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NOMINATION OF MITCHELL E. DANIELS, JR.

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

ON THE

NOMINATION OF MITCHELL E. DANIELS, JR. TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

JANUARY 19, 2001

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NOMINATION OF MITCHELL E. DANIELS, JR. TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

FRIDAY, JANUARY 19, 2001

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:35 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, Levin, Carper, Carnahan, Thompson, Stevens, Collins, Voinovich, Domenici, and Cochran.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. Good morning. The Committee will please come to order. This morning we are holding a hearing to consider the nomination of Mitchell E. Daniels, Jr. to be Director of the Office of Management and Budget. Mr. Daniels, welcome to the Committee. We are very happy to have you with us today. I would also like to extend a warm welcome to Senator Carnahan, who along with Senator Carper are two new Members of our Committee. We are very pleased to have you join us and look forward to working with you on this Committee during this session.

This is a weekend full of history, not the least of which is the fact that this hearing that I have the honor to preside over today is the one official act I will perform during this fleeting period of my chairmanship of this Committee. I am honored to have that honor, particularly in your case. I wonder if Senator Lugar and Senator Bayh have the time to hear Members of the Committee make opening statements. Then with the power vested in me as Chairman, I will proceed and then call on Senator Thompson.

Mr. Daniels, as you well know, the job for which you have been nominated is a pivotal and demanding one. The Office of Management and Budget has authority far more sweeping than most people outside of government realize. As OMB Director, you will recommend where every Federal dollar is spent and help oversee how every Federal program is managed. You will have a leading role in shaping far more than just the annual budget. You will be formulating national policy. With that in mind, let me say that I hope one of your guiding principles will be the discipline that has normally come with this position, and I know that that is part of the very distinguished record of public and private service that characterizes your career.

We have seen extraordinary growth over the last 8 years economically in this country, and I believe that has been fueled in no small part by the whittling of interest rates made possible by shrinking national debt, and growing governmental surpluses. I think it is wise counsel to continue as best we can, though the administration's political makeup is changing, with those policies, for which I think there is bipartisan support here in Congress, which means using the surplus to continue to pay down the debt, investing wisely in critical programs such as education and defense, and enacting tax cuts that give relief to the families of America, many of whom have continued to be hard-pressed, even in a good economy.

For my part, you may not be surprised to hear, I find it difficult to justify a massive tax cut at a time when we are experiencing a modest economic slowdown and at a time when the exact size of the future surplus, though pleasing to contemplate, is uncertain, unclear. So I would offer at the outset a word of both caution and hope that, as the next OMB Director, you would emphasize the value of debt reduction, the brake it has put on inflation and interest rates, the wealth it has created and the confidence it has bred.

Let us together use today's surplus to make the future of America and all Americans more secure. OMB's most pressing internal responsibility may well be managing the government's information policies, including the shift to digital governmental or, as it has come to be called, e-government. E-government will harness information technology to bring government closer to its citizens and citizens closer to the government, stimulating a broader knowledge base, greater efficiency and we think financial savings along the way.

I was pleased that both presidential candidates talked about high-technology's role in the operations of government during last year's campaign; even both vice-presidential candidates talked about that, as I recall. Senator Thompson and I have been working together on a range of e-government proposals, and I hope the Committee will report them out and Congress will pass bipartisan legislation on this subject this year, and we look forward to your guidance and counsel in this effort.

As to management, one of OMB's chief duties is to ensure that agencies implement the performance and accounting laws designed to give taxpayers as efficient and muscular a government as possible. These laws, which include the Government Performance and Results Act, the Chief Financial Officers Act, the Clinger-Cohen Act and the Inspectors General Act create a framework that addresses nearly every aspect of agency operations of our government.

This Committee is proud to have played a role, again on a bipartisan basis, in developing these laws. I know that Senator Thompson and I together, regardless of which one of us happens to be Chairman at any given moment, intend to pursue the oversight of the implementation of these laws with vigilance, because they are what will spur the government to high performance with clearly defined missions that end in visible and good results. Again, I hope the Committee, OMB and the agencies will work together as we have in the past to prepare for the management tests that lay

ahead at a time when taxpayers reasonably expect the most value for the least cost.

Finally, let me discuss OMB's oversight of the Executive Branch regulatory process. From my perspective, this is one of the most consequential roles played by OMB, though not one that is well known. Through the Office of Information and Regulatory Affairs, if confirmed, Mr. Daniels, you will supervise the review of rules that provide critical protections to public health, worker safety, consumers and the environment. This Committee was actively involved in sorting out problems in the early years of regulatory review, problems that at that point undermined public trust in the fairness of the process.

This morning, I would ask you to be vigilant and to oppose those who would use the process as a conduit to influence rule-making off the record and without disclosure. Regulatory agencies must have the capacity to do what Congress has asked them to do, in the full light of sunshine, to protect the public's interest. So, bottom line, we on the Governmental Affairs Committee and you at OMB have a lot of work to do together. We look forward to forging a partnership with you on these important matters in the public interest.

Senator Thompson.

OPENING STATEMENT OF SENATOR THOMPSON

Senator THOMPSON. Thank you very much, Mr. Chairman. It is a great delight for me to be here today because of my friendship with the nominee, my personal regard for him, and the prospect of having someone with his background and capabilities working in this important job. A lot of the nominees, I think, are being told, "You have a high level to live up to; we have peace and prosperity and things are going extremely well and so forth. So why would you take this job? You know you can only go downhill."

In terms of the management of the Federal Government, you do not have that to worry about. We had another GAO report. The Comptroller came and gave us his latest high-risk list just the other day. It is obvious that we still have problems that are going in the wrong direction, such as waste, fraud and abuse with regard to the Federal Government, our lagging behind in the use of information technology, financial management, the security of our computers, and the fact that we now have a new risk that we have not had before, human capital. We are losing so many good people within 4 years. One-third of our entire workforce will be eligible for retirement, and up to one-half if these early-outs are available.

This is the mass below the water level that now you are going to have to deal with. So a fresh start, I think at this time, is extremely good. I don't mean that just from a partisan standpoint, but I think from time to time we need a fresh look, and this is an area where we certainly need new leadership and strong, aggressive leadership with regard to the management side.

We have many budget experts at this table here, such as the Chairman of the Budget Committee, and he will have an opportunity to talk about those issues in detail, but on the management side of things, a few more specifics. I have mentioned that because of years of neglect, our infrastructure is basically eroding. Many of

the departments and agencies of government are vulnerable to waste, poorly managed, and antiquated. We are losing many of our best people.

Numerous reports by the GAO and IGs before this Committee, along with a parade of witnesses from the outside who have testified before this Committee make these assertions irrefutable. The results are billions of dollars of waste, an increasing lack of ability to provide basic services, and an increasing cynicism among the American people. For example, the Federal Government of today is a crazy-quilt of agencies and programs that have evolved randomly over time in response to the real or perceived needs of the moment.

In just about every area of Federal activity, multiple agencies and programs stumble over themselves to fix the same problems. Few would dispute that the government in Washington cannot do effectively all that it is now charged with doing. Much of what Washington does is inefficient and wasteful, and we do not have a handle on which programs work and which programs do not.

Most Federal agencies do not adequately track receipts and disbursements and cannot account for billions of dollars in property and equipment. No one knows how much waste, fraud and mismanagement cost taxpayers, since the Federal Government makes no systematic effort to keep track of it. Based on just a few examples from GAO and the IG reports, our Committee staff came up with a figure of $220 billion, $35 billion in just 1 year alone.

The Federal Government seems utterly incapable of using information technology to enhance its efficiency and effectiveness. One agency after another has wasted billions of dollars on failed information technology projects. Weaknesses in government information systems make them vulnerable to computer attacks from international and domestic terrorists, crime rings and everyday hackers. These weaknesses jeopardize government operations and threaten the privacy of our citizens.

In recent years, the Federal Government reduced staffing without cutting back on anything that the government does. Federal downsizing usually is just a numbers game carried out randomly, rather than strategically. Consequently, many agencies now face severe shortages of employees with the necessary skills and expertise to carry out their mission. There is mounting evidence that workforce deficiencies are an emerging crisis in the Federal Government, and the Comptroller the other day, of course, acknowledged that was the case. It came as no surprise when he put it on the high-risk list.

Agency regulatory programs impose tremendous costs and burdens on our businesses, State and local governments, and citizens. However, the Federal Government in general and the OMB in particular are not doing nearly enough to ensure the benefits of these rules justify their cost, and respect principles of federalism. Over the past decade, Congress enacted a number of laws designed to change how Washington works. Foremost among them was the Government Performance and Results Act, known as the Results Act. As its name implies, the act seeks to change the mind-set in Washington from what the government does—spending money, issuing regulations and so forth—to what actual results those activities produce. However, we still find that most agencies have

trouble explaining what results they are trying to achieve and certainly in measuring how well they achieve them.

Problems like these would attract the urgent attention of almost any executive in the private sector. They understand that investing adequate capacity and resources and then managing them effectively are key to achieving their missions. On the other hand, management problems are considered too mundane and too boring to warrant the attention of Washington leaders. Our leaders prefer to focus on policy issues. However, inattention to management and performance problems are just as devastating for the Federal Government as in the private sector, because they cost the taxpayers countless billions in waste, limit the capacities of agencies to achieve their stated and statutory missions, and threaten the ability of Presidents to carry out their policy agenda.

The only answer to these problems is strong leadership from the top, and I believe it will be met with strong, bipartisan support. People implementing programs have to know what is important to people in charge. People they put in charge of government programs have to know that management is important. That has not been the case recently, and I hope it will be the case on your watch. Thank you very much.

Chairman LIEBERMAN. Thanks very much, Senator Thompson.

Senator Carnahan, would you like to make an opening statement.

OPENING STATEMENT OF SENATOR CARNAHAN

Senator CARNAHAN. Yes. I want to welcome you to the Committee, Mr. Daniels, and certainly commend the President for sending us such a capable and respected nominee.

Mr. DANIELS. Thank you, Senator.

Senator CARNAHAN. I am really quite intrigued by the possibilities of your position. You have the chance to change the perception of government. In a significant way, you can impact the quality of services that are delivered to our citizens by government. At a time when Americans hold the view that government is working against them, not for them, you will have the opportunity to restore the belief of the American people that their government is, in fact, working for them.

Making government accessible, accountable and agreeable is a priority of mine. In order to achieve this goal and all the other priorities that will fall within your jurisdiction, I see it as an imperative that we work very closely together, and I look forward to that opportunity. Thank you very much.

Chairman LIEBERMAN. Thank you, Senator Carnahan.

Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. Thank you, Mr. Chairman. First of all, I would like to welcome our two new Members of this Committee, Jean Carnahan and Tom Carper. I got to know Jean through the Spouses' Organization of the National Governors' Association, and Tom and I served together as chairman and vice-chairman of the National Governors' Association. We look forward to working with you on this Committee, and I think share some of the same per-

spectives because we have had a little experience on the management side of government.

I would like to welcome Mr. Daniels and say that you have a very difficult job ahead of you. Mitch and I have known each other for a long time. I got to know him when I was Mayor of Cleveland and President of the National League of Cities and he was a member of the Reagan Administration, and I found him to be bright, hard-working, a man of integrity and a man of his word.

I just want to say that you do have your work cut out for you, and as Senator Thompson has said, we wonder why you are willing to take it on. I think my colleagues know that I am a debt hawk, and I shared that with you when you were in my office. One of the main reasons I ran for the Senate was to bring fiscal discipline to Washington, just as I tried to do as Mayor of Cleveland and Governor of Ohio.

In the first 2 years of my Senate term, we have had some good news and bad news on that front. The good news is that we did not use the Social Security surplus in 1999, 2000, and 2001, and we did not use the Medicare surplus in 2000 and 2001. For all intents and purposes, we lockbox those surpluses. I would hope that this year Congress would pass legislation formally lockboxing the Social Security surplus and the Medicare Part B surplus so we take it off the table and it will not be spent in the future.

The bad news is that, in my opinion, we have spent far too recklessly during the past 2 years. Non-defense discretionary spending in fiscal year 2000 rose 9.3 percent over 1999, to $328 billion. Fiscal year 2001 discretionary spending rose 8.1 percent and non-defense discretionary spending rose 12 percent—think of that—this, despite an inflation rate of only 2 percent. The only silver lining is that due to our roaring economy, we were able to see $87 billion of our on-budget surplus go for debt reduction. I have got to tell you that would not have happened had it not been for us doing hand-to-hand combat to make sure that money was not spent.

Fiscal year 2001 estimates show we will have a $98 billion on-budget surplus. That money cannot be used for tax reduction, but I can assure you that between now and the time this budget fiscal year ends, there are going to be lots of people out there wanting to spend that $98 billion.

The Heritage Foundation has come up with some recommendations on how we could pass legislation to take that money now, write a check, and put it into an account so we guarantee that it will not be spent and that it will go to reduce the on-budget surplus this year. I am also concerned about the overconfidence being placed in 10-year budget surplus projections, projections that are being used to make far-reaching policy decisions. Just recently we have seen it has been a ping-pong between the outgoing administration and the new administration.

I think it is ridiculous to base this country's economic future on 10-year projections. The main problem is that those projections are prone to errors and they depend on Congress to rein in spending, something Congress has not been dong a very good job of lately. Remember that in 1997, CBO projected a $167 billion unified budget deficit for fiscal year 2000. Last July, CBO re-estimated that it would be a surplus of $268 billion. That is a swing in 4 years of

$435 billion—in 3 years. We should also remember that the budget surpluses can swing back to deficits just as quickly, decreasing our ability to pay for tax cuts or spending increases without increasing the national debt.

Reducing the national debt has been a priority in this country for a long time, a long time we have talked about it, and now that we have the chance, I think we should get it done. We owe it to our children. We owe it to our grandchildren and we owe it to fiscal responsibility and the future 10-year projections that we have for Medicare and Social Security.

Reducing the national debt would help decrease the 13 cents out of every dollar that is spent for interest costs, which is more than we spend on Medicare in this country. Paying down that debt would also shift investment capital to more-productive uses in the private sector and stimulate economic growth, and I would say that it would work more quickly to deal with a downturn than even reducing taxes at this time, because it will take several years for the reduction to take effect.

In fact, Alan Greenspan has said that to continue to pay down that debt is the best thing we can do for our economy. Mr. Daniels, I would hope you would present a budget that gives high priority to reducing the debt. I was pleased with what Senator Lieberman had to say about reining in the growth of Federal spending. Senator Stevens will tell you that a lot of this money is going to entitlements and securing our national defense and, yes, providing for tax reduction.

Your budget submission and the budget resolution that Congress passes will be the first test of bipartisan cooperation and will set the tone for the rest of the 107th Congress. How we work that out, I can tell you, will set the tone for the rest of what we do. One other concern that I have is the need to implement a biennial budget process, and I applaud President-elect Bush's support of a biennial budget. I can tell you that Senator Domenici was the main sponsor of that in the 106th. He is going to sponsor it again in this session, and I am going to be glad to support that 2-year budget.

Another area of concern is the GAO's high-risk list, which shows the Federal agencies or program areas most vulnerable to waste, fraud, abuse and mismanagement. I will not get into them because Senator Thompson has spoken to them eloquently. In 1990, that list comprised 14 agencies or programs. The 2001 list, which was published last week, has 22. The only addition to the list this year is the human capital crisis. I would hope that you tackle that high-risk list and develop a serious strategy on how you intend to work it down.

Long ago, I concluded that because Federal employees and human capital management have been overlooked, for all practical purposes there is no M in OMB. Indeed, government management has not been a priority; perhaps dealing with our annual budget leaves no time and you spend all your time worrying about the budget every year. The "A-team," the men and women who do the work, have been neglected for years. Instead of Federal workers being looked upon as something to cut, we should treat them as assets to be valued and nurtured. It is the only way we are going to

get continuous improvement in government today. We have got to get at our workers and get them involved in quality.

Many of the political appointees that run our Federal agencies will need to rely on the best management practices or experience, and one of the challenges for this next administration, that was not addressed by the outgoing administration, is ensuring that management gets attention.

As Chairman of the Oversight and Government Management Subcommittee of this Committee, I have been able to look into the manner in which the Executive Branch manages its people. I held six hearings in the 106th Congress to examine the human capital management policies of the Federal Government. I have developed two goals for those hearings: One, to empower Federal employees, just like businesses have done. The businesses in this country that have empowered their employees in quality management are the ones that are successful today and competing. Two, deal with the human capital crisis that is draining talent and experience from the Federal Government. Again, Senator Thompson has laid that out for you.

On the latter issue, the American people need to know the magnitude of this pending crisis. By 2004, 32 percent of all of our Federal workers will be eligible for retirement and another 22 percent will be eligible for early retirement. Think of that, almost 50 percent of the Federal workforce could go out the door by 2004. I talked to Joe Allbaugh, who is the President-elect's designee for the Federal Emergency Management Agency, the other day and I told him that he could lose one-third or up to one-half of his people. He had panic on his face, because floods and hurricanes do not wait for a government program. They come on you without any warning.

This past Wednesday at Christie Whitman's confirmation hearing, I told her that over at the EPA, research and enforcement could be affected as scientists and lawyers retire. Last month, I released a report to help the new administration respond to this crisis before it reaches critical mass. OPM should tackle this emphatically and immediately, reaching out and teaming up with EPA to develop solutions to the crisis. One key component will be the selection of a strong Deputy Director of Management.

In Congress, we stand ready to work with the administration to resolve this coming crisis. We must ensure that people understand how serious it is. In the meantime, Mr. Daniels, I hope you quickly familiarize yourself with the government's overall human capital needs and take quick action where you can, in order to respond to the challenge.

Mr. Chairman, Mr. Daniels has his work cut out for him. I believe he will make a terrific Director of the Office of Management and Budget. I congratulate the President-elect for his choice and I want you to know we all look forward to working with you as you take on the challenge.

Mr. DANIELS. Thank you, Senator.

Chairman LIEBERMAN. Thanks very much, Senator Voinovich.

Senator Carper, I welcomed you in absentia. It is a pleasure to now welcome you in person as a Member of this Committee. You bring your considerable experience as a Governor to this Committee, one of whose responsibilities is federalism, the relationship

between the Federal and State Government. So thank you and we welcome an opening statement at this time.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Chairman Lieberman, thank you very much for the warm welcome. I am delighted to be joining you and Senator Thompson, and other colleagues around the table. To our nominee, welcome. Congratulations on your nomination. We look forward to serving with you, and I suspect that some folks in this room today are your family, and we welcome them as well, and we thank you for your willingness to share a good man with the people of America.

As Senator Lieberman had suggested during his remarks, before I was elected to the Senate I served as Governor of my little State for 8 years and served with Senator Biden, the National Governors Association, and with George Voinovich and with now-Senator Carnahan, as well. If you have been looking at me instead of watching Senator Voinovich speak, you would have seen my lips moving, and the reason why is because I agree with much of what he says, and that has been the case for a long time on a lot of subjects.

I found as governor—I chose a great time to be governor—8 years of economic expansion, robust revenue growth. Before I was Governor, I was a congressman for 10 years when we had a real tough time trying to balance our budgets. Before that, I was State Treasurer for 6 years, of Delaware, when we had the worst credit rating in the country, at a time when we initially would always underestimate spending and overestimate revenues, a classic recipe for running deficits and we were pretty good at that back in the 1960's and 1970's.

I found, though, that with robust revenue growth in the last 8 years, that sometimes it is easier to budget when resources are scarce than when resources are plentiful. We are now in a time of plentiful resources. As Senator Voinovich had suggested, the Congress and the President have spent willingly. I know there are a lot of important nominees that the President-elect has sent to us for consideration. I really believe yours might be the most important, and I hope you are as good as your supporters and admirers say, because we are going to need someone with great skill and intellect and ability.

I want to mention a couple of things I want you to think about, and when we get back to questions, I will follow up on these. We have, I think, a great opportunity before us in the form of a budget surplus of some great magnitude. The question for us is what do we do with it, and I would hope that we use a significant portion of it to pay down our debt and to really make us debt-free as a Nation over the course of the next decade. If you look at the tax cuts that have been proposed by the President-elect, many of those tax cuts, the biggest part of them kick in towards the end of this decade, which is when, a lot of times, a lot of our baby boomers want to kick out or step out or step down and to retire. We just have to be mindful of that.

I hope as we go forward, Congress and the President and the new administration working together, we can decide to use a por-

tion of these surpluses to pay down our debt with an eye toward making us debt-free as a Nation by the end of this decade. I hope we can use some of the savings that flow from that debt reduction to shore up, particularly, the Medicare trust fund.

I am a Democrat who likes to cut taxes, and we cut taxes 7 years in a row in my little State. We put in place a litmus test for those tax cuts that said they ought to be fair, they ought to stimulate economic growth, they should simplify the tax code, not make it more complex, and finally they should be sustainable throughout the full business cycle. We have had 8 wonderful years—actually, 9 wonderful years of economic growth, but what was that Harry Truman used to say? The only thing we do not know today is the history we have forgotten—something to that effect. I am sure you recall his actual quote.

We are going to have recessions again, and the OMB and CBO forecasts that we see assume no economic recession. I think it is just important that we keep in mind that the laws of economics have probably not been reinvented, at least not on our watch.

The last thing I would say, in addition to cutting taxes, that in accordance with some kind of litmus test, I hope roughly aligned with what I have laid out, I hope we can do something good for people who don't have health care. I applaud the President-elect's proposal for a refundable tax credit, which I think has a lot of merit. I also like the idea of putting in place a prescription drug program for folks that are older and who need prescription drugs, and finally to invest in our schools.

As Senator Voinovich mentioned—maybe to do a little on the defense side to ensure our readiness and our ability to deploy forces does not diminish. That is a lot to do. We have a lot of money to do it with. At the end of the day, I hope we have acted wisely, rationally, and not foolishly, and have not frittered away a wonderful opportunity to do great good for our country with the dollars that are now at our disposal.

Again, congratulations on your nomination, and Mr. Chairman, I would ask unanimous consent to add to what I have just said, a written statement for the record.

[The prepared statement of Senator Carper follows:]

PREPARED STATEMENT OF SENATOR CARPER

Mr. Chairman, Senator Thompson, and Members of the Committee, it is a privilege to be joining you today for the first time. I am grateful for the opportunity to serve on this distinguished Committee, with its distinguished Chairman and Ranking Member, and I am looking forward to working with all of you on the issues that lie before us.

Certain of the President-elect's nominees are obviously attracting more attention from the media than others, and I can imagine that Mr. Daniels would count it as a blessing that he is among those who are attracting less rather than more attention in this regard. Nevertheless, let me just start off by saying that there is no more important post in the new administration—in my opinion—than the one to which Mr. Daniels has been nominated at OMB. When the President-elect chose Mr. Daniels to head OMB, he let it be known that Mr. Daniels will be one of his key advisers and one of the people most responsible for ensuring that the Federal Government maintains fiscal discipline. Mr. Chairman, given the record of the last decade, and all that we have learned over the last decade about the importance of fiscal discipline to the health of our economy, this responsibility is clearly one of the more important responsibilities that will fall to the new administration.

At this moment when the responsibility to manage fiscal and economic policy is being passed from one administration to another, I think we need to be clear about the role that fiscal policy has played in fostering the economic expansion of the last decade. As you know as well as anyone, Mr. Chairman, the current expansion has been fueled primarily by an unprecedented wave of private investment and innovation, unleashed in no small part as a result of the concerted effort that has been made, on the part of the President and the Congress—on the part of Republicans and Democrats together—to restore a modicum of fiscal discipline here in Washington.

Now some of these days are espousing the view that a concern for fiscal discipline is an outmoded view—that fiscal discipline is "no longer a problem." Indeed, some have even suggested that—as a long-time fiscal conservative—I may soon need to find myself a new set of budget priorities, and a new economic outlook, now that the era of deficits has given way to a new era of surpluses. I want to use this opportunity, if I might, to make it very clear that, as far as I am concerned, fiscal discipline remains critically important—indeed, in certain respects it has never been more important than it is today.

The rate of private savings in this country is currently negative, Mr. Chairman, and despite all the progress that has been made in moving the Federal Government from a position of a borrower to a position of generating net savings, our economy remains highly dependent on borrowing from abroad—and thus highly susceptible to a loss of confidence on the part of foreign investors in our commitment to maintaining a responsible fiscal posture. Many economists are warning that a loose fiscal policy—whether it comes from irresponsible tax cuts or from excessive spending—could potentially undermine confidence in the dollar, leaving the Federal Reserve with a lose-lose choice between raising interest rates in the face of a slowing economy or allowing the dollar to deteriorate unchecked, thus risking a return to the days of 1970's-style stagnation. When one considers that the retirement of the baby boom generation—with all that that implies for the Nation's long-term fiscal outlook—lies just around the corner, it seems to me, Mr. Chairman, that now more than ever, we need to proceed with a realistic view of the surplus that might be available to the President and the Congress for the purpose of tax cuts or new spending initiatives. It also suggests to me that we must make a point of paying off our national debt in this decade and shoring up Social Security and Medicare sooner rather than later.

Mr. Chairman, I look forward to hearing from Mr. Daniels today and, particularly, to discussing his views with respect to the responsibilities of the Director of OMB for promoting fiscal discipline and presenting the public with an accurate picture of the Nation's long-term fiscal outlook.

Chairman LIEBERMAN. Without objection, so ordered. Thanks, Senator Carper. We are honored on this Committee to have a couple of the real powerhouses of the Senate seated next to each other.

Senator COCHRAN. Just a couple? [Laughter.]

Chairman LIEBERMAN. Oh, yes. I am sorry. Excuse me. There are an unlimited number of powerhouses on this Committee. I will not enumerate the number, but one of them is Senator Domenici.

Senator DOMENICI. Well, you're getting a bit cocky around here. [Laughter.]

Senator COCHRAN. I really had in mind Senator Lugar.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. First, I want to apologize for leaving. I have a very important engagement, and I came early in an effort to make sure that you heard my views on a few things, but most importantly my views about you. Congratulations. I commend the President on appointing you and I hope we confirm you quickly.

I do want to say that I have observed, as you work to put together a staff, that you look for the very best. As a matter-of-fact, you have taken some of my staff from the Budget Committee, and I just want to tell you enough is enough. I, too, have to produce a budget and do something, but in any event I think you're putting

together an exquisite team and that is what is necessary. I will not comment today, Mr. Daniels, about management.

These are experts at the various laws that we have. I tell you, though, it is not a very politically sexy thing, so it is left to lag. When you try to do it from the top, it does not work. You just have to dig at it and it is just not easy. I share Senator Voinovich's concern about the Federal workforce. He has worked hard on that and we ought to listen to him.

I am here to tell you that the U.S. economy, U.S. fiscal policy, is in very good shape. By the end of this year, we will have applied to the national debt, $600 billion. There are some good friends of mine that would say, "That is not enough. Every bit of surplus ought to go on the national debt."

I predict for everyone here that before we finish the debate this year on the size of the surplus, that there will be experts telling us we should not use the entire surplus to pay down the debt as quickly as it would mathematically permit. We are going to find that we are not going to be able to pay down a lot of the debt without an enormous cost. I can say to all three of you that are there that 20- and 30-year Treasury bonds are going to become so valuable that we are not going to want to buy them up, because people think they are the greatest investment in the world and the premium we are going to pay is going to be extremely high.

Nonetheless, let me give you a few numbers and, in my statement, pose a situation for you. We need your estimates and your economic forecast sooner rather than later. We have talked about it. You need to do it right, but you need to do it quickly. What we are finding out, Mr. Daniels, through our investigation and what we think the Congressional Budget Office is going to tell the Congress, that the surplus over the next decade, whether my good friend from Ohio wants to use 10 years or not, we are going to do that and he can argue the fallacies in it, but it is going to be used and here is what it is going to show: It is going to show that the surplus accumulating over the decade is $5.7 trillion.

Nobody in this room really understands that. That is a huge number, and the question really is over the next decade are we taking too much money from the American taxpayers or not? I think that is a very interesting question that should be debated. I have concluded that we are, because I think we can put every penny of Social Security on the debt, and you have already looked at that. It belongs on the debt and it will pay down the debt in 11 to 12 years. I happen to think that is very fast and maybe when we get near the end, it may even be too fast, in which event I do not know what to do with that.

I tell you, if the Federal Government has cash after debt payment per year sitting around in a drawer, we have never heard of anything like that and nobody on God's Earth knows what should happen to it. In any event, you are going to prepare for us your budget, and then we are going to ask you to help us work with the Budget Committee to come up with a budget that the President of the United States can support, also.

I just came today to tell you that we are going to try to work bipartisan, but there is also another player, and he got elected to be the President. I can tell you I am going to try as chairman to do

as many things as I can in the budget resolution so that his desires for this Nation are met, and among those clearly are to look at this surplus from the standpoint of whether or not there is sufficient money in that surplus to give some of it back to the American taxpayers.

Frankly, there has not been a lot said lately about whether the President's number of $1.3 trillion, which was the estimate of his tax cut is too big or not. I can tell you the amount of the surplus has grown so much since he put that on the table that it is a very different number versus the surplus.

Just to put it in numbers, there will be $3.2 trillion left over after you pay Social Security, and if you were to give the President $1.3 trillion, just do the arithmetic, and you will have the rest of that to add to government, where government needs priorities, government needs defense, government needs education, government needs a lot of things. Let's hope we are not going to try to grow government astronomically, but rather relatively well.

Those are the numbers. How we apply them and how soon you get to them is going to be your business, but I cannot see how you are going to be far off, because the Congressional Budget Office is very close to this, and they are the ones we normally follow. We hope you are close so we can follow both of you, because you understand there is an anomaly in the law. If you have to sequester, you sequester off your estimates, not off of CBO's, but we follow Congressional Budget Office in what we do. If they are close, we are on the same wavelength in terms of your responsibilities.

Mr. Chairman, I am sure we will not be calling you that for very long.

Chairman LIEBERMAN. But I appreciate it.

Senator DOMENICI. It is a pleasure to do that.

Chairman LIEBERMAN. Thank you, sir.

Senator DOMENICI. Frankly, I mean that. Thank you for all your hospitalities, and to the new Senator—there is only one here—look forward to working with you on various assignments.

Thank you very much.

Chairman LIEBERMAN. Thanks, Senator Domenici. I know you had a previous commitment. I really appreciate that you took the time to come and make that statement today. With regard to my previous statement, is there any Member of the Senate here who would disagree with the description of Senator Stevens as a powerhouse? [Laughter.]

Senator COLLINS. Only at great risk.

Senator VOINOVICH. I certainly would not.

Chairman LIEBERMAN. Any Member of the Senate who does not have matters pending before the Appropriations Committee? [Laughter.]

Senator Stevens, thanks for being here.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Thank you very much, Mr. Chairman. I, too, have some of your colleagues on the President's nomination list waiting in my office, but I wanted to be here to welcome you. I wonder if we could ask the Chairman's agreement that we ask your family to stand so we can say hello while we are still here?

Chairman LIEBERMAN. Please.

Senator STEVENS. Would you do that? I think that Cheri, Megan, Melissa, Meredith, Margaret—how many are here today, Mitch?

Mr. DANIELS. We have got about two-thirds complement, Senator.

[Applause.]

Senator STEVENS. We welcome you and I welcome you as a former Hoosier, so that is why I am happy to see you here. When I was Chairman of this Committee, I tried to enforce the rule that opening statements were no longer than 3 minutes. I think we can all see the advisability of that rule this morning. I hope it will soon be restored. My only comment would be thank you for taking this on.

I think you will spend more time with Senator Domenici and I than you want to spend, and our colleagues in the House, and our counterparts now, particularly here. Senator Byrd and I spend a great deal of time with the OMB. It is, as other Members have said, probably the most important position in government now, short of being the President. I think Vice Presidents—pardon me, Mr. Chairman.

Chairman LIEBERMAN. Under the circumstances, go right ahead.

Senator STEVENS [continuing]. Do not have the responsibilities that you will have, and I remember when you worked with Dick Lugar. We worked with you over the years and I commend you for having the commitment to our democracy to return, because it is an awesome obligation that you are undertaking. You have heard a little bit here about some people who think that the past has been a prologue of excess.

I am afraid that the slowing down of the economy triggers a lot more expenditures than people realize. As a matter of fact, it is going to be very hard to deal with the budget, with the cap we have, that still lasts for one more year, and we have a 50/50 split here in the Senate. I told the Vice President-elect that he is going to find that he is going to keep his own seat warm in the Senate for a long time this year. It is going to be a difficult thing to deal with your issues more than anyone realizes.

I am delighted that you have the experience in government and business that you have. We need both right now. We need some common sense as to how to keep this expanding economy expanding even more, whether it is jobs we need for new people and for the residents that I think comes to the whole democracy if we are healthy. I look forward to working with you. I can tell you that there are some immediate problems on your desk, Mitch. So we will be seeing you next week early.

Thank you very much.

Mr. DANIELS. Thank you, Senator.

Chairman LIEBERMAN. Thank you very much, Senator Stevens.

Senator Cochran.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. I am going to stay well within the 3 minutes. I want to congratulate Mitch Daniels on his nomination as Director of Office of Management and Budget and wish you every success as you undertake this important responsibility. I have some con-

cerns and some views on the subject that we will be discussing, and I will reserve those questions and comments until we get around to that part of the hearing.

Chairman LIEBERMAN. Thanks.

Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman. I know that you and the once-and-future Chairman agree on many, many issues, but I did hope that during your short tenure as Chairman, you would reverse the previous Chairman's decision to buy water from Tennessee and go back to the pure New England water from Maine. [Laughter.]

Chairman LIEBERMAN. Right. I apologize to you and the far-sighted, wise people of Maine for not having seen that momentary opportunity and seized it.

Senator COLLINS. You could have seized the moment. I do commend you and Senator Thompson for holding this hearing today on what, as my colleagues have noted, is a very important position in the Federal Government. Mr. Daniels, it is always nice to see another former Senate staffer do so well, and I want to commend you on accepting the President-elect's request that you serve in his administration in this very critical position. With your experience in government, as well as your experience in business, and particularly the terrific service that you gave to Senator Lugar, I believe that you have abundant expertise to handle this very important position.

Many Americans may not be that familiar with OMB, but its crucial role in the Federal Government in budgeting and management issues affects us all. The agency you are nominated to head plays a critical role in formulating the Federal budget, in setting priorities and in overseeing implementation by Executive Branch agencies. The work of OMB is often unseen, but your important mission includes a careful review of the effectiveness of government programs, as well as budget issues. Moreover, as we discussed in my office, my concern, which has been echoed by many of my colleagues this morning, is that previously OMB has neglected the critical management role that it plays in the Federal Government.

I think that this neglect is very unfortunate, because neglecting management increases the cost of government programs, and it also means we are missing out on opportunities to improve their quality and make their delivery more effective. Reversing this is a heavy burden, but it is one I am confident you have the skills and the background and the commitment to undertake. So, again, I am delighted that you have been nominated for this important post. I am pleased to see your distinguished home-State Senators with you, as well, today. I look forward to working closely with you.

Mr. Chairman, I do need to return to the Health Committee, which is holding a hearing on Governor Thompson's nomination, so I would ask unanimous consent that the questions I would have asked if I could stay be submitted for the record.

Chairman LIEBERMAN. Thanks very much, Senator Collins. Without objection, we will do that and we will ask Mr. Daniels to answer for the record. Thank you very much.

Senator Lugar and Senator Bayh, our colleagues, thanks for your patience as Members of the Committee held forth. I think we view this as an opportunity to state our priorities to the nominee.

Senator Lugar, I must tell you that I have not had the privilege of knowing Mitch Daniels personally before, but when I looked over his record, what jumped out at me was that he was a graduate of what might be called the Dick Lugar School of Public Service. That is a pretty proud school, so it spoke well for him and I am glad you are here this morning.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman, for inviting me. I appreciate Mitch inviting my colleague, Senator Evan Bayh, and me. This is a very rare privilege that each one of you will understand, that someone who has been a very close personal friend for 30 years is nominated by the President for this responsibility and is willing once again to serve.

I want to describe just for a few minutes how this came to pass over that period of time. Mitch Daniels was a brilliant student in the public schools of Indianapolis, North Central High School; was designated for the Lyndon Johnson award as the outstanding high school scholar in our State in 1967; not surprisingly, succeeded with honors at Princeton University and subsequently received a doctorate of law at Georgetown.

I found him through his family, and his parents, Mitch and Dottie Daniels, who are here today, and his wonderful sister, Debbie, who in herself is a distinguished attorney and public servant. They were a talented family, and still are in our town. He came to the mayor's office as a senior from Princeton University 30 years ago, a brilliant student but filled with idealism, a capacity for enormous imagination and a desire for public service.

He proceeded to help me during a period of intergovernmental relations that was very exciting. We had revenue sharing in those days. We had new federalism. We had the whole proposition of the alternative model cities, in which we set up under the administration's guidance about every urban experiment known, at least at that time, and Mitch Daniels was at the forefront of those innovations.

He came with me to Washington after the election of 1976. Each of us has been through that process, and I occupied Bill Brock's offices at his sufferance for awhile. Mitch determined to bring the best that he could for us and the best sense of our own budget in those days. He was remarkable in his administration of my Senate office for many years, until I succeeded in winning the chairmanship of the Republican Senatorial Committee after the election of 1982. He was my major domo, right here in this building on the fifth floor.

Then he went on to political duties, to help me fulfill that situation in the political cycle of 1983–1984. It was inevitable that the White House would note his political prowess. The White House did, and seized Mitch Daniels shortly thereafter, when President Reagan was reelected, and he became the chief political strategist for the President of the United States and responsible for intergov-

ernmental affairs in the White House, a remarkable responsibility in the second Reagan term.

He returned to Indianapolis, because we had been successful in our town in obtaining the Hudson Institute. As he was looking for a permanent home, he became the chief executive of that remarkable think tank for 3 years, until he was identified by a very great firm in our city, Eli Lilly and Company. Mitch has served in the last capacity, and I will move in descending order, as senior vice president for corporate strategy and policy for the last 3 years and on the important policy committee of the company, its top management body. He served as president of the North American pharmaceutical operations from 1993–1997, and joined the company originally in 1990 as vice president for corporate affairs. For 10 years, he has had a senior management position, and in the case of North American operations, the executive management position for a very great American firm.

I mention that because the idealism that was true at North Central and at Princeton proceeded through the Senate and through his responsibilities at the White House, through his responsibilities at a great think-tank, and broad corporate responsibility at the highest levels for the last 10 years. These have been very successful years for that firm.

Let me just simply add, in addition to that, Mitch has been a remarkable citizen, as you might anticipate, of Indianapolis and of the State of Indiana. The legion of boards on which he serves, the honors that he has received, are remarkable and have been noted by the Committee. I simply commend him to you as a very good person. I would say that Mitch is a person in whom I have trusted, who is not only honest along with his brilliance, but likewise caring about people. This is why he ran a good staff and why we had a good shop right here in the Dirksen building some time ago.

I thank you for allowing me to make this statement and I appreciate the nomination.

Chairman LIEBERMAN. Thanks, Senator Lugar, for that very special, personal statement.

Senator Bayh, thanks for being here and offering bipartisan Hoosier support for Mitch Daniels.

STATEMENT OF HON. EVAN BAYH, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator BAYH. Thank you, Mr. Chairman. I am pleased to be with you today and the other Members of the Committee, and my esteemed colleague from Indiana, Senator Lugar, for whom I have enormous respect. I should also say, Mr. Chairman, that I am pleased to be here today to introduce and support the nomination of Mitch Daniels to be Director of the Office of Management and Budget.

I find this exercise to be of some personal use, as well, following up on the comments of Senator Stevens, who had to leave. I am going to exercise some restraint in my own remarks when I am on the other side of the dais here. Someone came up to me not long ago and said, "Senator, you know that in order for a speech to be immortal, it need not be eternal." I am going to try to bear that in mind.

I am here today, Mr. Chairman, to support Mitch Daniels' nomination, because I think he combines the right set of skills necessary to do a good job, quantitative, analytical and interpersonal. Senator Voinovich, you will be pleased to know it is my strong belief that Mitch Daniels believes in fiscal responsibility. As a matter of fact, I believe he has previously embraced some of the very reforms that you mentioned in your remarks, such as biennial budgeting. I know he has written about the need for entitlement reform, in particular to address some of the concerns that you outline that will face us in the years to come if nothing is done.

Senator Carper, I personally have discussed with him the need for sound budget analysis based upon solid numbers, not wishful thinking or political considerations, so that we do not undermine the credibility of our public policy decision-making, and he agreed with me along those lines, and I think would agree with you in the points you made.

He has the business experience, Senator Thompson, that you indicated is important, and I agree. He knows how the decisions we make here in Washington will affect real people and real places across the country, and he will bring the kind of management expertise that Senator Lugar outlined to the task of trying to bring more coherence to the finances and the management of the Federal Government.

Because of his private sector experience, he understands that we compete today in a global economy and he knows the importance of investing in research and technology so that we can have greater innovation in our society and create the high value-added jobs that are important to the future economic prosperity of America.

Finally, I would note that Mitch Daniels has a long and honorable record, as my colleague mentioned, being an active participant in the Republican Party. I, of course, am a member of the other major political party. I am here today in the spirit of bipartisanship to support his nomination, because I think he will do a good job for the President-elect, he will do a good job for this country, and I wish him well in his public service.

Mitch, I am pleased to wholeheartedly support your nomination and look forward to working with you.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you very much, Senator Bayh. Thanks to both of you for being here. You are free to stay or leave as your schedules dictate.

Mr. Daniels, for the record, let me just indicate first that you have submitted responses to a biographical and financial questionnaire; that you have answered pre-hearing questions submitted by the Committee and additional questions from individual Senators, and that you have had your financial statement reviewed by the Office of Government Ethics. Without objection, this information will be made part of the hearing record, with the exception of the financial data, which is on file and available for inspection in the Committee's own offices. In addition, the FBI file has been reviewed by Senator Thompson and me, pursuant to the Committee rules.

Mr. Daniels, our Committee rules require that all witnesses at nomination hearings give their testimony under oath, so I would ask you to please stand and raise your right hand.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you, God?

Mr. DANIELS. I do.

Chairman LIEBERMAN. Thank you. We would welcome any opening statement that you would like to make.

TESTIMONY OF MITCHELL E. DANIELS, JR.[1] TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. DANIELS. Thank you, Mr. Chairman; a brief one, if you please. I think I am safe in saying this is the sixth-biggest day of my life. It is a five-way tie for first, as each of the five Daniels women came into my life, starting with my bride and partner, Cheri, and the four Daniels girls. The two interior members of that set are with us today. Their younger sister, Maggie, is stricken with the flu and otherwise would be lighting up this room today, and their older sister, Megan, is attending to her studies.

I want to stress, Senator Voinovich, that she was prudent enough to choose a school in Ohio, Denison University. I would like to tell Senator Thompson that Melissa, who is here, was farsighted enough to choose a school in Tennessee, Vanderbilt University. In recent days, I have been drawing to the attention of our senior in high school, Meredith, several fine schools in Connecticut.

Chairman LIEBERMAN. Excellent. [Laughter.]

Mr. DANIELS. But we were unsuccessful in securing her admission in a timely fashion. [Laughter.]

Chairman LIEBERMAN. I wish you had called.

Mr. DANIELS. I thank the Committee also for welcoming my other family members. My Mom and Dad are here, my sister, Deborah, and my brother-in-law, Lyle. Of course, I thank my two home-State Senators for coming by on a very busy day.

My fitness for this office is, of course, for this Committee to judge. I only say that to the extent I am prepared, I owe this to a string of people for whom I have had the pleasure to work or with whom I have been associated; beginning, as was remarked, with Dick Lugar, including President Reagan, the trustees of Hudson Institute, who entrusted me with responsibilities there, and the chairman of Eli Lilly and Company, who gave me increasing opportunities to learn and grow.

I want to thank my predecessors in the office that I may soon hold. I was able to speak to most of my recent predecessors and expect to speak to all of them when schedules coincide, but let me single out Jack Lew, a fine public servant, obviously, and a gentleman who welcomed me in his office immediately after I got to town and with whom I have spoken on other occasions since. He has been very forthcoming in his advice and has offered to help us make a smooth transition.

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[1] The biographical and financial information appear in the Appendix on page 44.
Pre-hearing questions and responses appear in the Appendix on page 54.
Post-hearing questions and responses appear in the Appendix on page 92.

Last, I'd like to compliment the staff of this Committee, an unusually vigorous group which has helped me prepare, through the rare opportunity to answer a significant number of questions and also to visit the other afternoon at this table in what was a very helpful session in concentrating my thoughts on the interest of their principles.

Let me say finally that this nomination would be a great honor for a person at any time. I think this is an especially unique moment for this honor to come. Much about this job will be new to me, of course. I guess I take some comfort in noting that much about this situation will be new even to the most seasoned veterans here.

We are new in the area of surpluses. This is unfamiliar ground and it will take some getting used to. I believe that in its way, a time of surplus is a time of greater danger, imprudence, and mistake than a time of deficits. We are also in a rather unique moment with a closely divided Congress, and this will require, if progress is to occur, probably a greater level of cooperation and bipartisanship than has often occurred in our history.

The President-elect has committed himself to that. We have heard it spoken of here this morning. I hope we will all maintain our resolve to do that in the days just ahead of us. I have been studying diligently the work product of this Committee, both its legislative and oversight capacities, and I do want to say that in full view of the difficulties that may attend it, I am resolved to try to capitalize the "M" in OMB. This Committee, as I read through the record, has built an extraordinarily strong foundation, or framework, as you put it, Mr. Chairman, of bills that offer the opportunity and the charge to the Executive Branch to try to uplift its standards of performance and accountability.

I detect in the record that I have read some frustration that this framework has not been fully implemented, and I know that is so despite very sincere efforts on the part of my predecessors. I know they have encountered a reality that I have been advised about since the first moment I accepted the job, which is that in our current all-day, every-day, all-year budget process, the time and attention of people at OMB will be totally devoured in that responsibility.

I do not deny that that may be our fate, too, but I am determined to try to do honor to your efforts and to this 10-year history of important legislative breakthroughs to meet your expectations.

Thank you for the opportunity to be here.

Chairman LIEBERMAN. Thanks, Mr. Daniels, for that excellent opening statement. I appreciate the last part, and we have talked about it a bit, the "M", the management part, and I thank you for that. To say the obvious, the Federal Government is an enormous enterprise that is, by its essence, free of the normal competitive pressures that tend toward efficiency and good management and the rest. There are internal forces, obviously, that do that, but one of the roles we have always seen here is to try to play that role and, of course, to ask the Director of OMB to do that every day, and I thank you for the emphasis you put on that.

Let me say on the questioning that we are going to follow the 7-minute rule. My clock is already going, and I ask my colleagues,

as the lights begin to flash, to try to keep within that time limit. I am going to start by asking certain questions that we ask of all nominees. So first, Mr. Daniels, is there anything that you are aware of in your background which might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. DANIELS. No, sir.

Chairman LIEBERMAN. Do you know of anything personal or otherwise that would in any way prevent you from fully and honorably discharging the responsibilities of Director of OMB?

Mr. DANIELS. No, sir.

Chairman LIEBERMAN. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted Committee of Congress if you are confirmed?

Mr. DANIELS. Yes, I do.

Chairman LIEBERMAN. Thank you very much. Several of us asked questions or made statements along the way about Federal Government fiscal policy, and for those who may be watching on television who focus in on, "I am not quite sure what OMB does," as you well know, the Director is essentially the chief fiscal adviser to the President of the United States and is the key bridge, or certainly has been in the years that I have been here, between the Executive Branch and Congress on the major fiscal questions that we determine.

So these matters are going to be right—you are a lot more, for those who are watching, than an auditor or a kind of budget enforcer. You are a policy-setter. Let me ask you to first speak, if you would, about the surplus projections. These are obviously good news, numbers that, for most of us, are unimaginable, $5.7 trillion projected in surplus. Yet, I think many of us on both sides of the aisle here are concerned about how much validity we can give to a 10-year projection, and in that sense, how much of the surplus that is projected over the next 10 years is it—I am about to use a favorite Bush family word—prudent? Is it prudent to commit today, which is to say if we commit all of it during this 107th Congress, won't future Congresses have little in the way of fiscal flexibility to address either unforeseen problems or new priorities?

Mr. DANIELS. I think those cautions are well stated, Mr. Chairman, and with Senator Voinovich and others, I would certainly agree that—with Ben Franklin—we ought to resolve to doubt our own infallibility when it comes certainly to projections of the kind that we have made. I note that the error bars around even nearer-term projections have been very sizable, certainly when measured against the large base of the Federal revenue and spending structure that we now have. So I take the point.

I guess I am impressed, and positively so, at the narrow range in which most forecasts do now trade. There is, to me, striking convergence certainly on the economic side. We are trading in a much narrower range than I might have expected coming to town. That is not a reason to believe we can take that money to the bank, but I think it does give some confidence that the long-term outlook is very strong, remarkably strong, and while we ought to keep an eye on it day by day to make sure it is not eroding, as we all know,

the recent trend has been upward, not downward, and I take some heart from that.

Chairman LIEBERMAN. How about the priority that you would give or you would advise the President-elect to give to debt reduction? Not only has it value in itself, but in its way, if circumstances change over time and the surplus projections are not quite as rosy as we believe they are now, money set aside over the 10 years for debt reduction has a little bit more fungibility to it than money we have committed to spend. What priority would you give, in response to the statements Senator Voinovich, Senator Carper, I and others made about debt reduction?

Mr. DANIELS. I think I would give it a very high priority, and I believe that is pretty near a consensus view. Again, there may be what I would describe as relatively modest differences about the degree and the pace of debt reduction. Senator Domenici alluded to some rather striking and happy new problems that we might encounter if we are able to pay down the debt at a rate that soon tests our ability to actually do so in a practical matter.

The answer to your question is, I think, debt reduction is the price of admission to the budget debate. It certainly is an important part of the fiscal mix that the administration will present the Congress, and we look forward to working with this Committee and others on the exact swiftness and degree at which that occurs.

Chairman LIEBERMAN. I appreciate that. As you know, the President-elect's tax cut proposal is controversial here on Capitol Hill, but I want to try to take it out of a partisan context and just ask you to comment from two points of view. One is consistent with the questions I have just asked you and your own comments; when you think about the priority given to debt reduction, about the uncertainty of 10-year projections, isn't $1.3 trillion, leaving aside whether we think it is not progressive enough or whatever, isn't that too large of a chunk to take out of the resources that are available to us?

The second question about it builds somewhat on the latest arguments that I have heard for the proposed tax cut, which is it may help to take the economy out of the slowing down it is in now. I was interested in that regard to note the comments that Secretary of the Treasury-designate Mr. O'Neill made the other day, where he, as I read them, seemed to raise questions about—obviously, there are arguments he did make and one could make for the tax cut proposal—but he seemed to be saying, "Don't put too much emphasis on its ability to help us out of a slowdown, because it takes awhile, a tax cut of this kind, to work its way through the economy, and it is no substitute for the kind of action that the Federal Reserve has already begun to take in lowering interest rates, which immediately runs through the economy."

I wonder if you could offer responses to both of those questions.

Mr. DANIELS. Yes, Mr. Chairman. A tax cut along the lines the President-elect proposed during the campaign will be part of the budget and should be, in my judgment, for several reasons. The first is simply that it honors a commitment and a promise, and I think the American people have a right to expect that officeholders will honor faithfully those commitments on which they ran.

Second, the American people today are taxed at record peacetime rates, and I think that level, now running closer to 21 than to 20 percent, argues for some moderation over time. Third, I think, and perhaps here we will have a difference of opinion, but that the long-term growth of the economy can only be benefited by a well-crafted tax cut. If there is concern about the sustainability of the surplus numbers, which depend in large measure on steady, real growth in the economy, then this is an argument for, not against, a measure like that, that the President-elect will propose.

Last, I would say that, in my judgment, the greater threat to the eventual reality of the large surpluses we have comes in some of Senator Voinovich's writings on this subject, can speak to this same point, really comes on the spending side. I do believe that the greatest danger to the surpluses of the future does not come from leaving more money in the hands of the people who earned it, but comes from leaving more money in the hands of people here in Washington, where we might be tempted to spend it at an imprudent rate.

Chairman LIEBERMAN. Let me ask you just briefly, because my time is up, to respond to Mr. O'Neill's statements the other day, about the major argument for this tax cut, its effect on stimulating the economy right now.

Mr. DANIELS. Yes, excuse me for answering that only indirectly. You notice I did not make a near-term stimulus argument among those that I listed. That does not mean that a tax cut could not have a near-term effect, and I think it would be a mistake to deny ourselves one of the two tools of economic policy, and rely simply on monetary policy. I will certainly defer to the Secretary-designate of the Treasury in his caution about making that claim, and I will simply stand on the statement that I think there are multiple, very sound reasons for the tax cut we will propose, even if one doubts that it will have a near-term effect.

Chairman LIEBERMAN. Thanks.

Senator Thompson.

Senator THOMPSON. Thank you very much. I had the privilege of discussing this very issue with Mr. O'Neill in the Finance Committee when he testified, and there is nothing inconsistent with what you have said and what he said in that context. I do think we should not make the mistake of trying to justify the tax cuts strictly on the basis of current economic conditions or make the mistake of relying totally upon the monetary side of the equation to correct things. That is always in response to something else and it is also something that we have no control over, basically, in terms of monetary policy.

It looks to me that, in addition to what you said, the greatest danger to the debt retirement in the long run and the greatest danger to our ability to get a handle on the demographic time bomb that is facing us is lack of growth in the economy, and that the real justification for the tax cut, and especially the rate reduction, is the stimulation to investment and thereby creating growth, long-term growth of the economy.

With that kind of growth, we can do something about all those things, and without sufficient growth, we cannot do anything about any of them. Although I think there is some justification for near-

term considerations and current economic considerations, as you have said, and obviously it can be made so that withholding taxes can be adjusted and have an immediate effect, I would urge you to still put the major emphasis on the long-term benefit to the economy and the country in looking down the road and not simply trying to react to what is going on today or depending on the Fed to react to what is going on today.

Getting back to these management issues, this is not something that we get a great deal of personal pleasure out of dealing with, at least I do not—these green eyeshade issues—when you have more important things going on, but we are, if not the only, the main Committee that has to deal with this. In looking at it, we have no choice, and I have become more and more convinced that this is the fundamental underpinnings of everything else.

It is like so many other things in government, long-term systemic problems, whether it is entitlement program reform—the things we all know we have to do—are so difficult to do anything about. So we have to be extreme on the subject. That is why our staff may be the only staff that does such a formal pre-interview in the entire Congress, as you went through, and we appreciate that.

We have to keep coming back and back and back again. A survey of historians and political scientists across the ideological spectrum recently ranked improving government performance as among the least successful of the Federal Government's 50 greatest endeavors over the past half-century. In looking at restoring OMB's management role, a case can be made that OMB, in some respects, has abdicated its management responsibilities and that it has provided little direction and leadership to agencies in implementing the Results Act, for example, that we talked about earlier.

OMB's own Results Act strategic performance plans are among the worst in government. They are supposed to be supervising the Results Act and they are doing a worse job than almost anybody else in doing what the Results Act requires these agencies to do. That is not sustainable. One of the things we have looked at is this 1994 reorganization of OMB and the effect that has had.

It shifted most of its management staff to the budget side. The reorganization eliminated most of the OMB positions dedicated to management and integrated them into the budget side, the theory there being that management issues would carry more weight if integrated with funding decisions. In practice, however, budget issues crowded out management issues. Now you have certain people in Congress suggesting that we ought to have a separate office of management, outside of OMB.

So we are still reshuffling the chairs and organizational charts. Have you had a chance to look at all of that and come to an opinion, if not a conclusion, as to what we ought to do in terms of either reorganization or ensuring that the management side of the equation gets its due deference?

Mr. DANIELS. First, I have had a look and I have formulated what I reserve the right to call a preliminary view, and that is this is not an issue of structure. It may be an issue of resources. It certainly is an issue of management attention, that is, OMB management attention and follow-through. At least on the surface, prior to an opportunity to sort of count heads and, more importantly, assess

talent levels. The 1994 reorganization of the outgoing administration makes good common sense to me.

Ideally, the authority vested in OMB to organize the President's budget, and negotiate it with the agencies and departments, offers the greater potential when unified with the management responsibility for driving through the necessary changes. At least up to this point, the least-promising idea I have seen would be to completely separate management and have it as a free-floating responsibility of an organization that might or might not have the clout and everyday contact with the agencies to get things done.

My going-in attitude is that we need to make sure that the resources are there, that the talent levels are there and certainly that the attention is there. I do believe that it is not acceptable for this organization or the government, in its entirety, or the Executive Branch in its entirety, to be in default on so many counts, as apparently is the case today, across the range of this legislation that you have enacted here. I come across areas where reports have not been filed, where action has not been taken, therefore where the results you seek have not been achieved.

I have a business customer who taught me the rule that if you are not keeping score, you are just practicing, and that is a pretty good rule. I'm careful not to too loosely analogize business and government, but there are respects in which I think the analogy is a good one, and that is one.

Senator THOMPSON. I appreciate that. I think my time is up.

Chairman LIEBERMAN. Thank you, Senator Thompson.

Senator Carper.

Senator CARPER. Thank you, Mr. Chairman. Let me follow up, if I could, on a couple of things that I mentioned in my opening statement, as well. Could we talk a bit about revenue forecasts over the next 10 years or so? I had asked a member of my staff to bring and to share with me a list of tax expenditures or tax credits that are expiring or have expired. The revenue assumptions prepared by CBO and OMB, I believe do not assume that these expired or expiring tax credits will be restored or extended, and if you look through this list, my guess is most of them will be. I think there is pretty broad support for extending them.

There are some related concerns with the alternative minimum tax, that if we don't change the current law, then a lot of folks who are really middle-income families, and not much higher than that, are going to end up being caught up in the alternative minimum tax. Just share with me some thoughts you have about how much we keep in mind those expired or expiring tax credits and what we might need to do with the alternative minimum tax, and how that plays back against the revenue forecasts that we are going to be building our budgets on.

Mr. DANIELS. I think the answer comes at two levels, in terms of a baseline, and that is what you are probably reacting to, various baseline forecasts. They are not meant to be predictive of eventual outcomes. They are only a starting point, as we know, for making policy decisions, whether that is the renewal of existing tax advantages or spending programs, many of which are equally popular, but are not necessarily assumed in the baselines we use.

I think that at a second level, the very practical political level to which you have directed our attention, we cannot take our eye off that ball. The President-elect's tax package at least partially responds to this by incorporating some, but not all of those expirations to which you allude, and partially, but not entirely, to the AMT issue.

It is one we will have to work on together. Beyond that, I think it would be premature for me to comment about the eventual revenue forecast we will be making.

Senator CARPER. I hope this is a fair question, but have you had an opportunity to look at the budget surplus forecast prepared by OMB, the most recent, and by CBO? Are you familiar with those?

Mr. DANIELS. Yes, to an extent.

Senator CARPER. Could you just take a minute and share with me what you know, just in broad terms, of what the surplus is expected to be in either or both instances?

Mr. DANIELS. The difference, as you will have noted, is from just south of $5 trillion to just above $5.5 trillion aggregate surpluses over 10 years. These are very large numbers, although not so large in a 10-year context. I am struck less by the size of the differences than by the degree of general consensus in terms of the end point of these numbers and also the assumptions underlying them. The range of differences, certainly on economics, is narrower than we have often seen in the past. It does not mean they are right. They could all be wrong, but I think it gives us a reasonable basis for starting out the construction of a new budget, since the disparities between these various starting points are relatively modest.

I do not know, after we have worked on the new OMB forecast, where they will fit, but I suspect they will fit in and around that range.

Senator CARPER. Those $5 trillion figures, do they include revenue inflows into and expenditures from the Social Security-Medicare trust funds?

Mr. DANIELS. I am sorry. Again?

Senator CARPER. Are those revenues, the budget surpluses, inclusive of inflows and outflows from the Social Security and the Medicare trust funds?

Mr. DANIELS. Yes, I believe they are.

Senator CARPER. If we back those out, and they are rather substantial, do you recall what we are left with?

Mr. DANIELS. Somewhat greater than half would be in the so-called on-budget accounts and somewhat approaching half in the Social Security accounts.

Senator CARPER. I am a boomer. I was born in 1947, 54 years ago next Tuesday. And in recognition of that, I have been assigned to, among other committees, not only this one, but the Aging Committee. Among a lot of us in my generation are going to be retiring and drawing down on Social Security roughly in 10 years, and how will that affect those surplus numbers beyond this 10-year period of time and should we be mindful of that?

Mr. DANIELS. We should be more than mindful, Senator. When I think about this rather new era that we have entered, of large surpluses, I think of it as a window of opportunity which, if seized, can enable us to deal with the problems to which you are just

drawing our attention, and if passed, will make addressing them a much more painful and severe process. As we all know, reform done early, certainly in the entitlements area, can be much more moderate and much less difficult than reform done at the eleventh hour.

Now, our process has not always been known for long-term statesmanship and for acting before the wolf is at the door, and yet I hope, particularly presented with the opportunity of these large, impending surpluses, whether they are closer to five or closer to six or even somewhat lower than either number, I hope that we will find ways to work together to bring reform to the programs on which our generation will depend, and that would be a salutary accomplishment for all concerned.

Senator CARPER. One last question before my time expires. I hope we will be mindful as we go forward that, again, we need to show great caution about supporting substantial tax cuts, and I am going to support a number of tax cuts. I think we ought to return some of the money to the taxpayers. We need to be mindful of supporting tax cuts which kick in largely at the end of this 10-year period, at the same period of time when a lot of folks in our country are going to be retiring and drawing down on Social Security and Medicare.

I would ask us to continue to be mindful that we probably have not seen the re-invention of the business cycle or the economic cycle. There will probably be downturns. We have been lucky for 8 or 9 years. For us to assume we are not going to have a recession for another 10 years may be the triumph of man's hope over experience. Last point, Senator Voinovich and I have served the National Governors Association, led it for a period of time. One of the entities we established within the National Governors Association to help governors be better managers was something called the Center for Best Practices, which I believe he chaired and which I chaired, as well.

One of the great things about the National Governors Association is it really exists as an entity not just to lobby the Congress and so forth, but to enable us to identify what is working, to solve our problems in our various States and to enable us to steal those best ideas. Too often, it seems to me that Federal agencies exist to issue rules and regulations, but not so often to share ideas of what is working. As you go forward on the management side of your quest here, as others have spoken to earlier, you may want to keep in mind how we share best practices amongst governors and to see if perhaps the Federal agencies could not some how encourage that as well at the Federal level.

Mr. DANIELS. I appreciate that advice very much, Senator, and my interest in doing that is not conditional. It is clear to me that the ties between OMB and the new administration in general, and the State and local officials of this country should be much tighter than they may have been recently, and better management practices is a good place to start, but I am a Federalist, and I think we have seen a great reinvigoration of State Government, and also local government, over the last couple of decades. You were a leader and a participant in that.

I think that, on a host of fronts, we will be well advised to consult very carefully and I plan to do so on a regular basis, with the National Governors Association and with like organizations, to make sure that, in all the ways in which we interact, in all the ways in which our fiscal policies are tied to each other, as well as the management successes that are happening there in the famous laboratories of democracy, are learned about and are brought home to the benefit of the Federal Government and Federal taxpayers.

Senator CARPER. Thanks very much.

Chairman LIEBERMAN. Thanks, Senator Carper. Thanks, Mr. Daniels.

Senator Voinovich.

Senator VOINOVICH. I can testify that you are a Federalist. I was President of the National League of Cities, and working with you as Mayor of the city of Cleveland, there is no question about it, and I am glad to hear you reaffirm your commitment to that. I would like to build on the questions that Senator Carper mentioned, the baby boomers. We talk about the 10-year budget surplus and, by the way, one of the Senators pointed out that the end of that 10-year period is 2 years after President Bush will leave office. Also at the end of that 10-year period is the baby boomers.

We talk about global warming. I think we need to talk about global aging. It seems to me that any of the decisions that we make about our financial decisions ought to also have that in the backdrop of that decision-making, because 1 day we are going to have to pay the piper, and too often in this government we have not done that.

Second, the projections—there is going to be a lot of debate about the projections, and I think Senator Carper mentioned the assumptions that some of the tax benefits that we have will go off. I do not think they will. I think most of them are pretty good. We will extend them, and that will change the number. You talked about the surplus in Medicare Part B. As you know, supposedly the Social Security surplus is not included and we have taken care of that, but the fact is the budget projections also include on the on-budget surplus Part A of Medicare, I think that, from a fiscal point of view, they ought to be taken off the table in calculating your on-budget surplus.

You get the issue of growth in the economy, spending. There are certain presumptions about spending and I can tell from the last couple of years around here, God help us if we do not have a President that shows some restraint about spending. So all of those things, I think, are things you are going to have to contend with, because we will be debating those assumptions and those projections. Also, something maybe you have not thought about, but we do have a $98 billion projected surplus for the 2001 budget.

I heard Senator Stevens say he is coming over to see you, and I can assure you that you will get some supplementary appropriations bill suggested to you. Right now, we have already spent 12 percent more in the 2001 budget for non-defense discretionary spending and 8 percent more for discretionary spending than last year. Any new supplemental spending is going to add to that percentage increase, and so you are going to have a battle with that.

On the other side of the coin, I think you better look at the projections in this budget in terms of Medicare and Medicaid spending. When I became Governor of Ohio, Medicaid was the Pac Man in State Government, eating away at education, secondary and primary, and other State spending. We brought it under control, and the reform of the welfare system has helped us.

In fact, in 1997, we spent less money on Medicaid than we did the year before, but last year, and Ohio is in a crisis in terms of Medicaid, 15-percent increase in Medicaid spending last year. I do not know what the projections were in this 2001 budget, but the Federal Government has benefited from what the States have done, and now we are a 60–40 State. So you pick up 60 percent of that Medicaid spending. I am saying there are some things right now that need to be looked at, and we have this tendency to just use these big numbers and forget about the details, and I think that is a real problem.

The last thing is—in response to a question in your pre-hearing questionnaire—you said that you planned, "To make sure we retain and hire quality people at OMB and ensure they have the necessary resources to meet their responsibilities." As you will find, I think this is going to be easier said than done. Many talented young people view the Federal Government as an employer of last resort, and agencies across the government are finding it very difficult to attract the best and brightest people.

The question I have is how you are going to accomplish your goal of hiring and retaining high-quality personnel at OMB, and then beyond that how are you going to deal with some the problems that other agencies are going to be having in the Federal Government, as we talked about in the report that we gave the President, "The Crisis in Human Capital." GAO has also designated human capital management as a high-risk area. I would like to know your thoughts on it, and as Senator Thompson was asking, how do you manage that? Are you going to have a management czar? How are you going to make sure you do not get so involved in the budget side of this that management is neglected, as it has been for so many years around here?

Mr. DANIELS. All very fair questions. First of all, with regard to quality at OMB, and I do not for a moment want to underestimate the challenges we may have, I do suspect OMB may prove to be the exception that proves the rule. It is a place full of tremendously talented people today. I suspect they are there and that their successors can be recruited for reasons often mentioned at this hearing, the opportunity for service, a real service there, across the range of the budget, management, and regulatory policy, I hope will continue to excite and attract the top talent. That has certainly been the case in the past. It was my observation in my previous tour of duty and it is my impression in these few short days back in town that OMB is fortunate enough to reflect the highest standards of public service and the highest ethic of public service.

That said, if it is true, I recognize we may be uniquely graced there, and everything I have read in your report on the human capital problem tells me there is not a moment to lose in trying to coordinate progress across the rest of the government. Moved by your words and this Committee's work, I added to my schedule of visits

last week a lengthy visit over at GAO with David Walker. I plan to make that a very tight partnership. As far as I am concerned, their work, like your Committee's work, provides us with marching orders.

I have told my potential colleagues-to-be we have got our hands full, but one problem we do not have is figuring out what to do. A roadmap has been laid out for us and our initial challenge will be deciding where to start. I thank you for your cautions on the spending side. I already have detected most of the visitors I receive are not there to help me get the $98 billion figure up into three digits, that they are probably interested in using some of it to some good purpose.

We like to say in Indiana, I was born at night, but not last night. Last, I, for one, believe that we ought to take an open stance, at least temporarily, on this whole matter of a supplemental, which you mentioned. This may again be sort of a newcomer's prerogative, but I hope that in some respects, and this may be a bad example, that as the new kid in town I will have the privilege for a little while to ask exactly why do we do things this way.

One of the few instances I could give is the notion that before the ink is even dry on the budget just written, that we have suddenly discovered a lot of other things that have to be addressed in a supplemental appropriation bill. I recognize that events can intervene and there may be new needs, but I, for one, hope that we will at least ask this as a new question each time, not allow it to become, as it may have, sort of an annual rite of spring.

Senator VOINOVICH. Thank you.

Chairman LIEBERMAN. Thanks, Senator Voinovich.

Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman. First, let me add my congratulations to you on your appointment. Thank you for your willingness to serve again in government, and thank your family for their support of you again coming back into really one of the most difficult jobs that there is in government, to both spend the right amount of money and spend it wisely, the budget side and the management side both equally important.

There is nothing more important at OMB than to tell it straight, no cookbooks, no shading, no politics in forecasting. OMB has done that recently. Your compliment of Jack Lew, by the way, your very gracious compliment of him in your opening statement is very much appreciated and is offered in the most bipartisan of spirits, and that is also appreciated.

I have a couple of questions on the disclosure question that you answered in your answers to the preliminary questions that were submitted to you. When reviewing rules, the question is whether or not the public should know where that rule is being reviewed, and we had an experience at OMB many years ago where the office, the OMB, through its Office of Information and Regulatory Affairs, was playing a major role in the regulatory process, but it was secret. Nobody knew it. No one knew when a regulation was going from an agency to OMB, and therefore it happened too often that people who had access to OMB, who were using that access, while

people who had no access were not even aware of the fact that the rule was at OMB.

I happen to think it is legitimate for OMB to have that role because I think we ought to hold elected officials, the President, accountable for regulations. I believe in that accountability, so I have supported the OMB role. But we worked out finally, during the Bush years and during the Clinton years, a process to make sure that was an open process. The key question, your response to the question for the record was that documents that flowed between the agency and the OMB should be made public, but you left out of your answer the question of whether or not the public should be made aware, as it is now, that a rule has been forwarded to OMB for its review, so that anybody who wanted to weigh in with OMB would have the opportunity to weigh in with you or OIRA.

So my question is whether or not you would support the continuation of that kind of openness? You, in general, said you favor disclosure, but specifically do you believe we ought to continue the current disclosure rules, including the notice to the public that a rule has been forwarded to OMB?

Mr. DANIELS. I will say, Senator, that I think that the moves that were made to have greater transparency in the process were necessary and useful and, in general, should be preserved. I will say that I have not yet had the opportunity to read through the current executive order in all respects. I cannot say there is not some respect in which it ought not be amended, but as a general rule, I think we are in better shape today, a better balance has been struck than may have been the case before, and I think these changes certainly took the process in the right direction. So I would like to stop short of a promise, but I am sympathetically inclined.

Senator LEVIN. Thank you. Will you work very closely with this Committee before any changes are made in that process? It took a long time to put in place. Would you notify us and give us an opportunity—and we may not all be of the same view, I do not want to suggest that, but this Committee, as a Committee, has been deeply involved in this and before any changes are made, would you notify our Chairman and Ranking Member of any proposed changes in that?

Mr. DANIELS. Yes, I think that is not only appropriate, but necessary under the circumstances.

Senator LEVIN. Well, it is an executive order, so it may not be—whether it is or not——

Mr. DANIELS. It may not be legally necessary, but I think that given the legitimate interest of this Committee and the way that responsibility is undertaken at OMB, that it is a more-than-appropriate request and we would consult.

Senator LEVIN. Thank you. I know that Senator Carper and, I think, others have asked you about some of the budget projections, and I missed some of the earlier testimony perhaps on this. Senator Lieberman asked a number of questions for the record in which you addressed what the projected surplus is and how the Bush tax plan fits in with that and so forth. Let me start by asking you whether you believe that Medicare should enjoy the same protection of its surplus as Social Security does of its surplus?

In answer to Senator Carper's question about that $5 trillion, I think you left out the Medicare surplus in your calculation and only included the Social Security surplus. But, in any event, why should Medicare not receive the same protection in terms of its surplus as you want to give to the Social Security surplus, or do you agree that it should?

Mr. DANIELS. I do not agree. I think we need to be very careful, not talking too loosely about Medicare surpluses. Viewed in a unified fashion, Medicare does not run a surplus. Medicare costs more money than it raises in its dedicated revenue stream. Therefore, I think that we need to be careful not to delude ourselves about the long-term issues facing Medicare, which I think most people would agree may be even more foreboding and serious than those facing Social Security.

So I think that a degree of real caution is in order. We could allow the concept of a Medicare surplus, which exists in Part A, but not in toto, to obscure the need for real reform, to which this administration will be committed as a fairly early priority. So for that reason, I would be very hesitant to see us treat those funds in the same way we do Social Security, which I think is quite in order.

Senator LEVIN. Whether you treat them that way or not, you start with that approximately $5 trillion figure. If you are going to protect a Social Security surplus of $2 trillion, that leaves you $3 trillion. If you are not going to cut into the expenditures for Medicare or not cut into the surplus, however you want to frame it, you are down to $2 trillion, roughly. The estimate by OMB of the President-elect's tax cut, starting with fiscal year 2001, is $2 trillion, which leaves nothing for debt reduction, prescription drug program or any of the other things to which commitments have been made, including here, and I am glad to hear you make that strong commitment to debt reduction, by the way. I think that is absolutely essential and I was delighted to hear you phrase it the way you did.

But if you are committed to debt reduction, as I believe you are, and if there is going to be any room for things like a prescription drug program, and unless you cut into the Medicare expenditures or surplus, however you want to frame it, and if you protect the Social Security surplus, there is no room for that full $2 trillion President-elect's tax cut. Something has got to give, and I would like to know what are your priorities, as between the tax cut proposed by the President and the debt reduction which you so strongly support. As between those two, which has the higher priority?

Mr. DANIELS. It's an essential priority that we deliver tax relief to the American people, and I am absolutely confident that can be done consistent with dramatic levels of debt reduction. The numbers you just cited, you will not be surprised to know, I don't subscribe to, at least from my preliminary look. I think that there will be substantially more flexibility than might have been suggested there. I already know a few reasons, perhaps honest errors in assumption, why that would be the case.

To answer your question directly, I think these are both imperative priorities for the new administration and I think we can walk and chew gum.

Senator LEVIN. Thank you.

Chairman LIEBERMAN. Thanks. Mr. Daniels, it strikes me that the fact we are sitting here and you are sitting there deprives you of the pleasure of watching your parents as you are testifying, and they are very proud. Your mother has a particularly maternal look of pleasure and pride, so I wanted to report that to you here halfway through your testimony.

Senator LEVIN. Except for that last answer, where she totally agreed with me, I want you to know that. [Laughter.]

Mr. DANIELS. The Committee has no way of knowing this, but this is easily the longest my mother has ever sat this close to me without either giving me advice or talking in a way I can hear. So it is a measure of her respect for you all. [Laughter.]

Chairman LIEBERMAN. Ms. Daniels, if you would like to come up to the microphone—— [Laughter.]

Thank you.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman. One of the things that I have come to observe during my tenure here in the Congress since 1973, 6 years over in the House and the rest of the time here in the Senate, is that the budget process, like almost no other process in government, is the victim of a lot of political gamesmanship. A phrase you just used, I think, illustrates one of the problems.

You talked about honest errors in assumptions being made. Well, in the budget process, I think there are a lot of dishonest errors in assumptions that are made, and not just by the Executive Branch, but by the Congress, as well. We are operating under a statute right now that prescribes limited caps on discretionary spending, the Budget Act of 1997, which the Congress passed and the President signed.

The appropriations in this fiscal year exceed those statutory budget caps. The budget that is going to be submitted by the Executive Branch shortly for the next fiscal year has to be under the terms of that law, within the caps. That forces the administration to make dishonest errors in assumptions. And here is how some of that works, just from my previous observation as chairman of one of the Appropriations subcommittees, which I have had the responsibility of chairing for the last 12 years, the Agriculture Appropriations Subcommittee. The administration, in its budget request, will ask for funds for the Department of Agriculture, for discretionary spending within the budget caps, but it provides in the budget submission assumptions that there will be user fees imposed by Congress through the enactment of legislation for such things as meat and poultry inspection, egg production inspection, a wide variety of other user fees. In the Food and Drug Administration area, for example, which is funded also in this bill, there will be the assumption that the pharmaceutical industry, with which you are familiar, will have to pay new user fees in response to legislative enactments by the Congress.

The Office of Management and Budget and the President himself have to know full well that the Congress is not going to enact those bills that are assumed to have been agreed upon by Congress or will be enacted and provide the revenues in time for them to be available to offset increases in expenditures that are being requested by the administration in its budget. So we start off the

process with it being contaminated and we wonder why there is no credibility when Congress talks about balancing the budget, brags about it. The President brags about how his policies have forced a balancing of the budget and all these surpluses are being generated because of the Balanced Budget Act of 1997, and it is not on the level. It is not an honest error in assumption or pronouncement.

So I hope that as you embark upon this new undertaking, which is enormous in its importance, in my view, that you lend a voice in the administration to suggesting that we at least start out talking in an honest, forthright way with the American people and with each other on the subject of budgeting. There are a lot of buzz words that capture imagination and people think this will fix it. Let's do biennial budgeting. That will fix it. It may help. I support that. Let's try that. There are other suggested fixes.

Lockboxes have a great appeal. The pollsters will tell you, when you talk about putting Social Security trust fund monies in a lockbox, the American people respond favorably to that. So, if it feels good, do it. If it sounds good, say it. I mean, we have come to government by pushing buttons to see if something is warm or hot or cold, positive or negative, on some kind of graph. We are not thinking through to the realities of the process and what really is going to be required in order to achieve the results we want. It is about who gets the credit and who gets the blame.

So I am hopeful that you can help breathe some new candor into the process as Director of the Office of Management and Budget. I wish I could promise the same for all the Committees and Subcommittees of the Congress or even the Senate, or even this Committee, but I do not have the power to deliver that. But I do want you to know that it would, I think, do a great deal to restore confidence in the integrity of the budget process and confidence in government, in general, if we could accomplish that in some way.

A couple of other things that have been said—I am supposed to be asking you questions and not making a speech. So my question will be what is your response to that? [Laughter.]

Let me get my other question asked and then you can respond to two things at once. There has been much said about restoring management responsibilities to your office and that, of course, is very important. But one thing I think ought to be encouraged, as well, and that is: Do not go too far to extend the "M" in OMB to the management of the judiciary or the legislative branch.

This administration that is coming to an end now got off to a pretty shaky start by vetoing the first legislative appropriations bill that was submitted to the President. I am still trying to figure out exactly why it was done, other than to just say, "We are going to be tough. We are going to require Congress to live within its means, too." It was a political signal, I think. It was part of the gamesmanship that we were going to endure or deal with for 8 years. It led to all kinds of difficulties, shutting down government, all kinds of things that we can look back on now and say should not have happened.

The judiciary, for example, is required to submit a budget request, but the Office of Management and Budget has been massaging it and taking out things, deleting things from the Judiciary Committee's request to Congress for funds for courthouse construc-

tion, for example, and then adding the money for other things, to stay within the caps probably, if we go back to the real reason. It is not just to be mean or to exercise power, but I think there is some arbitrary exercise of power by OMB over the other two coequal branches of government that has been unnecessary and ill-advised.

I hope as you embark upon these duties, you will look at that and see if that aspect of the job cannot be improved. What is your response to my two observations?

Mr. DANIELS. To thank you for two important questions, which I will answer, and a third you did not ask that I will answer by way of augmenting my response. First of all, I do not doubt that in this arcane world of budgeting, the processes and disciplines that have been put in place in recent years, that I will collide with brute reality on a regular basis. But I do want to say that my attitude as I embark would be to try to establish a reputation for candor and honesty and a starting point that either creates a consensus or is near the consensus.

It has struck me recently that for the last 14 years in two different endeavors, I have lived in places where data really was held sacred. Integrity of data was decisive. In the company I may be leaving, we make life or death decisions over hundreds of millions of dollars in spending—small potatoes, I know here, but large to us—and trust the data and allow ourselves to be driven by it. We have a saying at our place: If you torture the data long enough, it will confess. I hope that to the extent data has been massaged or occasionally bent or misused here, we can begin to bring that down.

With regard to the other branches of government, I guess I have two comments. One, that both constitutionally, and in the practices that we bring to the budget, OMB is not meant to have much to do with those levels. Two, as was illustrated throughout this hearing, we have got more than enough to do worrying about the parts of government for which we are responsible.

So I take that caution and I will look into the subject. I am aware there have been some recent controversies and I would hope they would not be renewed in the future. One last comment. It seemed to me that as you pointed out, the caps, the disciplinary mechanisms that have been in place recently have led now—certainly in an era of surpluses—have led to these perverse situations and maybe some gamesmanship and so forth. My reaction looking at this in these last 2 or 3 weeks is we do need to work together with the Congress on some mechanism that is suited to the new era, but I think some mechanism will be needed, for the reasons I gave. The temptation to excess that we could face if the surpluses materialize, I think will be a risk if we do not find some new mechanism, some modernized, updated mechanism, to replace that which is due to expire next year.

Chairman LIEBERMAN. Thanks very much.

Mr. Daniels, it is my intention to have myself and the other Members who are still here to have an opportunity for a 7-minute round. Do you want to take a personal break or are you OK to go forward?

Mr. DANIELS. I am OK to go forward.

Chairman LIEBERMAN. Great. I wanted to get back to the question of economic growth and government policy toward it. It seems over time we have learned some things about all this, and one of them is government does not create jobs or economic growth, but it can certainly create the context in which the private sector can create growth. One of the best things we can do is what we talked about earlier, and that is debt reduction and a balanced budget.

It seems to me the other thing we have learned, certainly in recent years, is the central role of innovation that has driven so much of the growth in our economy, and that is a critical area where the government, through supporting education or research and development grants for basic research, can actually plant the seeds that lead to economic growth. The second element of growth, of course, is to match up capital with that innovation, the money to make it go.

So I have two questions in that regard. One is if you would generally speak about what you would take to be the position of the incoming administration on the question of governmental support of basic research and development. Talk about a subject that is not sexy, this is it, but it seems to me this is what has led to so many of the extraordinary new industries that we have.

The second is about the availability of capital, and clearly balanced budgets, lower interest rates make access to capital easier, but tax policy can, too. For much of the 1990's, I was involved in an effort to reduce the capital gains tax, which reached bipartisan fruition in the 1997 Balanced Budget Act, or as part of that, and I do think it has been one of the factors that has helped the growth over the last years.

I am interested that President-elect Bush, as far as I can tell, has not included a capital gains tax reduction in his tax proposal. So my second question is whether you would urge him to consider a capital gains tax reduction in this next stage of our economic history?

Mr. DANIELS. On the subject of investments in R&D, it seems to me that a pretty strong consensus has grown up that at least through certain vectors, such as the NIH, as one example, these are excellent investments that ought to be increased. The President-elect has certainly committed himself to a policy of substantial further increases, and you can look for those in our budget.

I think that these ought to each be examined individually as we move forward. The fact that some government spending on R&D has proven successful does not mean that it always does, and I think we have seen many examples in the past in which we went down a dead end, spent a lot of money, but in the end found that government was not particularly skilled at identifying the highest-return investments, long-term investments of this kind.

Where we can see it is working, it ought to be reenforced. On the capital gains question, I will just associate myself with the comments of the Treasury Secretary-designate, who I believe indicated that we think that the reductions of recent years have proven themselves and there may be a time in which that is appropriate again. As a matter of priority, the outline of the President's tax proposals, we think, takes precedence, and we think that rate re-

duction, along with the other lesser pieces of that proposal, ought to come first.

Chairman LIEBERMAN. I understand what you are saying, but you are open to considering capital gains reductions in the future?

Mr. DANIELS. Within the context of preserving surpluses at an appropriate level.

Chairman LIEBERMAN. Let me just say a brief word in response to your answer on innovation, which is I agree that NIH has been a productive place to invest our funds. One of the things that I have learned around here over the last several years is that we have tended, I suppose for the reason we all as people naturally identify with NIH, because it is directly related to cures for illnesses that plague us, but that not only the new economy, but also, in fact, health depend as well on investments in the more traditional physical sciences, like chemistry and physics, for instance.

I hope that the administration will—and that is the National Science Foundation and other recipients like that.

Mr. DANIELS. Yes.

Chairman LIEBERMAN. Let me go for a moment—one of my other major Committees is the Armed Services Committee, and to me this is one of the areas that is really crying out for additional support. Both candidates for President spoke to this, Members of both parties here have spoken to it. It was true of the hearing last week for Secretary-designate of Defense, Mr. Rumsfeld, but I must say the numbers that at least have been talked about thus far, seem to me to be below the need.

The President-elect proposed a $45 billion increase over 10 years for defense during the campaign, $9 billion for, roughly, pay increases and $36 billion for R&D. Vice President Gore and I, I do not know whether it suggests that we are hawks or big spenders, but doubled that to $110 billion over 10 years. You will find—maybe you already have—that the Joint Chiefs are well beyond either of those numbers and can make a pretty good case. In fact, Secretary Cohen just this week, in his fiscal year 2002 request, has recommended $52.7 billion additional funding for the 5 years.

So I wanted to ask you what priority you would put on defense spending from the $5.7 trillion projected surplus that we have?

Mr. DANIELS. It is an easy question to answer in the first instance, Mr. Chairman. The national defense is the first priority of government, above and beyond all others. I think that is true constitutionally and in every other respect. With regard to how that plays out in the budget, I think it is premature to talk about numbers. The President-elect, I think quite correctly, in more than one context during the past year, talked about reform before resources, language to that effect, and I think that general approach ought to apply here, too.

Now, there may well be some very immediate needs, some backlog, some problems that need to be addressed right now, and the appropriate officials in the administration will weigh that. But it is also the right moment for more than one reason—new administration, time for a quadrennial review and so forth—for a good bottom-up look. We are looking at a very different world, as more learned people than I have frequently talked about lately. We want to make sure, as we make these new investments, which undoubt-

edly will over time involve more spending, that we are designing and funding the true needs of tomorrow.

Chairman LIEBERMAN. I look forward to working with you on that. Thanks.

Senator Thompson.

Senator THOMPSON. Thank you very much. Your discussion with Senator Lieberman reminds me of some things that I have been concerned about for a long time, and that is how important it is to keep the focus on the real problem here, and that has to do with the mandatory spending side of things. I sometimes think that we, especially those of us who call ourselves conservatives, spend so much time on the discretionary part and how we are doing there that we convince people that is where the action is.

The fact of the matter is the Federal Government needs to be spending more money in some areas on the discretionary side. We are in some respects letting our infrastructure crumble. You can go down to my State and see the Great Smoky Mountain National Park really deteriorating markedly because of environmental concerns. I am sure at other national parks the same things are happening. Regarding our weapons facilities, which people do not care much about these days, there is not a lot of discussion about them, but they are really in very bad condition.

Research and development is one of the things the Federal Government does better. We have dozens of programs for juvenile crime, for example. We have no idea which ones are working and which ones are not. Why can't the Federal Government do more in terms of studying the problem—call it research, if you want to—and be a clearinghouse for all the things that are going on out here, all the programs that various States have and all the various programs that we have, and see what is working and then tell the States what the results of that are?

We could do the same thing in education, I think. So research and development can save us money. All those things on the discretionary side where we really need more. I think the term investment is a legitimate term to use there, but none of it can be done. It is one-third of the budget now. Two-thirds are out here. Unless we reform that, unless we do something markedly different with regard to those two-thirds, the one-third is going to continue to get squeezed out. The most ardent fiscal conservative needs to recognize that there are some things the Federal Government ought to be doing better and more of.

So to the extent you can keep the focus where it needs to be and reminding people over and over again, as we should here, that we ought to keep our eye on the ball and how important it is to do something in terms of real reform with regard to some of these mandatory spending programs.

Getting back to the management, you are familiar with the biennial GAO high-risk list. We mentioned that earlier. I know that you are aware of the fact we started keeping up with this in 1990. Since then, over half of the agencies that were on the list when we started out in 1990 are still on the list. What do you think about that? What can be done about that? I know when you look at that as a manager and as a businessperson and as a person experienced in how government operates, some thoughts come to your mind

about what might be done about that. Can you share any of those with us now?

Mr. DANIELS. Yes, sir. I think disclosure and honest assessment is always the predecessor to accountability, and I think that, on the one hand, one cannot claim that some of these problem areas have not been amply disclosed before. Your reports point out several areas in which that disclosure has been incomplete, in the area of improper payments, for example. So I would look forward to more active, more aggressive, more candid assessment of where our problems lie. This alone can sometimes spur action on the part of the entity about whom the disclosures are being made, but this has to be followed up by intense focus. We will have to pick our shots. We will not be able to do all 25 or 26 of those areas, let alone those urgent areas you have marked off that are not yet on that list. We will look to start somewhere.

Senator THOMPSON. It seems to me it is a matter of accountability. Clearly people are not concerned about remaining on the list. They are required to come up here once a year and get fussed on a little bit, and then they go back. We ought to do away with the list if we are not going to do anything about it, because we are sending a bad message. We are sending a message to managers that it doesn't matter, that nobody really cares, and they can continue. I would be embarrassed to be part of an organization that did not make any improvements in areas like that after a decade.

Mr. DANIELS. This is why I favor the continued and maybe strengthened integration of budget and management functions.

Senator THOMPSON. I was exempting the U.S. Congress from that, of course, as I think about it.

Chairman LIEBERMAN. The record will so note. [Laughter.]

Mr. DANIELS. Again, I do not want to too blithely compare business and government, but in the businesses I have been a part of, a budget plan would not be welcome, would be sent back marked incomplete, if it did not indicate the results that it was intended to accomplish in some well-defined way that can be measured later on. Another of what I am sure is a long list of naive hopes I have, but on which I am going to try to act, is to inform my new colleagues in the Cabinet and elsewhere of the opportunity we have to do a little better if they will join with me, with you, in trying to behave in this way.

Senator THOMPSON. You mentioned more people being required to report. As you know, most agencies do not even keep up with that. I think you are right as far as that is concerned. Regarding the area of personnel flexibilities, what role do you see for OPM? Should more agencies be granted personnel flexibilities outside the scope of the current framework? If so, do you favor an agency-by-agency approach, or do you believe we ought to develop a system-wide approach in granting flexibility—the IRS and others, as you know, and some ask the question, I think legitimately, where the more trouble you get into the more flexibility you get, is that good and if it is a good idea, why shouldn't we apply it government-wide?

Mr. DANIELS. Maybe we should. Obviously we deal with the trade-off here between flexibility and fairness to those who are the workers who live under the—maybe the relaxed rules. But from

what I have read and learned so far about the urgency of the problems across these agencies, I think that flexibility may need to take priority. It is very hard for me to imagine that the Federal Government can even maintain, let alone restore the sort of productivity levels, high talent levels, attraction to new people and so forth that we obviously need with archaic rules that bind too tightly the hands of the folks who are supposed to get that done.

Senator THOMPSON. Thank you very much.

Chairman LIEBERMAN. Thank you.

Senator Voinovich.

Senator VOINOVICH. On the high-risk areas, I think you and I talked about it—I did not talk to the Chairman about it, but I thought we would have early hearings on the high-risk area, then bring in the departments that are responsible for dealing with them, and then bring them back every 6 months to see what progress they are making, so that at the end of a period of time, we will find out whether or not we are making progress.

In terms of the flexibility, the areas that have the best flexibility for hiring today are the IRS, the FAA, and GAO. As you know, Mr. Chairman, we have made some recommendations on how we would become more flexible, but my feeling is that perhaps you ought to identify those agencies that are most vulnerable and maybe come back to Congress and ask for the same kind of flexibility that you have in those other three agencies to get started, as we study your utilizing the tools you already have and then think about other ways that maybe we can go government-wide to deal with this hiring problem that we have.

I used to have a saying when I was governor: If you cannot measure it, do not do it. I have got to tell you something. You have got a real problem measuring things here. I know in response to our questions about coordinating programs among agencies, that we looked into that early last year. In HHS and Education on early childhood, there was no coordination whatsoever. They subsequently put together a 40-member task force and finally came up with some really good things, but it seems to me that one challenge you are going to have is to see those agencies that have similar programs and see if you can get them to work together better, and then determine how you measure.

We have 69 early childhood programs in 9 agencies, and I asked GAO, how do we determine whether any of them are doing any good, and they still have not come back with an answer as to how you evaluate whether they are working or not. All we do, it seems to me, is add programs and we never look at the ones that we already have to determine whether we still need those programs. You need to put something together, and I do not know whether you have thought about it or not, but I would be interested in your thoughts.

Mr. DANIELS. My thoughts are very parallel to those I read in the output of this Committee. You have spoken about results, not intentions, and that is really a good place to start. We have got to get away from a mentality in which the measurement of our commitment to progress in any of these areas is dollars of input. It needs to be insistence on output. I tried to respond to some of the written questions about measurement and metrics on the basis of

mistakes I have made and seen made in the past, measurements that suffer from false precision, over-complexity, measuring too many things. This can be a way to obfuscate the whole question.

If, in fact, there are—and the number I memorized was 90 early childhood programs in 13 agencies, or if there are 50 homeless programs in 8, and that is the tally that I think you came to, then somebody has got to get about the business, even if it is in a rough-cut way, of figuring out which are the best 10 or 15, which probably deserve more emphasis, and which are the worst 10 or 15 or 20 that ought to be scrutinized very severely?

Our first goal, I think, ought to be to get the agencies themselves to live up to their responsibility under the Results Act, and where there are duplications, to try to get to some kind of reasonable conformity. But if they will not, maybe we can find a way to do it.

Chairman LIEBERMAN. Thank you, Senator Voinovich, for your contributions to the hearing.

Mr. Daniels, it pains me to end this hearing, because with it also ends my brief, but, I am sure you will agree, impressive term as Chairman of this Committee. [Laughter.]

Mr. DANIELS. I feel uniquely privileged to have been the subject of your leadership.

Chairman LIEBERMAN. Mother Daniels, do you have anything you would like to say?

Mr. DANIELS. Please. [Laughter.]

Mrs. DANIELS. No. You have been very kind.

Chairman LIEBERMAN. Thank you. I was thinking, there is an old—I have heard it credited to Hubert Humphrey when he was once introduced with very flattering words; he got up and he said he wished that his mother and father had been there to hear the introduction. His father would have enjoyed it and his mother would have believed it. [Laughter.]

I think both your mother and father have enjoyed and believed all the good words that had been said about you, and you have done very well this morning. I appreciate your testimony.

Senator THOMPSON. I got the impression that you probably experienced some of the things that some of us experience sometimes, that our mothers are surprised how smart we are, supposedly.

Chairman LIEBERMAN. Mr. Daniels, the record will remain open for the rest of the day on this hearing for the submission of written questions for you and any written statements for the official record, and then we will try to act with dispatch to consider and I would guess approve your nomination and recommend it favorably to the Senate.

I thank you very much for your testimony today.

The Committee stands in recess.

[Whereupon, at 1:02 p.m., the Committee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR AKAKA

Mr. Daniels, I join my colleagues in welcoming you and your family today. The office to which you are nominated is one of the most influential in any administration, and I believe you are well-qualified to carry out its responsibilities.

Although we were unable to meet personally before today's hearing, I have reviewed your qualifications and understand why the President-elect has great confidence in your ability to serve as a senior economic advisor. As the Director of the Office of Management and Budget, you will influence all budgetary and policy matters within the Executive Branch. It is an undertaking that will require laying aside personal views in order to bring about policies that are not only effective, but fair and equitable as well.

As the ranking Democrat on the Subcommittee on International Security, Proliferation, and Federal Services, I am interested in sitting down with you to discuss how to ensure that the Federal Government attract, retain, and train qualified employees to carry out the functions of government. There are many issues facing our Federal civil service, and I am committed to their well-being. I also look forward to working with you on the implementation of OMB Directive 15. I appreciate your candor in answering the Committee's questions this morning.

BIOGRAPHICAL AND FINANCIAL INFORMATION
REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)

   Mitchell Elias Daniels, Jr. (Mitch)

2. Position to which nominated:

   Director, Office of Management and Budget

3. Date of nomination:

   Intent to nominate announced 12/22/00

4. Address:

   Home: ----------

   Business: Eli Lilly and Company
   Lilly Corporate Center
   Indianapolis, IN 46285

5. Date and place of birth:

   4/7/49 Monongahela, Pennsylvania, Washington County

6. Marital status: (Include maiden name of wife or husband's name.)

   Cheri Lynn Herman Daniels

7. Names and ages of children:

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8. Education: List secondary and higher education institution, dates attended, degree received and date degree granted.

North Central High School, Indianapolis, IN 1964-1967
Princeton University, Princeton, NJ, 1967-1971, A.B.
Indiana University School of Law, Indianapolis, IN, 1973-1975, No degree
Georgetown University Law Center, Washington, DC, 1977-1979, J.D.

9. Employment Record: List all jobs since college, including the title or description of job, name of employer, location of work, and dates of employment.

6/71 - 6/72, Marion County Republican Central Committee, Indianapolis, IN, Political
6/72 - 12/74, Campaign Communicators, Inc., Indianapolis, IN, Politics/publication
1/75 - 12/75, Office of Mayor of Indianapolis, IN, Local government
1/76 - 12/76, Friends of Dick Lugar, Campaign Manager
1/77 - 12/82, U.S. Senator Richard Lugar, Washington, DC, Administrative Assistant
1/83 - 12/84, National Republican Senatorial Committee, Washington, DC, Executive Director
2/85 - 3/87, Executive Office of President, Washington, DC, White House, Assistant to the President
4/87 - 8/90, Hudson Institute, Indianapolis, IN, President and CEO
4/87 - 8/90, Baker & Daniels Law Firm, Indianapolis, IN, Partner
8/90 - Present - Eli Lilly and Company, Senior Vice President

10. Government experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State, or local governments, other than those listed above.

Advisory Commission On Intergovernmental Relations - 1985-1987
SELTIC Commission, Chairman, 1991 - 1992
Overseas Private Investment Corporation, Board Member, 1988 - 1990

11. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership or other business enterprise, educational or other institution.

American Council of Young Political Leaders (International exchange), Council Member, 1978-87
Fund for Hoosier Excellence, Inc. (charitable), Director, 1984-87, Board Member, 1987-95
Center for Naval Analyses, Board Member, 1989
Indiana National Bank (name changed to First Chicago during service), Board Member, 1987-97
University of Indianapolis, Board Member and Trustee, 1987-96
Acordia, Inc., Board Member, 1990-98
Wishard Memorial Foundation, Board Member, 1991-92

Vote America Foundation, Board Member, 1987-91
St. Vincent Hospital & Health Care Center, Board Member, 1987-91
Indianapolis Center for Advanced Research, Board Member, 1988-90
Overseas Private Investment Corporation, Presidential Appointment, 1988-90
Hudson Institute, Board of Trustees, 1988-Present
Goodwill Industries, Board Member, 1987-Present
IPALCO Enterprises, Inc., (Indianapolis Power and Light) Director, 1989-Present
The Lynde and Harry Bradley Foundation, Board Member, 1999-Present
The Milton and Rose Friedman Foundation, Board Member, 1996-Present
Education Choice Charitable Trust, Board Member, 1996-Present
Freedom House, Director, Board of Trustees, 1992-Present
The Fund for American Studies, Trustee, 1992-Present
Angie's List, Board Member, 1999-Present
The Oaks Academy, Board Member, 1997-Present
The Olin Corporation, Board Member, 2000-Present
Tabernacle Presbyterian Church, Endowment Trustee, 1996-2000
Indiana Chamber of Commerce, Non-Profit

12. Memberships: List all memberships and offices held in professional, business, fraternal, scholarly, civic, public charitable and other organizations.

Indiana Bar Association, Inactive member
Old Oakland Golf Club (Indianapolis)
Spanish Wells Country Club (Benita Springs, Florida)

13. Political affiliations and activities:

(a) List all offices with a political party which you have held or any public office for which you have been a candidate.

Director, National Republican Senatorial Committee, 1983-84
Republican National Convention Delegate, 1992

(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Chairman, Friends of Dick Lugar, 11/92-11/94
Co-Chairman, McIntosh for Governor, 2000

(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of $50 or more for the past 5 years.

1/96 - Early for Governor, $500

6/96 - Goldsmith for Governor, $500
7/96 - Blankenbaker for Congress, $1,000
8/96 - Goldsmith for Governor, $500
10/96 - Lubbers for Senate, $250
10/96 - Mike Murphy for State Rep., $100
6/97 - Rusthoven for Senate, $1,000
8/97 - Newman for Prosecutor, $500
7/98 - Hofmeister for Congress, $500
7/98 - Sauerbrey for Governor, $100
10/98 - Hostetter for Congress, $250
7/99 - Bush for President, $1,000
8/99 - Gilroy for Mayor, $1,389.78
12/99 - McIntosh for Governor, $1,000
4/00 - Newman for Prosecutor, $500
4/00 - McIntosh for Governor, $250
5/00 - McIntosh for Governor, $2,000
10/00 - Club for Growth, $1,000

14. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals and any other special recognition for outstanding service or achievements.

Honorary Doctor of Law Degree - University of Indianapolis, 1990
Honorary Doctor of Law Degree - Anderson University, 1996
Named National Public Servant of the Year by the Arab American Institute, 1987
Presidential Scholar, 1967

15. Published writings: List the titles, publishers and dates of books, articles, reports, or other published materials which you have written.

A. Recognizing the Vital Role of Black Fathers, the Indianapolis Star, Sunday, June 17, 1990.

B. Encourage Honduras in Its Bold Economic Reforms, The Christian Science Monitor, Monday, April 30, 1990.

C. The Vision Thing, Policy Review, Spring 1990.

D. Beware of the Dog, Hudson Institute Briefing Paper, February 26, 1990.

E. The Decline of Central Government, Vital Speeches of the Day, November 1, 1989.

F. A Harsher Stand Against the Casual Drug User, The Indianapolis Star, August 25, 1989.

G. Bennett Knows Best, The Washington Post, August 22, 1989.

H. Is George Bush Mr. Right, Policy Review, Winter of 1989.

I. Reagan Years in Review, The Japan Times, August 1, 1988.

J. The Shape of Opinion on AIDS, The Indianapolis Star, April 21, 1988.

K. The Threat of a Protectionist Revival, Hudson Institute Briefing Paper, February 15, 1989.

L. GOP Escaped Catastrophe on Insurance Bill, The Champaign Urbana News Gazette, June 26, 1988.

M. Doctors' Orders, Lafayette Journal & Courier, June 24, 1988.

N. Where We Succeeded, Where We Failed, Policy Review, Winter 1988.

O. Voters' Doubts May Help Democrats, National Journal, 4/23/88.

P. A Culture Eager to Explain Away Evil, Chicago Tribune, October 29, 1987.

Q. Rushing to the Defense of Society's "Victim," The Indianapolis Star, October 28, 1987

R. Taking Federalism Seriously, DePaul Law Review, Summer 1987.

S. The Young Must Lead in Repair and Reform, The National Law Journal, August 18, 1986.

T. Let Managed Care Manage Care, Eli Lilly and Company, October 19, 1995.

U. Making Heros: Lilly and Its Customers, Eli Lilly and Company (date unknown).

V. Do Not Neglect Your Gift, Executive Speeches, October 1991.

16. Speeches: Provide the committee with three copies of any formal speeches you have delivered during the last 5 years which you have copies of and are on topics relevant to the position for which you have been nominated.

Navigating the Future: An Industry Conference, IMS America, May 24, 1995

Testimony of Mitchell E. Daniels before the Special Committee on Aging, United States Senate, February 8, 2000.

17. Selection:

(a) Do you know why you were chosen for this nomination by the President?

The President Elect believes my professional experience and personal values qualify me for this nomination.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

I have been privileged to serve in significant capacities in all three sectors of society: public, for-profit and not-for-profit. I have helped lead an $11 billion global enterprise, including several years' leadership of the largest component of that business.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes. See C.1 below.

2. Do you have any plans, commitments or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential election, whichever is applicable?

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

Upon my resignation as an executive of Eli Lilly and Company, the following will occur:

(a) All of my deferred compensation will be paid out in a lump sum and none will remain at the company.

(b) My retirement plan with Lilly has an approximate value of $1,200,000. Within that plan, approximately $330,000 is in Lilly stock value which will be liquidated within the plan. Approximately $83,000 of the $330,000 will be transferred within the plan to other investments. The remaining $247,000 of Lilly value will be rolled to an IRA in the form of cash and will not remain in Lilly stock. This will occur prior to my termination date with Lilly. Immediately upon termination, a portion of the plan totaling approximately $633,000 will be paid to me in cash over ten years in equal installments. The balance is in a diversified fund which will remain in the plan.

(c) Previously unexercisable options will become exercisable upon Eli Lilly and Company Compensation Committee approval. The value of the unexercisable options based upon a stock price of $80.00 is $1,376,000. Without approval of the Compensation Committee, the options will expire upon my termination date which shall be the day before my first day as a government employee.

(d) I am entitled to a 1999/2000 performance award grant and the payments will occur as scheduled or on termination date as defined above. Additionally, the Compensation Committee may approve a pro-rated value of the 2000/2001 grant which would be paid out upon confirmation. I will receive these payments on my termination date prior to being sworn in as a government official.

(e) I am entitled to receive a bonus for the year 2000 with the payment to occur as scheduled or on my termination date, whichever is earlier. I am also entitled to receive an earned and deferred bonus which may be approved by the Lilly Compensation Committee and paid to me on the termination date. The year 2000 bonus is estimated at $420,425.00 and the deferred bonus is estimated at $206,391.00.

(f) My Eli Lilly and Company pension will be treated as a deferred vested benefit and I must remain in the plan.

(g) All of my other normal benefits including health, death, group life, supplemental life, extended disability, vacation, and financial counseling will cease upon the termination date.

2. Indicate any investments, obligations, liabilities that could involve potential conflicts of interest in the position to which you have been nominated.

None. I intend to divest myself of any asset that could create potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None

4. Describe any activities during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

My current employer, Eli Lilly & Company, has on occasion sought to influence legislation. I have provided strategic guidance from time to time with respect to these endeavors.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

None. I intend to divest myself of any asset that could create potential conflicts of interest. I also intend to seek the advice of and follow the recommendations of the Designated Agency Ethics Official.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

   No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

   Yes. I pled guilty to disorderly person charges in April of 1970 in Mercer County, New Jersey. I paid a fine of $350.00

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

   My current employer, Eli Lilly & Company, is a pharmaceutical company and, as such, has been involved in many administrative agency proceedings or civil litigations. I am unaware of details.

   In Church of Scientology v. Daniels, I was sued for defamation in a dispute with the Church arising out of my duties at Eli Lilly and Company. Summary Judgment was entered on my behalf and the case was dismissed by the U.S. District Court for the Eastern District of Virginia in 1993 and subsequently upheld by the Federal Court of Appeals.

4. Have you ever been convicted (including please of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense?

   Yes. I pled guilty to disorderly person charges in April of 1970 in Mercer County, New Jersey. I paid a fine of $350.00

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

   None.

E. FINANCIAL DATA

Financial Data maintained on file with the
Committee on Governmental Affairs

AFFIDAVIT

Mitchell E. Daniels being duly sworn, hereby states that he/she has read and signed the foregoing Statement on Biographical and Financial Information and that the information provided therein is, to the best of his/her knowledge, current, accurate, and complete.

M E Daniels, Jr.

Subscribed and sworn before me this 10th day of Jan., 2002.

Notary Public

Notary Public
District Of Columbia
MY COMMISSION EXPIRES: Mar 14, 2002

PRE-HEARING QUESTIONNAIRE FOR MITCHELL E. DANIELS, JR. NOMINEE FOR DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

I. Nomination Process and Conflicts of Interest

1. Why do you believe the President-elect nominated you to serve as Director of the Office of Management and Budget (OMB)?

When the President-elect nominated me to be Director of OMB, he stated the following, "Mitch Daniels is a successful businessman who has an extraordinary amount of experience working within the Federal government. He will be an important adviser within my administration and will help ensure that our Federal government maintains fiscal discipline."

2. Were any conditions, expressed or implied, attached to your nomination? If so, please explain.

No.

3. What specific background and experience affirmatively qualifies you to be Director of OMB? (Please describe your background and experience in relation to OMB's many and various roles, which, as you know, extend from budget development and execution to a host of management responsibilities.)

I hope that I bring valuable experience from careers in the government, private, and non-profit sectors. I was a long-time aide to Senator Richard Lugar, an assistant to then President Ronald Reagan, a CEO of a 100-employee, $7 million business, and for a decade, senior executive in one of America's largest corporations.

4. Have you made any commitments with respect to the policies and principles you will attempt to implement as Director of OMB? If so, what are they and to whom have the commitments been made?

Other than a general pledge to faithfully implement the President-elect's agenda, I have made no other commitments.

5. If confirmed, are there any issues from which you may have to recuse or disqualify yourself because of a conflict of interest or the appearance of a conflict of interest? If so, please explain what procedures you will use to carry out such a recusal or disqualification. In responding to this question, please include a description of your relationship with and any financial interest you may hold in Eli Lilly, and any provisions you will make to avoid conflicts of interest in exercising your duties as Director of OMB.

This is a legitimate concern on the Committee's part and I am sensitive to the need to ensure the independence of my judgment in exercising my duties. Consequently, I will divest all holdings of all securities in Eli Lilly & Company and all other corporations, and invest all of our family's holdings in diversified funds or similar instruments.

For the duration of my term, I will recuse myself from any particular matter directly and specifically affecting Eli Lilly & Company and from any particular matter in which Eli Lilly & Company is a party or represents a party. This recusal does not include matters of policy, budgeting, or regulation affecting the pharmaceutical or health care sectors generally.

II. Role and Responsibilities of Director of OMB

1. How do you view the role of the Director of OMB?

OMB's strategic plan has a mission statement that seems to me to do a reasonable job of defining the Director's role.

MISSION STATEMENT

> *The Office of Management and Budget serves the President by preparing the annual United States Budget and carrying out other statutory requirements, developing integrated fiscal, budget, program and management policies, leading government-wide coordination in policy making, and ensuring, through management oversight, government-wide effectiveness and consistency in policy implementation, in accordance with Presidential priorities.*

My role begins with ensuring that OMB serves the President. I see this as requiring that OMB provide support for the President in policy making – from budget to regulatory policy development. In that capacity, I serve as a key advisor to the President and member of the cabinet. I also will work closely with heads of other agencies and Congress to achieve results. My role requires that OMB establish policies for and coordinate improvements in Federal management, and satisfactorily fulfill any number of statutory requirements, the most prominent of which is to prepare the Budget of the United States Government each year.

2. What challenges currently face OMB? How will you, as Director, address these challenges and what will your top priorities be?

I view the greatest challenge for OMB is the development and management of the Federal budget during a period of record budget surpluses. My impression is that there was ample pressure for higher spending during periods of Federal deficits. That pressure clearly has been compounded with the arrival of budget surpluses. In this surplus environment, I think it is imperative to ensure taxpayers' dollars are spent efficiently and programs are increased due to some high priority and not

simply due to the availability of funds.

I also believe OMB and other Federal agencies face a number of challenges to implement better program planning, performance, management, and accounting for Federal spending.

Finally, I believe it is important to ensure OMB provides high-quality and timely work products. As part of that process, I believe I need to make sure we retain and hire high-quality people at OMB and ensure they have the necessary resources to meet their responsibilities.

3. How do you plan to communicate and work with Congress to improve management in the Federal government and carry out OMB's other responsibilities?

If confirmed as OMB Director, I look forward to developing a productive, bipartisan working relationship with Congress, in keeping with President-elect Bush's intention for his entire Administration.

I think OMB's management responsibilities are critically important. Once a new Deputy Director for Management has been appointed and confirmed, I will be working closely with that person to address OMB's statutory management responsibilities, and to more broadly set an agenda for identifying areas that need improvement, and improving them. We will be communicating our management priorities and goals to the Congress through a variety of hearings, statements and informal contacts to seek the views of Senators and Representatives. In particular, I look forward to a continuing dialogue with the Chairman, Ranking Member, and other members of this Committee on issues associated with improving management.

III. Organization, Planning, and Management of OMB

1. Do you have any plans to reorganize OMB or to reorder its priorities or to assess whether reorganization or reordering of priorities is needed?

If confirmed, I plan to review the effectiveness of OMB's organizational structure periodically to ensure that OMB is as effective as possible.

2. What is your opinion of OMB's own strategic and performance plan and planning processes? What improvements do you think are needed?

OMB is a staff agency whose primary reason for existence is service to the President. Its unique role in the Executive Office means that strategic and performance planning more closely resembles planning that policy offices in cabinet agencies and in large corporations undertake, as opposed to line operating functions. Notwithstanding OMB's special status, I believe that strategic and performance planning are important, and I plan to work closely with OMB policy officials and senior career staff to communicate goals and objectives, and ensure that those goals are achieved. I would like to have a chance to review OMB's strategic and performance planning processes in more detail

before addressing this issue with the members of the Committee. I look forward to a continuing dialogue with the members of this Committee on OMB strategic and performance planning.

3. **How would you view your own role in achieving the goals set forth in OMB's strategic plan? How do you plan to hold yourself and OMB's other senior executives accountable for implementing the goals and objectives set forth in OMB's strategic and performance plans?**

If confirmed as OMB Director, I would be accountable to the President, the Congress and the American public for achieving OMB's strategic goals and objectives. I plan on using OMB's Senior Executive Service (SES) performance appraisal process assessment in making decisions on SES performance, including promotions and award determinations.

4. **What will you do as OMB Director to assure effective leadership and management within OMB itself? Please address such areas as results-oriented management, financial management, information and technology, and human resources. What specific background and experience will you bring to this task?**

If I am confirmed as OMB Director, I am committed to providing strong and ongoing leadership to effectively manage OMB. I intend to recruit experienced managers in filling key policy positions at OMB, such as the Deputy Director and Deputy Director for Management. Performance-based management, a priority government-wide, will be a priority in leading and managing internally at OMB.

IV. Budget and Economic Policy

1. **When do you plan to release the President's budget for FY 2002? Do you anticipate that the President's budget will differ in any significant way from the President-elect's budget proposal?**

Our current plan is to release a summary budget outlining the President's major policy proposals and giving aggregate budget totals in late February. We plan to provide budget detail in early April. The budget will fully describe the President-elect's budget proposals.

2. **OMB has released a preliminary set of baseline projections for 2002-2011, with projected unified budget surpluses of approximately $5 trillion. Such projections are based on baselines that assume a specific rate of economic growth, level of interest rates, and domestic discretionary spending. As you prepare your budget, do you intend to modify one or more of these baseline estimates to reflect the economic slowdown that the President-elect has projected? Are there any other significant adjustments you intend to make to these estimates?**

We will be reviewing the economic assumptions behind the January baseline, and will probably

make some changes to them. Those assumptions were completed last November. Since then, evidence has accumulated that the economy has slowed more than was expected at that time, and most private economic forecasters have been marking down their near-term growth projections.

3. **The current cap on discretionary budget authority for fiscal year 2002 is nearly $90 billion below the 2001 level of spending. Do you anticipate that your budget submission will contain a new recommendation for a 2002 cap on discretionary spending? Do you intend to propose caps for any subsequent years, and if so, for how many years, and at what levels? Do you believe that it makes sense to subdivide the caps into categories, such as defense and transportation?**

It's my understanding that enacted 2001 discretionary budget authority will exceed the original FY 2002 cap by $85 billion, which means the appropriations process starts above the FY 2002 cap by about the same amount. While it is premature to talk about the specifics of the President's budget proposals, the President's Budget will address this issue. We are committed to working with Congress to find an acceptable solution to this problem.

4. **The Center on Budget and Policy Priorities, the Concord Coalition, and other groups have noted that the current services baseline assumes a level for future discretionary spending that is far below what would be projected based on current spending trends. Do you believe that the current services baseline surplus estimates are overstated? If so, should they be corrected?**

The baseline is a somewhat arbitrary projection of spending that is not necessarily a useful measure of future needs. For example, baseline rules assume extension of funding for one-time needs, such as the permanent extension of the Decennial Census assumed in the 2001 baseline, which overstated funding needs by about $4.5 billion annually.

5. **In recent years, our budget process has been driven by the goal of a balanced budget. Now that we have achieved a budget surplus, the Clinton Administration has proposed a budget that would eliminate the public debt by the end of this decade. This policy represents a shift in our fiscal priorities from deficit elimination to debt elimination. Do you believe we should formulate a fiscal goal other than deficit elimination, and if so, what should that be and what policies would you promote to achieve it?**

It is important to maintain the budget discipline that led to the current budget surpluses. While it is premature to discuss the President's budget, I believe there will be sizeable debt reduction in his budget proposal. I think the primary goal of fiscal policy should be to ensure long-term economic growth. Debt reduction can and should be a major part of that policy.

6. **Many economists do not believe that fiscal policy is an effective way to deal with a short-term economic slowdown, and that the Federal Reserve Bank is in the best position to cushion any downturn through reductions in interest rates. What is your**

view on this issue, and would you please cite supporting evidence for the effectiveness of short-term fiscal stimulus?

Both monetary and fiscal policies have been used in the past to stimulate the economy when it threatened to slip into recession. Opinion has often been divided on the relative efficacy of each response depending on the specific economic conditions at the time. However, at this juncture, it would seem unwise to rule out the use of either lever at a time when growth may be faltering.

7. **OMB's recent budget projections are based on the assumption that much of the improvement in the economy in recent years (particularly, the increase in the rate of growth of productivity) is permanent, rather than transitory. Because the economic outlook and the budget projections in recent years have gotten consistently better with each new report, there is a tendency to assume that things always will turn out better than OMB and the Congressional Budget Office (CBO) assume. But in fact, just a decade ago we had a period of several years in which each new report provided worse news than had been projected. How confident are you that the actual performance of the economy and the size of the surpluses that would occur with no changes in policy will not turn out to be less favorable than is currently being assumed?**

We have not finalized our economic assumptions for the upcoming budget submission. However, I think it is fair to note that Blue Chip's private economists believe that much of the recent increase in productivity growth will be sustainable. Federal Reserve Chairman Greenspan has made this point quite forcefully recently as well. Thus, while the economic outlook may be souring near-term, there appears to be broad consensus that the economy's longer-term prospects remain solid.

8. **The retirement of the baby-boom generation marks the beginning of a major demographic shift towards fewer workers per retiree. The so-called "graying of America" will have a significant impact on the costs associated with entitlement programs such as Social Security. What guidance will you provide the President in restoring long-term solvency to the Social Security program? What impact would the costs associated with any partial-privatization of Social Security have on the Federal budget over the next 20 to 30 years?**

During the campaign, Governor Bush laid out 6 principles for Social Security reform:

1. Modernization must not change Social Security benefits for retirees or near-retirees.
2. The current Social Security surplus should be dedicated to Social Security (and not spent on other programs).
3. Social Security payroll taxes must not be increased.
4. Government must not invest Social Security funds in the stock market.
5. Modernization must preserve Social Security's disability and survivors components.
6. Modernization must include individually controlled, voluntary personal retirement accounts, which augment the Social Security safety net.

Until a complete plan is developed, it would be premature to discuss the budgetary impacts of a reform plan. OMB will work with other agencies in the Administration to address Social Security's long-term issues. In addition, OMB will provide the President with thorough budget and policy analysis of the issues regarding Social Security's long-term viability.

9. **The Congressional Budget Office estimated last year that relatively modest differences between the actual outcomes and the assumptions it makes about the performance of the economy and the path of health care entitlement spending can produce swings in the surplus that total close to $3 trillion over 10 years (the swings could go either direction – either increasing or reducing surpluses). Thus, if the economy doesn't perform as well as we hope, or the rate of growth in Medicare spending accelerates more than is anticipated, we run a real chance of returning to large deficits. Some believe that such uncertainty suggests that we should avoid committing most or all of the surplus projected for the next 10 years to pay for permanent changes in policy enacted this year, much less to just one type of policy change – tax cuts. And, if the economy does perform as hoped and Medicare and other entitlement spending remains under control, some would suggest using the larger surplus to pay down more debt and coming back in future years to enact some further policy changes. What is your view on this?**

The Federal Government can afford to undertake some new initiatives and provide significant tax relief with the current budget outlook. Of course there is the possibility of error over a long-time period. The best way to avoid unwelcome surprises is by preserving a healthy economy. That requires appropriate tax policy along with fiscal discipline. We must also tackle the long-term problems posed by Medicare and Social Security and the President-elect has made clear that these are two of his priorities.

10. **Because OMB's 5- and 10-year projections miss the dramatic effect on entitlements that the aging and retiring of the baby boom will generate, will you as OMB Director provide Congress with 15-year projections?**

Budget projections are inherently uncertain, and they are more and more uncertain the further out we go.

OMB has done long-range projections in the past, and CBO regularly does them as well, and I would anticipate continuing some kind of longer-range assessment in our budget submissions.

V. Budget Process

1. **Do you advocate any changes in current budgetary laws, rules, or procedure to improve**

budget discipline? What provisions, if any, of the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985, and the Budget Enforcement Act of 1990 would you advocate amending, how, and for what purpose?

The Budget Enforcement Act's requirements expire at the end of fiscal year 2002. The Act's discretionary caps and pay-as-you-go requirements have provided needed discipline to the process. However, these budget enforcement mechanisms were enacted under substantially different circumstances, so we need to work with the Congress to determine what changes should be made. These changes would be reflected in the Balanced Budget Act and may require commensurate changes in the Congressional Budget Act.

In addition, President-elect Bush specifically supported four measures that would enhance budget discipline: biennial budgeting, a joint budget resolution, an automatic continuing resolution to prevent Government shutdown, and a constitutional alternative to the line-item veto law that the Supreme Court struck down.

Biennial Budgeting

2. **During the campaign President-elect Bush supported changing the budget cycle to a biennial basis. Do you share his enthusiasm for biennial budgeting? What are the reasons for that reform?**

Yes, I support biennial budgeting. I understand that this committee is very familiar with the case for biennial budgeting. To briefly summarize, enormous amounts of time and energy are spent every year on setting funding levels for the next year, robbing Congress and the Administration of the time to focus on program management and effectiveness issues. Reaching agreement on budget priorities and providing appropriations for two years would allow more time for oversight in the off year. In addition, two-year appropriations would provide government agencies with more stable funding, which would facilitate longer-range planning. Under biennial budgeting, funding decisions would be made in non-election years, which would help de-politicize the process.

Biennial Budgeting

3. **One of the major benefits attributed to biennial budgeting is that, by providing funding for a longer period of time, it will enhance agencies' abilities to manage their operations. Do you agree? How would you expect to achieve this goal? Would agency time and energy be shifted to improved financial management or better program evaluation? How would OMB ensure that this happens? What major Federal programs, or types of programs, do you believe would benefit from biennial budgeting?**

Yes, I agree. Freeing up time and ensuring funding over a longer period should allow agencies to devote more time to program evaluation and all aspects of management, including financial

management. It will also give OMB more time to concentrate on program evaluation and management issues. Almost any program would benefit from greater certainty of funding. However, the programs that would benefit the most are those that require long lead times, such as procurement, or those that are carried out over longer periods of time, such as research and development. The recipients of grant programs would benefit from the greater certainty that funds would be available.

Biennial Budgeting

4. **Under a biennial budget cycle, to what extent would Congress and the Administration be required to spend time during the off-year making "mid-course" corrections?**

There will inevitably be a need for "mid-course" corrections, as there is now under the annual budget process. Most of these "mid-course" corrections take the form of supplemental appropriations to cover unanticipated events such as emergencies. I believe they will be manageable under a biennial process. My understanding is that most of the funding in the annual process is predictable and does not experience volatile swings from year-to-year.

Biennial Budgeting

5. **How would biennial budgeting be integrated into the Government Performance and Results Act requirements for annual plans and reports on performance?**

I believe a biennial budgeting and appropriations process would dovetail well with GPRA's objectives. It would allow the President and the Congress to devote more time and energy to ensure GPRA's goals of enhanced performance and results from Federal programs are achieved.

Continuing Resolution

6. **During the campaign Governor Bush supported legislation to prevent government shutdowns through automatic continuing resolutions. How would this work, and what are the arguments in favor of this approach? Why is this legislation needed? What effect would this legislation have on congressional budget discipline?**

Under the President-elect's proposal, if an appropriations bill has not been signed by the beginning of the fiscal year, a permanent law would provide funding for the programs covered by the bill at a level that is the lower of either the amount proposed in the President's budget or the amount enacted by Congress for the previous fiscal year. The threat of a government shutdown has become a prominent feature of the annual appropriations process. I believe a measure of this kind is needed to ensure that the continued operations of government programs are not threatened by political disputes. Moreover, I believe the President-elect's proposal would remove the incentive for the President or the Congressional leadership to use the leverage of shutting down the government to achieve spending objectives or to attach extraneous measures they could not otherwise obtain through the normal appropriations process.

Continuing Resolution

7. **Under the Bush campaign proposal, if an appropriations bill is not signed by October 1st of the new fiscal year, affected programs would continue to be funded at the level of the President's budget, or the previous year's level as approved by Congress - whichever is lower. Wouldn't this allow the President to unilaterally impose lasting spending cuts, by submitting low budget proposals and refusing to sign congressional legislation?**

First, our objective is to pass all regular appropriations bills by the beginning of the fiscal year, obviating the need for any continuing resolution. The automatic CR is intended to be a stop-gap measure only. Since it would apply to all programs covered by the bill, including those the President proposes to increase, as well as those he wishes to reduce, it would be very difficult for him to use the automatic CR to exact his budget policy.

Finally, with the adoption of a biennial appropriations process, a CR would not be needed in the second year.

Continuing Resolution

8. **Isn't it also possible that certain pressing needs that may have increased because of changed economic circumstances would go underfunded? For example, if the market price for the food products made available to pregnant women and mothers of infants and small children under the Women, Infants and Children (WIC) program were to rise in a given year, wouldn't an automatic continuing resolution automatically set a rate below that year's needs?**

Again, the automatic CR is intended to be a stop-gap funding measure that would provide funds for the government to continue to operate programs, such as WIC, that would have to shutdown if regular appropriations had not been enacted. The fact that an automatic CR could provide too little funding for popular programs such as WIC should provide an incentive to finish the regular appropriations bill.

Pay-as-you-go procedures

9. **The enforcement procedures of the Budget Enforcement Act (the pay-as-you-go and discretionary spending caps) have been ineffective since surpluses began to emerge in 1998. The BEA will expire at the end of 2002. Do you think we need some kind of restraints on congressional and presidential behavior in the future? What form should this restraint take?**

The emergence of large budget surpluses eroded political support for the kind of budget restraint that

was assumed under the Budget Enforcement Act, and the statute's pay-as-you-go constraints and discretionary caps have been routinely ignored in recent years. For example, I understand that the most recent Consolidated Appropriations Act exempted over $10 billion of costs from the pay-as-you-go requirement and increased the discretionary budget authority cap by almost $100 billion. I believe discretionary caps and the pay-as-you-go requirements were useful in ensuring fiscal discipline prior to the arrival of budget surpluses. I hope we reach a new consensus on the nature of budget enforcement mechanisms.

Other budget process issues

10. The Budget Enforcement Act provides that spending caps can be waived in the event of an emergency declared by the President and the Congress. What is your definition of an "emergency" for the purposes of the Budget Enforcement Act?

The term "emergency" should be limited to circumstances that are urgent and unforeseen--for example, an outbreak of war or an extremely destructive hurricane, not as an escape mechanism to provide funding for routine, ongoing programs. In my view, characterizing predictable or routine spending as an emergency can only increase the public's (and Congress') cynicism about the budget process.

Other budget process issues

11. During the campaign Governor Bush supported legislation that would require a joint Budget Resolution, signed by the President, to promote early agreement on an overall budget framework. What are the arguments for this legislation? In what sense would the resolution be binding on appropriators and other affected congressional committees or on the Congress overall?

As you know, the current budget resolution is an agreement within Congress and not a law. The joint budget resolution would represent an agreement between the President and Congress on the broad components of the budget: the overall level of appropriations, mandatory spending, taxes, the surplus and debt reduction. Issues would be surfaced earlier in the process and an agreement would be achieved at the beginning of the year. As a joint budget resolution, the agreement would become the law of the land. This should make it more difficult to breach.

Other budget process issues

12. During the last Congress, legislation was proposed to take the Medicare Trust Fund off budget. Do you agree that the Medicare Trust Fund should be taken off budget?

I think that, in general, it is better to count all government spending in the budget, unless there is an extraordinary reason for doing otherwise. This is especially important if a fund is largely supported by the general fund, not by earmarked receipts from the public. The end goal should be a Medicare

program that is fiscally sustainable in the long run.

Other budget process issues

13. Are there any changes in the Federal budget process that you believe should be pursued that have not been mentioned in these questions?

I've mentioned the four measures that we are particularly interested in pursuing: biennial budgeting, joint budget resolution, automatic continuing resolution, and a modification to make the line-item veto law meet constitutional muster. Undoubtedly there are other good ideas for improving the budget process, and I would be interested in exploring them with the Committee.

VI. Government Management

General

1. What is your opinion of the quality of performance and management in the Federal government overall? What can OMB, and you as its Director, do to bring about improvements? What personal experience and skills would you bring to this task? What do you believe Congress can do to help?

I have not yet had the opportunity to review in detail how well each agency is doing in carrying out its programs. However, my general impression is that there is much room for improvement in both the quality of performance and management in the Federal government.

To bring about improvements in performance, Congress and the Executive Branch need to work together to identify the programs that are working well and those that are poor performers. This cannot be a paperwork exercise. It needs to be part and parcel of the Government's policymaking machinery. I plan to devote substantial time and effort to the issue of improving program performance.

I have experience in the government, non-profit and the private sectors. I was a long-time aide to Senator Lugar, an assistant to former President Ronald Reagan, ran what essentially was a $7 million small business, and for a decade have helped manage an $11 billion global enterprise at Eli Lilly and Company. As a businessman who has been responsible for a profit and loss statement, I hope to prove helpful in identifying approaches and avenues for improvements.

Congress can be helpful by constructive oversight over agency programs and activities and by actually using agency performance information.

2. Over many years, OMB has been criticized for neglecting its management role in favor of its budget role. Do you think this criticism has been fair? What is your vision for OMB's role in effective and assertive management of the agencies?

I am aware that over time a number of questions have been raised about OMB's effectiveness in pursuing its management responsibilities. For example, OMB may need to become more proactive in its paperwork reduction activities.

3. **Do you propose any changes to enhance OMB's ability to lead and coordinate agencies' implementation of statutory management efforts (such as those under the Government Performance and Results Act (GPRA), the Chief Financial Officers (CFO) Act, and the Clinger-Cohen Act) and improve management practices generally? Describe what in your background and experience will prepare you for leading and coordinating such efforts.**

OMB plays an extremely important role in supplying government-wide leadership to the statutory management efforts, and to a number of other efforts. This role involves working with the departments and agencies as well as a broad range of interagency councils, such as the President's Management Council, the Chief Financial Officers Council, and the Chief Information Officers Council. The role also involves working closely with Congress on a variety of management issues. My background working for Senator Lugar in the Congress, as a senior White House staff member in the Reagan Administration, as a CEO for essentially a small business, and as a senior executive for Eli Lilly and Company has provided me with a familiarity and an appreciation for the importance of these issues. I expect to work closely with the next Deputy Director for Management (DDM), who will report to me in his or her capacity chairing many of these activities. I certainly believe OMB's statutory management responsibilities are a critical aspect of OMB's work, but before making specific recommendations to change or enhance the statutory management responsibilities of OMB, I would like to have an opportunity to consult with the next DDM and review these activities in more detail. I look forward to a continuing dialogue with the Chairman, Ranking Member, and other members of this Committee on OMB's statutory management responsibilities.

Performance management at the Federal agencies

4. **Some Members of Congress and others have criticized OMB in recent years for not doing more to sustain and encourage agencies' incorporation of performance management principles into everyday decision-making. What do you see as OMB's role in fostering performance-based management and accountability at the agencies? Do you regard the implementation of performance management by agencies as a high priority objective for the new Administration? What specific goals do you have, and how will you measure the success of your efforts in fostering a more performance-based approach to management and accountability.**

Yes, I view performance management as a high priority objective. My goal is to require identification and reporting of output and outcome program performance measures for each major Federal program. Success should be measured by actual results for Federal dollars expended.

5. **Critics have charged that some agencies' GPRA reports are too complex for ready public understanding; others have charged that the reports do not reflect all that agencies are doing, and therefore do not cover enough ground. What guidance would you, as OMB Director, provide agencies in striking the balance between readability and comprehensiveness in GPRA reporting?**

Reports that are difficult to read are not likely to inform or be useful. We should use good agency performance reports as examples for those agencies whose reports can be improved.

As businesses have learned, less is often more in this area. A high quantity of measurements or complexity in measurements can often obscure fundamental shortcomings. My initial instinct will be to work with agencies to err on the side of simplicity and clarity.

6. **Under GPRA, agencies are required to set quantitative measures by which performance can be assessed. This has not always proven to be an easy task. For instance, many Federal programs are carried out and implemented by state and local governments. This has made some Federal agencies wary of setting outcome-oriented measures for these programs, over which they do not have complete control. Another problem is that there is a lack of data, or at least standardized and verifiable data, to measure performance in a meaningful way. Collecting data to truly measure outcomes in the field can be costly and time-consuming. Other programs, such as law enforcement efforts, are difficult to measure in outcome-oriented terms. Given limited agency budgets and staff, performance measurement under GPRA has often suffered. What guidance and assistance would you, as OMB Director, provide agencies to help them cope with such problems? How would you recommend agencies address performance measurement in these instances?**

I am not in a position at this stage to fully answer this question. I do believe that we should strive to achieve GPRA's goals and hope that I can contribute to the success of GPRA's implementation.

7. **President-elect Bush has said that he would issue an executive order requiring the accuracy of GPRA reports to be certified by the Inspector Generals (IGs). Do you think this is a good approach consistent with the intent of GPRA? How should the certifying IGs address the verification and reliability of third-party data from state and local entities on which agencies are often forced to rely – data which are essentially unverifiable by a Federal agency? What impact would this requirement have on the ability of the IGs to perform their other statutory functions?**

I am fully committed to making GPRA effective and meaningful. I understand that Congress recently enacted the Reports Consolidation Act of 2000. I plan to review that statute and GPRA before making a recommendation on the issuance of an Executive Order to require IGs to certify the issues GPRA reports.

8. **Should the information generated by performance reporting be better integrated with the budget process? For example, should agency strategic and annual planning be better integrated with OMB's budget reviews? And do you believe OMB should play a role in encouraging use of this information in the Congressional budget process? If so, what will OMB do to encourage Congressional authorizing and appropriating committees to use this information? Are there other steps that should be taken, in your view, to help achieve this goal? How do you believe agency performance reports should be used in making appropriations decisions? If funding decisions are more heavily based on agency performance information, would you be concerned that this linkage may create an incentive for goals to be set too low?**

Yes, I believe that performance reporting can be better integrated with the budget process, including OMB's budget reviews. An agency performance plan sets forth what the agency would like to accomplish, and the budget estimates what resources would be necessary.

9. **Progress has been made in addressing problems identified on GAO's high-risk list: six designations have been removed from the 1995 – 1999 lists and more are expected to be removed from the 2001 list. How would you, as OMB Director, work with agencies to continue this progress, or even speed the process in eliminating these serious problems?**

I believe that sustained, high-level attention is needed by the agency heads and Congressional authorizing, appropriating and oversight committees. I am committed to providing strong, government-wide leadership toward achieving real and sustained improvement to high-risk problems that are costing the Government billions of dollars. Lasting solutions can offer significant potential budget savings, improved services to the American people, and increased confidence in the performance of the Government. We need to ensure that high-risk problems are discussed during the budget process, that agency plans include measureables and milestones, that agencies regularly report on their progress, and that budget resources are requested to make needed improvements.

10. **One of the criticisms of the GAO high risk list is that many of its items are entrenched problems without quick or easy solutions – and thus problems often remain on the list for a long time. This can be discouraging to agencies and their constituencies, making it appear that agencies are doing nothing to resolve their most serious difficulties. How would you work with agencies to help them track and demonstrate progress toward solving these high-risk items?**

As GAO has recognized, it will take time to fully resolve most high-risk areas because they are deep-rooted, difficult problems in very large programs and organizations. Nonetheless, I am confident that we can do a better job working with the agencies to track and make progress toward solving these problems. As a first step, I will seek a commitment from agency heads to address these problems. This commitment includes sustained resource support, and recognition that solving these problems is critical to improved Government management. Then, we must work with the agencies on the more difficult task of successfully translating these plans into day-to-day management reality.

Recognizing the difficulty of correcting these high-risk problems, agencies should be praised for met milestones and their accomplishments should be visibly celebrated.

11. **Some have charged that agencies have neglected to address in their GPRA reports areas that GAO and/or the Inspector Generals have identified as "major management challenges." Many of these management challenges involve agency operational systems, such as financial management systems. In its most recent guidance on the matter, OMB has required that agencies should include as a performance goal in their annual plans the steps being taken to resolve *mission critical* management challenges, or those problems that pose a realistic impediment to agencies in carrying out their major program goals. Do you believe that this is a satisfactory resolution of this issue? Do you think the focus of GPRA should remain on programmatic concerns?**

I intend to review agency responses to OMB's latest directive before I can determine if this approach is working. Also, I would like to think further if GPRA should focus not only on successful program performance but also on resolution of management problems.

12. **In the case of programs and activities at different agencies but with common goals, do you believe the agencies should coordinate with each other to develop complementary performance goals that reinforce each other? Should OMB lead such efforts?**

Yes and yes. My understanding is that OMB's instructions for strategic plans and annual performance plans already specify that the agencies should work together to assure that performance goals are consistent and coordinated.

Government-wide performance-based management and accountability

13. **Do you see the Government-wide Performance Plan as a tool to advance the President's agenda and address critical management and performance problems? If so, how will you use it for these purposes?**

As mentioned previously, I am committed to making GPRA a success. However, I cannot tell you at this time what future government-wide plans will include.

14. **The Clinton Administration used Priority Management Objectives to identify and track its government-wide performance goals. Progress on these objectives was overseen and coordinated by OMB. Do you envision continuing, or improving upon, this effort? Would you add specific performance commitments and measures to these Priority Management Objectives? What do you see as the most important objectives requiring your attention?**

I am not yet able to identify the most important objectives requiring my attention. Also, I have not

yet decided what changes, if any, make sense in the current approach.

15. **GPRA requires agencies to prepare annual performance reports on their accomplishments under their annual performance plans. The Act also requires OMB to prepare annual government-wide performance plans. However, there is no requirement for an annual government-wide performance report to inform the public and Congress on what was accomplished under the government-wide plan. Do you believe GPRA should be amended to require annual government-wide performance reports? If not, why not? In the absence of a government-wide performance report, what mechanism is there to ensure accountability for results under the government-wide performance plan?**

My preliminary impression is that the first task is to realize the potential of the Results Act as it stands now instead of amending it before this is done.

VII. Financial Management

1. **What are the major issues and challenges you see currently facing government agencies in financial management generally, and in meeting the requirements of the Chief Financial Officers (CFO) Act in particular? What will you do, as OMB Director, to help agencies address these issues?**

Improvements in financial management are critical both to improving the actual operations of the Government and to maintaining the public's confidence in the Government itself. I believe that there are many challenges in financial management.

My understanding is that OMB recently released its Federal Financial Management status report and its five-year plan, entitled "2000 Financial Management Report." I have not yet had a chance to review that report.

2. **Please describe your views on the role of the Office of Federal Financial Management (OFFM) and its relationship with the rest of OMB.**

I believe that OFFM is an integral part of OMB. I also believe that OFFM should routinely involve other parts of OMB in its government-wide policy development efforts and should weigh in on resource implications for needed financial management improvements.

3. **In FY 1998, 12 of the 24 CFO Act agencies received unqualified ("clean") opinions on their financial statements. In FY 1999, this number increased to 15. Despite this achievement, many agencies' financial management systems do not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996, and are therefore unable to provide reliable, useful, and timely information on an ongoing basis for day-to-day management and decision-making. What goals would**

you set regarding Federal financial management challenges, and how would you, as OMB director, set a course to meet those goals? Are there steps you believe Congress should take to help move agencies closer to this goal?

Although progress has been made, there remains much work to be done. Our goal must be to ensure that agency heads understand that clean opinions and good financial systems are important for public accountability, making informed program decisions, and maximizing operating efficiencies. This commitment includes sustained resource support, and recognition that reliable, timely financial information is critical to improved Government management.

I plan to discuss financial management issues throughout the budget process. I intend to ensure that agency plans for improvements are well crafted, and that budget resources are requested to make needed improvements. Congress could assist by questioning agency heads at authorization, oversight and appropriations hearings about the status of their financial management activities. It is important to let agency heads know that good financial management and information is important to members of Congress. Also, I hope that Congress will promptly authorize and appropriate requested and justified resources for agencies to achieve clean opinions.

4. **The Chief Financial Officers Council recently released a statement on the roles and responsibilities of the 21st Century CFO. The statement suggested certain changes in the authorities and responsibilities of Federal CFOs. A key proposal put forward by the Council recommends that OMB take steps to ensure the "preeminent role" of CFOs in all aspects of agency financial management, including budget formulation. Until now, OMB has suggested that CFOs be responsible only for budget execution. Do you agree with the Council's view of an agency CFO's role? If so, what steps do you plan to take to implement these recommendations? If not, on what points do you differ?**

I think the Committee raises important issues with these questions. However, this is a complex matter that I believe requires further study and evaluation on my part before I provide a full answer to the Committee.

5. **No one knows how much the Federal government loses each year to erroneous payments and other forms of fraud, waste, and abuse. Such information could be helpful in highlighting major problem areas, establishing benchmarks, and encouraging improvements. Many believe that annual reporting of estimated Medicare overpayments begun several years ago has contributed to the recent substantial reductions in erroneous payments. Do you believe that encouraging reporting of overpayments and other forms of waste is desirable and represents a way of stimulating improvements? If so, what actions will you and OMB take to require disclosure and reporting of overpayment levels?**

Yes. I believe that estimating and reporting improper payments (underpayments and overpayments) in Federal programs and other forms of fraud, waste, and abuse is an important catalyst for

improving program performance and for addressing this problem. I have read the Committee's October 2000 report, "Management Challenges Facing the New Administration," which highlights the problem of overpayments in key programs. Because estimating improper payments is a means for measuring program performance, agencies should report the results in agency financial statements, GPRA performance reports, and other reporting vehicles. Finally, I believe disclosure is the first step toward accountability.

VIII. Paperwork Reduction and Regulatory Affairs

1. **What do you believe are the principal challenges facing the Office of Information and Regulatory Affairs (OIRA)? How would you, as OMB Director, strive to help OIRA meet those challenges?**

I believe that there are many challenges facing OIRA. Working with the OIRA Administrator, I intend to review OIRA staffing allocations and establish priorities for early and continuing attention.

2. **Some have criticized OIRA for not meeting the government-wide paperwork reduction targets in the Paperwork Reduction Act (PRA). To what extent do you believe the PRA, or OIRA's implementation of it, strike an appropriate balance between the benefits to the public and the burdens on the public that flow from data collection by Federal agencies, and to what extent should the PRA or OIRA's implementation be changed?**

I am aware of the recent poor track record in paperwork reduction and I take this problem seriously. Consistent with OMB's mission to be a leader in meeting the aims of the Paperwork Reduction Act, the obvious place to start is with the paperwork imposing the largest burden on the public.

3. **Since 1981, OIRA has reviewed Federal regulatory activities pursuant to Executive Orders. Does the new Administration intend to maintain such a role for OIRA? If such a role in regulatory review is maintained –**

   a. **Please describe the guiding principles that you think should govern regulatory review. For example, if the agency head to whom Congress assigned responsibility for issuing a regulation has decided that a particular rule is appropriate or required under criteria specified or permitted by law, under what, if any, circumstances should OIRA be able to delay or reject the regulation?**

Yes, the new Administration pledges to continue a role for OIRA. However, I believe that it is premature for me to identify the guiding principles that should govern regulatory review in the Bush Administration. I plan to review President Reagan and President Clinton's executive orders.

   b. **The current Executive Order on regulatory planning and review, E.O.**

12866, contains provisions intended to assure that regulatory review is timely, fair, accountable, and transparent. The E.O. sets up a 90-day period for OMB review of proposed rules and creates mechanisms for timely resolution of disputes. The E.O. also establishes public-disclosure requirements for both OMB and the agency. For example, disclosure guidelines apply to substantive communications between OIRA personnel and persons outside the executive branch. OMB must provide a written explanation for all regulations returned to the agency; the agency must publicly identify changes made after OIRA review; and documents exchanged between OMB and the agency must be made public. Do you support the disclosure requirements of E.O. 12866 and the 90-day time frame for regulatory review?

Generally, I support public disclosure, especially of written correspondence between OMB and the agencies. I am not yet certain what time limits, if any, on the review of agency regulatory proposals make the most sense.

c. E.O. 12866 also states that one of its goals is to "reaffirm the primacy of Federal agencies in the decision-making process." Do you agree that the regulatory agency to which Congress delegated responsibility for formulating and adopting the rule, rather than OMB, should have primacy in decision-making? If so, what assurances can you give that OMB will honor the primacy of agencies in the decision-making process?

I believe that agency regulatory proposals need to be responsive to the President's policies and priorities and that the President, not OMB or agency heads, is the key regulatory decisionmaker. The President has the basic responsibility to take care that the laws of the land are faithfully executed. Both the agencies and OMB, all of which report to the President, as Chief Executive, are performing specified and important roles.

d. Are there other provisions of E.O. 12866 that the new Administration intends to change or that you would recommend should be changed?

I do not believe that it is appropriate to answer this question at this point. If confirmed, I will examine this executive order and recommend changes, if necessary.

4. Does the new Administration intend to establish a regulatory-relief task force, like the Council on Competitiveness during the first Bush Administration, to monitor agency rulemakings from outside of OMB? Will the Vice President or some other official outside of OMB be assigned responsibility over regulatory disputes among agencies? In either case, what means would you recommend to maintain transparency and accountability, so that the entity or official would not become a "conduit" by which outside parties interested in a rulemaking could affect the regulatory review process at

OIRA or the regulatory process at the agency off the record and without disclosure?

I am unable to tell the Committee how President-elect Bush plans to organize the regulatory review function, including what role, if any, the Vice President will play. I intend to review the effectiveness and utility of the disclosure requirements and recommend any needed changes.

5. **What would you do as Director of OMB to foster the most productive working relationship between OIRA and state and local governments? What would you do with respect to implementation of the Unfunded Mandates Reform Act?**

If confirmed, I would like to establish a regular OMB meeting with the major State and local interest groups, which represent State and local elected officials. Since State and local governments are our partners, I welcome input from these groups not only on regulatory issues but also on budget issues. Also, I intend to timely submit OMB's annual report to Congress on implementation of the Unfunded Mandates Reform Act of 1995.

IX. Procurement Policy

1. **What do you view as the major challenges facing Federal government procurement, and what will be your priorities for the Office of Federal Procurement Policy (OFPP)?**

Congress has been pivotal in recent years in creating a Federal procurement system that relies on common sense and gives us the potential to reduce costs and improve the quality of the goods and services we acquire to meet mission needs. I will be looking to OFPP to work with agencies to ensure they are taking strategic advantage of the many acquisition tools that are now available.

2. **Since 1966, the policy of the Executive Branch with respect to contracting outside the government has been embodied in OMB Circular A-76. A-76 requires agencies to conduct public-private competitions (or cost studies) when a function is being converted from being performed in-house to being performed by the private sector or, on occasion, vice versa. Agencies are required to evaluate their activities to determine whether they are inherently governmental or commercial and, pursuant to the Federal Activities Inventory Reform Act of 1998 (the "FAIR" Act, P.L. 105-270), complete an inventory of all commercial activities. DOD is required by statute (10 U.S.C. 2462) to adhere to this policy.**

   a. **How will you implement OMB Circular A-76?**

See answer to "d." which provides my answer.

   b. **What steps will you take to ensure that whatever service contracting is undertaken results in real, long-term and verifiable savings?**

See answer to "d." which provides my answer.

c. **What is your opinion of the ability of Federal employee unions to have an appeal right that goes beyond that which is provided under A-76?**

See answer to "d." which provides my answer.

d. **On December 26, 2000, the Army established a system to track the cost and size of its contractor workforce in compliance with the FY2000 Defense Authorization bill requiring such inventories to be in place no later than March 2001. What are your views of requiring other agencies to produce such inventories?**

I think the Committee raises a number of important issues with respect to Circular A-76. I am strongly sympathetic to its objectives. Given the brevity of time in this transition and the length and complexity of A-76, I believe that these issues require further study and evaluation on my part.

3. **Last month a final regulation was issued which will require contracting officers to consider a company's satisfactory compliance with tax, labor, employment, environmental, and other laws before awarding a contract. What are your views on this regulation?**

My limited review of this issue leads me to have serious concerns about the possible impact of this regulation. Even so, to my knowledge, no decision has yet been made on how to approach this recently-issued regulation.

4. **As you know, President-elect Bush supports the use of performance-based service contracts. How do you propose to deal with the management and oversight challenges of these contracts?**

During the campaign, Governor Bush did support greater use of performance-based service contracts (PBSCs). I think there is significant potential in this approach and I plan to pursue greater use of PBSCs, particularly if they produce greater output and outcomes at a lower cost.

5. **Over the past few years, Congress has legislated waivers of the Cost Accounting Standards (CAS) as they would be applied to experience-rated contracts under the Federal Employee Health Benefits Program (FEHBP). Do you believe that this issue should be resolved through an administrative process or through the appropriations process?**

The administrative process should be adequate to resolve any issues that exist regarding the application of CAS to FEHBP contracts. Legislation should be considered only if the administrative process fails.

X. Information Policy and E-Government

Information Policy

1. **What are your views on the major purposes of the Paperwork Reduction Act (PRA) provisions to improve the efficiency and effectiveness of government information activities?**

The PRA is due for reauthorization. We need review the purposes and provisions of the Act as it relates to information policy and technology oversight, and revise them, as needed, to address rapidly changing technologies and the transformation to e-government.

2. **What are the major information resources management (IRM) and information technology (IT) challenges facing OMB specifically and the Federal government more generally, and what steps do you plan to take to focus management attention on these issues? Would you play a role in the placement of qualified Chief Information Officers (CIOs) in the agencies, and, if so, what role?**

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

3. **What are your views on the adequacy of policies and guidance issued by OMB to implement the PRA and the need to revise them?**

I plan to review whether these are changes that should be made to strengthen and improve the PRA and its implementation, including the adequacy of the policies and guidance previously issued by OMB.

4. **The PRA requires the establishment of a government locator service. And Federal agencies are under mandate under the Government Information Locator System and the 1996 amendments to the Freedom of Information Act, known as E-FOIA, to make an index of their major information systems. How will OMB work to ensure agencies follow through on their statutory mandate to provide these and other finder tools to improve public access to government information?**

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

5. **What is your understanding of OMB's responsibilities for IT management, as set forth in 44 U.S.C. 3504(h), the extent to which OMB has fulfilled this mandate, and your plans for ensuring that it would be fulfilled under your direction?**

My understanding is that this issue involves more statutes than just the Paperwork Reduction Act. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

6. **What are your views on ways OMB can assist agencies to institute comprehensive capital planning and investment approaches for maximizing the value of their IT projects, as required by the PRA and the Clinger-Cohen Act (CCA)?**

I believe this is a complex issue that requires further study and evaluation on my part.

7. **The CCA authorizes OMB to enforce accountability for agency IRM and IT investment decisions through the use of the budgetary process (40 U.S.C. 1413(b)(5)). Initial guidance from then-OMB Director Franklin Raines provided criteria for OMB's evaluation of major information systems (OMB Memorandum M-97-02, October 25, 1996). What are your views on the use of the budget process to improve IT management?**

I believe this is a complex issue that requires further study and evaluation on my part.

8. **What are your plans for assessing and improving OMB's performance in fulfilling its IT management responsibilities?**

I believe that OMB has already begun to strengthen its performance in IT management by linking its IT management responsibilities to the budget process. For all major initiatives in IT – privacy, security, and electronic government – OMB has asked agencies to provide information on their spending in these areas in their budget documents. This does two things for us. First, it makes the agencies tie these important activities to their budget process, thereby strengthening their capital planning processes. Second, it allows OMB to look at management initiatives as part of the overall budget.

9. **A Bush campaign position paper dated June 9, 2000, proposed that the OMB's Deputy Director for Management (DDM) also serve as Chief Information Officer, responsible for realizing a digital and citizen-centric government. Currently, IT and IRM issues are within the DDM's responsibilities, and the DDM chairs the CIO Council. How different is President-elect Bush's CIO proposal from this status quo? How does the proposal compare with the idea of creating a new CIO position, established within OMB but separate from the DDM? What are your views on these proposals?**

My understanding is that the proposal outlined by Governor Bush during the campaign was designed to accelerate the transition to a "citizen-centered" e-government. I believe that the change proposed during the campaign was designed to highlight the importance of Chief Information Officers and the transition to e-government. I plan on doing what I can to implement the President-elect's commitment to this transition.

IT is a critical component to achieving a government that is better managed and more responsive to citizens. In order to accomplish these important goals, IT leadership will be paramount.

10. If the DDM were also to become the Federal CIO, how would that affect the current information responsibilities of the Office of Information and Regulatory Affairs (OIRA)?

I would expect that the DDM would work closely with the OIRA Administrator, who would retain important responsibilities on information policy, especially with regard to the collection and use of that information under the PRA.

Electronic government

11. During the campaign, Governor Bush issued a position paper calling for a digital and citizen-centric government. What do you see as the goals of digital government? What are the principal elements of this vision? How would you help bring them about? Would you advocate increased expenditures, if necessary in the short term, to realize those goals?

I see the goal of digital government as involving access to government information and services 24 hours a day, 7 days a week, in a way that is focused on the needs of citizens and businesses. Digital government involves the re-design of existing business process around these new technologies to take advantage of their ability to interact with the public quickly and easily.

12. The OMB, in concert with GSA and other agencies, recently launched a single Federal website, or portal, known as Firstgov.gov. The portal allows citizens to access a range of Federal services and information. Would you support the continued development of this Federal portal? If so, how would you improve upon the current version?

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

13. During the campaign Governor Bush called for the creation of a $100 million fund, administered by the Federal CIO, to fund interagency IT projects and other initiatives. What criteria would be used in deciding how to spend these funds?

During the campaign, Governor Bush did call for the creation of a $100 million fund to support interagency e-government initiatives. Prior to the release of the FY 2002 budget submission, I think it is premature to discuss this proposal.

14. Some historians estimate we have a 20-year gap in our Nation's collective memory due to our inability to preserve information exchanged electronically in this digital age. The Federal government has struggled with ways to ensure that historians and other members of the public have access to agency records, including email and information in electronic form. The courts have said that agencies cannot simply ignore agency email, but agencies have struggled to catalog and archive such electronic information. How will OMB work with the National Archives and Records Administration (NARA) to ensure email and electronic records are adequately archived?

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

15. OMB has taken a fairly active role in attempting to protect individual privacy online. Do you foresee any changes to OMB's role, and are changes needed to the Privacy Act to adequately protect individual privacy online?

OMB has statutory responsibility for Federal privacy issues under the Privacy Act and the PRA. OMB has taken on a strong privacy policy role as well. I expect this to continue as privacy is a critically important issue to the evolution of the Internet and as we work with Congress on pending Internet privacy legislation.

Information Security

In 1999, Senators Thompson and Lieberman introduced S. 1993, "the Government Information Security Act" which was later enacted as part of the National Defense Authorization Act for Fiscal Year 2001 (P.L. 106-398). This law provides a comprehensive management structure to ensure the protection of sensitive Federal computer systems and places accountability for this structure at the highest levels of the Executive Branch.

16. Where do information security and privacy fall among your management priorities and what are your specific plans for implementation of the new law?

Information security and privacy are a top priority. OMB has begun to take steps to implement the Government Information Security Reform Act, and I intend to build on this foundation.

17. How will you implement the requirement in the Government Information Security Act (44 U.S.C. 3534(b)(3)) which provides that each agency's information security program is subject to the approval of the Director of OMB?

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

18. How do you plan to link attention to information security and privacy issues to the budget process?

As OMB works with agencies to develop budget materials for FY 2002 -- particularly looking at new initiatives – it must continue to better integrate security and privacy into the overall budgeting for information technology systems. We clearly need to focus on funding and security adequately and responsibly, in a way that enables agency missions and programs and furthers electronic government.

XI. Government-Wide Human Resources Management

1. What do you foresee as the respective roles of OMB and of the Office of Personnel Management in the increasingly decentralized Federal personnel system?

As central management agencies, both OPM and OMB have major leadership and coordination roles. OPM monitors agency human resources operations to ensure compliance with the merit system principles, which continue to be the foundation of our decentralized Federal personnel system. In addition, OPM administers retirement, health benefits, and life insurance programs for active and retired Federal employees. OMB's responsibilities include monitoring Executive branch spending patterns, personnel levels, resource allocation, and legislative programs to ensure compliance with applicable law and Administration policies, and to work with Departments and agencies as they strive to better manage their workforces to improve their ability to deliver quality services the American public expects in a cost-effective manner. Through participation in various interagency councils and organizations, OPM and OMB work with other agencies to formulate and implement sound personnel policy across the government.

2. Management of agency personnel resources has emerged as a high profile issue in recent years. Concerns have been raised that changes in how agencies achieve their mission objectives and that downsizing through attrition and voluntary separations have left some agencies with gaps in necessary skills and many workers who are eligible to retire in the next few years. In fact, human capital management is likely to be included on GAO's next "high risk" list as a major challenge facing the government. Do you share these concerns about the government workforce? Do you envision OMB playing a role in addressing this issue, and if so, what would you propose?

I do share such concerns about the government's workforce management. A lack of good long-term workforce planning, and the integration of that planning with agency mission objectives, is a deficiency that the Results Act highlights and aims to correct. I will place a high priority on OMB's role in continuing to ensure that agencies make human capital management an integral part of their executive management responsibilities.

3. **OMB has not been satisfied with the level of effort that agencies have applied to linking their human capital planning with their strategic and annual performance plans. Is human capital management an issue that agencies can and should address through GPRA goals and reporting? If so, how can this best be accomplished?**

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

4. **In order to close the gap between Federal and non-Federal salaries, Congress enacted the Federal Employee Pay Comparability Act of 1990 (FEPCA). However, the pay adjustments under FEPCA have not been fully implemented, so that Federal salaries have fallen farther and farther behind the comparability with non-Federal pay contemplated in the Act. Some argue that this situation harms agencies' ability to recruit and retain essential personnel and is unfair to Federal employees. What is your view about this, and what would be your goal as to comparability between Federal and private-sector pay scales?**

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

5. **There have been proposals to restructure Federal pay-setting authority so that Federal agencies have the flexibility to augment the current annual across-the-board adjustments and locality-based comparability payments. Among the proposals discussed are performance-based pay, pay banding, and performance, retention and relocation bonuses, along with other flexible authority in such areas as hiring, training, and deploying employees. Advocates believe such flexibility is needed to achieve a more responsive human resources-management system. Concerns have been raised, however, that such proposals could diminish our merit-based civil service system, particularly by reducing the effectiveness of civil-service protections against discrimination or favoritism, and would enhance the prerogatives of management relative to labor. Do you support granting more flexibility to agencies as to pay and other matters in the manner suggested; and, if so, how, and what is your response to the concerns that have been raised?**

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

6. **Premiums under the Federal Employee Health Benefit Program (FEHBP) have recently risen significantly, and the Office of Personnel Management has attributed much of this**

rise to prescription drug prices. As OMB Director, what would you propose in response to this situation? For example, what are your views on each of these ideas;

a. Some have proposed that the FEHBP should use the combined purchasing power of its nine million participants to negotiate lower prices on prescription drug prices.

b. OPM negotiated an agreement between the Veterans Administration (VA) and a small plan within the FEHBP (i.e., the Special Agents Mutual Benefit Association, or SAMBA) to allow the plan to purchase prescription drugs from the VA's Federal Supply Schedule for its mail order drugs. The pharmaceutical industry opposed this pilot project.

c. There have been legislative proposals to include Medical Savings Accounts in the FEHBP.

I think the Committee raises an important issue with this question. Due to the brevity of the transition and the complex nature of this matter, I believe it requires further study and evaluation on my part before I provide a full answer to the Committee.

XII. Inspector Generals

1. What support can OMB give the Inspector Generals (IGs)? Regarding OMB's organization and staffing, what steps will you take to ensure positive communications and working relationships with the IG community?

It is essential for OMB to ensure that the IGs have the support they need to function effectively. I understand there is an ongoing dialogue between OMB and the two IG councils (President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE)) concerning the needs of the IG community and how OMB could best support the councils. I will continue OMB's efforts to support the IG community.

2. IGs, according to the IG Act, are to be selected without regard to political affiliation and solely on the basis of integrity and demonstrated ability. In your view, what are the key qualifications for IGs, and how will you review their qualifications?

IGs should be individuals of the highest personal integrity, as well as seasoned professionals with proven track records. It is critical that a candidate have an unblemished reputation and appropriate experience for the position for which he or she is selected, such as past prosecutions of fraud or identification of disallowed costs. OMB will work with the Office of Presidential Personnel to identify potential candidates with experience in IG matters. OMB will also be available to assist

agency heads in their selection of designated Federal entity IGs.

3. **Last year, with OMB's support, the Department of Justice and the IG community asked Congress to pass legislation codifying existing administrative measures that provided law enforcement authority to IGs. Assuming that DOJ and the IGs continue to support such legislation, will OMB continue to provide its support?**

I ask that the Committee give me time to discuss this specific matter with the new appointees for the Department of Justice once they are in place and the IGs.

4. **When there is a dispute between an IG and the head of that IG's agency, OMB can act as the mediator. There are even established avenues for individuals, including agency officials, to file grievances against IGs. Where an IG feels that an agency head is taking action that impinges on the IG's independence, the IG will often look to the Senate Governmental Affairs Committee for help, either through a seven-day letter under the IG Act or otherwise. What help can OMB offer IGs who find themselves in such a situation but are hesitant to bring their complaints to Congress?**

OMB can help to prevent some disputes by ensuring that new agency heads and their senior political appointees thoroughly understand the role and responsibilities of the IGs and by facilitating ongoing dialogue between agency heads and their IGs. When an agency head and IG cannot reach an agreement on an issue, OMB should be available to serve as a neutral and independent third party to hear both sides of an internal agency dispute and to attempt to mediate a solution. If mediation efforts fail, OMB's goal would be to reach a "respectfully agree to disagree" position where both the agency head and the IG remain committed to improving the programs and operations of the agency.

5. **What additional steps, if any, do you believe are necessary to preserve or enhance the independence of the IGs?**

At this point, I am unable to identify any additional steps to preserve or enhance the independence of the IGs. Independence is the cornerstone of the IG community. The challenge for the IG community is to work with agencies to improve their activities, while maintaining the objectivity needed to audit and investigate those same agencies.

XIII. Relations with Congress

Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Yes.

Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if you are confirmed?

Yes.

XIV. Assistance

Are these answers your own? Have you consulted with the OMB or any other interested parties? If so, please indicate the entities.

The answers are my own. Since receiving a list of 175 specific questions from the Committee and individual Senators on the Committee less than a week ago, I sought background information from OMB and the Bush-Cheney transition staff.

AFFIDAVIT

I, Mitchell E. Daniels, Jr., being duly sworn, hereby state that I have read and signed the foregoing Statement on Pre-hearing Questions and that the information provided therein is, to the best of my knowledge, current, accurate, and complete.

Mitchell E. Daniels

Subscribed and sworn before me this 16th day of January, 2001.

Mary A. Sidley

Notary Public

Mary A. Sidley, Notary Public
District of Columbia
Commission Expires
July 31, 2005

Additional Questions Submitted by Senator Lieberman

1. **OMB has recently projected that the unified surplus will total $5 trillion over the next 10 years if discretionary spending is maintained at the current level, adjusted for inflation, and there are no changes in laws governing taxes or entitlement programs. But it also calculated that the Social Security and Medicare HI trust funds account for roughly $3 trillion of that amount, and that the tax plan proposed last year by President-elect Bush will cost $2 trillion over the next 10 years, and rising in the out years. (That estimate of the cost of the Bush tax plan is consistent with the $1.3 trillion estimate accepted by the Bush campaign, adjusted for the additional cost resulting from including fiscal year 2001 in the new budget window and the increased Federal interest costs that would be associated with the reduction in revenues stemming from the proposed tax cuts.) According to these estimates, the Bush tax plan would consume all of the $2 trillion non-Social Security, non-Medicare HI surpluses that are projected for the next 10 years.**

   a. **Do you think it would be appropriate to allocate all of the projected non-Social Security, non-Medicare HI surplus to a tax cut?**

   b. **If all of the projected surplus is allocated for a tax cut, how would you pay for other priorities that President-elect Bush identified in the campaign, such as a Medicare prescription drug benefit, health insurance-related tax breaks (which were not included in the cost of the tax plan), education, and real increases in defense spending?**

   c. **Where would funds come from to help facilitate Social Security and Medicare reform if the non-Social Security, non-Medicare HI surpluses are totally used to pay for the tax cut?**

   d. **How much, if any, of the non-Social Security, non-Medicare surplus would you dedicate toward debt reduction under this scenario?**

These are all very good questions, but it would be premature to answer them at this point. The Bush-Cheney transition is hard at work producing budgetary proposals that reflect the initiatives President-elect Bush put forward during the campaign plus other issues that have arisen since the campaign. As stated earlier, we are planning to release a summary document in late February with a full budget submission in April. Governor Bush laid out a very detailed budget during the campaign that saved the entire Social Security surplus, provided tax relief for working Americans, and funded his spending priorities. However, as I said earlier, it would be premature to try to go into detail about all the numbers now, in advance of the final decisions for our February budget release.

2. **In recent years concern has been expressed about the defense budget process within the**

Pentagon and the Administration, which for decades has produced significant gaps between funding levels and force requirements and resulted in insufficient support for "joint" systems funded by one service but used by another. What do the Administration and OMB intend to do about this? Shouldn't decisions on funding and requirements be made together?

My understanding is that the process for formulating the annual Department of Defense budget differs from that of other agencies. Because it takes many years to design and build major weapon systems, the Department develops a long-term (five or six years) plan called the Future Years Defense Plan and budgets for the programs it needs.

President-elect Bush made clear during the campaign his desire to ensure a strong, capable, and modern defense capability. He has also called for a comprehensive review of the military.

I plan to work closely with the Secretary of Defense, others in the Administration, and the Congress to the meet the President-elect's national security objectives within the constraints of the budget.

3. **During the campaign the President-elect talked a great deal about the need to "transform" our military and "skip a generation of military technology," but then included less additional funding in his budget for defense than has been added by the Congress in recent years. Furthermore, none of the additional funding was allocated to procurement accounts. How does the Administration intend to address this disconnect?**

At this point the President has not yet proposed a defense request. It would be premature to discuss his proposal for the FY 2002 budget.

4. **Recently, several senior U.S. military officials have stated their view that revisions and reductions to the non-military U.S. presence overseas have effectively militarized many foreign policy problems — that is, forced non-military matters to be handled by our armed forces and regional Commanders-in-Chief (CINCs) because they are the most visible and capable American representatives in the region. Does the new Administration intend to review defense and foreign operations spending with this concern in mind? (Lieberman, D-CT)**

I am aware of the contention that the military takes on non-military roles, but at this time it would be premature for me to respond as to how best to address this contention.

Environment

5. **The Environmental Protection Agency is entrusted with one of the most critical**

functions of the federal government, but some have commented that it is increasingly overtaxed and underfunded in pursuing its objectives. What are your plans with regard to funding for the EPA? In particular, what is your commitment to providing adequate resources for the regulatory apparatus of EPA?

I agree that EPA carries out many critical Federal functions and its mission to protect the environment is one that we all support. I cannot comment specifically on EPA funding levels at this time as the Administration is still in the preliminary stages of developing the FY 2002 budget.

High-technology and science funding

6. **Governor Bush in the campaign, recognizing the importance of government support for research and development for our future economic growth, security, and health, promised – *(a)* to support a permanent tax credit for R&D, *(b)* to increase the defense R&D budget by $20 billion from FY2002 - FY2006, and *(c)* to double the research budget of the National Institutes of Health (NIH). Do you plan to budget for implementing these commitments and, if so, on what schedule? What about the science budgets at the National Science Foundation (NSF) and at other mission agencies – should these be looked at as well?**

While it is premature to discuss the details of the President's FY 2002 budget submission, President-elect Bush clearly supported a permanent extension of the R&D tax credit, additional funding for defense R&D, and the doubling of NIH budget. We will examine the overall Federal research portfolio as we prepare the detailed budget for Fiscal Year 2002, which will include the National Science Foundation and other mission agencies.

High-technology and science funding

7. **A growing concern is the imbalance between the amount of government research support for the life sciences, which Congress has been moving to double over the next several years, and the amount for the physical sciences, which has actually been eroding. But these two parts of science are mutually dependent, and advances in the physical sciences have become essential to further advances in the life sciences. Do you agree with this concern, and, if so, will you act to adjust the imbalance between these two sectors of federal research support?**

The Federal government has an important role to play in supporting research that is too risky or too long-term for the private sector to support. We will examine the overall Federal portfolio of research activity in the context of preparing the Fiscal Year 2002 budget, and will work to develop an appropriately balanced program of Federal research.

High-technology and science funding

8. **The basic structure of the federal role in science was established over a half century ago, in 1948 - 1949, with the creation of the NSF, the establishment of the President's Science Advisor, and the beginning of major Cold War investment in national security research. Responsibility for science funding was divided among the NSF, the NIH, and a wide variety of mission agencies, with no centralized budget review. The nature of science has significantly changed since then, and is much more dependent on cross-disciplinary (and therefore cross-agency) work, yet there is still no effective mechanism for coherent decisions about cross-agency science cooperation or allocating the federal science budget. Do you agree this may be a basis for concern, and if so, will you address this serious science budgeting and management problem early in your tenure?**

Interagency coordination is a challenge within the Federal government, for science as well as other areas. My understanding is that OMB has historically played an important role in interagency coordination, and will continue to do so if I am confirmed.

Additional Question Submitted by Senator Akaka

OMB Statistical Policy Directive 15, which governs the racial and ethnic data collection by Federal agencies, was revised in 1997. Native Hawaiians were disaggregated from the Asian Pacific Islander category and a new category entitled "Native Hawaiians and Other Pacific Islanders" was created. The Directive gives agencies until January 1, 2003 to make all existing recordkeeping or reporting requirements consistent with its standards.

What steps will you take as OMB Director to ensure proper implementation of OMB Directive 15 by all Federal agencies by 2003?

How do you propose to ensure that all agencies are informed of the new standards and understand its requirements?

Provisions of the directive took effect immediately in 1997 for all new and revised recordkeeping or reporting requirements that include racial and/or ethnic information. What action will you take to ensure compliance with these requirements?

I thank the Senator for his question. I understand that OMB recently revised the guidance used to implement the directive and has asked for public comments. I plan to review those comments before deciding on the next steps.

Additional Questions Submitted by Senator Fred Thompson

I. OMB's Role

1. **A 1994 reorganization of OMB eliminated most of the agency's positions dedicated to management and transferred the management staff to the budget side. The theory was that this would make management more important by integrating it with funding decisions. Some, including members of the outgoing Administration, believe that the merger of the management and budget staffs at OMB has resulted in a dilution of the effectiveness of OMB's management responsibilities.**

   a. **Will you review this organization change at OMB and consider whether that discussion has had the intended effect?**

Yes, we need to ensure effective management of the Federal government.

II. Office of Information and Regulatory Affairs (OIRA)

1. **What do you envision as OIRA's role in reviewing proposed regulations? Is the Administration planning to issue a new Executive Order on regulatory review? Will the Vice President be assigned the traditional responsibility over regulatory dispute between the agencies?**

OIRA could continue to be involved in relevant proposed regulations. However, I believe that it is premature for me to identify the guiding principles that should govern regulatory review in the Bush Administration. I plan to review the President Reagan and President Clinton's executive orders. I cannot speak about the President-elect's plans and the Vice President-elect's future role.

2. **The regulatory side of OIRA, with a staff of about 20, acts on 3,000-5,000 information collection requests from agencies per year, reviews about 500 proposed and final rules each year, and is responsible for calculating the costs and benefits of all Federal regulations under the recently-passed Regulatory Right-to-Know Act. Does OIRA have sufficient staff to perform its work well?**

I will review OIRA's staffing needs and welcome the views from this Committee on how to strengthen OIRA's paperwork and regulatory analysis and review functions.

3. **In the past, GAO has reported that OIRA did not meet all of its responsibilities under the Paperwork Reduction Act of 1995, and that the Administration did not achieve the paperwork reduction goals of the Act. As Director of OMB, what will you do to improve on implementation of the Paperwork Reduction Act?**

I will ask OIRA to identify each statutory responsibility under the 1995 Act and the status of OMB's compliance. For any noncompliance, I will ask OIRA to explain what resources are needed and what is a realistic timetable to achieve compliance. In addition, due to the recent poor track record in paperwork reduction, I intend to ask the agencies to particularly focus on the largest paperwork burdens on the public, i.e., those imposing 10 million or more hours on the public.

III. Federal Procurement Policy

1. **As you probably know, many have opposed a new policy initiative of the Clinton Administration -- the imposition of certain requirements on contractors merely because they do business with the government. This so-called "blacklisting" regulation -- which would make it easier to deny Federal contracts to companies that have unsatisfactory labor policies - was issued recently to become effective just prior to President-elect Bush taking office. What do you plan to do to rescind this egregious regulation?**

As stated in an earlier question raised by the Committee, my limited review of this issue leads me to have doubts about how this regulation will operate in practice. Even so, to my knowledge, no decision has yet been made to affect this regulation.

2. **As you know, there have been hundreds of thousands of FTEs identified as performing commercial activities under the Federal Activities Inventory Reform (FAIR) Act. What strategies will you employ to ensure competition of these FTE?**

During the campaign, Governor Bush outlined a goal of subjecting a greater portion of the Federal government's commercial positions to competition. I support this proposal, but I think it is premature to discuss the precise strategies that will be employed to achieve this goal.

POST-HEARING QUESTIONS FOR
MITCHELL E. DANIELS, JR.
NOMINEE FOR DIRECTOR OF OFFICE OF MANAGEMENT AND BUDGET

Questions Submitted by Senator Daniel K. Akaka

1. As you know, the Office of Personnel Management (OPM) operates the Federal Employees Health Benefits Program (FEHBP), which covers roughly 9 million federal employees, retirees, and their families. Over the past three years, the total average premium increase in FEHBP plans has been 28%, which is similar to the increases experienced by other employer-provided health insurance. The annual cost to the federal government of the FEHBP is approximately $20 billion dollars. One of the driving forces behind the overall premium increases is the increase attributable to prescription drugs. In 2001, the rise in prescription drug costs accounted for 40 percent of this year's increase.

In an effort to make prescription drugs more affordable to the federal family, this year, OPM allowed the Special Agents Mutual Benefit Association (SAMBA), one of the FEHBP plans, to access the Federal Supply Schedule for prescription drugs as a demonstration project. However, the pharmaceutical manufacturers selling 90% of the drugs used by that plan refused to sell to SAMBA at the schedule price. As a result, OPM announced that the pilot project had to be cancelled.

Do you support OPM's efforts to allow FEHBP plans to access the Federal Supply Schedule?

The President made specific commitments in his campaign regarding the treatment of prescription drugs for seniors, both in the Medicare program and in a new "Immediate Helping Hand" program. To my knowledge, however, he made no specific statements about the treatment of prescription drugs in either the FEHB or the SAMBA programs. As a result, it would be inappropriate for me, at this early stage, and without sufficient time for in depth review, to comment on this specific issue. I can assure you that I will carefully review this issue, and look forward to discussing it further with you.

2. Roughly half of the drug companies on the Federal Supply Schedule agreed to sell to SAMBA. However, the pilot had to be cancelled when the pharmaceutical manufacturers who sell 90% of the drugs used by SAMBA refused to sell to SAMBA at the schedule price. Do you believe OPM made the right decision to cancel the pilot project under those conditions?

I have not had the opportunity to thoroughly review the experience with SAMBA. Nor have I had the opportunity to review this matter with OPM. As a result, I cannot at this point discuss OPM's decision on this matter.

3. Do you believe that allowing SAMBA to purchase from the Federal Supply Schedule is legal?

I have not had the opportunity to get a legal opinion regarding this matter.

4. Given that the federal government pays approximately 72% of FEHBP premiums, supporters of allowing the federal government to purchase drugs for the FEHBP program at an advantageous rate, (similar to VA Hospitals), could result in substantial savings inherent in such a move. If you do not support such a pilot project, do you have other suggestions for addressing general affordability issues in the FEHBP?

See response to question 1.

5: If you do not support giving FEHBP plans access to the Federal Supply Schedule, and given the information contained in the following table, how do you believe the government can best deal with the impact of ever-rising drugs costs?

FEHBP Average Premium Increases

	Increase due to drugs	Total Increase	Drug Increase as a % of total increase
1997	3.4%	2.4%	142%
1998	4.4%	8.6%	51%
1999	3.2%	10.15%	32%
2000	4.0%	9.3%	43%

See response to question 1.

6. OMB will play a key role in formulating the Administration's agenda regarding matters of policy, budgeting, and regulation affecting the pharmaceutical and health care sectors. I have reviewed your pre-hearing questions and was pleased to note that you will be divesting yourself of financial ties to your former employer, Eli Lilly & Company.

Given the wide-ranging role that you will play as the President's chief financial advisor, would you discuss how you will ensure that your long-term relationship

with one of this country's major pharmaceutical companies will not affect your impartiality in reviewing matters concerning that industry?

If confirmed as OMB Director, for the duration of my term, I will recuse myself from any particular matter directly and specifically affecting Eli Lilly and Company and from any particular matter in which Eli Lilly is a party or represents a party. This recusal does not include matters of policy, budgeting, or regulation affecting the pharmaceutical or health care sectors generally.

This essentially is the same recusal that Franklin Raines adopted during his tenure at OMB and, coupled with the total divestiture of all specific equity interests, I believe it addresses any potential conflict of interest that may arise with respect to my past relationship with Eli Lilly and Company.

Questions Submitted by Senator Susan M. Collins

1. Mr. Daniels, the Low Income Home Energy Assistance Program, known as LIHEAP, is particularly helpful to low income families in Maine in meeting their energy needs. In many northern states, thousands of families literally would not be able to heat their homes during our long, cold winters without this assistance.

Because our cold weather comes early in Maine, it is important to be able to plan not only for the current winter but also for next year's winter. The Community Action Program agencies, which administer LIHEAP funds, however, often do not know whether Congress will provide LIHEAP funding, or how much funding we will provide, until we pass the Labor-HHS appropriations bill. We didn't pass the Labor-HHS bill until December last year, by which point, the CAP agencies in Maine already had tens of thousands of LIHEAP applications, and winter was well under way.

It is therefore extremely important to provide an advance appropriation in preparation for the next winter. I was extremely disappointed in December when the current administration failed to request this for the Fiscal Year 2002 LIHEAP appropriation. This lack of foresight will place an increased and needless burden on low income Mainers next winter and will greatly complicate the process of providing federal relief.

Mr. Daniels, can you provide assurances that the Bush Administration will consider including in the budget an advance appropriation for LIHEAP in order to prevent such hardship?

During the campaign, President Bush expressed his support for the Low Income Home Energy Assistance Program (LIHEAP). While it would be premature to discuss the

President's budget submission, I will, if confirmed, review funding options including the consideration of an advance appropriation for the LIHEAP program.

2. Mr. Daniels, I have been extremely concerned with the current administration's handling of management and budget issues at top levels at OMB. In addition to its budgetary functions, a major part of OMB's responsibility is in the area of government management, but management seems to have been forgotten in the current administration. Under your leadership, will OMB also turn its attention to improving management of the government's resources?

I think OMB's management functions are extremely important. If confirmed, I plan to address these issues with the objective of improving the management of government resources.

3. Mr. Daniels, OMB in many respects plays an important "gatekeeper" role in setting the President's federal budget requests. What role can OMB play in helping ensure that the needy senior citizens of this country will receive some kind of help with their prescription medication bills?

In his campaign, President Bush proposed an "Immediate Helping Hand" to provide prescription drug coverage for low-income seniors. If confirmed, I plan to work to fulfill this commitment.

4. Mr. Daniels, one of the earliest challenges faced by a new administration is preparing a new federal budget. I'm concerned that this challenge may be made more difficult by recent fiscal projections made by the outgoing administration. As you know, earlier this week the current OMB director reduced the projected surplus during the next 10 years from $1.9 billion to $1.3 billion. The current Administration, of course, was brimming with optimistic surplus projections during last autumn's campaign season – but now seem to be rethinking these rosy estimates. What assurances can you give us that under your stewardship OMB will provide objective projections to the American people?

It is very important that OMB's estimates employ credible assumptions. This is necessary to maintain public and governmental confidence in the budget process. I will do my utmost to uphold such standards should I be confirmed.

> **FOLLOW-UP: To what extent do you believe that these revised tax and spending forecasts will make your job of submitting a budget by the first Monday in February, already a difficult task for a new administration, much more difficult?**
>
> I do not believe that the prior Administration's budget announcements will complicate the present Administration's budget submission. As far as baseline budget projections go, the differences between surplus projections are small in

relation to the size of the economy. The former Administration did reduce its projected baseline surpluses by making certain policy assumptions. The present Administration will make its own policy decisions, which should fit easily within its 10-year baseline projections.

5. Mr. Daniels, as you may know, I drafted legislation to amend the Inspector General Act of 1978 to increase the efficiency and accountability of Offices of Inspector General within federal agencies. As the director of OMB, what is your opinion of how effective a role IGs played in the current administration?

I have not had the opportunity to thoroughly review the effectiveness of the IGs during the past Administration. As I testified before the Committee, I place a high priority on management and performance issues and I believe the IGs can plan an important part in evaluating federal programs.

6. Mr. Daniels, as you are aware, the principal executive branch bodies exercising a degree of oversight over the Inspector General community are the President's Council on Integrity and Efficiency ("PCIE") and the Executive Council on Integrity and Efficiency ("ECIE"). Your Deputy Director at OMB will presumably continue to serve, also, as chair of both of these bodies. In your view, have these entities functioned efficiently and effectively during the past eight years? How would you improve them?

While I am aware of these entities, I have not had a chance to review their past functions in detail. If confirmed, I plan to review OMB's current structure and operations as part of an effort to improve government management and performance.

Questions Submitted by Senator Richard J. Durbin

Mission Fragmentation/Program Overlap

Currently, 12 different federal agencies administer over 35 laws regarding food safety. This obviously renders the food safety system highly fragmented and inefficient. The General Accounting Office again includes America's food safety system on its latest high risk list and calls for a single agency with a risk based inspection system. This isn't a recent discovery or recommendation–this very committee identified this problem 23 years ago.

Furthermore, President-elect George W. Bush has publicly supported the idea of consolidating all food safety responsibilities under one agency. In a speech in Philadelphia last June, he said "The federal government is also responsible for the safety of our nation's food supply. The way things work now, there's one agency that inspects cheese pizza. There's another that inspects pepperoni pizza. There is

one agency that inspects food grown outside the United States. Another that inspects food grown here inside the United States. Apparently, the revolutionary idea that maybe these functions could be combined hasn't dawned on anybody yet."

1. Do you agree with the General Accounting Office's long-standing assessment and recommendation concerning our food safety system?

I have not yet had the opportunity to review GAO's study of the nation's food safety administration system; therefore I cannot comment directly on this issue. While I generally support eliminating duplication and overlap, there may be some unique functions of food safety regulation that justify more than one agency's oversight. I look forward to learning more about the important issues that you have raised in your question.

2. What role should, and will, OMB play in identifying and rectifying duplication, overlap, and fragmentation in Federal programs such as the multiplicity of agencies with food safety jurisdiction?

As part of both its budget and management function, I think OMB plays a crucial role in identifying and rectifying duplication, overlap, and fragmentation in Federal programs.

3. Are you committed to looking into matters such as food safety jurisdiction, repeatedly identified by GAO as a major management problem in the government? Are you willing to make it a priority at OMB?

Yes. If confirmed, I will make it a priority to look into major management problems in the government.

4. International Affairs Budget

Currently, the international affairs budget represents only one percent of total federal spending -- one penny out of every federal dollar -- yet its benefits are immense. International affairs spending protects US national security, enhances our economy and preserves our global leadership role. Unfortunately, the 150 account, the international affairs budget, is 40 percent less than it was a decade ago in real terms.

Secretary of State designee Colin Powell spoke about the importance of increased resources for the international affairs budget during his confirmation hearing on January 17, 2001. In light of his remarks, do you believe that the current level of funding for international programming is adequate, and if not, what do you believe are the resources needed to maintain our diplomatic readiness and to provide critical assistance to our allies?

I plan to work closely with the Secretary of State, Secretary of Defense and others in the Administration to ensure the budget request provides sufficient resources to meet the

nation's national security and diplomatic interests. It is premature to discuss the specifics of the President's budget request regarding this function or any other function of government.

Questions Submitted by Senator Joseph I. Lieberman

1. Are there any rulemaking actions pending at the Federal Register as of January 20, 2001, that will be withdrawn or modified by the Bush Administration? If so, what are they and why are they being withdrawn or modified? If you are not able to answer this question now, will you commit to notifying this Committee as any such action is taken?

As had President Clinton in 1993, President Bush has taken steps to ensure that his appointees have the opportunity to review any new or pending regulations. On January 20, 2001, Andrew Card, the President's Chief of Staff, issued the attached memorandum, which implements procedures similar to those used eight years ago.

2. I would like to ask a question arising out of a your June 17, 1990 op-ed piece, published in the Indianapolis Star, regarding the vital role of African-American fathers. I fully agree with your opinion that fathers play a crucial role in African-American families – indeed, in all families. However, I would like to clarify your views in the article about certain governmental policies. In explaining how the absence of fathers correlates with various forms of social pathology, you wrote: "Forget social spending, preschool education, day care regulation and all the apparatus of what the social workers call 'intervention.'" You also wrote: "Tightening child support rules and subsidizing day care have laudable aims, but may only serve to induce more divorce filings by women, who already initiate two of every three." Could you clarify whether you believe that spending on social intervention programs, such as preschool education or improved day care, and that tightening or enforcing child support rules, have value for African-American children and for other children? As OMB Director, would you support such programs?

In context, the meaning of the first excerpted statement was "Forget for a moment" or "Set aside for a moment;" the point being made was that intact families, including involved fathers, are the sine qua non of widespread progress. Of course, well-crafted social spending programs must also play an important role.

The President campaigned on a number of education, health, and other proposals that were designed to strengthen families. If confirmed as OMB Director, I plan to do what I can to implement the President's agenda in this and other areas.

3. In response to the pre-hearing questionnaire from the Committee, you indicated that you pled guilty to disorderly person charges in April of 1970 in Mercer County,

New Jersey, and paid a fine of $350.00. What was the nature of those charges to which you pled guilty? You provided to the Committee a copy of an article you wrote, published in the Indianapolis Star on August 25, 1989, entitled "A harsher stand against the casual drug user," in which you described an incident while you were in college when you were fined $350 for use of marijuana. Is that the same incident?

Yes, the incident that I described in the Indianapolis Star is the same as the April 1970 charge that I listed on my pre-hearing questionnaire; the disorderly persons offense in question to which I pled guilty was the use of marijuana.

4. As you probably know, the Social Security trust funds are off-budget. In your written answer to a question about the Medicare Hospital Insurance Trust Fund, you said that "In general, it is better to count all government spending in the budget, unless there is an extraordinary reason for doing otherwise." Is it your view, then, that the Social Security trust funds should be off-budget, but the Medicare HI Trust fund should not? If so, why shouldn't Medicare enjoy the same protections that Social Security has under our budgetary rules and laws? And if you do not support taking the Medicare HI Trust Fund off-budget, does that mean that, in your view, revenues flowing into the HI trust fund should be fair game to be used for other programs or tax cuts? Are there any enforcement mechanisms you would support to protect Medicare surpluses, and if so, what might they be?

Social Security is running a surplus over its entire program function without general fund transfers. This is not the case for Medicare -- government outlays for this program exceed Medicare premiums and payroll taxes. Thus, I would view skeptically an attempt to take one portion of Medicare off-budget, while leaving the portion on-budget that requires immense general government subsidies. This could lead to a false impression that the status of the HI Trust Fund is an accurate reflection of the financing pressures faced by Medicare as a whole. I believe that the most effective stance for dealing with Medicare is to look at its overall financing needs and to undertake programmatic reforms which will ensure its long-run viability.

Questions Submitted by Senator George V. Voinovich

Management Issues

1. If you have spoken with your predecessors - those who have held the position you now seek - about their "lessons learned" on how to manage OMB effectively, describe how their advice and experience has influenced your thinking and plans.

In the month since being named, I have succeeded in contacting most of my recent predecessors for their counsel. Each, particularly Mr. Jack Lew, has been most cordial

and helpful. I expect to continue and extend these consultations if I am confirmed and embark on my new duties, but I would prefer not to divulge details of their advice.

2. Numerous GAO reports have highlighted the need for agencies to expend more resources on effective training and professional development programs to better equip federal employees for the workplaces of the future. Based on your experience, what priority would you place on workplace development, and how would you emphasize continuous learning in OMB?

I do share such concerns about the government's workplace development. A lack of good long-term workforce planning, and the integration of that planning with agency mission objectives, is a deficiency that the Results Act highlights and aims to correct. I will place a high priority on OMB's role in continuing to ensure that agencies make human capital management an integral part of their executive management responsibilities.

3. On January 17, 2001, GAO released its 2001 High Risk list of programs that are impeding effective government and costing the taxpayer billions of dollars in waste or mismanagement. There are 22 areas on the list today.

It is very frustrating to see many of these high risk areas appear on the list year after year, with little progress made in getting them off. I think it would be worthwhile for OMB to choose three, four or five areas on the list and to go after them full-throttle. It would be a win for the taxpayer and a win for the Bush Administration to show that after two or four years, the High Risk list has been reduced due to your efforts.

Do you agree that OMB has a role to play in addressing these high risk areas? Will OMB make correcting some of these long-standing management problems a priority?

OMB clearly has a key role in addressing these high-risk areas. These issues present a tremendous challenge to OMB and the new Administration and, if confirmed, I plan to do what I can to address the high-risk areas and other management challenges facing the federal government.

4. As the Mayor of Cleveland and again as Governor of Ohio, I established an "Operations Improvement Task Force". This task force was comprised of hundreds of volunteers from the private sector who went into agencies, talked to the people running the programs, and learned their thoughts on ways to improve service delivery and cut costs. In short, the Operations Improvement Task Force sought ways to improve operations and programs by empowering the employees who know them best. The success of the task force concept was the subject of a Harvard Business School report.

Has the Administration considered a similar effort to help empower federal employees and improve the efficiency and effectiveness of federal programs?

We are in the very early stages of this Administration. While I do not believe the Administration has considered creation of a task force to improve federal operations, the President is clearly committed to improving the efficiency and effectiveness of federal programs.

Budget Issues

5. There is a 50% chance that actual surplus projections will be below predictions, perhaps much lower. Based on this fact, does it make sense to commit almost all the surplus to spending and tax cuts and leave almost no room for error?

Budget projections are inherently uncertain, particularly as one goes farther out in time. That is why the President has taken the prudent approach to devoting all of the Social Security surpluses (just less than half of the projected unified surpluses) to debt reduction and shoring up the long-term finances of this important program. Both approaches would use today's good fiscal news to shore up our long-term outlook. However, I think that it is also important to undertake tax relief and spending priorities with a portion of the on-budget surplus – enhancing our underlying economic fundamentals and reinforcing our long-term fiscal outlook.

6. The General Accounting Office has long noted severe lapses in the accounting practices of many federal agencies. How do you plan to correct this?

Our goal must be to ensure that agency heads understand that clean opinions and good financial systems are important for public accountability, making informed program decisions, and maximizing operating efficiencies. This commitment includes sustained resource support, and recognition that reliable, timely financial information is critical to improved Government management.

I plan to discuss financial management issues throughout the budget process. We will ensure that agency plans for improvements are well crafted, and that budget resources are requested to make needed improvements. Congress could assist by questioning agency heads at authorization, oversight and appropriations hearings about the status of their financial management activities. It is important to let agency heads know that good financial management and information is important to members of Congress. Also, I hope that Congress will promptly authorize and appropriate requested and justified resources for agencies to achieve clean opinions.

7. Attempts to get programs "off-budget," via trust funds or other mechanisms, are proliferating. This development makes the budget less transparent and the budget process less flexible. Do you share this concern and what do you propose doing about it?

I share these concerns. Efforts to continue walling off certain parts of the budget will lead to an artificial compartmentalization of the budget process and undermine our ability to deal globally with funding decisions. I think we should be cautious about allowing this trend to continue.

8. Because the Federal Budget works mostly on a cash basis, it fails miserably to recognize future liabilities, such as Social Security and Medicare costs. How can this situation be improved?

The government does not do a good job in accurately depicting the long-term liabilities facing the nation. While trust fund accounting was an effort to address these concerns, this has not been as effective as hoped. Mere accounting changes can be used to give the appearance of enhanced trust fund solvency, even when no programmatic reforms have been undertaken. I think it is important to direct attention to the long-term fiscal projections compiled by OMB, CBO and GAO and to focus on measures of unfunded liabilities, particularly in our main entitlement programs.

THE WHITE HOUSE

WASHINGTON

January 20, 2001

MEMORANDUM FOR THE HEADS AND ACTING HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: ANDREW H. CARD, JR.
Assistant to the President
and Chief of Staff

SUBJECT: Regulatory Review Plan

The President has asked me to communicate to each of you his plan for managing the Federal regulatory process at the outset of his Administration. In order to ensure that the President's appointees have the opportunity to review any new or pending regulations, I ask on behalf of the President that you immediately take the following steps:

1. Subject to any exceptions the Director or Acting Director of the Office of Management and Budget (the "OMB Director") allows for emergency or other urgent situations relating to health and safety, send no proposed or final regulation to the Office of the Federal Register (the "OFR") unless and until a department or agency head appointed by the President after noon on January 20, 2001, reviews and approves the regulatory action. The department or agency head may delegate this power of review and approval to any other person so appointed by the President, consistent with applicable law.

2. With respect to regulations that have been sent to the OFR but not published in the Federal Register, withdraw them from OFR for review and approval as described in paragraph 1, subject to exception as described in paragraph 1. This withdrawal must be conducted consistent with the OFR procedures.

3. With respect to regulations that have been published in the OFR but have not taken effect, temporarily postpone the effective date of the regulations for 60 days, subject to exception as described in paragraph 1.

4. Exclude from the requested actions in paragraphs 1-3 any regulations promulgated pursuant to statutory or judicial deadlines and identify such exclusions to the OMB Director as soon as possible.

5. Notify the OMB Director promptly of any regulations that, in your view, impact critical health and safety functions of the agency and therefore should be also excluded from the directives in paragraphs 1-3. The Director will review any such notifications and determine whether exception is appropriate under the circumstances.

6. Continue in all instances to comply with Executive Order 12866, pending our review of that order, as well as any other applicable Executive Orders concerning regulatory management.

As used in this memorandum, "regulation" has the meaning set out in section 3(e) of Executive Order 12866. That is, this plan covers "any substantive action by an agency (normally published in the Federal Register) that promulgates or is expected to lead to the promulgation of a final rule or regulation, including notices of inquiry, advance notices of proposed rulemaking, and notices of proposed rulemaking."

This regulatory review will be implemented by the Director or Acting Director of the OMB. Communications regarding exceptions to the review, or questions regarding the review generally, should be addressed to that individual.

Finally, in the interest of sound regulatory practice and the avoidance of costly, burdensome, or unnecessary regulation, independent agencies are encouraged to participate voluntarily in this review.

This memorandum shall be published in the Federal Register.