PRESIDENT'S FISCAL YEAR 2009 BUDGET

HEARING

BEFORE THE

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

ONE HUNDRED TENTH CONGRESS

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PRESIDENT'S FISCAL YEAR 2009 BUDGET

WEDNESDAY, FEBRUARY 13, 2008

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

The Committee met, pursuant to notice, at 10:09 a.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 06, 2008
FC–19

CONTACT: (202) 225–5522

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2009 Budget with OMB Director Jim Nussle

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on President Bush's budget proposals for fiscal year 2009. **The hearing will take place on Wednesday, February 13, 2008, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

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

FOCUS OF THE HEARING:

On February 4, 2008, President George W. Bush submitted his fiscal year 2009 budget to Congress. The budget detailed his Administration's tax and spending proposals for the coming year, many of which fall under the jurisdiction of the Committee on Ways and Means.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Thursday, February 21, 2008**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

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

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

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

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

Chairman RANGEL. The Committee will come to order and I welcome Director Nussle here and it is unique since he has been on this side of the mic for so many years, and we welcome you to come here and share with us in support of your suggested budget.

Since I have had the opportunity to chat with you briefly, we do hope that as we did with the stimulus package, at some point in time, we can review this budget to see what realistically we can accomplish, since it appears as though many of the things that you are suggesting have been rejected by the Congress. Many things that we are talking about in terms of the alternative minimum tax, you want to get rid of it and yet you are counting the revenues for it. It seems as though you would want to make permanent the $2 trillion tax provision which expires, and yet it is difficult for us to see how we could make up for that money.

So it probably is a very precise political document and we are willing to accept that in the spirit in which you present it. But we do hope we can keep down the emotion and opposition to it in hope that at least in this last year of the Administration we can find something positive that we can accomplish together, as we did with the stimulus package.

So, as you know, the Ranking Republican, Mr. McCrery, and I have tried desperately hard to at least keep the tone of our Committee's business to be civil. We hope that we can even be more positive in some areas, which we will work and perhaps suggest other you and we hope you will do the same, and at this time, I would like to yield to Mr. McCrery.

Mr. MCCRERY. Thank you, Mr. Chairman. Indeed, we have worked together, Mr. Chairman, on a number of issues and will continue to do that. I hope that we can find some common ground on a range of issues this year, and work with the Administration to accomplish some things.

On the bigger picture, you mentioned, Mr. Chairman, that the President's budget as put together by Mr. Nussle at OMB suggests a number of things that have been rejected by the Congress. I assume some of those things that you are thinking about include

Medicare changes, Medicaid changes, some others. You are right, and probably the Administration doesn't expect the Congress to reduce Medicare spending at the level suggested in the budget by the traditional means of just ratcheting down reimbursement rates for providers.

But I think the Administration does the public and us a service by including in their budget numbers that should shock us and tell us that we should be addressing these entitlement programs. We talk—we hear a lot of talk about earmarks and discretionary spending. That is peanuts. The real spending problem in this country is the entitlement programs and Medicare is squarely within the jurisdiction of this Committee. Social Security is squarely within the jurisdiction of this Committee. We should be addressing those.

Maybe we won't choose—and frankly, I hope we don't choose—the suggestions in the Administration's budget for dealing with Medicare. But we ought not stick our heads in the stand and just hope that it goes away or is somebody else's problem when we leave.

So, I congratulate Mr. Nussle and the Administration for at least putting in the budget some numbers that reflect the task at hand.

Now, with respect to the tax provisions, it is true, again, Mr. Chairman, that the Administration's budget calls for making permanent the 2001–2003 tax cuts. It is also true that the Administration assumes the revenues from the alternative minimum tax, except for this year. They call for a 1-year patch with no pay-for for this year. But in the out years, they do assume the revenues from the AMT.

That is not important, which revenues they assume and which revenues they don't assume. The more important consideration is the level, the overall level of revenues that they assume. The mix, we can do on this Committee. We can change that around.

But the Administration, I think, takes a very responsible revenue stream assumption. They assume revenues slightly above the historical average of the last 50 years, unlike the revenue stream that would be produced if the majority's pay Paygo rules were adhered to.

I have a chart that I distributed last time. I believe Mr. Nussle has a copy of the chart. If we could put it up on the screen so everybody could see it, the dotted line at the top is the Paygo revenue stream. So, if you adhere slavishly to Paygo, that is the revenue stream you get. You can see, it takes us up above 20 percent of GDP in revenues. That is significantly above the revenue stream that this government is accustomed to.

Now, maybe some people believe we should raise taxes that much to create that level of revenues. I don't. I think that has the potential to change the nature of our economy in a very destructive way and we ought not go there. But that is where we are headed if we just blindly follow Paygo.

Now, the bottom line gets well below the historical average of revenues. That is the line that represents extending the '01 and '03 tax cuts and putting a permanent patch on the AMT with no pay-for. So, some could argue that is too low and that would be a logical and reasonable argument.

Well, the Administration has chosen neither of those. I think, as I said, very responsibly projected revenues that are slightly above the historical average, which gives us a little wiggle room to deal with these long-term spending problems. So yes, Mr. Chairman, everything you said in your opening statement is true. But so what? The Administration, I think, has put forth in toto, never mind the dots and tiddles and the particulars, but in toto a very responsible budget that we, this Committee, ought to embrace in terms of the revenue projections and then this Committee ought to do its job in the entitlement areas and try to create reforms that allow us to live within this revenue stream. Thank you, Mr. Chairman.

Chairman RANGEL. Well, I thank you, Mr. McCrery, and I thank the director. You may proceed as you feel most comfortable and we look forward to your testimony.

STATEMENT OF JAMES NUSSLE, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. NUSSLE. Mr. Chairman, I am very honored to be back in this room and with friends and colleagues and people that I have worked with, debated with, fought with, argued with, won with, lost with a number of times. Some of those are extremely fond memories. I appreciate being back here.

I also like the tone, I have to say. I appreciate the tone that you and the Ranking Member not only have set this morning, but being an interested observer of the Committee on Ways and Means as a former Member and alumni, it is also good to hear that tone when we are not here and we get to observe what you do. That doesn't mean you agree all the time, but the tone you set, I think, is a very responsible one. I congratulate you on that, because it obviously will set the tone for all of the Members here today.

I enjoyed our talk, Mr. Chairman, and the opportunity to meet with the majority prior to the hearing to talk a little bit about some of the things where we might work together. We didn't come up with a very long list. In fact, I don't think we came to a conclusion. But the fact that you reached out and made that as a part of the conversation today, both publicly and privately, I would congratulate you on and I would look forward to continuing that conversation with you and the Ranking Member.

If I may, I have a quick presentation I would like to do and then I would be very pleased to answer questions and begin the budget conversation.

I want to thank you for having me here to discuss the 2009 fiscal year budget and I want to tell you that, for the first time, the President presented this budget as an electronic budget, which is interesting. It is available on the Internet at www.budget.gov, and in fact this is the first time, as I have been made aware, that the Executive Branch has transmitted to the Legislative Branch a document in an electronic format. So it is somewhat historic, even if it will not necessarily carry the day.

We are excited at OMB because I think it is an opportunity to involve the American people in this conversation a little bit more than they have in the past. In the past, you had to get one of these big volumes. Now, you know, it is more transparent. It is online. We already—the very first day, Mr. Chairman, that this went up on the web, we had over 660,000 downloads of individual PDFs, of individual pages of budget information. I can tell you it was more than just the Congress that was looking at it or the media. People are interested in that. It's a good—it could very well be a good way for us moving forward to bring more transparency to this process, let alone a number of others.

So, for those of you who have been part of this and have any criticisms or, for that matter, ideas on ways to improve it, we would be interested in hearing those, because we would like this to be a good product moving forward.

The President, Mr. Chairman, asked me to write a budget that did five things. That is what I have tried to do in this budget. He asked me to prepare a budget that addressed the immediate economic challenges and to memorialize in the budget what you all have done in a bipartisan way. Second, to ensure that we have that economic growth and that it is sustained long term. Third, that we continue to keep America safe within this budget and do whatever the budget needs to do to keep America safe; that we had a budget that could balance in 2012. Finally, to begin to address, although never perfectly, as we know in this Committee as well as probably anyplace, begin to address some of the long-term spending challenges.

So, let me just go through this quickly. I mean, continued economic growth, I really believe, and the President believes is one of the most critical elements if we are going to reduce the deficit, get back to balance and begin to address the long-term challenges. It is one of the X factors.

There used to be a time, as we all remember, when people used to try and claim that we could grow out of problems. We are not going to grow out of any problem. But growth is important for dealing with any of these challenges or problems. It is not the only thing, but it is very important.

Obviously, what happened here in the short term, the bipartisan growth package which we include in the budget, prior to the final decision, we included it at 1 percent of GDP. So, it is in the budget at $145 billion instead of the final number. But what we tried to do is memorialize in the budget the fact that we needed a shot in the arm.

You all, in a bipartisan way, did that job, came together. It obviously does have in this instance a $168 billion effect on the deficit, dollar for dollar. But is it worth doing, is the question. The President felt it was. It appears the Congress felt that it was, and hopefully that will have the impact on the short-term economic growth. So, I congratulate you on that and the President will be signing that later today.

But as a result, the deficit for 2008 will grow to 2.9 percent of GDP. In 2009, it will be at 2.7 percent of GDP. But this uptick in the deficit, I really believe, can be manageable. It is something that can be temporary. If we continue to keep taxes low, if we continue to work on economic growth and if we try and keep spending in check.

I guess that is the point I wanted to make. I really don't believe that we are experiencing these deficits as a result of the American people being under-taxed. As this slide shows, and it is similar in some respects to the slide that the Ranking Member was showing, it kind of shows where the 40-year average is of taxes and it shows where we are currently. The tax burden, if you measure it by GDP, shows that it is at 18.5 percent, which is still higher than the 40-year average of taxes as a percentage of GDP.

So, I think it may surprise some people who assume that because the President and the Congress cut taxes in 2001 and in 2003, there must not be enough revenue here. It must be that there is a lot less revenue coming into Washington. That is simply not the case, as this Committee knows very well. Revenue growth has actually been quite strong and running ahead of GDP. In 2005, it was 14.5 percent. We had 14.5 percent growth in revenue. In 2006, we had 11.8 percent growth in revenue, way ahead of inflation and GDP. Even in 2007, even recognizing the potential slowdown, we still had 6.7 percent growth in revenue, which increased as a percentage of GDP.

So, we have an opportunity to, I think, look at what the real problem is here. I don't really believe that the problem is not having enough revenue. I really believe the problem is controlling spending.

So, what we have tried to do in this budget is to do just that, to work on controlling spending. It is about choices, there is no question about it.

The budget proposes to keep non-security discretionary spending at below 1 percent for 2009 and then hold it flat in the out years. The budget is about 2009. You are not going to adopt a budget for the next 5 years. But in order to show the challenge that lays ahead, not only to get back to balance, but also to deal with some of the other spending challenges, I think it shows that this, at least in order of magnitude, is going to continue to be a challenge.

The President has also pledged to veto spending bills that exceed this reasonable and responsible level for 2009. That is another thing that has been put out there. We also proposed and we talked about this very briefly in chambers behind the Committee, it also proposes to terminate or significantly reduce spending on 151 programs that total more than $18 billion for this year. What we did is we went through and we looked at what programs are achieving results, which ones are not? Which ones are you not able to measure as well? Which ones need to be reformed? Which ones need to be updated?

So, it is not just about throwing more money at a problem. It is looking at whether that program is getting results. Because good intentions alone are not enough to keep a program going in my estimation and in the estimation of the President.

The Ranking Member brought up earmarks. We also believe that earmark reform is necessary. Although it certainly is not the most important challenge that we have in front of us. I really believe the most important challenge is the automatic spending. Sixty-two percent now of spending is on automatic pilot. Sixty-two percent now is automatically going to occur regardless of anything else that occurs this year, unless Congress and the President come together and start making some adjustments in that spending, in that automatic entitlement nature. That specific action is what we are calling for in this budget.

If we look at the current trends, they are just not sustainable. The current trend suggests that within the next 30 or so years, all of the revenue that is coming in is going to be gobbled up, is going to basically be swallowed by entitlement spending, leaving nothing for some of the basic things that the government is called upon to do within the Constitution, such as national defense as an example.

So, what the President has done is proposed a mandatory savings package of $208 billion over the next 5 years. Now that, I realize as we talked again behind closed doors, some are going to look at that and say that is just not tenable. It is an election year, it is too hard, we are not serious. But I did want to put it into some perspective.

The $208 billion at this point in time, it represents less than the amount of money we saved in a bipartisan way in 1997, the last time we tried to break our pick on this rock. We did—so we accomplished it in the Balanced Budget Act 1997 in a bipartisan way, with a Democratic President and a Republican Congress, we did more than what the President is recommending here.

So, I realize everyone is—there will be many who say you are reducing spending too much, you are calling for too much in savings, but I think this is something that we can do. Just to take an example of Medicare, within this package, the President has proposed reasonable steps to get Medicare growth under control. He calls for $178 billion of savings over the next 5 years. This means that Medicare would continue to grow.

As we all know on this Committee, probably better than anyplace, Medicare is growing at about 7.2 percent. We are calling for enough savings to bend that growth curve so it only grows at 5 percent, which is exactly what happened in 1997. We found savings, we reduced the growth curve, and we were able to prolong a very important program. So, I believe this is a downpayment. Mr. Chairman, it represents about one-third of the overall Medicare challenge that is out there, that represents about $34 trillion now. This would help us deal with about a third of that problem if you took this up.

So, starting with your opening statement, this may be one area. Maybe it is not. But if you don't address it this year, you and I both know this is creeping up on us. It is going to be more and more difficult to address and I think a downpayment would be important to begin.

So, that is my presentation on the budget, Mr. Chairman, and I look forward to the opportunity to continue the conversation.

[The prepared statement of James Nussle follows:]

Testimony of OMB Director Nussle

President's FY 2009 Budget
Committee on Ways and Means
United States House of Representatives

February 13, 2008

Chairman Rangel, Ranking Member McCrery, and distinguished members of the Committee, it is good to be back in the hearing room with you. Thank you for having me before the Committee today to discuss the President's FY 2009 five-year budget proposal.

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

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

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

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

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

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

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

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

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

As we work to keep taxes low, we must do more to restrain spending to achieve balance by 2012. The Budget proposes to keep non-security discretionary spending growth below 1 percent for 2009 and then hold it at that level for the next 4 years. The President has also pledged to veto spending bills that exceed his reasonable and responsible levels. In addition, the Budget cuts spending on 151 projects totaling more than $18 billion that are not achieving results – because good intentions alone do not justify a program that is not working.

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

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

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

The Budget proposal works to slow the rate of growth of these programs in the short term, which will save $208 billion over 5 years. This step alone would reduce Medicare's 75-year unfunded obligation by nearly one-third. This is one of the most serious challenges that faces our country. I want to work with the members of this committee to address reforms that can avert the oncoming fiscal train wreck.

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

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

Chairman RANGEL. Thank you, Mr. Director.

The Secretary of the Treasury met with the full Committee on Ways and Means and impressed upon us how out of line our corporate tax rates were, especially among our competitors, and left us with the impression that, with some reform, we could drive down that rate to be competitive and at the same time not lose revenue.

Are you familiar with that concept from Treasury Department?

Mr. NUSSLE. I have heard—talked to both the Secretary, I have spoken with you about it briefly and others. So, I am somewhat familiar with that, yes.

Chairman RANGEL. Do you believe that it is essential that we reduce the corporate tax rate?

Mr. NUSSLE. I think what is essential is that we look at America's competitiveness in the world, recognizing that we live in a world market and our Tax Code now has an impact on whether or not business, industry, jobs, production, capital decides to locate here or decides to locate someplace else.

Chairman RANGEL. Why is there no provision for that type of reform in your budget?

Mr. NUSSLE. The President has always been, I believe, supportive of comprehensive tax reform and I believe that is probably the message, although I was not in the room for that conversation. My belief is that is probably the conversation that Secretary Paulson communicated as well. But no, we did not presume what that reform would look like in this budget.

Chairman RANGEL. Well, the alternative minimum tax, I assume the Administration agrees with most taxpayers and Members of Congress, that this alternative minimum tax was never intended to fall on the—to be a tax burden on the 23 million people. I assume that the Administration would want this not to fall on the taxpayers. Am I correct in believing that?

Mr. NUSSLE. I think the Administration is more interested in making sure that the tax relief is permanent, which would reduce their tax burden below the AMT. Even if the AMT came back, it would be less than what they were paying prior to that tax relief having passed in the first place.

Chairman RANGEL. If the Administration would want to remove on a permanent basis the alternative minimum tax, why would you place in your budget the receipt of the money, with the exception of next year, of receiving money from the alternative minimum tax? Is that not inconsistent?

Mr. NUSSLE. Well, the President as I understand it believes that we can have comprehensive tax reform, that AMT should be part of it. That we shouldn't just patch the AMT, we should fix it. It can be done in a revenue neutral way, and he would look for an opportunity to work with you and the Congress to accomplish that. Which is what I believe Secretary Paulson probably communicated as well.

Chairman RANGEL. But in your budget that you are presenting to us this morning, it is not a revenue neutral provision; it is a revenue raising provision in your budget is it not?

Mr. NUSSLE. Well, current law raises—raises revenue, there is no question about that, as it does if we don't make the tax relief permanent, yes.

Chairman RANGEL. So, what you are saying is in your budget, you are relying on us doing absolutely nothing to remove it.

Mr. NUSSLE. The President believes that it is more important to focus on long-term tax stability which is making the tax relief of 2001 and '03 permanent. Would look forward to an opportunity to work with you on comprehensive tax reform that would or could include relief under AMT, or reform.

Chairman RANGEL. How—could you just share with me how we would expect to be working with the President toward tax reform and removing on a permanent basis the alternative minimum tax and yet the document that you have before us indicates that you are depending on the alternative minimum tax being locked into place in order to receive the revenue that is necessary to bring some balance to the budget? Isn't that inconsistent?

Mr. NUSSLE. I don't believe so, because we believe that this reform, tax reform, comprehensive tax reform, can be done in a revenue neutral way.

Chairman RANGEL. I don't want to belabor this. But you do have revenue raises in the AMT in your budget, don't you?

Mr. NUSSLE. The AMT, if it is not fixed, will raise revenue, yes.

Chairman RANGEL. You have it presented in your budget as it is not being fixed, is that correct?

Mr. NUSSLE. Well, no. I mean, we are looking forward to an opportunity to work on comprehensive tax reform that is revenue neutral.

Chairman RANGEL. Okay, is there anywhere in your budget that you make adjustments as to how you would like to reform the tax system?

Mr. NUSSLE. No, not in the budget.

Chairman RANGEL. So anything that we want to do as relates to your budget, as long as it is revenue neutral, you have no objection to it?

Mr. NUSSLE. Well——

Chairman RANGEL. I mean——

Mr. NUSSLE. Talking about comprehensive tax reform?

Chairman RANGEL. Can you think of any way to make permanent the removal of the AMT, which should never be in the Tax Code anyway, without comprehensive tax reform? Is there any other way to do it?

No.

Mr. NUSSLE. Probably not. Probably not.

Chairman RANGEL. Having said that—no. Okay.

Having said that, you do not provide for tax reform in your budget. Now the answer to that is, yes. I guess what you are saying, or maybe I didn't understand, is notwithstanding what you have or don't have in the budget, we are at liberty to attempt to have some reform.

Now, the President had a commission which made certain recommendations. Could you tell me whether or not the President intends this year to bring those recommendations in any form to the House? To this Committee?

Mr. NUSSLE. Well, the recommendations have been out there for more than 2 years. What form would you like?

Chairman RANGEL. What form do we normally have when an Executive Branch has a tax recommendation? We don't get it from the commission. We want to do what the President would suggest. Now, the President has not suggested anything to us in terms of the removal of the AMT or the forming of a very complicated, overburdensome system that we all have complained about. So it is not what I would suggest. I am asking, can we expect any recommendations from the President of the United States as relates to corporate and individual tax reform? And/or the making permanent the removal of the alternative minimum tax?

Finally, why would there not be any provisions made in your budget to indicate that is what we should get ready to deal with the best we can, that is all.

Mr. NUSSLE. Well, Mr. Chairman, I think that is a standard that even—even this Committee doesn't abide by. The tax reform that you proposed is not in legislative form. So, I mean, there is no way to compare any of the tax alternatives or ideas out there in any kind of official format. It is all done in—the one that came from the commission were done as recommendations. The Congress——

Chairman RANGEL. Recommendations to the President.

Mr. NUSSLE. Well, or to Congress.

Chairman RANGEL. You mean, we should take a look at the President's commission? What did the President do with his own commission as to their recommendations?

Mr. NUSSLE. Well, if the chair would like to look at those recommendations, I am sure you can.

Chairman RANGEL. I have looked at them. I don't know whether the President supports any of them.

Mr. NUSSLE. Okay.

Chairman RANGEL. Could you tell me whether we should intend to hear from the President?

Mr. NUSSLE. I can't—no, I can't. I don't know if you will hear any more from him on this. But I can tell you that——

Chairman RANGEL. So it could very well be that, as far as this President is concerned, tax reform is not on his list. It hasn't been for 7 years and, from your budget, there is no reason why we should expect to hear from him this year either as relates to the alternative minimum tax removal or to the reformation of the tax system as——

Mr. NUSSLE. Well, the President hasn't seen tax reform come in anybody's budget that came from Congress, either, so——

Chairman RANGEL. Well, I sent—I have a bill, which obviously you referred to. Has the President referred to this, or the Secretary of the Treasury——

Mr. NUSSLE. Can you tell me what the bill number is and I will——

Chairman RANGEL. You referred to it. The one that you said that I introduced. That one, the same one.

Mr. NUSSLE. What bill number is that, and I will take a look at it.

Chairman RANGEL. It is the same number it has when you first heard about it.

Mr. NUSSLE. I am not—I am not familiar with what number it is.

Chairman RANGEL. Okay, then. We will put everything on hold until I send you the number and then I will be able to get a better answer to my question. So, that is all it takes, for you to find a number, and then we will start immediately talking about tax reform.

I would like to yield to Mr. McCrery.

We do have a vote?

Mr. MCCRERY. It is a vote on a motion to adjourn. I plan to skip that vote.

Chairman RANGEL. I will skip it with you.

Mr. MCCRERY. I don't think the history of the country is going to turn on the balance of this question. But the rest of you go and the Chairman and I will——

Mr. LEVIN. Who introduced it?

Mr. MCCRERY. I think it was somebody in the minority.

[Laughter.]

Mr. Chairman, you and I have had this discussion and you know my view on this. My view is that it is the Congress that is responsible for passing legislation. Generally, it is Congress's responsibility to introduce legislation. In fact, the President can't introduce legislation.

It is squarely, as I said in my opening remarks, in the jurisdiction of this Committee to come up with tax reform, Social Security reform, Medicare reform. We have not done it.

I think you know, Mr. Chairman, that if you and I developed a tax reform plan on a bipartisan basis and could actually get the support on this Committee to pass it and pass it through the Congress, I bet you a dollar to a doughnut the President would sign it. If he saw sufficient progress being made on a bipartisan basis in the area of tax reform, I bet you a dollar to a doughnut, if we invited him, he would participate in those discussions.

The track record over the last, say, 3 years of the President making specific proposals for big reforms in terms of the Congress's response to those suggestions is not good. In fact, one of the criticisms of the then minority now majority Democrats when the President proposed some specifics on Social Security reform was that, oh, you didn't consult us, you just came out with this stuff.

So, one can understand how he is a little gun shy about just coming forward with specific proposals. It is not going to happen that way, we know that. It didn't happen with Social Security and then last year when he made significant suggestions, specific suggestions in the area of health reform, health insurance reform, again, you didn't consult us, you just came out with this stuff and it's terrible.

So, now you're saying, oh, gee, give us some more terrible stuff that we can pick on. Mr. Chairman, I mean, come on, you weren't saying that with a straight face. Not inside, anyway. Outside, you do pretty well. But inside, you know, that's not what this country needs.

This country needs for you and I to work together, for this Committee to work together on a bipartisan basis and develop what we think is a good tax system for this country that, yes, lowers if not eliminates the corporate tax rate, provides a modern tax system that is more efficient, that is competitive.

There is tax competition in the world today. We better get—we better become aware of that fact. Because if we don't become aware of it and we don't adjust our tax system to be competitive, we are going to lose more capital to other countries around the world. Which means they start creating more jobs and we create fewer jobs.

So, these are very serious questions that this Congress ought to be dealing with, irrespective of what the President proposes. Any President. It is our job. It is our duty. It is our obligation. We are shirking that every year that we go by without doing anything modernizing our Tax Code, reforming our entitlement programs.

So, I am with you, Mr. Chairman. As you know, I have been ready to talk with you, work with you to develop a bipartisan approach to taxes and entitlement. For whatever reasons, we have not been able to make much progress in that regard and I am very saddened by that. But don't blame the President, Mr. Chairman. It is as much our fault as it is his.

I yield to the Chairman.

Chairman RANGEL. I am certainly glad that you do, because we have had some pretty open and honest discussions with the Secretary of the Treasury as relates to corporate tax reform. I don't know what more I can do. I put out a talking bill out there, which the director wanted to know the number of. H.R. 3970.

It would seem to me that they could set a climate as to the direction that they would want us to go. Of course, it is up to us to legislate. But the whole idea of having the director here today is suggesting to us the direction in which the Administration would want to go. That is all it is, giving us direction. Suggesting to us.

So I am a little surprised that you would say that in the area of tax reform, especially as relates to corporate tax rates, especially since the President is suggesting that we make permanent his tax cuts of 2001 and 2003, that we should not get any direction or response at all. This is especially so since he had a commission.

Now, the director would suggest that we respond to presidential commissions, which of course shows how long he has been away from the Congress. But having said that, it would seem to me that we should get at least a response from the President to his own commission to give us some direction as to the area in which he would like to see the Congress, the House and this constitutional Committee respond.

But it suffices to say that the record will be made clear that the President did not see fit to suggest any of these reforms in his budget. But he will leave that up to the imagination and discretion of the Members of the Congress. So.

Mr. MCCRERY. If the Chairman will yield?

Chairman RANGEL. I yield, of course.

Mr. MCCRERY. The President's budget does set out a general framework for going forward, both in terms of spending and revenues. While it is true that the President does not suggest a specific reform for doing away with the AMT, one can look at the level of revenues that the President proposes and determine where he thinks the appropriate level of revenue should be for the Federal Government and then we work with that.

Now, he said we ought to make permanent the '01 and '03 tax cuts. I think if we were to come—if you and I were to come up with a tax reform proposal that didn't make permanent every one of those '01 and '03 tax provisions, but pretty well set revenues along the path that he has suggested, he may very well embrace what we come up with on a bipartisan basis.

The President's budget is required by law. It is not set in stone and it is not gospel. It is something that the President has to do. We get the opportunity to have Mr. Nussle and later today Mr. Leavitt and others from the Administration talk about suggestions for the budget.

But the budget, generally speaking, sets out parameters for spending in discretionary areas. It used to be 13, now I think it is 12. Not sure, I lose track. As I said, it doesn't matter much. Then it sets out broad spending ranges for entitlement programs. It projects what those spending ranges will be, based on current law, which the Administration can't change. They can make suggestions, as they have in this budget, which I happen to think will not pass as outlined in the budget. They are just, as I said in my opening remarks, ratcheting down reimbursement rates.

That, to me, is not reform. That is just creating savings by reducing reimbursement rates. It is time we got past that, Mr. Chairman, and started thinking seriously about fundamental reforms to Medicare and not just squeezing more out of providers.

So, the President's budget is a general document required by law that sets out what the spending should be and what revenues should be. The President has done that. That is his obligation.

Now, if you get into all the assumptions, if you get into all the specifics, yes, the President could use this budget to suggest specific reforms, as he has done in some areas in the past. But it is not required by law that he do that and, as a practical matter, as we have seen with the examples of Social Security and with health insurance, it is not altogether productive for the President to make specific suggestions.

You know my opinion, Mr. Chairman. My opinion is that we get more done if we work here in the Congress on a bipartisan basis and then include the President when we get down the road far enough that we think we might actually be able to agree on something. We include the President, bring the Administration into those talks to finalize them and make them law. Because obviously the President has to sign legislation.

But we ought to be the ones, again, developing legislation and kind of searching for that kind of common ground that we can find. I don't believe—even if Democrats were to pick up a bunch of seats in the '08 elections and pick up a bunch of seats in the Senate in the '08 elections, and even if you pick up the presidency in the '08 elections, I don't think you are going to be able to do Social Security reform or Medicare reform or even tax reform on a partisan basis. It is just too big, it is too politically sensitive. It has got to be done on a bipartisan basis. The place to start is in the Congress.

So, I appreciate the Chairman's remarks and I understand where he is coming from. It would be swell if we had a president with a magic wand that could just say this is what ought to be and then magically we agree and pass it. But that has never happened before, at least not in my lifetime. It is not likely to happen now, with any either Republican or Democratic president

Now it think we're finally getting some Members back, Mr. Chairman, and you and I can pass the baton.

Chairman RANGEL. Well, I just want to say, I figured if you talked long enough I would find something to agree with you on. I do agree, as we said much earlier, that we will not be able to tackle these serious, complex Social Security, Medicare problems unless it is done in a bipartisan way.

I guess what you are saying is that if we dismiss this whole budget concept completely now, and then get on to see what we can do, we might make a lot more sense than trying to get a responsible answer as to how do you put AMT in, abolish it with one page and then raise the revenue to balance the budget on the other.

Mr. Levin is back and I hope that you have been able to get some benefit in the direction which we—we are not going to hold you seriously to this document. You had to do it, the President had to do it. We are not going to do it. But to the best that you can, if we find any areas that we can work together, we will be calling upon you to give your guidance, because that's the way it is.

I would like to yield to Mr. Levin.

Mr. LEVIN. Well, Mr. McCrery, I missed your questions. But if you agreed with our Chairman, I think it kind of sums up where we are with this hearing. Maybe nobody else needs to come back including me.

Because, you know, we have a sense of affection for former colleagues. But, you know, your response to Mr. Rangel on the AMT is I think so totally unpersuasive. I don't think we can find common ground when essentially a budget is built on sand.

I don't think—they talk about budgets being dead on arrival. I think this was dead on its production. The AMT is a vivid example of it.

We all know that we can't continue it. So, any budget that just simply assumes continued revenues from it is not credible.

As I mentioned to you in our discussion when you met with us on the majority side, the same is true of a budget that proposes to eliminate the manufacturing extension program. We go through it every year.

The same is true of a budget that eliminates the COPS grants. I mean, that isn't going to happen. This major reduction in Safe and Drug-Free Schools, you know it isn't going to happen. The LIHEAP cuts, we are talking about more money for LIHEAP. The weather yesterday I think illustrated the need for it.

The revolving fund for water, you cut it when we need to dramatically increase it with all the problems we have. CDBG, you know it isn't going to be cut 30 percent.

You know, Mr. McCrery, it is interesting, this chart of yours. But I think what needs to be discussed is not kind of the end of this process, what percentage we end up with, but the journey that is taken necessary to come out with whatever percentage we agree with. That is why this budget is essentially useless.

I mean, it is essentially useless, because it is built on assumptions that everybody in this town knows will not happen. I mean, after next year, there is no money for Iraq and Afghanistan. Right, Mr. Nussle?

Mr. NUSSLE. No, that's—that is not the case.

Mr. LEVIN. There's money for Iraq and Afghanistan directly?

Mr. NUSSLE. We have $70 billion in for Iraq and Afghanistan.

Mr. LEVIN. For next year.

Mr. NUSSLE. Yes.

Mr. LEVIN. I see. But after next year?

Chairman RANGEL. The war is over.

Mr. LEVIN. There is nothing budgeted, right?

Mr. NUSSLE. That's correct.

Mr. LEVIN. I mean, no one believes that. I mean, we have General Petraeus talking about a pause in any troop reduction in the summer. So, what is the use of bringing a budget when after next year there is no money for Afghanistan and Iraq? Who is going to believe that?

So, I think, Mr. Chairman, you have essentially summed it up. We ought to essentially assume this budget is something we won't deal with. We will have to find common ground.

I remember some years ago now, there were some honest budgets and they called for some difficult measures. That was true in '93 and '94. There was, I suppose, a political price that was paid for an honest budget.

But let me just say, I think there is a real political price that is paid among the public generally when there is not an honest budget. As our Chairman said, you were given the responsibility and used your talents to come up with something that is essentially—that will essentially be discarded.

I yield back.

Chairman RANGEL. Mr. Herger.

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

Mr. Nussle, I want to thank you for joining us. I want to thank you for your leadership during the years that you served on this Committee on Ways and Means. Your leadership, leading on the Budget Committee, the responsibility, the looking at life as it is and making some very tough decisions. Many of the thoughts and leadership that you gave us at that time.

I would like to ask a question if I could on the reality of the policies that we have here in Congress as related to what perhaps static type of addressing some of these policies might be. Specifically, I want to go back to the 2001, 2003 tax reductions that we had that allowed our businesses, those who create jobs, to be able to keep more of their own money. What might have been projected just from a static standpoint, despite the fact that we are beginning in a recession at that time, despite the fact that we had 9/11, war on terrorism, Homeland Security, all of this which adversely affected our budget.

These tax reductions that we had, 2001, 2003, which helped create the incredible economic growth and investment opportunities and an astounding period of job creation. I come from a small business background myself, and I often think what will happen to workers and small businesses if this tax relief is not extended. Most people may not realize that in less than 3 years, nearly 116 million taxpayers will be facing an average tax increase of $1,800. This greatly concerns me. I think it should concern every American and every taxpayer. I believe this Committee and Congress need to act as the President has suggested and permanently extend relief as soon as possible.

I am particularly concerned about the effect this massive tax increase is having on employer decisionmaking today, right now. How uncertainty about tomorrow's tax situation is having an effect on workers and job growth today.

I would like your thoughts on this issue.

Mr. NUSSLE. Well, first of all, I couldn't agree with you more that the tax relief of 2001 and 2003 was exactly the right thing to do at the right time in order to give certainty, give the kind of economic growth that we saw and the numbers that I stated about the revenue coming in is part of the proof. I think the expansion of our GDP, all of that can be attributed to this.

Also, I share your concern about the—about what happens to business and job creation and capital formation and the ability for us to continue to see that kind of growth going forward if we don't give some certainty to the people who are planning their tax future, their economic future right now, and factoring in at least some prediction about what may happen to that tax relief package. I think in part, that may be what is happening right now to some may say spook the marketplace into giving it the jitters. It is not all of it. Certainly, there are many factors.

The other part of your question assumes, too, that you can go back and say, well, this is exactly what happened. Obviously, that is not the only—as you stated, 9/11, Homeland Security challenges, two wars, two fronts of a global war, I mean, all of that had impact. So, you can't just say, well, it's one for one, a direct relation, cause and effect.

But there is no question by most independent folks, including Alan Greenspan and others, said it was exactly the right tax relief at the exact right time.

Mr. HERGER. Thank you, Mr. Director.

One of the most serious problems we are facing, as you mentioned in your testimony, as a nation is the future of Social Security and Medicare entitlements. I want to commend the Administration for offering some constructive proposals to address these fiscal challenges. The Trustees' Report that Medicare is going to start paying out more than it takes in from taxes in just 3 years. Social Security goes into the red just a few years later.

All told, under the current system, the taxpayers would be on the hook for $53 trillion. Because Congress is currently spending the entire surplus from the trust funds every year, this will result in the type of crowd out effect as trust fund IOUs come due and a growing portion of discretionary spending is dedicated to repaying borrowed surpluses. How do you or how do we dig ourselves out of this hole? What are the risks, as John F. Kennedy, said to comfortable inaction?

Mr. NUSSLE. Well, if I may, I will respond very quickly. It is the same—using your analogy, if you are in a hole, not only do you have to stop digging but you have to start filling it back in shovelful by shovelful. Again, I think—I take it very seriously what the Committee has told me today, that you are not going to adopt these reforms when it comes to Medicare as an example.

I am not suggesting that these reforms are perfect or are the only way you can resolve this. You are going to have a hearing this afternoon where the Secretary of Health will, I think, engage in a health care reform discussion with you that hopefully will go even further.

But the order of magnitude I would suggest to you is about right, taking one-third of the problem, knowing that as you say that, in just 3 years, we're running the deficit and in a number of years for Social Security, I think 2017, same type of thing, that the order of magnitude is let's try and tackle at least a third of this right now, knowing that you still have a few more shovelfuls that you are going to have to deal with down the line.

Mr. HERGER. Thank you very much.

Chairman RANGEL. Mr. Director, I think I heard you say that former Chairman Greenspan supported the tax relief. I heard him saying that, too, during our hearings. But it seems that's inconsistent with him saying in his book that he meant only if those tax cuts were accompanied with program cuts. Was that your understanding? That he—he assumed that there would be program cuts and not deficit borrowing in order to support the tax cuts.

Mr. NUSSLE. I remember what he said at the time as well, and he did say that. His book does go on to say that we have to reduce spending. That is in part why we present the budgets that we do, that do reduce spending.

Chairman RANGEL. I know. But he didn't support the tax cuts as it ended up. Because it was not accompanied with program spending.

Anyway, I admit that it was a little confusing.

Mr. Lewis is recognized.

Mr. LEWIS OF GEORGIA. Thank you very much, Mr. Chairman. Thank you, Director Nussle, for being here today.

Director, this budget is not about change. This budget is nothing but business as usual. It doesn't address the worries and the fears of the American people. It doesn't address how we got here. It only makes things, in my estimation, worse.

Do you think that this budget will inspire the American people with red ink as far as the eyes can see? Is this the best that we can do in America at this time, at this juncture in our history?

I would like to know, is this an honest budget. I think you told Mr. Levin that there is not any money in this budget for the war in Iraq and Afghanistan after next year. That is not coming clean. That is not putting all your cards on the table face up with the American people.

I would like for you to respond.

Mr. NUSSLE. First of all, it may not be perfect. When you ask, is it the best that you can do, there are other alternatives. Certainly, raising taxes is an alternative. Certainly cutting spending even more is an alternative in order to deal with the red ink.

But the choice that we made at a time of war, with an economic downturn, knowing that the Congress and the President are helping to run up the deficit by putting a shot in the arm of economic growth, knowing that, we believe this is the best balanced approach that you can do at this time.

But no, I'm not going to—to my friend from Georgia who I have known a long time, I am not going to tell you everything in here is perfect. We had to make choices. There are some things that are harder choices than others. I acknowledge that.

But when you say at this time, I think that is the key part of the question. At this time, at war, with a downturn in the economy, given the challenges that we face, I do think this is a balanced approach that isn't perfect, but may be one of the best alternatives that we have.

I would be interested to see what other alternatives Congress comes up with.

Mr. LEWIS OF GEORGIA. Mr. Director, do you think it is fair at this time of war to come here and argue in this budget that we should continue to make the tax cuts of 2001 and 2003 permanent?

Mr. NUSSLE. I do. The reason is because it is a fundamental disagreement that I think we may have and that is, whose money is this to begin with. In my estimation, when I look at my budget, when I look at all these things, this isn't my money I'm talking about. These are my neighbors' money that I live next door to, that you live next door to. It is not mine to give out, it is not mine to take. It is not mine.

If you start with that fundamental belief, I think you may have a different—at least I have a different approach to it. I look at it and I say, I don't think we need any more revenue coming into Washington to solve these problems. We ought to solve them with the revenue that is coming in because it is, as I showed you, above the 40-year average. So, we are getting more revenue than usual. That ought to be enough to solve, quote, unquote, assuming you solve anything here, solve problems that Congress and the President decide to address.

Mr. LEWIS OF GEORGIA. Let me move to another area, Mr. Director.

Just the other day in my state of Georgia, 43,000 people answered a help wanted ad. They wanted one of 2,500 new jobs at a foreign-based car maker opening a plant. I have heard the Administration position on trade and I think new jobs in Georgia are a good thing, are good for America.

But now is not the time to pin the hopes of millions of Americans on the talking point about free trade and its place in our economy. What is your recommendation to these people?

Mr. NUSSLE. Well, I would say to my friend that I am given a lot of responsibility by the President but one of them is not to be the trade representative on behalf of the Administration. I do have some experience, as you know, being on this Committee. But I would rather—I would rather that Ambassador Schwab be given that question and allow her to answer that.

I mean, my view is your view. It is good when jobs are available in our country. Trade often makes that possible.

Mr. LEWIS OF GEORGIA. Well, let me come back in another way. When you see hundreds and thousands of Americans losing their jobs, people being laid off at Home Depot and other places, more than 7,500 people showing up for 400 jobs at a Wal-Mart, do you think we are sliding into a recession? Is it here?

Mr. NUSSLE. No, I don't believe——

Mr. LEWIS OF GEORGIA. Well, you disagree with the leading economists?

Mr. NUSSLE. Those who are suggesting that we are sliding into a recession, I would—I would respectfully disagree with, yes. But I also do think that what you have done in a bipartisan way to give the economy a shot in the arm is good. Even if we are not in a recession, which, you know, you always look back at and decide, it is a prospective kind of decision or analysis. Even if we are not or we are, however you want to approach it, regardless of that argument, I think what has happened is the right thing to do at this time, to give a shot in the arm for the economy.

Mr. LEWIS OF GEORGIA. Thank you, Mr. Director. Thank you, Mr. Chairman.

Chairman RANGEL. How many shots do you think we might need for this nonexisting recession? We keep giving shots until it doesn't happen or it reverses if it is happening?

Mr. NUSSLE. Well, I was possibly inappropriately freelancing on the trade question for Ambassador Schwab. Secretary Paulson is the one who makes the determination on taxes for the Administration. So, I mean, again, my opinion is that this is a good shot in the arm at this time. The leading economists tell us that there may be as much as six-tenths of 1 percent growth in GDP as a result of what you have done. I think you should be proud of it. I think we should let that occur and see how that works.

I think, longer term, we still have this challenge, though, of the skittishness of the marketplace that is concerned about the long-term tax liability. That is the reason why the Administration continues to promote, and I believe the President will today, the 2001 and 2003 extension.

Chairman RANGEL. Why did the President not make it permanent in the first place? Why did he request that it expire?

Mr. NUSSLE. Mr. Chairman, you and I both know that he did not request that it expire. That that is a rule that comes from the Senate to accomplish their rules. It had nothing to do with the President of the United States, I say respectfully. For that matter, nothing to do with this Committee.

Chairman RANGEL. Let me recognize Mr. Camp.

Mr. CAMP. Thank you very much, Mr. Chairman. I want to say, welcome back, Jim. It is great to see you here. Thank you for the great job you are doing.

The 2001 and 2003 tax cuts included certainly lower rates, income rates, for families and individuals and also lower rates on capital gains and dividends. Can you tell me, if the tax cuts are allowed to expire or snap back to the level they were at before, which Americans will see their taxes go up?

Mr. NUSSLE. It ends up being just about every American who pays taxes will see their taxes go up. It is about 116 million people, filers, will see about an average of about $1,800 in additional tax liability.

Mr. CAMP. Moving on to—can you tell me the effect of the lowering of cap gains and dividends on particularly seniors as one group, for example?

Mr. NUSSLE. I don't have any of that data in front of me. But there is no question that, as more and more people are looking to those kinds of investment vehicles that would realize gain or would receive a dividend, that certainly will have an impact on their retirement. There is no question about it.

I don't have that distribution in front of me, though. There is no question that it is spread across, and particularly for those who are saving and investing for their retirement.

Mr. CAMP. I might add, Treasury has estimated about 8.5 million seniors saved an average of $1,144 on their '05 taxes as a result of lower rates on dividends and long-term capital gains. So, fairly significant.

Also the tax foundations analyzed some IRS data and they have said that more than half of all taxpayers over the age of 65 received dividend income in 2004. So, that is double the national average in terms of other taxpayers.

Moving to the cost of entitlements, Federal spending for Social Security, Medicare and Medicaid in '06 together totaled about 40 percent of Federal expenditures. According to the Congressional Budget Office, without reform, spending on those programs will reach about double what it is now, about 15 percent of GDP by 2030. Considering that revenues have historically been averaging about 18 percent of GDP, is the future level of spending on entitlements sustainable in your opinion?

Mr. NUSSLE. No, it is not sustainable. That is the reason why—what we are trying to do, again, and I say to my very good friend from Michigan, we are not suggesting that the reforms that we put into this proposal that save resources in Medicare are exactly the perfect medicine. In fact, the Ranking Member, I think, said it even better, that we ought to reform health care and Medicare. However, the order of magnitude of the $34 trillion unfunded liability in Medicare requires a downpayment. We have chosen about a third. We have also chosen a number that Congress has been able to lift before. You don't want to put on weight that somebody can't lift.

Congress in 1997 was able to lift a bill that was actually heavier than the one that we are proposing at 208 billion across many different entitlements. So, the reason that we are picking it, I think, is because this is a reasonable request to start the discussion of what we need to do in entitlement reform.

Mr. CAMP. I appreciate that answer. Obviously, we—there is a significant proposal in the President's budget. But I frankly would like to have seen a little more—I mean, even if we enact every item in the President's budget, we still end up with the same payment structure that we have now. So, fundamental Medicare reform, I think, is going to be essential as we move forward and millions of Baby Boomers in roughly 10 years become eligible for the program. We do need to address it and the sooner the better.

So, I think that is one area where I think if we not only strengthen Medicare but also have to look at things in a new way. So, thank you very much for being here, and thank you, Mr. Chairman.

Chairman RANGEL. You went into some detail with all this tax business. Do you recommend to Treasury what they should be asking for, or do they tell you what their tax policies are? Which way does that go?

Mr. NUSSLE. Treasury makes the recommendation. We work together. It is a collaborative process. The President makes the final decision.

Chairman RANGEL. So, making permanent the tax cuts, that is not your decision, that is Treasury's decision, right?

Mr. NUSSLE. Well, it is actually the President's decision. We make recommendations.

Chairman RANGEL. Supported by Secretary of the Treasury.

Mr. NUSSLE. Yes, sir. We make recommendations to the President.

Chairman RANGEL. So if I don't see any tax reform in here, it means that the President didn't recommend it, Treasury didn't recommend it and you certainly don't have the authority to recommend tax policy; is that correct?

Mr. NUSSLE. That may not be correct. But the final decision is the President's.

Chairman RANGEL. He didn't tell you to put it in this.

Mr. NUSSLE. Well, there are a number of conversations that lead up to the decision about what happens in a budget and that is part of a very deliberative process as you might imagine. So, I am not sure I could recount all of the different conversations.

Chairman RANGEL. Okay. Well, fortunately, Richard Neal is the next person to ask and he had extensive hearings as relates to tax policy. So, I would like to yield to him at this time.

Mr. NEAL. Thank you, Mr. Chairman.

Mr. Nussle, in December, the Administration pushed for an AMT patch without raising other taxes in a revenue neutral bill. It seems that this budget contemplates an AMT patch for this year with no offsetting revenue increases. Some have argued that because this AMT problem was unintended, it shouldn't be offset. However, your budget seems to count on AMT revenues. In fact, those AMT revenues cuts in half the cost of extending the Bush tax cuts.

Does it seem inconsistent for you as budget director to say it shouldn't count for one purpose but then rely upon it big time for another purpose?

Mr. NUSSLE. I think again the key here is—the priority, I should say, here is the President's 2001 and 2003 tax relief. That is the priority. We believe the rest of the Code, if you will, if reform is going to be done, can be done in a revenue neutral way. It is for that reason that we construct the revenue line the way we do.

Mr. NEAL. Let me ask you, is it—there was some confusion here with Secretary Paulson last week about how you intend to proceed with AMT. Does your budget borrow the money for AMT for another year?

Mr. NUSSLE. Borrow the money for AMT? No. The AMT comes from you and me and our neighbors and friends and——

Mr. NEAL. To patch the AMT, is that your suggestion in the budget?

Mr. NUSSLE. To patch it?

Mr. NEAL. Well, are you patching it for another year?

Mr. NUSSLE. Our view is that it should be fixed, it should be reformed.

Mr. NEAL. But in this budget, are you patching it?

Mr. NUSSLE. We accept that there will be a patch for this year, yes.

Mr. NEAL. Where does that revenue come from?

Mr. NUSSLE. Well, it comes from the American people.

Mr. NEAL. But last year, that wasn't the case, here as we decided in the closing days of the Congress. We offered to pay for it on our side, and that was rejected by the Administration. It was the Administration's position to borrow the money.

Mr. NUSSLE. Well, you are paying for it because my guess is you pay AMT, I would think.

Mr. NEAL. But are we borrowing the money in your budget?

Mr. NUSSLE. No. Not to pay for the AMT, no. We borrow money for spending, there is no question about that. Yes.

Mr. NEAL. Let me ask you this. I think that the Administration seems to have a bit of difficulty grasping what seems to be a very basic question. But since 2001, let me just see if I can get you to agree to this. Since 2001, these temporary AMT patches have not been offset. Is that the case?

Mr. NUSSLE. That is, I believe, the case.

Mr. NEAL. Okay. So, that means if they have not been offset, that it has been accomplished with borrowed money.

Mr. NUSSLE. No. It means that we took less money from your neighbors and you and me who pay AMT.

Mr. NEAL. Okay. Let me ask you this. CBO told us in December that a $50 billion patch for last year would result in an additional $29 billion of interest. Do you agree with that?

Mr. NUSSLE. If that is what CBO says, I don't have anything to quarrel with that.

Mr. NEAL. Why are we paying interest that we just plucked from the taxpayer as opposed to money we had to borrow——

Mr. NUSSLE. That assumes, though, that there is nothing that is being spent.

Mr. NEAL. Mr. Nussle, would you agree with this number? There have been estimates that have suggested that additional interest expense for all the AMT patches since 2001 will be $106 billion through 2017.

Mr. NUSSLE. Again, I don't know where the number comes from. I will——

Mr. NEAL. CBO.

Mr. NUSSLE. Okay, I will trust that. I don't have anything to quarrel with that.

Mr. NEAL. So, we are paying interest on what?

Mr. NUSSLE. On spending.

Mr. NEAL. We are not paying interest on the borrowed——

Mr. NUSSLE. Well, what happened to spending last year at that same time that an AMT patch was done and left people with more money in their pocket? Spending went up. That is what you borrowed money for—to pay for this spending.

Mr. NEAL. Mr. Nussle, I am just trying to get you to say what every individual who is involved with AMT, regardless of whether or not it is congressional representation or Administration representation, that we are being asked to borrow the money.

Mr. NUSSLE. I disagree with that. I mean, if you ask a taxpayer sitting at their tax preparer today——

Mr. NEAL. I am asking the director of the budget office. Where are we going to get the money to do it?

Mr. NUSSLE. When I pay my AMT, I don't worry about what the government is borrowing. I have to worry about where I am going to come up with the money to pay for it.

Mr. NEAL. You might not worry about it. But certainly to get the balanced budget that you proposed to get through the fiscal year——

Mr. NUSSLE. No, no, no. You are asking me if you borrow money to pay for taxes. What I am saying is, the only people who pay taxes are people, not government. Government doesn't pay taxes.

Mr. NEAL. Last year at the conclusion of the congressional session, where did the $50 billion come from to patch AMT?

Mr. NUSSLE. It was money that was left in the pockets of the American people. We spent more money here in Washington, that we borrowed money in order to pay for.

I mean, this is a fundamental——

Mr. NEAL. Mr. Chairman——

Mr. NUSSLE. It depends on who you think this money belongs to.

Chairman RANGEL. You have to have some respect for government even if it is the Executive Branch.

Let's see, where are we now, here. Mr. Johnson from Texas, you are recognized for purposes of——

Mr. JOHNSON. Thank you, Mr. Chairman. I had to borrow a lot of money last year to borrow taxes. The only problem is there are no taxes in Texas.

As you know, Chairman McNulty and I wrote to you asking for sufficient funding to address the disability claims backlog crisis and to provide sufficient staffing needed to address increasing workloads in the Social Security Administration. I thank you for agreeing with us and providing enough funds in the budget for the agency to reducing the hearing backlog by 70,000 cases. That is only 20 percent.

They process over 200,000 more retirement and survivor claims and handle 4,800,000 number of calls compared to fiscal year 2000. Waiting time and claims processing times should drop. More program integrity work will be processed.

In his budget message, the commissioner of Social Security says the agency is at a crossroads, facing an avalanche of retirement and disability claims, while they must address large backlogs. Without sustained adequate funding, the commissioner reports the Social Security service crisis will worsen, at the same time the aging population is increasingly counting on Social Security programs.

Do you agree with the commissioner and how can we work together to ensure that SSA can handle its growing workload in the coming years?

Mr. NUSSLE. I do and I commend you for the things that you have done in the areas that you have led as well. The President also agrees that this backlog is unacceptable and we have—in the budget, we have increased on this backlog, reduction plan, the budget 6 percent, a little bit over 6 percent in order to accomplish that. We would continue to work with this Committee and others to continue to reduce that backlog.

Mr. JOHNSON. I thank you. We are trying to hire some judges to help solve some of that problem. It is not easy, as you know.

I don't have any further question, Mr. Chairman. I yield back the balance of my time.

Chairman RANGEL. Thank you, Mr. Johnson.

I would like to recognize Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Director, good to see you. Congratulations on the position the President has appointed you to hold.

I have, in thinking back on our go-arounds in years past when you were a Member of Ways and Means and a Member of Budget and Chairman of Budget, wondered whether we shouldn't reprise one of our go-arounds one more time for old time's sake on general budget policy.

But I actually think I will not do that. I want to point out a short-term, pretty glaring energy issue and ask what the rationale for the Administration's position was. Then I want to talk to you about an issue that maybe is ripe for constructive work in the year ahead. You don't have a lot of time in your position. I know you would like to make a constructive mark. Let's explore the waterfront and see where we can work together and leave something that might be a constructive achievement in a bipartisan context in this last year of the Administration.

Let me begin with the urgent issue, LIHEAP, the fuel assistance, the heating assistance for seniors. It is five degrees in Bismark, North Dakota, today. That is a pretty warm one compared to what we have been experiencing lately. We are having a fairly severe winter, as is true of much of the country.

Although the price of heating homes is up dramatically and I am just happy that the folks in our region are not quite as dependent on fuel oil as they are in other areas, still even natural gas is up significantly and we—the proposal on fuel assistance would cut $570 million. It would be a 22 percent cut. Essentially, the ways we can figure to do it, in terms of running the program, is lop a million people off of fuel assistance or cut the benefits people receive by 22 percent. All of that flies in the face of a reality of higher and higher heating costs.

So, what was the rationale on the LIHEAP cut?

Mr. NUSSLE. LIHEAP is an annual challenge, as you and I both know, because our states qualify for LIHEAP. First of all, this is the LIHEAP budget for 2009. The year that we are in right now obviously has already been settled. But to some extent, this is—I guess a couple of things.

First of all, the President asked for more resources than he did the year before. It is difficult to outbid Congress. We have learned, I think, from an Administration standpoint, to outbid Congress when it comes to this important program. It is based, I think, on a more situational basis no different than often some other emergency funding is often done. That is the way Congress often treats it.

So, you know, to look into the future and to know exactly what that is going to be like is difficult. Also recognizing that Congress has chosen to outbid the President in his increases has also been something that, at least within a tight budget, we weren't able to sustain.

So, we increased the amount that we are requesting. But we also know that Congress may choose to not fund other areas and to fund this in final analysis.

Mr. POMEROY. If I hear you correctly, I hear you say this would not cause quite the concern of spending in other areas if Congress ups the—if Congress even flatlines the program as opposed to a 22 percent cut, maybe it wouldn't go down all that badly at the White House?

Mr. NUSSLE. Well, this is the annual challenge that you and I know well, and that is the President sets overall parameters for spending, certainly makes some judgment calls as to what the pluses and minuses and what the choices are. But recognizes that Congress through the appropriations process is the one that makes that determination.

He often, as he says, holds the top line. Congress makes the determination of where those pluses and minuses should be.

Mr. POMEROY. An area where I believe the Administration ought to provide more leadership on top line, in light of one of its stated top five priorities, renewable energy, would be in support on the wind energy development. We are coming a long way, but we still as a percentage of power captured from this renewable fuel rank far below European countries.

The economic report to the President says that wind power is cost competitive provided the production tax credit is in place. That is found on page 175 of that document.

Is the Administration supportive of the production tax credit in support of wind energy?

Mr. NUSSLE. All I was checking on was to see what statements have been made. I am not familiar with what has been said, and I am still not familiar based on what I was just told. So, can I get back to you on that? I believe the Administration has been supportive in the past. Going forward, I am not sure that I can answer that for you at this point.

[The information follows:]

[Rep. Pomeroy Question for the Record pg. 57]

INSERT: PG. 57A

Question: Is the Administration supportive of the production tax credit in support of wind energy?

Response: The Administration supports efforts to encourage the development and deployment of renewable and alternative energy, including wind energy. The Administration recognizes that tax incentives for renewable energy can promote energy security and reduce impacts on the environment. In the past, the Administration has proposed the extension or expansion of tax incentives for wind, biomass, and landfill gas. The Administration will make a determination at the appropriate time and with proper consideration of the legislative context whether to support a further extension of the credit.

In addition to Federal tax credits, numerous Federal and State programs provide assistance that promotes deployment of renewable energy technologies. The President's Advanced Energy Initiative (AEI) provides for continued investments in important clean energy technologies of the future that can help reduce emissions and improve energy security. The 2009 Budget provides $3.2 billion for the AEI, an increase of $624 million (+24 percent) over the 2008 enacted level, including $53 million for wind energy technologies.

Mr. POMEROY. There is not provision for extending the wind production tax credit, which expires at the end of '08. We are going to see development of this renewable fuel begin to curtail quite dramatically in the months immediately ahead if we don't extend. This is an area maybe we could work together to try and support extension of the wind production tax credit.

Thank you, Mr. Chairman. I yield back.

Chairman RANGEL. Thank you. The Chair recognizes Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman. Thank you, Director, for being here today.

I don't know if you know this off the top of your head, but back to the Federal receipts since the 2001 and 2003 tax cuts were enacted, so I guess beginning in 2004, have Federal revenues gone up or down?

Mr. NUSSLE. They have gone up, dramatically.

Mr. TIBERI. Every year?

Mr. NUSSLE. There were 3 years actually. Beginning in 2001, I believe, that it was the first time in history there was less revenue for 3 years since the twenties, as a result of the shock that occurred in '01, obviously.

But after that, I believe every year there have been increases. As I stated in my opening statement, '05 was 14.5 percent, I believe, 11.8 percent in '06 and then 6.7 percent in just this last year, as examples.

Mr. TIBERI. Sorry I missed your opening statement. I was in the Budget Committee.

Mr. NUSSLE. It was scintillating, so I am sorry you missed it, too.

Mr. TIBERI. It is interesting, because you talk about your neighbor, and we all have neighbors, obviously, back home. It is interesting because there are views of some people, and it is shocking when you correct them, that Federal revenues have actually gone up, because there is this belief that Federal revenues have actually gone down.

In terms of those tax cuts in 2001 and 2003, if those tax cuts—if those tax cuts are not extended, if they are allowed to expire, do you know how many people today, how many Americans or how many American households who under those tax cuts do not pay taxes will have to again begin paying taxes after those tax cuts expire in 2010?

Mr. NUSSLE. I believe there are 116 million people would pay about $1,800 more on average if they are not extended.

Mr. TIBERI. Generally speaking, are those people, people with income of less than $100,000, or are they the richest 1 percent of Americans?

Mr. NUSSLE. Well, just by your statement, I mean, obviously this is the bulk of America that we are talking about, the so-called middle class, if you will. So, obviously the bulk of it are people who are not making money that could be defined as rich, I would suggest.

Mr. TIBERI. I have heard thousands of times that the tax cuts went to the wealthiest 1 percent. Do you know what happened beginning in 2004? The wealthiest 1 percent paid X number of dollars or a percentage, let's go with percentage, they paid a certain percentage of the total income tax picture before those tax cuts went into effect and after. Did it go down in terms of what they paid in terms of the overall percentage of income taxes to the Federal Government or did it go up?

Mr. NUSSLE. Interestingly, the top 1 percent actually paid slightly more as a percentage. Right now, the percentages stand that the top 1 percent pays nearly 39 percent of all taxes and the top 5 percent pays nearly 59 percent of all taxes. But those—you are correct, there was actually more money that came from those—from those percentages, not less.

Mr. TIBERI. The number of overall taxpayers, once the '01 and '03 tax cuts went into effect, correct me if I am wrong, the number of taxpayers paying taxes to the Federal Government went down?

Mr. NUSSLE. That is correct.

Mr. TIBERI. Do you know by how many?

Mr. NUSSLE. I could get that for you. I don't have it right off the cuff.

[The information follows:]

[Rep. Tiberi Questions for the Record pg. 60 and 61]

INSERT: PG. 61A

Question: As a result of the '01 and '03 tax cuts, how many individuals are no longer required to pay taxes to the Federal government?

Answer: As a result of the President's Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, and the Tax Increase Prevention and Reconciliation Act of 2005, over 6 million individuals and families will see their income tax liabilities completely eliminated.

Mr. TIBERI. Okay. Do you know how many taxpayers would, if we do not extend the child tax credit, would begin paying the child tax credit or would begin paying taxes again? Let me flip that around. How many moms or dads would not benefit or lose the benefit of the child tax credit that they receive today if we allow that to expire?

Mr. NUSSLE. Well, all of them that are currently eligible for it.

Mr. TIBERI. Do you know what that number would be?

Mr. NUSSLE. I don't right offhand.

Mr. TIBERI. That is something that we could get a hold of?

Mr. NUSSLE. I will check on that as well.

[The information follows:]

[Rep. Tiberi Questions for the Record pg. 61]

INSERT: PG 61B

Question: "Do you know how many taxpayers would, if we do not extend the child tax credit, would begin paying the child tax credit…"

Answer: If Congress does not act to extend the President's tax cuts, in 2011, 31 million families with children would see an increase in their taxes. The average increase among families facing a tax increase would be $1,084.

Mr. TIBERI. Okay, thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

The chair recognizes Ms. Tubbs Jones from Ohio.

Ms. TUBBS JONES. Mr. Chairman, thank you very much. Mr. Nussle, it is always nice to see you.

I want to focus in for a moment around health care. Under the President's proposal, it looks like the only thing that is saved for tax deduction are these health savings accounts. Is that correct?

Mr. NUSSLE. We also put into the plan again this year the President's standard deduction for health insurance as well. So, yes, you will see those provisions in the budget.

Ms. TUBBS JONES. A standard deduction. What is the standard deduction under this new budget?

Mr. NUSSLE. The standard deduction is $15,000 for families and it is a shift from the employer to the employee so that the employee can go out into the marketplace. Again, the exclusion is up to $15,000.

Ms. TUBBS JONES. A shift from the employer to the employee meaning that employer-provided health insurance becomes taxable income to the employee?

Mr. NUSSLE. What it does is it also gives the employee—and many of these are self-employed, many of these are people working in small businesses where the employer doesn't afford health insurance at this point in time, can go out into the marketplace in addition to a number of other reforms, and begin to be able to purchase that and get the benefit as opposed to the employer getting the benefit.

Ms. TUBBS JONES. But stay with me, Mr. Nussle. Employer-provided health insurance becomes taxable income to the employee, right?

Mr. NUSSLE. Yes.

Ms. TUBBS JONES. I want to be clear. Then the budget eliminates the self-employed deduction for health insurance expenses?

Mr. NUSSLE. Yes.

Ms. TUBBS JONES. It eliminates the tax deduction for people who have spent more than 7.5 percent of their income on medical expenses, except for people 65 and older.

Mr. NUSSLE. Yes.

Ms. TUBBS JONES. It eliminates medical flexible spending accounts? Well, presume I'm correct. I wouldn't try and throw you an incorrect statement.

Mr. NUSSLE. Okay.

Ms. TUBBS JONES. The import of what I am saying to you, or I am asking you, Mr. Nussle, is what is the President's rationale for eliminating all of these deductions at a time when health care costs are so expensive and fewer and fewer people are able to afford health care?

Mr. NUSSLE. Again, it is designed to give the empowerment to the individual as opposed to the tax benefit to the corporation or the company. Or to the business. So, that the person actually has incentives in this process and not the employer.

The employer currently has an unlimited amount of tax benefit. We would give it to the employee so that they could go out. As a result, it would allow somewhere around 8 million people who are currently uninsured to be able to go out and purchase insurance under this kind of a plan.

Ms. TUBBS JONES. Excepting that the people who are employed and receive health care from their employer probably are able to get a better deal because they are part of a group than they are out there on their own. Also, it is very difficult to navigate the medical insurance world when you don't know anything about that.

Mr. NUSSLE. That is why we expand risk pools. That is why we allow for purchasing insurance across state lines. That is why we also support association health plans to allow for that, as you say, growing risk pool to give them more purchasing power.

Ms. TUBBS JONES. You give them more purchasing power. But if they don't know what they are purchasing, I mean, it is kind of like this whole foreclosure piece where the people in America entered into agreements with banking institutions and predatory lenders and now they are stuck because they didn't realize that there was a balloon payment in the process. You put people into buying health insurance and they would have the same problem. They don't know anything about buying any health insurance. Companies employed people to describe the best plan for their employees. How do you help people out if they are on their own?

My last question, Mr. Chairman.

Mr. NUSSLE. Well, in a competitive marketplace, people are going to compete for that kind of dollar. Especially if you are competing over state lines, it is up to the companies to try and attract them. One of the attractive qualities I certainly would look for as a consumer is if it was simple, easy to understand, easy to make claims. Those are things that I certainly would look at as a consumer. I think most people would. Right now, they don't have that incentive, as a result of it being kind of a take-it-or-leave-it approach that your employer——

Ms. TUBBS JONES. But you understood that when we did the prescription drug benefit for seniors, the presumption was that seniors would know how to navigate the waters and they really didn't. So, why do you think that everyday people who know nothing about health care or purchasing health care would know how to navigate those waters.

Mr. NUSSLE. Well, I reject the fact that everyday people, so called, could not do that. That again, that companies would not appeal to that, to the recognition that they have got to make it simpler.

But this doesn't suggest that any company is going to have to get rid of their health insurance, employers can still get it through their employer. It just gives, as I say, about 8 million people another opportunity of a way to purchase health insurance, especially when they are in a small business that doesn't often afford health insurance.

Ms. TUBBS JONES. But we—Mr. Chairman, I am done.

Mr. Nussle, it is nice to see you but I think you all should go back to the table and rethink what you are doing around taxing for health care for people of America.

Thank you, Mr. Chairman.

Chairman RANGEL. Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman. I will be very brief here.

Mr. Nussle, welcome back to the Committee. I am going to submit a question in writing for you, but I am very concerned about a local California issue involving a $3.3 million provision that is in your budget this year and it is put in there by the Bureau of Reclamation. I am hoping just to raise the awareness of this. You and I have talked about it before. But I am very concerned about this turning into a $500 million, possibly $1 billion unauthorized earmark toward the end of this Congress. So, I will submit it for the record. With that, Mr. Chairman, I will yield back.

[The information referred to follows:]

[Answers to Questions for the Record posed by Mr. Nunes follows:]

Chairman RANGEL. Thank you. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. Thank you, Mr. Nussle, for being here.

I would like to ask you a question regarding the credibility of this document. This document represents not only the priorities of the President but the priorities and the future for the American people. It seems to me that it should be a credible document.

When I read in here that the amount of money budgeted for the war in Afghanistan and Iraq is $70 billion and then 2 days later the Secretary of Defense comes out and says that we are going to need at least $170 billion, he didn't just realize this 2 days after the budget was put together.

Was this an oversight or was this just purposely left out to influence public perception of this document?

Mr. NUSSLE. If that is the characterization that you read, I would suggest that is a mischaracterization of his statement at that time. I am not suggesting you are mischaracterizing it, but I think it is a mischaracterization——

Mr. THOMPSON. So, we only need 70 billion for the war this year?

Mr. NUSSLE. No. Actually, no, that is not what we said. I mean, first of all, there is $108 billion remaining for this year that Congress has not yet appropriated for the current obligations that have very specifically been placed in the budget that was done a year ago and Congress has still not responded. Part of our concern is, where is that money?

I mean, before we ask for more——

Mr. THOMPSON. But that has nothing to do with this particular budget document.

Mr. NUSSLE. Oh, sure it does. We actually do think it does, because we were specifically—and I was one of the people, haranguing the Administration, put it into the budget, make it specific, give us your amount so that we can consider it.

Well, it was put into the budget, it was very specific, and Congress has yet to consider it.

Mr. THOMPSON. But if you need 170 and you don't have anything, irrespective of why you don't have it, why would you just put 70?

Mr. NUSSLE. Secretary Gates did not say that he knew that it was going to be $170 billion as a final request. He didn't know that.

He said that if you take it arithmetically and you look at it, you could say 170. But he immediately said, that is not an accurate figure and I know that today, because I don't even know how much——

Mr. THOMPSON. What is the accurate figure, Mr. Nussle?

Mr. NUSSLE. We don't know that today. But we do know there is $108 billion that is needed for this year for men and women who are currently in the field. We certainly are anxious to hear what Congress is going to do about that.

Mr. THOMPSON. Mr. Nussle, does this budget assume that there will be no alternative minimum tax patch starting in 2009?

Mr. NUSSLE. Yes.

Mr. THOMPSON. Does this budget assume that none of the renewable energy incentives will be extended?

Mr. NUSSLE. It doesn't assume that, but it—it assumes that Congress will address that at that time.

Mr. THOMPSON. But the budget itself does not take that into consideration?

Mr. NUSSLE. No.

Mr. THOMPSON. Does this budget assume that Medicare reimbursements to physicians will be cut by 10 percent in July and 5 percent a year thereafter?

Mr. NUSSLE. Yes.

Mr. THOMPSON. How is it at all——

Mr. NUSSLE. Which is current law, which is what Congress also assumes at this point.

Mr. THOMPSON. So, how can you project then that this budget will be balanced by 2012?

Mr. NUSSLE. Well, because that is—that is what we project. It will be interesting to see——

Mr. THOMPSON. So, you are counting on the—so you are actually counting on the physicians, doing away with these—or in terms that were used when we were in the minority, increasing the taxes on people who chose renewable energy and increasing the taxes on people who fall within the alternative minimum tax catchment area? You are going to increase their taxes, cut medical reimbursements, doctors' reimbursement rates in order to reach that—that balance point by 2012?

Mr. NUSSLE. In addition to that, we believe that there is an unfunded liability in Medicare that needs to be addressed and we have given you the order of magnitude for addressing it. If those are not the provisions Congress chooses, then we look forward to hearing what Congress is going to do to address that.

Mr. THOMPSON. Mr. Chairman, I would hope that we would be able to bring this document to a vote. I think we ought to vote and find out where the votes are on this Committee and on the floor to see if Members of our Committee and Members of the House believe this to be both a credible document and believe that this Congress would allow physicians to be cut to this extreme, losing health care throughout all the districts across this country, that this Congress would believe that we would increase taxes on the alternative minimum tax folks and people who chose alternative energy at a time when there is probably not a more important choice to make.

I yield back the balance of my time.

Chairman RANGEL. Thank you.

The Chair recognizes Ms. Berkley.

Ms. BERKLEY. Thank you very much, Mr. Chairman. Welcome, Mr. Nussle.

I represent Las Vegas, Nevada, which is the fastest growing community in the United States. Until recently, we had probably just about the strongest economy in the country. We kind of prided ourselves on being recession proof.

But because I have got the fastest growing school age population, we build a school a month in order to keep up with the growth. I have the fastest growing senior population, fastest growing veterans population, fastest growing immigrant population in the United States.

I am very concerned about what is happening in my district. If it is happening in my district, I can only imagine what is happening across this country. Let me share with you some of the problems that we are having in Nevada.

We have got the highest mortgage foreclosure rate in the country. One out of every 152 homes is currently in foreclosure. We have a very serious housing shortage, affordable housing shortage and we have a lot of suffering going on as people are losing their homes.

Our unemployment rate, rather than being below the national average, is a full percentage point above the national average, which is creating very, very serious problems as you can imagine.

I don't need leading economic indicators to tell me that something is wrong. It is just having a good feel for your district, knowing in the 9 years I have gone home every weekend and never being in a plane that wasn't overfilled, that now the planes that I am flying back home are half empty.

We had a fire at the Monte Carlo and they were able to relocate every single one of the guests at other hotels. Heretofore, we had 100 percent occupancy. The reason for that is because the economy is very weak and people are very, very nervous.

So, knowing these things, and I am setting this up so we can talk about the cuts in the President's budget that are going to have a direct impact on the people that I represent.

There is going to be—in this budget, Nevada will lose $2 million in JAG funds, which means 34 fewer police officers are going to be on the streets. That is going to be a very dangerous thing when you have two million people in the metropolitan area of Las Vegas and 40 million visitors a year. Even if it goes down, we still need to have a full contingent of police. This is going to cut officers.

800,000 cut in assistance to firefighter grants. We just had a major fire at a local hotel/casino. We need to have those fire grants.

We have a $3.8 million cut in a community development block grant funding. These funds, as you know, are used for economic development, job creation, affordable housing, for citizens in need. If I have a crisis now, what are we going to do with $3.8 million less.

1.5 million in dislocated worker program funds, meaning 482 additional Nevadans won't receive job training at a time that our unemployment rate is higher than the national average. That causes me a great deal of concern.

A $630 million cut for manufacturing extension partnership, which is going to cost 312 new jobs.

A $677,000 cut in teacher quality state grants. This money is used to hire and recruit new teachers. We always have a shortage. We hire 2,000 new teachers a year to keep up with the growth in Nevada and we always have a shortage. We need that money to hire and recruit and find teachers that are willing to come to Las Vegas to teach our kids.

I am very concerned about the $2 million cut just in Nevada alone in the 21st century Learning Centers. There isn't a community in the United States that needs after-school programs more than mine, especially with most—a large percentage of divorced homes, single parents raising children. They need to have these children in a safe environment after school. I am going to have 4,400 kids that are going to be thrown off this program that currently exists. What are we going to do with them?

You know the other cuts in here, but there are a couple of things that I want to talk about and these are the questions. So, I have set up the problem I am having in my district and I would like to get some help from you.

So, if we are going to cut nearly $187 million in Medicare over the next 5 years, let me tell you what is going on in my district. I have a doctor shortage, huge, and I am getting telephone calls from doctors that say to me, not in a threatening way, but just are telling me the facts on the ground, that they will continue to take care of their Medicare patients, but they are not going to be able to hire—to see any more Medicare patients. Unless I am going to go back to medical school so I learn how to take care of my senior citizens, having the fastest growing senior population in the United States, who is going to take care of these senior citizens? Our Medicaid situation is worse than our Medicare situation.

Let me hit one other thing for you to answer. So, I would like to know what I am going to do, short of going back to medical school to help my constituents, my senior citizens.

Now, let me ask you something else. I know there has been a lot of talk about the Social Security, the disability benefits and we are putting some money in. But let me tell you what is going on my district. I have got senior citizens standing in line 2 or 3 hours at the card center. One woman fainted the other day, because there is not enough staff. So, you gave us an extra card center, the Social Security administrator gave us an extra card center, and no additional staff. So, all it does is increase the lines at more locations.

What worries me, I know that there—and this came out of your office, where it talks about the—all right, with the disability claims, we are going to see the amount of the backlog down. But it also says here on the bottom line, other work service in support of public annual growth of backlog, it goes from 3,300 to 4,800 from 2008 to 2009.

I am very much a part of that crisis. Unless I am going to go back home and start standing in line and helping my seniors talk to their Social Security people, I have got another major crisis. So, how does this budget help the people that I represent? What are you going to do to help me to help the people I represent?

Chairman RANGEL. Mr. Doggett is recognized for 5 minutes.

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

Mr. Nussle, on the issue of the renewable energy package, tax incentives, the extenders for wind and solar, I know you are familiar with the statement of Administration policy that was issued last year that the Administration would oppose these if the pay-fors were in there with reference to fossil fuels.

My question to you, are there any revenue offsets that the Administration would support in order to help us get a renewable energy tax package approved? Or is it the view of the Administration that we must borrow money to pay for those?

Mr. NUSSLE. At this point in time, I would have to defer to Treasury to answer that for you. I can't answer that for you today. I'm sorry.

Mr. DOGGETT. During your testimony last week to our Budget Committee, in defending the Administration decision to only include for next year for funding the war in Iraq, what I think is about 6 months' worth of expenditures there, $70 billion, you responded to Mr. Ryan at the Budget Committee, quote, the next Commander-in-Chief who may, in fact, make a different determination about the strategy and we didn't want to tie their hands. I had not realized that was the position of the Bush Administration, but I certainly applaud it if it is.

Are you saying that the policy of the Administration is to exercise care in all of its choices to not tie or limit the alternatives or choices that the next Commander-in-Chief will have in less than a year with reference to the war in Iraq?

Mr. NUSSLE. I think the challenge here, as you might imagine, I would say to my friend from Texas, it is a matter of specificity. How specific about the strategy a year from now can we be when we know we will have a new Commander-in-Chief. We knew what we were able to do this year and that is why the budget made it very specific last year. We don't know what that Commander-in-Chief will do.

The bridge fund of $70 billion, as you say, 6 months. Let's just take that as a point of reference. Will get you from November—excuse me, the fiscal year into the next year, giving you and the next Commander-in-Chief the opportunity to make decisions. Hopefully, taking into consideration the commanders and other things that are going on. Hopefully the good news will continue.

But it is a budget statement. The President hasn't said that, I would just say to my friend. But that is a budget statement about it.

Mr. DOGGETT. I understand the math. Might disagree with you—I do indeed disagree with you about the choices that have been made. But it is a principle of this Administration to not tie the hands of the next Commander-in-Chief and give that Commander-in-Chief the alternative policies if he or she so chooses to exercises alternatives different from this Administration.

Mr. NUSSLE. Not only is that the case within this budget, but we couldn't tie the hands, thankfully, of the next Commander-in-Chief. The Commander-in-Chief is in charge, right?

Mr. DOGGETT. Thankfully. Let me ask you about a different area, and that is President Bush's executive order that was issued back in January 2007 that required that any significant guidance documents that came out of an administrative agency needed to be reviewed in your office, specifically in the Office of Information and Regulatory Affairs.

Was the August 17th letter concerning the children's health insurance program reviewed by your office pursuant to that executive order?

Mr. NUSSLE. I don't know the answer to that. I wasn't the director at that time. I could find out for you, Lloyd.

[The information follows:]

[Rep. Doggett Question for the Record pg. 78]

INSERT: PG. 78A

Question: "Was the August 17th letter concerning the children's health insurance program reviewed by your [Office of Information and Regulatory Affairs] pursuant to that executive order?"

Answer: Pursuant to Section 9 of Executive Order 12866, as amended, OMB consulted with CMS on a State Health Official letter related to the State requirements for preventing crowd-out in the State Children's Health Insurance Program. This letter was designated a "significant" guidance document, pursuant to OMB Bulletin 07-02, "Agency Good Guidance Practices.

Mr. DOGGETT. Okay.

Mr. NUSSLE. But I don't—right offhand, I don't know.

Mr. DOGGETT. If you would. If it was not reviewed by your office, and maybe one of your staff members knows, to advise why that choice was made.

The second one that I wanted to ask about was the decision by the Center of Medicare and Medicaid Services, CMS, to eliminate the local nexus rule for employer-sponsored, private fee-for-service, which has led, we believe, to about 300,000 more people going into the more costly Medicare Advantage programs. Do you know if that was reviewed in that office?

Mr. NUSSLE. Do you—and I don't know what date was that?

Mr. DOGGETT. About a year ago.

Mr. NUSSLE. I don't know. I would, again, I wasn't director. I could check.

[The information follows:]

[Rep. Doggett Question for the Record pg. 79]

INSERT: PG. 79A

Question: "The second one that I wanted to ask about was the decision by the Center of Medicare and Medicaid Services, CMS, to eliminate the local nexus rule for employer-sponsored, private fee-for-service, which has led, we believe, to about 300,000 more people going into the more costly Medicare Advantage programs. Do you know if that was reviewed in that office?"

Answer: The Office of Information and Regulatory Affairs did not review a rule on the local nexus issue.

Mr. DOGGETT. If you could just have your office get back as to whether the review occurred and, if not, why the decision was made not to review. Generally, though, the goal of your office is to try to review every guidance that has significant fiscal impact, whether it is to reduce the flow of government expenditures or increase the flow of government expenditures?

Mr. NUSSLE. Yes, sir. Again, my guess is that they were, because that is the function. But I just have no personal knowledge about that. I couldn't tell you more about it at this point.

Mr. DOGGETT. Your office performs a number of performance audits on administrative spending programs. There is a section of the budget that goes back to the 'nineties on tax expenditure programs, but I don't see any performance analysis of those in the budget. You give us about a page or two.

Have you or has the Treasury Department considered doing performance audits on any of these tax subsidy programs?

Mr. NUSSLE. I am told it has been considered but, no, it hasn't——

Mr. DOGGETT. But nothing has been done?

Mr. NUSSLE. No. Is that a recommendation? You are suggesting that is something we ought to think about?

Mr. DOGGETT. Absolutely.

Mr. NUSSLE. Okay.

Mr. DOGGETT. Thank you.

Chairman RANGEL. The chair recognizes Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Mr. Nussle, I want to talk a bit of philosophy with you. If you go out to buy a car, you do a little shopping around, you go to one agency and then you go to another agency and you try and figure out what is the best deal for yourself. I hear you talking about the entitlement programs here and there is one particular one that troubles me. That is the decision by the Congress and approved by the President not to have competitive bidding on the pharmaceutical costs in Medicare.

Can you explain to me why you would want other pay top dollar to the pharmaceutical companies when the Veterans Administration can negotiate prices and get anywhere from 20 to 40 percent reductions? I would like to understand why buying for 40 or 45 million people in the Medicare Program, you wouldn't want to use whatever leverage you could to get the lowest possible price. There must be something about the free enterprise system to hear you explain it.

Mr. NUSSLE. My bet is that you understand it very well, but having said that, I think the difference here is that when I go out to buy a car, using your analogy, I don't bring along my congressman and I don't bring along, you know, a well-meaning professional bureaucrat in Washington to do the negotiating for me, or to negotiate the price of every car for every consumer everywhere in the country and make that as an arbitrary decision. I want to go do it myself, or I am willing to listen to an expert who has some skin in the game, so to speak.

Mr. MCDERMOTT. So, your basic feeling then is that a price of aspirin or Coumadin for thinning the blood after a heart attack or whatever, that should be different priced all across the country, no matter where you—wherever you live, you ought to be able to negotiate the best price you can in Sioux City, Iowa, as in Seattle, Washington, or Orlando, Florida? There shouldn't be a universal price that the government could get, the lowest price for every senior citizen who is using Coumadin?

Mr. NUSSLE. Well, and that is why the government in this instance has chosen pharmacy benefit managers to do that and has saved about $60-some billion from the original projection of what it would cost for Part D as a result of competition being part of the overall plan.

Mr. MCDERMOTT. Your position then is that we are getting a better deal in Medicare than they are in the Veterans Administration? Is that it?

Mr. NUSSLE. I am not suggesting that.

Mr. MCDERMOTT. Where the Veterans Administration negotiates for 5 million veterans one price?

Mr. NUSSLE. Right, which is a much smaller population to negotiate for. It would be similar if one pharmacy benefit manager would——

Mr. MCDERMOTT. But the veterans mouths are just like the mouths of old people. They put the pills in their mouth. What is the difference between old people and veterans?

Mr. NUSSLE. Well, it is not—I am sure there are veterans who are also old. So, there may not be any difference.

Mr. MCDERMOTT. Ah, so they can get them cheaper one place than they can to the other.

Mr. NUSSLE. However the Veterans Administration also limits the drugs that they can get.

Mr. MCDERMOTT. Oh, I see. So, you—because the Medicare Program doesn't provide everything——

Mr. NUSSLE. I'm sorry——

Mr. MCDERMOTT. Well, I mean, it doesn't make any sense. For those drugs that are common between the VA and the Veterans Administration, why shouldn't they have the same low price? Why should—you are saying that the benefit managers are getting that same low price; is that it?

Mr. NUSSLE. I am suggesting that having that kind of competition in the marketplace is good, not only on the receiving end of the drug, but also on the manufacturing, on the research and development that goes into those drugs in the first place, the whole scheme of things is benefited by having that kind of market out there.

No different than the automobile example. If one price was set for one automobile, eventually you would decide the color for me, how many——

Mr. MCDERMOTT. You know what the difference is?

Mr. NUSSLE [continuing]. Doors are on the car——

Mr. MCDERMOTT. A car you don't need to buy. Coumadin, you may need to buy to stay alive. That is why it is different. You cannot treat as a commodity health care or medicine or devices in the medical system. People need it and don't have a choice. You don't have to buy another car, you don't have to buy another refrigerator. So, you can spend all—months looking for the best deal.

When you need your Coumadin, you got to go to the drug store or something and get it. You have no time, you have no ability, you have no leverage. You need it now. You can't pull the pharmacist around and jerk him around and say, well, I will come back tomorrow and see if you have a better price. You have no leverage at all.

You are saying that seniors shouldn't count on the Federal Government for their leverage. I appreciate your explaining that to us. Thank you.

Mr. STARK. [Presiding] Would the gentleman from Texas like to inquire?

Mr. BRADY. Mr. Chairman, thank you. Director, nice to see you back.

A lot of talk these days about how to balance the budget and how to do it thoughtfully. One of the proposals in the President's budget is to establish a bipartisan, bicameral sunset commission, one that is—a model that has been used by 24 states that basically goes after identifying obsolete agencies and programs, those that duplicate each other, those that have outgrown their usefulness over the years.

The states that use it have had varying degrees of success depending upon their commitment, but the goal is to—I think in trying to control spending in Washington, we either try to go on a crash diet, or we ignore it completely. This is—the sunset commission approach is a more of a take-off-pounds sensibly. Both parties work together, regardless of who is in majority or minority, regardless of who is in the White House. Always, you know, every year trimming, trimming, trimming, finding good ways to stretch our dollars and identify dollars that aren't succeeding.

The President has proposed that. Former Congressman Blue Dog Jim Turner and I introduced that bill a decade ago, still believe in it.

Can you give us your thoughts on some of the tools like sunset that can be used, you know, by both parties working together to try to streamline this budget?

Mr. NUSSLE. I commend your leadership on this. It is one of the reasons why it is in the budget as one of a number of reforms we can look at including legislative line-item veto, other budget reforms that can get more ownership of the spending challenge out there. You have identified one that is a particular challenge, and that is programs continue to, you know, blissfully continue on into perpetuity without having the kind of oversight that they are really required by Congress. This gives, I think, a heads up, at least, to Congress on a regular basis of what they are.

We do the same thing in the Administration. In fact, the gentleman from Texas just referenced it as part of what's called the program analysis rating tool, where now 96 percent of all government spending programs are under this system where every year they are reconsidered, they are looked at, are they getting their results, are they meeting their goals? Do they need more money, do they need less money? Is there a place that they could be done more appropriately? You know, all sorts of things like that.

So over the course of the last 8 years in particular, 7 years, we have started to do this from an Administration standpoint. But obviously, more work could be done and Congress certainly has a responsibility here under Article I, and I think the sunset commission is one of the ways that can kind of highlight that and bring them in front of both Congress's and the Executive Branch's attention.

Mr. STARK. You know, maybe we could start the sunset commission focused on the programs that have the lowest ratings as far as effectiveness and use of dollars and all that so we can sort of start at that point as well.

Mr. JOHNSON. The other one is the ones where the programs have payments that are inappropriate, you know, improper payment programs. There are a number of them that GAO highlights and we pay attention to those as part of this as well, and we are working as part of OMB to—and have had some great success in improving the payment so that they are not improper payments, and making those reforms.

More needs to be done. More can actually be analyzed. As we analyze even more, we are finding places where improvements can be made. So, a lot of good improvement has been made in those areas.

But you are right to highlight it and that is the reason the President puts it in the budget.

Mr. BRADY. Right. Thank you, Director. Thank you, Chairman.

Mr. STARK. Would the distinguished gentleman from Alabama like to inquire?

Mr. MCCRERY. Thank you, Mr. Chairman.

Mr. Director, it is good to see you again. I will try to be brief, in light of the fact that I have some colleagues and we have votes on the floor.

Let me start out with one observation and you may remember that back in I believe it was July of last year the House passed the CHAMP Act. The primary thrust of the act was to keep the SCHIP program going in the direction that it needed to go. But there were a number of provisions in the act and a lot of them were hotly criticized by the hospital lobby. A lot of them were hotly criticized by a lot of the private health care sector as being way too draconian. So, I wanted to make a few comparisons while you are here today.

The CHAMP Act that was so hotly criticized had a 6-month freeze on payments for long-term care hospitals. Is it correct that the budget that the Administration has submitted has a 3-year freeze?

Mr. NUSSLE. Yes.

Mr. MCCRERY. The CHAMP Act that was so hotly criticized made a number of reductions to inpatient rehab facilities and their reimbursement rate for certain post acute conditions. Does the Administration's budget go further than the CHAMP Act went in that regard?

Mr. NUSSLE. Further in what way?

Mr. MCCRERY. Freezes on patient—on payments for inpatient rehab facilities? There was a range of reductions and freezes in the CHAMP Act. I am trying to see if the Administration's budget goes further in the CHAMP Act.

Mr. NUSSLE. That one, I am not familiar with in the CHAMP Act. But, yes, we do freeze those for providers for 3 years.

Mr. MCCRERY. Okay. The CHAMP Act included a 9-month market basket reduction for those facilities. Is it also a 3-year freeze in the Administration's budget?

Mr. NUSSLE. I believe so, yes.

Mr. MCCRERY. I point that out simply because what we heard from the hospital lobby, what Chairman Stark heard from the hospital lobby was that our cuts was that our cuts were unacceptable, they were draconian, they would cause people to lose services, they would do all kinds of damage, that senior citizens would be out on the street.

So, I don't see a lot of people necessarily here from the industry. But I hope they will take note of the fact that this budget goes further.

The second observation——

Mr. NUSSLE. How did you explain it, by the way, so that I can help explain it to them?

Mr. MCCRERY. We will compare notes, Mr. Director.

Let me turn to the subject of Medicaid, because I remember when you were chair of the Budget Committee that I was honored to serve on with you, you were very vigorous about raising a lot of your concerns about the Administration putting too sharp an ax to Medicaid and I remember you raised concerns about your state of Iowa. I remember during your campaign for Governor, you certainly talked about your commitment to Medicaid.

I remember a distinction that you would often draw when you were chair of the Committee was that we need to pare back Medicaid, we need to make efficiency savings in Medicaid. But you always drew a line at making cuts that would impact services and benefits for patients.

Can you make the representation to the Committee on Ways and Means that none of the proposed Medicaid changes in the President's budget would have the impact of reducing services?

Mr. NUSSLE. I can. In particular, we make increases in, for instance, what the President proposed just a year before in SCHIP. You know, again, it depends on how Congress will handle some of these proposals. As we heard today, it appears Congress may not just take these proposals that we have made.

But again the savings we are looking for as a way to try and bend the growth curve in both Medicaid and Medicare is for a purpose and that is to get some of this growth rate that is unsustainable on a little bit better rate of growth.

Mr. MCCRERY. But now, some of those savings will actually require the states to contemplate reducing their scope of services in some instances, won't they?

Mr. NUSSLE. That will be a decision the states will have to make, because obviously there is a match. They make a lot of eligibility determination at the state level, as you know. So these are decisions that states may also be making. But from a Federal level, we believe that the increases that we are providing are for the right reasons and for the right population of people who need these kinds of services.

Mr. MCCRERY. Well, let me just add, Mr. Director, because my time is limited, the debate that you had with Ms. Tubbs Jones earlier was, I think, an illustrative debate. But I think it focused on one aspect of people, people who are economically empowered to make choices. We can have a great philosophic debate about whether those people would have a greater or lesser range of discretion.

The problem is, this budget reaches a whole lot of people, low income people, people who certainly don't have the capacity to make judgments or make economic choices. What I certainly want you and the Administration to take from today, there are a lot of people who are just not as empowered as you would be, as some of us would be, to make choices. This budget, as I read it, cuts our capacity to deliver services to some of those people and that is what some of us find objectionable.

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

Mr. STARK. Thank you. Would the gentlelady from Pennsylvania like to inquire?

Ms. SCHWARTZ. Yes. Thank you, Mr. Chairman.

Since we do have votes and our time is limited, I wanted to follow up on just a couple questions that you won't be surprised that I asked last week at Budget. The discussion about—I think it falls, both Mr. Davis talked about and Ms. Tubbs Jones, which is really the major issue about how we help Americans to be able to afford health insurance coverage and there are longer term questions about how we actually might make sure that they are healthier as a result and that they actually receive quality care.

But the issue about accessibility and cost, you know, last week I raised some questions about the President's proposal, the Administration's proposal to extend tax deduction for individuals. We talked about it last week and I wondered about the fact that, really, the way the proposal is structured, it really is not the most cost efficient, certainly not as cost efficient as the SCHIP program, which the President and the Administration objected to extending to four million more children. It is more costly to the budget, to the taxpayer. It actually is not targeted to low income, middle income folks. It could be used by anyone and it has an enormous crowd out factor which has been acknowledged by CBO and was a huge concern of the President's when we were talking about children.

So, the fact that this tax deduction could be used by the wealthiest Americans, particularly because it is a tax deduction and not a tax credit and not a refundable tax credit, it is extremely difficult in the individual marketplace for, as Mr. Paulson said, a waitress to be able to afford private health insurance on a salary or wages of $25,000 a year for her after taxes, to find $10,000 to buy a health policy for her family, and then has to wait for taxes, which she may not even have any tax deduction because she doesn't pay enough taxes to have a tax deduction. She doesn't benefit at all, at all.

If she has an illness in her family, she won't be able to buy individual health insurance. So, she has choices, really not at all.

Mr. NUSSLE. But she probably isn't getting health insurance through her employer, either.

Ms. SCHWARTZ. Right, but it is a pretense to suggest that she will either be able to afford it or find private health insurance with your proposal.

So, last week, you said you were open to thinking about this differently, given that these are realities, in the marketplace and in terms of cost. Have you given it some more thought about what you might do differently?

Mr. NUSSLE. The Administration is open to that, and you are going to hear from Secretary Leavitt this afternoon.

Ms. SCHWARTZ. We will discuss that as well.

Mr. NUSSLE. He will probably answer these questions even more broadly and succinctly than I can.

But I am just saying that, yes, we are open to the fact—the President has suggested that he is even open to a credit approach to it. But he started with this proposal and wants to hear what Congress has to say.

Ms. SCHWARTZ. Well, it is the same proposal that we had last year that didn't go anywhere. I would suggest it would have been helpful to have some of this discussion over the last 6 months rather than now. But we will have it now.

I would also say, and I know we will ask Secretary Leavitt more this afternoon, is that the same time as we are really not making health care more affordable or accessible to lower middle income folks, we are cutting hospitals. When the President suggested, look, Americans if they don't have insurance can go to the ER, on the other hand, he is actually cutting access to the ER, potentially, by cutting hospital funding.

So, I think these are major questions facing us and these are not serious proposals about how we are going to help get health care to Americans who need it.

So, with that, I will yield back. I think a lot more work needs to be done. Thank you.

Mr. STARK. I thank the gentlelady for yielding back and recognize the gentleman from New York for a couple minutes we have remaining.

Mr. CROWLEY. Thank you, Mr. Chairman. Thank you. I will try to be very, very brief. Mr. Nussle, welcome to the Committee.

Let me just read a couple of comments from some of my colleagues on the other side, on your side of the aisle. Quote, "gamesmanship and gimmicks like we saw last year"—that is from the Senate Budget Ranking Member, Senator Gregg from New Hampshire.

Peter King, the Ranking Member of the Committee on Homeland Security, called Mr. Bush's proposed cuts to Homeland Security grants, quote, "unacceptable" and funding for local grants was, quote, "about more than just dollars, it is about life and death", end quote.

Ranking Member of the Armed Services Committee, Duncan Hunter, is quoted as, "it is disappointing that the Administration did not request funding to cover the full cost of the war in fiscal year 2009", end of quote.

Ginny Brown-Waite, congresswoman from Florida, "we should not balance the budget on the backs of veterans. They sacrificed for all Americans and should not be forced to pay it again for health care that was promised when they agreed to serve our Nation."

One last quote. "It is foolish to include the money every year. It was not the right thing to do", end quote, to include the AMT tax revenue in the budget blueprint for 2009. That is from House Minority Leader Roy Blunt.

I can go on and on.

As mentioned before, not properly costing out the cost of the war within this budget, I think, is unconscionable. But having said that, you have raised income taxes, you failed to repair the AMT, repeal the tax deduction for state and local income tax, levy new taxes on people with IRAs, and create billions of new taxes for veterans seeking, of all things, care at the VA.

Having said that, is this a document that you can really say that President Bush is proud of, that this House can support if this budget were offered on the floor?

Mr. NUSSLE. Yes. It will be interesting to see how you handle something such as Homeland grants when there are, for instance, about $11 billion worth of grants that are currently in the pipeline that are just not being spent, and you are going to pile more grants on top of that in an untargeted way.

Mr. CROWLEY. So, let me ask you this question, Mr. Nussle, then. Are the Republicans in the House that I referred to incorrect in their assessment of the Bush budget?

Mr. NUSSLE. I think all of them have explanations. I—certainly, everyone has a right to their opinion.

Mr. CROWLEY. So, they are incorrect?

Mr. NUSSLE. I believe each one of these has an explanation. For instance, why we don't put the war funding in. It is interesting that a Member will say that they want the war funding in, but they themselves couldn't tell you how much it will cost a year and a half from now——

Mr. CROWLEY. I think we have a more reasonable estimate of what the cost of the war would be.

Mr. NUSSLE. Great. It will be interesting to see if——

Mr. CROWLEY. I think we can both agree that $70 billion is just not going to cut it.

Mr. NUSSLE. We look forward to seeing that in your budget then.

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

Mr. NUSSLE. We look forward to seeing that in your budget then. That will be very interesting.

Mr. STARK. Mr. Director, I was going to ask some questions but I forgot my paper bag. So, I will just have to excuse you and——

Mr. NUSSLE. I've got an extra one.

[Laughter.]

Mr. STARK. Okay. Thank you for your patience and your good humor and I will look forward to wrestling with you as we go along during the rest of the year.

Thanks very much.

Mr. NUSSLE. Thank you, Mr. Chairman.

Mr. STARK. We appreciate you and your staff, your patience with us. Thanks very much.

The hearing is adjourned.

[Whereupon, at 12:24 p.m., the hearing was adjourned.]

[Questions for the Record follow:]

Questions for the Record posed by Rep. Devin Nunes

Director Nussle:

I continue to be concerned with the Administration's pursuit of legislation that would authorize the San Joaquin River Settlement. In fact, the current draft of the legislation, H.R. 4074, includes a massive tax increase on the American consumer. Yet, OMB and the Department of Interior are unflinched by this and continue to push the legislation behind closed doors. Indeed, I have documentation that proves this point.

Furthermore, your office continues to advocate spending over 1 billion dollars in a vain attempt to restore salmon to the San Joaquin River—a restoration in which the settling parties fully admit that if 500 fish return, then it was worth the cost. Again, considering our budget situation and the continued deficits we face, I do not understand why OMB is advocating this policy. With that, can you provide answers to the following questions:

1. **Why does the Office of Management and Budget continue to support the San Joaquin River Settlement legislation after they included a tax increase to pay for the project?**
2. **Why did the Office of Management and Budget authorize expenditures to conduct public scoping meetings on the San Joaquin River Settlement if Congress has not authorized the program yet?**
3. **Why did the Office of Management and Budget include 7 million dollars in the Fiscal Year 2009 budget if Congress has not authorized the program yet?**
4. **Considering the current budget environment, why does the Office of Management and Budget support a policy of spending 1 billion dollars for 500 salmon?**

[Answers to Questions for the Record posed by Mr. Nunes follows:]

[Rep. Nunes submitted Questions for the Record pg. 66]

INSERT: PG. 66A

1. Question: Why does the Office of Management and Budget continue to support the San Joaquin River Settlement legislation after they included a tax increase to pay for the project?

- Answer: The Administration supports the settlement agreement proposed in H.R. 4074, but opposes the proposed offset that would impose a fee on existing non-producing oil and gas leases in the Gulf of Mexico. As the Interior Department indicated in its November 15, 2007, letter to Congress, this fee undermines the existing contractual obligations between the U.S. Government and the lessees. We would urge Congress to use some of the mandatory savings proposals in the President's 2009 Budget to offset the costs for this bill. [A PDF of the Administration's letter is attached.]

2. Question: Why did the Office of Management and Budget authorize expenditures to conduct public scoping meetings on the San Joaquin River Settlement if Congress has not authorized the program yet?

- Answer: The Interior Department conducted public scoping meetings as a way to achieve consensus from the various stakeholders on the parameters of the proposed settlement agreement. The Administration has informed Congress of its support for enacting the Settlement Agreement, including testifying and submitting Questions for the Record in the 109th Congress.

3. Question: Why did the Office of Management and Budget include seven million dollars in the Fiscal Year 2009 budget if Congress has not authorized the program yet?

- Answer: The Administration supports the enactment of this Settlement Agreement, which is reflected in the President's FY 2009 Budget. Implementing the Settlement Agreement in 2008 avoids the potential for prodigious costs that may result from litigation if the settlement is not implemented. Moreover, implementation of the Settlement Agreement is beneficial for all parties because it will provide a roadmap for restoring flows in the San Joaquin River (and its fishery) while sustaining farming in key geographical areas. It also helps avoid the possibility of larger reductions in water deliveries for irrigation in the case of the court ruling against the government.

4. Question: Considering the current budget environment, why does the Office of Management and Budget support a policy of spending one billion dollars for 500 salmon?

- Answer: The Settlement Agreement is multi-faceted and will accomplish a range of activities, including helping the Chinook salmon to naturally reproduce (and flourish) in the San Joaquin River. While the Administration is committed to the settlement, and has included funds in the budget to continue preliminary implementation activities for the settlement, it has not committed to any particular level of funding to implement the overall Settlement Agreement. However, the Administration proposed a variety of mandatory offsets in the FY 09 Budget that would be more than sufficient to cover the potential cost of the settlement agreement. The Administration proposed $208 billion in net mandatory savings over a five-year period (FY09-13) in the FY09 Budget.

[Submission for the Record follows:]

Statement of Joseph E. Powell

Let me start by writing that I appreciate the opportunity to submit this letter regarding the FY 2009 Executive Budget Proposal and be heard.

However, and truthfully, I cannot believe what I have learned about it. To me, it does not seem at all rational to say the least. As we are staring into the teeth of a domestic recession, our Chief Executive Officer puts together a so-called budget that increases deficit spending and totals 3.1 trillion dollars. This is totally unbelievable. This should be stopped dead and a new rational budget be formulated.

We are told that the Administration wants to make up the deficit spending by cutting domestic programs. Which to me (and many others like me) is not acceptable and also not the least bit rational.

A temporary tax rebate measure made up of more borrowed money? De-valuing our own currency to the enjoyment of all of our competitors in the market place.

Spending out of control in Iraq. Billions of dollars missing/unaccounted for. No clue where it is. And the war dragging on for five (5) years.

Just allow me a word on the war please. If this country is involved in a life or death ideological struggle of the age—then use the nuclear weapons in our arsenal and put an end to the struggle a positive winner—do not drag it out for generations/forever spending the priceless blood of our youth as if it were salt water and bankrupting our country's treasure.

The sub-prime mortgage debacle—another great injustice allowed to happen by de-regulation.

Adding 1100 Diplomats to the Federal payroll. Just what we need—more overhead.

I should say this spending is anything but Conservative. It appears FAR RIGHT WING RADICAL EXTREME NEO-LIBERAL to me.

Stop spending all of our money overseas attempting to build nations and markets for only those who are already rich beyond belief.

Spend our money here at home. Our domestic programs need to be bolstered and made solvent. Social Security Solvency and Universal Health Care For All Citizens (Medicare For All) needs to happen NOW. Every other major country in the world has it and knows it is the right thing for a government to do for it's general population. Our money buys $3.00 a gallon gasoline/expensive fossil fuels to heat our homes and enriches and provides cradle to grave domestic care for those we are purchasing from. That in itself is mad.

The way I see it we should install Trade Regulations that level the field in the world market. Doing so will create incentive to produce more here at home. Domestic business will prosper. When the appropriate Trade Regulations take affect and we purchase fewer products from overseas, our overseas trading partners will lose market share and will increase the cost of their products to consumers within their borders to fund their corporations—further leveling the field. They will then borrow from us to keep their corporations in business.

Stop selling out our country by making it more profitable for business (including manufacturing) to move out of country.

People living in this country have a much higher cost of living than those people in 31rd world overseas economies. People cannot earn a living in this country being paid $1.00 to $3.00 per hour—they need a good job that pays a good wage and at least a living wage as opposed to a minimum wage.

Here in Northeast Ohio the economy (especially my economy) is horrible. Last year was the worst year in business that I can remember. 50% down from the year previous.

It seems every measure taken by every segment of our government is another attempt (greater than the previous) to euthanize our private sector domestic economy.

This needs to be fixed and it's going to take a government that is responsive to the people to fix it.

This Administration and it's policies cannot end quickly enough to suit me.

Yours truly,

Joseph E. Powell, President,
J.E. Powell Technical Services Company, Inc.

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