

THE PRESIDENT'S FISCAL YEAR 2009 BUDGET

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 7, 2008

Serial No. 110-30

Printed for the use of the Committee on the Budget



Available on the Internet:
<http://www.gpoaccess.gov/congress/house/budget/index.html>

U.S. GOVERNMENT PRINTING OFFICE

40-733 PDF

WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON THE BUDGET

JOHN M. SPRATT, JR., South Carolina, *Chairman*

ROSA L. DeLAURO, Connecticut,	PAUL RYAN, Wisconsin,
CHET EDWARDS, Texas	<i>Ranking Minority Member</i>
JIM COOPER, Tennessee	J. GRESHAM BARRETT, South Carolina
THOMAS H. ALLEN, Maine	JO BONNER, Alabama
ALLYSON Y. SCHWARTZ, Pennsylvania	SCOTT GARRETT, New Jersey
MARCY KAPTUR, Ohio	MARIO DIAZ-BALART, Florida
XAVIER BECERRA, California	JEB HENSARLING, Texas
LLOYD DOGGETT, Texas	DANIEL E. LUNGREN, California
EARL BLUMENAUER, Oregon	MICHAEL K. SIMPSON, Idaho
MARION BERRY, Arkansas	PATRICK T. McHENRY, North Carolina
ALLEN BOYD, Florida	CONNIE MACK, Florida
JAMES P. McGOVERN, Massachusetts	K. MICHAEL CONAWAY, Texas
NIKI TSONGAS, Massachusetts	JOHN CAMPBELL, California
ROBERT E. ANDREWS, New Jersey	PATRICK J. TIBERI, Ohio
ROBERT C. "BOBBY" SCOTT, Virginia	JON C. PORTER, Nevada
BOB ETHERIDGE, North Carolina	RODNEY ALEXANDER, Louisiana
DARLENE HOOLEY, Oregon	ADRIAN SMITH, Nebraska
BRIAN BAIRD, Washington	[Vacancy]
DENNIS MOORE, Kansas	
TIMOTHY H. BISHOP, New York	
GWEN MOORE, Wisconsin	

PROFESSIONAL STAFF

THOMAS S. KAHN, *Staff Director and Chief Counsel*
AUSTIN SMYTHE, *Minority Staff Director*

CONTENTS

	Page
Hearing held in Washington, DC, February 7, 2008	1
Statement of:	
Hon. John M. Spratt, Jr., Chairman, House Committee on the Budget	1
Hon. J. Gresham Barrett, a Representative in Congress from the State of South Carolina	3
Hon. Jim Nussle, Director, Office of Management and Budget	4
Prepared statement of	8

THE PRESIDENT'S FISCAL YEAR 2009 BUDGET

THURSDAY, FEBRUARY 7, 2008

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

The Committee met, pursuant to call, at 11:00 a.m., in Room 210, Cannon House Office Building, Hon. John M. Spratt presiding.

Present: Representatives Spratt, DeLauro, Edwards, Cooper, Allen, Schwartz, Kaptur, Becerra, Doggett, Blumenauer, Berry, Boyd, McGovern, Tsongas, Etheridge, Moore, Bishop, Ryan, Barrett, Bonner, Garrett, Diaz-Balart, Hensarling, Simpson, Mack, Campbell, Tiberi and Alexander.

Chairman SPRATT. I call the hearing to order and welcome back to the House Budget Committee our former Chairman, Jim Nussle, and I thought I saw Jim Bates out there, too. All the old alumni, and we are delighted to have you participate.

Jim chaired this Committee for six years honorably, graciously, and fairly, I might add, and his presence still looms over this room in the portrait that hangs just behind me. Jim, we are glad to meet you today in a new and elevated capacity as the Director of the Office of Management and Budget and member of the Cabinet.

Mr. NUSSLE. I was just trying to think, when you said, "elevated." I am not sure that that is, I do not want to debate you already, Mr. Chairman, but elevated it may not be.

Chairman SPRATT. Well, you may have seen this cartoon, but Herbblock used to run a cartoon in the Washington Post after the inauguration of every new President. It showed an empty barber's chair, and this caption beneath it: "Every new President deserves a free shave." In that vein we will try to tread lightly today. But after you take some of our questions you may wish you were sitting on the dais here again instead of there at the witness table.

The Bush Administration begins its last lap with this Budget for 2009. But after seven years it seems to us that it bears all the earmarks of previous Budgets: more tax cuts and more deficits and more debt offset by draconian cuts in Medicare and Medicaid, and smaller but significant cuts in such things as the Social Services Block Grant and the Community Services Block Grant. President Bush took office with an advantage that no President in recent times has enjoyed: a Budget in surplus, big time surplus, \$236 billion in the year 2000. His economists looked out ten years and estimated that over the next ten years cumulative surpluses would come to \$5.6 trillion. His first Budget suggested that we could have it all: guns, butter, tax cuts too, and never mind the deficits. But by the year 2004 the surplus was gone, vanished, replaced by a def-

icit of \$413 billion. In nominal terms, the largest deficit in American history.

For fiscal 2009 the Bush Administrative projects a deficit of \$407 billion, very near the record level of 2004. But in calculating this deficit the Administration has inserted a \$70 billion plug for the cost of our deployment in Iraq and Afghanistan in 2009 and nothing thereafter. The Administration also assumed that the Alternative Minimum Tax, the AMT, will be fully in effect after 2008, reclaiming with one hand the tax cuts extended with the other. In short, the Bush Administration's Budget understates spending, in our estimation, and overstates revenues. If realistic adjustments are made for our deployments in Iraq and Afghanistan, and if the AMT is adjusted so that it does not apply to middle income taxpayers, by our calculation the deficit is \$440 billion, a new record, and the Budget is nowhere near balanced by 2012. When the President took office the national debt stood at \$5.7 trillion. Today it is \$9.2 trillion and rising, projected to increase to 9.7 by the time the President leaves office, up \$4 trillion in eight years. This is the legacy left to our children and grandchildren.

To move the Budget to balance and still renew the tax cuts passed in '01 and '03, and also extend other popular tax concessions such as the R&E Tax Credit, plus pass some new tax cut initiatives, this Budget proposes, first of all, cuts in Medicare of \$556 billion over ten years, cuts in Medicaid of \$47 billion, \$5 billion in fees on veterans, \$86 billion in new user fees, and this Budget wipes out completely, totally eliminates, the Social Services Block Grant and the Community Services Block Grant, two longstanding pillars that have held up the, the social safety net. And it wipes out forty-seven small educational programs. It eliminates in addition the Weatherization Program and cuts LIHEAP by \$570 million at a time when fuel prices are soaring and the existing program serves only a fraction, 16 percent, of those who qualify. It cuts CPA by \$330 million, and Centers for Disease Control by \$433 million in each, in one year, 2009.

At the same time, and this disserves us, this Administration declines to submit a realistic supplemental for what our deployments in Iraq and Afghanistan are likely to cost over the next five years, although we have a five year cost basis from which to extrapolate that number. Since the request for fiscal 2008 for these costs is \$199 billion this is a significant omission to say the least, easily \$500 billion. The Administration also declines to submit a construct for fixing the Alternative Minimum Tax so that it does not come down on middle income families for whom it was never intended. Instead, it lets the AMT remain on the books, fully effective after 2009 when everyone knows that this is not fair or politically viable. So it seems to us that far from proposing a plan to fix the Budget, and Administration is proposing policies that will worsen it and leaving the consequences for the next Administration and the next generation.

Mr. Director, we have many questions for you and we are looking forward to hearing your testimony. But before you begin I want to allow our Ranking Member for the day, Mr. Barrett, to make his opening statement. We are told that Mr. Ryan is snowed in in Wisconsin.

Mr. BARRETT. And a lot better looking, too, Mr. Chairman. He is on his way and I apologize for Paul not being here. Director Nussle, thank you. It is great to see you, Jim, and we welcome you back to the Hill. We both are South Carolinians and we both have on green ties, but I will probably be a little kinder to you than Chairman Spratt will. But no doubt you can hold your own with anybody.

Director, the President's Budget lays out the critical fiscal issues that this Congress is going to have to deal with in the near future. Key among them, balancing the Budget, promoting sustained economic growth, slowing the growth of the federal spending, and addressing the coming entitlement crisis.

First on deficits. Last year at this time, after several years of dramatic declines in the federal deficit we found ourselves on what many described a glide path to balance in the near term. Now that path has been interrupted, mainly due to the slowdown in the economy and the stimulus package. But we should still balance the Budget. Even while addressing current challenges in the economy, the President's Budget achieves balance by 2012 without raising taxes. Let me say that again. The President's Budget achieves balance by 2012 without raising taxes by demanding the federal government get in control of, guess what? Spending.

This Budget also achieves balance through sustainable fiscal policies that support economic growth and job creation. It maintains the tax policies that have supported the solid growth which, until only recently, succeeded in producing appreciably higher revenue, appreciably higher revenue, and dramatic reductions in the deficit.

Finally, the President's Budget recognizes that our nation's challenges go well into the next few years. It takes a significant, critical step toward addressing the greatest threat to our nation's future strength and prosperity, the unsustainable growth of our largest entitlement programs. While the President's Budget doesn't pretend to fix the entitlement problem in one fell swoop, it does propose specific reforms, one of which would reduce Medicare's \$34 trillion unfunded liability to nearly a third. That would be a tremendous step. \$10 trillion, Mr. Director, and I congratulate you on that. And if the people wanted to criticize the President's specific proposals for addressing the problem, fine, then let us make sure they come forward with some solutions on how we can fix this stuff.

We must reform these programs so they can meet their mission of providing health and retirement security and a reliable safety net today and in the future. The Administration has a proposed plan, but it is Congress who has the power of the purse strings. It is Congress who will decide the federal Budget. And it is Congress who is ultimately responsible, and accountable, for ensuring a sustainable path to our nation's future.

I look forward to the discussion today, Mr. Director, and again, welcome back.

Chairman SPRATT. Mr. Director, I want to also welcome your lovely wife Karen, sitting right there behind you, so if you have any questions you are stumped on you know where to turn.

Mr. NUSSLE. Trust me.

Chairman SPRATT. Welcome back again, and the floor is yours.

**STATEMENT OF JIM NUSSLE, DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET**

Mr. NUSSLE. Mr. Chairman, thank you. I see many friends in this room and many allies. And many fond memories well back to me from my time here. And I want to thank Paul Ryan, even though he is not here, for his leadership, and the leadership on the Republican side. And Austin Smythe, he was with OMB until very recently, and has now come down for able leadership of a great staff on the Republican side. And so I greet you. And to my friends on the Democratic side, the majority side, particularly Tom Kahn and the great staff that you have. And my very good friend John Spratt. There is no more honorable person that I know in the United States Congress. And you are just a statesman and someone I enjoyed sitting next to for many years. And we are going to have a lot to discuss and a lot of tough questions, and probably a few tough answers, too. Trust me, they are all going to be tough answers, difficult answers. But there are nothing but fond memories from my time spending work on the Budget here in this Committee. And I just want to sincerely say thank you for the warm welcome back.

I am very pleased to be here to present the President's Budget. This is the first time the President has submitted his Budget electronically, which has been an interesting, to say the least, project that has received praise in some respects and still a little bit of concern and criticism on the other. The interesting thing about it is that on day one the website had 75,000 individual, different hits, and I believe 660,000 separate PDFs were downloaded that very day. So I think it went further and wider than the audience that the Budget typically goes to. And I think that is good news. Anytime you can make the Budget more transparent, more user friendly, more searchable, certainly saving the tons of paper and not killing so many trees is always good. But making it more transparent for the American people and the taxpayer I think is always something to be thankful for.

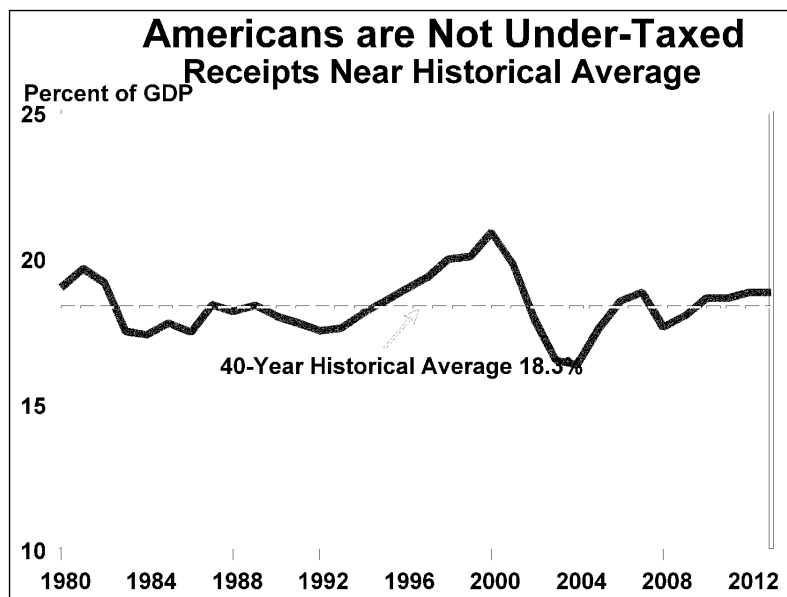
And to those who are still concerned about it, I would just recommend, if you would, we would like to make improvements to this process. I think this is an important process going forward regardless of the paper side of the equation. The electronic side is a new age. This is the first electronic document that was sent from the executive branch to the legislative branch, and it is something that will most likely continue in many respects. So as we go through this I would say to you as friends that let us work together to try and improve the document, improve the capability to search it, to use it, so that we can all be better off.

When the President talked to me about preparing this Budget he asked me to do five things, five things that he wanted as goals within this Budget. First, he wanted to make sure that we addressed the immediate economic challenges. And in a bipartisan way I say congratulations to all of you for the speed in which you have tackled some of the economic challenges. We can get to those, I am sure, today as well. Second, he wanted to ensure sustained prosperity, not just in the short run but in the long run. Third, he

wanted to make sure that we kept America safe. That has been job one for him during his Administration. That is the first thing he worries about, thinks about, talks about, is briefed about when he wakes up, and it is the last thing before he goes to bed. Balance the Budget by 2012, a goal. And also continue to address our long term spending challenges.

As I say, continued economic growth to me is the most critical and most important element of reducing the deficit, of getting back to balance, of dealing with or addressing our long term spending challenges that we have before us. I mean, there is no question that the bipartisan growth package that you considered, that we have in the Budget at 1 percent of GDP, or \$145 billion, combined with a slowing economy and loss of some of the corporate receipts last year, has contributed to some near term deficits. We believe that while the deficit in 2008 will be 2.9 percent of GDP and 2.7 percent of GDP in—excuse me, 2008 it is 2.9, 2009 2.7 as we projected. We believe that this uptick can be very temporary and can be very manageable, and we can continue on a path to balance the Budget by 2012 provided that we keep taxes low, keep the economy growing, and keep spending in check.

I don't believe Americans are undertaxed, and the President does not believe that Americans are undertaxed. We are not experiencing short term deficits because the American people are undertaxed. As this slide shows, the tax burden, especially when you measure it as a percentage of GDP, is 18.5 percent, which is higher than the historical average.



Mr. NUSSLE. Now this may surprise some observers who watch this process, who realize or believe that, "Well, if the President cut taxes in 2001 and in 2003 there must be less revenue." Well, that is not the case. In fact, taxes are not too low. Revenue growth has

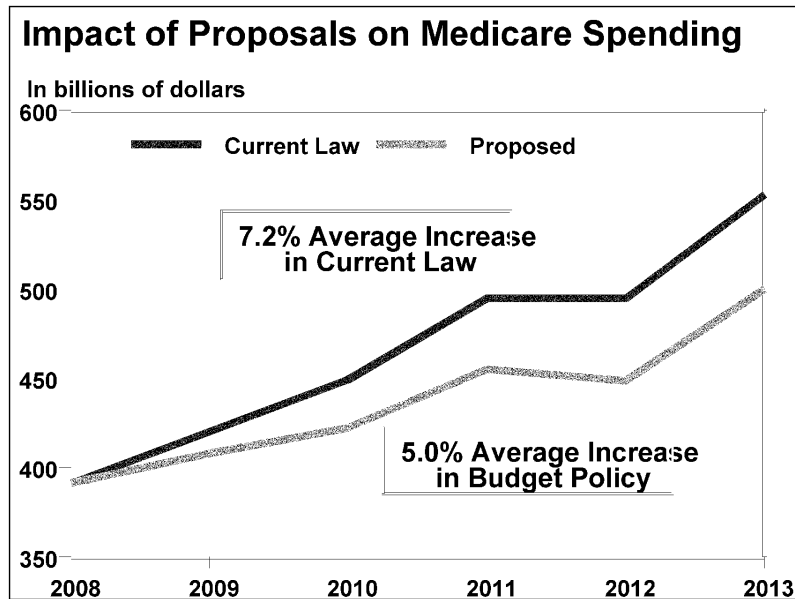
actually been quite strong and running well ahead of GDP. It was over 14 percent in 2005 of revenue growth. There was a revenue growth of 11 percent in '06, and 6 percent in '07. So revenue is growing and grows when you reduce taxes. So it is not the revenue. Revenue is not the problem.

Spending is really the problem, or the challenge, that we all have to face. We must do more to keep spending in check in order to balance the Budget in 2012, but more importantly to address the long term challenges of our unfunded liabilities and obligations. The Budget proposes to keep non-security discretionary spending below 1 percent for 2009, and then hold it level for the next four years. It also terminates or significantly reduces about 151 different programs which total \$18 billion in the first year alone. These are programs that, frankly, are either just not achieving results or are, have not had a good track record, could be done better locally, or by the private sector, or by private charities. There is a number of ways that we can improve these programs that can be streamlined and in order to do a better job. Good intentions alone are not enough to justify the continuation of a program that isn't working, or is no longer a priority, particularly when there are tight Budgets and you have to make choices. So we focus on outcomes, not just inputs. We also believe that earmark reform is important and necessary if we are going to change the culture in Washington that has led to some waste and low priority spending. So we believe that these are areas that we can address on the spending side.

In addition, we have automatic spending, mandatory spending, which is overwhelming the rest of the Budget. Now 62 percent is on autopilot, is not under the control of Congress or the President unless specific legislative action is taken. And really, the current trends are not sustainable. In just the next thirty-five years as the Fiscal Wake-Up Tour reports, from David Walker and others who have testified before this Committee many times, in just thirty-five years the automatic spending portion of the Budget will completely swallow the entire revenue that is available and leave nothing for the basic federal responsibilities that are in our Constitution to protect our homeland and for national defense.

I don't believe that, therefore, it would be, it would be responsible not to put forth a package of mandatory savings. And that is the reason why in this Budget the President is proposing \$208 billion worth of savings over the next five years. It may seem challenging. There is no question that we hear that constantly, how challenging it is to tackle the entitlement problem. But this package is, frankly, smaller than the bipartisan approach that was taken in 1997 under the Balanced Budget Act. And I believe it is realistic. It is a fair proposal. And I challenge Congress to take, take this challenge and to at least make a down payment on what is a looming fiscal crisis that we all have to be serious about.

Within that package the President has proposed reasonable steps to get Medicare growth under control. There is \$178 billion of savings over the next five years in this proposal. This means Medicare would continue to grow, and this chart demonstrates that.



Mr. NUSSLE. Medicare would continue to grow under the President's proposal. It just won't grow at 7.2 percent. It will grow at 5 percent. This is reasonable growth. It is way above inflation, and I think it is a reasonable growth pattern for a very important program. This proposal would also help address nearly one-third of the long term funding problem, which now approaches \$34 trillion in Medicare alone. It is simply, I believe, irresponsible not to begin to address these longer term obligations with at least smaller, bite size down payments. Because the longer we wait, the more difficult and more challenging that problem will be.

So in conclusion, the President asked me to address immediate economic challenges. I believe we do so in this Budget. And you should be commended for what you have done here in Congress, and continue to do. We need to get that passed. We need to ensure sustained prosperity. It is the reason why the President makes his tax relief permanent, and believes that in order for us to have that kind of long term sustained prosperity we have to trust people with their own resources to create the entrepreneurial class of the future to create the jobs of the future. We have to keep America safe. We do that in a bipartisan way, so many ways and so many times. And I believe we can do that again this year. We get to balance by 2012 if we control spending and we continue to address the long term spending challenges. I look forward to the opportunity to have a good conversation here today and to address your questions, and I look forward in the future to continue to serve you in any way that you see appropriate. Thank you, Mr. Chairman.

[The prepared statement of Jim Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, 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 2009 five-year budget proposal.

It has been a while since I have attended a hearing in this room. I have fond memories here, of the Budget staff, and all of you. I am honored to be back.

As was true when I was in Congress, I would not be here without the hard work and dedication of staff. Before I began my tenure as Director of OMB, I had respect and admiration for the OMB staff. This perspective has only grown stronger as I lead this team of talented, intelligent and dedicated professionals. It is truly a pleasure to come to work each day and roll up my sleeves next to them. I thank each and every one of them for their devotion to public service.

As you all know, for the first time the President submitted his Budget to Congress electronically. It is posted at www.budget.gov. We at OMB are excited to lead this effort for a few reasons: 1) it allows us to utilize technology to provide information in a user-friendly, fast and public way; 2) if others follow our lead, this step will result in conserving 20 tons of paper—saving over 480 trees; and 3) we finally have clean desk.

We are doing our part to provide transparency across the budget process, so thank you for indulging a few product promotions. To help Americans see where their money is being spent, we have launched a website called www.usaspending.gov. This is a result of the Federal Transparency Act that many of you championed. And to help Americans see the kind of results they are getting for their money, we launched www.expectmore.gov. I invite all Americans to log on and find out for themselves how their hard-earned tax dollars are being spent.

Let me turn to the budget itself. The President's FY09 Budget focuses our resources on our nation's highest priorities: the security of the American people and the prosperity of our economy.

The Budget invests substantial resources to protect the United States from those who would do us harm. Continuing our Nation's efforts to combat terrorism around the globe, the Budget provides our men and women in uniform the tools they need to succeed in Afghanistan and Iraq, and it furnishes the resources needed for our civilians to help those nations achieve economic and political stabilization. The Budget proposal also strengthens our overseas diplomatic capabilities and development efforts, advances our political and economic interests abroad, and improves the lives of people around the world.

Over the past seven years, we see the economy has successfully responded to substantial challenges, including a recession that began in 2000, terrorist attacks, corporate scandals, wars, and devastating natural disasters. It is a measure of our economy's resilience and the effectiveness of pro-growth policies that our economy has absorbed these shocks, grown for six straight years, and had the longest period of uninterrupted job growth on record. Yet mixed indicators confirm that economic growth cannot be taken for granted.

To insure against the risk of an economic downturn, the Administration urges Congress to quickly pass the bipartisan growth plan that will provide immediate, meaningful, and temporary help to our economy. The negotiated package provides approximately \$100 billion in temporary relief that would allow Americans to keep more of their paychecks to spend as they see fit. It also provides direct relief to businesses—approximately \$50 billion in near-term tax relief for business purchasing equipment to grow or sustain their capabilities. While this bipartisan package will add to the deficit in the short term, continued economic growth and continued spending restraint will help bring the Budget into balance in 2012.

Americans have real concerns about their ability to afford healthcare coverage, pay rising energy bills, and meet monthly mortgage payments. They expect their elected leaders in Washington to address these pressures on our economy. So this Budget puts forth proposals to make health care more affordable and accessible, reduce our dependence on foreign oil, and help Americans struggling to keep their homes.

Above all, the Budget proposal continues the pro-growth policies that have helped promote innovation and entrepreneurship. I join the President in his belief that higher taxes would only lead to more wasteful spending in Washington—putting at risk both economic growth and a balanced budget.

As we work to keep taxes low, we must do more to restrain spending to achieve balance by 2012. The Budget proposes to keep non-security discretionary spending growth below 1 percent for 2009 and then hold it at that level for the next 4 years.

It also cuts spending on 151 projects totaling more than \$18 billion that are not achieving results—because good intentions alone do not justify a program that is not working.

There is also the matter of earmarks. Earmarks have tripled in number over the last decade and have increased spending by billions of dollars. Most earmarks are not even included in legislative text and are not subject to an up or down vote of Congress. Last year, the President has called on Congress to voluntarily reform the earmarking process. Unfortunately, limited progress was made. That's why the President announced during his State of the Union Address that he will veto any annual spending bill that does not meet his goal of cutting earmarks in half from FY08 levels on a bill by bill basis.

The President also issued an Executive Order instructing federal agencies to ignore earmarks unless included in bill text that has been reviewed and voted on by Members of Congress. This means earmarks will be subject to votes, which will better expose them to the light of day and help constrain excessive and unjustified spending. If Congress continues the process of earmarking in report language, those projects will have to compete for federal dollars before funding is provided based on merit. We believe these changes are necessary to reform the culture of earmarking that has led to wasteful and unjustified pork-barrel spending.

As we take these steps to address discretionary spending, we also need to confront the biggest challenge to the Federal budget: the unsustainable growth in entitlement spending. Many Americans depend on programs like Social Security, Medicare, and Medicaid, and we have an obligation to make sure they are sound for our children and grandchildren. I am the third Budget Director to come before you with this request. If we do not address this challenge, we will leave our children three bad options: huge tax increases, huge deficits, or huge cuts in benefits. And the longer we put off the problem, the more difficult, unfair, and expensive a solution becomes.

The Budget proposal works to slow the rate of growth of these programs in the short term, which will save \$208 billion over 5 years. This step alone would reduce Medicare's 75-year unfunded obligation by nearly one-third. This is one of the most serious challenges that faces our country. I want to work with the members of this committee to address reforms that can avert the oncoming fiscal train wreck. In doing so, we need to make sure that all tools at our disposal are used to put these vital programs on a sustainable path. Reconciliation is such a tool, but if it is only used to increase spending and the size of the Federal government, it will be a missed opportunity to achieve retirement and health security for the American people.

Before closing, I would like to take a minute to discuss funding for our troops. Last February, the President's Budget included a full-year estimate for FY08 GWOT funding. While some changes were made to the request in the fall, Congress has had more than three fourths of our request pending since February. This past December, Congress chose to only provide partial funding for our troops and they will soon need the remainder of the request to ensure that operations continue without interruption. I ask Members of Congress to quickly consider the remaining funding our military commanders have told us the troops need to do their jobs. The Budget includes an allocation of \$70 billion for the Global War on Terror. A detailed request will be submitted to the Congress once we have secured the resources for FY08 and have better information on the changing conditions in the field from General Petraeus and Ambassador Crocker.

In the Budget, the President has set clear priorities that will help us meet our Nation's most pressing needs while addressing the long-term challenges ahead. With pro-growth policies and spending discipline, we will balance the budget in 2012, keep the tax burden low, and provide for our national security. And that will help make our country safer and more prosperous. Mr. Chairman, thank you for the time, and I look forward to your questions.

Chairman SPRATT. Thank you, Mr. Chairman, Mr. Director. Let me supply an omission on my part. Anyone who would like to submit a statement for the record, at this point, an opening statement, I ask unanimous consent that that authority be extended. Without objection, so ordered.

Mr. Director, as I said in my opening statement, if the core of your Budget is an assumption that I think undercuts the credibility of the entire Budget. And that is that the AMT will still be applicable after next year, fully in force and effect, and it becomes and is

a robust revenue raiser. You are assuming that it will apply. We won't fix the threshold at which it applies. So lots of middle income taxpayers for whom it was never intended are going to be affected by that assumption unless you make a correction. Given the fact that we have patched it year by year by year, and it will need to be patched next year as well as the subsequent years if we are to treat it fairly, it mystifies us why you are calling for the renewal of the tax cuts that expire on December 31, 2010, but not first dealing with the AMT problem. And also using the revenues that are derived from that assumption, the assumption there will be no fix in the AMT, that it will be applying to lots of middle income, millions of middle income taxpayers. In addition, your Budget defers to the Department of Defense. OMB or somebody made the decision that you couldn't extrapolate or develop a construct for what it is likely to cost to continue to have troops at significant levels deployed to Afghanistan and Iraq.

The cost of those two, the magnitude of those two assumptions alone is easily a trillion dollars over the period of your Budget. How do you account for the fact that these two elements are not included? And that as a consequence that the numbers are quite different when you do include them? You don't really expect to go forward for the next five years and not fix the AMT so that it doesn't apply to middle income taxpayers, do you?

Mr. NUSSLE. Well, let me try and take both of those quickly. First of all, on the AMT, it has been the President's position, and he continues to hold it today, that we should not just patch the AMT but fix it. And it should be part of a comprehensive tax reform proposal that he and the Congress should work out together, including any changes to the AMT. And that is the reason, that is still embodied within the Budget. It was, it has been the proposal every year that the President has been in office.

Chairman SPRATT. Well, well, we have had three witnesses, four including yourself, come and testify that that is the way the Administration would like to proceed. And they have told us that you will do that within the Tax Code in a revenue neutral manner so it will have no impact on the bottom line of total revenues. But we have yet to see it. Mr. Rangel, your former Chairman of Ways and Means, has developed a fix for the AMT problem. If you have that fix available would you submit it for the record so we could compare it to what Ways and Means itself is considering as a permanent fix?

Mr. NUSSLE. Yes. I mean, the President has, again, he had a Tax Reform Commission that made proposals and they were deemed at that time, and continue to be deemed, fairly dead on arrival when it comes to reform proposals. I am not sure that has changed. I doubt that has changed today. But what we are hoping for is that the AMT will be the incentive for all of us to sit down and to reform the Tax Code, top to bottom, in a comprehensive way. And so we don't put a particular fix, so to speak, in this, or a patch in this. We believe it should be fixed as part of overall tax reform.

Chairman SPRATT. Do you have an estimate yourself of how much revenue will be derived from leaving the AMT fully in effect over the five year span of your Budget?

Mr. NUSSLE. Four hundred over five. 400 billion—

Chairman SPRATT. Four hundred over, 400 billion of—

Mr. NUSSLE. That is back of the, quick back of the envelope from John Kitchen.

Chairman SPRATT. Right. And I know the President has sent up from time to time new revenue initiatives, tax cut initiatives. But has he sent to us a comprehensive fix for the AMT? A multiyear, permanent fix for the AMT?

Mr. NUSSLE. Not in specific legislative language that I am aware of, no.

Chairman SPRATT. Don't you think it would help the process if he submitted his, and we started a bidding process? At least a serious consideration of it? Its being the first in order of priorities, I think we need to fix it before we address tax cuts expiring two years from now.

Mr. NUSSLE. That certainly can be considered. But I think the seriousness, I mean if you take for instance the mandatory package, the hue and cry that we heard about the mandatory package in the Budget is that, "It is an election year. We can't do challenging things." Well, I would think tax reform may fall into that category of challenging things. So I think the President needs to know that Congress is going to be serious about it before he would send up anything. That is just without having the chance to talk to him about whether he would consider sending up a specific proposal.

Chairman SPRATT. Well, we are serious enough that Mr. Rangel took it upon himself to use the staff of the Ways and Means Committee and the Joint Tax Committee to develop an alternative. And I think it would be useful for the debate, and timely, if the Administration would submit its alternative, or its option, for addressing this problem just as Mr. Rangel has.

Let me ask you about the other aspect. And that is, the omission of anything for the War after the plug of \$70 billion for next year, anything further thereafter. Now you know and I know that there are going to be troops in Afghanistan and Iraq for some years to come. How long, nobody can say. It will depend to some extent I guess on the outcome of the next election. But there is a substantial sum right now being spent. I believe the request for this year, '08, is \$189 billion of which we have appropriated about \$88 billion. There is a hundred still pending. Given the magnitude of that number, and the knowledge that there is going to be a continued presence, a continued deployment of troops certainly in Afghanistan for some time to come, shouldn't there be some kind of number in there? Some extrapolation of existing costs? Some look back at five years of cost experience, and extrapolation forward of what it is likely to cost over the next five years?

Mr. NUSSLE. The challenge here, Mr. Chairman, is that a detailed request for GWOT spending is still pending before Congress for \$108 billion that has not yet been acted upon. And this was a specific request that was sent a year ago, now, that Congress requested. I remember being very cheerfully part of the team that requested that the Administration do a much better job of specifically asking for GWOT spending but that was so we could act on it quickly, as Congresses did. This time, Congress has decided not to act on it. We know the number is not realistic to say \$89 billion

for 2008. But yet, Congress has not acted on any more spending than eighty-nine. So I think the challenge here is that with things as fluid on the ground as they are, and that is good news, generally, because we have had some success in Iraq and Afghanistan of late, waiting for the Petraeus testimony to be, we think, in March or early April, which may again adjust the strategy. All of these are factors that make it difficult, if not impossible, to make a detailed request beyond recognizing not only we need to pay for what we know right now this year and enough money to get us into next year and a new administration and a new Commander in Chief who may decide to make a different judgment or a different spending allocation for the War in Iraq and Afghanistan.

Chairman SPRATT. Well, that number could easily be \$500 billion on top of the \$400 billion to \$500 billion for the AMT fix. So you have got a trillion dollar variable here that is unresolved in this equation that we are trying to solve, and that is a balanced Budget by the year 2012. I don't think you can declare balance when you have those two variables undefined, at least, not even estimated.

Mr. NUSSLE. Well, we are projecting. We are not declaring. We are only projecting, and we are making requests of the Congress for funding. And we are making requests that we control spending. Control spending not only on the discretionary side but also on the mandatory side. If Congress doesn't act on the \$208 billion request that number can be added to your equation as well. And that makes, and my guess is that there will be a lot of requests for more funding, as I heard in your opening, for more funding for a lot of programs that didn't receive funding. And so that also can be added to the deficit, and the debt, and the requests, and everything. So, I mean, this number will continue to grow if we don't begin to control spending. And that is the reason we make the request we do.

Chairman SPRATT. In any event, you would agree that there is going to be a substantial sum required for the deployment of these troops to those two theaters over the next five years, and that number has to be supplied in order to make your bottom line realistic?

Mr. NUSSLE. I know it is more than seventy. I don't know the amount beyond that.

Chairman SPRATT. It is certainly not zero.

Mr. NUSSLE. No. But it is not zero for this year, either, I would say respectfully. And that is so far what we can count on, at least for the rest of this year.

Chairman SPRATT. Let me ask you quickly about Medicare and then let others put questions to you. Big cut in Medicare, granted it is over a long period of time, ten years, \$560 billion. And it begs the question, at least for me, as to why you didn't pick off some of the low hanging fruit to make up at least for some of those savings. For example, the Medicare Prescription Drug Bill set up a program called Medicare Advantage. And today according to what CBO tells us we are paying 13 percent more for beneficiaries under that program, a managed care type delivery system, than we pay under traditional fee for service Medicare. CBO further tells us that if this gap continues that they estimate over a ten year period of time we will pay \$150 billion more for this class of beneficiaries

than for the beneficiaries under traditional Medicare. That would seem to me something that needs to be rectified, and done soon, because it can save big bucks. But if, as I read, at least the summary of your Budget, that is not touched or addressed at all.

Mr. NUSSLE. It is not directly addressed. But there is a huge effect on the, on Medicare Advantage, Part C Medicare, as a result of the policies that we are asking for. In fact, it is about a \$43 billion reduction to Medicare Advantage Part C as a result of the fact that we are reducing fee for service, and as a result that has an impact on Medicare Part C Advantage. Now, we want to make sure that Medicare Advantage, and the reason why it has been protected is to give it a chance to blossom and to grow and to have some effect as a choice for seniors across the country in a lot of underserved areas. And that is occurring. It is still occurring. It is still blossoming. And we want that to be able to occur. But it does have an impact, even though it is direct. And it is about a \$43 billion impact.

Chairman SPRATT. In addition, the same Medicare Prescription Drug Bill has that notorious language which prohibits the federal government from bargaining or negotiating drug prices with pharmaceutical firms. That would be another means of saving some substantial sum of money. Nobody knows how much so CBO has told us they can't score it because it is an unknown. But off the seat of our pants we suspect it is a substantial number. Is the Administration negotiable at all about that particular provision of the law?

Mr. NUSSLE. What we have, what we have done here is recognized that the scoring, as we remembered from Medicare Part D when it first occurred, was it was supposed to cost \$552 billion and it has come in much cheaper than that. The pharmaceutical managers have, it has worked. There has been negotiation. There has been better management and better practices. And the price has come down about \$162 billion from its original score. So there have been savings already from Medicare Part D and that is the reason that, other than a means testing for Part D Medicare, we don't, we don't make any additional proposal there.

Chairman SPRATT. Thank you very much, Mr. Director. And now I will turn to Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman. Mr. Director, let us talk a little bit about the economy. We have talked about—

Chairman SPRATT. We have got seven minutes left to vote. I don't have to explain this to you.

Mr. NUSSLE. I can, I can be done if—

Chairman SPRATT. What do you want to do? You want to go vote now and come back? How many votes do we have? Oh boy.

Mr. NUSSLE. I can, I am happy to wait.

Mr. BARRETT. You want me to go ahead and ask my questions, Mr. Chairman?

Chairman SPRATT. Go ahead.

Mr. BARRETT. Okay. I will be brief, Mr. Director. The stimulus package, we have talked about short term, long term, as you know the Senate is sitting on it. They are talking about an additional \$40 billion increase to the short term stimulus package, Mr. Director. Talk to me about the effect of that. Also, talk to me about the

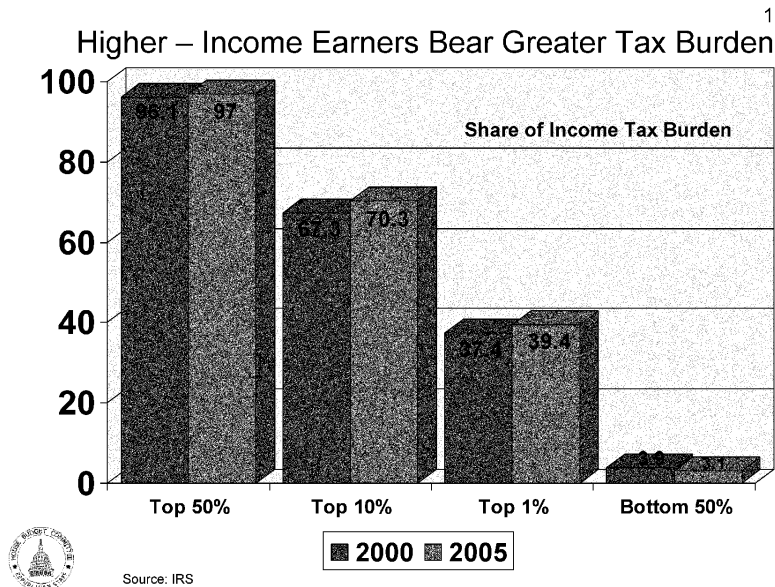
long term effect. You know, the Chairman, and the ranking party, or the majority party, has talked about taxes. We have had Charlie Rangel talk about the mother of all tax cuts. They have talked about AMT, but then they delayed it to the very end. We have talked about the Bush Tax Cuts and what they are going to do, when we are talking about long term stimulus wouldn't some certainty with the tax market, with the Tax Code, bring some stability in a long term stimulus look into this economy, Mr. Director?

Mr. NUSSLE. Well, as the President has said, and I believe others have said, other economists have said, that the most important thing we can do for the economy is make the tax cuts permanent. That is the long term horizon. Short term, you all have chosen a package which provides rebates and some incentives for business, which can have a short term stimulative effect. We have heard economists say as much as six-tenths of a percent of GDP increase in the first year alone. That would be important in the kind of softened economy we see right now. So that may be the stimulative effect in the short term, if there isn't excessive spending. But long term, again, I believe, the President believes, others believe, that the best thing we can do is provide some stability within that Tax Code and make the tax relief permanent.

Mr. BARRETT. Yeah, and I concur. Let us talk a little bit about Medicare, Medicaid, entitlement spending. From GAO, to CBO, to the Federal Reserve, to Chairman Nussle, to Chairman Spratt, to right now Ranking Member Barrett, we have all said entitlement spending is going to cripple this economy and it is going to bring this government down. I applaud your efforts going from 7.5 to 5 percent. And even the Chairman today said they were draconian cuts. If we don't, Mr. Director, if we don't have some type of responsible spending with these entitlement programs, I mean what is the outcome? We both know, but I want to hear it out of your mouth. What is the outcome of this economy and of these programs?

Mr. NUSSLE. Well, the challenge just becomes deeper and deeper. As I showed you on that one chart, the thing that amazes me, and I am not even sure that chart isn't too optimistic, that eventually the revenue, the revenues would go only for automatic entitlement spending. I think the challenge here for Congress is that, you know, it really, you have an opportunity to do smaller steps and not wait till the one big step that has to occur maybe eight, ten years down the line. You have an opportunity now, we have an opportunity to work together the way it was done in 1997 when the package was actually bigger and we didn't have the looming crisis just ten years out. The package in 1997 of savings under Medicare was bigger. And so I believe that we can do a little bit every year, or every other year, in order to make this challenge seem a little bit less challenging and less onerous to the economy, and to the overall Budget that our government is going to have to deal with.

Mr. BARRETT. Last short question. If I could get somebody to put up Chart 45 for me?



Mr. BARRETT. This chart, I think, will clearly show, Mr. Director, that once the Bush Tax Cuts of 2001 and 2003 were fully implemented, fully implemented, that the top 50 percent are actually paying more taxes. And according to your testimony, not only were they paying more taxes, revenues were up. It looks at the bottom here, the bottom 50 percent, they are actually paying less. So tell me, in your best estimate, Mr. Director, if we do have the mother of all tax cuts—tax increases, excuse me. If we do have the mother of all tax increases, is this additional revenue really going to help? According to everybody we have heard so far they say, “There is no way we can tax our way out of this.” I mean, historically, is this not a correct chart here?

Mr. NUSSLE. Generally speaking, and again from my experience, having sat where you are, Congress does not necessarily do a better job of controlling spending when more revenue comes in. I don’t think there is any correlation between the two. I think it is better spent by individuals and families and small businesses, and those that are creating opportunities and jobs and dealing with their own challenges far better than we could from the hallowed halls here in Washington, D.C.

It is also interesting to me, every time I see these figures it boggles the mind, but 1 percent, the top 1 percent of the country pays 40 percent of all of the taxes. And the top 5 percent almost pays 60 percent of all of the taxes in this country, which is an amazing thing. So you can always, you know, go after the wealthy, the rich, that sounds good. But they are already paying quite a bit and the challenge is not getting any less challenging. So I believe for the long term strength of our economy we need to, we need to make those tax reliefs permanent.

Mr. BARRETT. Thank you, Mr. Director. Thank you, Chairman.

Chairman SPRATT. The Committee will stand in recess subject to the call of the Chairman. Mr. Director, you know your way around. Make yourself at home. We will be back as quickly as possible.

Mr. NUSSLE. Thank you.

[Recess.]

Chairman SPRATT. Paul, let us go on. I will recognize you first. Mr. Director, we are ready to get started if you are, sir. Before doing that let me welcome back Mr. Ryan who has trooped through the snow to get here to ask his question. So I recognize him first, and then go to Mrs. DeLauro. Mr. Ryan?

Mr. RYAN. Thank you, Chairman. We are used to a lot of snow in Wisconsin, but when we get about twenty inches it slows us down a little bit. So, just about a half a day, though. So thank you for your indulgence. Hey, welcome Director. Nice to see you.

Mr. NUSSLE. Thank you.

Mr. RYAN. Feels a little different on that side, I suppose?

Mr. NUSSLE. I liked it on that side better. Already just in the first half hour I can tell you that.

Mr. RYAN. I wanted to ask you some questions about discretionary, I don't know, I just flew in because of the snowstorm. So I don't know if this was already covered. But a couple things as I was reading through the Budget on the plane, your DOD, your request for, your supplemental for the War, last year you had the full '08 supplemental in the Budget. This year, you have \$70 billion which you call a placeholder, which it says is not the full amount. Why do it that way this year? Because last year the Administration made good progress on this.

Mr. NUSSLE. A couple of reasons. First of all, I agree with you that the administration made good progress. And I remember sitting where you are and asking that the Administration do just that. A couple of things have occurred. Number one is that immediately after the request was made last year it was stale. It was a request for about \$141 billion, I believe, and there were two major policy and strategy changes during the year. And as a result it needed to be adjusted up. So immediately, almost, upon submission it was inaccurate. Second, the fact that the Congress has not acted on the War Sup to this period of time, and still remains, more than half of it is left remaining for this year is very troubling to the Administration given the fact that we a year ago made the request. We can't have a request hang out a year and expect it to be, expect it to be right. It will be stale in that period.

Mr. RYAN. What—

Mr. NUSSLE. A couple of other things, quickly. One is that we didn't want to tie the hands of our commanders coming back with their recommendations in March, which will occur. And then lastly, the \$70 billion gets you into this year and into the next Commander in Chief, who may in fact make a different determination about the strategy. And we didn't want to tie their hands. So that is the entire rationale.

Mr. RYAN. Last year's request fell short of the actual request, of the actual emergency supplemental by how much? Do you know off the top of your head?

Mr. NUSSLE. The full request was \$193 billion, and I believe we have \$89 billion to date. Is that what you were asking?

Mr. RYAN. Yeah. Yes. I am trying to figure out——

Mr. NUSSLE. So \$108 billion left.

Mr. RYAN. A hundred and eight left, which is what you are hoping and expecting is going to pass this Congress sooner rather than later. So how should we try to extrapolate what we ought to think that this is going to end up being for the full amount so we can get a better accurate look at the deficit path? What do you think would be a good rule of thumb for us to take out the full cost for the year?

Mr. NUSSLE. This is a difficult, this is a difficult thing to do because it would be a prediction only. It would not be a request and that is what the Budget is, it is a request. We make very specific requests throughout the Budget whenever we send that up. Secretary Gates yesterday testified in front of the Armed Services Committee, I believe in the Senate that they asked him about, you know, how much would it be. And he said, "Well, basic math could speculate to a higher number but it would be speculation." And he quickly said, "Look, we have got to, we have got to do the work in order to make sure that that specific proposal is accurate."

Mr. RYAN. Okay, another discretionary question. You propose eliminating 151 programs, and that saves \$18 billion in '09, is that correct?

Mr. NUSSLE. Yes.

Mr. RYAN. How many of those were proposed, were most of those proposed in last year's Budget as well?

Mr. NUSSLE. There are many of them that had been proposed over the years. But Congress has actually taken amazing action on these programs. We have saved over the course of the term since we have been sending these up, ninety-one programs have been eliminated, seventy-one have been reduced, and we have already saved \$10 billion in this exercise. So even though some of these have been sent up again this is a good exercise for us to constantly go through and weed the garden with these programs.

Mr. RYAN. That is what I wanted to get at, which is hundred-fifty-one, eighteen billion, that gets you to your baseline on discretionary. You include that assumption——

Mr. NUSSLE. Yes.

Mr. RYAN [continuing]. In your baseline, correct?

Mr. NUSSLE. Yes.

Mr. RYAN. But, but the point is you are saying there is a track record of some achievement, albeit not full achievement, of these kinds of savings. You are saying this recommendation has been heeded in the past, and we have seen some, some harvesting of that garden, so to speak?

Mr. NUSSLE. Yes.

Mr. RYAN. All right. Yeah, that is the other question, is the omnibus. How much of this—well, I will get to that later. Let me ask you about your mandatory savings. Does this Budget cut mandatory spending?

Mr. NUSSLE. Actually it slows the rate of growth——

Mr. RYAN. Right.

Mr. NUSSLE [continuing]. In mandatory spending, is all it really does.

Mr. RYAN. So how much does this Budget propose to increase mandatory spending versus the baseline?

Mr. NUSSLE. Overall in mandatory spending? Let me see if I can pull that up for you. Do you want to ask another one while I am looking?

Mr. RYAN. I think it is 5-9-5-6.

Mr. NUSSLE. Well, that is in Medicare, is 5 percent. We could do the math for you.

Mr. RYAN. Okay.

Mr. NUSSLE. We will do it for you.

Mr. RYAN. But if I recall it is maybe two to three tenths of a percentage point difference between the baseline and the proposal. Does that sound about right? Maybe 5.9 percent mandatory growth versus the proposed Budget—

Mr. NUSSLE. Yeah, that does sound right.

Mr. RYAN [continuing]. Is 5.6, I think.

Mr. NUSSLE. That does sound right.

Mr. RYAN. The point is, you hear all this rhetoric that you are slashing and cutting spending in mandatory programs when in fact they are actually growing at rates that exceed the rate of inflation, is that not the case?

Mr. NUSSLE. That is the case.

Mr. RYAN. One last question, because I appreciate the Chairman's indulgence on the no clock for me, but I don't know if Mr. Barrett had that. On tax policy, you assume the '01 and '03 tax cuts are permanent, correct?

Mr. NUSSLE. Yes.

Mr. RYAN. And you assume one-year patch, correct? On the AMT?

Mr. NUSSLE. In '08.

Mr. RYAN. And your assumptions keep the revenue as a share of GDP at what average rate over the five and ten year window, do you know that off the top of your head?

Mr. NUSSLE. Not right off the top of my head.

Mr. RYAN. It is above 18.3, if I am not mistaken.

Mr. NUSSLE. It is around, depending, it depends to some extent on the impact of the growth package. But 18.5 is where I believe it is.

Mr. RYAN. And your increase in the deficit in the first two years of this Budget comes from primarily the growth package and the supplemental and what else?

Mr. NUSSLE. Loss of revenue, actually, or a slowing of growth in revenue, mostly from corporate receipts. That is primarily where it comes from.

Mr. RYAN. I have taken enough liberty.

Mr. NUSSLE. Some emergency spending in addition to that, but mostly in those areas you just outlined.

Mr. RYAN. All right. Thank you, Chairman.

Chairman SPRATT. Thank you, Mr. Ryan. Mr. Edwards?

Mr. EDWARDS. Mr. Nussle, as someone who had the privilege of serving with you and coming to Congress with you in January of 1991, it is a pleasure to have you back before this Committee. And while you and I have had some honest philosophical differences over Budget policy, every step of the way I have respected your in-

tegrity and your decency and your commitment to this country. So it is good to have you back.

Mr. NUSSLE. That is shared, Chet, thank you.

Mr. EDWARDS. If I could make a, just a comment overall about the policies that have led us to where we are today. Some estimates are that by the end of this year, during this Administration's eight year period in office, we will have added \$4 trillion, or close to \$4 trillion, to the national debt. And based on my estimates of an average interest rate of 4.7 percent on that debt, what that means is our government will be spending \$188 billion a year on interest each year just to pay the debt accumulated during the last eight years. And if my math is correct that equates to about \$627 in taxes per year for every man, woman, child, and infant in our country. And for a family of four, if you averaged it out, it would be \$2,508 in taxes every year just to pay the interest on the debt created during this Administration.

What I would want to say for the record is that after eight years of hearing that we can have balanced Budgets during a time of War in Iraq and Afghanistan, and the War on Terrorism, we can have balanced Budgets with the continuation and even an extension of tax cuts, the reality has proven that just hasn't been possible. There are multiple reasons for that. September 11th, the recession in 2001, the Wars in Iraq and Afghanistan, but we have known about those situations for years. And so one way or another, Congress and the Administration have failed to meet our responsibility to future generations to pay for what we think is important enough to purchase as a government.

And my concern is that this Budget just seems to be a continuation of the same policies over the next five years that have led to these unprecedented deficits, and \$4 trillion increase in the national debt, over the last eight years. And what I would say, Mr. Nussle, is that if every member of the House had been as consistent as you perhaps there would have been the spending cuts to pay for the tax cuts. But what I have observed every year that I have been on this Budget Committee is, including when you were Chairman, is tax cuts were proposed and passed in Congress, and members promised we would have spending cuts to pay for those tax cuts. But, frankly, we couldn't even get a majority of Republican members in the House, much less a majority of Democratic members, to vote for those spending cuts to pay for the tax cuts. So we have ended up with tax cuts not paid for by spending cuts, and therefore our children and grandchildren have to face this enormous interest payment each year for the rest of their lives.

An example of the kind of unrealistic spending cut proposal, I think, is in the President's Budget for the next five years for veterans spending. According to the Congressional Budget Office, after an initial bump up in current services at .4 of one percent for 2009, the President's Budget would cut \$20 billion in current services for veterans over the next five years, with 85 percent of that money going to VA medical care. That means about a \$17 and a half billion cut in real services to veterans healthcare over the next five years. And so I would say to my colleagues in the House that if you say we can balance the Budget and continue to try to make permanent the Bush Temporary Tax Cuts, I would have to ask do you

also endorse a \$20 billion cut in veterans programs over the next five years?

I guess, Mr. Nussle, my question to you would be one, why would the Administration propose these kind of cuts, after inflation, considering current service levels today? And based on your years of distinguished service in the House, what do you think the probabilities are that Congress in 2010, 11, 12, and 13 will cut VA programs by \$20 billion in current services?

Mr. NUSSLE. It is a fair question. I am not sure what Congress will do this year, so I, don't hold me to what Congress will do in years to come. I—

Mr. EDWARDS. Would you bet your family, I bet you and I wouldn't bet our family nest egg and retirement on the belief that Congress will cut veterans spending by \$20 billion over five years.

Mr. NUSSLE. No, but you and I also know that there is a time coming here where, because all of the revenue is going to go to these mandatory programs, we will leave nothing for the discretionary programs that are important to all of us. I mean Congress and the President, and you are right, there are going to be some changes that need to be made, no question about it. We have a good track record with regard to our veterans. In a bipartisan President and Congress way and partnership we have increased veterans spending over 100 percent since the President came to office. Some of it was proposed by Congress, some of it by the President, but jointly we have done, I think, a good job. That will need to continue. But what we demonstrate in this Budget is our request for this year, which is a healthy and appropriate request, and it demonstrates that we have got to get serious about entitlement spending otherwise some of these other very important accounts are going to be at peril.

Mr. EDWARDS. Okay. I agree with entitlement spending challenge. I agree with the increase in veterans funding. But I would point out for the record, Mr. Chairman, that half of the increase in veterans spending during the Bush Administration has come from Congress above the President's request. But I did not hear an answer, and I know my time is up Mr. Chairman, but in terms of, does the Administration seriously defend cutting \$20 billion of present services out of VA, current services to veterans over the next five years?

Mr. NUSSLE. Actually, we hold all discretionary spending at a freeze level for the next four years under the Budget.

Mr. EDWARDS. But under current, given inflation and the increasing number of veterans, as I understand it it is a \$20 billion cut in current services.

Mr. NUSSLE. Well, and that is the, that is the challenge that we are under, not only to get back to balance but to address these longer term challenges. We have to be very serious about them. Otherwise, those are some of the choices we are going to end up having to make.

Mr. EDWARDS. I thank you for your distinguished service. It is good to have you back here today.

Mr. NUSSLE. Thank you, my friend.

Chairman SPRATT. Mr. Simpson?

Mr. SIMPSON. Thank you, Mr. Chairman. It is good to have you back Director. Must be different sitting on the other side of the table rather than up here on this side of the table.

Mr. NUSSLE. Yes, it is.

Mr. SIMPSON. Let me ask you just a couple questions about the, about the President's Budget. I have often noted that in the past, whether it was at the state level or whether it was at the federal level, sometimes the administration makes, administrations make proposals that aren't realistic that in fact aren't going to be passed, they know they aren't going to be passed, in order to put together a Budget that they can submit that has the lowest deficit, or a balanced Budget, or whatever they want to do.

You propose in your Budget \$10 billion, or \$10 trillion over seventy-five years in Medicare, which I applaud you for in that if we don't get after mandatory spending we are going to be in big trouble. We sit and complain about earmarks, we sit and complain about discretionary spending, and try to keep non-defense homeland security discretionary spending at a growth rate of 1 percent, which we know is unrealistic. That is not going to happen. But we try to do that in a Budget. While we sit back and watch the dollars go out the door in mandatory spending unwilling to take on the tough job of making the decisions to reform the mandatory spending side of this. You propose Medicare proposals to save \$178 billion over five years and reduce Medicare's current \$34 trillion unfunded liability by about a third. What specific proposals do you propose to save that money? That \$178 billion to reduce that growth from 7.2 percent to 5 percent? Are they realistic proposals? Things that Congress has a chance of acting on in a bipartisan fashion? I look at it and it looks at savings in provider payments. What does that do to accessibility? And how did we come up with reducing provider payments, which we know that Congress every year goes back in and adjusts those provider payments?

Mr. NUSSLE. Well, first of all I can, as a, as an amateur political consultant I can certainly give you my opinion about that. But I think here as serious policy makers we have a responsibility to recognize that even though it is going to be difficult, and even though for instance some of the changes, for instance, current law for doctors, which would mean that they would receive no update. That we would freeze other providers for three years, establish competitive bidding for labs. Some of these are really tough, but things that have been done in the past, for instance, is the reason why I bring up 1997 and suggest that the last time the Congress in a bipartisan way together with the Administration said, "Let us try and tackle this. Let us dip the growth curve and allow it to grow but just not as fast." Many of these proposals were considered and were on the table, and were adopted. And so, yes it is going to be hard. Yes, it is going to be politically unpopular. But I can tell you, and you and I both know this, it is going to be very difficult to explain how we bankrupted these programs in six, seven, eight, ten years.

Mr. SIMPSON. Well, I agree with you that it is going to be hard to explain that. And if we don't do something about it they are going to be bankrupt. The problem is, is everything I see that comes out of the Administration or the previous Administration is

a band-aid. Nothing goes in and fundamentally reforms the program. And I get frustrated when all I see is band-aid approaches trying to solve things—

Mr. NUSSLE. Right.

Mr. SIMPSON [continuing]. To save a few billion dollars here and a few billion dollars there without looking at the total program and what the hell it does to the whole program.

Mr. NUSSLE. All right, well then let us—

Mr. SIMPSON. And the same thing is true of social security.

Mr. NUSSLE. Yes.

Mr. SIMPSON. Nobody is willing to take on the tough decisions of sitting down and let's saying, "Let us have some true reform. Let us look at what we can afford in terms of a Medicare program for senior citizens in this country." And what decisions are we willing to make? Because there is an election every two years.

Mr. NUSSLE. Well, the President did that with Social Security. But back onto Medicare, what we demonstrate in this Budget is the order of magnitude you would need to have, the kind of consideration you would have to have, if you wanted to just take care of one-third of the problem, knowing that we are ten years away. So the order of magnitude is 178. Throw out the specific proposals for just a moment and say, "Take 178 as a goal. What can we do in order to, no band-aid, let us put a tourniquet on it or let us throw it all out and start over." However you want to do it. We are willing to have that kind of debate and conversation. But by and large, Congress has been unwilling to address any of it. And so we are at least trying to show you ways that you have addressed it in the past, like 1997, with ways that we could suggest today to at least get one-third of the problem under control.

Mr. SIMPSON. Well, let me suggest that much of the proposals in the Budget are proposals that probably won't pass Congress. So we probably, and I think you probably realize that and I think the Administration probably realizes that. And so consequently we won't address the problem. And what I am saying is that this Administration is in a perfect position, last year in office, to sit down and say, "Let us have some bipartisanship. Let us sit down and look at this total program." And instead of, like the Administration did with social security and saying, "I am not going to tell you what to do, but it has to have x, y, and z in it," saying everything is on the table. Let us sit down and talk. And let us see what we can do to resolve this problem. Because if we don't, then I wouldn't want to be our children talking to us.

Mr. NUSSLE. And the Economic Growth and Stimulus Package may be a trail that has been well blazed for that kind of conversation. I will say, however, though, there are those, such as the Senate Majority Leader, who I think have the opinion, or the belief, or the feeling, that it may be better to try and negotiate with a new President. And so for instance, just this week, made the statement that we probably wouldn't do any appropriation bills. We could probably get a better deal from the next President. So it may just be a C.R. So there, on the one hand we have had some success with bipartisanship with an economic growth package. On the other side there are those that say, "Let us just punt and wait till next year and see if we can get a better deal." We are ready to work if Con-

gress is ready to talk about some of these issues and we think the order of magnitude is about right even if the specific policies aren't perfect.

Mr. SIMPSON. Well, I appreciate that. And I am not trying to put all the blame on the Administration because Congress has been at fault also in not insisting that some of these things get done. But I would like to see, you know, there are a majority, I think, of members of Congress in both parties who would be willing to sit down whether leadership is or not.

Chairman SPRATT. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman. And I have to say that the remarks of the gentleman from Idaho are much welcomed in this room. I agree with much of what you had to say.

Mr. Nussle, welcome back. I believe we need a Federal Budget that will strengthen our nation's defenses, make our homeland more secure, and our community safer, and support the people, families, and small businesses that drive America's economy and keep us competitive in the global marketplace. I have serious concerns that the President's Budget would make it even harder for families in Maine and across America to afford quality healthcare, fuel to get to work and heat their homes, and college education for their kids, and everyday expenses that rise faster than their paychecks. It seems to me that this Budget is pretty much what we have had before from this Administration. And the \$4 trillion increase in the national debt is, I think, a reflection of very much a failed policy.

Director Nussle, I want to turn to a question about port security. Security experts have repeatedly stated that port security remains one of our biggest vulnerabilities. In the Safe Port Act passed in 2006 Congress authorized \$400 million a year for port security measures, and we appropriated that amount for 2008. The President, however, cuts that number in this Budget in half, and has requested only \$210 million for the Port Security Grant Program for 2009. Now many people may not know this, but the port of Portland in my district is the second largest oil port on the east coast. The goods that reach our shores in Portland travel all over the northeast and reach the rest of the United States. My constituents want to know and I want to know, why is the President undermining our homeland security efforts by underfunding vital programs that enhance and improve security at our nation's ports?

Mr. NUSSLE. And I am, could you repeat the number? Because I have a different number for port security than the one you were talking about. We don't—

Mr. ALLEN. Well, the number I have for the Port Security Grant Program is from \$400 million last year to \$210 million in the proposal.

Mr. NUSSLE. Oh, I see. Okay. Yes, I mean our total for port security is actually increased by 14 percent. The grant program may have, may have, may have been reduced. Actually, it is the exact same request the President made in 2008. But we have a 14 percent increase for total port security under the Department of Homeland Security which is a fairly robust number to meet some of the challenges that you have just outlined. I think that is an appropriate amount.

Mr. ALLEN. Well, we will go back and take a look at that. I am very concerned about the decline, though, in the grant program. Because for many municipalities and states that is an important, that is a very important source of funding.

Let me turn to another issue. According to the Center for Budget and Policy Priorities the President's Budget proposal would cut grants to state and local governments for all programs other than Medicaid by an estimated \$18.9 billion, 7.4 percent, from 2008 to 2009, adjusted for inflation. That includes a 22 percent reduction in funding for LIHEAP despite the fact that prices for heating oil in the northeast have gone through the roof. Given the difficult economic challenges many states and communities are facing, have you really looked at what, you know, these dramatic reductions in funds to states will be? They are all struggling trying to balance their Budgets. And if you reduce the Social Security Block Grant and you reduce the Community Development Block Grant, and reduce funds for law enforcement, you go on and on, have you really studied the economic impact of that? Is anything that comes out of OMB that looks at the consequences of what you are proposing?

Mr. NUSSLE. Well, in, and on to your last couple of questions. I am not sure. I would have to go back and check if there has been specific analysis to those questions. But in general, I mean, there is a, and I think you said it, these are states and local governments. They have responsibilities as well to this. They can't just assume that the federal government is going to, is going to pay for all of these kinds of activities. And the federal government has been increasing, steadily increasing their support. And in fact our request in many of these different areas has certainly gone up over the years. We may not be able to outbid Congress, and LIHEAP is an example. Our request year over year has grown. We have a \$1.7 billion request, which was over our \$1.5 billion request from last year. But we are not going to be able to outbid a Congress that wants to continue to add resources here.

Mr. ALLEN. Well, I would take exception to the fact that these funds have been increasing. For many grants to states the funds have been decreasing, certainly the Community Development—

Mr. NUSSLE. Well, our requests have been increasing.

Mr. ALLEN. Well, right. That is another issue. I yield back.

Chairman SPRATT. Mr. Bonner?

Mr. BONNER. Thank you, Mr. Chairman, and Director welcome back.

Mr. NUSSLE. Thank you.

Mr. BONNER. We look at you every time we walk into this Committee Room with fond memories. I want to first of all echo the thanks I think you received from some of our other colleagues. During the Budgeting process I asked you and your staff for your assistance on a couple, three projects that were important to Alabama. And you didn't help us at all but I want you to know that I appreciate the fact that you shot straight with us every step of the way.

Mr. NUSSLE. Sounds like today I didn't help anybody.

Mr. BONNER. Well, the fact that you would return our phone calls that you would invest the time that I know is precious in your new position meant a lot to us, and we do appreciate that.

That said, I think that the President came last week, a few weeks ago, and gave the State of the Union message. In it there were not many bold or ambitious new programs that were costly but he did outline some. And I think this Budget reflects that there were some new programs. And we, as you know, are having an internal debate on the Republican side at least about the subject of earmarks. And what constitutes an earmark, and what is the difference between a congressional earmark and an administrative earmark that might be reflected in the Budget. You have sat on both sides of the aisle here. Could you give us some perspective in terms of does this Budget have any new earmarks in it? And what is the difference between someone in the bureaucracy of the administrative branch of government putting the priority as opposed to someone in the legislative branch?

Mr. NUSSLE. I will tell you, this has been one of the, one of the challenges that I have had as Director in putting this Budget together, is to try and make sure that I with integrity could come up to you and say, "We are not earmarking." There is no question that the Budget is a request. That is what it is. And we are requesting you to put money in certain places. And as such, there will be those who define that as an earmark. But first and foremost, it is public. It is transparent. It has total justifications behind it that you can decide and weigh one way or the other. It is public often for over a year before it is acted upon. It is often distributed, mostly distributed, in a competitive grant kind of format, even in those instances where it is, where winners and losers are chosen. And that process is also quite transparent. So there have been some instances in the past where the President's Budget has specifically directed resources to one or two sole projects. Those have been removed from this Budget. And what remains are only projects or proposals or requests that are done in a competitive way, and are fully open to your scrutiny and judgment as to whether or not they are appropriate.

Mr. BONNER. During your distinguished career in Congress, and the relationship you enjoyed with our now Chairman, who also has enjoyed a distinguished career in Congress, we, much conversation has taken place in this room about the future growth of entitlement spending and what we can do as the elected officials of this country to get some handle on it. You have young children. Many of us have young children or grandchildren. And I guess to paraphrase a question that was asked at the National Prayer Breakfast this morning where the speaker said rhetorically, "What do you pray for?" What do you wish for in your current position, and in your previous years of service, for our children and grandchildren with regard to the debt that they are looking at because Congress, the Administrations before, this current Administration, and any future Administration, might leave to them? I mean, I was listening to one of the presidential candidates declare victory the other night, and the promise that we are going to have universal healthcare for all Americans, and improved teacher salaries for all teachers, and all these wonderful things. And it sounds great. And we can have it. But it will come at a cost. And what would you wish for your children, and my children, and other children in this country in terms of bearing that cost?

Mr. NUSSLE. Well, it is a profound question. But it is also a, in final analysis a policy and political question. The two things that I wish for that will have impact on that, I think, in greatest respect are that our country is safe. Because if our country is not safe all of the rest of this conversation matters little. If we aren't able to protect ourselves in the future, and that is why the Budget, if you will, puts so much emphasis, and why you all put so much emphasis in homeland and national security issues. We have got to keep safe. And second, we have got to keep safe so that we can continue to be prosperous. And that is the second, that is the X factor that is involved in solving many of these problems. I have said from the Chair and I will say here today, you cannot grow out of any of these problems entirely. But growth does matter. And so keeping our country safe and continued economic growth are the two most important issues, even before you decide whether it is personal accounts for social security, or whether you means test this program, or whether you have a reconciliation package for savings in Medicare. Those are decisions we will all make. Keeping us safe so that we can be prosperous are the two most important issues for my kids.

Mr. BONNER. Again, thank you for your service.

Mr. NUSSLE. Thank you.

Chairman SPRATT. Mrs. Schwartz?

Mrs. SCHWARTZ. Thank you, Mr. Chairman. And as everyone has said, welcome back Director Nussle. I think that, you know, my first term I served on Budget and you were Chair at that time and we had some tussles and difference of opinion, so interesting to have you back and to be able to maybe continue the dialogue if we may, and maybe hope to reach some compromise, some reasonable way to move forward.

Certainly my feeling, as you look at Budgets, and we look at this Budget, the President's Budget, is that a Budget is a statement of priorities, it is a statement of values. You have made it very clear this morning that the high priority is on defense, on security, and on sustaining the President's tax cuts for, I would say for the wealthiest Americans. There are many tax, those tax cuts, as you know, on our side of the aisle, we agree with and would like to see move forward on. But I wanted to focus on one of the areas that you mention at least in your written testimony. I am not sure you mentioned it this morning. And that is that Americans have real concerns about the economy and the economic downturn, and in particular that does affect their concerns about affordable healthcare and access to healthcare. What I hear from my constituents is the concern about the high cost of insurance coverage, access to insurance coverage, and access to healthcare. And certainly as a government we have made a commitment, and I am going to ask Mr. Etheridge to move one way or the other, if I may. Otherwise I can't see Mr. Nussle and he can't see me. Thank you. And indeed, no really, as a government we have a huge responsibility particularly for seniors and children in our Budget. And you have talked about that a good bit this morning. I don't think you have talked very much about how we can be more effective, more efficient, or improve outcomes for Americans. I think that needs to be the goal. And then the question is—

Mr. NUSSLE. In healthcare, you mean?

Mrs. SCHWARTZ. In healthcare——

Mr. NUSSLE. Yes.

Mrs. SCHWARTZ [continuing]. Under Medicare in particular. And there has been, you have been silent, and the Administration's really been, there were a few moments where we actually had some commonality on medical records and electronic medical records, but basically been silent on anything but the cost of Medicare and the cost of children's healthcare, particularly around CHIP. Not about what it might do to bring down costs if we actually do it more efficiently, more effectively, and improve outcomes.

In fact, the, you have done two things on healthcare, this is simplified if I may. That is to cut the growth of Medicare, to cut funding for hospitals and providers pretty dramatically. And to really say the only way we are going to get healthcare to more Americans is to take money away from those who have insurance through employers, which is about 60 percent of Americans, and direct it to the individual marketplace, which is very, very difficult, as I assume you know, for any individual, particularly anyone who is of modest income to be able to afford the private marketplace. So even with tax benefits at the end of the year, it is hard for most Americans to find the, be able to find affordable health insurance. And secondly, if you have any kind of health issue at all it is very difficult to buy it and have it be meaningful. Preexisting conditions exclusions are huge for most Americans. And yet, the, the proposal from the Administration is to spend \$105 billion over the next five years in taxpayer dollars to be able to offer, to try and shift more Americans from the employer to the individual marketplace.

And I am struck by this in part because you are talking about, in the estimations I have, is the President's proposal would cost over \$2600 per person, per year. And yet you want to spend these kind of dollars, but when it came to what was a very bipartisan, originally bipartisan, agreement to spend much less than that, \$35 billion, to get healthcare to kids of lower middle income families, the President refused to do it. And I, you know, I just want to you to comment on the real disconnect there. A much more efficient use of taxpayer dollars to get healthcare for kids that could have a much more significant effect on healthcare outcomes. It was ready to go. It was a bipartisan effort here in Congress. And the President refused to invest that \$35 billion to get healthcare to another four million children. And yet want to use much more money, in a much less efficient marketplace, to, to move people from employment to individual health insurance. It doesn't seem to make a lot of sense if what you are trying to do is to make healthcare more affordable, more effective, and improve outcomes. Could you speak to that?

Mr. NUSSLE. Well, a couple of things. I mean, first of all we have improved the SCHIP proposal, we believe, in the Budget that we have presented. And the President's goal is to, is the goal that was established in the original SCHIP, and that is to provide health insurance for children who are currently poor and uninsured. And them first, not adults, not children——

Mrs. SCHWARTZ. And yet, if I may interrupt, you are going to spend, you are proposing to spend \$105 billion on adults who may

already have insurance, not even be part of the uninsured pool. So if that is the goal of the Administration is to get care to the poorest children, you are now taking those dollars away and using it for an initiative that actually may go to potentially wealthy individuals who already have insurance through tax deduction.

Mr. NUSSLE. My guess is that most of the wealthy individuals already have insurance and are well covered. I think this is for the uninsured population who have to rely on employers in order to even have access to healthcare. And it is usually very expensive. They don't have the market effects of being able to pool their risks with other individuals, may it, let us say association health plans, as an example. There is a number of directions that we could go with this. The President put, and still does in this Budget proposal, \$23 billion on the table for that kind of reform to give people better access. But I will tell you that individuals, I believe, are much better at controlling the marketplace. I would trust you in your ability to control the marketplace much better than your employer. And I think that is true in general for most people. We need to get better personal control of our healthcare if we are going to be able—

Mrs. SCHWARTZ. I think my time is up but I want to thank you, Director Nussle, because you have made something very, very clear. Is that this is an attempt to move from what might be very comprehensive, full coverage to moving people to an individual marketplace that may be very hard to purchase it, healthcare coverage. But what your goal here is to actually make people more personally responsible whether they can afford it or not, whether they have had access to better coverage or not, and in fact doesn't recognize the real difficulties and expense of the individual marketplace.

Mr. NUSSLE. I don't think that is what I said. What I said was this is for people who are uninsured. So nobody is moving from being—

Mrs. SCHWARTZ. It is not targeted that way. I don't think there is any, if it is targeted, that would be interesting—

Mr. NUSSLE. Well then why don't we, let us write it that way.

Mrs. SCHWARTZ. If you are open to ways to make sure that it is targeted to—

Mr. NUSSLE. We are open to writing it that way.

Mrs. SCHWARTZ. It is not written that way now, but I would be interesting in having a conversation to make sure it is targeted to more modest income, middle income folks who are struggling with this, that it is targeted to the uninsured, and that it actually has a marketplace that actually allows them to afford it.

Mr. NUSSLE. Well, in order for a marketplace to be established you cannot seal off an entire population and say, "You can't participate. You can only have a small group who can participate." That will not help drive the marketplace.

Mrs. SCHWARTZ. Let me say that I do agree that we need to tackle this. And I do agree with that. I do think that from a tax fairness point of view we have to look at some tax reform to make sure that individuals who are purchasing in the private marketplace can get some fairness out of the tax policy. I completely agree on that. But I think there is work to be done to make this meaningful in

any way for middle income families who are struggling to find health insurance.

Chairman SPRATT. Mr. Etheridge?

Mr. ETHERIDGE. Thank you, Mr. Chairman. And Mr. Nussle, thank you for being here. Let me ask you a couple of questions and I will try to keep them pretty tight so we can get through. I look at this Budget, and I had the privilege of serving on this Committee last year and again this year. And I view it as a Budget that is continuing a lot of misplaced opportunities and a lot of real challenges and problems are going to be left for the next president, whomever that president may be. And a lot of the problems were made in this term of this President. So let me ask this. You said earlier that you would increased the funding for a couple of areas, homeland security being one, some other things. But I look at the numbers, and sometimes it kind of helps to break it down where the rubber meets the road. And I believe if you are going to have homeland security you have to have hometown security. That is all across this country.

Just this past week I went to a community and delivered a Fire Grant for a fire truck because they had a truck they couldn't crank, wouldn't run, wasn't working, thirty-five years old. And it makes a difference in that community. I see here that the Homeland Security State Grants are proposed to be cut in the 2008 Budget by 42.3 percent. Byrne Justice money, cut. Assistance to Fire Fighters Grants, cut substantially. Clean Water State Revolving Funds, 21 percent cut. Is this consistent with helping communities help themselves?

Mr. NUSSLE. Well, let us start with whose responsibility it is to protect that community.

Mr. ETHERIDGE. Well, after 9-11 we asked the fire departments and the police departments—

Mr. NUSSLE. And we took care of New York.

Mr. ETHERIDGE [continuing]. Across this country to take on a much larger role, and then we started to help funding them. But now we are going to get them out there and get them engaged and pull the money back.

Mr. NUSSLE. I don't think we asked them to take on a bigger role. They wanted to take on a bigger role. The taxpayers wanted them to take on a bigger role. Property taxes have gone up in order to cover that in many instances. I was a local volunteer firefighter. I, I mean I know what that is all about. But just look at the local grants just as an example because you brought this up. I think this is, to me it is fascinating. We have, you, have appropriated—

Mr. ETHERIDGE. Give it to me quickly because I have got a couple more I want to ask before my time runs out.

Mr. NUSSLE. Okay. \$23 billion have been appropriated since 2001. Four additional billion was appropriated last year. There currently remains an additional \$7 billion, plus that four, that has not yet been spent but has been awarded and is in the pipeline. \$11 billion of that twenty-three—

Mr. ETHERIDGE. All right, let me move to another question. Because I—

Mr. NUSSLE. But isn't that, why is that?

Mr. ETHERIDGE [continuing]. I served as a County Commissioner, I served as a State Legislator, and I served as State Superintendent. There are things called “money in the pipeline” that are obligated and not yet spent.

Mr. NUSSLE. Okay. So why do we put more money into the pipeline if the money in the pipeline is not being spent?

Mr. ETHERIDGE. Because they may be obligated—let me move, let me move to one other one. Because it is obvious you are going to take up my time trying to get through that one. Let me move to education, because I happen to believe that one, having served eight years, is a critical piece. This Administration has talked about it and yet every time the Budget comes over here there are certain areas that get cut. I have worked with previous administrations. I know how important education is. In terms of character education there is very little money. It really helps children see the world through a moral lens. It really is the kind of thing we want to encourage in schools. And yet, that is eliminated. Vocational education at a time when we have challenges in our schools but more important in the workplace training men and women to meet the challenges of the twenty-first century, eliminated totally.

Finally, I will move from that and they have cut Teacher Education Improvement Grants, 21st Century Learning Centers, Child Block Grant monies, and at a time when the economy is slowing down Social Service Block Grants are cut by 29.4 percent, and 100 percent cut in 2010. Totally eliminated at a time when we have some serious—I recognize we have got to get our house in order. But why should the most challenged among us, the children who are going to have to inherit the future are the ones we are going to paste the greatest burden on?

Mr. NUSSLE. And has that money increased student achievement, or test scores, or their ability to do math and science and reading?

Mr. ETHERIDGE. I am just reading you the numbers from my statement—

Mr. NUSSLE. I know, but it is not, but see that is—

Mr. ETHERIDGE [continuing]. And the answer is yes.

Mr. NUSSLE. No, the answer is actually no.

Mr. ETHERIDGE. It is yes in North Carolina.

Mr. NUSSLE. It is not yes. How does character education funded by the federal level determined by all of us wise people here back in my hometown to my kids that are in high school today going to improve their education? Can you explain that to me?

Mr. ETHERIDGE. Absolutely. Because there is never enough money to meet the needs. If you give them the block grants and the opportunities for teachers to training and education, the answer is yes.

Mr. NUSSLE. We are ready to block grant all of this education money. In fact, that is where it went. It went into Title I so that it could go back to the states and be flexibly used by the teachers and the principals in the schools there for appropriate education, and to get student achievement rather than stovepiped grants that are determined by wise people in Washington, D.C. who don't necessarily care more about the kids back in Iowa or North Carolina any more than we do.

Mr. ETHERIDGE. Let me help you with one of the block grants. Because one of the great programs with block grants are, and the administration with a block grant, this is a great history and having been Superintendent I know it. And the next year they come back and they cut it across the board and said, "Take this out of administration and we are going to cut it." And pretty soon it goes away because you have no constituency for it. Thank you, and I yield back.

Chairman SPRATT. Mr. McGovern?

Mr. MCGOVERN. You were here longer than me, so you know. Welcome back. Let me, I just want to begin by saying the stimulus package was mentioned earlier. I got to tell you, I supported the stimulus package that went through the House and I am a little bit disappointed with kind of the final product. I mean it is, it is a step in the right direction, but you know in this Committee we had a number of people testify about the fact that, that providing stimulus to the most vulnerable households could, you know, would really make the greatest impact. And many of the experts, Republican and Democrats, that we talked to from various administrations all kind of agreed that the stimulus package should have included a temporary increase in the food stamp, food stamp benefits. And unfortunately, I mean we didn't do that here in the House. And I am not sure whether they will be able to do it in the Senate. And it looks as if whatever stimulus package goes to the White House will not include an increase in food stamp benefits. I think that is a shame because not only are food stamps a good stimulus for our economy but they serve an important purpose, and that is they feed hungry people. And that is, unfortunately, a real issue. It is a growing issue in my State and all across this country. According to the Bush Administration's own data hunger is getting worse in this country. Not better, it is getting worse. The USDA Report on Food and Security release at the end of last year states that more than 35.5 million people went hungry, didn't have enough to feed their families, in our country in the year 2006. That is an increase of more than 300,000 from 2005.

Now we have a federal safety net in place to address these issues, the safety net food stamp program, meals on wheels, school meals, and the emergency food system. It is proven and it does its job when it is properly funded and maintained. Yet this Budget, and again I am relying on the experts that kind of deal with these issues, your Budget goes directly after a lot of the safety net. You know, under the Bush Administration and when Congress was under Republican control these programs, in my opinion, were unwarranted targets. Having said that I also want to stress that there are many members of Congress on both sides of the aisle, Republicans and Democrats, who did their best to protect these programs from being unfairly targeted. Republican reconciliation bills tried to eliminate food stamps for many of the people who relied on them. And thankfully those proposals were defeated, and we are now in the process of expanding food stamps and other anti-hunger programs to reach the tens of millions of Americans who need them.

But this Budget does the same kind of things those old reconciliation bills tried to do. This Budget, you know, underfunds food

stamps and WIC. You say that increasing, you say you are increasing WIC but you are taking away from other programs that are part of WIC to fund, you know, to claim that you are increasing the program. You low ball other programs that help low income families, like LIHEAP and Child Care. And again, this Budget eliminates funding for key nutrition programs, such as the Commodity Supplemental Food Program. In fact, this the third time the Bush Administration Budget has proposed these cuts and Congress has twice before rejected these proposals, once by a Republican controlled Congress and once by a Democratic controlled Congress.

So here is my questions. Why do you persist in continuing to make these proposals when the Congress on a bipartisan basis has clearly rejected them, making it very clear that we want these programs continued because of the their value to so many hungry Americans? Why would an Administration that is concerned about stimulating the economy choose to cut back spending on food assistance programs that stimulate the economy in the food and agriculture sector and help hundreds of thousands of low income Americans who are dependent upon them? And why would a Congress that has twice rejected these proposals, and is currently working closely with the Administration on an economic stimulus package, support proposals that would reduce food assistance to nearly 800,000 needy Americans?

And let me just finally say, there is not a member of Congress up here who when they go back to their district are not made aware of the fact that our food banks are at capacity. The food pantries are, you know, are providing assistance to people like never before. That working families are increasingly relying on these services. I mean, this is a significant issue that seems to be ignored and would be made worse if this Budget became enacted by Congress.

So I guess, you know, I would appreciate a response to any of that, or——

Mr. NUSSLE. Well, let me just try and tackle one. The food stamp program, part of the reason why a number of years ago the food stamp program was put into reconciliation was because I think it was running an error rate of about 18 percent.

Mr. MCGOVERN. No longer.

Mr. NUSSLE. As a result of reconciliation and the Bush Administration fixing the program, some reforms done here in Congress including the debit card, a number of reforms, I mean we took a program that has an appropriate role, a very important focus. We want people who cannot afford it, who need those kinds of services, to be able to get them. But we also knew that there was an underground market, a so-called black-market, for food stamps the way it was being done. There was an 18 percent error rate. We reduced that rate. We improved the program. More assistance is now getting to the people that is appropriate. And I think we should, we should cheer about that. But, you know, so I, that is the reason why you used reconciliation, is to improve, is to find savings, is to make necessary reforms. That is the reason why you do it. It was done, and I think it was done appropriately. And as a result we don't see that kind of error rate now.

Mr. MCGOVERN. But in this Budget, in this Budget, I mean, you know, 300,000 people in low income families would lose benefits that they currently get. This is according to the Food Research and Action Center.

Mr. NUSSLE. I haven't seen that report—

Mr. MCGOVERN. The minimum food stamp benefit is like still \$3 a day.

Mr. NUSSLE. I would like to see that report. I don't, I am not sure I could agree with that.

Mr. MCGOVERN. That is the average food stamp benefit. The minimum is \$10 a month. I mean we have got people, your own Administration is saying that there are more people in the United States today, I mean, the most recent data is that hunger is becoming a worse problem.

Mr. NUSSLE. And we believe that this Budget covers that, but the—

Mr. MCGOVERN. How does it cover it when your—

Mr. NUSSLE. The statistics you cited, I would be happy to take a look at them.

Mr. MCGOVERN. I am happy to get you the—

Mr. NUSSLE. Right. Because I have not seen them and I, and so I, I just, I can't believe that. So until I have a chance to see it—

Mr. MCGOVERN. Well, I will tell you that it is true. I will get you the statistics, and, you know, and I would also—

Mr. NUSSLE. Well I am not suggesting if the statistics were true, I am just saying is it correct analysis. I would like to see that. So.

Mr. MCGOVERN. Well my sense is it is correct analysis. Again, I mean based on what I see in my own district. When I go to food banks and I find out that, you know, that they are at capacity. That more and more people that are showing up to food banks are working families.

Mr. NUSSLE. But it is an entitlement program. So if there is somebody who is available, or who qualifies, why aren't they getting that?

Mr. MCGOVERN. Well, I will provide you the statistics.

Mr. NUSSLE. Okay.

Mr. MCGOVERN. But I am just, what I am simply saying is that the benefit as it is right now doesn't meet the need.

Mr. NUSSLE. Well but for, if there are 200,000 people who are qualified for food stamps and for some reason are not getting the benefit we need to know why.

Mr. MCGOVERN. I will get you the statistic.

Mr. NUSSLE. But it has nothing to do with, you know, some Budget, mysterious Budget that is cutting food stamps. It has to do with something else.

Mr. MCGOVERN. But where it is relevant is when the average food stamp benefit is \$3 a day. The minimum food stamp benefit is \$10 a month, hasn't been changed since the mid-1970's when in fact even those who are getting the benefit aren't getting enough to deal with the fact that food costs are rising, you know? The cost of living is rising. Fuel costs are rising. I mean, people are not able to survive. The safety net is being decimated. And what I am saying is that your Budget, as I see it, you know, makes it even worse. And if I can get you the statistics and the analysis, and we can

have a discussion on this I would appreciate it because I think this is a serious issue.

Mr. NUSSLE. Thank you.

Chairman SPRATT. Before turning to Mr. Moore the Ranking Member, Mr. Ryan, has a couple of questions he wanted to ask. Mr. Ryan?

Mr. RYAN. Thank you, Chairman. Director Nussle, I just wanted to get your reaction, your take on the Medicare 45 percent trigger. As you know, it is my understanding that the Administration's proposals within this Budget would actually take care of the funding alert given that this new rule provides sort of a fast track procedure kind of approach. Would you care to speculate what we should be expecting given the fact that we are going to exceed this 45 percent trigger funding alarm for Medicare?

Mr. NUSSLE. Yeah, the last few years now the President has sent up proposals in this regard, more than enough to, in a cafeteria approach, to deal with this. I am not aware that a decision has yet been made on how to address the so-called Medicare trigger. And so I am not able to speculate on that today. But we believe just to start with here today that there is more than enough to address that 45 percent revenue issue with the proposals that are before us.

Mr. RYAN. Yeah, I think it is just important to highlight the fact that we have a huge funding alarm going off this year with respect to Medicare. And to the extent that we can, each side of the, each side of government talk about that that is to the best because we do have a problem here.

Mr. NUSSLE. The concern I would have with the, with the so-called trigger mechanism is that it is possible for Congress to act to just get you under—

Mr. RYAN. Yes.

Mr. NUSSLE [continuing]. The trigger, but ignore the fact that the trigger is going to continue to go off every year. And that the long term is still looming. So my concern about any proposals that are going to be considered, which is the reason why the President put up the Budget he did, is that the trigger is nice to discuss. But that should only be the alarm. You have still got to run out of the building that is on fire and figure out how you are going to put it out. And that is the issue that I think Congress needs to address.

Mr. RYAN. And if we implemented the full range of recommendations in the Budget it would reduce the unfunded liability of Medicare by about a third, is that correct?

Mr. NUSSLE. By a third, yes.

Mr. RYAN. Thank you.

Chairman SPRATT. Mr. Moore?

Mr. MOORE. May we have the slide please?

Gross Federal Debt	
Debt When Bush Took Office	\$5.7 Trillion
Debt Today	\$9.2 Trillion
Debt Added So Far	\$3.5 Trillion
Debt Projected At The End of Bush Presidency	\$9.7 Trillion
Total Bush Increases To The Debt	\$3.9 Trillion

Deficits Without Social Security Surplus	
On-Budget Deficit, 2008	\$602 Billion
On-Budget Deficit, 2009	\$611 Billion

Cost of Debt Service	
Net Interest, 2002	\$171 Billion
Net Interest, 2009	\$260 Billion



HBC House Budget Committee

2/5/2008

Mr. MOORE. Director Nussle, welcome back and I appreciate your service. And I wanted to bring to your attention this, which I think we all wish were true. President Bush said in his first Budget address, or Budget message in February of '01, "Our Budget will retire nearly \$1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time." And as I said, I think we all wish that were true. Unfortunately in September of '01 we had a horrible incident in our country and we had to spend some money there. And I understand all that and certainly I think virtually every member of Congress supported those expenditures.

But I want to talk to you about this and what this means to the future. I have eight grandchildren. I am very concerned about their future and what we have done to their future. As you are aware, our country's gross national debt has increased \$3.5 trillion in the past seven years from \$5.7 trillion in January of '01 to more than \$9.2 trillion today. Again, I think we have mortgaged the future of our children and grandchildren and we have to consider what that is going to do to them in the future. And given the fiscal challenges we face today many of us are concerned about the potential long term costs of extending all of the '01 and '03 tax cuts, which CBO has estimated would cost over \$2.7 trillion over the next decade, including increased debt service. These longer term costs and their potential impact on the nation's debt and the economy, and the argument that the permanent extension of the tax cuts would produce so much economic growth that they would pay for themselves, is just not factual in my reading. In fact, the July '06 report from the Treasury Department found that if the tax cuts were made permanent, even under the most favorable economic scenario

they would produce increased revenues sufficient to cover less than 10 percent of their cost.

Wouldn't the significant levels of new debt produced by the permanent extension of these tax cuts without offsets have a serious detrimental impact on our economy? Shouldn't we be talking about PAYGO, not, and as you know we finally got a rule that expired back, I believe, in '02 reinstituted this year. And I belong to the Blue Dog Coalition. We talked with our leadership, and that rule is now instituted again in the House of Representatives. Shouldn't we be talking, though, about applying Pay As You Go principles not only to new spending but also new tax cuts as well?

Mr. NUSSLE. Well, Congress can make that, obviously, can make that determination. And as I, as I understood it this year you tried to do just that. The economic growth and stimulus package evidently fell outside of PAYGO as I understood it. So there appear to be some exceptions, at least, to the rule.

Mr. MOORE. Yes, sir.

Mr. NUSSLE. I mean, your focus, your focus on debt and deficit is well placed. I am concerned about it, too. I am more concerned about the debt held by the public than I am, because that is the debt we are paying the interest on. And if you look at that, again, we believe because of the ability that we have here to manage the short term deficit that we can get back to that time that you and I remember when we were actually, the, I think it was actually the day of September 11th we were ready to hold a hearing in this very room about how can we not dip into the social security trust fund and pay down even more debt. So I remember those days very well. So I think it is well placed.

But I can tell you that, you know Dennis, my view is that, and again, this is not to suggest that the only thing that you worry about is the economy. But I am very concerned about the signal that it sends, you know, to the marketplace, to the economy, to the, you know, if basically we don't make these tax cuts permanent, particularly the dividends and capital gains, to a marketplace right now that is skittish. The marriage penalty, the child credit, I can't believe, my view, my thought is that most people would support continuing those. It gets into some of these other areas where it gets a little dicey. But those are the very ones, I will say to you, that, that I think the market would react very poorly to. It could stunt growth and if we don't continue to grow that X factor, even though that is not the only thing that will help, that X factor is very important to getting us back on our two feet.

Mr. MOORE. I appreciate your comments and I don't totally disagree with what you are saying here. I think we do need to look carefully at those. On the other hand I think we have got to start living like, as a nation, like most American families do, within a Budget. Not all, but most do. And for years we have not been doing that. And now we have a \$9.2 trillion debt we are passing onto future generations, which I think is just horrible. We should not be doing that to our future generations. I do understand, I voted for the President's first tax cut based upon projected surplus over the next ten years. I think \$5 trillion of it didn't pan out that way, but that is what I was led to believe at the time I voted for that. That

is why I voted against the second. But I think we do need to start living within a Budget. I thank you very much.

Mr. NUSSLE. Thank you.

Chairman SPRATT. Ms. Kaptur?

Ms. KAPTUR. Thank you very much, Mr. Chairman. Welcome Director Nussle, nice to see you back in the House and your familiar chambers here. You got a tough sell up here. I am trying to decide whether the Bush Administration, you have only been over there, what two years? A year and a half?

Mr. NUSSLE. No, time flies when you are having fun but it is only about four months, five months.

Ms. KAPTUR. Four, oh boy. Then you have got a doubly tough job. I am trying to make a judgment as to whether the Bush Administration in total has been profligate. And that is an interesting word. I just took the dictionary out. And it comes from the Latin roots of fligare, which means to ruin, and the word pro, which means forward. So ruining forward, profligate, intemperate, reckless, whether we are squandering our future and dissipating our children's inheritance.

According to the numbers I have, and my specific question I have is do you have your Budget submission up there with you? Because I want to know on what page is the bottom line. If you could just give me the bottom line, which page that is on. From past Bush Budgets, nearly \$4 trillion, a total of \$4 trillion, has been added during this Administration in debt. \$5.7 trillion in January 2001 to \$9.7 trillion by the end of this year. That is more debt than during all presidential administrations from George Washington through Ronald Reagan. It is an, staggering, in my opinion, profligate, legacy.

My question to you is, in the time you have in office, for the 2009 submission, if you could kindly give me the page on which the bottom line is, and what the deficit is projected for 2009, which is the only Budget we can do anything about here. We don't know which of us will be back next year. Everyday is a gift.

Mr. NUSSLE. Probably the best, and I don't have the page number. I will find out. But it is table S11 is answering some of the questions you just are talking about with regard to debt and deficit. And the answer is 410 for this year and 407 for '09, is the unified Budget deficit.

Ms. KAPTUR. \$410 billion in the red for this year, did you say?

Mr. NUSSLE. Yeah, and that is page 165 of the Budget.

Ms. KAPTUR. One, thank you, I thank you for that. And then—

Mr. NUSSLE. Table S11.

Ms. KAPTUR. S11, and then for next year? What was it, four?

Mr. NUSSLE. 4-0-7.

Ms. KAPTUR. 4-0-7, is best as, so that is, just in two years three-quarters of another trillion dollars. Another trillion dollars. According to the numbers I have the interest we have to pay on the combined deficit was \$260 billion in, for 2009 rising to over \$300 billion by 2013. And the question I have is do you know how much of that \$302 billion will be paid to foreign interests? We know during the Bush Administration, of the debt securities being sold now 80 percent since 2001 are sold to foreign interests. So we are becoming

more and more indebted to outside interests. How much are we now paying them in interest?

Mr. NUSSLE. Let me check just so I can get you the right answer. My ballpark, as I remember it, is 40 percent but I will find out.

Ms. KAPTUR. Okay, so that would be, let us say—

Mr. NUSSLE. I take your point seriously regardless of the amount so—

Ms. KAPTUR. Right. Because you know I look at the committees I sit on. Okay, so let us say we are paying \$140 billion—

Mr. NUSSLE. Forty-five percent, we got the number.

Ms. KAPTUR. Forty-five, nearly half, so we are draining off our tax dollars to pay interest to bond holders someplace else. I look at the committees that I sit on. NASA, if our Budget is \$15 billion in a year we are doing well. And we have got all kinds of problems with the space shuttles and everything else, and solar panels ripping up in space, and trying to keep good engineers on. I happen to represent a region that was just heavily hit by flooding this week, and one of my concerns in your Budget is that it is a billion dollars less for the Army Corps of Engineers. And I would just ask you to take a look at that Budget, also. Because it is a 15 percent cut, over a 15 percent cut from the 2008 enacted level to the Army Corps. In Ohio, which is on the Great, the part of Ohio I represent is on the Great Lakes, we have enormous backlogs of Army Corps projects that are unfinished. They are not even in the ground. Another town just got flooded again last night. Sixteen and a half feet of water, Finley, Ohio, that is in Jim Jordan's district. And but it comes up to our district, you know? Do you see any possibility of the Corps Budget being, or accounts being shifted to move some money to needy infrastructure projects such as the Corps where we have got these huge backlogs?

Mr. NUSSLE. I will tell you what, the criteria we used this year, and it is not necessarily going to comfort you, but I, let me just tell you what our criteria because I think it is important for you to hear that if you, especially since you serve on the Committee. Our, it was based on performance based construction. So whether or not they could accomplish it. Second is that we decided we wanted no new starts this year. And third was we focused on what can be completed of that huge backlog, not just in Ohio, but across the country. What could be completed this year? Let us get it completed this year. So as opposed to starting all sorts of other ones, continuing some progress, let us see what we can actually get completed this year and focus our resources on that. Because you are right. Congress continues to send more and more from the authorizations side and the appropriations side does not, cannot keep up, with the enormous backlog that comes from that authorization side.

Ms. KAPTUR. Mr. Chairman, I know my time is up but I just have to say that for this one town, Finley, Ohio, Mike Oxley used to represent it when I believe you served, Mr. Director. And they have been so hard hit. It is not even my district. But, I mean, we have members here who lost lives. Bart Gordon was just down on the floor from Tennessee. In this particular community that project will never start this year, because it wasn't in the ground and that is the problem.

Mr. NUSSLE. What, what, was it a flood wall? Or a levee? What was it that——

Ms. KAPTUR. They have to create a flood wall. And they——

Mr. NUSSLE. So this would be something new?

Ms. KAPTUR. Well, there were some drawings done many years ago.

Mr. NUSSLE. Okay.

Ms. KAPTUR. But they would have to get some engineering work done. But now, they have been flooded twice in the past eight months. And these are severe, I am talking about the headquarters of Marathon Oil. I am talking about the major downtown area of this town. And the flooding problems are significant. And I just think this Corps Budget is truly, truly inadequate. And I am just, I am being selfish because this is my area, but, I mean, look at Louisiana. Look at the requirements that we have all over this country. And to send us back home to say, you know, "Well gosh, it is a 15 percent cut," when we have got people living in shelters. Something has to shift.

So I thank you very much, and I thank you Mr. Chairman for giving me an extra thirty seconds.

Chairman SPRATT. Thank you, Ms. Kaptur. And Mr. Director, thank you for your presence here today, for your testimony, and for your forthcoming and forthright answers. We appreciate it and we look forward to working with you.

Mr. NUSSLE. Thank you, Mr. Chairman.

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