial stability of Medicaid. The Budget would help restore credibility to the Federal-State matching system. In general, the Budget does not propose reductions in the Federal share of Medicaid payments to States for medical services provided to Medicaid beneficiaries.
- Even with these changes, the Medicaid baseline continues to grow at a robust average annual rate of more than 7 percent.
- At this time, HHS does not have a state-by-state analysis of the Medicaid proposals. When developing Budget estimates, HHS actuaries focus on aggregate program estimates and do not break out the impact on individual states. We will continue to consider this issue as we move forward on our Medicaid proposals.

Mr. PORTMAN. Thank you, Ms. DeLauro. And I do appreciate your question and your interest in this. I would urge you not to look at the Medicaid reforms, many of which, again, have been offered before not just by this administration but others, particularly the reforms to payments which we think are appropriate policy along with the SCHIP proposal. These are independent proposals. You may disagree with our reforms, but I hope you will look at those reforms on their own. We think they are the right thing to do regardless of what we do with regard to SCHIP.

With regard to SCHIP, as you know, you are under an obligation to reauthorize this year. And so, we decided to put into the budget a proposal for reauthorization in essence, or at least provide the budgetary window for that. And as a result we do not do a straight line, baseline on SCHIP. We increase SCHIP. Over the five-year period we add approximately $5 billion in additional funds to the SCHIP program over, again, what we are currently spending.

So, reauthorization is something that we will work with you on. We look forward to it. We are providing more funding. You may believe that is not adequate, it sounds like you do not. But——

Ms. DELAURO. It is not when you are not going to be able to insure the number of kids that currently are insured and you have dealt with your poverty numbers there so that——

Mr. PORTMAN. Well, let me tell you why we did that.

Ms. DELAURO [continuing]. And increasing number, and before the reforms, dealing with fraud, waste, abuse, you know, we are there on that issue.

Mr. PORTMAN. Okay, well, that is good.

Ms. DELAURO. But I would hope that the money from any reforms would go back into the program and not be placed somewhere else.

Mr. PORTMAN. Well, we should look at it independently because we provide more funding. We do target the resources, as you say, correctly to those children under 200 percent of poverty. And there are some states that currently are using the SCHIP, as you know it is an enhanced match, for SCHIP, for children above 200 percent of poverty and for some adults. The question is, do we go back to our original intent?

Ms. DELAURO. Are you anticipating that the states are going to pick up the cost? Are the states going to have to pick up the cost in your equation here? Is that what you——

Mr. PORTMAN. Well, it depends on what the state does in terms of policy. What we are saying is that we should focus on those children at or below 200 percent of the federal poverty level and then we need to allocate those funds, working with you in a way that focuses on those who are most needy, that need the help the most. That is our approach.

Ms. DELAURO. So the states' flexibility, in essence, the states' flexibility on this issue are to essentially to have to jettison populations who are currently being insured because they will have way——

Mr. PORTMAN. Well, as you know these children would still be insured under Medicaid. The question is, would they get the enhanced match under SCHIP. And that is a question that Congress, when you all originally came up with the SCHIP idea you focused it on low income kids. And that is where we are trying to get back to, is to the extent that we have limited resources, even though we do provide more resources, we believe it ought to be more focused on those children under 200 percent of poverty.

Ms. DELAURO. Mr. Portman, it sounds good. It does not work in reality. And we are here about the realities of what our states are faced with these days. And the realities of the number of kids who are going to no longer to be insured, who are eligible for these programs. So, thank you very much.

Mr. PORTMAN. I will get you the information you asked for.

Ms. DELAURO. Thank you.

Mr. PORTMAN. I do not have it today on the state by state, but I will get you that. Thank you.

Chairman SPRATT. Mr. Barrett?

Mr. BARRETT. Mr. Ambassador, great to see you. Welcome. Three quick questions, Rob, and then I am going to leave all the time with you to let you answer them. Number one, the President wants to cut the number of earmarks by fifty percent. Are you talking about cost or are you talking about the number? And anything that you have got that you can tell this Committee and tell this Congress on how to reform this process. It is broken. And we have seen that and we need to know how to fix it. I have been wracking my brains, have not come up with anything yet. Number two, Rob, we talk about cutting $66 billion over the Medicare budget, and I am not going to touch social security and Medicaid, and I know that is a great start. We are actually slowing the growth and trying to be more responsible. Is it enough? I mean, when we are facing over seventy-five years of $35 trillion unfunded liability, do you not think we need to be a little more bold to kind of get a grasp on these things in a shorter term rather than a longer term? And last, when we are talking about the different branches and holding each other accountable, talk to me a little bit about a line item veto. I am certainly in favor, I think the version that the House passed last year was an excellent version. Kind of give me some feedback on your thoughts on that and how you think it would certainly help the process.

Mr. PORTMAN. Thank you, Mr. Barrett. Just quickly on earmarks, the President has made his proposal. The first part of it is actually I think very consistent with what Congress has now done. And I applaud the Congress for taking, at least on the House side by changing the rules, in the Senate passing legislation to deal with more transparency in earmarks for people to know who the recipient is, how much money it is, where it is going, all these things we think are good changes.

We would go beyond that and say that these earmarks ought to be in the actual statutory language that you vote on. Among other things, that gives you the opportunity to look at that and decide whether you might want to offer an amendment to strike that. As opposed to being in committee reports, where about ninety percent of earmarks now reside. The committee report, by the way, is also not signed by the President so he does not have the opportunity to vote up or down himself through a potential veto on that. So the idea would be they ought to be in the statutory language, not in the report language. I know that is controversial among many, particularly the Appropriations Committee, but it seems to us like that is part of the transparency effort. The third one is one you also mentioned, which is let us cut the number and amount in half. And the President has said both the number of earmarks and the amount of money represented by earmarks in half. I think that is also something that is good policy and doable.

If you look at what happened this year under the long term CR there are virtually no earmarks. There may be a few in there, and we are still analyzing that as you are. But I think it is possible to reduce by fifty percent with all the transparency, improvements in policy. Earmarks have tripled over the last ten years, and I think it is something that we should be able to do working together.

The line item veto actually I think complements this very well. I have said to some of you, I do not think the legislative line item veto will be used much. Why? I think it will have a chilling effect. I mean, I think it will result in more transparency and therefore less likelihood that unnecessary and wasteful spending will end up in earmarks. Because members, just as was the case with unfunded mandate reform back in the nineties where we essentially said we would hold up unfunded mandates to the public and the press, if we do the same thing with earmarks through a legislative line item veto, again that many of you supported and I appreciate the Budget Committee's majority vote on that, bipartisan, I think that will have a chilling effect on the kind of bad legislation we all believe we need to be more and more cognizant of as we get to balance. So I think the President's proposal makes sense, not just on its own but as a complement to the earmark reform we are talking about.

Finally, with regard to Medicare, your question is, “Is it enough?” I said earlier, and I believe this to be true, that this has to be bipartisan. And we have to figure out a way to come together across party lines to come up with sensible reforms to all of these programs: social security, Medicare and Medicaid. The proposals in the budget focus on Medicare and to a certain extent Medicaid. As Ms. DeLauro said, some of it is focused on the payments and fraud and abuse in the current system. On the Medicare side, it is focused on provider payments. It is also focused on some more means testing in Medicare. The beneficiaries, actually, in the Medicare proposals we have would see a reduction in their premiums over all. 5.6 percent of beneficiaries who make over $80,000 a year or $160,000 a year as a couple would see a slight reduction in the federal subsidy for their premiums. They would still get a subsidy, but it would be reduced slightly. But for every other beneficiary, in other words over ninety percent of beneficiaries, they would actually see a reduction in their premiums under our proposals. Why? Because, as you know, they pay twenty-five percent of the Part B premium. The federal government pays the other seventy-five percent. And they would see a reduction in that amount. So it saves about $6 billion for Medicare beneficiaries over the five-year period.

So there are, I think, ways in which we can go about this in our budget that make sense, that actually are positive for beneficiaries. But you are absolutely right, we have a bigger challenge in front of us as Mr. Ryan’s chart showed and as Mr. Spratt said. And that is something that we do need to deal with. We have taken a first step in that direction. And, again, I would encourage Congress at a minimum to work with us on that first step. Thank you.

Mr. BARRETT. Thank you, Mr. Ambassador.

Chairman SPRATT. Mr. Cooper?

Mr. COOPER. Thank you, Mr. Chairman. Ambassador Portman, Standard and Poor’s is probably the top credit agency in America or the world. They projected last summer that the U.S. Treasury Bond, the most important financial instrument on the planet, will lose its AAA credit rating in 2012. That is the year that your budget projections have us reaching a surplus. So the question for this Committee is, whom do we believe? Standard and Poor’s or this administration? Standard and Poor’s did not just say that we would lose our AAA credit rating in 2012. They said by the year 2025 the U.S. Treasury Bond would achieve junk bond status, below investment grade. That is damaging or destroying America’s credit. So, why should you believe your happy news over Standard and Poor’s projections?

Mr. PORTMAN. Well, Standard and Poor’s does not have much faith in you all, or apparently in us, to achieve the fiscal discipline we have talked about in this budget. They may not think we can get to balance in five years. I think we can. You and I have talked a lot about this and I have said this before to you, privately never publicly. I commend you for the fact that you raise these issues. Because what I hear you saying is we should at least achieve balance under a unified budget by 2012. Standard and Poor’s may not think we can do that. I think we can. But as you know, their real focus is this long term challenge and that is what we just talked about: Medicare, Medicaid and social security.

Mr. COOPER. That is the key issue. And I am worried that when you spread happy talk about budget balance in five years using every trick in the OMB book to try to make that look real, and then realizing we have these terrible entitlement problems, by not connecting those two you sap congressional will to deal with the problem. There are going to be a number of headlines today, a number of folks bragging in their speeches, "Oh, we reach balance in five years. We are going to have a $61 billion surplus." When you and I know that is not true because according to your own numbers, if you look at your appendix here in the budget, five years out you will achieve a superficial surplus of $61 billion by borrowing $248 billion from social security trust fund.

Over the next five year period, according to your budget, you will be borrowing $1.2 trillion from the social security surplus to make it look like we are reaching towards surplus. That does not cut it. That is not realistic. That is taking social security trust fund money and spending it for other purposes, whether it is the War, whether it is for earmarks. It is a $1.2 trillion robbery of the social security trust fund and that is one of the fundamental principles of your budget. And that is what Standard and Poor's thankfully sees through when they understand that we are damaging, possibly destroying, America's credit rating with budgets like these.

Mr. PORTMAN. Well, you are absolutely right that all of us budget that way. As you know, this Committee is going to budget that way in your budget. The Congressional Budget Office budgets that way. Every Republican and Democrat administration has done that since 1967 and so, you know, we are all in this together. And I just think, you know, again, you make the point very, very well. And you make the point we are trying to make: at a minimum let us get to balance using the so-called unified budget, which is all money in all money out. You make the very good point that that does not include the surplus that now exists in the social security fund. As you also know, in ten short years that surplus begins to dissipate because you do not have the amount of payroll taxes coming in to pay the benefits going out.

So, again, all I can say is I apologize if you think I disconnected the two. I tried in my testimony and in my answers to questions to very much connect the two. In fact, I explicitly said, "We can get to balance without even dealing with any of these Medicare or Medicaid issues." We can. And we have shown you how in our budget. We should not do that. Even though we can, it is not the right thing to do because we need to deal with these long term issues. You are also absolutely right that if you look at our analytical perspectives, or in the index as you see, you can find where this is, we show the budget in different ways. We show the net operating costs that you have done a great job talking about, which shows the government's liabilities on an accrual basis. We also go a step further, as you know, in this financial report of the United States which Jim Cooper has done a good job telling the country about. And I encourage everybody to read this. It is on the web, it is on our website. Each member was sent a copy by me, personally, and also you have got a copy before you this morning. That was Jim Cooper's idea, by the way. It also shows a Statement of Social Insurance, which is basically our unfunded obligations on Social Security, Medicare and Medicaid.

And, you know, you can look at the budget through a lot of different presentations. There are literally a dozen out there that I have seen. We use the unified budget, so do you all. That means at a minimum we ought to be able to get to balance in the next five years.

Chairman SPRATT. Mr. Garrett?

Mr. GARRETT. Greetings, and thank you Ambassador. And I appreciate your coming to the Committee today. And I would like to commend you, and obviously also your staff, for your job of putting together the budget and your presentation today. I frankly think it is a, well actually insofar it is at least a positive step forward in the right direction. What I think we are trying to seek on both sides of the aisle here, and that is to get to a balanced budget within the next five years. And I look forward to working with your staff and yourself personally, and with my colleagues across the aisle to achieve that, and to do so in a way that will ensure that people up in the northeast, New Jersey and specifically in the great Fifth Congressional District of New Jersey where I represent, people already pay some of the highest taxes in the country will not see an additional tax burden placed on them on the federal level.

You know, every family in America, whether in New Jersey in Sussex County or anyplace else in America, they all have to set up their own family budget, and they have to set up their priorities, and they have to make difficult decisions when they make up that family budget. And we are really no different here, and you recall when you served on this Committee. We have to make those difficult decisions, too. And I hope my friends on the other side of the aisle will remember those working families that every time we talk, or some of the people talk, about raising taxes that means that you are taking a dollar out of some family in New Jersey, or maybe in one of their districts, out of their budget and sending it down to our budget down here.

Director, I would also like to commend you and also the President regarding a topic that this Committee has talked about now in the last two hearings that we have held. And that is budgeting the cost of Global War on Terror within the budget process. As I say, we have had a couple hearings on this already and I know that those costs are hard and difficult to estimate. But I appreciate the fact that you have included them as best you could in this process.

Just reading the Wall Street Journal yesterday, the front page story, it said, and I will just quote very briefly, "Since President Bush took office," on the front page it says this, "he has boosted annual defense spending by fifty percent, including $500 billion over five years for the War, doubled spending on homeland security, and at the same time he has cut taxes, expanded Medicare to cover prescription drugs, approved $100 billion to clean up the Gulf Coast, and signed bills to spend a little more each year on domestic spending." And critics said it could not last and it could not be done, and they referred back to the seventies with President Johnson when it triggered inflation. But to conclude it says, "But this time it has been nearly painless, inflation in check, the federal budget deficit is down from its 2004 peak and it rests at nearly historical average of two percent of GDP, and long term interest rates are relatively low."

So my question, I will leave you to answer these couple of questions in the last two minutes, can you assure my constituents of the Fifth District of New Jersey that we will in fact get to a balanced budget, can in fact get to a balanced budget by 2012, not do it by raising taxes? And would you be willing, since the other side, well, Mr. Cooper is gone right now, to look to additional entitlement reform? Because as Mr. Cooper has just laid out, that is the problem area, despite the rosy projection of getting to a balanced budget. Would the administration be willing to consider even greater reforms in those areas to address the issue as Mr. Cooper has raised going forward, that that is the area that this Committee and this Congress must address long term?

Mr. PORTMAN. Yes, thank you again for your good comments, Scott. And I have laid out already today by the President believes it is so important to make permanent the tax relief from 2001 and 2003. That is in our budget because we believe it is the right policy for America's working families, as you say, and for our economy. And the innovation and risk taking and entrepreneurial activity that it has generated has helped us to create the very increased revenues that let us talk about a balanced budget. So, to raise taxes as some have suggested seems to us to be exactly the wrong direction. Instead, we ought to focus on the spending side and that is what this budget does.

I will also say that with regard to your question on the deficit today and where we are relative to the past, today's deficit in 2007 is approximately 1.8 percent of our GDP. Incidentally, when I first ran for Congress in 1992 it was 4.6 percent of our GDP. So it is relatively low. The average over the years is 2.2 percent or 2.3 percent. The forty year average is 2.4 percent, actually. So, instead of 2.4 percent today we are at about 1.8 percent. So we have made progress. And we have made that progress together. The tax relief has helped to get the economy back on its feet. That economy has generated greater revenues and we have also done a little better job restraining spending. So, you know, it is a good news story in terms of the progress we are making. $165 billion in real reductions in the deficit over the last two years. But, it is not enough. Because we have to continue that to get to balance and also address the long term liabilities, which are not addressed through a five-year balance or a ten-year balance since those problems do not begin to emerge for another ten, fifteen, twenty, twenty-five years.

I showed the thirty-year problem, and such a fiscal imbalance that we would have a huge problem on our hands with having to either raise taxes dramatically cut benefits dramatically, or go deeply into debt. We do not want to take any of those three bad choices. Rather, let us make small changes now. That is what we have in our budget. It is a first step. I acknowledge to you, you know, it is not the solution to all of these concerns that have been raised today about the unfunded obligations. But it is a first good step, and we hope that we can work with you, Mr. Garrett, and others to achieve that.

Chairman SPRATT. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman. And thank you, Mr. Portman, for being here. I am going to restrain myself in all the conversation about the role of taxes or tax cuts on the economy and revenues because I do want to talk to you about the President's planned healthcare proposals. Anytime we work through the tax code to affect what kind of coverage people get, there are always intended and unintended consequences. And many experts looking at the President's plan suggest that it winds up with preferences for health savings accounts and also high deductible health plans. And therefore, it is likely to lead to a decline in employer sponsored coverage. Now, I think there are lots of problems with employer based health coverage in this country. But the President's plan is pushing people away from that kind of group coverage into the individual market. And it may well be, and I guess this is one question, do you anticipate declines in employer sponsored coverage since there would be less incentive for workers to demand it and less incentive for employers to provide it? And is it possible that if you have declines in employer based coverage, that that would offset any gains in the individual market? I would just say, the individual market in my state is very, very small and the fundamental problem is, if you are sick and if you are old you have a much harder time getting it than if you try to get coverage through a group policy.

Mr. PORTMAN. It is a fair question. And, you know, this healthcare debate is I think now engaged in a new way because of the proposal that we made in the budget regarding the tax treatment of healthcare. There should be no disincentive for an employer to continue offering just what that employer is offering now, for the simple reason, as you know, that the employer deduction stays the same. And that has been misunderstood by some people. It is a complicated area. But the only change that is contemplated in the proposal in the budget is that the exclusion from both payroll taxes and income taxes, which is like a super deduction, you know, because it gets payroll taxes also, would now be available to those people who do not get employer based coverage. So, if you are an employer in Maine and you are currently offering coverage, you should know you get the same tax advantage you get now.

Having said that, I think there may be some employers who will choose, or maybe as you say their employees will choose, to go to the private market rather than stay with the employer market. Why? Because now that exclusion will be available to you whether you work in a place that offers healthcare insurance or not. You know, it is very hard to predict. The Treasury Department has a model out there, as you know, which shows that some people will lose their employer based coverage. They also, though, say to answer your final question that the net effect will be more people getting insurance coverage because think about it. If you are an individual, you now have the ability say if you are making about \$60,000 a year to get about \$4500 a year to go out and buy healthcare, so the net effect should be more people being insured. And it is really a fairness issue.

Mr. ALLEN. Let me follow that one up. Because while I understand the administration has estimated a net three to five million of the nearly 47 million uninsured would get coverage under this flat deduction plan, well three to five million out of 47 million, especially when the number of uninsured is growing at about a million a year under the Bush administration, that is not very much. But I would like to know how solid that estimate is, you know, what the evidence behind it is if you could elaborate on that.

Mr. PORTMAN. Sure, and what I will do, we will provide you all the information the Department of Treasury model provides this. There is no, in my view from having looked at this, there is not the kind of solid information we would like to have as to what employers are likely to do because we have not tried this before. But one thing I would say is to cover an additional three to five million Americans is a good thing. So if that is the net effect, I would think that we as a Congress and President should look in that direction. Just by fairness, you know? If you get your coverage through an employer, fine. You should be able to get your exclusion. But you should also be able to get it if you do not have an employer that provides it.

Mr. ALLEN. But the only addition here is that the thing about the group market is it is more in tune with the fundamental idea of insurance, that we all share the risk of illness or injury. Once you get to the individual market then you are leaving people on their own who are not, who are older or sicker, have a preexisting condition, or whatever. And that is a fundamental problem. What happens to those people who get left behind?

Mr. PORTMAN. Yeah, it is a fair question. Two thoughts on that. One, again, as you know this is voluntary so nobody is being forced to go into the individual market if the employer offers the coverage, which again employers should continue to offer for the most part because their benefits have not changed at all. Second is if you go to a state like Maine where, at least as you indicate the individual market is not as well developed, that may be more of a problem. Our healthcare is regional, as you know. And in some states actually the individual market is starting to develop and to create opportunities for people who may have a preexisting condition or, as you say, not eligible for Medicare but be an older worker that might have a harder time finding coverage. So part of this plan is how can we develop that individual market to make it more mature so you have the kind of transparency and competition you get through an individual market to try to reduce healthcare costs over all, for everybody. Finally, part of the President's proposal that is in this budget, as you know, is to work with the states, states like Maine, to be sure that we are focused on what some people might term uninsurable Americans. In other words, people that just have a very hard time getting health insurance. And that is through these state risk pools, which would be part of what Secretary Levitt, who I believe is going to talk before this Committee about this very issue, is going to be working with states on to try to encourage the formation of these kinds of pools. I assume Maine has such a risk pool to try to cover some of those folks you are talking about who are not likely to find coverage at work, or not likely to find coverage in an individual market.

Mr. ALLEN. Thank you.

Mr. PORTMAN. Thank you.

Chairman SPRATT. Mr. Hensarling?

Mr. HENSARLING. Thank you, Mr. Chairman. Mr. Ambassador, Mr. Director, Rob, Friend, thank you, welcome. Good to see you here. I would like to start out with an observation, listening to my friends from the other side of the aisle I think our Chairman is going to have quite a quest. As I understand it, I look forward now to seeing the Democrat budget that does not borrow from the social security surplus, grants full AMT relief, fully funds the War, and pluses up a number of discretionary accounts, and then balances. That is a document, Mr. Chairman, I will look forward to seeing. I do, however, fear the tax burden that that is going to end up placing on small businesses and families in the Fifth Congressional District of Texas.

Director Portman, one I want to be one to congratulate you and the administration for putting forth this budget. It is interesting to me how many people in this city have been focused upon balancing our unified budget, and indeed you now present one that achieves that. I am happy to celebrate that. I wish it was more from spending restraint as opposed to economic growth, but I salute it nonetheless.

Now having said that, I am one who has always viewed the deficit to be a symptom and spending the disease so I am happy that we will at least in the short term eliminate this particular deficit.

As you know, many still on the other side of the aisle are interested in rolling back the pro-growth tax relief that makes this balance possible and getting rid of the '01 and '03 tax relief. If I did my math correctly in looking at your budget, over the five year window the administration is proposing expenditures of about $15.3 trillion and the extension of the tax relief using static scoring is about $373 billion. So if I did my math right, the tax relief to the spending is about two and a half percent. Does that look like a pretty solid back of the envelope calculation?

Mr. PORTMAN. Yes, that sounds pretty close.

Mr. HENSARLING. So if you are really trying to achieve balance, if you are really concerned about these problems, it would seem to me you would want to focus not just on the two and a half percent that accounts for tax relief but on the ninety-seven and a half percent that accounts for spending.

As you well know, recently we have had the head of CBO and the head of GAO in to testify before our Committee. I do not have the transcripts in front of me, but I think hopefully everybody would agree that a fair assessment of what they said is that the number one fiscal challenge of the nation is to reform entitlement spending. Your budget makes some modest proposals in that regard. But indeed, can we ever, are you serious about the fiscal challenges of this nation? And are you being fiscally responsible if you put forth a budget that does not have entitlement savings?

Mr. PORTMAN. I think that is the key challenge we face as a country, as I said earlier. And I think that has been confirmed by much more knowledgeable and wiser people like Fed Chairman Ben Bernanke or some of the other witnesses you mentioned who have been before the Committee. This budget does address the issue. It is not going to be easy politically for Congress to deal with this, never has been. On the other hand, look what we did in 1997, the last time we joined hands for a balanced budget, we were much more ambitious, frankly. And John Spratt was part of that. Some of us, you called me an old colleague earlier, so I am old enough to say I was here. And the number there was closer to $150 billion. We are talking about a number at about $66 billion as a percent of the Medicare program, or a percent of entitlements, of course it was significantly more because these programs have grown so much in the interim.

So it is difficult politically, I understand that. But it is the right thing to do and it is less than we have challenged ourselves to do in the past. In fact, it is less than we did in 1990 with OBRA or the second OBRA in 1993, as to Medicare, both in nominal terms and as a percent of those programs.

Mr. HENSARLING. Director Portman, my time is about to run out. Dr. Orszag, who now heads up our CBO, I believe testified in our last hearing, even assuming that you let the pro-growth tax relief expire, even assuming no AMT relief, that we would have to increase taxes by fifty percent on the next generation just to balance the budget if we do not reform entitlement spending. Has your office looked at that analysis and have you reached a conclusion?

Mr. PORTMAN. We have looked at the testimony by Peter Orszag, the new head of the Congressional Budget Office, and we may have some differences, as I said earlier, on the assumptions. But we agree with the premise, which is that as I said earlier, if we do not make sensible changes now that have bigger out year changes to these programs to reform them, and in some cases improve these programs in terms of the fraud and the abuse that is in some of the payments, or right size some of the payments, then we will have stark choices. And one will be dramatic increases. I do not know if the fifty percent increase is exactly where we are. We might be a little higher than that, actually, based on our analysis. But it would be extremely detrimental to our economy and to the next generations that are depending on us to do what is responsible, which is to begin the process of changing these programs so they are sustainable over the long term.

I will also say that you will see in our budget not just the proposals, those very specific proposals, on the programs that are the fastest growing programs and that create the biggest fiscal challenge, Medicare in particular with a $32 trillion unfunded obligation. But we also have in place a Medicare trigger in our budget proposal, similar to what Congress has already enacted. But with more enforcement so instead of having the current trigger, which says that if the forty-five percent of general revenue is exceeded for two years in a row and it is a six-year projection, and then Congress has to take up something without any teeth in it. In other words, there is no requirement that Congress do any particular reforms of these programs. We actually put in place what would be a sequester at that point. I do not think Congress would do that. But I think Congress instead would do the right thing, which is to make these relatively small reforms in the programs. So we not only deal with this issue as you have noted with some very specific ideas on our part that begin taking the right steps, but we also have this broader budget reform proposal that we think could be extremely helpful to Congress to encourage all of us to do the right thing for future generations.

Mr. HENSARLING. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Becerra, if he would hold for one second just to comment to what you were saying. Our concern is, among other things with the cuts you would make in Medicare, why some of those savings are not redirected to other healthcare needs, such as the sustainable growth rate factor. That is not addressed, I do not believe, in your budget. And also, we wonder if it is justifiable in light of the $262 billion over ten years you are cutting in Medicare to continue paying managed care providers under Medicare an amount in excess of what the fee for service providers are paid. Just to leave those two thoughts with you. Some of the money that is saved we think should be used for Medicare and healthcare programs. Now, Mr. Becerra?

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Portman, good to see you. It is fascinating when we talk about the budget, the economy, I know that if you are watching a program about Wall Street the picture is very rosy, people are very happy. But when you turn on the television and listen to the comments of people on Main Street, they seem to be directly opposite of what you are hearing on Wall Street. So many people today think that the country is on the wrong track. So many people do not believe that their financial situation has improved. Many people do not see how they are going to afford to send their kids to college. Try to buy a house these days in many parts of the country. The economic growth has shown that even though we have created some jobs, the President is averaging about a, well, less than 100,000 a month in job creation when the previous President, President Clinton, averaged somewhere about 250,000 per month. And so, when you take a look at what is going on you can begin to understand why people are somewhat disbelieving of what they hear. And I want to focus on something that I think will only add to that disbelief, the lack of trust that the public will have in the way the federal government operates especially with regard to the budget.

The President's budget, as you have testified, shows that we are going to continue to diminish the size of the budget deficits over the next five years to the point where by 2012 we will have a $61 billion surplus. That assumes that we will have to use every single cent of what is contributed on a daily basis by working Americans to the social security system through the trust fund. In 2007, social security will collect $190 billion in worker contributions beyond what it needs. That surplus, Americans believe, goes into a trust fund. That surplus, under the President's budget, is used to offset the size of the budget deficit. The actual budget deficit for 2007 is not just $244 billion as you have said. It is $434 billion. But because we are using every single cent of the social security trust fund surplus, we can mask the actual size of the operating budget surplus. We do that again in 2008. The deficit the Bush budget says is $239 billion. Well, without using social security monies the actual size of the deficit would be $432 billion. In 2009, the administration's budget says we go down to $187 billion deficit, still large. But if you take out the monies that are being used from social security to diminish the size of the deficit, the deficit would be

$405 billion. To the point that in 2012 when the President's budget projects a $61 billion, if you were to take out the money that is being used from the social security trust fund to help mask that the actual size of the budget, deficit, or surplus is a deficit of $194 billion even in 2012.

And so, when you take $1 trillion, $200 billion or so out of social security monies that today the American worker who went to his job, her job today, and knows that by the end of the month the FICA deduction will be taken out of his or her check that says it is going to go for social security and for Medicare, everyone believes that that is what they are contributing towards. But the reality is that our federal budget is operating using every single dime, every single cent of the social security money that is being contributed that is not needed today for social security.

And so, when we see these polls that show that Americans are very concerned, that they do not believe that we are going through very good times, you can understand it when you see how difficult it is for them to send their kids to college or to be able to buy a new home or believe that the government is going to do right by them on social security.

So, Mr. Portman, I guess my question is how do we in this whole truth in budgeting process, as we try to explain it to the American public, explain to them why the President does not include a long term fix for the alternative minimum tax which we know is going to creep up and grab millions of Americans in the next few years in new tax bites that they are not expecting? How do we explain to the American people that we do not forecast in the President's budget the long term costs of the Iraq War? I do not believe that any American says that we are going to be done in a year or even two. And how do we then account to the American public for using every single cent of the social security trust fund for things that do not relate to social security?

Mr. PORTMAN. It is interesting to hear the comments from my former colleague on the Ways and Means Committee about social security. I agree with you. And, again, we have laid that out through the Financial Report of the United States I talked to you about. I think we should be as transparent as possible on the fact that we are using social security trust fund surpluses. We have for forty years, as you know. You all will in your budget. The Congressional Budget Office does. Democrat administrations alike have done this for forty years. And it is a, you know, it is a credible approach in the sense that it is all the money in and all the money out. You know, what would you do with that surplus otherwise? You cannot put it under the mattress. That is not what we do under law. But, we should know that that is what is happening. And that is all the more reason to get to balance. I mean, I guess it would lead me to the conclusion that we need to do all we can to restrain spending, keep the economy growing, to get to balance. Because that at a minimum is where we should be to prepare for the retirement of the baby boom generation and the increasing healthcare costs that you talked about.

So I do not disagree with you on that. I do disagree with you on the economy. We are blessed with an economy that right now is the envy of the world. You know, we have got lower unemployment rates than we had during the 1990's. During the recovery in the 1990's wages did go up but guess what? Wages are going up faster in this recovery than they did in the late 1990's with that recovery. The consumer confidence numbers came out this week, I am sure you saw them, a five-year high in consumer confidence. So maybe the polling data in your district is a little different. You have very high housing costs I know in your district in California and there are certainly challenges out there. No question, housing is one of them.

But we are right now in a situation where we have a strong, a growing economy. We need to keep that economy growing. It is the economy that has generated these record revenues we talked about. I mean, they are record revenues the last two years that reduced the deficit along with some better spending restraint by $165 billion. That is a fact. And so all I would say is, I do not disagree with you at all on the fact that we should be telling the American people about the social security surplus. I am glad you explained it. I thought you explained it well today. I hope I have been transparent about it today. It is there. On the other hand, it is all the more reason for us to redouble our efforts to keep constraints on the spending side, keep the economy moving ahead, which is, you know, the magic formula that has gotten us to a better situation today at 1.8 percent deficits rather than the average of 2.4 percent. Or as I said, when I first ran for office 4.6 percent. We are making progress. Let us keep making progress and then let us get to a surplus. Because when you get to a surplus you deal with the debt in a more direct way. You deal with the social security surplus and all the other issues that you raised.

I have already talked about the AMT issue, our budget as you know provides for this patch in the first year. That takes us out until the end of 2008 before Congress would have to act again. We agree with you. It is a major problem. We think it is misguided tax policy the way it is not indexed.

With regard to the costs of war, as you know we are showing more than we have before. More importantly, we are showing out as far as we can possibly estimate. You can imagine the military planners are anxious about what we are showing because we are showing costs that will not be incurred, as you know, for eighteen months, two years, sometimes three years because we are showing costs out beyond this administration. Things will change on the ground. We do not know what is going to happen. We are very hopeful that the new strategy that the President, General Petraeus, and others are engaged in will begin to quell the sectarian violence and we will have better news. That is our plan. But we do not project that in particular with this budget. But we, you know, have a very difficult time giving you anything that is not misleading beyond the time period that we have provided.

Chairman SPRATT. Mr. Campbell is not here. Mr. Alexander is not here. Mr. Diaz-Balart?

Mr. DIAZ-BALART. Thank you very much, Mr. Chairman. Ambassador Portman, it is good to see you, sir. I want to first thank you for really the service that you are continuing to provide your country with just great honor and great integrity, and you have our admiration for that and our thanks.

A couple of questions. A lot of them talked about the mandatory spending and I really want to commend you for addressing, starting to address this issue of mandatory spending. The President a while ago recommended and asked for a bipartisan commission or committee of members of Congress to try to, with putting everything on the table, try to address this long term issue. It was pretty much rejected by the now majority party. Is the President, would the President still be open to that idea of a bipartisan group of members of Congress, with putting everything on the table, with no preconditions, to try to see if we can get a better handle on that issue? That is question number one, if you will just hold the answers.

Question number two, I just wanted to make sure that I am not confused. I am not the smartest guy in the world, but when I heard the presentation and then I later heard our Chairman who I clearly a bright an honorable person talk about Medicare cuts in your budget. I understood that there are not Medicare cuts, that there is a decrease in the increase. I just wanted to make sure that I did not get that wrong. Is there less money for Medicaid in out years than there is now, which would be a cut? Or did I understand you correctly the first time?

And lastly, we keep talking about, you know, tax cuts. And I just want to make sure that I understand what some of those tax, the continuation of that tax relief that is in your budget. I just want to mention a few of them and make sure those are still in there and that those are the ones that you are considering that the President is still supporting. For example, the Child Tax Credit, is that extended, that tax cut per child? Is the marriage penalty relief, is that still extended? And if it is not, obviously then ever married couple would pay more just because of the fact that they are married. Is the college tuition deduction still supported by the President? Is the schoolteacher expense deduction still supported by the President? I just want to kind of clarify, simplify for somebody who is a simpleminded person like me what are some of the specific tax cuts that the President is still supporting and that is reflected in your budget? And with that I will allow you to answer the questions. Thank you. Thank you, Mr. Chairman.

Mr. PORTMAN. Thank you. Good questions, and I appreciate your asking about the bipartisan commission idea. As you know, the President presented that in the State of the Union a year ago. He believes that we should be working on a bipartisan basis to try to address these entitlement challenges we face. He is absolutely in favor of that. And, you know, I think in an election year it was probably hard for Republicans and Democrats alike to come together. There was not a whole lot of interest expressed by Democrat leadership at that time. Now we are beyond that election. There is always another election coming, but at least we are not in an election year this year. So it seems to us like this is a good year for us to come together. There has been some discussion and Chairman Spratt has been part of some of these discussions about a working group. We are not concerned as much about whether we call it a commission or a working group, or even what the precise membership is. In other words whether it is outside experts that typically a commission would include or whether it is done with leaders in Congress. We would support either, and both, and would be eager to work with Chairman Spratt, Ranking Member Ryan, leadership on both sides of the aisle and both sides of the Capitol on a commission or a working group to deal with the entitlement issue. And we believe everything should be on the table. And frankly, that is a change I think on both sides if we were to be able to say, “No preconditions.” So I am more hopeful than most. Maybe I am naive, but I am more hopeful than most both because of the increasing acknowledgment on both sides of the aisle of the severity of this problem and because of the discussion of coming together in some sort of a forum.

On your Medicare and Medicaid question, absolutely. The Medicare program over the next ten years grows at 7.6 percent. Instead with all of the proposals that we have included in our budget, it would grow still—I'm sorry 7.4 percent over ten years under current projections and instead it would grow at 6.7 percent. So 7.4 percent versus 6.7 percent would be the difference. That still is a healthy rate of growth as an annual rate of growth. It is, of course, way higher than inflation. It is, of course, higher than the growth of our economy. It is, of course, higher than the rest of domestic spending which the last three years Congress has kept to around one percent and we project going forward. So it is a substantial growth and it is a substantial commitment to our seniors. On Medicaid, the growth rate is projected to be about 7.3 percent over that period of time. All of the proposals in our budget would mean there would be a growth of about 7.1 percent. So still, again, a substantial growth well beyond inflation, the growth of our economy and other domestic spending.

With regard to the tax relief, you are absolutely right. It would include the marriage penalty relief but also child tax credit, also expansion of the ten percent bracket. Also, again, tax relief that is critically important we think to innovation and entrepreneurial activity that has helped create the additional investment and jobs to put us in this position today of having more revenues and therefore a chance to balance this budget. So we would hope that that tax relief could be continued rather than raising taxes on America's families and on those that are creating opportunities for others that would incur if we did not continue that tax relief. So those are all measures that would be expiring in 2010 unless Congress acted.

Chairman SPRATT. Mr. Doggett?

Mr. DOGGETT. Thank you Mr. Chairman, and Mr. Portman for your testimony. Mr. Portman, I want to be sure that I understand the request from the administration concerning the President's widening of the War in Iraq. As I understand it, you have included additional monies in the 2007 war supplemental for the additional 21,500 combat troops, but you have not included it in the 2008 budget request. And therefore the funding for those troops comes to an abrupt halt on September 30 of this year. Is that correct?

Mr. PORTMAN. Mr. Doggett, you are correct. It is in the 2007 supplemental, but it is not included in the 2008 supplemental.

Mr. DOGGETT. Not in the 2008. So, if we want to continue that escalation and widening of the War after September 30 of this year, the Administration will be back asking for more money if they find that necessary?

Mr. PORTMAN. You know, I think so. Let me tell you what we are proposing in 2008. And, again, as I said earlier——

Mr. DOGGETT. Well, let me come back to that at the conclusion and let me just——

Mr. PORTMAN. Because I think it answers your first question. If you look at 2008, and we have provided you not just the supplemental request but, let me pull those boxes up. Here are the justifications that go with this 2008 request. We have never done this before. So it is a lot of detail and you will have the chance to have oversight and look at it. It is basically a straight line projection. In other words, it——

Mr. DOGGETT. Yes, sir. I want to talk to you about those assumptions.

Mr. PORTMAN. Yeah.

Mr. DOGGETT. But you've answered my question, that come September 30 no money is requested by this administration for this escalation that it says is going to solve all our problems there.

Mr. PORTMAN. It depends——

Mr. DOGGETT. And also with reference——

Mr. PORTMAN. It depends what is happening at that time, that is what my point is. Just to not assume——

Mr. DOGGETT. Yes, sir. Well, we are going to talk about what is happening at that time next.

Mr. PORTMAN. Okay.

Mr. DOGGETT. But you also did not include in the supplemental request, even from now until September 30, the dollars for the support of those 21,000 additional troops. Which the Congressional Budget Office answered a request from our Chairman, Mr. Spratt, last Friday that the true cost of the escalation the President has proposed is not $5.6 billion as you have requested, but could be as much as $27 billion for 48,000 more troops. And so, if you get the true cost, again, if not enough money has been included here we can expect yet another supplemental increase. I realize you brought along a few boxes and you sent boxes of papers over to the committees. But I think all we have gotten is really just a glossy version of what we have had in the past and not the kind of detailed accounting that is done with the regular defense budget.

I think what we are finding is that just as the cost in blood and money for the President's invasion of Iraq has skyrocketed from what the American people were told at the outset, the cost of the President's decision to reject sound military advice and the Iraq Study Group findings by escalating and widening the War are escalating even before the escalation gets under way. Initially, administration officials claimed that the expansion would only cost $5.6 billion for 21,000 troops. We now know that that is not accurate, even though there is some debate about how big that increase is. You were going to tell me about the flat lining afterwards. We also have the new National Intelligence Estimate. And it concludes that even after eighteen months, not on September 30 but even after eighteen months, the Iraqis will not likely have significantly increased their security enough to reach the level that the President said they would be at last year. This directly conflicts with your budgeting and with Secretary Gates' claim that the escalation will only last for a few months. Unless it is the administration's intention to simply escalate and then leave before the security level that can be provided by the Iraqi troops is where the National Intelligence Estimate says it will be.

The Defense Department testified from that same chair to the Committee a couple weeks ago that the administration is running through money in Iraq at about $10 billion a month. And that it does not have even an operational plan, a scenario, or a cost analysis for bringing the troops home at anytime in the future. In view of that, and the findings of the new National Intelligence Estimate that the Iraqis will not be up to the job a year and a half from now, to put in $50 billion as the cost of the War for the budget that you would be submitting when you are sitting in this chair at this time next year to begin in September of 2008 is just in conflict with a President who stated publicly that he plans to just hand this problem off to his successor. And it seems to me that it is as misleading as the claims that were made at the outset of the War that the total cost of the War including sweeping away the rose petals from the streets would not exceed $50 billion.

I know that you have said much of this is incalculable. Certainly the suffering the administration policy caused is incalculable. Certainly the loss of our standing in the world is incalculable. But is it not grossly misleading to calculate that the annual cost of this War for the fiscal year that will begin eighteen months from now will be only $50 billion? And does this not just represent a continuation of the deceit of Congress and the American people concerning what it costs in money, not to mention blood, for this widening conflict?

Mr. PORTMAN. Thank you, Mr. Doggett. I do not know if it will make you happy or not but I think I can clarify some of your thinking on what we have presented. It is a good faith effort, as I said earlier, to try to present more and better information. It is not accurate to say, as you did, that it does not provide account level information. It does for the first time. And so although it is a chapter of the budget, not part of the DOD base, which I would argue is the appropriate way to present it and I would hope you budgeteers would agree on that, it does provide the account level information you would expect in the DOD base. We have not done that before.

Mr. DOGGETT. So you do provide the O-1s and the M-1s?

Mr. PORTMAN. Yes.

Mr. DOGGETT. Okay, thank you.

Mr. PORTMAN. I am glad that makes you feel better. Second, you say that we are wrong in our estimate of $5.6 billion. We are not. We are, again CBO makes very different assumptions than we do. One of our assumptions, and it is deliberate, is that this is fiscal year 2007. So we do not, under our plan, have this increased in brigades. And I will talk about it in a second. Some other assumptions that are different——

Mr. DOGGETT. Just as to that assumption, so we do them one at a time, your assumption is then that the escalation ends on September 30?

Mr. PORTMAN. That is correct.

Mr. DOGGETT. Okay.

Mr. PORTMAN. You had said earlier that it is just a few months. That is more than a few months. But it is within this fiscal year, through the end of September. Second, you know, CBO makes an assumption, I wish they would talk to us first before they came out with their assumptions. Because we have done a lot of work on this, both DOD and at OMB, scrubbing the DOD request. A lot of this comes, as you know, from extensions of existing deployments. And they are assuming it would be all new troops going over to the region, which is more expensive. But we have laid out, you know, again deliberately a plan here that does involve extending some of the deployments that are currently in the theater. And then finally, you know, in terms of the support troops, we believe that the support troops currently on the ground can provide more support. And we have a way that we can demonstrate that. If CBO had come to us earlier, I think it would have been helpful. And also, again, some of those troops are not troops coming over with the reinforcements but would be extensions of existing deployments.

So that is the difference in our $5.6 billion figure and their figure. But it is an assumption, that this increase in brigades, this reinforcement, will over this fiscal year have the intended effect. And that is what our military planners think.

I guess the final thing I would just say is, you know, we are providing to you and to the American people a lot of detail here some of which, and that is one reason why I wanted to talk about the straight line, is very difficult to predict. A few months from now things will have changed. Two years from now, which is where most of the 2008 funding would actually be spent, things will have changed a lot. We are hopeful that our plan will be successful. We believe that it will be to quell some of this sectarian violence, to enable us not to have to incur these same costs.

But what we are giving you in 2008, just so you understand, does not reflect that. It reflects a straight line in terms of the military operations. The difference, because it is our good faith effort to try to give you in a transparent way that option. But it is that option. It is $145 versus $170. You might ask why. The reason there is that, as you will see in the 170, we, you and Congress and we, have decided to front load more of these costs on what is called reconstitution or reset. Instead of putting $50 billion in the bridge, you remember in October we put $70 billion in because we added twenty-two or twenty-three in terms of reset or reconstitution of equipment subject to wear and tear in the theater. That is a decision we have made to invest more heavily in that in 2007 than we had previously projected. Some of that money will not be spent, as you know, for two or three or four years. But in terms of the military operations, and there is reset in 2008 as well, again, we are providing all of this justification. You can pick it apart. You may disagree with it. But I do not want to overstate, frankly, what we are presenting you in terms its accuracy because it is impossible to predict. Our military planners can't——

Mr. DOGGETT. Mr. Chairman, thank you for your tolerance but this is so very important. I just want to be clear on the very first point you made. You are saying that the best judgment of yourself, your military planners, Secretary Gates, Vice President Cheney, and the whole lot, is that this escalation, which has not quite gotten underway yet, will be over before September 30 of this year?

Mr. PORTMAN. What I am saying is, it is not my estimation. I am the budget guy and my job is to be sure appropriate resources are there for an appropriate request. And what the military planners have said is that this is a deliberate policy decision on our part, that the additional brigades, the reinforcements, would be within this fiscal year.

Mr. DOGGETT. So is it a deliberate decision you will not need them after September 30? Or that you just want to deceive the American people that you will not need them after that by not putting any money in?

Mr. PORTMAN. No, that is our plan.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mr. Tiberi?

Mr. TIBERI. Thank you, Mr. Chairman. Welcome back, Director.

Mr. PORTMAN. Appreciate it.

Mr. TIBERI. Good to have you here.

Mr. PORTMAN. Thank you.

Mr. TIBERI. As you know, we in the House last month passed a new PAYGO rule. In your judgment, what does the effect of this rule have on the budgeting process? And more importantly to your testimony, long term what in your judgment does this new rule have, what effect will it have particularly on the next generation? And you have a vested interest as a father of three young children, one of whom may, your daughter may be here in Congress one day trying to struggle with those issues.

Mr. PORTMAN. More likely her than the other two.

Mr. TIBERI. That is right. I know all three of them, that is why I mentioned her.

Mr. PORTMAN. You know, in our budget proposal we take a little different approach on the PAYGO side. As we said earlier, when you look at the big picture here we are not an under-taxed society. Our issue is spending. We have now levels of taxation that are above the historical level and we project that to continue over the five and ten year period. In terms of the spending side, we think it is important to have more discipline in the process. The PAYGO that you all passed does apply to spending but only to new entitlement spending. In other words, it does nothing about the continual problem we have talked about at length here today of the unsustainable growth in the programs. It does say if you want to add more on top of that you would have the find the resources to pay for it. It does also not address the day to day government spending that is annually appropriated. And I think that would be a surprise to a lot of Americans to hear that. But what most people think about government spending, the agencies and departments and programs that are annually appropriated are not subject to PAYGO under the rule that you all passed.

So I said in my testimony we in effect extend PAYGO to the domestic side by having caps on domestic spending, enforceable caps which would act like PAYGO. So we go further on the spending side. Plus, we have this trigger mechanism for the largest fiscal problem we face which is on the Medicare side, that if Congress determines that the Medicare program is growing at these fast, unsustainable rates then Congress has to do something about it. So we take a little different approach. We think that if you apply it on the tax side and say that you cannot extend existing tax relief, like the tax relief that Mr. Diaz-Balart talked about, that that could have a very detrimental impact on our economy and on many American families. And we think instead we ought to focus on the spending side.

So that is, I guess, the difference in our approaches. We do believe in PAYGO. We apply it more broadly on the spending side, both on existing, mandatory spending and on the domestic, discretionary spending that you all appropriate every year.

Mr. TIBERI. Switching gears a little bit, Director, as a new member of this Committee I noticed a little bit of give and take between you and the Chairman and a few other members about the budgeting process. And you have been a member of this Committee. You have been a member of the House in the minority and in the majority. You were a member of the House with a Democrat President and Republican President. With respect to the budgeting process, whether it be war costs, whether it be AMT relief, whether it be other matters that have been talked about today, you have gently talked about the fact that Republicans and Democrats do the process the same. So are you saying that when the, when Mr. Clinton did his budgeting, same as this President is doing his budgeting? When the current majority was the majority when you were in Congress at the beginning of your career are you saying it was done the same?

Mr. PORTMAN. Yes, I am. And we have talked about different approaches to budgeting, how you can look at the obligations of the government differently. What we have chosen to do is budget on the basis of a unified budget, meaning all of the money in, including payroll taxes, and all of the money out. And the point that I was making earlier is, at a minimum we ought to be able to achieve a balance in terms of that approach to budgeting. In other words, be sure that all the funds coming in and all the funds going out reach a balance just as happens in every American family, every small business in America. You have to figure out a way to balance.

There are ways to look at this that are more like businesses, which is an accrual method where you say, “Gee, what are your actual liabilities?” For instance, retirement of our federal employees. Should that be included? And that would be sort of the next step as a net operating cost budget. Discussion was here today about showing the surplus in social security. That is another way you could approach it. And then the final one, of many options, would be to look at what our obligations are. They are not liabilities because we have the ability to change the direction of these programs, and we must in my view. But what would it mean if we did not? And that is the $32 trillion unfunded obligation in Medicare or the $5 trillion unfunded obligation over seventy-five years in social security.

So I guess you are absolutely right. This is the way it has been done in the past. This is the way I believe, you know, we ought to achieve balance together. That would be a first good step. But at the same time, we should be more transparent in showing these other approaches and other costs. And that is why I shared this with you today, which has the operating cost approach I just talked about and also has the ability for us to look at what they call I think the social insurance long term forecast, which is along the lines of the unfunded obligations I talked about. So we provided this on our website, omb.gov. It is on the Treasury website. I encourage people to look at it and understand as best we can provide what the fiscal situation is of the United States.

Mr. TIBERI. Thank you.

Chairman SPRATT. Thank you. Mr. Berry?

Mr. BERRY. Thank you, Mr. Chairman. Mr. Director, I appreciate you being here. Also, you will have to forgive my cynicism and my having a hard time buying into some of this. My first thought is, if we are doing so good how come we are broke? We have borrowed $3 trillion under this administration and if it gets any better I do not know how we are going to stand it. My second thought, and I have told you this, I remember your predecessor, or one of your predecessors, coming to the blue dogs back in April of 2001 assuring us that if we just voted for those tax cuts that the greatest danger would be that we would pay off all of the debt and people would not have a safe place to invest their money because there would not be a U.S. Treasury Bond. Thank God we have avoided that horrible situation.

Now, I want to shift gears just a little bit. I notice you have a $15.5 billion decrease in your budget for commodity support programs and crop insurance. The question I would like to ask you is this, has OMB or anyone else to your knowledge or to your ability to discover, and I would not expect you to answer this today, ever calculated the value that the American people receive by having by more than fifty percent the lowest cost for food and fiber of any nation in the world? We spend less than half as much money of our disposable income in this country of any nation in the world. I believe that farm programs contribute to that and they make it possible. Because the only justification for a farm program is to have adequate production and processing capacity so that the American people have a guaranteed, reasonably priced, safe food and fiber supply. And there is no other reason to have that.

I think that over the years we have done a pretty good job. The last Farm Bill cost considerably less than the tens of billions of dollars less than what it was projected to cost. And I question the cut that you have made here as far as our national security is concerned. If we do not have the ability to feed ourselves and clothe ourselves, well not having enough gasoline is a big problem. Not having enough food and clothing is a sure enough serious problems. So, like I say, I would not expect you to answer that today. But I would like to know if anybody has ever looked at it. And if there is an answer to it I would like to hear it at some point in the future.

[The information requested follows:]

RESPONSES TO CONGRESSMAN BERRY'S QUESTION FOR THE RECORD FROM DIRECTOR PORTMAN

*Question:* Now, I want to shift gears just a little bit. I notice you have a $15.5 billion decrease in your budget for commodities support programs and crop insurance.

The question I would like to ask you is this: Has OMB or anyone else to your knowledge, or to your ability to discover—and I wouldn't expect you to answer this today—ever calculated the value that the American people receive by having, by more than 50 percent, the lowest cost for food and fiber of any nation in the world?

We spend less than half as much money of our disposable income in this country of any nation in the world. I believe that farm programs contribute to that and they make it possible, because the only justification for a farm program is to have adequate production and processing capacity so that the American people have a guaranteed, reasonably priced, safe food and fiber supply. And there's no other reason to have that.

I think that over the years we've done a pretty good job. The last farm bill cost considerably less, in the tens of billions of dollars less, than what it was projected to cost. And I question the cut that you have made here as far as our national security is concerned.

If we don't have the ability to feed ourselves and clothe ourselves—not having enough gasoline is a big problem. Not having enough food and clothing is a "sho 'nuff" serious problem.

So, like I say, I wouldn't expect you to answer that today, but I would like to know if anybody's ever looked at it. And if there is an answer to it, I'd like to hear it at some point in the future.

*Answer:*

- I can not verify that U.S. food costs are 50 percent lower than anywhere else in the world, but I agree with your general observations that we have an abundant food supply at very reasonable prices. Much of the credit for this accomplishment goes to the ingenuity of America's farmers.
- The farm economy continues to be extremely strong, despite a reduction in government payments (due to high prices) and higher input costs.
- Net cash farm income is forecast to be $66.7 billion in 2006, following highs of $81.5 billion in 2004 and $81.2 billion in 2005. The 3-year period 2003-2005 was one of unprecedented income creation for the U.S. farm sector.
- Total cash farm receipts are forecast to be $242 billion in 2006, the fourth consecutive year that cash receipts have attained a new record level.
- The Administration's farm bill proposal is meant to build on the current law by reacting to changes in market conditions while maintaining a safety net. Comments from 52 listening sessions that the Secretary of Agriculture conducted with agricultural producers and stakeholders were used to develop the Administration's proposals, which address the agricultural sector's concerns.
- The majority of the reduction in commodity spending that you cite is not due to policy changes, but the result of high commodity prices reducing government spending on commodity support programs. However, if actual prices turn out to be lower than estimated, outlays will increase automatically above the budget estimates.
- In fact, the Administration's farm bill proposal includes a net $5 billion increase over baseline spending for agriculture. The proposed reductions in commodity spending will be more than offset by increases in spending for other areas such as conservation, energy, and rural development.

We sit in this Committee meeting and we discuss tax rights as if that was the only issue as far as economic growth is concerned. And we talk about entitlement reform. And I know that you have made those recommendations in your budget. Why do you not ever look at how much money we could save if the American people received the world market price for pharmaceuticals? Why do you not ever consider in your budgets reducing, I know you take up reducing expenditures or payments to providers, but you never consider reducing payments to private insurance companies that provide Medicare Part D and the Medicare Plus choice and some of those privately run senior citizens' programs. I am curious as to why you do not ever consider reducing their payments as well. I would love for you to get back to me on that.

And certainly you are right. We are all in this together. I feel like right now that you might have bought a ticket on the Titanic. And I am trying not to get on the boat.

Mr. PORTMAN. Well, thank you Mr. Berry. We will get back to you on that lowest cost of food and what is the impact on our economy, and how is that benefit, you know, balanced with the Farm

Bill changes we are recommending. I think Secretary Johanns sits before you later this week or next week, and I think you are getting an opportunity to get into some of the Farm Bill issues with him directly. I will say that in the budget, from the budget perspective, if we had taken the 2002 Farm Bill, which is the most generous farm bill that we have passed in this country, and extended it out for five years, or for ten years under our budget five years, the baseline spending, because of high prices, as you know, would have had a lower cost to the budget than we put in. In other words, we have added $5 billion over ten years to what would have been the 2002 baseline.

We did that because, as you know, in the Farm Bill proposal that Secretary Johanns laid out there are some changes both on the commodities side as you indicate but also on some of the so-called green box, research and conservation and so on, have additional spending. So actually our baseline, and Mr. Spratt knows what I am talking about, had to be increased not decreased for the Farm Bill because we added another $5 billion. I do understand your concerns on the commodity programs because there are some reforms projected by Secretary Johanns in those programs. And again, you will have a chance to talk to him about that, about the Rice Program and so on, and how that would work. But the Marketing Loan Program, Counter-Cyclical Program, changes notwithstanding, there is actually more money in the budget for our farmers than we would have had under the 2002 bill.

We will work with you on that. I mean, we are going to have to work together, as I said with SCHIP, to reauthorize this year. And the budget numbers that we put in here we think give us some room to be able to work together.

On the other issues that you raised, I will get back to you on some of your specific questions. But I will say on the, you said reducing payments to the private insurance businesses in Part D, or the, I assume you are referring to Medicare Advantage Program under regular Medicare. It is interesting, because if you look at what has happened since we passed the prescription drug plan, which is Part D, the costs are less than we projected. It is less than CBO projected. And remember, those costs were considered low. At that time CBO was accused by some of being lower than they should be because the actuaries at HHS were higher. It turns out even CBO was high. And part of the reason for that is that the competition between the providers of the prescription drug plans who have to now compete against each other as private insurers has resulted in lower costs than we expected. As you know, premiums are lower than any of us expected. At the time we were talking about $36 dollar premiums. And now we are in the mid-twenties.

So the plan has worked pretty well from a fiscal situation, from my budget perspective in the sense that it is less costly to the American taxpayer. It has also worked well for beneficiaries in the sense that their costs are lower than we expected that they would be. And I think it is largely because of the competition. So I would be hesitant, personally, particularly in Part D, to change the way we reimburse people on that basis because I think the competition is healthy for our seniors. As long as there is transparency information, and we can always do a better job and we are providing more of that. But seniors have been pretty smart. You know, they have beat a path to the lowest cost plans to provide for what they need. And so I think that may be a model we should be looking at for the rest of Medicare rather than talking about, you know, going as you suggest maybe to reducing payments to private insurance businesses. Let them compete. Let them compete with each other for the business, and maybe that is, based on our experience in Part D, an approach that can both help the beneficiary and save the federal government some of these otherwise difficult challenges we are going to have on the entitlement side.

Mr. BERRY. We do not have enough time, but I would take great exception to the way you describe that. The reimbursement does not go to the people that need the medicine. The reimbursement, the money that the government spends goes to the insurance companies.

Mr. PORTMAN. Yeah.

Mr. BERRY. And I do not understand why you could not reduce their payments just like you do payments to hospitals and doctors and pharmacies.

Mr. PORTMAN. Well, we will have a longer discussion when you have a chance.

Chairman SPRATT. Mr. Smith?

Mr. SMITH. Thank you, Mr. Chairman. And I think we are starting to talk a little bit about what I am going to ask about, but it is the Farm Bill. And first of all, I do applaud your efforts to balance the budget certainly without raising taxes and I believe that the key to balancing our budget is growing our economy and promoting fiscal responsibility. Also, serving on the House Ag Committee I look forward to the Farm Bill discussions that we are about to have.

And we know that farm bills are written to cover current economic issues or economic times. And as you know, today's conditions are much different from those of the 2002 Farm Bill debate. And clearly in 2002 Congress did not anticipate the commodity prices we are experiencing today, and I say that proudly. But that said, within your projections to balance the budget by 2012 do you have room to accommodate fluctuations in policies which may be unexpected or unintended? That could be within the Farm Bill, that may be with some other policies. Do you have any instructive remarks as to what cautions you may urge as we look at various policies that may have some unintended consequences?

Mr. PORTMAN. It is a great question. And I think Mr. Berry raised some of the same concerns. You know, how do we know what this program is going to look like going forward? We rely, as we always have, at least I am told we always have, on the USDA projections as to what prices are going to be. Right now, as you know, there is a high demand, low stocks for a lot of commodities including corn, of course, primarily because of corn being used more and more for energy. And our ethanol plants need more corn. There is substitution going on, as you know, so that a soybean farmer is now planting corn for that reason, and that raises the price of soybeans. So, the overall impact of this is that commodity prices are up and therefore our programs, like the Marketing Loan

Program or the Counter-Cyclical Program, are paying out less. And as a result over the next five years and ten years based on the assumptions again that the Department of Agriculture is making about market conditions during that time period they think that our federal payments will continue to be relatively low.

So our proposal actually provides more funding rather than that baseline projection, and that is that $5 billion figure I talked about earlier. We will see how this all pans out, but when you look at, again, the demand right now side of the equation and you look at the potential for expanding exports, and I worked with Mr. Berry for instance on Turkey. They were blocking our rice exports. We worked together and opened up that market more. You know, there are so many opportunities out there from my previous job as trade representative, we should be doing much more exporting of our farm products. We already plant one out of every three acres for export. We can do more there. We have the most productive farmers in the world. And you see the energy demand will not be decreasing. I think it will increase based on all projections.

I think this is adequate, Mr. Smith, to provide what you were talking about, which is the fluctuation over the next five and ten years. But we will look forward to working with you on the Committee jurisdiction, the Ag Committee where you sit you are going to have a powerful voice in that. And I know Secretary Johanns, again, will be talking about this in more detail when he comes before this Committee.

Mr. SMITH. Would you say that the newly proposed farm policy might be more stable, more predictable budgetarily?

Mr. PORTMAN. I think it will be. It will be more market based, too. In other words, by taking out some of the price and production factors in how the federal government provides its subsidy you get to more of a market based system. And I think that is good for the consumer, frankly, to Mr. Berry's question earlier. I also think that if you look at where some of this additional funding is going, which is to provide conservation, research, other programs some of which will provide farmers more of a sense that there is a safety net, in essence, I think it could end up having the impact of being more predictable for farmers.

Again, I know this is a tough issue and there will be farmers in your state and elsewhere who will say that the 2002 bill was a good bill and they would like to continue it. I would just say to that, if you look at the baseline, it is going to happen with the 2002 bill, we are actually providing, based on our estimate as to what will happen, we are actually providing more not less funding in this budget to be able to leave room for you all to negotiate a good farm bill.

Mr. SMITH. Thank you.

Chairman SPRATT. Mr. Boyd?

Mr. BOYD. Thank you, Mr. Chairman, and Director Portman I know you are glad to get to the end of this table.

Mr. PORTMAN. I am glad to get to you.

Mr. BOYD. Thank you. I think, Mr. Chairman, this has been very instructive for all of this, certainly in outlining all of the challenges and the issues and the problems we face as a nation over the short term and long term future. And I firmly believe that intelligent people working in good faith, operating in good faith, can solve these problems. And I want you to know, Mr. Chairman, I put Director Portman in that category along with you and the Ranking Member, Mr. Ryan. So I am quite optimistic that we can solve these problems.

I want to just remind some of the members that have spoken that the United States of America, the greatest economic machine on the face of the earth, has about an eighteen percent federal tax rate as percentage of GDP. The total tax burden on our citizens is in the mid to high twenties. All the other G8 nations are in the forties. And so one of the things that made us the great nation is that we invest in some infrastructure, domestic infrastructure to enable our people to be the great economic machine they are.

We are spending about five percent of our GDP, Director Portman as you know, on defense, about two and a half times the percentage that the other G8 countries are spending, as an average. I want to follow up on a question, a comment, that Mr. Tiberi asked earlier. He talked a little bit about PAYGO. Now, Mr. Portman as you know there are many of us on this side of the aisle that have been pushing hard for the tools in our budget that will enable us to get back into balance. And we consider PAYGO and spending caps an important part of that. I think PAYGO was implemented by this Congress before I got here. You were here when it was implemented and then reauthorized on a couple of occasions. I think you were also here when the majority let it sunset in 2002.

But I think I heard you say in an answer to Mr. Tiberi's question that you would only support PAYGO, or the OMB's decision to support PAYGO, only as it relates to mandatory spending and not to the tax side? Is that the case?

Mr. PORTMAN. Yeah, what I talked about was, and I appreciate your comment on the discretionary caps, what we said is that we would expand the PAYGO concept to deal with not just new entitlement spending, which is as you know what the PAYGO rules apply to, but also to some of the existing challenges. We talked about entitlements. Even if there were new spending added to the existing challenge and to the domestic side through the application of caps which forces you to deal with PAYGO on the domestic side as well. So we would do more on the spending side, but we would not apply it to new tax relief or to the extension of existing tax relief, which is one of our concerns with the current PAYGO as passed by the House, in particular the 2010 extension of the tax relief from 2001 and 2003.

Mr. BOYD. But I think, I thought that was what I heard you say and I am sorry to hear you say that because it is our belief that if you use those kind of tools to bring something into balance you have to bring, you have to apply it to all of the ledger, not just one side of the ledger. And I do not know how you can use that as a tool to bring the budget into balance just by applying it to the spending side, mandatory spending side in this case. Because many of us here are willing to go out on the line and say, "We ought to have discretionary spending caps along with PAYGO rules, which should apply to across the board." And it is my hope that you would recommend to the President, if we can bring such a piece of legislation to get done. And I think this side of the Capitol, the leadership has agreed to work on that. We do not know what will happen on the other side of the Capitol, but there is a possibility we could do it and use it as a tool to get us into balance over a fairly short period of time.

Mr. PORTMAN. Well, again, we maybe have a little different view on applying it particularly, as I said, to the extensions like the tax relief that is already in place, that otherwise would result in an immediate tax increase on whatever individuals or small businesses would be affected by whatever parts of the code were not extended. So we think that is not, again, the challenge we face as a country. We now have tax rates above the historical average. We have spending, unfortunately, significantly above the historical average and that is where we ought to put more of our energy.

And I want to, again, you and I talked about this privately but I want to commend you. You may not want this commendation. But you have focused a lot on that issue, on the spending side, in your time here in Congress and particularly on the need for us to get control of these unsustainable growth rates in entitlements. To us, that is where the problem lies at this point. And as an aside I will say one of the concerns I personally have with PAYGO is that the way it would apply is not just limited on spending, because it is only to new entitlement spending, not to discretionary spending, not to existing challenges that we face. But also, it seems to me, it puts a bias against tax relief and in favor of spending. We talked about the Farm Bill a minute ago. You know, the parts of the Farm Bill that have to be extended this year because it has to be reauthorized are assumed to go forward. In other words, if the tax relief ends in 2010 we have pay for it. If the Farm Bill is extended beyond 2007 we do not have to pay for it under the PAYGO rules. It just seems to me that is exactly the wrong emphasis. The emphasis ought to be on where objectively speaking we have a bigger problem right now, at least historically, which is on the spending side. So I think there are some ways we could maybe work together on perfecting, you know, some of these rules to make them apply on a more evenhanded basis.

Mr. BOYD. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Lungren?

Mr. LUNGREN. Thank you very much, Mr. Chairman. It is nice to see you here, Rob, and I always wondered why you would take a job as U.S. Trade Representative between serving on this Committee and your present position, but now I understand. For the rest of your life you can be called Mr. Ambassador.

When I hear you talk about your differences of view on PAYGO it seems to me there is a basic philosophical difference in that at least from my point of view, and I guess you share this, there is a difference in terms of government paying something out to somebody and government taking something from somebody, and that is the essential difference between a tax and a payment. And I guess we have reached a position here where there are some who argue that they ought to be considered the same. Whether you receive or you give, it is the same thing. And I was not here when you passed the round of tax cuts for the President that will expire. But is it not the case that you had to have them expire because of budget rules, particularly in the Senate?

Mr. PORTMAN. That is true. Under the Senate rules there is a reconciliation process, so-called, that allows you to pass tax relief or other reconciliation of spending or revenue proposals by a majority vote rather than the normal sixty vote because of the filibuster rules in the Senate. And when you do that you are subject to the budget period of ten years.

So when the tax relief was passed it was passed, in my view, because it was the right thing to do for the economy at the time. That has proven to be true. If you look at the chart we had up earlier on what happened in 2003, there is a direct correlation between the implementation of the tax relief and the increase in production and productivity and jobs and so on. But under the Senate rules it had to be within this time frame.

Mr. LUNGREN. The only point I am trying to make is that here we are having this argument, and we are talking about somehow on our side of the aisle we are robbing from the American people, or not getting to a situation of a surplus because we want to extend tax cuts that were put into place as a result of the fact that there was a majority view in the Congress that they were good public policy, and because of Senate rules you had to have a limit on them. And now we have come up to the limit time and we are talking about whether we should extend that same public policy based tax relief and we are viewed as if it is a grab for the rich or somehow we are destroying the possibility for a surplus. And I do not think that that is very well articulated. It happens to be with the way they operate in the Senate, where majority rule does not rule, where the idea of the filibuster, which the filibuster's hoary history is that it was the means by which we stopped the Senate from ever passing anti-lynching legislation which passed the House a number of times. And yet now it is enshrined in the program over there on the other side of the Capitol and we are bound by it, and suddenly we are in an argument that, "Gee, we really only thought we ought to extend those tax cuts for several years because economically that made sense." And that is just not the case.

Secondly, I would like to ask you this. And that is, you have as your assumptions that we are going to have an unemployment rate over the next number of years below five percent. When I served here the first time around, the first couple of years before the Reagan proposals of serious tax cuts which we have continued forward, we had unemployment rates much higher than 4.8 percent, if I am not mistaken. If we were sustaining an unemployment rate of 7.5 percent, for instance, for the foreseeable future, what would the impact, do you have any idea what the impact on the budget outlays would be?

RESPONSES TO CONGRESSMAN LUNGREN'S QUESTION FOR THE RECORD FROM DIRECTOR PORTMANI

*Question:* After noting the low unemployment level from a strong economy, Rep Lungren asked Director Portman what the impact on the budget would be if unemployment rose to levels that sustained unemployment of 7.5%.

*Answer:* If there were to be a recession that raised the unemployment rate from it's current level of about 4.5 percent to the 7.5 percent level (and no recovery, so that the unemployment rate remained at that level for the ensuing five years), the estimated budget effect would be higher deficits by about $250 billion a year over the 2008-12 budget horizon. These deficits effects would overwhelming result from lower GDP and incomes, producing lower Federal receipts (and higher interest costs to finance the higher deficits). The direct impact of higher unemployment on outlays—higher unemployment compensation and other unemployment sensitive outlays (such as for food stamps and Medicaid) would be a relatively small part of this aggregate deficit effect—about $38 billion a year.

Mr. PORTMAN. Well, first, I will get you the answer to that question very specifically because we can plug that into the economic model. We talked earlier about the fact that it includes GDP growth and inflation and so on. But I think again, given what has happened over the last five or six years, that this unemployment number is a reasonable number. It also happens to be in line with the blue chip, which is a compilation of a lot of private forecasters' estimates. We are at 4.6 percent today. So, you know, frankly we are assuming that the unemployment rate will go up, not stay where it is today. And there is, you know, there is more sense by economists, and I should let them speak and not me, that given the flexibility in our labor market that that is, again, their estimates, a realistic estimate that we stay in that five percent, 4.5 percent range. We have been at the 4.5, 4.6, 4.7 rate. Now, it is low, relatively low, compared to the last few decades it is relatively lower. But we think it is a solid projection going forward to be slightly higher by not as high as it was, as you indicate, back in the 1980's or late 1970's.

Chairman SPRATT. Thank you, Mr. Lungren. I would simply say to the gentleman one of the things upon which the tax cuts in '01 and '03 were predicated was that they would still leave us with a balanced budget, still leave us in the black. And unfortunately, that did not turn out to be the case. I know there were lots of intervening events, but that does give you reason to review the tax cuts and decide whether or not a couple of years from now some should go forward, some should not, and some should be modified. We are simply leaving that question open. Mrs. Sutton?

Ms. SUTTON. Thank you, Mr. Chairman. Director Portman, thank you for your testimony. In your testimony and in here today we have heard a lot of discussion about the entitlement programs being the biggest fiscal challenge that we are facing. And while I appreciate that that is a challenge, you know, to be fair would not the costs that we are facing due to some of the decisions, the foreign policy decisions of this administration to launch and escalate our involvement in Iraq, is that not also an enormous fiscal challenge that we are facing? Not only now, but into the future with respect to veterans' healthcare costs and other needs that we are going to deservedly take care of?

Mr. PORTMAN. First of all, welcome to the Committee, a fellow Ohioan. And it is a good question. The costs for Iraq, Afghanistan, Global War on Terror over the last two years have been substantial. And yet, we have achieved a $165 billion reduction in our deficits during that time. So I am not saying that they are not, again, substantial costs. And going forward we are showing in a more transparent way those costs. But given the fact that we have had a solid economy and given the fact that we have been able to do a little better job of restraining spending in some other areas, we have been able to not just absorb those costs but also see a reduction in our deficit year to year.

So, you are right. It is a substantial cost on the veterans' side. We show, as you know, in our budget a substantial increase in veterans healthcare. We show a substantial increase in Defense Department healthcare. We show a substantial increase in some of the concerns that have been raised by members of this Committee before that we would be sure and provide adequate resources for those healthcare needs. So, it is in the budget. And again, I think with realistic assumptions on the economic situation and the non-security spending we can still show declining deficits. And we can get to a balance using the unified budget we talked about earlier.

Ms. SUTTON. Director Portman, there is so much more that I would like to talk about in terms of veterans healthcare and perhaps somebody else on this panel will do that. But I would like to shift just for a moment if I could to the issue of poverty and the fact that 37 million Americans live in poverty, five million more than in 2000. The Department of Agriculture classifies 12.6 million families as "food insecure" meaning that on any given day those families may not be able to buy enough food for the whole family.

Despite that, the President's budget includes a number of cuts to programs for low income families including food assistance programs; housing programs; provides essentially no increase over the 2007 level for housing choice vouchers, which of course is the largest low income housing program, despite the rising need for affordable housing; also cuts community development block grant programs, which by the way of course in Ohio are a staple of, you know, economic development for our communities among other things to meet the basic needs. This budget also cuts funding for low income energy assistance by $420 million below the amount needed to keep pace with inflation.

So the question is, so many of these programs are small, they are small in budget terms, in the federal budget terms. But cutting them has such an important impact in the lives of the most needy people who we represent. How do you explain the administration's priorities here? And the decision to reduce funding for these programs that address families' most basic needs for food and shelter while still finding the $2 trillion for the tax cut?

Mr. PORTMAN. Well, if you look at the budget, Ms. Sutton, there are a lot of proposals that also increase some funding in some of those very areas you talk about. One, as you know perhaps in the area of housing, we provide for the ability of the community housing authorities to provide more funding for the Section 8 vouchers you talked about. We believe that will lead to 180,000 low income families, by the way, getting vouchers who cannot get them today. That has been held up by some in the housing community as a positive thing. In terms of the other issues that you address, we continue a strong commitment with regard to some of the core issues that relate to low income Americans, like Medicaid, we talked earlier about SCHIP. We actually provide more funding than under current law. It might not be as much as you think we should be providing.

And then in general on the economy and on poverty, I am encouraged by what has happened in the last year. Which is, we are seeing now not just higher growth rates in our economy, not just higher productivity, but we are actually seeing higher wages. And this is hourly wages, which relates to some of the very folks you are talking about who are working poor, who are punching a time clock every day. And what they are interested in is that real wages have increased above inflation. And that is now happening. It normally lags in a recovery, and it lagged in this recovery. But it is interesting when you compare those two previous recoveries, whether it is 1990 or recoveries back to the sixties, it has always lagged. And we are a little ahead of where we were in 1990 in terms of these, again, hourly wage growths above inflation. And so I am hopeful that if this recovery is like others, it will continue to see that and that that will have a positive impact. Not just, again, the good numbers on the economy we talked about, which are not only good numbers but better than were projected. 3.5 percent growth this first quarter in this fiscal year. And, you know, our estimate for the year is 2.7 percent. But also that it is being shared more by lower income workers who are seeing their hourly wages going up now. So that should continue if this recovery is like others.

Mr. EDWARDS [presiding]. Mr. Bonner?

Mr. BONNER. Thank you, Mr. Chairman. Mr. Ambassador, it is good to have you back up here. I think I am the last on our side to throw a couple questions at you given some of the whacks you have gotten during the earlier testimony.

I asked this question of the new Director of the Congressional Budget Office last week and did not get a satisfactory answer, so let me ask it of the Director of the Office of Management and Budget. If we in Congress allow the tax cuts of 2001 and 2003 to expire without further extension, is that a tax hike or a tax cut?

Mr. PORTMAN. That is a tax increase.

Mr. BONNER. So if with our vote we choose not to extend those tax cuts that did create 7.2 million new jobs and a very low unemployment rate and other economic indicators that many of us believe have moved us in the right direction, if we allow those to expire, that will be a tax increase?

Mr. PORTMAN. Well, it certainly will be for the families who are taking advantage of a higher tax credit for children or small businesses that are taking advantage of a lower tax rate for their growth and expansion. So, you know, to change the current tax structure which we believe has contributed to the economic expansion would be viewed as a tax increase by those who are affected by it. As important to me, from a budget perspective, is you really put at risk some of the economic growth that has led to these higher wages I talked about, has led to more job opportunities you talked about. There are now 7.4 million new jobs, by the way, since 2003. And it could put at risk some of these revenues that we have seen coming in that enable us to get to the point of talking seriously about balancing the budget.

Mr. BONNER. Let us shift gears for a moment. You have had three impressive positions that I know of on your resume, since I have known you. You have been a member of this body, you have served with distinction as our trade representative, and now continue to serve with distinction at OMB.

Mr. PORTMAN. Of course, Vice Chair of the Budget Committee was the pinnacle for me.

Mr. BONNER. I can understand why. What we have, following up on the question of our colleague from Florida, Mr. Diaz-Balart, we seem to have a real hard time, and I guess I want to ask for your help in convincing the American people of what a cut really is. If you see an inflation trend in a program, and in fact growth in a program, is there anyplace else, you are from the Buckeye State, is there anyplace in Ohio that understands an increase in spending and yet that is a cut? That is certainly the way it is portrayed here in this city. How many of these so-called cuts that you have had to defend and answer today are really cuts in the actual programs that you have been talking about?

Mr. PORTMAN. Well, it is a good point. And Mr. Bonner, I know you worked here as a senior staff member and now as a member, and you have seen over the last few decades this discussion take place. And still it is difficult to successfully communicate what we are talking about. We are not talking about in the area of Medicaid or Medicare a cut at all. In fact, the rate of growth is far higher than the rate of growth in the economy or inflation or even the rest of the domestic spending. And with regard to Medicare, as I said earlier, it will grow. It will grow at a healthy clip, about 7.4 percent over the next ten years if we do nothing and if we took all of these proposals we are talking about and implemented them it would be still 6.7 percent growth. In Medicaid I think the number is, it would grow at 7.2 percent, 7.7 percent as compared to 7.6 percent if all of our proposals were implemented.

So I think when most Americans hear that they do understand that we are talking about a slow in the rate of growth that is otherwise unsustainable without, again, huge tax increases, big benefit cuts, or going deeply into debt in the future. And the out years are pretty scary. I mean, when you look at the unfunded obligation over a seventy-five year period or worse yet over the infinite horizon, it is time for us as responsible public officials to figure out a way to come together and make some sensible, relatively small changes now to avoid that fiscal challenge becoming a reality in the future.

Mr. BONNER. Thank you, Mr. Chairman.

Mr. EDWARDS. Thank you. Mr. Andrews?

Mr. ANDREWS. Thank you, Mr. Chairman. It is good to work with my friend from Ohio again in his new capacity. Mr. Director, in your testimony you identify the percentage of the deficit to GDP as “the key measurement of the deficit because it shows the impact of government borrowing on economic activity.” I tend to agree with your observations. David Walker was here ten days ago and released an analysis that says that by 2015 the deficit will be about five percent of GDP if there were not significant policy changes. You are proposing, as I understand it, one significant policy change which is that discretionary spending would grow slower than the rate of inflation, but you keep the tax cuts in place. And I do not see any major entitlement suggestion, I think it was $68 billion over five years which is pretty minor in the grand scale of things.

If we adopted the President’s budget as submitted, what percentage of GDP would the deficit be in 2015?

Mr. PORTMAN. Mr. Andrews, I will get you that exact number. I will tell you in 2012 we would be at a $61 billion surplus under a unified basis, and I do not know if, sometimes Mr. Walker wisely focuses us more on the so-called out year obligations, or sometimes he talks about the net operating costs we talked about earlier. So I am not sure which of those figures he was using, but under our unified approach that all of us use, including Congressional Budget Office, in 2012 we would actually be in surplus and then in 2015 we actually go further into surplus under our calculations.

Mr. ANDREWS. Yeah, if I may come back to this unified versus non-unified distinction, though. I think you just said this. It is accurate that if you look at the actual operating federal budget net of social security we are not in surplus in 2012 under your proposal, correct? What is the projected social security surplus over the next five years in your plan?

Mr. PORTMAN. I will give you that number in a second. I think it is about $160 billion on average per year.

Mr. ANDREWS. And how much of that do you apply toward the deficit?

Mr. PORTMAN. Those are, again, based on a unified budget, payroll taxes coming in and so we include that as part of the unified budget.

Mr. ANDREWS. So all of it?

Mr. PORTMAN. Yeah. Yeah.

Mr. ANDREWS. All of it. So none of that, we often use the rhetorical fiction here of a social security trust fund, and it is a rhetorical fiction. But if there were such a trust fund no dollars in the projected social security surplus would be set aside to meet future social security obligations under your plan, is that correct? Nothing?

Mr. PORTMAN. Well, it depends how you look at it. I mean, if you assume that we are going to have those obligations in the future, which is that $5 trillion figure I talked about——

Mr. ANDREWS. Well, we are.

Mr. PORTMAN. Well, then it is being credited toward the trust fund. And that is how, you know, again, these relatively large numbers in the future are arrived at. The question is, what do you do with the surplus when it comes in? Under statute, as you know, we are able to invest that in Treasuries only.

Mr. ANDREWS. It would be an interesting thought if we were to treat that surplus the way a defined benefit plan does in the corporate world and actually save it against future obligations. I think one of the greatest risks in this process is that we get fixated on the next five years, which we should. But do so to the detriment of embracing the hardest questions about what happens in the next ten or fifteen or twenty years. And the truth is, there is probably a fairly marginal difference between what the two parties would do in the next five years. But there is an enormous consequence for not doing something about the next fifteen or twenty years in the next five years.

I did want to mention one area, we had this back and forth about what a cut is and is not, and inflation adjusted. If I read correctly your proposal on the elementary, secondary and vocational education accounts, there are in fact cuts in absolute dollars, are there not? If I read this correctly, in fiscal year 2008 that category would get $38.5 billion, which then drops to $37.5 billion in 2009. Am I reading that correctly?

Mr. PORTMAN. I do not think I have the chart that you have in front of you, but let me tell you what our numbers are. It includes an additional $1.1 billion for Title 1. As you know, No Child Left Behind is increased in the President's budget by about $1 billion. Part of that is Title 1. There are other education programs that again this year, as we have done in past years, we believe should be reduced or even terminated.

Mr. ANDREWS. I understand, but my time is up. I would just ask you to submit for the record the absolute dollars that you are proposing for elementary, secondary and vocational education in fiscal year 2008 and the absolute dollars you are proposing for that category in 2012. If I read it correctly they are essentially flat. It is $38.5 billion in 2008, $38.6 billion in 2012 which, you know, if inflation is two percent in those five years and accumulates that is a fifteen to twenty percent cut in purchasing power for programs like IDEA and No Child Left Behind, if I read that correctly.

Mr. PORTMAN. Yeah, we do, as you note, we have allocated that funding based on what we think are the priorities. And No Child Left Behind gets more than $1 billion in new funding under our budget because of that, as does Title 1 focusing on those kids who need the help most. But you are right, some of these other programs, including Voc. Ed. where we do not think you get the same value. Again, I encourage people to look at expectmore.gov, you can see our analysis of these programs. We do not have——

Mr. ANDREWS. It just looks like education could expect less.gov under the proposal that you are making, that is just my observation. Thank you, Mr. Chairman.

Mr. EDWARDS. Mr. Bishop?

Mr. BISHOP. Mr. Portman, thank you for your testimony and thank you for your endurance. I want to focus also on the issue of education and I think you know that in our continuing resolution we passed an increase in the Pell Grant maximum to $4310 for next year, and so I think all of us are pleased to see that the President is also requesting an increase in the Pell Grant maximum to $4600. But if I read your tables correctly, the estimated cost of increasing the Pell Grant maximum to $4600 in 2008 will be $532 million. And that unfortunately is offset by zeroing out SEOG, which is now at $771 million and you would zero that out which I guess you would agree is a cut. And the Perkins revolving fund, the President requests that it be recalled. And if I am reading the charts correctly that is a $419 million cut for fiscal year 2008 also bringing that to zero.

So if I am reading these numbers correctly, to increase the Pell Grant maximum to $4600 would require $532 million of additional appropriations but it would be done at the expense of cutting $1.2 billion out of other student financial aid programs. And so my question to you, again if I am reading these numbers accurately, is how can anyone suggest that this would increase affordability if we are adding $532 million and deducting $1.2 billion from the total student aid available from the federal government? This is a net loss of $700 million and some, so how can we suggest that this is a good thing?

Mr. PORTMAN. I do not have all the charts that you are referring to, but I can tell you that my understanding is that by taking the maximum Pell Grant, $4600 per student, which as you indicate is a substantial increase in fact over what the House just did and the long term CR. Which frankly I had not expected to see and was also pleased to see that, because I think it is good policy. We make a new and substantial commitment. Actually, we take it up to $5400 per student by 2012. And that is a substantial new commitment for exactly what we think is the most important issue, which is low income students being able to get access to colleges and universities.

The SEOG program you talked about, you are absolutely right, that is a cut. And although it is a relatively small amount compared to the increase in the Pell Grants, and I would encourage you to look at those separately. I mean, I think those were two different policy issues. We think that the SEOG program is based on an antiquated formula and frankly does not show results. And again, we talked earlier about performance and looking at results, but it is based on a formula as I understand from back in the sixties or maybe, I think the 1960's. It goes primarily to more established schools, including some important Ivy League schools, that we think would be better served by increasing the federal commitment through Pell Grants. It does not go, by the way, to a lot of junior colleges or any schools that have been established since that time because they are not part of the formula. So we think SEOG is a flawed approach as compared the Pell. But the Pell Grant increase is substantially more than SEOG. The other ones I would have to look at, but I would encourage looking at them.

Mr. BISHOP. And I would just suggest, and I administered these programs for a number of years before I came here, and I would just suggest that I have an entirely different perspective of the utility, if you will, of the SEOG program and of the Perkins Loan program. And I know the administration a year ago when it requested the recall of the Perkins Loan revolving fund made the argument that it was duplicative of the guaranteed student loan program that we currently have. And I guess what I want to say to you is in the real world that is just not true. Most students who borrow a guaranteed student loan also borrow a Perkins Loan. Most students who get a Pell Grant also get a SEOG. So if what we are looking to do is influence individual students' ability to enroll, to add to Pell is a good thing. But to do so at the expense of eliminating both SEOG and Perkins is taking one step forward and five steps back. It will not enhance affordability. It will not enhance access. And I would, I mean I very much hope that my colleagues here in the Congress will recognize that.

One other thing, we did look, in the Higher Ed. Committee, we looked at the formula by which the campus based programs are allocated. We recognize that it is a formula that gives preference to well established schools. And we were struggling with ways to change that formula. What came out of the Higher Ed. Reauthorization that the House passed changed it in some ways, perhaps not perfectly, but changed it in some ways and I think when we reauthorize again this year we are going to look at that. But I guess I just think it is, and I do not want this to sound impolite, but it is disingenuous to assert that increasing Pell is going to enhance affordability when at the very same time we are reducing SEOG, I mean eliminating SEOG and eliminating Perkins. Thank you, I have used up my time.

Mr. PORTMAN. You and I should talk at some point privately about this and see where you would prioritize, because obviously you have a lot of experience in this area.

Mr. BISHOP. Okay.

Mr. PORTMAN. Our focus has been, and Secretary Spellings is the one to get into the detail and not me, to be sure that those low income students who could not otherwise afford college really have that opportunity. So it is a more targeted approach than what I understand even SEOG, even if it was not based on the formula which perhaps advantages more established schools would provide in terms of targeting. So I would love to talk to you about that when you get a chance.

Mr. BISHOP. Thank you. Thank you, Mr. Chairman.

Mr. EDWARDS. Thank you. Mr. Etheridge?

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Portman, I know that you are glad to see me.

Mr. PORTMAN. Well, I am glad to see you.

Mr. ETHERIDGE. The end of the line. Thank you for being here. I would like to spend just a few minutes after we finish. I have a question that relates to firemen. Roughly forty-five percent of the firemen who lose their life on the job or by heart attack or by stroke. The President signed that bipartisan legislation three years ago and my understanding it is still hung up in OMB. You and I need to talk and see if we can get that out. That is unacceptable when we have hundreds of firemen waiting for their benefit. I will not do that here because I think we can talk about that in a few minutes.

Let me just say before I ask my question, so that you will know and for the record, prior to coming to the United States Congress, I spent nineteen years in business, four years as a county commissioner where I chaired the commission for two, ten years in the North Carolina General Assembly where I balanced four budgets, and eight years as the elected state superintendent for the schools of North Carolina. So, some of my questions are going to be in agriculture, some in education.

But you said at the outset I believe, and I want to ask you a question on this, you said our highest priority is to protect the homeland. I believe that was your actual words. And I look at the first responder cuts and I am shocked. Because the cuts there are for homeland security at the state level. You can argue whether the state ought to fund that. Firefighter assistance grants cut by 54.7 percent, Burn grants cut by 37.2 percent, community oriented policing cut by 94.1 percent.

Now these are programs that have been cut every year and Congress puts them back in. But it bothers me greatly that we are making these kind of cuts. Now, one can argue, “Well, it ought to be somewhere else.” But let me just state for the record having served, the reason I mentioned where I had served is that I served as a county commissioner in the late seventies when they cut out programs. The counties picked them up. I chaired the Appropriations Committee at the state level in the eighties. When the federal government decided under the Reagan administration they were going to cut programs, we picked them up at the states. So Mr. Director, if you cut you are going to pass it down to someone because the public is still going to need certain policing, they are going to need the services. So what we are talking about doing is transferring the costs.

And the final point I want to make because you answer the question deals with the education piece, and I want to associate myself with the comments made by Mr. Bishop. Because under these education cuts, and I want to take them up with the Secretary, there are some in here that it makes absolutely, to me, I am aghast. Migrant and seasonal farm workers cut. It is very little money. But for the children who move, having been a superintendent I can tell you they move from county to county. They will be lost and get no help. And yet, these are investments. These are not expenditures. And I hope we can remember this. We talk about making cuts. We are talking about investing in our future down the road. If we are going to need people to grow and make a difference we have got to invest in our infrastructure. Education is a huge piece, and I do not see how you invest if you cut out the programs that make a difference in the future.

I hope you will comment on those, because I think that those are critical pieces. And I look forward to working with you on it because I think those are, it is sort of like a farmer eating his seed corn. There will not be a future if you do not invest in the next generation because the children who are going through our schools today, if we flatline budgets we are getting more students coming, I mean, you are not keeping up with inflation. You have got new students every year. We had the baby boom echoes of the nineties. They are now moving to the high schools and ultimately will wind up in college.

Mr. PORTMAN. Thanks. Let me just quickly if I could try to answer a couple of these questions and put it in a little perspective I think on the state and local grants. We do have some changes, as you indicate. It is a little different than what we did last year. One of the things that I was surprised to learn when I got to this job was that there is between $5 and $6 billion sitting in the state and local grant fund right now that——

Mr. ETHERIDGE. Let me interrupt right there. I hate to do that. But part of that now, having been there, is there federal guidelines that require the states or counties to spend their money before they can draw down federal funds? Or you have to submit a plan after it has been there, and you have to, sometimes it takes as much as eighteen months to two years to draw your funds down, as you know.

Mr. PORTMAN. We are trying to do a better job to deal with the red tape or the federal paperwork involved in that and spend out that money. So our view, from a management perspective because that is part of the title of the job here, is to be sure that that $5 to $6 billion is spent and spent wisely. And rather than adding more to the existing funding there, the though was how do you loosen up some of that funding and get it out? We do increase, as you know, funding in some areas and reduce it in others. Totaling it all up, we are $4.3 billion for the state and local first responders. Part of that is the $1 billion in the interoperability communication grants. And as you know, those are to be awarded in 2007 and they are funded through the spectrum auction receipts. So I would encourage you to look at that as that $1 billion sometimes is not included in there. But that would be——

Mr. ETHERIDGE. But some of that offset has been here before, and you know Congress is not going to pick up some of those offsets.

Mr. PORTMAN. Well, my understanding is that has been funded, the part of 2007. And so we do think that given the amount of resources that are out there already and given the fact that we have changed some of our approach and that we have this $1 billion in interoperability communications grants in our budget that we can indeed continue to provide for what the state and local first responders need.

As you know, overall we have a big increase in funding in the homeland security area. And the question is whether these individual grant programs work better or whether it is better to do it in a more comprehensive way with more flexibility.

Same thing on education. I mean, some of these programs, I will check now on the migrant farmers program, but as you know we have increased education spending working together dramatically over the last several years. We have got $13.9 billion for Title 1 this year, which is a $1.1 or $1.2 billion increase. And basically we believe the money ought to go more toward the Title 1 focus where there is then flexibility. And as an elected state superintendent of education you know that issue much better than I do. But what we are hearing is the additional flexibility is better than having the federal government send money for a specific purpose. And I do not know if migrant farm workers is one of those but I suspect that it is. So, we take a little different approach.

Over all, if you look at the funding that we have provided it is more than the administration has provided on education over the last several year. If enacted, it would be a $5 billion increase for Title 1, for instance, which is the largest increase under any administration since we started, again about $1.1 billion this year alone. And more focus on No Child Left Behind. But focus on, again, providing the funds to the schools and then to have them have more flexibility as to how those funds are spent.

Mr. ETHERIDGE. Thank you. Thank you, Mr. Chairman. I would say just one point on that in closing, that if you look at the No Child Left Behind they are still about $11 billion short. You talk to local units. They are picking up that tab, taking money from other areas. When they say it is our program enacted I happen to agree with them, having been there, because they get caught between a rock and a hard place. And especially those units that have substantial numbers of children with special needs. They are really caught between a rock and a hard place and no place to go, and there might not be state funding, or local, or even the federal government is only about seven percent, Mr. Chairman, of funding. In some districts, the poorer school districts, it is substantially more and they wind up being the ones who really are disadvantaged because they have more Title 1 children and that money has to go to the other places. And I would hope we would take a look at that as we move forward. Just remember, we are investing in our future. We are not spending money on education. Thank you, Mr. Chairman.

Mr. EDWARDS. Thank you, Mr. Etheridge. Mr. Portman, I want to thank you. I do want to make a few comments and ask a couple of questions, and then I think we will be concluded if no other members arrive.

But let me begin by thanking you for your many years of distinguished public service in the Congress, Trade Representative, now as Director of OMB. The administration is fortunate to have you. You are an articulate spokesman for its budget and its budget priorities. I also want to commend you for emphasizing the importance of dealing with long term entitlement costs. I think that is a very serious challenge our country faces that your children and mine need us to address, and the sooner the better. Frankly, I wish some of our Republican colleagues had listened to us a few years ago when the largest increase in entitlement spending, at least in the Medicare program, in the history of the Medicare program, was passed through this Congress with the support of the administration. And I think that is certainly one of the challenges we face today, is paying for an increase in entitlement programs to the tune of hundreds of billions of dollars that came from a Republican administration and a Republican House and a Republican Senate.

I want to work, as a father of two young sons, with you on a bipartisan basis to make tough choices to balance the budget. But I also for that very reason, my concern about the future for your children and mine and where we are going to leave them in a massive federal debt, I could not be totally quiet today and not make a few comments about this budget proposal. Showing no disrespect to your presentation of it which has been excellent.

In my opinion this budget proposal is more of the same, presented very articulately by you, Mr. Portman, but it is more of the same. It is what we heard in 2001, that we can have a defense build up, we can balance the budget, and have massive tax cuts, and it did not work. And we heard more of the same in 2002, we could have a defense build up, we could cut taxes, and have a balanced budget. And the deficits began the process of coming into reality after having had the largest surpluses in American history. We heard the same free lunch philosophy in 2003, 2004, 2005, 2006, and now we are hearing it again. And I think the message of the American people on November 7 is they want a change. And yet, what I hear in this budget is basically more of the same. Promise that we can, for the first time in American history, fund a major War by passing and extending massive tax cuts, even as we are paying for a defense build up which I support.

It did not work in the 1980's when President Reagan promised massive tax cuts, defense build up, and balanced budgets. But at least that administration and Mr. Stockman had the integrity to say, "Whoops, we cut taxes too deeply. We had better go back and make some corrections so we do not overburden our grandchildren." Yet twenty years later we come along and you and I can go back and read the Congressional record. Those who supported the tax cuts and said, "We can do this and we are still going to have a balanced budget." Well, it did not happen.

And if I were judging you by the quality of your presentation today it would be an A plus. But I think, Mr. Portman, if you and I were on a university board, deciding whether to continue the employment of a basketball coach who has been the coach for the last six years. And that coach came to us, and he predicted in his seventh year he was going to predict that he would have a twenty-nine wins and one loss record, I am not sure that you and I would hire him again based solely on his promises for the future. I think we would judge the hiring of that basketball coach on the basis of what his track record has been.

And I think a subject far more important than the hiring of a basketball coach, that of the budget of the United States, and the deficit that we face that is one of the largest deficits, the largest deficit in America history in actual nominal dollars, I think we should judge the projection of the administration for the 2008 budget based on how accurate you have been over the last six years. And during that time much of that time you were here in Congress, often sitting here at this desk. But the reality is that an administration that came in with the largest surpluses in American history projecting to pay down the national debt missed its projections by over $8 trillion. And I think given that track record I am not sure we would hire a chief financial officer of a corporation that missed the mark by that number. I know I would not hire a basketball coach for the seventh year if he had record that was that far off from what his optimistic projections were.

And as I checked the numbers, while the administration came in debating whether we are paying down the national debt too quickly, we have actually added $3 trillion to the national debt. And that is not all the administration's fault. But it is reality. To me personal responsibility means accepting consequences for the impact of decisions we have made. And I in good faith want to continue to listen to your presentations on the budget in the months ahead, and do want to work together and find common ground. We can do that. But I hope you would forgive us if some of us are I think fairly so skeptical of the projections that we are going to have a balanced budget by the year 2012. I do not think you would bet your family nest egg on that projection. I know I would not bet my family nest egg on that.

And one point specifically on the issue of cuts. We have heard a lot of discussion today and over the last several years about what is a cut. To me a cut is if the number of veterans receiving healthcare is reduced. A cut is if the number of children receiving children's health insurance program healthcare services is cut. That is a real cut, even if you have increased nominal dollars. We can say we have increased funding, but if it has not, if that funding increase has not kept up with inflation, has not kept up with the increased number of children, or seniors, or veterans in our country, it is a cut. It is a cut to real people. It is a cut that hurts real people, including veterans and military retirees and children who need healthcare. Whether one wants to call it a cut or not really does not matter to the people whose services are being reduced.

One thing I would say is not a cut is when you suggest that the administration has cut this deficit and then your definition, Mr. Portman, was that, "Well, we have reduced the deficit fifty percent below what we projected it to be." Now keep in mind the administration started out with a huge surplus, not a deficit. And projections of surpluses. But I would have to use the analogy, that is like my projecting that in the year 2007 I am going to gain 100 pounds. But on December 31 I only gained sixty pounds. I guess I could gloat and say, “I lost forty pounds.” But I did not really lose forty pounds. The fact is, I just did not gain as much as I had projected I would at the first of the year. And that same kind of philosophy can not only lead to obesity in the real world if I followed a diet program like that, I think we are going to continue to see obese and obscene and seriously threatening deficits if we do not see something change from the status quo of this promise that despite all good intentions, and I do think they have been good intentions from the administration.

Despite all good intentions we have not been able to fund the War in Iraq, fight the War on Terrorism, cut taxes, and balance the budget. And your children and mine are going to pay the interest on this extra $3 trillion of national debt we have built up over the last six years until the day they die.

Having said all that, I want to work with you to find common ground while respecting each other where we do have honest differences of opinion, as we do.

A couple of specific questions, and then I will finish and since I carried on and you were gracious enough to listen I will be happy to give you time to respond to those comments. But let me ask you specifically, the President’s budget does not propose significant increases, if any at all, in healthcare premiums for members of Congress and members of the President’s cabinet. Yet they propose massive increased healthcare premiums for men and women who served our country in the military twenty, twenty-five and thirty years. Does the administration think that is fair?

Mr. PORTMAN. To answer that question and your earlier question on veterans, as you know we have another healthy increase in veterans healthcare, up about $6.1 billion this year as compared to, 2008 compared to this year. It is up eighty percent, by the way, during this administration. Eighty percent increase, which is an unprecedented increase and our commitment——

Mr. EDWARDS. With, now to be correct for the record, over half of that increase came from increases that were initiated by Congress on a bipartisan basis, not increases proposed by the administration.

Mr. PORTMAN. Well, once again this year we are proposing again substantial increases. And yet, we are able to keep the over all domestic spending at the one percent level. This means we have set priorities and veterans clearly is a high priority with increases of 7.4 percent in medical care for 2008. Again, with $2.5 billion dedicated just to that purpose.

On the fees, as you know, again in our budget this year, we have a fee proposal that is a little different this year. Unlike last year the receipts from these proposals are classified as mandatory, which you should like better, so the medical care funding request includes the full resource need with no reduction for the new fees. Second is that this only applies to higher income veterans and only veterans who do not have a service connected health problem. So it is asking those veterans who are higher income, who do not have a service connected health problem, to pay a little bit more for their veterans healthcare which as you know has improved dramatically over the last several years.

Mr. EDWARDS. Can I ask you about that? The higher income, categories seven and eight include veterans making as little $29,000 or $30,000 a year. So we are talking about increases in fees on veterans whose income might be as low as $30,000 a year. Is that the definition of high income veterans?

Mr. PORTMAN. It is seven to eight, PL seven, eight veterans. I do not know what the exact cut off is.

Mr. EDWARDS. Okay. I think approximately it is in the $30,000 range, depending on whether the veteran is single or family. Can I ask you, I know time is limited . We have got a vote and we will have to leave here in about six minutes. I would like to ask about military retirees, the question that I asked.

Mr. PORTMAN. I am told on that last one that it would be no one below a $50,000 income would be affected buy the fees we put in the budget this year.

Mr. EDWARDS. Well, if you are raising the fees on category seven and eight veterans that goes down as low as $30,000 unless there are other details in the budget that specifically override that and say you only pay additional fees if you are making over $50,000. We can follow up on that. But let me, with limited time let me just ask you about the military retirees.

Last year the administration proposed and the Republican Congress rejected $735 million increase in healthcare premiums for military retirees, men and women who served our country twenty to thirty years in service, many of those who have served in combat. I am glad the Congress rejected the administration proposal and I am glad to have helped lead that fight. That increase was going to require a $1000 per year increase in premiums for retired military officers. Phased in over two years it would become a $1000 a year increase in healthcare premiums for someone who served our country twenty to thirty years in the military. This year's proposal does not bring in $735 million, it brings in $1.9 billion. I just projected last year's administration proposal out using those numbers. That would be nearly a $3000 a year increase in healthcare premiums for military retirees.

Could you give me any specifics? And if you need to follow up on specifics we can follow up in the days ahead. But whether it is $1000 a year increase or $3000 a year increase on military retirees, this budget does not ask that sacrifice from members of Congress, or members of the President's cabinet. Yet it is asking that sacrifice of people who have served our country. And a number of those are people who have served already in the Iraq and Afghan wars. I just repeat my question. Does the administration this that is fair to ask that kind of sacrifice from military retirees who served our country for twenty years or longer when it is not asking the same sacrifice from the President's cabinet members or members of Congress?

Mr. PORTMAN. As you know, this is a fee proposal for retirees under 65. It, we think, is an appropriate policy approach to as you know a dramatic increase in healthcare costs and dramatic increase in the commitment by taxpayers to retirees' costs. Particularly with regard to our veterans program and our defense retirees program, we have seen increases above inflation in our funding requests and we will see that again this year. And an increase, again, well beyond what we have in the other domestic programs we have talked about today. We think that this is a, again, consistent program with providing for those who need the most help with regard to their healthcare because it targets this to lower income retirees.

And I would just say as a general matter, all of the concerns you had raised earlier about the fiscal condition and the fact that healthcare is a driver of a lot of that, Medicare, Medicaid, veterans healthcare, military healthcare, we do need to work together and figure out how to assure that we are providing the need for those veterans who need the help. And I think our budget proposal does that both with regard to veterans and military retirees with substantial new resources from the American taxpayer. But we also have to figure out how to be sure these healthcare costs in general, and I am referring to all of our healthcare programs, are continuing to go up. That, again, in some cases, as is the case of some of these programs, more than double the cost of inflation.

Mr. EDWARDS. I appreciate the honest answer. I think military healthcare costs truly is a serious issue. We have got to deal with it. I would think you are going to find massive opposition within the veterans community, the military retiree community, and within Congress to actually, you can call it a fee but in effect it is a $1.9 billion tax increase on military retirees, men and women who have served our country for twenty to thirty years. And this is an example of why I think we have the $3 trillion increase in the national debt over the last six years. The administration makes proposals about both tax cuts and spending cuts. The Congress courageously adopts the tax cuts but after hearing hundreds of deficit hawk speeches folks turn into deficit doves when it comes to making some of the touch choices the administration has asked for.

So that is what we get. So we get the administration's tax cuts but not the spending cuts. And that is why your children and mine are going to have to pay interest on this $3 trillion national debt.

Mr. PORTMAN. Can I take a moment to respond to that and your earlier comments?

Mr. EDWARDS. You sure may.

Mr. PORTMAN. Your thoughtful comments about where we are? This is a good example, I guess, is the defense health programs. None of this would apply to any active duty servicemembers or their families. These fees we are talking about would be considerably lower than any of the averages for private healthcare plans. This year we are requesting a 6.2 percent increase in funding in this area. Since this administration started, it is a seventy-four percent increase in funding for retiree healthcare for Department of Defense. I, you know, I just think at some point it is important for us to focus on how to in a more bipartisan way look at some of these programs that are growing, again, at more than twice inflation and figure out, you know, how do we come with a more sensible way to deal with them?

In terms of your comments on, you know, the fact that the Congress has only picked up on the tax cuts and not on the spending restraint, I gave you credit earlier for doing more on spending restraint in the last few years. The numbers that I was using, $165 billion reduction in the deficit, is not from projections. Those are actual numbers. The deficit has reduced, gone down $165 billion in the last two years.

Mr. EDWARDS. From what level? From what level to what level? How do you get the $165 billion?

Mr. PORTMAN. No, because we are now at about $244 billion on our projection for this year and again I think that is going to end up being high.

Mr. EDWARDS. And the largest deficit in American history prior to this administration was $292 billion, which occurred in, what was it, 1992 at the end of the Bush 41 administration. So we are within 50 billion of the largest deficit in American history despite——

Mr. PORTMAN. Can you put the debt chart up for a second? As some of your colleagues have said, or at least Rob Andrews said on your side of the aisle, he agrees that it is the percent of GDP that is the key figure. And, again, when I got elected in 1992 it was 4.6 percent. It was even higher in the 1980's as you know, and higher at some other times in our recent history. Now we are down to 1.8 percent, well below the growth in the economy. And that is significant, not because we have done enough because as I have testified today repeatedly we need to do more to prepare for what I believe to be our greater fiscal challenge. But as a percentage of our economy, which is the key measurement, we have made progress. And we have made it together. And if we cannot continue that progress then we put ourselves in a tough position because of the long term problem.

This is the debt, you talked about the debt a moment ago. And you talked about the fact that when President Bush was elected there was a projected decrease in the deficit. And you did use the word "projected" and I appreciate that. Because it never materialized. And it did not not materialize because of the tax cuts. By far the primary reason it did not materialize, as you know, was because of the recession. And so you can have projections, you know, of $2.4 trillion in surplus and so on. They do not mean anything if you have the economy take a nosedive as it did in 2001 and was on the doorstep when he was elected. The tax cuts were put in place and some people disagreed with them including you and other members of this Committee.

Mr. EDWARDS. I certainly did.

Mr. PORTMAN. But they were put in place not because the tax cuts were viewed as the immediate problem to the deficit, but because we needed to get the economy back on track in order to have, again, the opportunity to be where we are today with higher revenues and that is exactly what has happened. If you look at it, what has happened is we have got record revenues the last two years. We have reduced the deficit because of that. We are doing a little better job on spending. And if we continue that we will be in better shape.

If you look here, this is the debt. Again, you may disagree with me, but every economist I know, Democrat, Republican or non-partisan says the key is what is our debt, which is the accumulation of all our deficits, as a percentage of GDP? You look at those numbers. Here we are now going down as the percent of our GDP this year we should be below the historical average and under our proposal we continue to see the debt go down because the economy growing at 3 percent the deficit growing at 1.8 percent means that the debt is actually going down as a percentage of our economy. That is good news.

Mr. EDWARDS. You bet. Mr. Portman, let me thank you again. You are an articulate spokesman for the administration. We have a vote with about four minutes to go. Let me just conclude by saying that I am concerned when I hear Republican leaders in the administration in effect not gloating but bragging about only having a $244 billion deficit. I think that is a, you know, almost as large as the largest deficit in American history prior to this administration. And if you want to compare it to the GDP, if we were to go into recession then that percentage of deficit as a percentage of GDP would skyrocket and according to the economics I studied all of my life when you are having economic growth you should be in a surplus situation not in a deficit situation. So someday we are going to have a deficit.

And to have the last word, I will just say that we are just going to have to disagree. I think putting a $1.9 billion tax, taking that much additional money out of the pockets of men and women who served in the military for twenty to thirty years when the administration is not asking members of Congress or the President's cabinet to make the same kind of sacrifice on their healthcare premiums is not keeping faith, is not fair. But we will have to disagree on that one.

You presented your budget very well. I respect your service and despite some very serious disagreements, honest disagreements, I look forward to working with you. You are a great public servant and thank you for being here today.

And I would like to ask unanimous consent that members who did not have the opportunity to ask questions of the witnesses be given seven days to submit questions for the record. Without objection, so ordered.

Perhaps by unanimous consent we could do some good things here if I did not have to go vote. Thank you, Mr. Portman, for being here.

[The prepared statement of Hon. James P. McGovern follows:]

PREPARED STATEMENT OF HON. JAMES P. MCGOVERN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

I want to echo the comments made by several of my colleagues and the questions Chairman Spratt addressed to Director Portman.

The budget is a moral document. It is more than just number crunching, a set of balance sheets, or even the funding request to keep the government running.

The budget is the annual report by the American government that outlines its priorities and commitment to promote and protect the common good of the American people.

Like most of my colleagues, I am a father. Every day I feel blessed that my kids are healthy, with plenty to eat, a decent house to live in, a good public school to attend, and two parents devoted to their welfare.

Sadly, as we sit comfortably in this hearing room, the USDA and the Census Bureau have determined that one out of eight people in the United States faces a constant struggle against hunger.

- 35 million of our people live in poverty—that's twelve-and-a-half percent of our population.

And while children under 18 have the highest rate of poverty of any age group in America—17.6 percent—fewer than half of families with children poor enough to qualify receive help from the Temporary Assistance for Needy Families, or TANF.

• Only half of eligible children are served by Head Start.

And only one in seven eligible families receives help paying for child care so their children can learn and the parents can work.

• More than 14 million school age children are left alone, on their own, after school.

And twelve million children do not receive adequate nutrition each and every day of their young lives.

These are priorities we must address in this budget. The federal programs created to address these problems have proven to be effective—but inadequate funding has limited their ability to reach the families and children they were created to support.

While many of these programs can be strengthened to improve their outreach and accessibility, most fail to reach eligible children and families simply because we in Congress fail to fully fund them year after year after year.

At a minimum, I believe we must provide adequate funding for all of our most effective food and nutrition programs. These include:

• WIC;
• The Emergency Food Assistance Program, known as TEFAP;
• Food Stamps;
• The Commodity Supplemental Food Program;
• School meals, and not just for the school lunch program, but also the school breakfast program, after-school feeding programs, and summer child nutrition programs.

We need to recognize that by failing to make these investments now, we will pay the cost tomorrow, not only in future federal budget expenditures ranging from health care to law enforcement, but in the well-being of our economy and communities.

Unfortunately, under the budget we are reviewing today:

• Fewer children will receive health insurance;
• Large Medicaid cuts will likely reduce or cause the loss of health care for low-income people;
• Fewer households will receive help with high energy costs;
• Fewer working families with children will receive help with child care or be able to send their children to Head Start;
• Fewer low-income working families will receive Food Stamps;
• Fewer low-income seniors and young children will receive nutrition help;
• Fewer social and community services will be provided to seniors, children and families in crisis; and
• There will be less housing for older Americans

These are the federal budget issues that most trouble me. And while the pressure created by today's deficits and debt makes it more difficult to secure the funds needed to address these basic needs, I believe we must choose not to leave our most vulnerable children and struggling families further and further behind.

I have to believe that these are questions that trouble the president and Director Portman as much as they disturb me and the members of this Committee and this House.

I hope we can improve upon the choices presented in this budget and better address the haunting reality of the neglected and the vulnerable in America, especially among our children.

I thank the Chairman for allowing me to make this statement, and I ask unanimous consent to enter into the Record several letters from Catholic, Jewish, Protestant, and evangelical religious organizations urging Congress to support these priorities and programs.

[The prepared statement of the Interreligious Working Group on Domestic Human Needs follows:]

## Prepared Statement of the Interreligious Working Group on Domestic Human Needs

### A FAITH REFLECTION ON THE FEDERAL BUDGET

As communities of faith, we are grounded in a shared tradition of justice and compassion, and we are called upon to hold ourselves and our communities accountable to the moral standard of our Biblical tradition. We speak out now because we are concerned about our national priorities. The federal budget serves as a fundamental statement of who we are as a nation. The decisions we make about how we generate revenue and spend resources test our commitment to these values. Thus, we hold that the federal budget should be viewed and evaluated through a moral lens: does it uphold values that will strengthen our life together as a nation and as part of the global community?

### COMMUNITY AND THE COMMON GOOD

But seek the welfare of the city where I have sent you and pray to the Lord on its behalf, for in its welfare you will have your welfare (Jeremiah 29:7, NRSV).

• Our nation's well-being is dependent on the well-being of all its members. In order to form a more perfect union, the preamble to the U.S. Constitution commits this nation to promoting the general welfare. In faith language we would call that the "common good." The budget should reflect a commitment to the common good by ensuring that the basic needs of all members of society are met. At this time, when more than 45 million Americans are uninsured, over 8 million are unemployed and over 12 percent live in poverty, additional cuts to critical human needs programs cannot be justified.

• Investments in education, job training, work supports, healthcare, housing, food assistance and environmental protection promote opportunity for all and strengthen families and communities. These should be budget priorities.

• Budget decisions must be evaluated not just in the short term, but with respect to their long-term effects on our children's children, the global community and on all of creation.

### CONCERN FOR THOSE WHO ARE POOR AND VULNERABLE

Give the king your justice, O God May he judge your people with righteousness, and your poor with justice May he defend the cause of the poor of the people and give deliverance to the needy (Psalm 72:1-4, NRSV).

• Government has special responsibility to care for the most vulnerable members of society. All budget decisions and administrative procedures must be judged by their impact on children, low-income families, the elderly, people with disabilities and other vulnerable populations.

• Whatever one's position on the war in Iraq or on the tax cuts, these policies are driving the deficit. Attempting to pay off the deficit by cutting programs that affect needy populations, when these programs did not lead to the deficit, is unjust.

### ECONOMIC JUSTICE

Woe to those who make unjust laws, to those who issue oppressive decrees, to deprive the poor of their rights and withhold justice from the oppressed of my people (Isaiah 10:1-2, NIV).

• God has created a world of sufficiency for all; the problem is not the lack of natural and economic resources, but how they are shared, distributed and made accessible within society.

• Our government should be a tool to correct inequalities, not a means of institutionalizing them. The federal budget should share the burdens of taxation, according to one's ability to pay, and distribute government resources fairly to create opportunity for all.

### ENDORSING ORGANIZATIONS

American Baptist Churches USA; American Friends Service Committee; Bread for the World; Call to Renewal; Central Conference of American Rabbis; Church of the Brethren Witness/Washington Office; The Episcopal Church, USA; Evangelical Lutheran Church in America; Friends Committee on National Legislation; Jewish Council for Public Affairs; Mennonite Central Committee U.S. Washington Office; National Advocacy Center of the Sisters of the Good Shepherd; National Council of Churches of Christ in the USA; NETWORK, A National Catholic Social Justice Lobby; Presbyterian Church (U.S.A.) Washington Office; Union for Reform Judaism; Unitarian Universalist Association of Congregations; United Church of Christ Justice & Witness Ministries; The United Methodist Church—General Board of Church and Society; Women of Reform Judaism.

[The prepared statement of the Jewish Council for Public Affairs follows:]

AMERICAN JEWISH COMMITTEE; AMERICAN JEWISH CONGRESS; ASSOCIATION OF JEWISH AGING SERVICES; ASSOCIATION OF JEWISH FAMILY AND CHILDREN'S AGENCIES; B'NAI B'RITH INTERNATIONAL; HEBREW IMMIGRANT AID SOCIETY; JEWISH COUNCIL FOR PUBLIC AFFAIRS ; JEWISH FUNDS FOR JUSTICE; JEWISH LABOR COMMITTEE; JEWISH WAR VETERANS OF THE USA; NATIONAL COUNCIL OF JEWISH WOMEN; UNION OF ORTHODOX JEWISH CONGREGATIONS OF AMERICA; UNION FOR REFORM JUDAISM; UNITED JEWISH COMMUNITIES; THE UNITED SYNAGOGUE OF CONSERVATIVE JUDAISM; THE WORKMEN'S CIRCLE/ ARBETER RING,

*February 6, 2007.*

DEAR SENATOR/REPRESENTATIVE: The Jewish community has long demonstrated a commitment to economic and social justice. Our faith informs this tradition, and the Torah commands, "* * * there shall be no needy among you * * * If, however, there is a needy person among you, do not harden your hearts and shut your hand against such a fellow. Rather, you must open your hand and lend that person what he or she need" (Deuteronomy 15: 7-8).

Driven by this tradition, we have been vigorous in advocating policies and programs to fight poverty and to help address the needs of disenfranchised vulnerable populations, including the elderly, working poor, disabled, youth, and refugees.

The budgeting process is one of the most important actions taken by our government each year. We strongly agree that deficit reduction is critical to the economic stability of our country, but we also believe it is essential that it be done in a fair and balanced manner. Over the past months we have spoken out against cuts that we believed would disproportionately hurt those in most need.

As the budget process for FY2008 begins, we urge you to fight cuts that would be harmful to the vulnerable populations we advocate on behalf of. Programs such as the Social Services Block Grant, the Community Services Block Grant, Food Stamps, State Children's Health Insurance Program (SCHIP) and the Low Income Heating Energy Assistance Program (LIHEAP) are critical to the elderly, refugees, children and persons with disabilities. Please keep these populations in mind as Congress develops its budget resolution.

We believe that budgets are documents which reflect the values and priorities of those who create them. With the increase in hunger in American households; housing costs rising faster than wages; and more than 47 million Americans lacking adequate health care coverage, funding for social services to assist these individuals is more critical than ever. We urge you to advocate for a budget that reflects these realities.

If you have any questions or for more information, please contact the Jewish Council for Public Affairs' Washington Director.

Sincerely,

NATIONAL

American Jewish Committee; American Jewish Congress; Association of Jewish Aging Services; Association of Jewish Family and Children's Agencies; B'nai Brith International; Hebrew Immigrant Aid Society (HIAS); Jewish Council for Public Affairs; Jewish Funds for Justice; Jewish Labor Committee; Jewish War Veterans of the USA; National Council of Jewish Women; Union of Orthodox Jewish Congregations of America; Union of Reform Judaism; United Jewish Communities; The United Synagogue of Conservative Judaism; The Workmen's Circle/Arbeter Ring.

LOCAL

Brownstein Jewish Family Service (Southbury, Connecticut); Community Relations Committee of the Jewish Federation of Western Massachusetts; Community Relations Council of the Jewish Federation of San Antonio; FEGS Health and Human Services System (New York, New York); Flint Jewish Federation; Flushing Jewish Community Council; Indianapolis Jewish Community Relations Council; Jewish Board of Family & Children's Services (New York, New York); Jewish Community Council of the Rockaway Peninsula; The Jewish Community Relations Committee of The Jewish Federation of Greater Los Angeles; Jewish Community Council of Greater Coney Island, Inc.; Jewish Community Relations Council of Greater Boston; Jewish Community Relations Council of Greater Hartford; Jewish Community Relations Council of Greater Washington; Jewish Community Relations Council of the Jewish Federation of Greater Dayton; Jewish Community Relations Council of the Jewish Federation of Greater Philadelphia; Jewish Community Relations Council of the Jewish Federation of South Palm Beach County; Jewish Community Relations Council of Greater

Dallas; Jewish Community Relations Council of the Greater Miami Jewish Federation; The Jewish Community Relations Council of Greater Washington; Jewish Community Relations Council of So. New Jersey; Jewish Community Relations Council of St. Louis; Jewish Community Relations Council of UJA Federation of Northern New Jersey; Jewish Community Relations Council of the United Jewish Council of Greater Toledo; Jewish Community Relations Council of the United Jewish Federation of San Diego County; Jewish Family & Children's Service (Tucson, Arizona); Jewish Family & Community Services (Jacksonville, Florida); Jewish Family Service, Inc. (Bridgeport, Connecticut); Jewish Family Service (Houston, Texas); Jewish Family Service (Seattle, Washington); Jewish Family Service of Buffalo & Erie County (Buffalo, New York); Jewish Family Service of Rhode Island; Jewish Family Service of San Diego (San Diego, California); Jewish Family Service of Worcester, Inc. (Worcester, Massachusetts); Jewish Family Services (Baltimore, Maryland); Jewish Family Services (Columbia, South Carolina); Jewish Family Services (Columbus, Ohio); Jewish Family Services (Danbury, Connecticut); Jewish Family Services of Greater Kansas City (Kansas City, Kansas); Jewish Family Services of Silicon Valley (Los Gatos, California); Jewish Family Service of Toledo, Inc. (Toledo, Ohio); Jewish Family Services of York (York, Pennsylvania); Jewish Family & Vocational Service (Louisville, Kentucky); Jewish Federation of Broward County; Jewish Federation of Greater Philadelphia; Jewish Federation of Greater Portland; Jewish Federation of Greater Seattle; Jewish Federation of Metropolitan Chicago; The Jewish Federation of Portland Community Relations Committee; Jewish Federation of Rhode Island; Jewish Federation of Somerset, Hunterdon & Warren, NJ; Jewish Federation of So. NJ; Jewish Federation of St. Joseph Valley; Jewish Federation of Western Massachusetts; Jewish Home at Rockleigh (Rockleigh, New Jersey); Metropolitan Council on Jewish Poverty; New Jersey State Association of Jewish Federations (NJSAJF); Ohio Jewish Communities; Sid Jacobson Jewish Community Center (East Hills, New York); Spokane Area Jewish Family Services (Spokane, Washington); Syracuse Jewish Family Service, Inc. (Syracuse, New York); UJA-Federation of New York; Youngstown Area Jewish Federation.

[The prepared statement of Network follows:]

## Prepared Statement of Network, a National Catholic Social Justice Lobby, on the Fiscal Year 2008 Budget

*"You men and women in public life, called to serve the common good, exclude no one from your concerns; take special care of the weakest sectors of society."*

John Paul II, World Day of Peace, 1997.

The Catholic Bishops challenge us in "Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy" to set priorities to serve the needs of those with the least economic power.

NETWORK supports a federal budget built on fairness, economic equity and compassion for those who struggle for economic survival. We call on legislators to adequately fund programs which guarantee sufficient food, child care and healthcare, and adequate housing and support for higher education. We call for employment opportunities which allow self-respect and the ability to provide for one's family.

The FY2007 budget is as yet unresolved, likely to end in a Continuing Resolution based on FY2006 funding levels, which severely cut mandatory programs and appropriated inadequate funding for most social programs in the health, housing and education areas. A spending cap for FY2007 is matched to the president's budget proposal for this year, even more drastically limiting funds available for human needs.

The Administration continues to praise the strength of the U.S. economy. However, the wealth felt in the highest economic brackets and the rising tide of the stock market are not having a positive effect on the economic stability of most families in the United States. Each of the last five years, the Census Bureau Poverty Data have shown that increased numbers of families have fallen below the poverty threshold, and many have fallen deeper below than in the past. Increasing numbers of families struggle to meet basic needs of food, clothing and shelter.

Tax cuts of 2001, 2003 and 2006, and the billions spent on the wars in Iraq and Afghanistan continue to escalate the deficit. This cannot be compensated for by cuts in domestic programs. NETWORK opposes such devastating cuts to programs which support the human dignity of families in need, and which hinder the development of healthy communities.

NETWORK supports taxation which is progressive, expecting those who are most able to contribute to the common good to do so. We know that Americans do not object to paying for human needs, but the recent tax packages suggest just the opposite. They extend tax cuts that benefit the wealthiest Americans almost exclusively.

*"The quality of the national discussion about our economic future will affect the poor most of all, in this country and throughout the world. The life and dignity of millions of men, women and children hang in the balance. Decisions must be judged in light of what they do for the poor, what they do to the poor, and what they enable the poor to do for themselves. The fundamental moral criterion for all economic decisions, policies, and institutions is this: They must be at the service of all people, especially the poor."*

(1986) National Council of Catholic Bishops. *Economic Justice for All,* #24.

[Responses to Mr. Allen's questions follow:]

RESPONSES TO CONGRESSMAN ALLEN'S QUESTIONS FOR THE RECORD FROM DIRECTOR PORTMAN

*Allen question:* The Administration estimates there will be a three to five million net reduction in the number of uninsured under its health care tax proposal. How solid is that estimate?

*Portman:* Estimates of this kind are always problematic because they are only estimates. They involve a great many behavioral assumptions about employees, employers, and market developments. Treasury does an admirable and professional job in developing such estimates using the models and data they have available to them.

That said, I would note two other entities that have developed their own estimates. The Lewin Group, for example, estimates that there will be a net reduction in the number of uninsured of 9 million, while the Congressional Budget Office estimates that the number of uninsured would go down by 6.8 million, on net.

*Allen:* What happens to the individuals who are unable to purchase health insurance?

*Portman:* No single proposal or program is going to address adequately all the populations of the uninsured because the uninsured are a highly diverse group. The Administration is working on a two-prong strategy to reduce the number of uninsured. The Standard Deduction for Health Insurance will make insurance affordable for millions of families, many of whom will gain coverage as a result. The President has asked the Secretary of Health and Human Services to work with Congress and the States on an Affordable Choices initiative to reform the health care marketplace. The Affordable Choices initiative could subsidize the purchase of private insurance for low-income individuals. However, any reform would need to be State-based, budget neutral within health care spending, not create a new entitlement. This initiative also should not affect savings proposals contained in the President's Budget.

In addition, the Federal government continues to provide health insurance through existing programs: Medicare for the elderly and certain disabled individuals, Medicaid for low-income children and families, and SCHIP for targeted low-income children.

[Responses to Ms. Kaptur's questions follow:]

RESPONSES TO CONGRESSWOMAN KAPTUR'S QUESTIONS FOR THE RECORD FROM DIRECTOR PORTMAN

*1. What have been the annual budget surpluses or deficits since Fiscal 2002, the first full fiscal year of the Bush Administration?*

As shares of the economy, which from an economic perspective is the most relevant presentation, the budget deficits were 1.5% of GDP in Fiscal Year 2002, 3.5% in 2003, 3.6% in 2004, 2.6% in 2005, and 1.9% in 2006. To put these figures in context, the 40-year historical average is 2.4 percent. In dollar terms, the deficits were $158 billion in 2002, $378 billion in 2003, $413 billion in 2004, $318 billion in 2005, and $248 billion in 2006. The President's Budget reduces the deficit in 2008 budget and each year after until balance is reached in 2012.

*2. What is the total amount added to the total public U.S. debt during the Administration?*

Since the end of Fiscal Year 2001, federal debt held by the public has increased by $1,509 billion. As a percentage of the economy, public debt is lower than the average in the 1990s and is in line with historical averages.

*3. What percent increase in the national debt is that since the Administration first assumed office?*

Since the end of Fiscal Year 2001, and Federal debt held by the public has increased by 45.5%. As a percentage of the economy, public debt is lower than the average in the 1990s and is in line with historical averages.

*4. How much interest is the U.S. Treasury now paying on the accumulated debt of the U.S.?*

Federal net interest was $227 billion in Fiscal Year 2006, or about 1.7 percent of GDP.

*5. What have been the annual amounts since fiscal 2002, and what is the percentage change in the amount of interest paid since fiscal 2002?*

Federal net interest was $171 billion in Fiscal Year 2002, $153 billion in 2003, $160 billion in 2004, $184 billion in 2005, and $227 billion in 2006. Relative to the overall economy, net interest was 1.6% of GDP in 2002, 1.4% in 2003, 1.4% in 2004, 1.5% in 2005, and 1.7% in 2006. Net interest has increased by 32.6% since 2002.

*6. What was the amount of interest paid on the national debt in fiscal 2001, the last fiscal year of the Clinton Administration?*

In Fiscal Year 2001, Federal net interest was $206 billion, or 2.0% of GDP, Federal net interest declined for the next two years to $153 billion in FY 2003. By 2006, net interest as a share of GDP was about three tenths of a percentage point lower than in 2001.

*7. What percent increase is the most recent annual interest payment compared to the amount paid in fiscal 2001?*

Since Fiscal Year 2001, net interest has increased by 9.9% in nominal dollar terms. Relative to the overall economy it has declined from 2.0% of GDP to 1.7% of GDP.

*8. Can you tell us for each year from fiscal 2002, what percentage of the publicly held national debt has been held by foreign buyers?*

The end of year percentages for Fiscal Years 2002 through 2006 were: 33.9% in 2002, 37.2% in 2003, 41.9% in 2004, 42.0% in 2005, and 44.2% in 2006.

*9. Who are these foreign buyers? Are they governments? Are they individuals? Are they corporations? What proportion of foreign held U.S. public debt is held by each group?*

American investors hold the majority of outstanding Treasury securities and both buy and sell those securities daily on the open markets by the hundreds of billions of dollars. The official breakdown of foreign holdings is provided by the Treasury Department. Assets are divided between holdings of foreign official institutions and other holders. Official holders include foreign government agencies and foreign central banks. Other holders include corporations, individuals, mutual funds, and other private investors. There is no further breakdown available for the other investors. The total amount of foreign holdings of U.S. Treasury securities was approximately $2.2 billion at the end of 2006. Of that amount, foreign official institutions held $1.3 billion.

*10. Can you identify the top five specific foreign purchasers of U.S. debt for each fiscal year since fiscal 2002, and if not, why can you not identify these individual purchasers?*

Treasury does not provide information about individual purchasers of debt. The data in the table below are derived from data in the Treasury Department's International Capital System. They show changes in the amount of Treasury securities held by the major foreign holders by country or area for Fiscal Years 2002 through 2006.

*11. Which firms have served as marketers of U.S. debt instruments since fiscal 2002, and how much have each of them been paid in fees since fiscal 2002 by fiscal year?*

The Treasury sells U.S. debt instruments directly to institutional and individual investors through open auction. The Treasury does not charge or pay fees as part of this process.

*12. How much interest on the national debt have we paid to foreign holders for each fiscal year since fiscal 2002? Please identify the amount by country.*

That information is not available.

*13. If you were to compare the amount of interest paid on the national debt on a fiscal year basis and broke it down in total, by foreign holdings, and by country of foreign holdings, which federal programs could have been funded by each of these groupings?*

Federal programs cannot be funded by interest payments.

*14. In the history of our nation, have we ever paid as much interest to foreign creditors as we are at the present time?*

There are no precise data on the amount of interest paid to foreigners.

*15. Aren't you concerned about this situation, and what are you doing to reduce foreign holdings of U.S. debt instruments?*

The rate of interest on Federal debt has been lower on average during the current Administration than at any time in the last three decades. The low interest rates reflect the strong demand for Treasury securities, and the confidence that lenders, including foreign lenders, have in the U.S. economy and the fiscal portion of the Federal Government. Any attempt to discourage or reduce foreign purchases of Treasury securities would add to Federal interest costs and could shake the confidence of foreign and domestic investors in U.S. economic policies

*16. Why aren't American investors purchasing these debt instruments? Are they unwilling, unable, or are they being pushed out by foreign buyers clamoring to own larger and larger pieces of our country and government? Because that is exactly what they are doing. When you take a loan on your car or on your house, the bank holds the title. If we are taking a loan on our country, then someone else could ultimately be holding control.*

American investors hold the majority of outstanding Treasury securities and both buy and sell those securities daily on the open markets by the hundreds of billions of dollars. Purchases of Treasury securities are not analogous to taking an equity ownership in the United States. Foreign holders of Treasury securities are entitled to the principle and the interest those securities provide and nothing else. Foreign holders buy these securities because of their safety and soundness. The strong demand for Treasury securities demonstrate the confidence that foreigners have in the U.S. economy and the Federal government's fiscal positions.

[Whereupon, at 1:40 p.m., the Committee was adjourned.]

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